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INSTITUTIONAL MARKETING COMMUNICATIONS IN ROLE OF ATTRACTING FOREIGN DIRECT INVESTMENTS TO BOSNIA AND HERZEGOVINA

Mustafa Sinanagić *, Beriz Čivić **, Alma Kamarić ***

ABSTRACT

The problem frequently faced by companies from transition and developing countries in attraction of Foreign Direct Investments (FDI) is lack of an adequate institutional framework which would adequately promote the potential those companies have through its activities, and with that also influence the attraction of foreign capital. The goal of this paper is to show the necessity of having such institutional framework, as well as institutional marketing communications which, together with other points of attraction of certain location in future, would be significant destination of inflows of FDI.

Keywords: Foreign direct investment, marketing communications, institutions for promotion of foreign direct investments in Bosnia and Herzegovina (BiH).

JEL classification: M31, M37, F21

1. INTRODUCTION

One of the most important current issues of international economic scene is the matter of FDI which are the subject of various observations and which in respect of their role in economic and political processes are subject of various controversies. The governments of developing countries usually have the standpoint that the FDI is the basic presumption for economic development of the host country and that it enables transfer of technology and managerial skills, as well as the opening of new jobs. Critics, intellectuals and opponents of globalization use numerous international economic conferences, but also other forms of public exposure to present their arguments which seriously accuse multinational companies that are main protagonists of the process. Also, multinational companies are accused of exploiting resources, undermining local technological development, jeopardizing local companies and exploiting unqualified workers. Starting from the desire to entice foreign direct investments, but taking into consideration the mentioned objections about the foreign investors, certain international organizations (OECD, ILO) have compiled recommendations for investing, especially in domain of employment, protection of consumers and environment, political activities and human rights. These recommendations have the goal to build understanding and good relations between foreign investors and host countries. Regardless of all the mentioned objections, as the country whose economy was devastated during the war from 1992 -1995, in mid-1990s BiH was forced to direct its efforts in attracting foreign investors in order to start the business processes, increase employment and obtain modern technological and organizational knowhow.

The fact that FDI plays a significant role in the economic growth and development of the recipient country is mentioned in many

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researches done by leading authorities dealing with this issue. So, research conducted in 69 developing countries (Borenszteina, De Gregoria and Leea, 1995) point to a positive influence of FDI on the economic growth and technical development of those countries. Besides their positive influence on economic growth and technical development (Hadžović, 2002) there is also their contribution to employment, payment system, competitiveness, innovations in the host country. However, some authors (Agosin and Mayer, 2000) emphasize also negative effects of FDI, which are primarily reflected in exploitation of domestic capacities and cheap labor, outflow of resources of the host country, squeezing out domestic companies from the market etc. However, benefits from the inflow of foreign capital are far higher that the negative effects on the economy of the host country. With the analysis of the report of United Nations Conference on Trade and Development (UNCTAD) and World Bank (WB) we notice that all countries are fighting for inflow of foreign capital, regardless of the level of their economic development. How much capital will individual regions attract depends on their attractiveness, their economic development, but also on their ability to inform and intrigue possible investors by adequate incentives and promotional activities. Exactly from this comes the role and importance of promotion of potentials of certain country. All of this points to the necessity to have appropriate communication system and institutions on the state level, which would, with an integrated approach, introduce possible investors with the potentials of a specific location. Hinner considers that communication has a crucial role in operations of every company and especially those which operate on the international market. We would add that marketing communication also plays a significant role in the promotion of investment potentials in the purpose of attracting foreign investors. We would substantiate this statement with a fact that there are 160 national and over 250 sub-national agencies for the promotion of investments in the world. Basic tasks of these institutions are: creating country's image, attracting investors, providing services to foreign investors and creating advocating policy (Morisset and Andrews-Johnson, 2004). Efficiency of institutions for the promotion of foreign direct investments depends on the investment climate of the host country, amount of GDP, technological development and compatibility of the goals of institutions with the government policies (Wells and Wint, 1990).

2. RESEARCH METHODOLOGY

Subject of research: Evaluations of how familiar the foreign investors are with the institutional network of support to promotion of potentials.

Hypothesis:

- H_1 There is a high level of familiarity of foreign investors with institutional network of support to the promotion of BiH potentials.
- H_2 There is no high level of familiarity of foreign investors with activities of institutional network of support to the promotion of BiH potentials.
- H_3 There is no high level of familiarity of foreign investors with institutional network of support to the promotion of BiH potentials.

Methods for collection of primary data: The primary research for this paper was done by application of writing test method, where as a form for the collection of data we used a questionnaire. Data was collected on the basis of simple random sample of 30 test subjects, i.e. companies in BiH, which were founded as a result of foreign direct investments.

3. COURSES OF FDI IN BOSNIA AND HERZEGOVINA UNTIL 2010

On the basis of data published by the Ministry of Foreign Trade and Economic Relations (MVTEO) BiH (Ministry of Foreign Trade and Economic Relations of BiH, 2010. pp. 2-4)[1], BiH in the period from May 1994 to December 31, 2009 made a total of 13.040 contracts (acts) on foreign investments with a total of 91 countries, all in accordance with the Law on Policy of Foreign Direct Investments in BiH (Official Gazette of BiH", number 17/98 and 13/03) and other legal regulations. The total value of achieved investments in the observed period was 7.53 billion BAM, and that is by 473.0 mn or 6.7 % more, compared to the status registered from 1994 to December 31, 2008. Taking into consideration the amount of investments in other transition countries and developing countries, BiH cannot be satisfied with the inflow of foreign capital.

