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MASTER'S THESIS

**INVESTMENT PROMOTION IMPACT ON FOREIGN DIRECT
INVESTMENTS IN TRANSITION ECONOMIES: THE CASE OF
BOSNIA AND HERZEGOVINA**

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TABLE OF CONTENTS

INTRODUCTION.....	1
1 THEORETICAL PERSPECTIVE OF FOREIGN DIRECT INVESTMENTS	2
1.1 The definition of foreign direct investments	2
1.2 Classifications of FDI	5
1.3 Main determinants of FDI	5
1.4 Motives for FDI.....	7
1.5 The importance of FDI.....	9
2 FDI TRENDS AND PATTERNS	12
2.1 FDI overview in the world	12
2.2 Patterns of FDI flows in transition economies- South East Europe.....	15
3 INVESTMENT PROMOTION POLICY	18
3.1 The definition of investment promotion policy	18
3.2 A framework for FDI promotion policy	20
3.2.1 Strategic layer of investment promotion policy.....	22
3.2.1.1 Policy and business environment	22
3.2.1.2 Investment incentives.....	23
3.2.2 Tactical layer of investment promotion policy	23
3.2.3 Operational layer of investment promotion policy	27
3.2.3.1 Image building.....	28
3.2.3.2 Investment generation	29
3.2.3.3 Investment services.....	30
3.3 Importance of IPA	33
4 ANALYSIS OF INVESTMENT PROMOTION POLICY IN BOSNIA AND HERZEGOVINA	36
4.1 Challenges for Bosnia and Herzegovina in FDI promotion.....	36
4.2 Methodology for data analysis.....	38
4.2.1 Research model and hypothesis	38
4.2.2 Research methods for data primary data collection.....	39
4.3 Data analysis.....	40

4.3.1	Impact of FIPA’s tactical activities on FDI in Bosnia and Herzegovina	40
4.3.2	Impact of FIPA’s strategic function on FDI in Bosnia and Herzegovina	46
4.3.2.1	<i>Political uncertainty as a threat towards image of Bosnia and Herzegovina</i>	50
4.3.2.2	<i>Investment climate and business environment as a threat towards image of Bosnia and Herzegovina</i>	51
4.3.2.3	<i>FIPA’s policy advocacy function</i>	52
4.3.3	Impact of FIPA’s operational functions on FDI in Bosnia and Herzegovina	52
4.3.3.1	<i>FIPA’s image building</i>	53
4.3.3.2	<i>FIPA’s investment generation function</i>	54
4.3.3.3	<i>FIPA’s investor servicing function</i>	55
4.4	Discussion and main findings	57
	CONCLUSION	58
	REFERENCE LIST	59

LIST OF FIGURES

Figure 1: Changes in national investment policies from 1992 until 2016	11
Figure 2: FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018 (millions of dollars)	13
Figure 3: Inward FDI stock, by transition regions (2000)	16
Figure 4: Inward FDI stock, by transition regions (2010)	17
Figure 5: FDI inward stock in transition economies, 2000, 2010 and 2016 (in millions)..	18
Figure 6: Key elements in marketing mix.....	19
Figure 7: Three layers of investment promotion policy.....	21
Figure 8: Organizational status of IPA	26
Figure 9: Investor targeting process.....	30
Figure 10: Core functions of IPA in different group of countries	31
Figure 11: Strategic priorities of IPAs in 2013 in developing countries, in %	33
Figure 12: The investment location decision process	34
Figure 14: Value added tax rates across different countries	49
Figure 15: Corporate tax rates in the world in 2016	49

LIST OF TABLES

Table 1: Key statistics on FDI in the world	13
Table 2: Top 10 economies in 2016 with highest FDI inflows	14
Table 3: Top 10 economies with highest FDI outflows in 2016.....	14
Table 4: Top 10 sectors by number of projects	15
Table 5: Main functions of IPA	27
Table 6: Good practices of IPA.....	32
Table 7: FIPA’s reforms recommendations	52

LIST OF APPENDICES

APPEDIX 1: Summary in Slovenian language.....	1
APPENDIX 2: Survey on FDI (Foreign Direct Investments) promotion activities.....	2

LIST OF ABBREVIATIONS

BAM - Bosnian Mark

CEE - Central and Eastern Europe

CEFTA - Central European Free Trade Agreement

CIS - Commonwealth and Independent States

EUR - Euro

FDI - Foreign Direct Investments

FIC - Foreign Investors Council

FIPA -Foreign Investment Promotion Agency in Bosnia and Herzegovina

GDP - Gross Domestic Product

IMF - International Monetary Fund

IPA - Investment Promotion Agency

MNC - Multinational Corporations

OECD - Organization for Economic Co-operation and Development

OSCE - Organization for Security and Co-operation in Europe

SEE - South East Europe

UNCTAD - United Nations Conference on Trade and Development

USD - United States Dollar

WAIPA - World Association of Investment Promotion Agencies

WB - World Bank

WB* - Western Balkans

INTRODUCTION

In today's globalized world Foreign Direct Investments (hereinafter: FDI) represent an important source of capital in economies around the world. FDI also brings advanced technologies and managerial techniques and opens economies towards foreign markets. Thus it is not surprising that a competition for attracting more foreign direct investors has become stronger in last few years.

In order to respond on the increasing competition for FDI it is not enough anymore to open up the borders and invite foreign investors to set their businesses in that particular economy. Countries that are willing to attract investors must show a strong determination through investment promotion policy. They realized that alike companies, they should establish a special body or agency that would respond to a growing trend in promotion activities for FDI. This approach was a starting point for establishing so called investment promotion agencies (hereinafter: IPAs) whose central focus lie in marketing activities.

Foreign direct investors view IPAs as a “one-stop-shop” for gathering information which cannot be easily obtained elsewhere. On the other hand, IPA's role evolved from the initial investor servicing function to image building, lead generation, after care and policy advisory functions. A number of functions, limited budgets and linkages with governments are only few challenges in front of these agencies that substantially determine their performance.

This thesis is aimed to identify institutions and agencies responsible for an investment promotion policy in Bosnia and Herzegovina. The purpose of writing this thesis would be realized if analysis, that was conducted in the thesis, gives an overview of the impact of investment promotion policy on FDI in Bosnia and Herzegovina. A measurement of this impact is based on the activities that are organized by IPA in Bosnia and Herzegovina as a leading organization for investment promotion policy.

The main research question of this thesis is following: “*Does an investment promotion agency in Bosnia and Herzegovina represent a significant factor in attracting FDI?*” In order to estimate the impact that this agency has on FDI, primary data were collated through survey that was created for the purpose of this thesis. The sub questions that supported the main research question examine internal structure and main functions of the Foreign Investment Promotion Agency in Bosnia and Herzegovina (hereinafter: FIPA).

This thesis consists from four chapters. Three are dedicated to the theoretical perspective of FDI and IPA, whereas final part comprises results of the analysis on investment promotion policy in Bosnia and Herzegovina.

The thesis starts with the introduction which gives a brief overview of the reasons and motivation for writing a thesis. First chapter of the thesis represent a theoretical overview of FDI. In this part it is explained in-depth the main classifications of FDI, determinants and

motives behind FDI. Substantial part of the first chapter is dedicated to the importance of FDI for host and home economies.

Second chapter of the thesis describes FDI trends and patterns in the world with a particular focus on countries in transition. This chapter serves as an introduction for the third chapter because it reveals the growing trend in competition for FDI in last few decades.

As a response on the growing competition countries started establishing IPAs which are theoretically explained in-depth in the third chapter of this thesis. The central part of this chapter is description of the functions of IPAs as well as the interaction between the functions.

Principal part of the thesis, chapter four, represents an analysis of investment promotion policy in Bosnia and Herzegovina. Firstly, it is given an overview of the FDI inflows and investment promotion policy in Bosnia and Herzegovina. Secondly, it is explained the methodology of the collection of data and main hypothesis of the thesis. Ultimately, analysis of the main functions of IPA in Bosnia and Herzegovina is conducted with the main findings and discussion part.

1 THEORETICAL PERSPECTIVE OF FOREIGN DIRECT INVESTMENTS

1.1 The definition of foreign direct investments

FDI has been a controversial issue in international economics. It is usually seen as a key driver of an international economic integration. Many definitions of FDI can be found in the literature but the most frequent ones come from big international organizations such as the Organization for Economic Co-operation and Development (hereinafter: OECD), the United Nations Conference on Trade and Development (hereinafter: UNCTAD) or the International Monetary Fund (hereinafter: IMF). The definitions from these organizations are also most widely accepted since they provide standards to national statistics offices for composing FDI statistics (Contenssi & Weinberger, 2009).

According to OECD (2008, p. 48) “FDI reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor”. Evidence of such a lasting interest can be found in the existence of a long-term relationship between the direct investor and the direct investment enterprise. It also must exist a significant degree of influence on the management of the enterprise.

A long-term relationship implies 10 % of the direct or indirect ownership or more of the voting power of an enterprise resident in one country by an investor resident in another

country. OECD recommends a 10 % threshold to ensure statistical consistency across the countries. However, OECD points out that such a threshold does not take into account the fact that in some companies a 10 % ownership might not be enough for having a strong impact on management, while in other cases even less than 10 % ownership could lead to an effective influence in the decision-making process of the management of company. A 10 % voting power refers to a necessary evidence that direct investor has a sufficient influence in the business of a company but direct investment by itself does not imply a total control by foreign investor over the company.

FDI is just one type of international capital flow. Chang and Grabel (2004) divide international private capital flows into three categories:

1. Foreign bank lending;
2. Portfolio investment; and
3. FDI.

Foreign bank lending consist of the loans by commercial banks or international organizations such as IMF or the World Bank (hereinafter: WB) to domestic or private borrowers. Portfolio investment refers to the purchase of stocks, derivatives, bonds, or other financial instruments by a purchaser from abroad. Finally, FDI is capital flow under which actors purchase a controlling interest.

Kirabaeva and Razin (2010) consider FDI and portfolio investment as more stable and less prone to reversals and they have both in common equity-like features. They also find FDI a more beneficial type of international capital flow because it comes with a more direct control of management.

The major difference between FDI and foreign investment portfolio according to Humanicki, Kelm & Olszewski (2013) originates with a trade-off between profitability and liquidity. FDI investors are in charge of making decisions due to the role of not only being an owner, but also a manager of the company. Therefore, FDI enables managers to run a company in a manner they consider the most efficient, which is directly reflected to the profitability. However, higher control and the privileged position of an investor has its downside:

- FDI is less liquid compared to a portfolio investment and;
- FDI investors are faced with a particular issue of selling their project in case of any liquidity shock.

IMF (2009) defines FDI in a similar way as a category of cross-border investment associated with a resident in one country having control or a significant degree of influence on the management of an enterprise that is resident in another country. The IMF primarily distinguish FDI from portfolio investment. Portfolio investment implies a cross border transactions involving debt or equity securities, other than those included in direct

investment. FDI implies that transferred capital is invested into a new company or a company that already exists.

Dunning and Lundan (2008) highlight two major characteristics that set FDI apart from portfolio investment:

- First, FDI involves the transfer of financial assets, technology, managerial and organizational expertise, entrepreneurship, values and cultural norms, incentive structures, and access to foreign markets. On the other hand, portfolio investment implies only the financial assets' movement; and
- Second, FDI does not cause any change in ownership, which means that power to control decision making over the use of the resources that have been transferred remains in the hand of the investing entity.

A direct investment enterprise is a company in one country in which a direct investor has a voting power of 10 %. That company is referred to as foreign affiliate that is directly or indirectly owned by the direct investor (OECD, 2008). Foreign affiliate may be one of the following subjects:

- A subsidiary. It represents a company in which foreign investors holds more than 50 % of shareholders' voting power
- An associate. It represents a company in which foreign investors hold between 10 % and 50 % of the voting shares; and
- A branch. It represents a wholly or jointly owned company in a host country (Duce, 2003).

Which of the three options of setting up a business an investor is going to use depends to a great extent on the regulations of the host country. Usually setting up a subsidiary demands more restrictive regulations to branches, but that is not always the case.

A direct investor can select any sector in which he or she wants to invest. The direct investor could be any of the following: (OECD, 2008)

1. An individual;
2. A public or private enterprise;
3. A government body;
4. A group of related individuals;
5. A group of related enterprises;
6. An incorporated or unincorporated enterprise;
7. An estate, trust or other societal organization; or
8. Any combination of the above.

Companies that are engaged in FDI are multinational corporations (hereinafter: MNC) and own or control value-added activities in several countries. (Dunning & Lundan, 2008)

1.2 Classifications of FDI

Classification of FDI according to Duce (2003) is based on three criteria: First, the direction of the investment, second, the instruments that are used for investment to be realized, and third the sector breakdown.

- From the perspective of the direction of the investment, FDI can be considered from the home and host country perspective. Inward FDI is recorded, along with other liabilities, in the balance of payments of the host country (country recipient), while the home country records FDI as outwards FDI along with other assets; (Contessi & Weinberger 2009)
- The second criteria for classification of FDI is the type of capital flow. Investment transactions can include equity funding, reinvestment transactions or loans. (Duce, 2003). Equity capital comprises all purchases of shares by a foreign investor in a country other than resident of the investor. Reinvested earnings imply the profit that is not distributed as dividends by affiliate nor retained by a direct investor. Inter-company debt or loans comprise long or short-term lending and borrowing of funds between parent enterprises (direct investor) and affiliate enterprise (UNCTAD, 2007).
- The last group of criteria divides FDI flows based on the sectors in which a foreign investor transfers the capital. The IMF suggests institutional breakdown such as investment in the sector of banks, general government etc., whereas OECD suggests an industrial breakdown that comprises nine sectors from agriculture to transport and communications (Duce, 2003).

According to Chang and Grabel (2004) FDI can come in two forms: greenfield investment and brownfield investment. While greenfield investment involves the creation of a new facility such as the construction of a factory by a foreign investor, brownfield investment implies the purchase of assets of an existing company. The cross-border purchase of real estate also falls under FDI classification.

1.3 Main determinants of FDI

Many theories have been developed to explain FDI but there is no single theory that fits both the different types of foreign direct investment and the investment that is made by a certain MNC or country in any region. Researchers and scholars do not agree on one general theory of FDI and thus they cannot make a consensus that would be widely accepted (Nayak & Choudhury, 2014).

Macroni (2015) suggests classification of FDI theories that divides them into two big groups: macroeconomic and microeconomic. The macroeconomic perspectives and theories see FDI as a cross-border capital flow that is captured in the balance of payments statements of two economies.

The microeconomic perspective of the FDI gives crucial importance to an investor. All theories with microeconomic background inspect motives that trigger an investor decision for a cross-border investment. Therefore the main characteristic of the micro-point of view on the FDI is examining consequences to the investor's home and host countries in terms of the operations created by these investments, rather than examining the size of the inward or outward FDI, gross domestic product (hereinafter: GDP), institutional factors and other macroeconomic indicators.

While macroeconomic theories of FDI give a stronger focus on country-specific factors, they are more linked to the trade and international economics, the microeconomic perspective of FDI is directed towards firm-specific factors such as benefits that a company receives from internalization and ownership as well as lean towards industrial economies. (Nayak & Choudhury, 2014).

According to Balasubramanyam (2002) the main determinants of FDI include the following:

1. Size and potential of the market;
2. Resource endowments (human resources and natural resources);
3. Macroeconomic stability (low rates of inflation and stable exchange rates);
4. Political stability;
5. Transparent and stable policy towards FDI;
6. Infrastructure (communication networks and transportation);
7. Distortion free economic and business environment;
8. Trade agreements between host and home country, and
9. Special monetary and fiscal incentives for foreign direct investors.

On the other hand, Killen and Ghimire (2016) add that an essential role in attracting FDI is the investment climate in a host country. Although the definition of investment climate can vary in the literature Killen and Ghimire (2016, p 25) define it as "... the policy, institutional, and behavioural environment, both present and expected, that influences the risks and returns associated with investment."

Baniak, Curkokowski & Herczyński (2002) suggest that all case studies and econometric studies conducted on transitioning countries conclude that the main factors that have determined FDI historically have been a degree of political and economic stability, market access, and opportunity to participate in large scale privatization processes.

Once an investor decides to invest in either developed, developing or transition economies, the process of selecting a country takes place. After the initial phase examining the political, economic and security risk of a country, an investor establishes criteria based upon which the evaluation of the country is made. These criteria are known as investment drivers and Killen and Ghimire (2016) divide them into primary and secondary investment drivers.

These drivers directly affect return on investment of the project and thus they matter for making a decision.

Primary investment drivers usually include:

- Risk;
- Operating Costs;
- Skills Availability;
- Labor Availability and Costs;
- Transportation;
- Infrastructure Costs (depending on sector);
- Site / Factory / Real Estate Availability;
- Taxation Rates; and
- Ease of Repatriation of Capital and/or Profits

Secondary investment drivers are not vital for investor's return on investments. However, they are always desirable for a foreign investor and they can be important when a foreign investor has to decide between two countries with same primary investment drivers. Secondary investment drivers are the following:

- Transportation of staff in the host country;
- Fiscal and Monetary Incentives;
- Quality of Life;
- Investment Climate;
- Business Environment – e.g. time that is necessary to establish a company;
- Existence of Data on Government's Attitude towards Foreign Investors; and
- Statistical evidence of past and current trends in FDI inflows.

1.4 Motives for FDI

When discussing determinants of international capital flows, literature and empirical studies usually focus on FDI. When it comes to the motives for FDI decisions, the starting point of analyzing these motives is a well-known framework proposed by Dunning which comprises four main sets of motives:

1. Market-seeking motives;
2. Resource-seeking motives;
3. Efficiency-seeking motives; and
4. Strategic-seeking motives (Dunning & Lundan, 2008).

Resource-seeking investors are those group of investors whose main motive for making an investment is particular and specific inputs of possibly higher quality and lower real costs

than the inputs in their home country. These type of investors have intentions to make their enterprise more competitive and profitable in the markets it serves or tends to serve. It is not exclusively but in majority of cases resource-seeking companies that are founded in the host country tend to be export oriented in developed industrialized countries. Resource-seeking investors can be classified into three big groups. The first group is investors seeking any type of physical resources. Physical resources are comprised of industrial minerals, metals, mineral fuels and agricultural products and seekers for them usually come from both developed and developing countries. These investments have a “locked-in” character because once an investment is made it is relatively location bound. The second group comprised of those MNC seeking cheap and well-motivated unskilled or semi-skilled human capital. The third type of resource-seeking investors are those looking to acquire technological capability, marketing or management expertise and organizational skills in host country.

Market-seeking investors are motivated by desire to access a particular economy or region in order to supply goods or services to the country or the region and thus enter a new market. Therefore, the host country will receive goods and services that did not exist before, or that the host country needed to import from other markets. Usually several reasons stand behind market-seeking motives for a certain country, and the reason why a business in a certain home country decides to set up a business in a host country instead of simply exporting to the host country include things like higher tariffs or cost-rising barriers imposed by the host country. Other reasons might include market size and prospects to growth. There are four reason why MNC might have market-seeking motives. First, the main supplier or customer set up a business abroad which trigger an investor to follow them in another part of the world. Secondly, products often need certain adoption to the local needs and preferences which could be done more successfully from the local market than from abroad. Thirdly, transaction and production costs are less under FDI than through supplying it from a distance. The fourth and probably most important reason for market-seeking investment is a physical visibility in a certain market where the competitors already have their business. This comes as a part of the global and marketing strategy to maximize profit and increase presence on the global stage.

