



# THE ROLE OF MIGRATION NETWORKS IN REDUCTION OF FOREIGN INVESTORS' INFORMATION ASYMMETRY

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**List of abbreviations**

BAM	- Convertible Mark (currency of BH)
BH	- Bosnia and Herzegovina
CBBH	- Central Bank of Bosnia and Herzegovina
EU	- European Union
FDI	- Foreign Direct Investment
FIC	- Foreign Investment Council
FIPA	- Foreign Investment Promotion Agency
GDP	- Gross Domestic Product
IOM	- International Organization for Migration
JMDI	- Joint Migration and Development Initiative
MoFTER	- Ministry of Foreign Trade and Economic Relations
MoHRR	- Ministry of Human Rights and Refugees
MoS	- Ministry of Security
UK	- the United Kingdom
UKTI	- UK Trade and Investment
UNCTAD	- United Nations Conference on Trade and Development



## Executive summary

This study addresses prospective impacts of BH Diaspora's mobilization targeting increases in foreign direct investments. For an investment to be realized potential investors have to overcome investment related information asymmetry (local specific information, such as investment infrastructure, bureaucracy, corruption, human capital etc.). This information asymmetry makes investment process for foreign investors more costly, risky and slow. The study gives an answer to the possibility of BH Diaspora's role in decreasing the information asymmetry. Business links established through initiative and coordination of BH ministries and agencies authorized to work with Diaspora can be used as a tool to amending the information asymmetry. Secondary data, primarily data obtained through survey and analysis of governmental bodies were analyzed assessing investor's opinions, existing policies and institutional capacities. FIPA has been identified as the key stakeholder, and MoHRR and MoFTER and FIC as stakeholders of less importance than FIPA.

Policy options ranged from hands-off to reverse brain drain, to business networking and were discussed in relation to costs and institutional capacities necessary for their implementation. The hands-off policy with no additional institutional capacities and no new budget resources is rejected since outcome of this option is the continuation of low level of FDI in BH. This option will cause BH remain among transition countries with lowest FDI inflows in Europe. The reverse brain drain option was also not recommended since it requires significant institutional capacities and budget. In the current situation, institutional change in BH is very slow and political markets are in deadlock while budgets are in deficit at all levels. Therefore, this option is not realistic. The business networking option was preselected and additional quantitative analysis followed this choice. Data needed for analysis was collected in survey.

Evidence suggests that in line with the strategy of internationalization as basis for the investment decision the second reported was personal acquaintance developed with BH Diaspora. Information obtained through other channels than global reports are very important for foreign investors. Investors regularly state that without locally relevant information and contacts investment in BH becomes expensive and difficult. Although investors possess general information on BH they reported the lack of specific information related to investment process (such as administrative barriers, obtaining permissions, land availability, business zones, etc.). Foreign investors agree with the opinion that engagement of BH Diaspora in communication with local authorities and business sector would significantly alleviate the information asymmetry and facilitate new FDI in BH.

*Recommendations to FIPA* as the key stakeholder are: i) expanding the Law on FIPA, ii) mapping prospective supply of human capital and matching with future FDI requirements, iii) developing instruments to support facilitating role of Diaspora, iv) usage of all available data provided by other institutions to connect with potential investors from Diaspora. *Recommendations to MoHHR* as a primary stakeholder are: i) augmenting of compilation and publication of "Diaspora Business Directory", ii) distribution of business address directory of BH Diaspora to foreign business representatives in BH and BH embassies, iii) memorandum of understanding signed between FIPA and MoHHR with the detailed action plan. *Recommendations to FIC* refers to: i) addressing and presenting Diaspora's potential in the White Book's recommendations to BH authorities, ii) helping FIPA with expanding the Law on FIPA.





## 1. Introduction

Context of the policy problem can be presented by describing a company from Slovenia which registered FDI inflows in BH. CIMOS (joint stock) is a company established in 1972. It is engaged in the production of automotive parts for reputable car makers. Headquarters of the company is located in Koper, Slovenia, while it operates in other countries as well: France, Germany, Russia, Serbia, Croatia and Bosnia and Herzegovina. CIMOS arrived in BH in 2001 and has factories in Gradačac, Zenica, Novi Travnik, Srebrenica and Sarajevo. It is one of the world's largest manufacturers of automotive parts (13<sup>th</sup> in the world in 2013). Due to company's aspirations for expansion, it started up the business in BH in 2001. Upon establishing the first branch in Gradačac the headquarters was thrilled with its operations: all required standards were met and employees were much disciplined. Therefore, the headquarters of the company expressed a desire to open more factories which will be engaged in: casting, mintage, crimping, stamping and machining. By doing that, entire production process in BH was set up. The main characteristics that attracted CIMOS to BH were required infrastructural prerequisites for optimal performance of the production process in BH.

After CIMOS arrived to BH, Diaspora played an important role in its expansion to other areas of the country. More precisely, a gentleman who was born in BH educated in Slovenia and was living and working in Slovenia, was employed at the time in one of the companies CIMOS cooperated with. He used to pay annual visits to his relatives in BH and was emotionally attached to BH, especially Zenica. So, he made contact with the headquarters of the CIMOS in Slovenia and elaborated all benefits of Zenica, a city with long tradition in metal industry, as potential location for another CIMOS' plant. Some of Zenica's advantages were: suitable and adequate infrastructure (there was an ironworks in Zenica which employed more than 20.000 employees in the 1990s, although the number has drastically decreased nowadays), workers were already trained for working in metal industry, there was adequate educational capacity (Faculty of Mechanical Engineering and Faculty of Metallurgy) and other relevant institutions such as Metallurgical Institute "Kemal Kapetanović". Headquarters of the CIMOS recognized all those advantages of Zenica as attractive and, through its management in BH, came in contact with the Municipal authorities in the city. They expressed huge interest and willingness for cooperation. Thus, CIMOS TMD Casting was established in Zenica in 2007 and it employs 220 employees, out of 990 employed in BH in total.

As this short description shows, foreign investment in BH could contribute to economic progress of the country. Transition countries are particularly attractive for FDI. Analyses show that rates of return on FDI are 7 per cent globally, higher in both developing (8 per cent) and transition economies (13 per cent) than in developed ones (5 per cent).<sup>1</sup> Assuming that foreign investors are profit maximizers (upon which all economic theory has been built) it follows that FDI will be looking for transition countries as their host, such as BH. However, since the beginning of economic crisis FDI inflows in BH are reduced. This situation requires optimal reaction by decision makers in BH. Searching for adequate response, this study highlights the role of diaspora.