However, considering the entire environment and the situation in which the foreign capital was invested, it is certainly not insignificant. The number of contracts compared to the situation as on December 31, 2008 was increased by 945 or 7.8%, while the average value of equities in cumulative period determined on the basis of number of contracts and total investments was BAM 577.463 and that is by 1.0% lower compared to the average registered on December 31, 2008.

The share of European countries (39 of them) in total attracted investment of fifteen-year-period (from 1994 to 2009) was 6.94 billion BAM or 92.1%, and non-European (52 of them) BAM 593.17 billion or 7.9%. By observing the level of investments of these countries in the period from 1994 to 2008, we can see the decrease in the share of European countries by 2.3 index points, even though the capital of European countries was increased by 4.1% and that of non-European by 50.0%. A decrease in the share of European countries in total investments compared to the period 1994 to 2008 is the result of low investments of capital during 2009 (especially in the first quarter) on the one hand, and also of new investments of Saudi Arabia and Turkey in the field of trade, transport and production on the other. The reason for lower share of these countries in total investments in BiH in the period from 1994 to 2009 was certainly a consequence of significantly lower investments from Russia and Austria at the end of 2008 and at the beginning of 2009.

Twenty-five EU member states (out of total 27) have their capital represented in the registered capital of European countries where they participate with BAM 3.38 billion or 49.0%, and in total investments in BiH with 44.9%, and their share compared to the period from 1994 to 2008 was decreased by 0.1 or 1.3 index points.

By observing the European countries and amount of invested assets by each of them in the BiH economy in the fifteen-year-period (from 1994 to 2009), we can see that Serbia takes the first place with investment of BAM 1.7 billion and 22.3% in total investments. Then comes Austria with BAM 971.6 million of invested assets and that makes 13% of total investments of the observed period, then, Croatia with BAM 917 mn or 12.2%, Slovenia with BAM 860 mn or 11.4%, Switzerland with BAM 529.2 mn or 7.0%, Lithuania with BAM 493.7 mn or 6.6%, Russia with BAM 392.2 or 5.2%, Germany with BAM 296.5 mn or 3.9%, Italy with BAM 206.4 mn or 2.7% and the Netherlands with BAM 148 mn or 2.0%.

By observing non-European countries, it is important to emphasize the investments from Turkey in amount of BAM 253.8 mn or 3.4%, Saudi Arabia BAM 60 mn or 0.8% and the USA BAM 57.0 mn or 0.8%. Even though the investments of Islamic countries in BiH showed the tendency of decrease from 2002 to 2007, the amount of invested assets of

these countries (23 of them) in 2009 was BAM 425.4 mn.

Out of total BAM 7.53 bn invested in the period from 1994-2009, the highest amount pertains to investments in cash 80.5% or BAM 6.07 bn, then investments in items-equipment and buildings 18.5% or BAM 1.39 bn, while investments in rights made only 1% of the total invested foreign capital, in the amount of BAM 70.2 mn. Out of 101 firms (companies) which invested in BiH in the period from 1994-2009, 49 of them, with capital of BAM 10 to 20 mn, invested BAM 723.1 mn and this represents 9.6% of the total invested capital. The companies with the capital of over BAM 20 million make 65.3%, and this means that they have invested BAM 4.92 bn, while other companies invested BAM 1.89 bn of assets and that makes only 25.1% of the total invested capital in BiH. Table 3.1 shows 11 most significant countries by the amount of assets they invested in BiH in the period from 1994-2009.

Table 3.1. Most significant investors in BiH and the amount of invested capital from 1994-2009

No.	Country	Invested amount	%
1.	Serbia	BAM 1.7 bn	22,3
2.	Austria	BAM 976.1 mn	13,0
3.	Croatia	BAM 917.0 mn	12,2
4.	Slovenia	BAM 860.0 mn	11,4
5.	Switzerland	BAM 529.2 mn	7,0
6.	Lithuania	BAM 493.7 mn	6,6
7.	Russia	BAM 392.2 mn	5,2
8.	Germany	BAM 296.5 mn	3,9
9.	Turkey	BAM 253.8 mn	3,4
10.	Italy	BAM 206.4 mn	2,7
11.	Netherlands	BAM 148.0 mn	2,0

Source: The Ministry of Foreign Trade and Economic Relations of BiH, www.mvteo.com, December 2010

This table shows that the investments of these countries make as much as BAM 6.75 bn (89.6%) of the total collected assets in BiH. In the observed time period, the biggest investments among European countries pertain to Serbia in the amount of BAM 1.7 bn or 22.3%, Austria BAM 976.1 mn or 13.0%, Croatia BAM 917.0 mn or 12.2%, Slovenia BAM 860.0 mn or 11.4%, Switzerland BAM 529.2 mn or 7.0%, Lithuania BAM 493.7 mn or 6.6%, Russia BAM 392.2 mn or 5.2%, Germany BAM 296.5 mn or 3.9%, Italy BAM 206.4 mn or 2.7% and Netherlands BAM 148.0 mn or 2.0%. As for the non-European countries, the biggest investments in BiH are from Turkey BAM 253.8 mn or 3.4%, Saudi Arabia BAM 60.0 mn or 0.8% and the USA BAM 57.0 mn or 0.8%.