The efficiency-seeking rationale is that it gives an advantage to a new formed investment company in terms of geographically dispersed activities and common governance. MNC want to use benefits of different factors, endowments, demand patterns, cultures, institutional arrangements, economic policies and market structures using a concentrated production in a limited number of locations in order to supply more than one market.

Strategic-seeking motives for investment happens when MNC engage with a FDI by acquiring the assets of a foreign corporation and the main reason behind this is to promote their strategic long-term objectives. These types of motivations are less directed towards obtaining cost or marketing advantages abroad, but rather strengthening a global portfolio of physical assets and human capital which will predominantly sustain their ownership-

specific advantages. MNC conduct their strategic plans through mergers and acquisitions (M&A) which represent an easier and faster way of acquiring brands, technology, special labor or technology in a foreign country (Humanicki, Kelm & Olszewski 2013).

Bevan and Estrin (2000) conducted research to examine FDI flows between Western countries and several countries in transition. They found that transition countries are mostly market-seeking and efficiency-seeking. They also found that the European integration positively influence FDI since they are larger for those countries where were announcement for accession to the EU.

1.5 The importance of FDI

A relationship between FDI and growth is still an open question and the literature is divided on effects that FDI has on growth of an economy. Hanson (2001) writes about the division of academic literature between positive and negative spillovers that arise from FDI. Contenssi and Weinberger (2009, p. 61) support it with a quote from Rodrik who wrote: “Today’s policy literature is filled with extravagant claims about positive spillovers from FDI but the evidence is sobering.”

Damian (2013) points out that positive impact of FDI on growth is absolutely not certain and it depends to a great extent on the host country’s absorption capacity. OECD (2002) sees an influence of FDI on growth through raising total factor productivity and the efficiency of resources use in a host country. The biggest benefits that FDI brings to host economies are usually comprised of:

1. More intense trade with foreign countries;
2. Capital and advanced technology;
3. Know-how and superior managerial techniques; and
4. More intense competition within the country (OECD, 2002).

OECD (2002) gives a special focus to FDI’s impact on growth. Most of the empirical studies to date, according to OECD (2002), conclude that FDI contributes to both income growth and factor productivity of the host country. However, it is difficult to assess the magnitude of the impact. Moreover, the impact of FDI to growth seems to be smaller in the least developed countries. Evidence suggests that in order to benefit from FDI a certain level of development in technology, education, infrastructure and health has to be in place in the country. Killen and Ghimire (2016) point out that the strength and flexibility of the labor market is a key determinant for country to be a more desirable place for investments.

Foreign direct investment is a major catalyst of development and also represent an integral part of an open and effective international economic system according to OECD (2002). However, benefits from FDI do not occur evenly and automatically across economies, sectors and local communities. For the most part national policies and the international

investment architecture represent two important aspects for attracting FDI to a large number of countries, especially developing countries. It is up to a host country to establish a transparent, broad and effective policy environment and develop human and institutional capacities to implement them.

Contenssi and Weinberger (2009) examine the effects of FDI and whether one should support or oppose FDI policies when apparent lack of empirical research exists. Assuming that FDI as a type of international flow can bring capital, technology and managerial expertise, emerging, transition and developing countries welcome FDI. Reasons for positive spillovers authors see in benefits that come with FDI. Some of them include higher wages that MNC can afford and more abundant use of skilled workers. MNC can also invest more into physical and intangible capital. Final conclusion of superiority of FDI lies in the evidence that MNCs that invest in a foreign country have an advantage over their competition in the home country which should bring to an advantage in productivity in the host country over local competitors.

Contessi and Weinberger (2009) put a special focus on the transfer of technology which may not be available in a host country. Contributing to the technical progress of the host country, such a transfer is eventually considered to be beneficial to the growth of the country. Authors also point out that FDI has always played an important role in economic development. However, the impact and therefore importance is much greater nowadays due to the globalization of production and corporate organization that is evolving. Corporations also endured the change over last two decades and they can no longer be associated with a particular economy. National corporations are getting transnational and they cannot be labeled as a “state” corporations anymore. Moreover, core corporate activities such as research and development have a propensity to be located outside the home country which was the place of formerly national enterprises. Even headquarters are located outside former national corporations which is mainly brought by globalization.

Evidence shows impressive performance by those countries that unconditionally said “yes” to FDI. Chang and Grabel (2004) claim that several historical and empirical records exist and show results of liberalization of the FDI approach, among which the best examples are those from Asia and Latin America. Namely the East Asian so called “miracle” economies and some economies from Latin America in last twenty years, with a particular focus on Mexico, serve as an example of the positive effects of an open policy towards FDI. These effects are seen through export success, growth and industrial development.

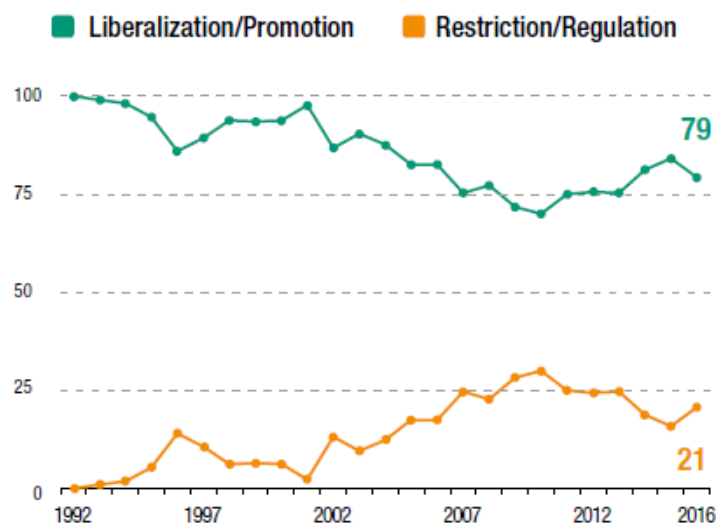
On the other, hand all those countries that set a restrictive policy on either FDI activities or activities of MNC will most likely fall into isolation and consequently an economy will suffer from lack of a fresh capital. Globalization enabled MNC to move easily and relocate any part of the production process, including research and development which could be rather crucial for firm’s existence. However, if the business climate of a host country is not

favorable or perhaps even shows signs of a hostile approach, there will be unlikely to be investment there.

FDI also represents an important mechanism of reintegration for transition economies into Europe, symbolized by prospective membership of the European Union. Transition from socialism to capitalism is not only limited to a political transformation but also an economic process where FDI plays a crucial role. This role of FDI for transition countries opens up the possibility for technical innovation, accelerated growth, capital account relief and enterprise restructuring. Evidence shows that foreign firms in transition economies have higher productivity, innovation, R&D expenditures and performance (Beva, Estrin & Meyer 2004).

The importance of foreign investment inflows into country is a significant also from the view of foreign governments that adopt different national regulations favorable or less favorable to international flows. Figure 1 illustrates significant differences between percentages of countries that adopt policies aimed at promoting FDI over countries that imposed restrictions on FDI. From the early 1990s countries remained keen on attracting and favoring FDI, although recently the share of measures aimed at liberalizing investments among newly adopted measures has a downward trend. In 2016, the share of measures decreased to 79 % compared with the previous year. This is considerably lower than the share of countries that advocated and adopted liberalization and promotion policies for FDI in the early 1990s. However, number of adopted measures was 124 in 2016 and represents a rise for 25 % compared with the previous year. Out of 124 measures, 84 represent liberalization and promotion policies, whereas 22 measures were directed against FDI. In total, 58 countries adopted measures dealing with FDI.

Figure 1: Changes in national investment policies from 1992 until 2016



Source: UNCTAD (2017).

2 FDI TRENDS AND PATTERNS

2.1 FDI overview in the world

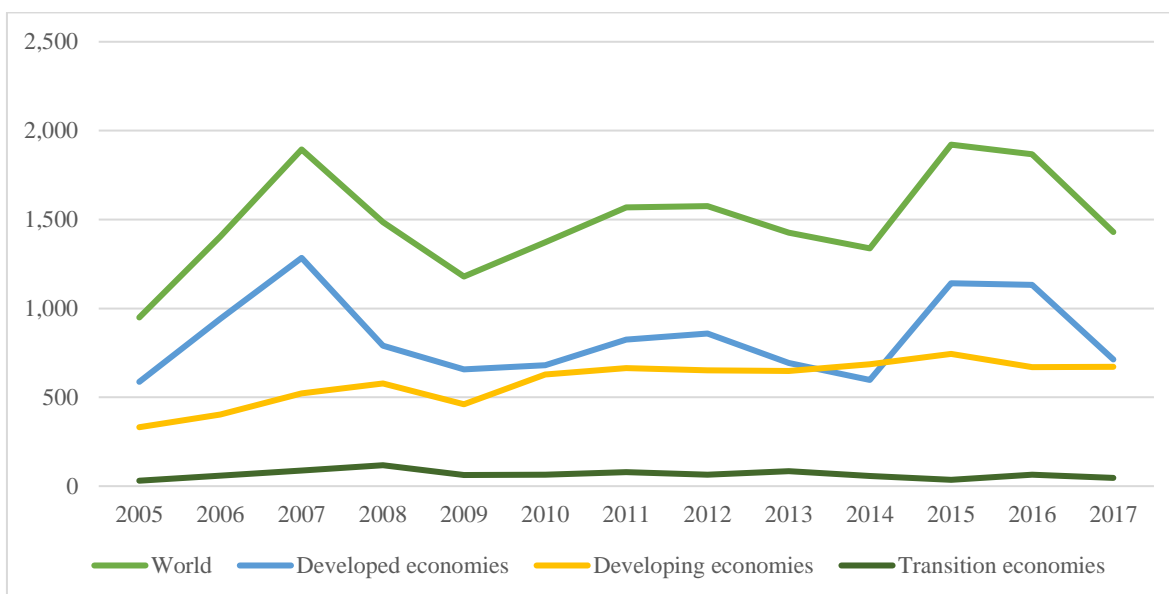
According to OECD (2008), innovations in technology, cheaper communications and deregulation of markets allowed foreign investors to diversify further their participation in foreign economies. These are just some of the triggers that affected increase in cross-border capital movement, including FDI which become a key factor in globalization.

When discussing FDI trends, two major types of sources of information on FDI flows are UNCTAD and FDI Markets. Information presented in reports that are published however may sometimes differ and the main reason is what type of investments they present. Sometimes international flows are presented in one number without distinguishing for FDI, portfolio investments or debt.

Current trends in FDI inflows on the global level in last two decades are usually divided into two parts, the pre-crisis period and the post-crisis period. In the Figure 2, overall FDI inflows are illustrated on the global level as well as for developed, developing and transition countries. A strong decline in FDI occurred after the financial crisis in 2008. FDI inflows started modestly to recover after 2009. However, FDI inflows still did not reach the level of the pre-crisis period when they recorded the highest level of \$1.97 trillion in 2007 until when they were constantly rising (UNCTAD, 2017).

According to UNCTAD (2016), global FDI flows in 2015 have reached their highest level since 2007, jumping by 38 % to \$1.76 trillion. However, global FDI flows lost their growth momentum in 2016 when they fell to \$1.75 trillion. After 2012 developing countries outperformed developed countries in inward FDIs and predominantly developing countries arose as a new attractive place for foreign direct investors. Reasons for this trend probably lie in the consequences of the financial crisis that seemed to have more strongly hit developed countries than developing countries, and thus a recovery from the crisis was faster in developing countries. FDI inflows into developing countries reached a new high of \$741 billion in 2015. In 2016 a special hit to FDI was recorded in these economies with a decline of 14 %. However, FDI remained the largest source of international capital compared with portfolio investments, remittances and official development assistance.

Figure 2: FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018 (millions of dollars)



Source: Adapted from UNCTAD (2017).

Apart from UNCTAD, FDI Markets’ data base records statistical indicators of FDI in the world with particular focus on number of FDI projects, total capex, number of jobs created due to FDI and total number of companies that transferred their capital. As shown in the Table 1 in the 24 months leading to November 2017, FDI Markets recorded a total of 25,942 FDI projects, representing a total capital spend of \$1,289.47 billion by 14,301 companies. This led to a creation of 3,700,378 jobs in 183 countries worldwide. (FDI Markets, n.d.)

Table 1: Key statistics on FDI in the world

Total number of countries	183
Generate number of FDI projects	25,942
Total generated capex	USD 1,289.47 billion
Total number of jobs created due to FDI	3,700,378
Total number of companies that invested	14,301

Source: Adapted from FDI Markets (n.d.).

The top 10 host economies in 2015–2016 are illustrated in the Table 2 showing the largest recipients of FDI inflows globally. The United States kept first position as a top FDI destination. Total amount of FDI inflows has been USD 391 billion. The USA is followed by the United Kingdom which FDI amounted to USD 254 billion. Apart from the United Kingdom, Australia and the Russian Federation appeared in the top 10 recipient countries

of FDI in 2016. The other countries include China, Hong Kong, Netherlands, Singapore, Brazil and India. In total 6 out of the top 10 host economies represent developing and transition economies. In 2016 Ireland lag behind the top ten countries and took the 17th position which is a significant decline since country was positioned at the second place in 2015.

Table 2: Top 10 economies in 2016 with highest FDI inflows¹

1. United States (1)	5. Singapore (5)
2. United Kingdom (14)	6. Brazil (8)
3. China (4)	7. Australia (16)
4. Hong Kong (3)	8. India (10)
5. Netherlands (7)	9. Russian Federation (25)

Source: UNCTAD (2017).

The top ten source countries are shown in the Table 3. The top source and destination countries for FDI are almost same, in particular if considering the top 20 host and home countries instead of the top 10. As shown in the Table 3 the United States remains the world's largest outward investing country t is followed by China and the Netherlands. France and Spain emerged as new top ten source countries in 2016.

Table 3: Top 10 economies with highest FDI outflows in 2016

1. United States (1)	6. Hong Kong (8)
2. China (5)	7. France (12)
3. Netherlands (3)	8. Ireland (2)
4. Japan (4)	9. Spain (11)
5. Canada (9)	10. Germany (7)

Source: UNCTAD (2017).

Table 4 shows the top sectors for FDI during the period November 2015 until November 2017. Among the top sectors the most prevalent are services which dominate last three decades. The software and IT services sector generated the largest number of FDI projects, followed by textiles and business services sectors. An important distinction is the fact that service sectors are predominant in the FDI going into developed countries, whereas

¹ Ranking of the previous year in Table 2 and Table 3 has been displayed in parenthesis.

manufacturing sectors remain significant for developing countries (Killen & Ghimire, 2016).

Table 4: Top 10 sectors by number of projects

Software & IT services	3,534
Textiles	2,580
Business Services	2,438
Consumer Products	1,597
Industrial Machinery, Equipment & Tools	1,445
Communications	1,407
Financial Services	1,364
Food & Tobacco	1,317
Transportation	1,069
Automotive Components	916

Source: FDI Markets (n.d.).

2.2 Patterns of FDI flows in transition economies- South East Europe

Trends of FDI for transition economies are difficult to follow mainly because of the changing nature of economies that tend to be found in transition countries and transforming into to developed economies. One of these examples is Croatia, which, according to UNCTAD (2017), was considered as a transition economy and turned to developed country following the country's membership in the EU. This part of the thesis explores trends of FDI in eight transition economies in Southeast Europe (hereinafter: SEE): the six Western Balkan (hereinafter: WB*) countries - Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia, as well as Bulgaria and Romania, in comparison with the other transition economies. Although Croatia, Bulgaria and Romania became EU members and today they are more frequently considered within the group of new EU member states in the context of developed countries, the SEE countries have many common features as a result of a similar transition experiences and shared history.

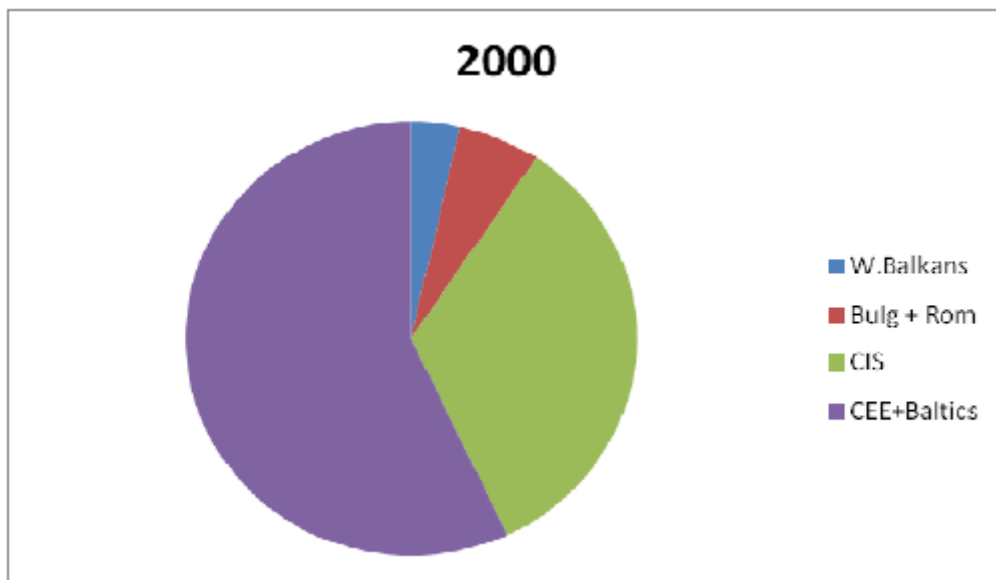
FDI inflows in SEE economies were rather low in 1990s compared to other transition countries in Europe or more specifically the Central and Eastern European countries (hereinafter: CEE). Foreign investors arrived later in the SEE economies due to economic instability and political risk in 1990s in this region as well as due to the high competitiveness of the CEE economies. Between 1989 and 2000, FDI inflows of the seven above mentioned SEE economies (without Bosnia and Herzegovina) amounted to USD 15.3 billion which represents a share of 9.4 % of total inward FDI stock in all 27 transition countries. Bosnia

and Herzegovina is not included because the country was at war between 1992 and 1995 (Estrin & Uvalic 2016). Figure 3 illustrates low level of FDI inflows in the SEE economies which are divided to the Western Balkans countries, Romania and Bulgaria.

The distribution of inward FDI among transition European economies has been highly concentrated within a share of few host countries. Over the period of 1990–1994, more than 70 % of FDI inflows was recorded in the Central European countries- Czech Republic, Poland and Hungary. Moreover, in the period between 1990 and 1999, these three countries accounted for cumulated FDI inflows of 79 % of total FDI into Central and Eastern Europe (Globerman, Shapiro & Tang, 2006).

Considering the SEE region, FDI inflows in 2000 were very concentrated with three countries having the largest share. Bulgaria, Croatia and Romania accounted for more than 80 % of the total inward FDI stock from all SEE economies.