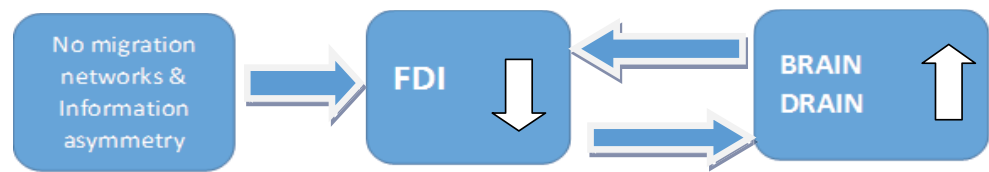
Bosnia and Herzegovina (BH) is faced with large part of its population living abroad. BH Ministry of Security (MoS) recognized three waves of migration flows (MoS, 2012, p. 68): war affected refugees, post-war family re-unifications and recent economically motivated migration flows.

<sup>1</sup> UNCTAD 2013, World Investment Report, p. ix.

Parallel to the brain drain increase, BH has faced decrease in FDI, (91% of the average FDI before crisis). Interestingly, FDI is estimated to enable higher technology transfer in 2012 (Global Competitiveness Report 2012/2013), comparing to the years before. Based on this, BH could be on its way from efficiency-driven economy (natural resources exploitation investments) towards innovation-driven economy (with intensive investments and technology transfer). This is why the FDI increase in BH could take the country to the higher level of economic development and to innovation-driven economy.

Massive emigrant corpus is seen to be an opportunity for prospective BH economic growth from two perspectives: a) direct annual benefits from remittances which increase consumption power amounting to BAM 2.047 million or 7% of GDP; b) indirect benefits in returnees' knowledge transfer that can potentially reduce the foreign investors' information asymmetry. The latter is reasonably considered as potential growth opportunity, taking into account gradual exacerbation of BH brain drain index ranking. The information asymmetry is understood as an unequal amount of the investment related information that exists between domestic and foreign investors. Foreign investors are negatively affected by this information asymmetry. Figure 1 illustrates the problem and invokes urgent action.

**Figure 1**  
Logic behind information asymmetry, FDI and brain drain



Source: authors.

Inability of BH to attract more foreign capital inflows certainly relates to an inadequate supply of skills on labor market which is often a big challenge for countries in the efficiency-driven phase of development. Consequently, lower economic activity, lacking competitive salaries range and insufficient technology transfer (embodied in low FDI) weaken the demand for higher labor skills. Weakened demand for skills along with the overall economic situation, along this argument, serves as a trigger for recent migration from BH (the third wave of migration recognized as economically motivated, as in MoS<sup>2</sup>, 2012a, p. 68). This effect-cause relation that results in suboptimal allocation of resources is in theory known as Pareto inferiority. More precisely, 23,9% of people with higher education emigrates from BH (MoS, 2012b, p. 21).

Intention of this study is to analyze the impaired BH human capacities (caused by high brain drain) followed by the insufficient transfer of knowledge and their interrelations with a decrease in FDI. In theoretical sense this study questions the market's ability to self-regulate and to allocate resources optimally. Thus, economic theories stating that the imperfect markets require state interventions (Stiglitz, 1991) are backbone of this study. Scholars have recently considered, opposite to previous views, the brain drain as beneficial to the host country (Checchi et. al., 2007, p. 3), due to: inflow of remittances by migrated skilled labor, selective immigration policies in host countries may raise the attractiveness of migration for high skilled individuals, which in turn raises private returns to education (due to reduced supply in labor market at home) and induces additional investment in education at home. Skilled migration may favor growth-enhancing technology transfer, trade and foreign direct investments between the home and the host countries (network effects). Consequently, there is a room for intervention aimed at enhancing FDI and prevention of a new wave of migration. Otherwise, increase in FDI to BH is only expected to grow

<sup>2</sup> MoS - BH Ministry of Security, Migration unit.



if cost of labor decreases causing then a new brain drain which would leave the BH labor market Pareto inferior and the whole Bosnian economy in the resource-driven phase of development. Hence, policy formulation of these two phenomena in BH is of particular importance. The overall goal of the study was to explore relation between Diaspora and FDI in Bosnia and Herzegovina. More specifically, the research elaborated on the following research questions:  
Can BH Diaspora play a role in decreasing information asymmetry for future FDI? Are there prospects for reversing brain drain by significant increase in FDI in BH? Can Diaspora business links be exploited as to enhance FDI in BH?

Research relies partly on secondary sources published by various BH and international institutions which can be regarded as limitation to the study. Primary sources are developed by research agency<sup>3</sup> hired during the research period to gather data among foreign investors in BH. Quantitative survey was conducted among a number of the existing investors in BH analyzing incentives and facilitation channels of FDI inflows as well as investors' perception of migrants networks' prospective utilization for future FDIs. This quantitative survey aimed at learning their opinions, experiences and attitudes on networking with BH Diaspora and their potential role in the process of the information asymmetry reduction. Legal authority of governmental bodies and their activities were analyzed in order to assess gap in existing policies, institutional capacities and prospective multi-institutional cooperation.

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<sup>3</sup> Ipsos Sarajevo.

The structure of the study is as follows. After this introduction, policy study is organized in three sections. In the second section the problem of non-existent migration networks and low FDI inflows are highlighted. Possible policy options are discussed in the third while conclusions and recommendations comprise the fourth section. Appendices and bibliography bring the study to an end.

## 2. Problem description

In this study the impaired BH human capacities (caused by high brain drain) and the insufficient transfer of knowledge interrelations have been compared with the outcome in FDI decrease. Many authors (Gould, 1994, Head and Ries, 1998, Rauch and Trindade, 2002, Combes et al., 2005) have explored the positive effects of migration networks in reducing information asymmetry (contractual and informational barriers) for exports to developing countries, but especially in enforcing FDI to countries of Diasporas' origin. Evidence based analyses of situation in BH in this field are still missing.

Economic growth refers to a real (inflation adjusted) increase in the amount of goods and services produced in an economy. The growth is usually measured as a percentage change in annual gross domestic product (GDP). Literature review offers a variety of theories on GDP determinants. These theories have evolved in two branches, namely the neoclassical exogenous growth model (Solow, 1956) and related theories; and recently proposed the endogenous growth theory (Romer, 1986; Lucas, 1988). Contrary to the Solow model, which emphasizes investments values in economy and growth, Romer and Lucas draw the attention to the accumulated human capital and innovation capacity. Inspired by Romer and Lucas model, related work sharpened the proposed model to significant proxy sources of growth: new knowledge, innovation and public infrastructure. Critical soft components of economic growth are: existence of an accumulated human capital and the economic policies ensuring an efficient allocation of labor resources.