By observing the sector structure (Chart 3.1) of FDI in the period 1994-2009, we can see that the highest level of investments is in the manufacturing sector of BiH in the amount of BAM 3.53 bn and this makes 46.9% of the total invested assets in BiH. By the amount of invested assets, manufacturing is followed by the sectors of transport and telecommunications with collected BAM 1.54 bn and banking with BAM 875.1 mn, trade with BAM 716.1 mn, services with BAM 276.4 mn, tourism with BAM 78.8 mn, while BAM 515 mn pertains to other sectors.

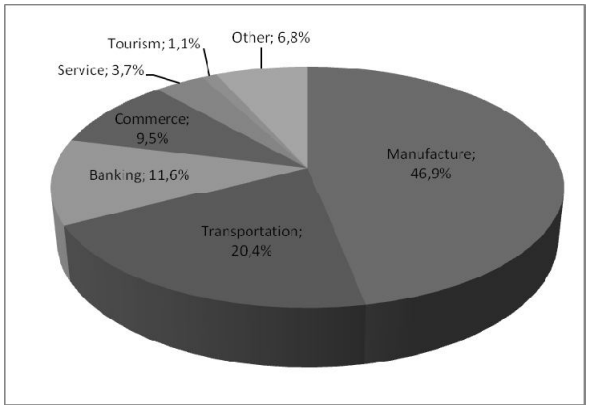

Chart 3.1. Sector structure (in %) of foreign direct investments in BiH from 1994-2009
Source: The Ministry of Foreign Trade and Economic Relations of BiH, www.mvteo.com, December 2010

By observing Chart 3.2 we can see that in 2007 BiH reached the record amount of amount of inflows of FDI in the amount of BAM 2.393 bn, and this represents almost 32% of the total collected assets from 1994-2009. Such a high inflow of foreign assets in 2007 was contributed by registration of the capital of the company *„Telekomunikacije Republike Srpske" a.d. Banja Luka* in the amount of BAM 1.26 bn, and this represented over 52% of the totally collected assets in that year. By comparing the FDI in 2008 with the record amount in 2007, it is evident that the achieved inflows registered in 2008 were lower by BAM 1.816 bn, even though compared to this amount 2006 is higher by BAM 221 mn or 62%.

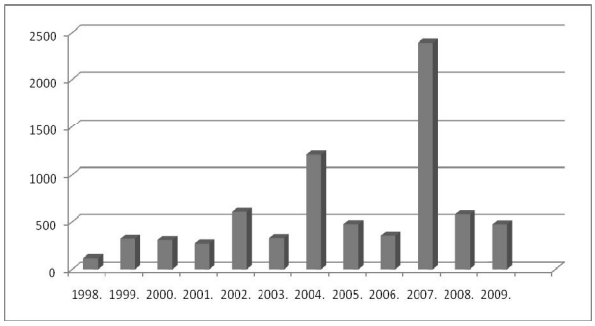

Chart 3.2. Fluctuation of foreign direct investments in BiH from 1998-2009
Source: The Ministry of Foreign Trade and Economic Relations of BiH, www.mvteo.com, December 2010

The most significant foreign investments in 2008 came from the following countries: Slovenia BAM 234.2 mn (31.7%), Austria BAM 152.7 mn (20.7%), Croatia BAM 67.9 mn (9.2%), Serbia BAM 65 mn (8.8%), Switzerland BAM 4.3 mn (7.4%), Italy BAM 40.7 mn (5.5%), the Netherlands BAM 15.6 mn (2.1%) and Cyprus BAM 10 mn (1.4%), and all of this makes almost 87% of the total investments in BiH in the given period. The most significant investments during 2008 are presented in Table 3.2.

Table 3.2. The most significant foreign investments in BiH during 2008

No	Company	State investor	Foreign investor	Invested amount (in BAM mn)
1.	"M-BL" Druš. za trg. na vel. i malo d.o.o. Banja Luka	Slovenia	Merkur d.d. Ljubljana	59.1
2.	"Arcelor Mittal Zenica" d.o.o. Zenica	Switzerland	Arcelor Mittal Holding AG	46.1
3.	„Argeta" d.o.o. Srajevo	Slovenia	Droga Kolinska d.d.	45.3
4.	"Hypo Alpe-Adria-Bank" d.d. Mostar	Austria	Hypo Alpe-Alpe Bank AG	43.0
5.	"Hypo Alpe-Adria-Bank" AD Banja Luka	Austria	Hypo Alpe-Alpe Bank AG	23.7
6.	„TUŠ" d.o.o. Sarajevo	Slovenia	Nepremič nine Celje	20.0
7.	„Konzum" trgovina na veliko malo d.o.o. Sarajevo	Croatia	Konzum d.d. Zagreb	11.2

Source: The Ministry of Foreign Trade and Economic Relations of BiH, www.mvteo.com, December 2010

Based on the above table and on the report of The Ministry of Foreign Trade and Economic Relations on fluctuations of foreign direct investments in BiH May 1994-December 31, 2009 we can conclude which sectors in BiH are interesting for foreign investors. Thus, for example, Austrian investments mainly referred to the banking sector, and this can be concluded on the basis of assets invested in *Volksbank a.d. Banja Luka, Hypo Alpe Adria Bank d.d. Mostar i Hypo Alpe Adria Bank d.d. Banja Luka.* Slovenian investments were mainly directed at increasing and expanding trade capacities, and a certain part of assets was invested in manufacture, such as *„M-BL" d.o.o. Banja Luka, „TUŠ" d.o.o. Sarajevo,*

Merkator BH d.o.o. Sarajevo, Petrol BH Oil Company d.o.o. Sarajevo, „JELŠINGRAD" a.d. Banja Luka, Argeta d.o.o. Sarajevo, CIMOS „TMD aut. ind." d.o.o. Gradačac and „Cimos TMD Casting" d.o.o. Zenica. The biggest investment in manufacturing is the capital increase made by the Swiss company *„Arcelor Mittal Holding AG" in „Arcelor Mittal Zenica" d.o.o. Zenica.* Even though the majority of business activities during 2008 had a decrease in inflows of FDI, two of them managed to maintain the trend of increase. These two business activities are construction and production of chemical products, while a drastic decrease of inflows was registered with telecommunications, which during 2007 had most of the FDI, production of food and beverages, motor vehicles, and financial mediation, not including insurance and pension funds.