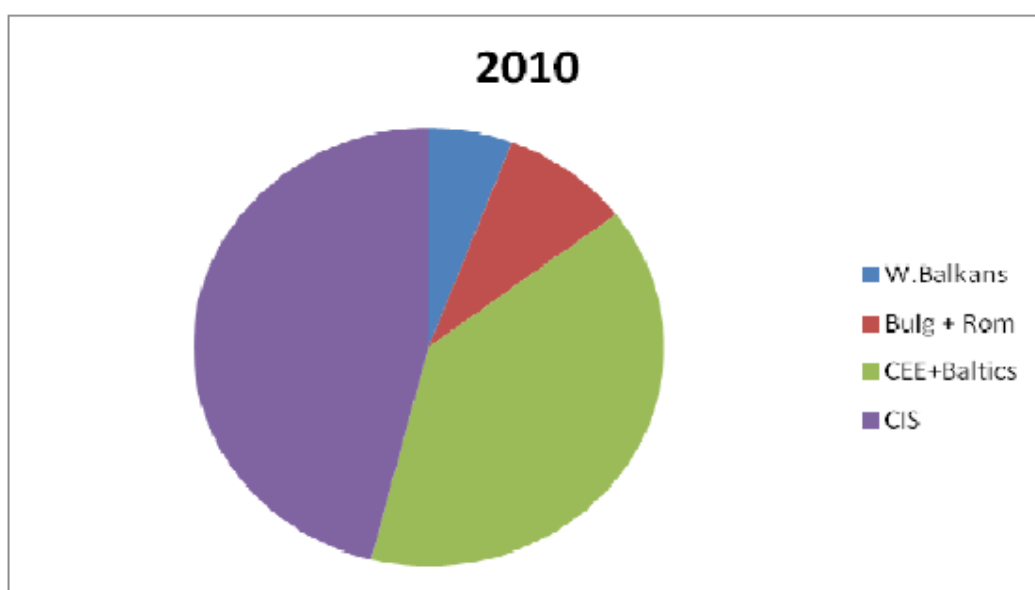
Figure 3: Inward FDI stock, by transition regions (2000)



Source: Estrin & Uvalic (2016).

After the year 2000, FDI inflows to the SEE economies rose, probably because of the better general economic and political environment in those countries. Although the countries from the SEE region started attracting FDI rather late, in 2010 the share of FDI stock rose to 14.7 % from 9.4 % in 2000 as shown in the Figure 4. However, by 2010, that was still only around a third of the volume of FDI that went towards the eight countries on CEE and Baltics.

Figure 4: Inward FDI stock, by transition regions (2010)



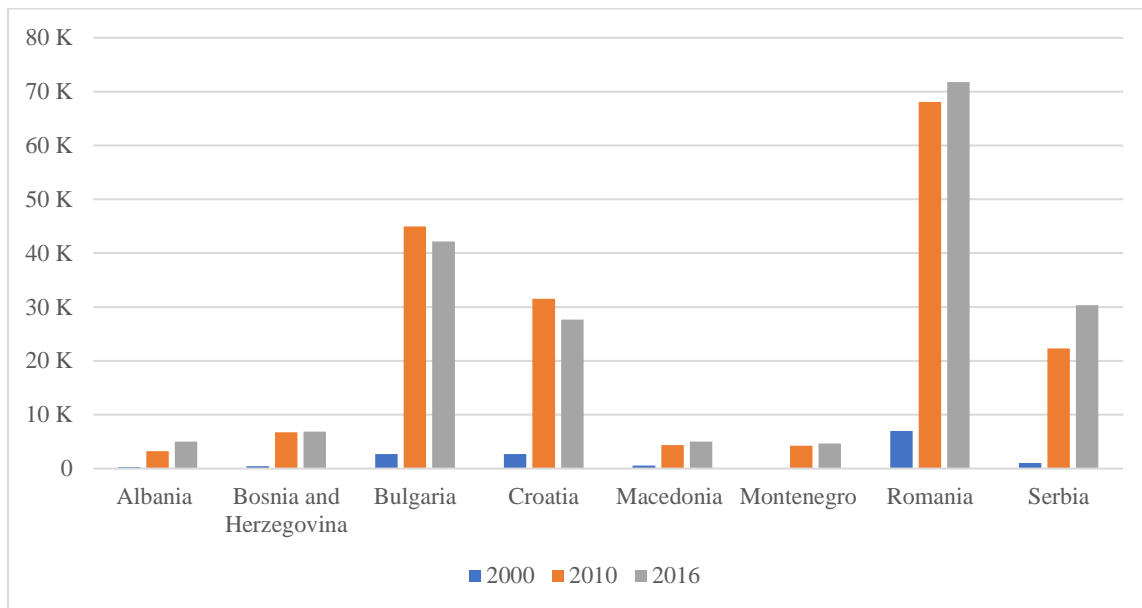
Source: Estrin & Uvalic (2016).

During the 2000s all SEE countries attracted significantly more FDI comparing to the 1990s, but the increase was uneven. The biggest increase of FDI stock was recorded in Romania, from \$7 billion in 2000 to \$70 billion in 2010. That is a tenfold increase. However, other countries had even greater rise. During 10-year period in Serbia, FDI increased as much as 21 times, in Bulgaria 17 times, Bosnia and Herzegovina 15 times, Albania 13 times while in Croatia FDI inflows were 12 times higher comparing to 2000. Only Macedonia had a less impressive rise of eightfold.

As illustrated in the Figure 5, there is no significant change in the level of FDI comparing 2010 and 2016. Except for Bulgaria and Croatia, which recorded a drop in a level of FDI stock, all other SEE countries experienced a slight rise in the level of FDI from 2010 to 2016.

After two years of steep decline, FDI flows to transition countries in 2016 almost doubled and reached an amount of USD 68 billion which reflects large privatization deals and increased investment in mining exploration activities. However, two main sub regions that comprise countries in transition experienced divergent trends. Commonwealth and Independent States (hereinafter: CIS) and Georgia experienced doubled rise in FDI inflows, owing to an exceptional rise in flows to Kazakhstan and Russian Federation. On the other hand, in the SEE, FDI declined by 5 % mainly due to fewer investments in the manufacturing sector (UNCTAD, 2016).

Figure 5: FDI inward stock in transition economies, 2000, 2010 and 2016 (in millions USD)



Adapted from UNCTAD (2017).

3 INVESTMENT PROMOTION POLICY

3.1 The definition of investment promotion policy

Investment promotion policy has become increasingly sophisticated. It is much more than simply opening the borders for foreign investors and general promotion of the countries (UNCTAD, 2001). Countries' ability to offer the key investment elements that potential FDI investors look for may determine success in attracting FDI. However, while business environment and a good investment climate are important for FDI, the benefits of these elements for foreign investors must be extensively promoted (Ecorys, 2013). Promotion techniques play an important role in communicating all the efforts that government builds for potential investors. (Wells & Wint, 2000)

According to Killen and Ghimire (2016, p. 23) "Investment promotion is the efforts undertaken by a national or regional government and its IPA, to generate private sector investment into its territory which offers incremental wealth, employment and other benefits."

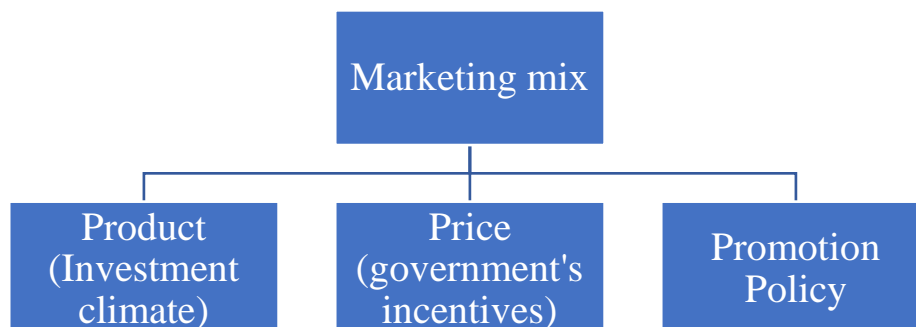
Wells and Wint (2000) point out that the efforts undertaken by the government consist of a number of steps:

- Attracting FDI through marketing mix of product, pricing and promotional activities;

- Screening FDI proposals to identify investors that fit into the country’s development goals;
- Monitoring foreign investors to examine realization of expectations; and
- Providing assistance to foreign investors for more favorable business operations.

In their marketing programs, organizations seeking to develop competitive strategies for marketing activities can manipulate, to some extent, with the marketing mix elements. These marketing mix elements for a country are shown in the Figure 1. Product as an element of marketing mix refers to what is known as investment climate. Pricing activities refer to the governments’ pricing mechanisms such as tax incentives, grants, tariff protections as well as costs to the investor in case of locating the business within the investment site. Promotion activities refer to the communicating governments efforts to the potential investor. Policies to improve investment climate (product), investment incentives (price) and promotion activities should complement each other and they should not work as substitutes. This becomes rather complicated in cases where investment incentives and promotion activities are covered from the same budget and coordinated by the same agency. (Wells & Wint, 2000)

Figure 6: Key elements in marketing mix



Adapted from Wells and Wint (2000).

Investment promotion policy therefore comes from governments’ decisions to establish a new institution or simply repurpose existing organizations in order to increase FDI inflows. Either way, an agency that is set up should be an institution that is more marketing oriented and independent from both government and private sector. These institutions, that started growing rapidly in 1980s and 1990s, are commonly known as IPAs. Investment promotion is still relatively new business with a considerable number of relatively young IPAs, particularly in developing countries and countries in transition (UNCTAD, 2001).

Wells and Wint (2000) claim that investment promotion is a result of growing competition by governments to attract FDI, recognizing that the competition is not new but it became aggressive and intense. Killen and Ghimire (2016) point that an IPA will not achieve

significant results with its promotional activities if all the marketing mix elements described above are not competitive.

Organization for Security and Co-operation in Europe (hereinafter: OSCE) (2006) defines IPA as an agency that is developing country's image and at the same time works on the improvement of the investment climate. OSCE's views IPA as a main recruiter of foreign direct investors on behalf of the country. Furthermore, it recognizes that setting up IPA has become the most popular institutional approach in strategic FDI promotion worldwide.

OSCE (2006) suggests that a country will receive less FDI in comparison to another country with similar economic conditions if it does not promote investment. Furthermore, with no promotion, an investor is left on its own to learn about investment opportunities in the country which may result in an inadequate message of the country potential.

Investment promotion has become increasingly complicated and competitive over the last two decades. Globalization, mergers and acquisitions, internal consolidation strategies, outsourcing and new investors from emerging economies have contributed to a rise in investors' many different approaches to the foreign market (Ecorys, 2013). With versatile opportunities for FDI investors to enter foreign market, standard and traditional promotion mechanisms have become less effective. That is a main reason why organizations involved in investment attraction have had to adjust to the changing environment.

In those projects where investors and IPAs are collaborating, the challenge is to get both sides on the same page. Investors are looking for the location which is going to contribute to the strategic long-term goals, whereas contribution to the economic development of the country is the biggest aim of the IPA.

3.2 A framework for FDI promotion policy

Countries all around the world attempt to attract FDI especially after observing the importance of FDI for economic development. Majority of the countries established IPAs on a national level. In cases of certain countries, IPAs exist on the regional level with the aim of stronger increase of FDI inflows in respective parts of those countries. Countries also focus on improvement of the investment climate to make country an attractive location for foreign investors (Ecorys, 2013).

The organizational structure and operations of the IPA, eventually will determine the success of attracting FDI to that economy. However, functions and activities that the IPA performs may vary to a great extent.

The biggest challenge that governments face with establishing IPA can be classified into three categories:

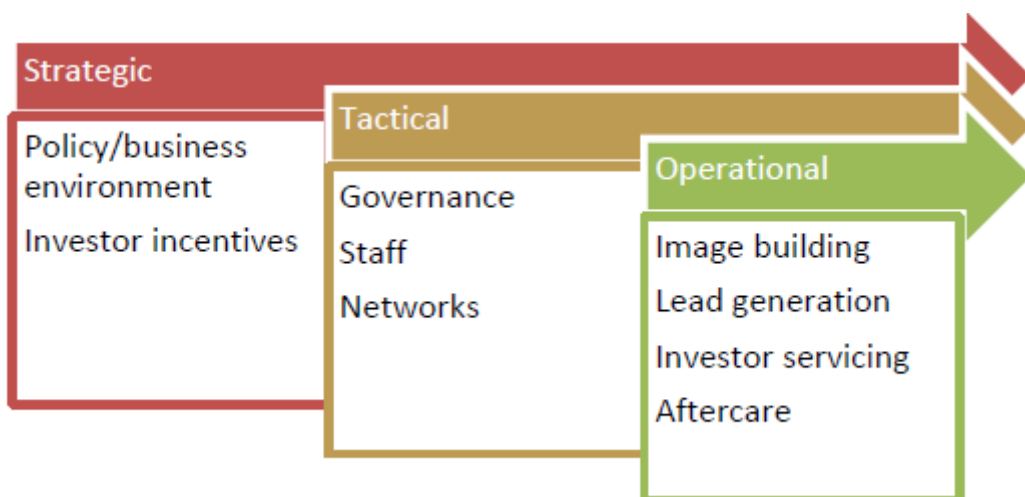
1. Investment strategy which refers to determination of the set of investment promotion techniques that are most effective for the country;
2. Structure of IPA which refers to the most appropriate form of IPA; and
3. Performance of IPA which encompasses determination of the proper general performance of the IPA as well as performance of the specific investment promotion techniques. (Wells & Wint, 2000)

When discussing IPA, one of the crucial points is to create a realistic investment promotion strategy. Regardless of the type of IPA and the capacity, no strategy can promote all investment everywhere. The main characteristics of a good investment promotion strategy should be achievable goals, logical content and a realistic possibility of success. Moreover, it should be flexible and adaptable to the changing market environment. With an investment promotion strategy it should be easily possible to conclude answers to two key questions:

1. What are the most important sectors that should be prioritized?; and
2. What are the (geographical) markets that should be prioritized? (Killen & Ghimire, 2016)

In order to better understand the operations and the structure of IPA, Ecorys (2013) developed a framework for FDI promotion which describes in detail how investment promotion works and what the role of IPA in the framework is. It comprises three layers (see Figure 7): strategic, tactical and operational, which ideally complement each other. Each layer shown in the Figure 7 will be subject of theoretical explanation in the upcoming parts of the thesis. The analysis of these three layers will represent the central part of the practical part of the thesis.

Figure 7: Three layers of investment promotion policy



Source: Ecorys (2013).

Strategic, tactical and operational activities interact with each other. For example, targeting a specific sector or industry as a part of lead generation (operational level) will be made easier if the IPA develops a broader network of stakeholders at tactical level or if the investor incentives work in favor for the investors (strategic level) (Ecorys, 2013).

3.2.1 Strategic layer of investment promotion policy

Strategic activities are comprised of policy and business environment and investment incentives. These two can be considered as two elements of the marketing mix that is product and pricing mechanisms. They can be manipulated for achieving better results in FDI flows.

3.2.1.1 Policy and business environment

According to Ecorys (2013) the business environment refers to factors that influence the running of a business, and they are outside of the business owner's control. Human resources, the regulations that country creates and the geographic location are just some of these factors. Although Ecorys (2013) names all the determinants under policy and business environment, the more appropriate term to use is an investment climate which is considered at this point. Investment climate encompass business environment, but the two are different (Killen & Ghimire, 2016).

In a report of WB (2017a), business environment is measured by the Doing Business Index. However, all that the index measures is the ease of doing business in a certain economy. This index includes different aspects of regulation that are directly linked to the areas of the life of a business. These areas are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. In other words, a country is going to score higher level if these areas are favorable for an investor. However, the index does not necessarily indicate that the country has a favorable investment climate.

As mentioned previously, investment climate is broader term compared to business environment. Investment climate can be defined as group of financial and economic factors in the country that determine foreign direct investors' decisions to invest or acquire businesses in certain country (Killen & Ghimire, 2016). The WB often classifies power, transport and financial infrastructure as "investment climate".

Business environment and investment climate are not determinants that companies can directly change. Instead, authorities play the crucial role in shaping business environment and investment climate. They pass regulations and policies regarding taxes that companies need to pay, policies for education and innovation that produce skilled workers and latest

technology and they also impose labor and environmental regulations to protect the sustainability of the country (Ecorys, 2013).

3.2.1.2 Investment incentives

Investment incentives are those offered by different levels of government and can be divided into three main categories:

1. Fiscal incentives which can be offered to a company if it reaches certain level of profit, sales, value added, import or export or it hires a certain level of employees;
2. Financial incentives include grants from government, credits at subsidized rate, government insurance at preferential rates or equity participation; and
3. Other incentives such as subsidized services, market preferences, subsidized dedicated infrastructure and preferential treatment on foreign exchange (Ecorys, 2013).

IPAs' location which is country, region etc. represents their product that needs to be sold. However, generally speaking IPA can neither change that product nor shape it. Investment promotion agencies impact investment climate, business environment and investment incentives through participating policy discussion and producing policy papers. These activities of an IPA are collectively known as policy advocacy and it represents one of the major functions of the IPA (Ecorys, 2013).

Policy advocacy enables IPA to collaborate with public sector on one side and private sector partners on another. For instance, if an IPA inspects lack of labor skills that investors are seeking, they might organize trainings with professionals which would be supported from the government's budget (Ecorys, 2013). This function gives the IPA the role of advocate of the private sector within the government. An IPA engages with the private sector on a daily basis and gathers data on the issues where improvements in the investment environment are required. The private sector and investors expect the IPA to influence investment policies by suggesting government investment legislation and regulation. UNCTAD (2001) research showed that 80 % of examined IPAs performed policy advocacy function within their portfolio of functions.

Not only on a strategic but on a general level, policy advocacy may work so that an IPA operates as a corrective body, where it identifies potential problems of companies and lobbies the government to eliminate that obstacles that stay on companies' paths.

3.2.2 Tactical layer of investment promotion policy

Tactical level of promotion policy tackles the institutional framework of the IPA. The institutional framework consists of the internal characteristics of the IPA. Ecorys (2013) suggest three key elements important for an IPA:

1. Governance model of IPA. Under the governance model of the IPAs following internal variables can be considered:

- Legal status of the IPA (founded by law or decree);
- Institutional linkages with the government (public, semipublic, autonomous or private body);
- Linkages with the private sector (degree of private sector representation, meetings, inputs); and
- Reporting mechanism (board of directors of IPA, government, prime minister or president).

The governance model of an IPA is rather important at the operational level regarding operational decisions. An IPA that reports directly to the government with a Board of Directors will most likely have different priorities compared to an IPA that is founded in private sector (Morisset & Andrews-Johnson, 2004);

2. Staff. The members that work in the agency responsible for promoting investments. Two important elements should be considered and that includes remuneration and profile of employees. While remuneration is considered through wages and incentives under which employees work, profile of the workers is much more frequent in the literature. The literature is divided between two approaches, workers that possess skills in the private sector versus workers that previously worked in public sector; and

3. Networks, partners and stakeholders. Ecorys (2013) see an IPA as a central agency that is responsible for attracting FDI to the country. The IPA also has its networks, partners and stakeholders that may determine the overall success of the promotion policy of the country. If financially feasible, it is desirable to have a larger agency with more employees which create a network within and outside of the country. An IPA can build different types of networks and they include:

- Direct delivery partners (governments on different levels, banks, industry trade groups, advertising, consulting companies etc.);
- Wider stakeholders (universities and research centers, biggest corporations, biggest countries' trade companies, international organizations);
- Advocates (network of business leaders in the community with strong interest of seeing their community growing); and
- Influencers and opinion-formers (specialists particularly engaged in targeting)

Apart from the above mentioned internal characteristics that shape an IPA, Morisset and Andrews-Johnson (2004) add an additional set of internal variables that have an impact on the effectiveness of an IPA and they include:

- Age of the IPA;
- Number of Overseas Offices; and

- Number of mandates other than investment promotion (export promotion, privatization programs)

Morisset and Andrews-Johnson (2004) further examined the impact of all the above mentioned variables on the effectiveness of an IPA and found only three important relationships:

- The higher the number of private members in the supervisory board of an IPA, the greater the IPA's effectiveness;
- FDI inflows were significantly lower in those economies in which the IPA was part of the government instead of having more autonomy over its activities; and
- FDI inflows were higher when IPAs reported directly to a government holding other factors constant.