## 2.1. Background of the problem

Some quantitative dimensions of migration and volatility of FDI in BH are given in the two following tables. Portion of BH migration in current population is more than 35%, mostly located in Europe and America. FDI inflows in 2012 are halved in comparison to 2008.

**Table 1**  
Basic information about BH migration and FDI

<b>All migrants from BH</b>		<b>1.356.619 persons</b>
in Europe		62,7%
in America		33,2%
Total population		3.839.737 persons
migrants as % of total population		35,3%
FDI (year)		(mil BAM)
2012		676
2009		352
2008		1.338

Source: MHRR, 2008; Global Competitiveness Report 2012/2013; CBBH, 2012.

**Table 2**  
FDI quantitative and qualitative indices and brain drain index

<b>Year</b>	<b>FDI to GDP in %</b>	<b>Brain drain index Ranking</b>	<b>FDI and technology transfer Ranking</b>
2012	n/a	140*	98*
2011	2.1	126	117
2010	2.0	138	102
2009	0.8	131	115
2008	5.4	119	133

\*2012 ranking based on 144 economies

Source: Global competitiveness reports 2008 - 2013, World Bank FDI net inflows 2008 - 2011

Human capital measurement and its impact on the economic growth has been a subject of numerous studies and efforts by international and domestic agencies in the past. FBIH Employment institute (FZZZ, 2012) conducted an analysis on employment market and employability among 3,000 employers employing 10 and more persons. In addressing the problem of availability of desired labor force, the employers ranked following major obstacles: employees' cognitive skills and qualifications (27.72%) and working experience (18.65%). Similar situation is in the other BH entity.

In its study, examining whether skills in BH labor market constrain the economic growth, the World Bank (2009) reported on critical shortage of skills, especially for BH companies' internationalization and exporting activities. In terms of institutional shortcomings, The World Bank reports on underdeveloped private market for skills provision and lack of adequate government policies and strategies. Reports' recommendations are proposed in three intervention areas: enforcement of secondary and tertiary education and long life learning, institutional capacity building (employment institutes) and establishment of knowledge transfer from Diaspora.

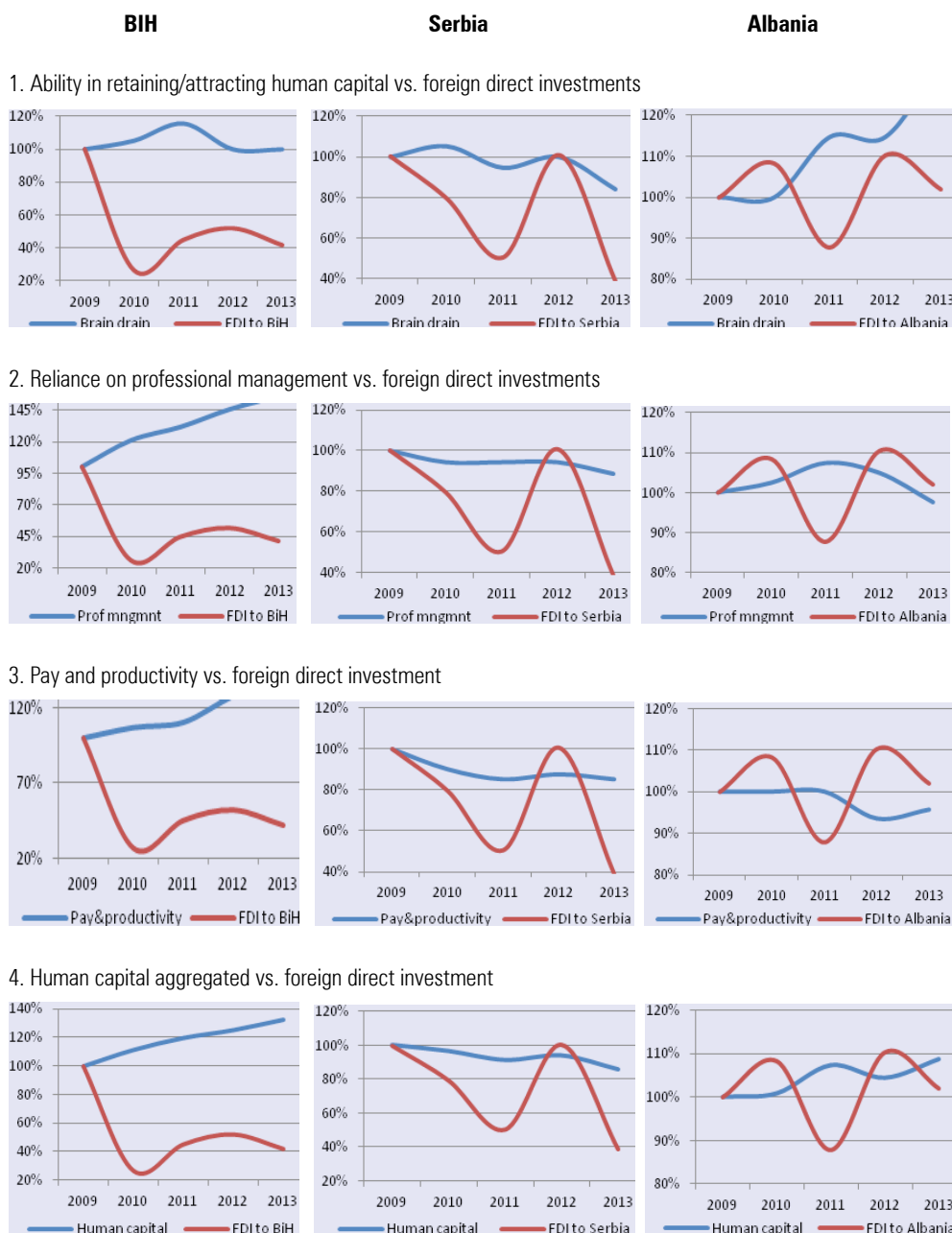




## 2.2. Regional benchmark of human capital and foreign capital inflows

According to the data provided by the International Organization for Migration, net migration rate in BH in period 2010-2015 is estimated to -0,3 migrants/1000 population.<sup>4</sup> Countries registering highest immigrations from BH, according to EUROSTAT, report drastic immigration fall (Italy 1,911 in 2008 to 716 in 2011; Slovenia 12,757 in 2008 to 3,254 in 2011). Benchmark with Serbia, that retained FDI to GDP, surprisingly reports similar fall in migration (Italy 5,472 in 2008 to 1,415 in 2011; Slovenia 4,239 in 2008 to 1,144 in 2011). Serbia emigration decreased 3,8 times and FDI remained about the same. Reasonably, reduced emigration itself cannot play decisive role (reverse brain drain) for FDI inflows. More likely, contrary to BH, Serbia has established better connections with Diaspora and/or has improved the investment climate for attracting the FDI.