Turkish investments (BAM 185.7 mn) prevail in the total investment amount of BAM 473 mn collected in 2009, and present almost 40% of the total collected assets in that year. Although achieved investments in this year amount to 6.3% of the total registered investments from May 1994 to December 31, 2009, they are by BAM 104.7 mn (18.1%) lower than investments in the previous year. Besides Turkey, the following countries also had significant roles: Austria (BAM 90.2 mn), Croatia (BAM 74.4 mn), Slovenia (BAM 60 mn), Italy (BAM 19.1 mn), Poland (BAM 16 mn), Montenegro (BAM 11.8 mn), Cyprus (BAM 5.7 mn) and Serbia (BAM 2.3 mn).[2] Considering the sector structure of FDI in 2009, the largest share in total inflow had the manufacturing sector (76.23%), then trade (22.86%), banking (11.09%), telecommunications (5.37%), services (3.68%), tourism (2.87%), transport (2.08%), and financing sector with share of 0.42% only.

According to the above mentioned we can conclude that a slow pace of privatization of certain number of state owned companies in the field of telecommunications, construction, agriculture, metal industry, energy, insurance etc. influenced the level of registered investments in BiH, along with bad political and security conditions, large administrative obstacles, poor competitiveness of the country compared to its neighbors, global economic crisis etc. The announced privatization of BH Telekom d.d. Sarajevo, Energoinvest d.d. Sarajevo and some other, mostly state-owned companies, will certainly change the sector structure as well as the investment structure by countries in future.

4. INSTITUTIONAL FRAMEWORK FOR MARKETING COMMUNICATION OF BOSNIA AND HERZEGOVINA WITH FOREIGN INVESTORS

The efficiency in implementing all strategy's elements for attracting the foreign direct investment mainly depends on organization efficiency of all the stakeholders in its realization. Therefore, besides the fact that each company has to focus its attention on the development of its adequate promotion strategy, the government and its institutions also play a significant role in promoting companies and the country as a whole. Considering that each company promotes its activities in some way through instruments of promotional mix (advertisement, improvement of sale, events and experience, public relations, direct marketing, personal sale), and various contacts, seminars, fairs, exhibitions, etc., we will be focused on the institutions whose activities are directly oriented to the promotion of business potentials of certain companies, but of the country as a whole as well. So, the institutional network of promoters of foreign direct investments in BiH includes:

- Foreign Investment Promotion Agency BiH (FIPA);
- Foreign Trade Chamber of BiH (FTC);
- The Ministry of Foreign Trade and Economic Relations (MFTER);

- The Ministry of Foreign Affairs (MFA) and
- Privatization Agency (AP).

Considering the importance which FDI has for economic development of BiH, it is absolutely logical that individual companies, along with representatives of state institutions, are involved in attracting FDI.

Foreign Investment Promotion Agency in BiH (FIPA) was established by the Council of Ministers of BiH. Besides providing larger inflow of foreign investments, its primary task is providing support to foreign investors that operate in our country or intend to do so. Primary services offered to foreign investors by the Agency are (Foreign Investment Promotion Agency of BiH 2007, pp. 5):[3]

- Provides information on legislation related to foreign direct investment,
- Provides information on macroeconomic indicators,
- Informs on business environment,
- Provides information on investment projects, privatization, tenders, etc. ,
- Advises foreign investors on how to incorporate the company in BiH,
- Helps in selection of location for Greenfield investments,
- Helps in implementation of business projects,
- Helps in establishment of cooperation with domestic economic entities,
- Helps in organization of meetings with competent authorities etc.

Looking at the Agency's activities we can see that this is the institution which has an extremely important role both for attraction of foreign investors and for development of a positive image of BiH. The structure of its activities clearly shows that it is the main bearer and implementer of integral programs of the direct foreign investment promotion, considering that no other institution dealing with improvement of foreign investment has as many tasks as FIPA.

Marketing activities of the FIPA Agency are directed at improvement of the image of BiH and promotion of BiH as a location attractive for foreign direct investments. This goal is implemented through following activities (Ovčina 2009, pp. 69):[4]

- Preparation and distribution of information related to business activities in BiH, economic situation, advantages offered by BiH compared to the neighboring countries etc.
- Preparation of new and updating of the existing FIPA promotional materials,
- Providing information through FIPA web site (www.fipa.gov.ba),
- Promotion of investment possibilities,
- Organization of promotional gatherings, conferences, workshops/round tables, campaigns and events,
- Presence at business meetings, fairs, round tables and similar events where FIPA representatives have an active part in promoting BiH,

In its activities, FIPA uses four promotion techniques with different intensity (investment image development technique, technique oriented to direct attraction of investment, technique of service and technique directed to identification and removal of administrative obstacles). However, more intensive efforts are made in development of the country image, and this can be seen in a number of brochures, guidebooks and advertisement campaigns through which the Agency wants to send the global message to prospective investors, and inform them on the potentials of BiH. FIPA directed the majority of resources planned for attraction of FDI in BiH at the improvement of the country image through the creation of new tourist graphic logo, movie „Enjoy Life" and distribution thereof through economic diplomacy and broadcasting it on CNN, BBC and other reputable TV stations. For the purpose of improvement of the BiH image and attraction of foreign investors, the

memorandum on cooperation in the field of promotion and marketing has been signed between the Foreign Investment Promotion Agency in BiH (FIPA) and BiH Airlines. (fipa.gov.ba).[5] The Memorandum stipulates that BiH Airlines shall distribute promotion materials of FIPA through the INFlight magazine, representing business sectors of BiH attractive to foreign investors.