From all the above mentioned, it is seen that IPAs come in many shapes and sizes. These agencies are differentiated by geographical focus, by function, by scope and by source:

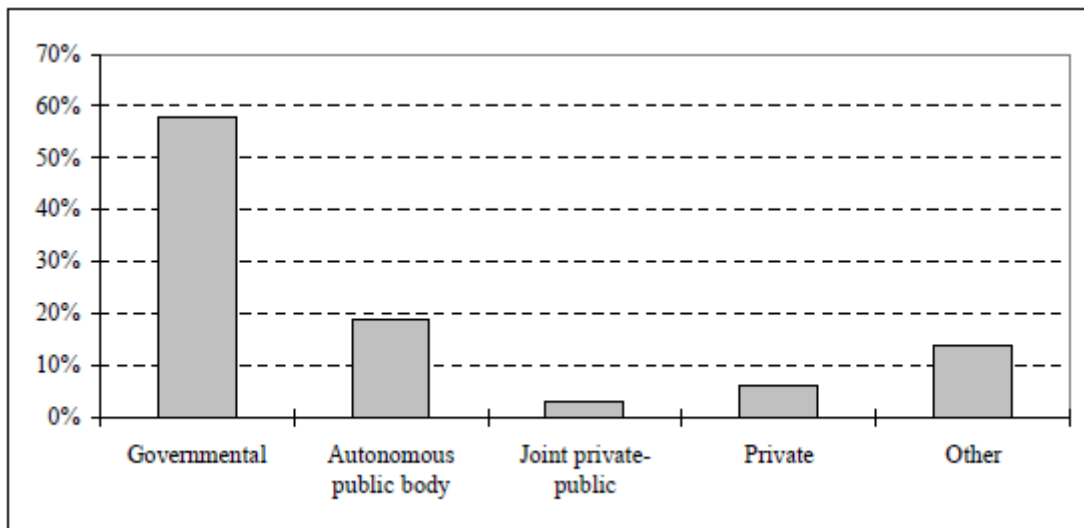
1. Geographical focus. Focus of IPA may be national or regional. A national IPA is responsible for promotion of investments for an entire country, whereas a regional IPA promotes investments for a certain region within the country. The World Association of Investment Promotion Agencies (hereinafter: WAIPA) comprises 130 national IPAs. Therefore, approximately 76 % of countries already established national agencies for promotion of their investments. The total number of registered agencies in WAIPA amounts to 170 which means that the rest of 40 IPAs make up regional agencies;
2. Function. As already mentioned, not each and every IPA is structured in the same manner. Some agencies are only promotion investment oriented, while other agencies have a broader role and promote trade and export. Agencies can be responsible for local business development, trade, research and development and entrepreneurship;
3. Scope. An IPA can be classified based on the targeted market it is focused on. National IPAs promote investments on a country level, whereas regional IPAs target investors for interests of their region within the country. IPAs can be also continental and global. Therefore an IPA may have national focus, regional focus, continental focus, global focus – selective and pan-global; and
4. Resourcing. IPAs can be distinguished based on their organizational status. They maybe be founded by national, regional or local governments. However, there are certain cases where an IPA is a private agency free of public share. Between these two extremes, IPAs may have an organizational status which is a mixture of public and certain types of private sector interest. The share of private sector in the agency will eventually determine the level of autonomy of the agency. (Killen & Ghimire, 2016)

In most countries, an IPA is considered to be a public good. Therefore, it is not surprising that according to the UNCTAD (2001) report, 80 % of the agencies were governmental while the other 20 % did not have a connection with government. The frequency of IPAs

with different type of organizational status are shown in the Figure 2. Out of 80 % of the agencies with governmental status, 20 % of them are so called autonomous public agencies. Due to the specific character of investment promotion, some agencies are more independent from government than others. These autonomous bodies are distinguished from regular governmental IPAs by greater interference by the private sector. Autonomous agencies attract more staff from the private sector, providing them competitive salaries and creating corporate office cultures. Autonomous agencies have their biggest advantage eliminating strong influence from the government side, however the downside of this organizational structure is lack of the negotiation power especially in policy advocacy.

Harding and Javorcik (2007) examined a correlation between the organizational status of an agency and its effectiveness. Research composed of 30 IPAs with a sub-unit of ministry status, 26 agencies with an autonomous status, 43 agencies with a semi-autonomous status reporting to a ministry, 3 agencies which were a joint public-private entity and 2 private entities. Harding and Javorcik found that agencies with more autonomous status perform better in attracting FDI inflows than subunits of a ministry. They also found that effectiveness of an IPA rises when the organization is changed from subunit of a ministry towards a certain type of autonomous body. More autonomous status refer to an organizational status other than a subunit of a ministry.

Figure 8: Organizational status of IPA



Source: UNCTAD (2001).

3.2.3 Operational layer of investment promotion policy

Policy advocacy has been presented as a function of IPA on the strategic level. Other “classical” IPA functions come at the operational level. In the literature (Piontkivska & Segura, 2003) operational activities may be found under the section of functional structure of IPA. According to Ecorys (2013) operational activities are gathered into four main functions:

1. Image and brand building;
2. Lead generation;
3. Investor servicing; and
4. Aftercare.

Table 5 shows IPA’s functions, objectives and activities on each level. IPA has four main functions on operational level and one function on strategic level. Each function comprises versatile activities as shown in the last column of the Table 5. In-depth description of each function and their activities will be subject of the following parts of the thesis.

Table 5: Main functions of IPA

Level	Function	Objective	Activities
Operational	Image building	To promote a country as an attractive place for foreign investors	<ul style="list-style-type: none"> • Creation of appealing advertisements within and outside the country • PR events • active participation in conferences, seminars, forums etc. • continuous cooperation with press and private sector • creating modern and sophisticated website
	Investment generation	To target investors that fit into the development strategy of the country and match specific investors with particular sector	<ul style="list-style-type: none"> • analysis of prospective foreign investors • matching foreign investors with sectors, projects and stakeholders • organizing regular meeting with identified targeted foreign investors
	Investor Servicing	To simplify a foreign direct investors’ access to information they are not able to find elsewhere and to provide support in the initial phase	<ul style="list-style-type: none"> • deliver ad hoc information for interested parties • assist in a registration process • assist with specific information for particular sectors

Table continues

Table 5: Main functions of IPA (continued)

Operational	Aftercare	Continuously provide support and keep in contact with existing foreign investors and to simplify reinvestment decisions	<ul style="list-style-type: none"> • legal or other advisory support to on-going foreign investment projects • dealing with bureaucracy etc.
Strategic	Policy advocacy	To observe challenges that foreign direct investors are facing with and to advise responsible public authorities on the solutions of those challenges	<ul style="list-style-type: none"> • regular examination of a satisfaction level of foreign investors with investment climate through questionnaires • policy and legal recommendations to governments • lobbying

Adapted from Piontkivska & Segura (2003).

3.2.3.1 Image building

One of the functions that start in the initial stage of the IPA is image building. Creating an image as an attractive site within the international investment community represents the main component of this function. The IPA is engaged in a variety of advertisement activities in industry or sector-specific and financial international media. Other activities include reporting positive changes in the regulatory and legal framework for investments as well as participating in public relation events such as seminars, fairs and conferences related to investment opportunities. Image building as a function is important for economies with a poor investment climate and low level of inward FDI in which an IPA should generate investment interest (Piontkivska & Segura, 2003). Image building refers to general activities which are not focused on any specific country, industry, sector or even company (UNCTAD, 2001).

An IPA must work on the development of the key marketing message in order to use it in its regional and global marketing campaigns. At this point, it should be clear that any promotional activity will be ineffective if an investor discovers that its offering is deficient or uncompetitive. In other words, regardless of the power of the marketing message, if other elements of the marketing mix which include product (the investment climate, business environment) and price (pricing mechanisms such as taxes, labor costs, incentives, etc) are not competitive, the only result of IPA will be a waste of the time and resources (Killen & Ghimire, 2016).

Killen and Ghimire (2016) also suggest that the marketing message should be consistent, although they recognize that it may vary slightly for specific sectors and markets. If the IPA defines availability or cost of the labor as a central competitive advantage, the marketing message should be used as a central message of any promotional campaign to maximize

investor interest. Once when IPA creates the marketing message, it should further find the most appropriate marketing tools to deliver that message. All these activities increase visibility of the country in the investment environment and create a positive image of the country. Marketing tools can be divided into two groups: direct and market-wide tools (Killen & Ghimire, 2016).

Direct marketing tools comprise brochures, newsletter, sector studies, fact sheets, USB sticks, promotional DVDs, whereas market-wide tools comprise public and media relations, advertising, advertorials, seminars, business events, exhibitions, conferences, business case proposals and cost models. Which tools the IPA is going to apply depends on the budget of the IPA as well as the position of the country's image in the world. The more the country gets recognized, the more personal contact in the form of direct marketing tools will be used (Killen & Ghimire, 2016).

3.2.3.2 Investment generation

Investment generation or business development is a function of an IPA whose main task is to turn investment lead generated through investor targeting into a successful FDI project. Investment generation requires systems and tools to organize business development. Although there have been many tools developed for the investment generation, direct human contact is by far the most effective (Killen & Ghimire, 2016).

Agencies usually focus more on the function of image building in the initial phase and later shift to investment generation. This shift corresponds with the use of more closely targeted promotional techniques (Wells & Wint, 2000).

Although some IPAs do not have budget big enough for investment targeting, especially at the beginning, this function of IPA is seen as an effective and cost saving technique. Besides budget, investment targeting also requires time to train staff and patience to apply techniques systematically (UNCTAD, 2001). Two different techniques can be applied for targeting: (Wells & Wint, 2000)

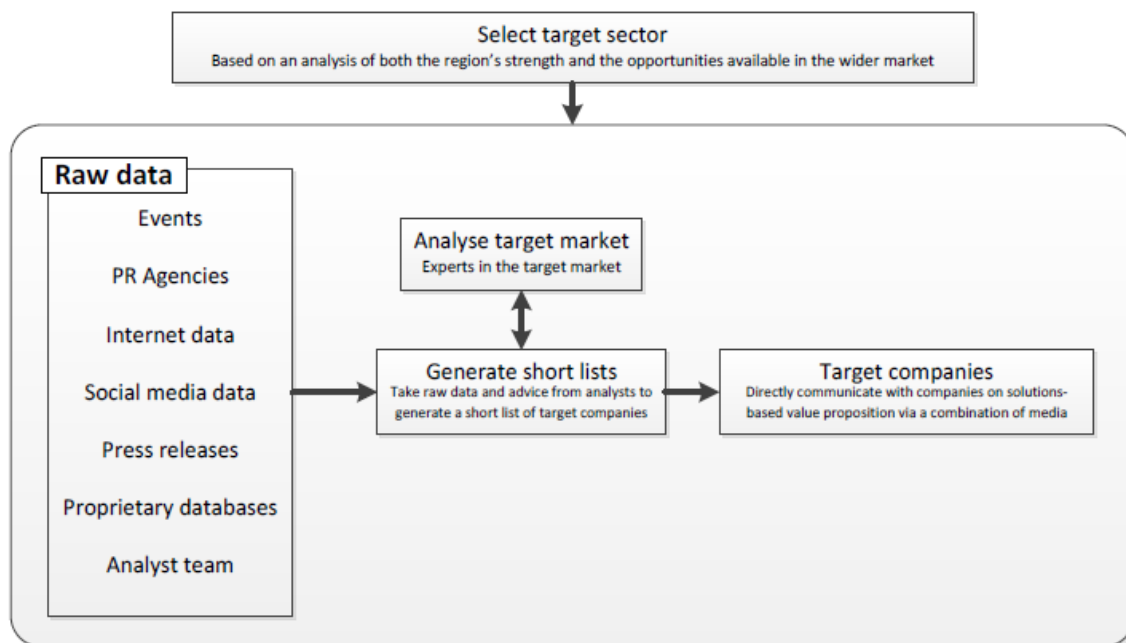
1. Investor targeting by type of investor;
2. Investor targeting by type of project for investment.

In targeting a particular type of investor, agencies can target by industry, by sector, by geographical region, or by attributes of a class of investors (size, growth rate, labor intensity of production, export intensity of production, value added of production, level of technology or any attribute that will identify a group of prospective investors).

Ecorys (2013) suggests that agencies seem to be more efficient if they have a smaller but well-researched group of companies rather than a larger number of companies that are irrelevant and not a good match for the business interest in the country. The investor

targeting process can be summarized in few steps that are shown in the Figure 9. The process itself has four steps before the direct contact with targeted companies begins. It starts with the targeting a core sectors that fit into the country’s development strategy. Second step comprises collection of the raw data for the specific sectors in order generate list of potential companies within the sector. In the third step an agency should already have a short list of potential candidates for targeted activities. Final stage in the investor targeting process includes the direct contact with the narrow list of foreign investors.

Figure 9: Investor targeting process



Source: Ecorys (2013).

Harding and Javorcik (2012) suggest that sectors targeted by IPAs receive more than twice as much FDI inflows than non-targeted sectors.

3.2.3.3 Investment services

An integral part of investment promotion in which IPAs put their efforts is known as investment servicing and facilitation. Activities that are comprised within their function aim at assisting investors to make an investment decision, establish a business and maintain operations in the country. Usually the function is divided into two parts, pre-investment services and post-investment services.

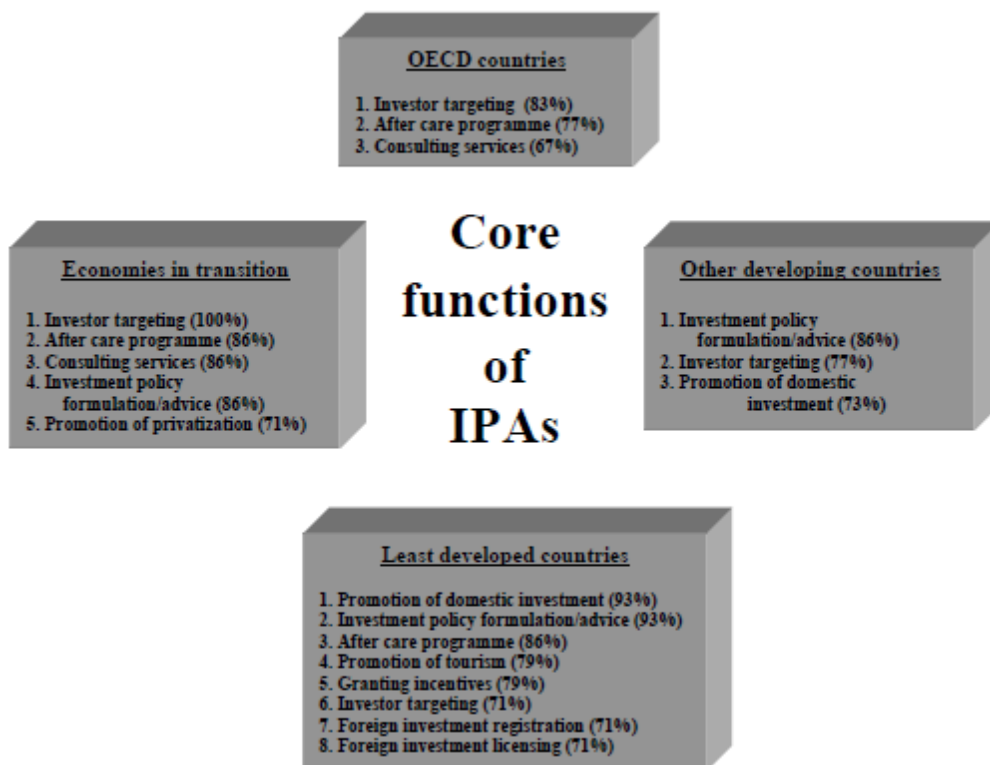
Almost all IPAs are engaged in pre-investment services which comprise the provision of information to the investor about the country, its macroeconomic situation, business environment, major industries, investment incentives, costs of doing business and other information that can facilitate potential investors’ decision to start a business (Piontkivska

& Segura, 2003). OSCE (2006) suggest that IPA staff should also assist with the registration of the company and help the company with providers of utilities and infrastructure because in certain cases it might take several months to get permits for them.

According to Piontkivska and Segura (2003), 70 % of IPAs were engaged in providing aftercare services. IPAs believe that a satisfied investor will likely reinvest and expand the network in the country and thus the IPAs provide aftercare services such as giving advice and consulting with bureaucracy. IPA staff should work through aftercare services to provide information to the current investor seeking sources of finance, service providers, business partners, vendors and opportunities to expand their business.

UNCTAD (2001) research showed that agencies around the world do not engage in every investment promotion activity. It also showed that functions of IPAs vary among different group of countries. Figure 10 shows four group of countries and functions that IPA undertakes within each group. OECD countries and economies in transition predominantly focus on investor targeting, after- care activities and provision of consulting services. In contrast to OECD countries, economies in transition and developing countries spend their resources on investment policy advocacy function. Least developed countries have the highest number of tasks and activities among the different group of countries shown in the Figure 10.

Figure 10: Core functions of IPA in different group of countries



Source: UNCTAD (2001).

In a study of the most successful investment promotion agencies, Miškinis and Byrka, (2014) attempted to identify activities that IPAs engage in, which eventually make them so successful. These activities are described in details in the Table 6 and grouped by functions that the IPAs conduct. Miskins and Byrka also indicate that IPAs have to be innovative and creative to reach foreign investors. One of the activities that is not mentioned in the Table 6 is attracting ambassadors to the promotional activities and working closely with diaspora on generating new investments.

Table 6: Good practices of IPA

Main functions of IPAs	Good practices
Investor targeting	<ul style="list-style-type: none"> • Targeting markets • Targeting specific sectors and companies • Targeting specific tasks and activities of the sectors that can be competitively fitted within global value chain
Investor servicing	<ul style="list-style-type: none"> • Frequent Matchmaking events • Full assistance of the experts to foreign investors until the start of operations (with site selection, documentation and application, providing requested information) • Inquiry-handling (success criteria: 1) availability and contactability; 2) responsiveness and handling; 3) the quality of the inquiry response; 4) customer care) • Consultancy about fiscal and financial incentive schemes:
Aftercare	<ul style="list-style-type: none"> • Follow-up and monitoring of development of already accomplished investment project • Building local supply network, its maintenance and enhancement
Cooperation with other actors responsible for FDI	<ul style="list-style-type: none"> • Aligning strategic, tactical, and operational instruments to attract FDI • Branding and media attention • Cooperation with government, private sector, high-profile decision makers and other IPAs to meet imposed investment goals
Internal management of IPA activity	<ul style="list-style-type: none"> • Investment strategy design • Strong focus on IPA's organizational structure, size, staff and objectives • Treatment of the foreign investors as customers • Involvement of the private sector in the IPA activities • Monitoring and evaluation of the success of IPA performance

Source: Miškinis, Byrka (2014).