<sup>4</sup> See: <http://www.iom.int/cms/en/sites/iom/home/where-we-work/europa/south-eastern-europe-eastern-eur/bosnia-and-herzegovina.html> (access: 11.07.2013.)



**Figure 2**  
Human capital competitiveness components vs. FDI (BH, Serbia and Albania 2009-13)

Source: authors' calculation based on GCR 2009/2010, 2010/2011, 2011/2012, 2012/2013 and official reports on FDIs

The cross-country comparison provides an analysis of the human capital competitiveness trends versus foreign direct investments in BH, Serbia and Albania. Considering the ability to retain human capital, only Albania has achieved slight improvements. In term of reliance on professional management and pay and productivity, BH is registering significant improvements, while the other two remain about the same for the period considered.

In the aggregated human capital to FDI comparison, it can be noted that, beside the highest compared improvement (10% annually), BH has faced extreme fall in new FDI (60%). It can be also observed that BH did not succeed in utilizing professional management and workforce productivity, while the only segment of human capital, i.e. ability in retaining skilled workforce can be drawn to be in causal relationship to FDI.

Albania’s FDI inflows retained about the same for the period considered despite the global financial crises and foreign investors’ pessimism towards expanding to new markets. This phenomenon can be interpreted in two ways: foreign investment attractiveness increases the demand for skilled workforce and/or success in utilizing human capital embodied in Diaspora. This has drawn our special attention to investigate the prospective reversing brain drain effects on country’s ability in retaining/attracting skilled workforce.

**2.3. Current policy approach**

BH decision makers pay sporadic attention to the possibility of engaging BH Diaspora for the purposes of FDI inflows. Four institutions/associations in BH have been authorized for Diaspora and/or FDI, as indicated in the following table.

**Table 3**  
BH institutions authorized for  
Diaspora and/or FDI

	Name of institution	Jurisdiction	Activities
1	Foreign Investment Promotion Agency (FIPA)	No jurisdiction on relations between FDI and Diaspora	No activities on relations between FDI and Diaspora
2	Ministry of Foreign Trade and Economic Relations (MoFTER)	Foreign trade policy of BH (Sector for foreign trade policy and foreign investments)	No activities on working with Diaspora



3	Ministry of Human Rights and Refugees (MoHRR)	Human Rights		
		Sector for Diaspora	Creation of the BH policy towards Diaspora.	<p>Documents and materials: „Study on the inflow of financial resources - Maximizing the development impact of migration-related financial flows and investment to Bosnia and Herzegovina“, „Information on BH scientific Diaspora and the possibilities of its use for development of Bosnia and Herzegovina“, „Strategy in the area of migrations and asylum and action plan for the period 2012-2015“</p> <p>Migration research: „Migration from BiH“, „To BiH or not to BiH - a report on the return of young Diaspora to the BH labor market“, „Brain gain - how to return, keep and bring back professionals in B&amp;H“, „The scientific Diaspora as the brain gain option - exploring the case of BiH“, „The development potential of BiH Diaspora“, „Remittances and development: The case of Bosnia by Nermin Oruc“, „Maximizing the development impact of migration-related financial flows and investment from Austria to Bosnia and Herzegovina“</p> <p>Cooperation with students from Diaspora (the program whereby students from BH Diaspora perform their practice in BH)</p> <p>Current project: Mainstreaming the concept on migration and development into relevant policies, plans and actions in B</p>
4	Foreign Investors Council (FIC)		No legal jurisdiction on relations between FDI and Diaspora	<p>No activities on relations between FDI and Diaspora.</p> <p>The most important publication produced by FIC is “White Book” - annual publication in which FIC highlights the key issues and obstacles its members (foreign investors) are facing with while doing business in BH; in several areas, e.g. business registration, work permits, labor law, taxes, exports, etc. For each obstacle FIC gives recommendations to BH authorities. Moreover, FIC monitors the implementation of its recommendations and present it in the “White Book” in form of Review of implementation of recommendations from previous edition of White Book.</p>

Source: authors.

Foreign Investment Promotion Agency (FIPA) performs tasks assigned by the Law on FIPA. Law on ministries and other bodies of administration of BH defined jurisdictions for Ministry of Foreign Trade and Economic Relations (MoFTER), as well as jurisdictions for Ministry of Human Rights and Refugees (MoHRR). Foreign Investors Council’s Statute defines its purpose and activities the Association shall take to attain its purpose. Table 3 presents jurisdictions assigned to those four institutions, as well as activities; which are related to the theme of this policy study. Next table shows stakeholder analysis, with the aim to point out the level of importance of each institution in dealing with problem we are addressing.

**Table 4**  
Stakeholder analysis

	FIPA	MoFTER	MHRR	FIC
Legacy	For investment	For investment	For Diaspora	For investment
Relevance	Strong	Weak	Strong	Strong
Capacities/ Networking	Not recognized	Not recognized	Sector for Diaspora cooperates with: <ul style="list-style-type: none"> <li>- Swiss Agency for Development and Cooperation (SDC)</li> <li>- United Nations Development Programme (UNDP)</li> <li>- United Nations General Assembly</li> <li>- Migration, Asylum, Refugees Regional Initiative (MARRI) Skopje</li> <li>- European Commission</li> <li>- International Organization for Migration (IOM)</li> <li>- International Agency for Source Country Migration (IASCI)</li> <li>- Government of Switzerland</li> <li>- RACVIAC - Centre for Security Cooperation</li> <li>- World Diaspora Association of B&amp;H</li> <li>- APU Network Stockholm</li> <li>- Bosnian Herzegovinian American Academy of Arts &amp; Sciences (BHAAAS)</li> <li>- etc.</li> </ul>	FIC organizes meetings with FBH ministries, FBH Parliamentarians, Government of FBH, representatives of RS Government, Foreign Investors Council of RS, etc.

Source: authors.

Based on data presented in table 3 and 4, FIPA is identified as key stakeholder who is addressed by our policy study, MoHRR as primary stakeholder and MoFTER and FIC as secondary stakeholders.