Regarding the amount of money invested in the improvement of the BiH image, we cannot be satisfied with the results. It is not sufficient to engage a competent agency or to spend a lot of money in logo, publicity or numerous slogans, to make foreign investors change their original opinion and image on a certain country. Besides good marketing agency, strategy and promotion message with the goal to improve the image of the country, it is necessary to have a favorable business climate in the country, political unity and joint approach of all levels of authorities, public and citizens, which has not been the case in BiH so far.

We believe that the ineffectively spent money, which did not achieve satisfactory results, could have been spent on repair of bad infrastructure facilities, organization of fairs, establishing new companies and opening new jobs, decrease of corruption or for some other purposes which could have contributed to the improvement of the BiH image more than the undertaken marketing activities.

We consider **Foreign Trade Chamber of BiH (FTC)** as a very important institutional promoter of BiH. It was established in 2001 as an independent, nongovernmental, non-political and non-profit organization of economic entities associated in accordance with a model of chambers of commerce in the European Union. There is an extended network of Entity and regional Chambers of Commerce in BiH with over 30.000 companies from all sectors. The above mentioned Agency for promoting and improvement of direct foreign investments –FIPA focuses its activities mostly to foreign investment and promotion of direct foreign investment in BiH, while the role of Foreign Trade Chamber in BiH is based on representation of the local companies' interests. (Ovčina 2009, pp. 71).[6]

Even though they perform different activities, FIPA and Foreign Trade Chamber BiH should continuously maintain cooperation both between themselves and with other chambers of commerce in BiH. However, the current situation shows that the activities of the two mentioned institutions are not coordinated on a satisfactory level, which, for sure, is proven by insufficient volume of direct investments in BiH. Therefore, the image of BiH for the most of the world is the image of unprotected borders, corrupted institutions and officials. Such image resulted in the fact that everything that has existed in the gray zone of the EU countries presented an export potential to countries such as BiH. The similar situation is with the export activities of BiH. There is a small number of our companies appearing on foreign market without an agent. The role of these agents is, before all, to provide certain favorable conditions to its economic entities. Although these activities should be managed by BiH institutions, their underdevelopment resulted that this is done by others. Faster development of institutions, their credibility, their recognition across borders, present not only a lucrative business sector for our companies and highly qualified staff but the only way to control import of products, protection of our market and consumers from dangerous products coming from developing countries. (Đođić 2006, pp. 34).[7]

The Ministry of Foreign Trade and Economic Relations (MFTER) has important competences which are complementary and/or affect mission and functions of FIPA, such as (FIPA 2006, pp. 62-63):[8]

- foreign trade policy and protection policy,

- preparation of agreements and contracts in the field of economic relations and foreign trade,
- improvement of business environment,
- development and promotion of entrepreneurship and
- coordination of the international economic support in BiH.

So, we can say that the Ministry of Foreign Trade and Economic Relations is competent for (www.vijeceministara.gov.ba):[9]

- foreign trade policy and customs-tariff policy of BiH;
- preparation of contracts, agreements and other acts in the field of economic relations and trade with other states: preparation of bilateral and multilateral agreements regarding the revival and reconstruction of BiH;
- relations with international organizations and institutions in the field of foreign trade and economic relations;
- business environment, unique economic space, development and promotion of entrepreneurship;
- control of movement of goods and services which require a special regime in transactions, that is, in export and import activities;
- protection of consumers;
- competition;
- coordination of international economic support to BiH except the support from the European Union.

Bearing in mind the activities of MVTEO and the fact that they are complementary to the activities of FIPA, it is absolutely logical that these two institutions cooperate, especially in enactments of laws and other regulations related to the promotion of FDI. Given that we mentioned above what an important influence the incentive measures have on the inflow of foreign investments, we deem that the two mentioned institutional promoters of BiH should, through joint efforts, work on introduction of favorable incentives and laws for investors in BiH.

The Ministry of Foreign Affairs (MVP) along with extended network of embassies and diplomatic agencies could also play an important role in development of image and in attracting investments to BiH. Some of competencies of the Ministry of Foreign Affairs are (www.vijeceministara.gov.ba):[10]

- implementation of determined policy of BiH and development of international relationships in accordance with positions and guidelines of the BiH Presidency;
- determination of positions on issues and interests for foreign policy activities and international position of BiH;
- representation of BiH in diplomatic relations with other countries, international organizations and at international conferences;
- monitoring of situation and development of international relations of BiH with other states, international organizations and other
- entities of international law and international relations and reports to BiH Parliament on it;
- proposing to the BiH Presidency establishing or termination of diplomatic or consular relations with other states;
- cooperation with international organizations,
- organization, guiding and coordination of work of diplomatic – consular representative offices of BiH abroad;
- preparation and organization of international visits and meetings;
- preparation of bilateral and multilateral agreements;
- encouraging, developing and coordinating cooperation with emigrants from BiH;
- preparation of documentation, analysis, information and other materials for the needs of the BiH Presidency, the Council

of Ministers and other bodies authorized for implementation of foreign policy.