3.3 Importance of IPA

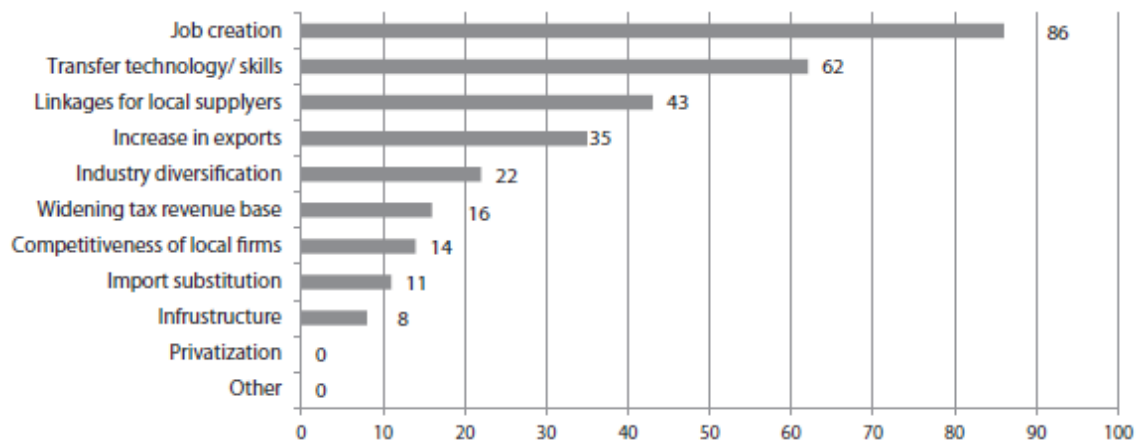
Existing literature has given less attention to IPAs. There is still lack of strong evidence of the impact that IPAs have on inward FDI. In this part some key facts that contribute to the rising importance of the IPA around the world will be presented.

Investment promotion policies according to Wells and Wint (2000) have several goals. These might be structured under four aims:

1. Directly increase the quantity of FDI;
2. Indirectly increase the quantity of FDI using mechanism of targeting specific types of investors;
3. Directly or indirectly increase the quality of FDI; and
4. Increase the number of competitors for a specific project.

IPAs on the other hand aim to increase employment in the country and bring new technology into the country by increasing FDIs. This is quantitatively displayed in the Figure 11. In 2013, 86 % of IPAs in developing countries saw job creation as a main strategic objective. Transfer of the technology and skills is strategic priority for 62 % of IPAs. Among examined IPAs, infrastructure and privatization were the least important priorities. The full list of strategic goals for given countries is displayed in the Figure 11.

Figure 11: Strategic priorities of IPAs in 2013 in developing countries, in %



Source: UNCTAD (2001).

The investment location decision process varies from one company to another and from one sector to another. However, broadly speaking this process can be described as in Figure 12. IPAs can influence choice of the company at all stages of the decision-making process. When companies start looking for a location to start a business, usually a long list of potential candidates is formed. The list is made of 8 to 20 countries which are most often: a) emerging FDI destinations b) the most popular FDI destinations, and c) destinations in

proximity to the investor’s existing operations. By the means of its image-building activities, a country can increase its opportunity to be included in the long list of potential candidates for the company looking for a location to invest. Following the initial list, the company narrows down its list of countries to about five potential destinations. At this point, the company still has not gotten in touch with the IPAs. Therefore, at this stage it is important that agencies provide up-to-date, detailed and accurate information on their websites so that companies have a reason to put their country among the top locations for the most thorough consideration.

After creating the short list of the potential candidates for investments, the company finally visits the country. At this stage IPAs have the opportunity to emphasize advantages of the country as a place for investment, provide all the necessary information and connect the investors with a potential network of local partners that company might work with. In the last stage of the process, the IPA negotiates with the company and provides information on investment incentives that country offers. The IPA also helps with the registration process once the company starts the process (Harding & Javorcik, 2012).

Figure 12: The investment location decision process



Source: Killen & Ghimire (2016).

From many of the functions that IPAs performs during the investment location decision process, it is clear that one of the functions of an IPA works in an initial phase of investors’ decision-making process. By this means IPAs meet business expectations of investors from one side and development objectives of the location on the other (Miškinis & Byrka, 2014).

The standard measurement for effectiveness of an IPA is not determined in the literature, although the most significant indicator of success of the IPA is the number of FDI projects attracted (Piontkivska & Segura, 2003). A study from Miškinis and Byrka (2014) suggests that investment promotion has a great impact on the level of the FDI attracted. According to the study a 10 % increase in the investment promotion budget will lead to a 2.5 % increase in FDI. More recent studies also indicate a positive relationship between promotion policy and FDI.

Another study, carried out by the University of Oxford, proved that one dollar spent on investment promotion will increase FDI inflows by 189 dollars. Miskins and Byrka suggest that such a positive relationship is probably the result of the information asymmetry that foreign investor face when investing in new markets, which is reduced in the case of the existence of an IPA or similar organization.

Study from Miškinis and Byrka (2014) deals with a shift from quantitative methods of evaluation of an IPA's performance to a more qualitative approach. Instead of focusing on the jobs created, number of projects attracted or financial value which IPA contributed, for assessing the performance of IPAs more qualitative measures should be used according to the study. These measures include, for instance, the number of high value-added projects that include research and development activity in high-growth and high technology industries.

Harding and Javorcik (2011) showed in their study that, based on the existing literature, investment promotion is a cost effective way of attracting FDI to developing countries. On the other hand, Harding and Javorcik did not find any significant effect of investment promotion efforts in developed countries. Other group of authors that Harding and Javorcik mentioned in the study found a positive relationship between investment promotion and FDI in developed countries.

The main shortcoming of these studies above is that there is no distinction on the quality of the services provided by IPA. In order to eliminate the shortcoming Harding and Javorcik examined how quality of services provided by the IPA affect FDI inflows. They found a positive relationship between performance of the certain IPA's functions and FDIs. In other words, those IPAs that perform better at their specific functions received more FDI (Harding & Javorcik 2012).

Research from Harding and Javorcik (2012) show that investment promotion is more important for those countries in which English is not an official language. Evidence also shows that promotion policy is more effective in countries with a low level of corruption and short period of time for starting business and obtaining working permits.

Charlton and Davies (2007) examined if the existence of IPAs increased the inflows of FDI, that is, if the IPAs have justified their establishment and financing from the government budget. They found a positive effect of investment promotion in terms of robust FDI inflows across various empirical specifications. IPAs focusing on a small number of sectors have proven to be a very good strategy because such a targeted approach increases FDI inflows in that industry by 41 % (Kresan-Škabić, 2015).

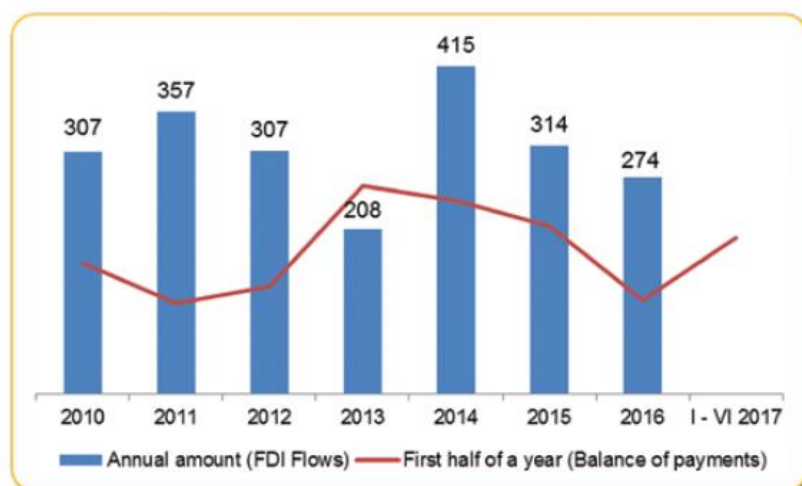
4 ANALYSIS OF INVESTMENT PROMOTION POLICY IN BOSNIA AND HERZEGOVINA

4.1 Challenges for Bosnia and Herzegovina in FDI promotion

With the collapse of the communist regime and the former Yugoslav Federation, Bosnia and Herzegovina got independence in 1992. Soon after fierce conflict spread all over the country and Bosnia and Herzegovina was confronted with the serious humanitarian and social crisis that destroyed the country. The Dayton Peace Accord ended the war in 1995 defining the country as a one confederation of two entities: the Federation of Bosnia and Herzegovina and the Republic of Srpska, ten cantons in the Federation of Bosnia and Herzegovina, five administrative areas in the Republic of Srpska, a special Brcko district, including municipalities and local governments. Bosnia and Herzegovina is still governed by the international community. The Office of High Representative (OHR) is responsible to oversee the implementation of the Dayton Peace Accord. This complex political system and administrative structure transmit to the economic development of the country. This is also reflected in the country's ability to attract foreign investors (Constitutionnet, n.d.).

The low and uneven level of FDI in Bosnia and Herzegovina is shown in the Figure 13. In 2007 Bosnia and Herzegovina attracted 1.3 billion euros FDI which is the highest ever recorded amount of FDI. In the last ten years, the highest level of FDI in Bosnia and Herzegovina was in 2014 in amount of EUR 415 million. The year before FDI inflows were almost 100 % lower. From 2014 FDI in Bosnia and Herzegovina follows the downward trend. In 2016, FDI were 12.8 % lower in comparison to the year 2015. Some preliminary data from the Central Bank of Bosnia and Herzegovina show that amount of FDI in 2017 was around 67 % higher comparing to the same period in 2016.

Figure 13: FDI flows in Bosnia and Herzegovina, by years, in million euros



Source: FIPA (n.d.b).

When discussing promotion policy for attracting FDI the first question that emerge is: Does Bosnia and Herzegovina have a need for the agency for promotion of investments? This part is aimed to answer that question and briefly describe the current status of the investment promotion policy in the country.

Bosnia and Herzegovina is a small country in transition and it is rather important for the country to have special body or agency for investment promotion in order to increase its presence on the global stage. As Wells and Wint (2000) pointed out, large countries need less marketing efforts comparing to smaller economies. Countries such as the USA, the UK, China or similar countries are well known destinations for investors and they usually appear in the initial phase of the investor's desired destinations for investments. Miškinis and Byrka, (2014) also found that the IPA can significantly contribute to the higher number of FDI projects in those countries with a bigger cultural distance between the potential investor and the location where English is not an official language. Miškinis and Byrka also found IPA very important factor for economies with the unpredictable investment climate and limited access to information. The need for IPA is even larger considering uneven and low level of FDI over last decade in Bosnia and Herzegovina which was previously described.

Complicated political system and high need for the process of reconstruction and development of its economic, social, political and legal systems of the country represent an additional reason for establishment of a special agency responsible for promotion of investments.

Considering the above mentioned factors, Bosnia and Herzegovina has a high need to establish the agency that would be responsible for the promotion policy on the national level. Such a need was fulfilled 14 years ago. In December 2004 the Parliamentary Assembly of Bosnia and Herzegovina adopted the Law on Foreign Investment Promotion Agency of

Bosnia and Herzegovina (Official Gazette No. 118/04) (hereinafter: Law on FIPA) that establishes the Foreign Investment Promotion Agency of Bosnia and Herzegovina.

The FIPA as an agency for promotion of investment opportunities in Bosnia and Herzegovina is a relatively young organization in comparison to other investment promotion agencies worldwide. According to Kresan-Škabić (2015), all IPAs in the SEE region were established between 1999 and 2005. As such FIPA might still fail to come as a significant factor that is a starting point for change in investment inflow towards Bosnia and Herzegovina.

4.2 Methodology for data analysis

4.2.1 Research model and hypothesis

In November 2013, Audit Office of the Institutions of Bosnia and Herzegovina (hereinafter: Audit Office, 2013) created an Audit Report on FIPA's efficiency in attracting FDI. The result of the analysis portrayed FIPA as an agency that did not manage to present itself as a significant factor in promotion policy towards FDI. Audit Office (2013) identified the following problems and challenges that FIPA faced:

- Activities undertaken by FIPA regarding investors' support are more of an administrative nature;
- Website of the FIPA does not provide full set of information that potential investors are seeking. Furthermore a data base sometimes includes data that are not updated;
- Limited visibility of the FIPA has been recorded in its presentation through number of fairs, conferences and other public events in which FIPA participated;
- FIPA does not have regular check of the performance of its own activities;
- Analysis of the implementation of strategic priorities from the Strategy for promotion of FDI in Bosnia and Herzegovina from October 2006 has not been conducted. In 2011 management of FIPA has urged for a new strategy for a promotion of FDI. Until 2013 there were no steps that would indicate any progress towards creating a new strategy for promotion of FDI;
- Audit Office proved that FIPA itself does not have a strategy based on which it will show main actions and activities that plans to perform in the upcoming period;
- Cooperation with key stakeholders included in FDI promotion policy in Bosnia and Herzegovina has been weak; and
- Analysis of the performance of the staff of FIPA was not delivered to the Audit Office which indicates that there might be some issues internally in organization

Furthermore, in 2013 according to the opinion given by current foreign investors in Bosnia and Herzegovina, majority of examined foreign investors pointed out that FIPA did not have any impact on their decision to invest or re-invest in the country (Audit Office, 2013).

One might conclude that that by 2013 Bosnia and Herzegovina did not have an agency or institution on which marketing activities it could relay. Five years later, it does not exist an analysis which would offer in-depth overview of the current status of the FIPA's activities and investment promotion policy in Bosnia and Herzegovina. The thesis is written to fill this gap.

The main purpose of the thesis is to inspect the impact of the investment promotion policy and FIPA on FDI in Bosnia and Herzegovina. In order to address and achieve the purpose of the thesis the main hypothesis has been created.

Hypothesis: Investment promotion agency in Bosnia and Herzegovina represent a significant factor in attracting FDI.

The hypothesis is examined through three separated set of variables based on which will be estimated the importance of the FIPA in attracting FDI. First set of variables refer to the internal structure of the agency- tactical activities, second part refer to the strategic activities of the FIPA and finally third part encompasses an analysis of functions of the FIPA on the operational level.

These three parts of the analysis should give an answer on the questions that arose from the main hypothesis and they are the following:

- To what extent does FIPA's internal activities make an impact on the performance of FIPA and FDI in Bosnia and Herzegovina?;
- How strong is the impact of investment climate and business environment on investment promotion policy that is led by FIPA?; and
- Does policy advocacy function limits FIPA's operational functions?

4.2.2 Research methods for data primary data collection

Studies and analysis of investment promotion policy and FIPA's work in last five years were not conducted which was the reason for primary data collection. In December 2017, survey on FIPA's performance, functions and cooperation with other stakeholders was created for the purpose of this thesis. It consists from 35 questions (see Appendix 1). Initially FIPA's staff refused to answer the questions explaining that they do not have enough time. After more than a month FIPA sent the answers in languages spoken in Bosnia and Herzegovina although they were kindly asked to give answers in English.

Survey was created by using three type of questions:

1. Closed questions which demand a yes or no answer;
2. The ranking questions which demand comparing items and placing them in order of preference; and
3. Descriptive questions which demand a short descriptive evaluation.

Extensive analysis of FIPA's impact on FDI would demand more than 35 questions and it should not be only limited on the survey. Taking into account these limitations, questions are examining the most important aspects of FIPA's work. In particular, focus has been put on aspects were Audit Office (2013) found significant weaknesses of FIPA. These are the following areas:

- Internal risks that FIPA has been facing;
- Existence and intensity of cooperation with key stakeholders;
- Impact of external factors such as investment climate and business environment on FIPA's functions; and
- Performance of FIPA's operational functions.

Regarding the nature of questions in the survey, FIPA was enabled to provide information on key statistical indicators of their work. It was expected to receive quantitative measure of the performance of FIPA's work for more precise analysis of the FIPA's performance. Apart from statistical indicators, a number of questions examined FIPA's opinion on certain future trends and emerging issues (e.g. Do you believe that regional agencies are needed for better investment promotion policy?).

Analysis of FIPA's work and investment promotion is supported with reports of FIPA that were published on the FIPA's website. Other secondary sources in the analysis include research papers and reports on promotion policy from neighboring countries and countries with similar economic background to Bosnia and Herzegovina

4.3 Data analysis

4.3.1 Impact of FIPA's tactical activities on FDI in Bosnia and Herzegovina

The law defines FIPA as an independent administrative organization within the Council of Ministers of Bosnia and Herzegovina and it has a status of a legal entity. The FIPA can be described as a leading agency for the general promotion policy. There is no other subject that has a higher responsibility for attracting FDI and building image of Bosnia and Herzegovina. However, it is not the only institution that is responsible for the general promotion policy. One of the tasks of the FIPA according to the Law on FIPA is to recognize other important institutions and add them in the network for the investment promotion policy.

According to survey and the Law on the FIPA, in order to create an image of Bosnia and Herzegovina as a safe and competitive partner and a modern state, the FIPA promotes and improves FDI by working on the following tasks:

- Matching potential investors with investment projects from FIPA's website;
- Presenting macroeconomic background and benefits of setting the business in Bosnia and Herzegovina- regulatory, social and political frameworks, tax and legal system and other benefits from which investors can profit in case of investment;
- Organizing and/or participating at fairs, seminars, and conferences on promotion of the state;
- Analyzing investment climate impact on FDI;
- Giving proposals on improvement of investment climate and business environment;
- Encouraging cooperation between countries through signing investment treaties;
- Initiating and maintaining the contacts with IPAs worldwide;
- Cooperating with embassies and diplomatic consuls of Bosnia and Herzegovina.

From above mentioned tasks one might conclude that Bosnia and Herzegovina has an IPA that fulfils all the necessary prerequisites to be characterized as a modern agency similar to IPAs from more advanced economies. Based on its activities it can be concluded that the FIPA has an active role in all functions explained in the part 3.2.3 of this thesis.

FIPA has in total 28 employees working in the offices in Sarajevo, Banja Luka and Mostar. Approximately 70 % of employees work with foreign investors according to the survey. However, the FIPA does not have information about the number of employees that directly attract and target foreign investors. Only half of the staff has previous experience with private sector. The FIPA failed to provide profiles of the staff regarding experience and marketing skills. All working places internally are not filled according to the Rules on Internal Organization of the FIPA (Official Gazzete No. 05-50-157-3/05). That directly affects the performance of the FIPA and limits capacity that should be realized with the proper distribution of the working places. Additional internal risk that the FIPA still did not resolve is also budget restrictions. The FIPA is not in the position of purchasing cars that are necessary for intensive aftercare activities and searching for attractive destinations. The FIPA possesses only two cars at the moment.

Lack of marketing expertise might results in a weak image building and lead generation. External factors such as investment climate and business environment cannot be the only reason that affect promotion policy in Bosnia and Herzegovina and low level of investments. This can be supported with the survey conducted by the Foreign Investors Council in Bosnia and Herzegovina which found that 82 % of the examined foreign investors in Bosnia and Herzegovina would invest their capital again in the country (BBI, n.d.). Chairman of EFT Group- a company that invested in Bosnia and Herzegovina, Mr. Hamovic points out that abundant natural resources and satisfactory regulatory environment make Bosnia and

Herzegovina an attractive destination for foreign investors (FIPA, n.d.b.). Branimir Muidza- manager of the Heidelberg Cement Group- company that invested more than 60 million EUR in modern technology in Bosnia and Herzegovina see the country as a great potential for investments. Company plans to invest additional 50 million EUR in order to grow and expand the market (FIPA, n.d.b.). The survey and experiences of investors show that, despite political turbulences, weak investment climate and business environment, which will be discussed later, investors still see Bosnia and Herzegovina as an attractive destination for investments.