FIPA consists out of 8 sectors and 32 employees, distributed in Sarajevo, Mostar and Banja Luka. FIPA provides information about attractive sectors for investing in BH, investment opportunities, starting and operating a business in BH, incentives for foreign investors, etc. FIPA’s activities help foreign investors with making investment decisions and throughout the investment process. However, within the jurisdictions assigned to FIPA, there is no authority that refers to working with Diaspora. On-line resources of FIPA were reviewed in a search for policy and/or measures in relation to migration networks, foreign investor’s information asymmetry, and brain drain. Although significant portion of the on-line information of FIPA is intended to provide more information for foreign investors, no coherent policy exists in this field.<sup>5</sup> For instance, migration network as a term does not appear in a single document, let alone the analysis of its potential role in decreasing information asymmetry of foreign investors. The fact

<sup>5</sup> Complete results of the review are presented in appendices.



that FIPA has no authority related to Diaspora is detrimental since there is so much potential in connecting FIPA with Diaspora because, besides economic reasons and motives for investment, Diaspora's sense of national identity might be significant moment which attracts their resources to BH.

European country that attracts most foreign direct investments is the United Kingdom (UK). Based on the data provided by the World Bank, FDI inflows in the UK in 2012 amounted to 56.136 million USD. Institution responsible for attracting continuing high level of FDI is UK Trade and Investment (UKTI). UKTI works with UK-based businesses to ensure their success in international markets, and encourage the best overseas companies to look to the UK as their global partner of choice. UKTI has professional advisers both within the UK and across more than 100 international markets.<sup>6</sup> Considering the UK is a developed country, Diaspora in the UK, from other countries, is often urged to invest in their countries of origin which proves how important Diaspora is for increasing FDI. One of the researches emphasizes that in partnership with developing countries and Diasporas, agencies could, inter alia, work towards encouraging migrants to invest in community development initiatives in their home countries (COMPAS, 2004).

MoHRR, as primary stakeholder (MoHRR's Sector for Diaspora with 10 employees) devoted most attention to relations between Diaspora and BH development. Even though many projects have been conducted, monitoring and evaluation of them is still missing. For instance, in the Strategy in the area of migrations and asylum and action plan for the period 2012-2015, problem of emigration (and brain drain) is only vaguely mentioned with no indication as to how it should be resolved.<sup>7</sup> Action plan of the Strategy recommends four measures<sup>8</sup> for strengthening the institutional capacities in BH aimed at making connections between migrations and development. These measures have no officially defined set of indicators for implementation and no monitoring and evaluation plan which undermines their effect. A research workshop was organized by the MoHRR in 2012 on the topic of migrations from BH but all conference presentations were focused on topics different from migration networks and its possibilities for enhancement of FDI through alleviation of information asymmetry.<sup>9</sup>

International recognition of the problem can be considered within the IOM project (supported by the government of the Netherlands) "Temporary return of qualified national". Organization matches qualified nationals with the capacity building needs of their respective countries of origin by sending them on temporary assignments to work on existing rehabilitation programs. JMDI (2011: p. 27) states that „skilled migrants are expected to enhance their capacities and earn higher wages abroad. This could translate into remittances, technology transfers, links to professional networks, investment and - arguably - a better integration of origin countries into the global markets." This situation clearly indicates that continuation with no changes would leave potential of Diaspora for boosting FDI unrealized.

For the fourth year in a row MoHRR has organized a program of practice for students from BH Diaspora. During their practice, the students stressed that the problem is absence of an umbrella institution for working with Diaspora in a form of association that would gather BH students and employees in the Diaspora, but also expressed the need for the existence of the Directorate for expatriates, such as the Council of Ministers, which would be the main point of coordination and work of home country with its Diaspora in the world.

<sup>6</sup> <http://www.ukti.gov.uk/uktihome/aboutukti.html>

<sup>7</sup> In the Working group of the Strategy no members from Foreign Direction Promotion Agency and from Ministry of Foreign Trade and Economic Relations were included. No experts on the Strategy were with economic background.

<sup>8</sup> One of them advocates the advancement of legal framework which will serve as stimulant for circular migrations in the field of labor and daily migrations with neighboring countries to induce development of BH and monitoring impact of these sorts of migrations to development of BH. Another measure recommends the advancement of legal and institutional framework (with best EU practices) for making connections between emigration resources and development of BH. The third one mentions building research and education capacities in the field (March, 2013) of migration and development. No cooperation with Foreign Investment Promotion Agency or Ministry of Foreign Trade and Economic Relations is envisioned in these measures.

<sup>9</sup> As a matter of fact, only one of presentations touched upon the broader role of diaspora in the development of BH.

<sup>10</sup> Conference held in Mostar (March, 2013), which brought together local entrepreneurs and business oriented Diaspora representatives.

<sup>11</sup> The largest BH Diaspora investment forum held in Prijedor (August, 2013) with the aim of stimulating BH Diaspora and other investors to invest in BH.

<sup>12</sup> Roundtable held in Bihać (October, 2013.) within the regular session of the General Committee of the World Alliance of the Diaspora where untapped economic potential of BiH diaspora, such as relations between homeland and Diaspora, were discussed.

Many other conferences and round tables such as CONNECT 2013<sup>10</sup>, BH Diaspora Business Forum<sup>11</sup> and Roundtable on the economic potential of BH Diaspora<sup>12</sup> confirm the great importance of Diaspora for FDI increase and, consequently, development of BH.

MoFTER, as secondary stakeholder, does a great job when it comes to meetings and negotiations on economic and trade cooperation with other countries, negotiations on foreign investment in BH with potential foreign investors, BH exports to foreign countries, etc. Administrative and technical work the MoFTER does, such as updating database on foreign investment and keeping the book of foreign investment, is also very important because of its significant facilitating effect on conducting many studies and researches about foreign investment. However, within the foreign trade policy of BH, which is one of MoFTER’s competences, insufficient attention is given to Diaspora which prevents the achievement of even greater success in attracting foreign investments to BH.

FIC is the association established in 2006. FIC is committed to improving business and investment environment in BH. Furthermore, the purpose of FIC is to promote communication, cooperation and an ongoing dialogue between the Association and the authorities in BH; to cooperate with the authorities in BH, in overcoming difficulties and obstacles which may exist in relations with foreign investors and in economic relations with other countries; etc. FIC has no goals related to Diaspora as an opportunity for increasing FDI, but it is committed to promoting cooperation and dialogue with BH authorities. We see an opportunity for FIC to recognize non-exploitation of Diaspora’s potential and present it to BH authorities as an important issue and obstacle for foreign investments.

### 3. Policy options

#### 3.1. Framework of analysis

Possible policy options given in the table below are outlined respecting country specific obstacles to policy implementation and constructing prospective implications and multiplier effects. Policy options which acquire lower financial outflows from budget and acquire less institutional capacities are prioritized (option 3 in the Table 5).