Besides the above mentioned competencies, the Ministry of Foreign Affairs performs the following activities as well (Ovčina 2009, pp. 73):[11]

- establishing contacts with prospective investors, with presentation of information on BiH and investment possibilities,
- providing promotion materials to prospective investors, organization of presentations, meetings etc.;
- connecting prospective foreign investors with FIPA,
- performing activities to involve investors from the emigration segments.

Bearing in mind the activities that the diplomatic-consular representation offices deal with, we think that is very important to include diplomacy in every new strategy aimed at attracting foreign direct investments. This means that diplomatic-consular representation offices of BiH in the world, besides their regular activities and obligations, should pay special attention to the promotion of a positive image of BiH. In other words, our country should be presented as a favorable destination for foreign investment, which would contribute to the strengthening of private initiative, lead to faster and larger prosperity in all areas of economy, and have an effect on creation of a larger number of jobs.

The question very often asked, which could be the reason for greater or lower inflow of foreign investment in certain country, is whether diplomats who present certain country in the world have appropriate characteristics, i.e., if they meet adequate preconditions.

In the period of privatization of large companies (mostly) owned by state (power sector, telecommunications, transport and mining), **Privatization Agencies** present the leading institutions in the area of attracting direct foreign investments in BiH.

The privatization process of some of the best companies in BiH carried over so far was long ago proclaimed as unsuccessful, and the biggest losers of this process are workers as a large number lost their jobs. According to the Privatization Agency report in FBiH there were 9.036 employees in total in 157 privatized companies (as of March, 2009), which is by 10.236 less than the number agreed by privatization contracts.[12] This confirms, as already mentioned, that the growth of investments in BiH is not followed by an increase in employment rate, and excludes direct (positive) effects of direct foreign investments to the employment growth in BiH. The biggest problem with the privatization of the BiH companies (where the Privatization Agency largely bears the responsibility as well) was that investors "promised the moon" but only a small bit has been done. So, new owners have mostly forgotten promised investments as soon as they registered the ownership and they devastated companies while receivables towards workers increased. Previously very successful companies in BiH: *Krivaja, Agrokomerc, Hepok, Soko, „Đuro Salaj"* and many others collapsed, but only rare among them survived or even got ahead after privatization. It is important to highlight that three types of privatization were implemented in BiH: by voucher, certificate and by capital increase. At the end of 2006 analysts estimated that in such concept of privatization over 400.000 work positions were lost.[13]

We believe that FIPA has to maintain cooperation with the Privatization Agency continuously and to, within its overall activities in the country, and especially abroad, work on finding and encouraging prospective (truly interested and financially sound) strategic investors – especially buyers

of the remaining most valuable companies in BiH.[14]

The biggest part of work and responsibility, but also the right to promote their country as more attractive, are in hands of the above mentioned institutional promoters of BiH. Clear distribution of responsibility and maximum cooperation on all levels of implementation of all the goals set shall contribute to an increased inflow of direct foreign investments in BiH, and by this, to an overall economic development of the country. In the practical part of this paper we will get acquainted with the current level of (dis)satisfaction of subjects engaged in attraction of direct foreign investments (investors), undertaken activities of the above mentioned bearers of promotion activities in BiH, and with proposed measures and instruments for improving efficiency of the mentioned institutions by investors who have already been attracted to our country.

5. EVALUATION OF EFFICIENCY OF THE INSTITUTIONAL NETWORK OF PROMOTERS

Institutional framework for providing support to foreign direct investors is an essential framework in order for process of attracting the foreign investment to generate the expected effectiveness, which has been verified through the experience of many developing countries.

Results of the research presented in the following part show to which extent foreign investors are familiar with the existing institutions in BiH and whose goal should certainly be attraction of FDI. Although in the first part of this paper we described activities of each of these institutions, the Chart 5.1 shows that the level of familiarity of foreign investors with institutions themselves and their activities is very low. Only 21.5% of the investors know that there are institutions in BiH dealing with attraction of foreign capital, which is the indicator of adequacy of implementation of their mission for which they had been established. Only 45% of the respondents are familiar with the existence of the Agency for Promotion of Foreign Investments in BiH, while 55% of them are not familiar with this fact. We obtained discouraging figures for other institutions, where only 36% of respondents are informed on the activities of The Ministry of Foreign Trade and Economic Relations in attraction of FDI, and only 27% of them are familiar with the activities of Foreign Trade Chamber of BiH. The low level of familiarity with activities of the Privatization Agency regarding the attraction of FDI is reflected in the fact that just 10% of respondents answered positively while this indicator is even lower for The Ministry of Foreign Affairs and amounts to just 9%. The fact that respondents are not aware that the Chambers of Commerce of BiH directs its activities on attraction of foreign capital is, at the same time, the indicator of how the mission of promoting our country and attraction of foreign capital is done by them.

We can say with certainty that one of the reasons for a poor inflow of FDI in BiH is bad engagement of these institutions in efficient sharing of information on potentials of BiH with prospective investors. So, we can conclude that none of the missions to attract foreign capital is implemented adequately and efficiently. Therefore, if the goal of the BiH authorities is to attract a larger number of investors in the coming period, they certainly have to work to introduce them to the above mentioned institutions and their activities.