Therefore professional approach from the FIPA with more marketing activities may result in a higher number of investors that decide to invest in Bosnia and Herzegovina. Case of Canadian IPA that is responsible for promoting Canada as an attractive investment destination shows how strong focus the agency put into marketing experts working in the agency. In order to strengthen their target and servicing functions, agency set up the marketing team of experts. Marketing experts have an expertise in Canadian market and competitive intelligence. They are very familiar with the target sectors in Canadian economy that have been short with the capital. Canadian agency invests in dedicated marketing experts with proven business to business (B2B) skills in order to maintain a thorough database with metrics that can help with targeting key investors (Advisory Council on Economic Growth, 2016).

Over ten years IPA of Czech Republic- the CzechInvest, which is according to its results a leading IPA in the Central Europe, attracted 235 foreign investors that created more than 67 000 jobs and increased the FDI for more than 7 billion USD. There are numerous factors for such a success, but the main characteristic of the CzechInvest is a strong focus on marketing activities. Instead of operating as a political body an agency adopted a private-sector management approach to attract foreign investors as their customers (Killen & Ghimire, 2016).

Therefore it is strongly recommended that FIPA employs more marketing experts. If it is not possible within the country, it should seek some experts outside of Bosnia and Herzegovina.

The FIPA has the Steering Board which counts nine members. Among these members is also director of FIPA, however he has no right to vote.

Ideally, in accordance to the Law on FIPA, the relation between FIPA, the Steering Board and the Council of Ministers should be following:

- The Steering Board proposes business strategy, strategic and business plan for promotion of FDI. Council of Ministers adopts them. Strategic and business plans are supported by Ministry of Foreign Trade and Economic Relations of Bosnia and

Herzegovina as well as governments from both entities of Bosnia and Herzegovina and its district;

- The FIPA is continuously performing analysis of its own performance. FIPA is also responsible for performing of analysis of the current foreign investors as well as domestic investors. The results of the analysis should be regularly sent to the Steering Board and the Council of Ministers; and
- The FIPA might identify state, regional and local institution that do not provide support in a building of the image of the country and report the same to the Councils of Ministers.

According to the survey, promotion policy should be a coordinated process of all institutions that have contact with foreign direct investors. Among most relevant institutions that should be actively involved in promotion policy the FIPA named the following:

1. The Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina;
2. The Ministry of Economic Relations and Regional Cooperation of Republic of Srpska; and
3. The Council for Foreign Investors of the Federation of Bosnia and Herzegovina (hereinafter: the Council).

The first two institutions were part of the network that the FIPA included from the beginning of its existence. The cooperation with both institutions was not at the satisfactory level for many years. Audit Office (2013) estimated the cooperation as a weak. However, according to the survey, the FIPA points out that it has a stronger cooperation with the Ministry of Foreign trade and Economic Relations of Bosnia and Herzegovina. Progress in cooperation with The Ministry of Economic Relations and Regional Cooperation of the Republic of Srpska was not clearly indicated which remains an open question about the cooperation between the two organizations.

The Council was founded in March 2017 (The Law on Foreign Investments of the Federation of Bosnia and Herzegovina, Official Gazette No. 77/15). The FIPA started cooperation with the newly established organization immediately. The Council was established with an aim of assistance to and promotion of foreign investments and improvement of the overall business environment for foreign investors in the Federation of Bosnia and Herzegovina, more comprehensive coordination and cooperation of the institutions on the federal, cantonal and local levels in the area of foreign investments. In other words, according to the Law on Foreign Investments of Federation of Bosnia and Herzegovina the Council works as an advisory body to the government of the entity of Federation of Bosnia and Herzegovina.

The main duties of the Council are the following:

- Analysis of the business environment for foreign investments and recommendation for taking measures and procedures to eliminate existing limiting factors for foreign investors;
- Initiation of changes of laws that promote and facilitate foreign investments;
- Exchange of information and initiation of more comprehensive cooperation among the institutions on the federal, cantonal and local levels, in order to create a more favorable business environment for foreign investments, that will make investments attractive and safe to foreign investors;
- Consultations with domestic and foreign investors to find solutions for the promotion of investments; and
- Establishment of the cooperation among the institutions of the Federation of Bosnia and Herzegovina, cantons and local self-government units and existing and potential foreign investors to overcome potential difficulties encountered during the realization of investments, which would serve as an effective mechanism for servicing investors and support in investing.

The Council consists of 16 members that the federal ministries, the Chamber of Commerce of the Federation Bosnia and Herzegovina and foreign investors propose whereas the Government of the entity of Federation of Bosnia and Herzegovina adopts.

From the duties of the Council it is clear that they are aligned with some of the FIPA's duties. However FIPA's function is a policy advocacy on the state level instead of the entity level. It remains unclear whether the Council was a high priority mainly due to similar or same nature of the work. The upside is that members of the Council will not receive any remuneration for their work from the budget of Federation of Bosnia and Herzegovina. However, on the other side one might ask what will be contribution of the Council to the general promotion policy when the members are not paid for their work. Moreover, members are supposed to meet only when the need exists and at least once every six months.

Survey revealed that Bosnia and Herzegovina does not need a regional IPAs. However, the Council seems to have aligned duties with the FIPA. It just applies on the entity level. To sum it up, it might be concluded that it remains unclear was FIPA's high priority to include the Council in its network. Efficiency of such organization might be subject of some research papers in the future.

The above mentioned institutions are not the only ones that create the promotion policy of Bosnia and Herzegovina. According to the Audit Office (2013), the survey and FIPA's website, other institutions that indirectly contribute to the general promotion policy of FDI in Bosnia and Herzegovina comprise of:

1. The Foreign Trade Chamber of Bosnia and Herzegovina;
2. The Agency for Statistics of Bosnia and Herzegovina;
3. Regional Development Agencies;

4. The Foreign Investors Council in Bosnia and Herzegovina (hereinafter: the FIC);
5. The Presidency of Bosnia and Herzegovina;
6. The Parliamentary Assembly of Bosnia and Herzegovina;
7. The Chamber of Economy of Federation of Bosnia and Herzegovina and The Chamber of Commerce and industry of Republic of Srpska; and
8. Governments of entities, cantons in Federation of Bosnia and Herzegovina and local governments.

Cooperation with first three institution was described as strong. Cooperation with the Foreign Investors Council in Bosnia and Herzegovina that gathers biggest foreign investors in the country is estimated to be on a satisfactory level but it must be improved. The FIC is a relevant council due to biggest and most important foreign investors that it has in its network. Sometimes, feedback on the satisfaction and challenges of foreign investors in the country may be collected easier through cooperation with the FIC. Instead of that, the FIPA decides for individual aftercare activities with foreign investors which will be described later. Cooperation with other last four institutions named above was not evaluated in the survey leaving the conclusion that the FIPA does not cooperate with them.

According to the survey the FIPA is also directly included into creation of proposals for investment incentives that could potentially represent a powerful marketing mix element of attracting more FDI. However, survey reveals that special investment incentives in Bosnia and Herzegovina do not exist and that FIPA does not have intentions of proposing on them. It is not unusual that the FIPA decided for this step. In terms of macroeconomic conditions, Bosnia and Herzegovina is already a favorable destination for FDI. This is aligned with the theory that Kresan-Škabić (2015) presented in her research paper. According to her finding all countries of SEE belong to the “Keynesian” stream of thinking because the government subsidies (fiscal relief) are the main factor of attractiveness for FDI. Other incentives are not important for countries of the “Keynesian” stream of thinking.

According to Miškinis and Byrka, (2014) the more duties of IPAs are devoted to regulatory activity (defining investment incentives, negotiated concessions), the less successful IPAs are. This might be a second potential reason why FIPA does not want to propose on more incentives and add it to the list of its tasks.

Integral part of IPAs work is assessment of the performance of an agency. According to the survey FIPA measures its own performance based on the following indicators:

1. Number of prospective investors in the database. Until January 2018, the FIPA had a database of 7110 potential investors. In 2017, the database was filled with 350 new contacts which represent an increase of 5 % in comparison to the year 2016. FIPA provides updated information about investment climate and business environment to the potential investors. It also matches investment projects and incentives with potential investors that might be a good fit.

2. Number of projects. The database of number of projects on FIPA's website reached 420 by December 2017. All investment projects and locations are published on the official website of the FIPA. Foreign investors might search the database and find investment projects they are interested in. The FIPA does networking between the projects and potential investors.
3. Number of investment missions abroad. FIPA failed to report any number of missions abroad that resulted in a single successful investment in Bosnia and Herzegovina. Although the cooperation with foreign embassies is assessed to be strong, the FIPA does not have a number of investments that are outcome of that cooperation
4. Amount of FDI inflows. The level of FDI was previously described and it is not satisfactory.

However, these numbers above still do not tell anything about the performance of the FIPA since it failed to report a number of successful projects that are result of FIPA's work. It can be concluded that the FIPA still does not have any indicator that would show the contribution of their own activities to the FDI inflow in the country. For instance an IPA of Lithuania uses a quantitative approach to assess the performance of its activities. Data published on the official website of the agency show that in the first half of 2014, IPA of Lithuania recorded the best ever results: 22 projects and 1 547 jobs created (Miškinis & Byrka, 2014).

4.3.2 Impact of FIPA's strategic function on FDI in Bosnia and Herzegovina

On strategic level FIPA's main function is policy advocacy. The FIPA is in a direct contact with the private sector and it should be a nexus between a government and investors. When discussing IPAs and their role in the investment promotion policy, it is probably the biggest challenge for the agency to spread resources on policy advocacy function on one side and functions that come on the operational level (image building, investment generation and investor servicing) on the other side.

The FIPA receives many questions from foreign investors regarding different aspects of doing business in Bosnia and Herzegovina. Miškinis and Byrka (2014) point out that most frequently asked question regarding investment climate might include the following:

1. Question regarding political stability and political situation. Impact of governments on changes in policy and frequency of such changes;
2. Current view of the government on private companies and privatization as well as foreigner investors. Treatment of foreign investors versus local investors;
3. Question regarding trends of FDI inflow in the country, residence (origins) of the foreign investors in the country and list of potential investors;
4. Involvement of the private sector in governments' shape of economic policy;

5. Existence of double taxation treaties and other investment deals with home country. Collaboration and support of embassies of the respective countries; and
6. Relations between governments of host and home countries in terms political and trade disputes.

Hornberger, Battat and Kusek (2011) observed 30 empirical studies since 2000 with the focus on transition and developing countries in order to find the denominator of all the studies regarding most important factors that affect FDI inflows. The main finding of the analysis were that the size and growth potential of markets are significantly associated with FDI inflows. Interestingly analysis showed very high level of importance of institutional and regulatory quality which is understood as investment climate and trade openness. None of the studies found a significant relationship between natural resources and FDI inflows.

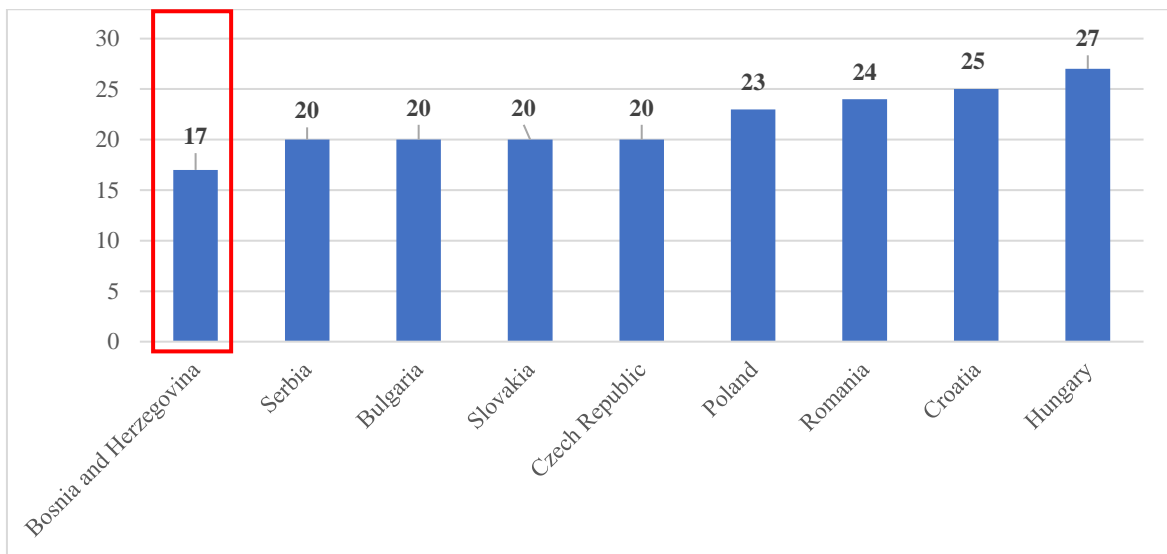
For transition economies such as Bosnia and Herzegovina, market growth is perhaps more important than market size. Bosnia and Herzegovina stand out regarding its competitive operating costs and potential for market penetration. The most important macroeconomic determinates that investors will face if they invest in the country:

- Value added tax rate (hereinafter: VAT) which amounts to 17 % is the lowest VAT in the region and Europe. Serbia, Bulgaria, Slovakia and Czech Republic follow with 20 % VAT. VAT in Croatia amounts to 25 %. Comparison of the VAT rates across different countries have been displayed in the Figure 14 (FIPA, n.d.a.);
- Bosnia and Herzegovina is among the group of countries with the lowest corporate tax rate. It amounts to 10 %. Withholding tax rate is also 10 % (5 % on dividends). Personal income tax is 10 % on net wage. Comparison of corporate tax rates displayed in the Figure 15. Among 25 countries in the Figure 15, no other country has a corporate tax rate below 15 %. The highest corporate tax rate has been recorded in the USA and amounts to 35 % (FIPA, n.d.a.);
- Bosnian Mark (BAM) as a currency in Bosnia and Herzegovina is directly linked to Euro (EUR). It is the most stable currency in SEE. Monetary stability of the local currency has been achieved through the Currency board arrangement which guarantees a full convertibility of local currency under fixed exchange rate 1 BAM = 0.51129 EUR (Kovacevic, 2003);
- The process of privatization is attractive and represent a great investment opportunity in Bosnia and Herzegovina. There are still number of large enterprises, public utilities, mines, telecommunications companies etc. which are waiting for strategic investors. It represents great opportunity for both investors to find profitable projects but also for country to increase economic growth and level of FDI (FIPA, n.d.b.);
- Bosnia and Herzegovina has aspiration of joining the European Union which opens the door of a large market and partially contributes to the political and legal system which has to be aligned with European Union laws. Country has signed Stabilization and Association Agreement (hereinafter: SAA) with the European Union. The (SAA)

between the EU and Bosnia and Herzegovina came into force on Jun 1st, 2015. The SAA strengthen a connection between the EU and Bosnia and Herzegovina in terms of economic, political and trade collaboration. It represents a fundamental framework for partnership and further collaboration between two parties (EU- Bosnia and Herzegovina relations, n.d.);

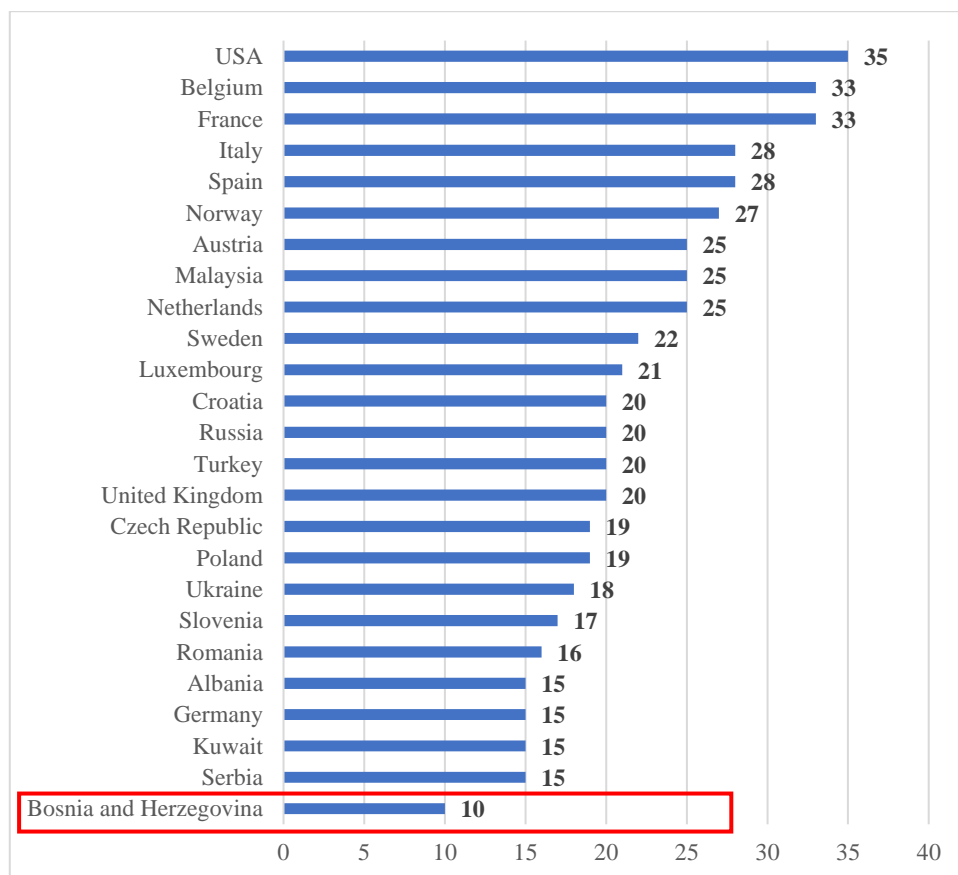
- Bosnia and Herzegovina has a number of bilateral/multilateral agreements that enables businesses the opportunity of exporting to a market of approximately 900 million people without paying any custom duties. As of November 2007 Bosnia and Herzegovina is the signatory of the Central European Free Trade Agreement (hereinafter: CEFTA). Bosnia and Herzegovina also has free trade agreements with the European Free Trade Association (hereinafter: EFTA) countries of Iceland, Liechtenstein, Norway and Switzerland and with the Republic of Turkey, as well as preferential export regimes with the European Union, the USA, New Zealand, Switzerland, Norway, Japan, Russia, Kazakhstan, Belarus, Canada, Australia and Iran (Komora, n.d.);
- Since 1998 Bosnia and Herzegovina has The Law on the Policy of Foreign Investment that ensures national treatment of foreign investors. It guarantees the equal rights and obligations to foreign investors as defined for domestic investors. Moreover if subsequently passed laws and regulations happen to be more favorable for the foreign investors, the investor has the right to choose under which regime it will be governed (Law on the Policy of Foreign Direct Investment in Bosnia and
- Herzegovina, Official Gazette of B&H No. 17/98);
- Agreements on avoidance of double taxation has been signed with 40 countries worldwide (FIPA, n.d.b.); and
- Bosnia and Herzegovina has four Free Trade Zones that gives investors numerous advantages such as: not being subject of VAT, ability to invest capital in the free zone, transfer profit and re-transfer capital with no charge, customs and tariffs are not paid on imports into Free Zones etc. (FIPA, n.d.b.)

Figure 14: Value added tax rates across different countries in %



Source: FIPA (n.d.a.).

Figure 15: Corporate tax rates in the world in 2016



Source: FIPA (n.d.a.).