**Table 5**  
Policy options

Proposed Policy		Feasibility and effects	Acquiring institutional capacities?	Acquiring budget resources?	Effecting	Measurable?
1	Hands-off policy		No	No	Limited	Yes
2	Reverse brain drain / Diaspora return		Partially / High	Intermediate / High	Brain drain/FDI	Yes
3	Business networking		Partially	Low	Brain drain/FDI; R&D, skills	Yes

Practical country specifics were the basis for pre-selection related to the specific cost-efficiency and feasibility of each policy option, whereby we have pre-selected the development of business networks with Diaspora as the most feasible one. All proposed policy options could be effective in reducing the information asymmetry, but instruments for putting all of them into practice do not exist in BH.



### 3.2. Evaluation of policy alternatives

The Conducted regional benchmarking has disclosed BH's impairment of capacities in attracting new foreign capital inflows and retaining its own skilled workforce. Conclusion is that these two variables are in Pareto inferior position, causing spiral negative impact on economic growth. Logic behind the identified Pareto inferiority is found in the insufficiency of effectively allocated resources ("brain waste") and the depressed demand for skilled workforce. Consequently, depressed demand for skilled workforce triggers migration and impairs competitiveness of the country. BH, with its incomplete labor market, requires state intervention in order to untangle the negative loop. Having in mind country related political and financial intervention constraints, we look for an external source of capital that can be employed to achieve BH labor market equilibrium. In that regard, recently suggested concept of reciprocal relationship between migration and economic development seems to work in BH for two reasons: i) this concept requires state intervention specifically in facilitating migrants' actions and allocating affordable portion of financial resources; ii) BH Diaspora has the capacities and willingness to intervene. Migration contributes to the economic development with its social, financial, human and cultural capital/assets (JMDI, 2011). When it comes to BH Diaspora, widely explored option is the utilization of financial capital inflows in form of remittances to family members. However, there is no evidence on any Diaspora contribution, other than direct financial support. The effective policy framework grounds on the set of actions that utilize migrants' capital optimal to foreign investors' requirements. Consequently, the utilized migrants' capital constitutes newly generated supply of transnational knowledge, skills, acquisition of new values and ideas and financial resources; and that meets the demand of future FDI inflows.

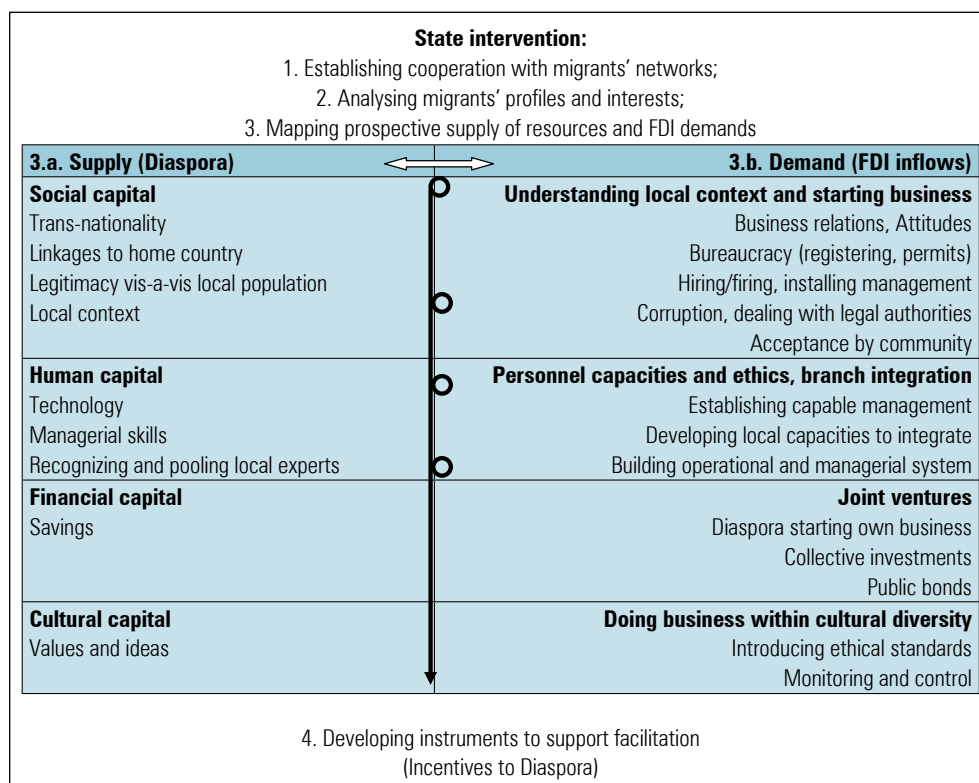


Figure 3  
Policy framework

Source: authors' proposal



<sup>13</sup> Statistics Report is attached to the policy study (Appendix A.3). Responses are scaled from 1 "completely disagree", to 7 "completely agree".

Primary data were collected in a survey. For all data the process of screening and cleaning was performed. Categorical and continuous variables were checked for minimum and maximum values. All of them were within the range of possible scores on particular variable. In the sample used for the analysis 57,5% of companies are small, 25% medium and the remaining 17,5% are big companies. In other words, 82,5% of companies were SMEs. Most companies are from industry sector (45%) following construction sector (10%), trade (10%) and production of electricity (7,5). The earliest year of presence in BH among all surveyed companies is 1990, and the latest is 2013, with year 2003 as an average. Limitation of the study was focusing on the research on "demand side" of the model illustrated in Figure 3 and relying on secondary data for "supply side" of it. However, selected findings can be reported.<sup>13</sup> Mode of entering of the foreign capital to BH is analyzed in the following table.

**Table 6**

**Table 6 Investing in BH has been done by**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	15	37.5	37.5	37.5
	2	13	32.5	32.5	70.0
	3	4	10.0	10.0	80.0
	4	8	20.0	20.0	100.0
	Total	40	100.0	100.0	