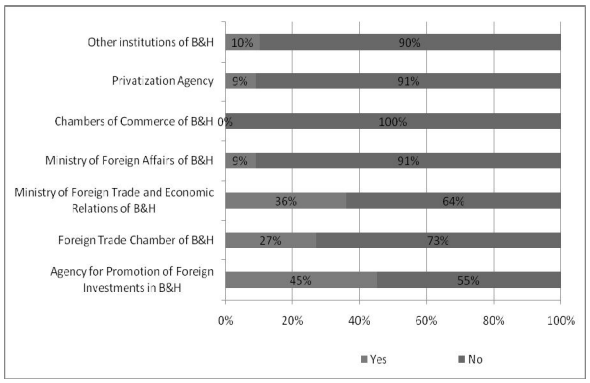

Chart 5.1. Level of awareness of institutional network of promoters of BiH
Source: Created by Authors

Given that the level of respondents' awareness of existence of institutions whose activities partially or as a whole are related to attraction of FDI is very low, we can see in Chart 3.2 how many foreign investors contacted them at the time of implementation of their investments. We saw from the previous Chart that 45% respondents were aware of existence of the Agency for promotion of FDI in BiH, but in Chart 5.2 we cannot see that any of them established the contact at the time of investment. This shows us that one of the main institutions, whose goal should be establishing contacts and informing prospective investors with potentials of our country, does not implement its activities or more precisely its mission, in an adequate way. Although 9% of respondents have established contacts with Foreign Trade Chamber of BiH, and Ministry of Foreign Affairs, 2% of them do not know if they contacted Foreign Trade Chamber of BiH. That percentage is slightly lower in the case of The Ministry of Foreign Affairs of BiH and it is 18%. Although we must not be satisfied with the indicator of 18% of established contacts with the Ministry of Foreign Trade and Economic Relations, in comparison with other institutions, we can say that it makes efforts to establish contacts and by its activities encourage foreign investors to invest in BiH. However, all this is far from a satisfactory level to which every institution has to strive, if their goal is the economic recovery of our country.

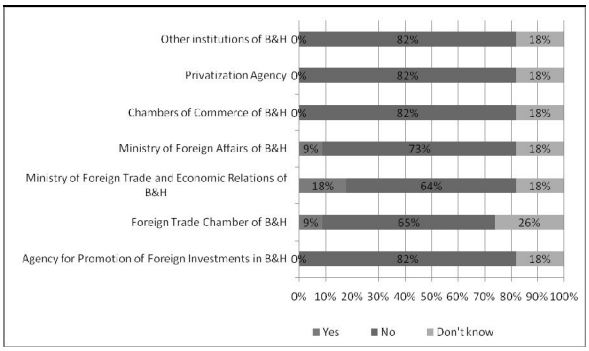

Chart 5.2. Level of established contacts with institutional network of promoters of BiH
Source: Created by Authors

The reason for such a low level of established contacts between foreign investors and the BiH institutions, whose goal should be promotion of the BiH potentials and attraction of foreign investors, can be found in the low level of their awareness on activities of the mentioned Institutions. (Chart 5.3). Namely, although investors themselves may be culprits for the poor level of information and awareness, our goal is to focus on activities undertaken by institution themselves in order to inform prospective business partners with their activities, but also with potentials of BiH.

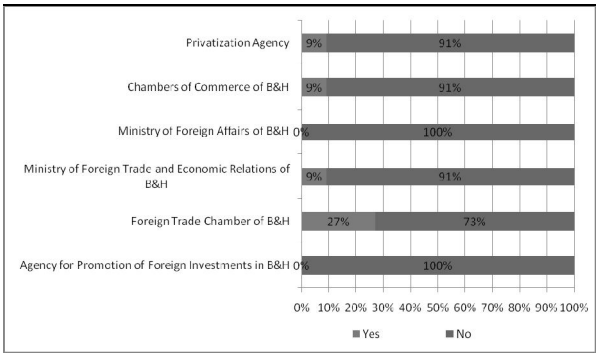

Chart 5.3. Level of foreign investors' awareness of the activities of institutional network of the BiH promoters
Source: Created by Authors

The figure presenting that only 18% of respondents have available information on

business partners from BiH (Chart 5.4), is telling us that institutions creating the network of the BiH promoters have to make much more efforts and work hard if they want to achieve quality communication with prospective investors in the future. We consider that all of them should update their web sites in a timely manner and create promotion materials offering more detailed information to prospective investors.

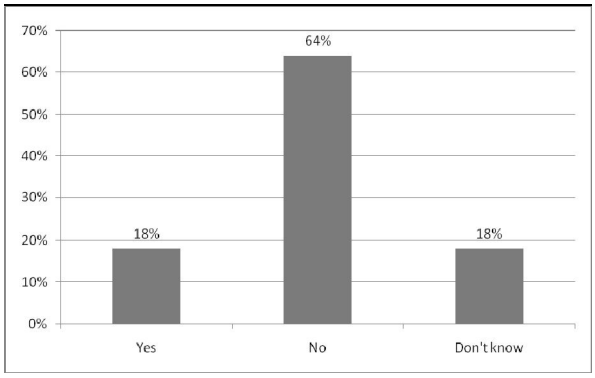

Chart 5.4. Level of availability of data on economic entities from BiH
Source: Created by Authors

By observing the Chart 5.5 we can see that approximately 50% of institutional network of the BiH promoters offers some kind of help to respondents in implementation of their investments. The mentioned indicator, unlike the indicator on established contacts, and level of knowledge on activities of certain institutions is not so disturbing.