4.3.2.1 Political uncertainty as a threat towards image of Bosnia and Herzegovina

If Bosnia and Herzegovina has a competitive advantage and favorable macroeconomic conditions for business compared with other European countries one might ask why investors do not recognize it? Part of the answer can be found in the survey sent to FIPA. The biggest obstacle that the FIPA observes through its work has been political instability in the country. Political structure and administrative system in Bosnia and Herzegovina are very complex. Moreover, frequent change of laws and their inconsistency on different levels of governance (municipalities, cantons, entities and the state level) creates serious negative spillovers for business and investors.

Bureau of Economic and Business Affairs (2016) also points out that political environment and complex government structures in Bosnia and Herzegovina represent the most important barriers for economic growth and FDI. Formally, the country is open to foreign investment, however corruption, complex legal and regulatory frameworks and government structures, non-transparent business procedures, insufficient protection of property rights, and a weak judicial system seem to stop investors from investing. These complex issues limit a progress of the country's key macroeconomic reforms that mainly remain unfinished.

According to the Western Balkans Regular Economic Report (WB, 2017b), alike Bosnia and Herzegovina other Western Balkans countries excluding Croatia have been facing tremendous policy uncertainty. Considering political instability and weak investment climate in other Western European, those countries that advance structural reforms and fulfil criteria from the EU accession agenda will experience the better growth prospects. This opens up many opportunities for Bosnia and Herzegovina and the FIPA to increase FDI.

One of positive examples of improvement of the investment climate is Croatian case (UNCTAD, 2009). The Government of Croatia initiated reforms to advance the business climate with several measures. The major area of reforms was the courts issues, mainly the length of cases and bankruptcy procedures. Several projects took place over the last decade. In 2006, the project under the name "Hitrorez" was initiated with an aim of eliminating thousands of laws that complicate the business. Only during the first phase of the project, it was identified approximately 800 regulations that can be simplified or completely eliminated. Once the Government adopted recommended changes, they were also rapidly implemented in practice with the implementation rate of 70 % in a period of time within one to two years. In all these cases an IPA of Croatia played a crucial role. Frequent consultations with foreign investors have allowed Croatian IPA to get insights from the first hand regarding the challenges that investors are facing with. Furthermore, the agency's policy advocacy function and the Government's willingness to adapt the investment climate brought a significant improvement of the legislation in Croatia.

4.3.2.2 Investment climate and business environment as a threat towards image of Bosnia and Herzegovina

Another question in the survey was aiming to inspect how would the FIPA rank factors that have a key impact on FDI in Bosnia and Herzegovina. The most unfavorable came to be investment climate and business environment (e.g. time to start a business). Operating costs and taxation are not described as main obstacles and FIPA set them among the least important factors that prevent investors from setting their business. Labor market is according to the FIPA third most important reason why some investors are not willing to invest. The explanation for this factor could be that some companies need qualified people with skills needed for the respective sector, which they cannot easily find.

According to the World Bank's Ease of Doing Business Report (WB, 2017a), Bosnia and Herzegovina is the least competitive economy in the SEE. It is currently ranked 81 out of 190 global economies. FYR Macedonia reached its historic best ranking with 10th position which represents the progress of 6 position compared to the year 2016. Croatia has a ranking of 43 while Serbia has a ranking of 47 and it is among top ten countries with the highest progress on the list. Montenegro stands at 51 and Kosovo at 60 place on the ranking of ease of doing business. Therefore from the perspective of business-friendly countries among the SEE region, Bosnia & Herzegovina is by far the least desired destination for FDI. In other words, if a potential investor is seeking a place to invest in SEE, registration of the business will be the most complicated in Bosnia and Herzegovina and the easiest in FRY Macedonia.

As a comparable example to Bosnia and Herzegovina, the case of Mozambique serves as a lesson for developing and transitioning countries how to attract FDI in a post-conflict environment. The country began undertaking key reforms in order to achieve economic and legal stability. The process was not easy considering the overall weak business climate. However reforms and determination of the institution in Mozambique to improve the investment climate were very successful. From February 2014 until February 2016, Mozambique managed to attract 75 FDI projects from 48 companies with a total capex of approximately 14 billion USD creating more than 21 000 jobs. (UNCTAD, 2009)

Similar cases to Croatian and Mozambique are not recorded in Bosnia and Herzegovina. However signing the SAA with the EU, started reforms that might bring some positive changes. Progress in improvement of the investment climate according to Bureau of Economic and Business Affairs (2016) lies in a fully implemented the European Union Reform Agenda. In case of the implementation, it will improve the labor environment, decrease regulation, harmonize regulatory framework and shift country's economy from publicly to privately oriented. It will gradually open up Bosnia and Herzegovina to foreign investors that were concerned about the investment climate. In addition to the reforms, natural resources, the opportunities in energy sector, agricultural and touristic sector will be even more attractive.

4.3.2.3 FIPA's policy advocacy function

According to the survey and the latest Annual report of FIPA (FIPA, 2016) authorities do not follow recommendations that the FIPA suggests. The FIPA initiated a total of 186 reform recommendations from 2006 onwards. The FIPA is not satisfied with the very low number of recommendations that annually sends to the Council of Ministers and other institutions. It is of high priority to intensify aftercare activities and increase the number of reform recommendations. On the other hand, the adoption rate of these recommendations has been disappointing. In the period 2006–2013, for which data have been available, only 18 reforms have been adopted which represents an adoption rate of only 13 %. From the Table 7 it is clear that 41 reforms have been still the subject of adoption whereas 53 recommendation have never been adopted. In comparison to the adoption rate of Croatian IPA of 70 %, it might be concluded that FIPA's policy advocacy function is a serious weakness of the agency.

FIPA does not have a control over the realization of the recommended policy reforms between 2013 and 2017. Through survey it only managed to report a number of total recommended reforms which amounts to 51.

Table 7: FIPA's reforms recommendations

Period	Total number of recommendations	Adopted reforms/ regulations	Partially adopted reforms	Reforms in the procedure of adoption	Rejected recommendations
2006–2013	135	18	23	41	53
2013–2017	51				

Adapted from Survey and FIPA (2016).

To sum it up, FIPA as an agency for promotion policy has been struggling with the strategic function. Unfavorable investment climate and business enabling environment are estimated to have a strong impact on the performance of the agency. Cooperation with the all relevant institutions should be improved tremendously. Policy recommendations are not always followed by authorities although FIPA invests efforts in its investor servicing activities to find the fields where investors are facing the biggest challenges.

4.3.3 Impact of FIPA's operational functions on FDI in Bosnia and Herzegovina

4.3.3.1 FIPA's image building

Effective investment promotion policy demands strong and well created image building activities. These activities should present the side of a certain country that investors cannot discover themselves. Building an image of the country should be based on accurate information about business environment and investment climate.

According to the survey, FIPA in Bosnia and Herzegovina has the strongest focus on image building, that is marketing and communications, brand building and management etc. That is not unexpected considering the fact that Bosnia and Herzegovina was in a war in early 90s. The conflict destroyed the country and left significant consequences on the economy. Some estimations tell that the image of Bosnia and Herzegovina in some countries of the world is still inconsistent with the reality and the Audit Office (2013) suggests that the first association on the name of Bosnia and Herzegovina is still the war in that country.

Improving such an image in the world represent a challenging task for FIPA. It must firstly explain that conflicts are part of the past in the country and moreover convince investors that the investment climate and business-friendly environment is favorable for starting a business. As discussed above, neither investment climate nor business environment are favorable, especially when comparing to the neighboring countries. Moreover, statements from the political leader on the separation of one of the entities in the country make FIPA's image building activities unreliable to investors.

Therefore image building improvement is not and must not be an exclusive task of the FIPA. Coordinated process including strategic actions and plans from government on all stages, non-government sector and representatives from the private sector has to take place. However, Bosnia and Herzegovina does not have strategy for investment promotion. Namely, the Council of Ministers adopted old Strategy for promotion of FDI in Bosnia and Herzegovina on the proposal of FIPA in 2006. By 2013, the FIPA did not conduct the analysis of realization of the strategic activities. Moreover, macroeconomic conditions changed over years and the FIPA urgently suggested creation of a new strategy for promotion of FDI.

In cooperation with the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina and entities' governments, the FIPA started a project on creation of new Strategy for Promotion of FDI. All the relevant institutions for the general promotion policy were invited to delegate their members in so called "Working group for creation of the new strategy". In 2016, FIPA created a draft form of Strategy for promotion of FDI and sent it to the "Working group for creation of the new strategy". Up to date, final strategy has not been adopted. (FIPA, 2017b)

Regarding the image building improvement, the FIPA points out that the step forward of better recognized image building of Bosnia and Herzegovina in the world represents the appointment of the president of the FIPA as a member of Board of Directors of the WAIPA. The appointment came into effect in November 2017 and the FIPA claims in the survey that the agency will have a better inflow of new investors. However, the question is to what extent appointment can support image building of the FIPA considering the fact that the president of the FIPA will have to allocate some time to the Board of Directors of the WAIPA. It is also not clear wheatear the president can heavily promote Bosnia and Herzegovina as a strong brand considering the investment climate, business environment and political instability presented in the paper before.

4.3.3.2 FIPA´s investment generation function

Targeting investors is third important function for the FIPA according to the survey, after image building and investors servicing. The FIPA claims that it performs targeted activities in the following sectors: manufacturing, tourism, IT, energy sector and transport and communications. FIPA also identified target markets that offer the highest potential and it will focus on the markets through stronger promotion and marketing activities. These markets include economies from the EU (Austria, Italy, the Netherlands and Croatia) as well as Russia, Serbia, Turkey and countries from the Middle East.

However, it is not clear wheatear the FIPA targets these sectors or present them as attractive sectors. The two are different. Targeting sectors comprises all activities to target those foreign investors that fit into the strategy of specific sectors which are estimated to contribute the most to the economic development of the country. On the other hand, displaying the most attractive sectors means that FIPA only offers a list of sectors that are most attractive to the foreign investors. The analysis of the most attractive sectors might be performed based on sectors with positive linkages and spillover effects for the domestic economy or sectors with a high value-added FDI.

Attractive sectors - the official document issued by the FIPA (FIPA, n.d.a.) might be considered as guidelines for targeting activities. Based on this document it cannot be claimed that the FIPA performs targeting activities. Explanation for the lack of targeting activities lies in the fact that the FIPA does not have an internal strategy for promotion of FDI. The FIPA has a Midterm Plan 2018–2020 (FIPA, 2017a) according to which it plans its activities. In any part of the Midterm Plan, it is not written that FIPA has specific targeting activities. Moreover, the Midterm Plan reveals the measurement of the goals set up in that plan. As previously described, the FIPA does not have a specific quantitative measurement of its own activities. For instance, in the Midterm Plan 2018–2020 (FIPA, 2017a) the FIPA set up the following goal: “provision of information to the foreign investors”. The expected value of the goal is “yes/no”. There is no quantitative measure that would stand behind the value of the goal. The rest of the specific goals follows the same trend.

Research papers presented in the theory part - section 3.2.3.2. found that “young IPAs” tend to focus more on image building and servicing but less on investment targeting. One might tell that FIPA is a young agency. However, example of the investPenang, a state IPA in Malaysia proves the success of the agency regardless of the numbers of years that exist. The investPenang was founded in 2004, the same year when FIPA came into existence. In last few years, the investPenang is not only able to target specific foreign investors from specific sectors, but it goes one step further. It works with academia and educational institutions by feeding them with the information on the skills needed to be competitive among targeted potential investors. Apart from supporting universities which have the highest potential for expanding the state’s highly skilled labor supply in critical areas, investPenang hold events with Malaysians graduating outside of the country. The goal is to get talented graduates back home by providing the full range of exciting job opportunities in which the IPA is directly assisting (UNCTAD, 2016).

Domazet (2016) points out that ignoring the nature and specific characteristics of certain types of FDI can lead to the non-selective policies towards FDI. Domazet proves that the greatest potential in Bosnia and Herzegovina is resource seeking FDI. However in Bosnia and Herzegovina incentives are more of a general nature and selective policy towards different investors has been ignored according to the survey.

Therefore, it might be concluded that uneven level of FDI over the last couple of years in Bosnia and Herzegovina and downward trend from 2013–2016 cannot be caused only due to political instability and weak investment climate. These are just two determinants of the FDI inflows. Lack of strategy towards FDI on the state level and especially lack of FIPA’s strategy on targeting activities represent a serious threat for FDI inflows.

It is estimated that the FIPA in Bosnia and Herzegovina still does not have a capacity for targeting activities due to occupation with image building, investor servicing and policy advocacy functions. Extensive activities in the last three mentioned functions simply put targeting function aside.

4.3.3.3 FIPA’s investor servicing function

Survey showed that the FIPA is active in both pre- investor and post- investor services with foreign investors. Care about current investors in Bosnia and Herzegovina as well as potential investors are equally important for the FIPA.

Analysis conducted by Miškinis and Byrka, (2014) showed that aftercare activities are successful tool that lead FDI flow into the targeted location. Apart from aftercare services, online promotion, attracting ambassadors to the promotional activities as well as including the diaspora into the network could significantly increase the FDI inflow according to Miškinis and Byrka (2014).

Although Miškinis and Byrka, (2014) point out that most IPAs in investor services tend to concentrate their efforts mostly on pre-investor services rather than aftercare activities, time that FIPA has been investing to investor servicing is equal between aftercare activities and provision of services to the new investors. The only reason that may explain this shift in priorities has been an intention of the FIPA to work on the improvement of investment climate and business environment. Aftercare activities provide a solid feedback from current investors and their challenges in Bosnia and Herzegovina.

The FIPA is responsible to obtain feedback from current and prospect foreign investors and report challenges they are facing with. Institutions that are responsible for processing the feedback are at the moment the Board of Directors of FIPA and the Council of Ministers of Bosnia and Herzegovina. As previously described at the beginning of the analysis, the Audit Office (2013) found a broken connection between FIPA and the Council of Ministers. Furthermore, the results from the Survey showed a 13 % adoption rate of reforms and regulations by the Council of Ministers.

The FIPA does not have office abroad but it has its representative in Japan who is working for FIPA on a voluntary basis. It is important that the FIPA recognizes the importance of the offices abroad and their impact on FDI inflows. Cooperation with foreign embassies is reported to be strong according to the survey, however there is still some space for progress. FIPA failed to provide an answer on the question in the survey that was aiming to inspect the quantitative outcome in terms of FDI that were the result of the cooperation with foreign embassies. This indicates that the cooperation must be lifted to the higher level and the result of it must be visible in terms of numbers of projects that were realized due to fruitful cooperation.

Annual report from the Central Bank of Bosnia and Herzegovina (Centralna Banka Bosne i Hercegovine, 2018) shows the importance of diaspora. Only in 2017, an inflow of 2.51 billion BAM (1.3 billion EUR) was transferred to Bosnia and Herzegovina from diaspora. It is estimated that Bosnia and Herzegovina diaspora has a total of 4.6 billion EUR in savings. Diaspora is also willing to invest in the country and some estimations show that diaspora is a major investor among the foreign investors in certain regions and cities of Bosnia and Herzegovina. Such a case is recorded in the city Sanski Most in which diaspora makes 80 % of total foreign investors (Vecernji, 2017). This represents a huge potential for FDI inflows and the FIPA would clearly benefit if some of its promotion activities directed towards diaspora as a target group. Until now there were no signed documents that would show the FIPA's willingness to attract this target group. The FIPA is not familiar with the number of investment projects that came from diaspora investors.

The FIPA is actively involved in provision of assistance for those companies that are facing problems with starting a business. The FIPA has a record of 158 open questions it was involved in. Those problems did not require regulations changes. Although this number of solved open questions seems to be impressive from the FIPA's perspective, it still does not

tell anything about the real impact on the FDI. Therefore, it is strongly recommended that the FIPA sets up a system which will as accurately measure the contribution of resolved problems. Currently one might tell that the FIPA wastes the time, human and financial resources because there is no strong evidence of positive implications of the FIPA's activities.

There are some cases where FIPA's assistance was not enough for solving foreign investor's problems. Energy Solution was one of these companies that needed assistance for starting a business. Company was founded in 2014 by investors from Israel, Ukraine and Bosnia and Herzegovina and invested more than EUR 1 million. Company aimed to recycle tires by using modern technology, same as technology in developed countries. The company firstly received an environmental permit from a local authority. However, due to political pressure from the local opponent political party the permit was repealed by the Cantonal Court in Sarajevo. The opponent political party claimed that the local authority should not have issued the permit due to high level of the pollution that the operations of the company will cause. The court procedure is still ongoing for getting environmental permission back. However, the investors decided to withdraw from the market in 2018. Investors claimed that the long court procedures which outcome is uncertain and extremely high political turbulences led to this decision. (Klix, 2018 & internal sources). FIPA was involved in the case, but it failed to offer significant support.

It can be concluded that lots of problems already exist and solutions for them are lacking due to complicated government structure. Even when FIPA sends a list of recommendations observed through pre- investor and post- investor services, they are not implemented, or implementation requires long period of time. Moreover, the FIPA does not have control over their servicing activities as it failed to show the improvement that such activities had on any aspect of FDI.

4.4 Discussion and main findings

The analysis showed in general that the overall promotion policy and FIPA as a leading agency for investment promotion is still not a main determinant that creates changes in the economy of Bosnia and Herzegovina. It is a big fallacy that FDI inflows will drastically increase if a country founds an organization that will manage investment promotion policy of the country. Strategy for promotion of FDI should be a starting point for the FIPA. Unfortunately, Bosnia and Herzegovina does not have such a strategy. Moreover, cooperation of the authorities and agencies on all levels of governance should be strong to make some impact.

Therefore, following the main hypothesis, it cannot be confirmed that FIPA represents a significant factor in attracting FDI due to following reasons:

- The FIPA is very small in terms of number of employees. It is not certain if employees possess sufficient marketing skills. Limited budget prevents the FIPA to fill this gap;
- The FIPA failed to show a single number on their contribution to the FDI. It has a serious issue with measuring their own performance;
- Policy advocacy function is weak due to very complex administrative and political structure. Inclusion of the entity of Republic of Srpska in the promotion policy is questionable;
- Authorities still did not adopt the Strategy for Promotion of FDI leaving the FIPA without a strategic focus on FDI;
- Image building is affected by political instability giving an impression that the FIPA is misleading investors with the promotion activities.

Therefore, the FIPA does not have a capacity to increase FDI inflows in Bosnia and Herzegovina. It has very limited impact on business environment or business climate. At the moment, the FIPA is able to assist in explaining investment opportunities, business environment and investment climate and make it closer to investors.

CONCLUSION

This thesis has been written in order to generally understand implications of IPAs in last few decades and to explain the impact of an investment promotion policy in Bosnia and Herzegovina. As shown in the thesis, countries extensively started using marketing tools in order to increase the level of FDI. Similar to companies which manipulate their marketing mix elements, countries are also becoming predominantly concerned about interaction of the marketing mix elements. However, in contrast to companies, complexity of controlling marketing mix elements of product (country), price (fiscal and financial incentives) and promotion is much more expressed. A manipulation of this elements should be done in coordination with all institutions that are responsible for FDI in a certain country.

Advancing promotion activities demands in first row favorable macroeconomic conditions that would promise a satisfactory return on investments for a foreign investor. The greatest challenge for investment promotion institutions and agencies has been lack of favorable macroeconomic conditions, poor investment climate and business environment. If these are the cases, institutions and agencies responsible for promotion of the country can easily fall in a trap of promoting a product in which quality they are uncertain.