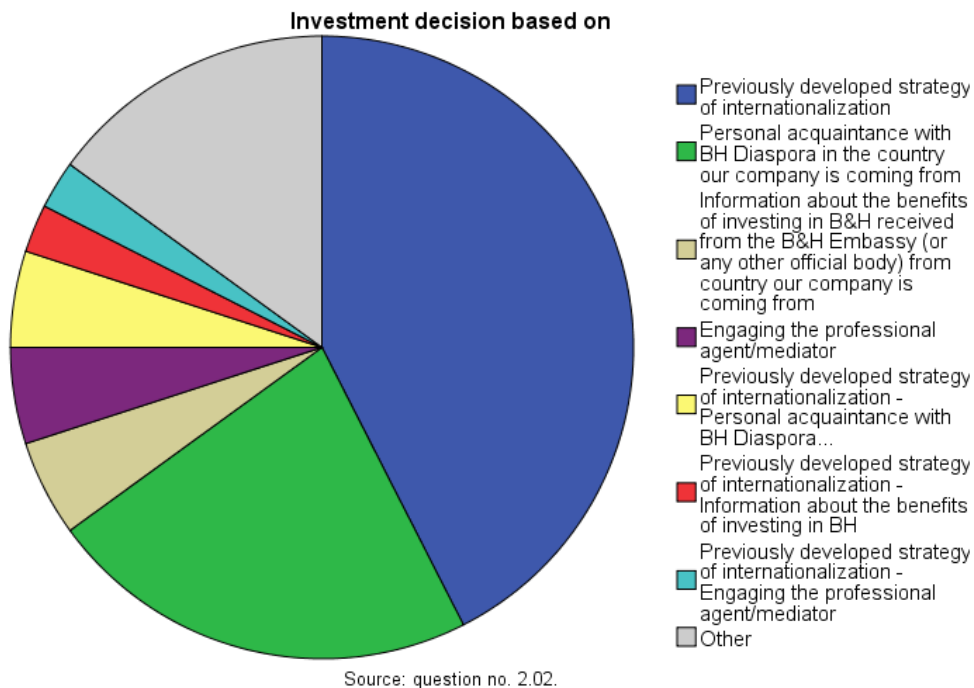
Legend:

1 - Building new production capacities (greenfield); 2 - Joint business venture (part of our resources, and part from the existing BH company), 3 - Takeover, privatization, acquisition, 4 - Some other way, which? (incorporation, joint venture, investing capital acquired in other countries, FDI, financial investment, remaining state-owned, renting shopping mall)

As shown in the table more than 2/3 of foreign capital is invested in greenfield and joint venture investment projects. Also, 10% of foreign capital is invested through takeovers, privatization and acquisition operations. These three ways of investment account for 80% of the sample.

Next graph shows the most important basis for making the investment decisions by foreign investors. Evidence suggests that foreign investors rely mostly on their internal capabilities, such as strategy of internationalization, when making investment decision aimed at BH. Next to this, as companies reported in the survey, is their acquaintance developed with BH Diaspora. Some companies also reported mixed results, that is, their own strategies and information gained through diaspora. When active role of BH embassies is added to the responses, 1/3 of all investment decisions are explained. To similar question (2.15 in the questionnaire) foreign investors responded (55%) that they had discussion, visit or contact with BH Diaspora in the country of the company's origin aimed at improving their own awareness about BH. Investors mostly asked for specific information needed for investment (question 2.16).





### 3.2.1. Hands-off policy (zero policy option)

If decision makers choose to do nothing about FDI in BH then inflows of FDI will be influenced by factors which were in power in the past. In that case BH will stay among those transition countries in Europe with lowest FDI inflows and almost highest migration rate of population. According to UNCTAD statistics, FDI inflows to BH in year 2011 were the lowest among transition economies in South-East Europe (UNCTAD, 2013, p. 216). Without taking a proactive role in increasing FDI regional trends in FDI could be reflected in BH. For instance, in 2012 FDI inflows in transition economies fell by 9 percent, and FDI inflows to BH stagnated. From the other side, various aspects of BH diaspora, as a resource of BH, would not be fully exploited.

### 3.2.2. Reverse Brain Drain / Diaspora return option

Decrease of the migration rate from BH will probably not have positive impact on FDI inflows to the country.

Country	2008	2011
Albania	9,6	10,6
Bosnia and Herzegovina	5,4	2,1
Croatia	8,7	2
FYR Macedonia	6,2	4,7
Montenegro	21,2	12,4
Serbia	6,3	5,9

Source: *The World Bank, 2012.*

**Table 7**  
FDI net inflows as percentage of GDP

Relying on the reverse brain drain policy option would acquire high institutional capacities and huge financial resources. Institutional structure in BH is rigid and institutional change very slug-

<sup>14</sup> This suspicion is backed by the fact that in year 2014 general election is going to take place and period of taking offices by newly elected government officials could be prolonged.

gish (Halebic, 2011). At the same time, BH is faced with budget deficits that have weakened fiscal position of central government. In period 2008-2012 cumulative deficit of general government, according to the CBBH data, amounts to 12,5 percentage points of GDP. Therefore, relying on budget resources and planning, institutional change in BH in current context is not promising, at least in short and medium term.<sup>14</sup>

Return of huge portion of diaspora to BH with a consequence of increase in FDI (with financial capital of diaspora) is hindered by numerous factors. Potential FDI inflows through that channel are explored in research by Oruc et al. (2011). The authors have conducted a research among 894 returnees and young persons in Diaspora aiming at mapping their potential return and re-integration and its impact on the BH development. Survey sample comprised 37% respondents holding degree above undergraduate, 43% with tertiary education and 63% having up to 10 years of working experience. Considering survey outcomes for FDI perspectives, below are some highlights: 47% of total respondents consider returning, whereby 64% of them permanently; 8% migrants are self-employed, ranking main obstacles to starting business in BH: complicated conditions (27%), financing business (29%), company registration (16%).

### 3.2.3. Business networking

Networking of business subjects and academic individuals (or institutions) could be of significant influence in reviving FDI inflows to BH. Officials in BH have recognized the importance of diaspora in the development of BH. The Council of Ministers of BH considers Diaspora resources, including human resources and scientific Diaspora, a relevant factor for development of BH. Therefore, Ministers recommended to BH institutions to use diaspora resources for development and include them into their development documents.<sup>15</sup>

<sup>15</sup> [http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja\\_sa\\_sjednica/default.aspx?id=14023&langTag=en-US](http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=14023&langTag=en-US)

Contribution of Diaspora to BH development (Oruc et al., 2011): work in BH (51%), starting a business (35%), establishment of business links (30%), remittances (30%), investing in BH projects (23%), free consultations to colleagues (23%). Besides, high portion of respondents are interested in starting a business or supporting business links establishment. As the sample is relevant, this interest for business activities shown by Diaspora could be considered an option for FDI boost.



## 4. Conclusions and recommendations

### 4.1. Major findings

Transition countries have potential to attract more FDI in comparison to developing and the developed countries. However, in case of BH this potential has not been realized. Other things being equal, optimal utilization of BH Diaspora could serve as a factor that encourages more FDI inflows to BH. Following evidence<sup>16</sup> supports this statement.

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<sup>16</sup> Table A.3.1 in the Appendix.

Foreign investors possess general information on BH such as information about culture, population, traditions, education, work habits, level of corruption, etc. Nearly half of them (47.5%) responded positively to question about general information. In that context, global reports on competition, corruption, etc., are very useful in the process of making decision on investment in BH (45% of investors agreed and completely agreed to this statement in questionnaire). However, almost 1/3 of investors rejected the importance of such global reports. Therefore, information obtained through other channels is potentially more important for foreign investors. Information provided by FIPA, FIC, and similar institutions are not used enough in the process of making decision about investing in BH. Some of very useful information about investing in BH can be obtained at various gatherings of embassies and chambers of commerce as well as through discussions with existing investors.