On the other hand, we have slightly different image if we observe each institution individually. As two leading institutions in providing services we can mention the Ministry of Foreign Trade and Economic Relations and Foreign Trade Chamber of BiH, which in 64% of cases provided support to respondents they had contacted earlier or established cooperation. After these come the Chamber of Commerce of BiH and the Agency for Promotion of Foreign Investments in BiH with 55% and 45% respectively of the provided support to respondents. Bearing in mind that two last positions are held by The Ministry of Foreign Affairs and the Privatization Agency with 33% cases of the provided support, we think that in the coming period they have to work on establishing better communication and support to investors. On the other side, those institutions that have provided support to investors should be pointed out by the state at the time of promotion and establishing contacts in order to have investors, in some way, feeling safe. This would for sure facilitate making a decision on investment.

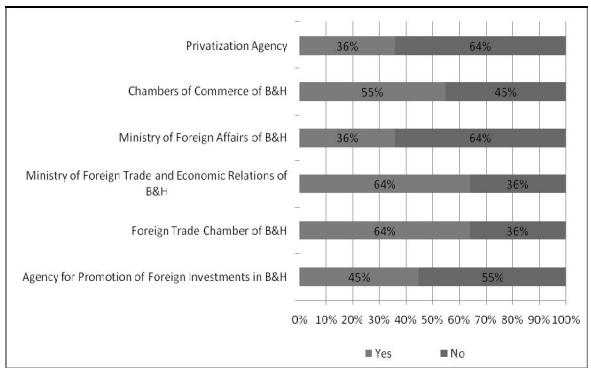

Chart 5.5. Level of provided services to foreign investor
Source: Created by Authors

Chart 5.6 also shows that authorities are not interested in providing support to foreign investors at the time of investments, where as much as 73% of respondents (led by various experiences at investing in BiH) declared that our authorities are absolutely not interested in providing any kind of support, while 27% of them said that authorities are partially (mildly) interested. Should authorities stick to these positions towards investors in the future, we should not be surprised if, already poor foreign investments would go in hands of competitive countries. So, promotion of companies and the country as a whole should be the goal of each individual, company and also of the BiH authorities, which shall through specific activities, confirm their commitment to work on development of attractive climate for FDI.

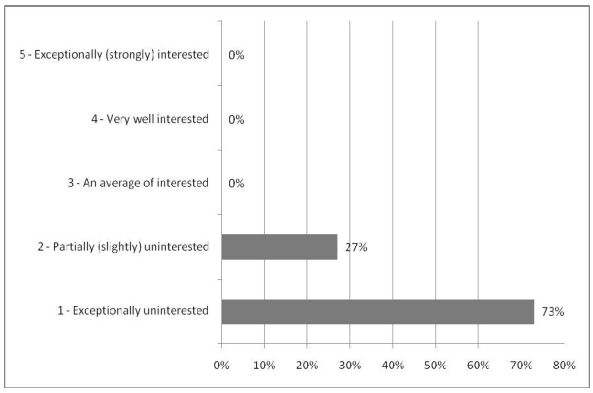

Chart 5.6. Level of interest of the BiH authorities in providing support to foreign investors

Source: Created by Authors

6. CONCLUSION

In contemporary business conditions, FDI takes over a role of the key development factor in the economy and together with trade they become the basic mechanism of globalization of the world economy. Given that the inflow of FDI achieves transfer of technology and knowledge, improves productivity, increases employment and ability to compete on the market. All countries, regardless of their economic development, are interested in the creation of attractive environment and investment climate which shall contribute to more efficient attraction of FDI. This paper presented the trends of FDI in BiH, their sector structure from 1998 to 2009, as well as leading investors in our country. Bearing in mind the fact that institutions responsible for promotion and attraction of FDI have the key role in attracting FDI, this paper highlights the basic activities and competencies of institutions creating the institutional network of the BiH promoters. During the research we reached a conclusion that it is necessary to improve investment climate but also integration of activities of promotional institutions of our country if we want to have the economic growth and development of our country based on higher inflow of foreign capital.

This research answers many questions, while on the other side, some questions, considering goals of the paper, are just indicated and should be elaborated in the continuation of this research. Primarily, it is about researching efficiency evaluation of certain instruments of promotion mix as well as the evaluation of efficiency of engaged resources in business potentials promotion of BiH up to date.

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[9] www.vijeceministara.gov.pdf
[10] www.vijeceministara.gov.pdf
[11] Ovčina V, op. cit., str. 73.
[12] According to data of the Federal Government, taken over but unsettled liabilities from initial balances based on taxes and contributions exceeded BAM 31 million. See more on web site of the FBH Privatization Agency, www.apf.gov.ba.
[13] An example of Brcko District shows that everything is not so bad. Namely, the privatization process in Brcko District is one of the most successful in BiH and the entire region. Until March 2009, 22 companies were successfully privatized and 5 trading companies remained to be privatized. Approximately 44 million EUR has been invested in privatized companies so far and they employ 1.566 workers compared to 869 before privatization. Method of privatization for all companies in Brcko District is public bidding, where interested investors submit bids with purchasing price, planned investments and number of workers. International supervisor for Brcko monitors and supports the privatization process, which provides additional layer of transparency and safety. Brcko, unlike other parts of BiH looks at these investments from the long term position, due to which the primary criteria were – planned investment and new jobs.
[14] Government set a privatization of large companies as its priority in 2010, among which are Aluminij Mostar, Telekom and other. Considering that BiH, especially Federation, did not have a good experience with privatization, there is a question: Is it worth giving "gold mine" into uncertainty for money which shall perhaps be spent on repayment of debts?