Opinions and conclusion given in the analysis were limited on a qualitative description of the impact of the FIPA on FDI in Bosnia and Herzegovina. Most of time analysis was relaying on the experiences of IPAs in other countries in order to estimate the efficiency of the general promotion policy in Bosnia and Herzegovina for those data that are available.

Analysis of the investment promotion agency in Bosnia and Herzegovina showed that this country's investment promotion agency has a conflicting marketing mix elements. A complicated and unfinished political process, the most unfavorable business environment in Europe and poor investment climate represent the biggest obstacles for the FIPA in Bosnia and Herzegovina. Impact on efficiency is also caused by the lack of a strategic document on the investment promotion policy on the country level. The Strategy for Investment Promotion is about to be adopted, but a slow process in creation and adoption that is taking more than five years, already leaves an impact on the level of FDI inflows.

Analysis of the FIPA also showed internal weaknesses of the organization. The FIPA does not have clear and measurable goals for its activities. It does not allow the FIPA to inspect the real impact of the investment promotion policy and the contribution to the FDI inflows. Although the FIPA's activities were estimated to be more of the formal nature in 2013 by the Audit Office, nothing drastically indicates that this status has changed. Small steps have been undertaken, however they do not show how it will improve the investment promotion policy and FDI inflows.

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APPENDICES

APPEDIX 1: Summary in Slovenian language

Ustanavljanje promocijskih aktivnosti ni več ekskluzivno povezano s podjetji. Veliko držav po svetu je začelo ustanavljati agencije za spodbujanje naložb, ki bi pritegnile več potencialnih vlagateljev. Ta strateški pristop je postal zelo priljubljen pri privabljanju tujih neposrednih naložb.

Magistrska naloga je rezultat raziskave o politiki spodbujanja naložb v Bosni in Hercegovini. Namen pisanja je ponuditi pregled, kako politika spodbujanja naložb vpliva na tuje neposredne naložbe v Bosni in Hercegovini. Meritev tega vpliva temelji na aktivnostih, ki jih v Bosni in Hercegovini kot vodilna organizacija za politiko spodbujanja naložb organizira FIPA.

V nalogi bo s pomočjo primarnih in sekundarnih virov ugotovljeno, katere aktivnosti FIPA-e vodijo k boljši učinkovitosti tujih neposrednih naložb (TNN). Glavni rezultati kažejo, da FIPA v Bosni in Hercegovini še vedno ne predstavlja pomembnega dejavnika pri privabljanju tujih neposrednih naložb. Agencija ima resne problem s sledenjem njihove učinkovitosti in zato ne more trditi, da njihove aktivnosti povečujejo število projektov, ki se tičejo tujih neposrednih naložb v Bosni in Hercegovini. Dejavnosti, ki jih ima FIPA, so brez strateškega poudarka, ker Bosna in Hercegovina še vedno nima strategije za spodbujanje neposrednih tujih naložb. Rezultati so pokazali tudi zelo negativne posledice političnih pretresov in zapletenega upravnega postopka na uspešnost FIPE.

Ocenjuje se, da je FIPA lahko pomagala pojasniti naložbene priložnosti, poslovno okolje in naložbeno ozračje ter ga približati vlagateljem. Vseeno pa ima zelo omejen vpliv na privabljanje večjega števila vlagateljev in projektov.

APPENDIX 2: Survey on FDI (Foreign Direct Investments) promotion activities

My name is Sabahudin Čerčić and I am a student of University of Ljubljana. I have been doing a Master Thesis on the topic "Investment promotion impact on FDI in transition economies- Case of Bosnia and Herzegovina".

This questionnaire refers to the role and activities of the Foreign Investment Promotion Agency (FIPA) in promoting FDI inflows in Bosnia and Herzegovina. The survey is conducted for the purpose of the Master Thesis. The goal of this thesis is to determine current state of a comprehensive promotion policy in Bosnia and Herzegovina where FIPA is supposed to have a leading role.

Survey consists from 35 questions.

A General Questions

1. Is beside FIPA any other agency directly responsible for investment promotion activities on any other level in Bosnia and Herzegovina (regional, local etc.)
 Yes No Don't know

2. If answer to the question number 2 is YES, name agencies and how would you describe your collaboration with them?

FIPA je oficijelna državna agencija čija je misija promocija Bosne i Hercegovine u cilju privlačenja i povećanja stranih investicija u BiH i poticanje postojećih investitora u zemlji na dalja ulaganja i širenje poslovanja. Proces privlačenja direktnih stranih investicija ne može biti posmatran isključivo kao aktivnost samo jedne institucije, već isti zahtijeva koordiniran, sistemski pristup i aktivnosti svih relevantnih institucija u BiH i konstantan rad na unapređenju poslovnog ambijenta i političke stabilnosti. Agencija preduzima čitav niz mjera na koordinaciji aktivnosti i razmjeni informacija između svih organa koji učestvuju u procesu privlačenja stranih investicija u BiH (Ministarstvo spoljne trgovine i ekonomskih odnosa BiH, Ministarstvo inostranih poslova BiH, uključujući ekonomsku diplomatiju, Spoljnotrgovinska komora BiH, entitetska i kantonalna ministarstva, lokalne zajednice...)

Institucije (ne agencije) koje su relevantni subjekti u promociji investicija:

- Ministarstvo vanjske trgovine i ekonomskih odnosa BiH (MVTEO) je zaduženo za kreiranje politike stranih investicija
- Ministarstvo za ekonomske odnose i regionalnu saradnju RS (MEORS) obavlja upravne i druge stručne poslove, koji se odnose, između ostalog i na: privlačenje stranih ulaganja u Republiku Srpsku stvaranje povoljnijih uslova za strane investicije i pomoć potencijalnim investitorima; promovisanje privrednih potencijala Republike u inostranstvu;
- Savjet za strane investitore FBiH je savjetodavno tijelo, koje je Vlada FBiH imenovala u januaru 2017. godine, ima za cilj pomaganje i podsticanje stranih investicija i unapređenje ukupnog poslovnog ambijenta za investitore i potpuniju koordinaciju i saradnju institucija federalnog, kantonalnog i lokalnog nivoa u oblasti investiranja.

3. If answer to the question number 2 is NO, do you believe that regional/local agencies are needed for better promotion of regional/local levels?
 Yes No

Uz potpun angažman relevantnih subjekata u procesu privlačenja DSI I koordiniran rad aktera na svim nivoima vlasti, osnivanje regionalnih agencija ne bi trebao biti prioritet

4. Number of employees in FIPA 28
5. Number of employees that work directly with foreign investors (provide services and information)
19
Nije svih 19 zaposlenika u direktnom kontaktu sa investitorima, ali rade na izradi informacija, izvještaja, za potrebe sastanaka, prezentacija, odgovora na upite...
6. Percentage of staff with previous private sector experience
50
7. In cooperation with foreign investors you probably receive the information about the problematic area for realization of investment in Bosnia and Herzegovina. What are the most important obstacles for FDI?
Pravna nestabilnost – česte izmjene propisa i njihova pravna neharmonizovanost
Više detalja na FIPA web stranici, u AC Izvještaju I Prijedlogu preporuka za poboljšanje poslovnog Okruženja u BiH
http://fipa.gov.ba/publikacije_materijali/Informacije_i_izvjestaji/default.aspx?id=11064&langTag=bs-BA
8. Based on your role of a mediator between public and private sector, how successful have you been in policy advocacy (making impact on regulation, business environment and investment climate)?
Very successful Successful Moderately successful Unsuccessful Completely unsuccessful
9. What is the most significant result that lead to the improvement of the policy/business environment?
Kroz program postinvesticione podrške do januara 2018. godine obavili smo 570 posjeta kompanijama postojećih stranih investitora i riješili više od 158 ad hoc problema, koje su predstavnici kompanija iznijeli, i time pomogli njihovom reinvestiranju u BiH. Za probleme koji zahtijevaju izmjene zakonske i podzakonske regulative, FIPA Vijeću ministara BiH i entitetskim vladama, kroz godišnji Izvještaj o aftercare aktivnostima dostavlja preporuke za poboljšanje poslovnog okruženja u Bosni i Hercegovini, kako bi poslovni ambijent učinili što atraktivnijim. Predložili smo, ukupno 186 reformskih preporuka za poboljšanje poslovnog okruženja, uz napomenu da će nove preporuke biti pripremljene u prvom kvartalu 2018. godine, te da će se aktivnosti na implementaciji preporuka intenzivirati. FIPA aktivno prati implementaciju ovih prijedloga.
10. Approximately how often policy recommendations have been followed by authorities?
Almost always Sometimes Every once and a while Rarely

Comment: [Click here to enter text.](#)
11. The following institutions probably influence FIPA to the great extent. On scale from 1 to 5 provide the importance level on your collaboration with them (1-weak; 5-strong)

Institution	Collaboration
Council of Ministers	5
Parliamentary assembly of Bosnia and Herzegovina	
Presidency of Bosnia and Herzegovina	
Foreign Trade Chamber of Bosnia and Herzegovina	5
Entities' Foreign Trade Chambers	
Entities' governments	
Cantons and Municipalities	
Ministry of Foreign Affairs of Bosnia and Herzegovina	
Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina	5
Foreign Investors Council in Bosnia and Herzegovina	4
Agency for Statistics of Bosnia and Herzegovina	5
International organizations	World Bank, UNCTAD
Regional Development Agencies	RAŽ, ZEDA

12. FIPA is directly involved in creating proposals for more investment incentives?

Yes No

13. Do you have some special reliefs for investment in some specific sectors (i.e. electronics, car industry, high-tech industries)?

Yes No

Povlastice su uglavnom generalne - opšteg karaktera

14. If you answered yes in the previous question, please provide which reliefs are offered?

15. What were the main reasons for the unfavorable impact of FDI? (please rank) (All your answers must be different and you must rank in order. Please number each box in order of preference from 1 to 8 so that 1 is the most important and 8 is the least important)

High risk	8
Business enabling environment (e.g. time required to establish a business)	2
Macroeconomic/legal factors (investment climate)	1
Labor market (availability, flexibility, skills, qualifications)	3
Operating costs (labor costs, other costs of inputs)	7
Taxation	6
Infrastructure (access to lands, utilities, communication and freight services)	4
Investment incentives	5

16. How do you measure your performance?

No. of prospective investors

No. of investment missions abroad

Amount of FDI inflows

No. of jobs created through FDI inflows

- Foreign investor satisfaction with agency's services
- Improvements in country's image abroad
- Policy advocacy efforts
- No. of projects
- Other:

17. Specify your performance that you selected in the previous question? (for example how many jobs have been created directly as a result of work of FIPA)

- FIPA upravlja bazom stranih investitora koja se kontinuirano ažurira i u 2017. godini baza je dopunjena sa novih 350 kontakata što predstavlja povećanje za 5,17% i trenutno je dostigla cifru od 7110 potencijalnih stranih investitora sa kojima se redovno kontaktira i kojima se redovno dostavljaju informacije o poslovnom okruženju u BiH, investicionim projektima i dostupnim grant sredstvima.
- FIPA učestvuje na investicionim događajima (konferencije, outreach kampanje, sajmovi, okrugli stolovi) u zemlji i inostranstvu. Na tim događajima FIPA prezentuje uslove i mogućnosti ulaganja u BiH, atraktivne sektore i promovise konkretne investicione projekte.
- Podatke o prilivu DSI Agencija preuzima od Centralne banke BiH
- Baza projekata zaključno sa decembrom 2017. ima 420 objavljenih investicionih projekata i 280 investicionih lokacija. Svi investicioni projekti i lokacije su u skraćenoj formi objavljeni na FIPA web stranici, tako da strani investitori, njihovi predstavnici i svi zainteresovani mogu pretraživati bazu podataka na FIPA web stranici. Istovremeno FIPA vrši spajanje investitora sa predlagačima projekata.

18. In how many FDI projects is your organization involved (total since its establishment)?

[Click here to enter text.](#)

19. The strongest focus FIPA has in the following activities (please rank from 1-9; 1 is the strongest)

Image building (Marketing and communications; Brand building and management)	1
Lead generation (Generating value propositions; Targeting investors; Network building)	3
Investor servicing (Assisting with site selection; Assisting with documentation and application; Providing requested information)	2 *
Aftercare (Investor outreach; Network maintenance and enhancement)	2 *
Networks (Stakeholder networks; Partner networks)	4
Staff of FIPA (Profile; Remuneration)	5
Governance model (Accountability structures; Means to evaluate; Structure, including links to other stakeholders; Size)	7
Investor incentives (Grants; Loans; Tax relief)	8
Policy advocacy (Negotiating regulations and laws for FDI)	6

*Aktivnostima I brizi kako za potencijalne, tako i već postojeće investiture smatramo jednako važnima

20. What other activities FIPA performs?

- FIPA radi i na jačanju koordinacione uloge u radu Saradničke mreže institucija svih nivoa vlasti s ciljem privlačenja i zadržavanja stranih investicija u Bosni i Hercegovini. (FIPA je uz pomoć Međunarodne finansijske korporacije (IFC), članice Grupacije Svjetske banke, pokrenula unaprijeđen Program postinvesticione podrške investitorima uspostavljajući institucionalnu saradnju u BiH, kroz saradničku mrežu koja uključuje vlasti na državnom, entitetskom, kantonalnom i općinskom nivou. Saradničku mrežu čine predstavnici: FIPA-e, Ministarstva spoljne trgovine i ekonomskih odnosa BiH, osam kantona, 22 općine i grada i Brčko distrikta.
- Svake godine FIPA organizuje „Izbor najznačajnijih stranih investitora u BiH“, pri čemu su kriteriji za izbor visina investicije i broj novovosnovanih radnih mjesta
- Predstavnici FIPA-e takođe učestvuju na investicionim sajmovima, konferencijama i okruglim stolovima, poslovnim forumima koje organizuju druge domaće i međunarodne institucije i organizacije
- Intenziviraju se aktivnosti sa dijasporom, te je održano više prezentacija mogućnosti ulaganja u Bosnu i Hercegovinu, pojačana saradnja sa savezima i udruženjima dijaspore BiH širom svijeta. Uspostavljeni su i kontakti, održani sastanci i prezentirani projekti i uspješnim svjetskim poslovnim ljudima, koji potiču iz Bosne i Hercegovine.
- Po pitanju izgradnje imidža BiH i FIPA-e veoma značajan pomak je ostvaren izborom direktora Agencije za unapređenje stranih investicija BiH (FIPA-e) za člana Upravnog odbora Svjetske organizacije agencija za strane investicije WAIPA-e na 22. Svjetskoj investicionoj konferenciji WIC17 koja se održala od 27. do 28. novembra 2017. godine u Dubaiju, čime će biti značajno poboljšan pristup FIPA novim potencijalnim investitorima.

21. Does FIPA perform any targeted activities?

Yes No

22. If yes, please specify which activities (industries/sectors/specific investors/countries etc.)!

Prerađivačka industrija, turizam, informacijske tehnologije, energetika, transport i komunikacije su identifikovani kao prioritetni sektori za razvoj i promociju investicija. Identifikovana su i tržišta koja generalno nude najveći potencijal, odnosno posjeduju najveći interes za ulaganjem u Bosnu i Hercegovinu, te definisan pregled sektora i primarnih potencijalnih tržišta na kojima sektorski potencijali treba da budu predstavljeni i promovirani. Ciljane države su prvenstveno one iz EU (Austrija, Njemačka, Italija, Holandija, Hrvatska), kao i Rusija, Srbija, Turska i zemlje islamskog svijeta (Strategija za promociju i privlačenje direktnih stranih ulaganja 2018 – 2021 je u formi nacrtu dokumenta)

U pripremi godišnjih programa rada, uzimaju se u obzir ovi strateški ciljevi, Generalno, na osnovu dosadašnje prakse i iskustva, kao i postojećih smjernica vezanih za oblast stranih investicija sa svih nivoa u BiH, aktivnosti FIPA-e će se fokusirati na sektor poljoprivrede i prehrambene industrije, turizam, metalski sektor, industrija auto dijelova, energetski sektor i promociju poslovnih zona ne isključujući ni sve ostale sektore za koje se u toku implementacije Programa pokaže značajniji interes

23. How frequently do you review your targeted activities?
 Often Sometimes Rarely
 Svake godine se priprema novi program baziran na izvršenju prethodnih.
24. Does FIPA have employees that are specialized to provide information for investment in a particular targeted activities (specific industry, sector, group of investors etc)?
 Yes No
25. What type of investments do you focus on:
 Greenfield Brownfield M&A
26. What types of motives do you observe the most from foreign investors (more than one answer possible)
 Market seeking motives
 Resource seeking motives
 Efficiency seeking motives
 Strategic asset or capabilities seeking motives
27. Do you have a selective policy towards different investors
 Yes No
28. If yes, what type of investors do you prefer
 Market seeking investors
 Resource seeking investors
 Efficiency seeking investors
 Strategic asset or capabilities seeking investors
29. Could you describe the mechanism of selecting countries that you mostly focus on for promotion? (for example developed countries, neighboring countries, emerging economies etc.)

 To su u prvom redu države EU (zbog blizine tržišta, vlastitih potencijala, dosadašnjih investicija i interesovanja), a u poslednje vrijeme su to i Rusija, Turska, Kina, države arapskog svijeta
30. Do you have an office abroad?
 Yes No
 Ali, FIPA ima Predstavnik u Japanu, na volonterskoj bazi
31. How would you rate your collaboration with foreign embassies?
 Very Strong Strong Moderate Poor No collaboration
32. What is the number of generated investments that you managed to attract over ambassadors and BH diaspora?

33. The level of processing investors requests is

Fast

Average

Slow, but it is not in our power. Other institutions slow it down

Slow, we have no capacity as an organization to solve them all

Other

34. Could you describe to what extent is FIPA helpful to foreign investors when facing problems where FIPA is supposed to assist (example of companies such as Messer, Energy Solution that faced difficulties with setting up a company)

[Click here to enter text.](#)

FIPA je uključena u rješavanje problema ove dvije, ali i drugih kompanija, tokom njihovog osnivanja, a kasnije i u poslovanju. FIPA je asistirala u rješavanju preko 150 otvorenih pitanja investitora. Problemi koji zahtijevaju reformske izmjene, pokušavaju se riješiti kroz reformske prijedloge koji se redovno dostavljaju Vijeću ministara BiH. FIPA prati procjenu provedenosti traženih preporuka, te s tim u vezi broj realizovanih preporuka, broj onih koje su u toku, te broj onih čija implementacija još nije započeta. FIPA je, npr samo tokom 2016.godine održala 80 sastanaka sa predstavnicima različitih institucija, u vezi analiziranja mogućnosti za realizaciju preporuka

35. What has FIPA improved from 2013 when Audit Office published a report stating that “FIPA is still isolated institution that has no power to take over a position of main coordinator of comprehensive promotion policy?”

[Click here to enter text.](#)

FIPA je inicirala izradu nove Strategije

FIPA je bila dio radne grupe za pripremu Zakona o politici DSI u BiH

Ojačala je saradnju sa DKP mrežom BiH u svijetu.

Pojačana je saradnja sa Ministarstvom vanjske trgovine i ekonomskih odnosa BiH

Kreirana i ojačana Saradnička mreža koja danas broji 33 članice

Intenzivirana je saradnja sa dijasporom

Razvijena je saradnja sa NVO sektorom orjentisanim prema DSI i poslovnom okruženju