Additionally, foreign investors confirmed (more than 50%) that they used mediators or scouts for gathering information and doing negotiations related to the investment. This role of mediators could be also played by Diaspora. Overwhelming majority of investors (70%) stated that investing in BH without locally relevant information and local contacts is very difficult and expensive. Contrary to some opinions, tax policy is not considered as very crucial for making the investment decision. Information about corruption, obstacles for starting business, administrative barriers, obtaining permissions, land availability, business zones, and contacts for registration was considered more important. This kind of specific business related information was not available enough in the investors' countries of origin. Situation on the labor market in BH is convenient for foreign investment since investors mostly state that there are highly qualified employees on the labor market in BH that they consider employing domestic labor force first. Quality of investors' information is satisfactory, since the information, general and specific, that investors initially possess often come true after they spent some time in BH. Importance of information, both general and specific, is highlighted by investors' statements (2/3 of them) that they compared information about BH to similar information on other countries *before* they made final investment decision.

From the table A.3.3 following results can be observed. Most foreign investors agree with the opinion that engagement of BH Diaspora in communication with local authorities and business sector would significantly alleviate the information asymmetry and facilitate new foreign direct investments in BH. Activities in promoting this role of Diaspora would also assist the progress of new FDI in BH and partially mitigate problems related to the lack of general and specific information. Additionally, working with Diaspora can, according to the survey, significantly enable business connections in BH and coping with administrative barriers. Promotion of the new role for Diaspora could be effectively done by networking among national institutions and organizations in the field of FDI and Diaspora. However, foreign investment companies are not convinced by the idea that Diaspora could be appropriate channel for finding competent

management for investments or a tool for overcoming difficulties caused by corruption in the public sector. Foreign investors are also suspicious about the possibility of Diaspora's role in enhancement of acceptance of FDI in local communities in BH. Similarly, foreign investors do not support the idea of Diaspora's role in easier integration of employees in business operations. One of roles in which foreign investors do not prefer to use Diaspora is establishing management and operation system as well as monitoring and controlling investment projects. Finally, foreign investors also do not incline to the idea of using Diaspora in implementation of ethical business standards in offices in BH.

#### **4.2. Set of policy recommendations**

As mentioned earlier, four stakeholders were identified, among them FIPA as the key stakeholder, while primary stakeholder was MoHRR and secondary MoFTER and FIC. Proposed policy is grounded on a set of actions to be undertaken by these institutions, addressing two crucial problems at minimum, namely brain drain and decrease of FDI to BH. In some cases these institutions are recommended to cooperation and joining forces among themselves and also with other institutions for better utilization of BH Diaspora potential. Following text elaborates proposed policy recommendations intended to be carried out mainly through business networking, as policy option which only partially acquires institutional capacities and low budget resources, but affects both brain drain and FDI.

##### **4.2.1. Recommendations to FIPA**

The main reason why FIPA is selected as key stakeholder is that this agency deals with most aspects of encouraging FDI to BH. FIPA has no authority in working with Diaspora, but we see a great opportunity in broadening FIPA's scope and connecting FDI and Diaspora together. We believe that kind of approach will result in maximum utilization of FIPA's potential to contribute to FDI increase, as well as to the realization of BH growth potential. Following recommendations address FIPA:

- *Expanding the Law on FIPA* in the way that gives FIPA jurisdictions for working with Diaspora which will result in increasing FDI inflows to BH. Accordingly, FIPA, in cooperation with the Council of Ministers, needs to create Annex of the Law on FIPA and propose it to the Parliament for approval.
- *Mapping prospective supply of human capital and matching it with future FDI requirements*; investigating informational asymmetry and legislative / administrative / cultural barriers to foreign investors willing to invest; exploring Diaspora's trans-nationality and local context specific knowledge.
- *Developing instruments to support facilitation*; i.e. producing set of effective incentives to BH Diaspora to facilitate FDI inflows, such as facilitation costs reimbursements and state guarantees (financial support), key stakeholders involvement such as municipalities, universities, business associations (logistical support). This way role of mediator/scout from Diaspora should be made easily implementable for those investors looking for it.
- *Using all available data published by other institutions in order to connect with potential investors from Diaspora*, e.g. using "Diaspora Business Directory", prepared by MoHRR with the support of the Ministry of Foreign Affairs for the purpose of facilitating and promoting economic cooperation between business people from Diaspora and BH, ex-



change and dissemination of business information, promotion of investment in BH, as well as the promotion of business people from Diaspora.

- *Raising awareness about the importance of Diaspora in utilizing BH growth potential*, in cooperation with other state and non-governmental institutions, through diverse seminars, round tables and conferences. It is obvious, based on questionnaire results on the subject, that companies in BH (foreign investors) are not fully aware of Diaspora's potential. That is one of the consequences of general unawareness in the state (in both economic and educational sector), including lack of promotion of Diaspora as BH's benefit, within general and/or specific information about BH. Such promotion of diaspora is easy and inexpensive to conduct, inter alia, through FIPA and other institutions' web sites.

#### 4.2.2. Recommendations to MoHRR

Through its Sector for Diaspora, the Primary stakeholder, MoHRR, deals with Diaspora in several ways (some of which were explained earlier). Since this sector conducts numerous activities we propose it does monitoring and evaluation activities of programs and projects related to the subject of Diaspora and BH development.

Following recommendations refer to MoHRR:

- Undertaken activities such as *compilation and publication of "Diaspora Business Directory"* implemented by MoHRR should be broaden and deepened. Present edition of the business address directory of BH diaspora contains only 83 pieces of information about BH entrepreneurs in diaspora from only 22 countries. Considering the portion of migrated persons to BH population more efforts should be done in its compilation. We suggest expanding the "Diaspora Business Directory" by collecting data for at least 1.000 business people from BH Diaspora through establishing LinkedIn network which will be promoted to Diaspora by MoHRR.
- *Business address directory of BH diaspora should be distributed to foreign business representatives in BH and BH embassies*. That way, sharing information between Diaspora and foreign investors will increase.
- *Devoting more attention to cooperation with FIPA*. Due to the fact that migration and foreign investors' relations are in jurisdiction of MoHRR and FIPA, policy implementation considerably depends on the strategic document binding these two in joined actions for longer period of time. In that regard, strategic document should have the capacity of *memorandum of understanding* at minimum; and that includes the firm commitment to the detailed action plan introducing activities:
  - MoHRR's Establishing cooperation with migration networks, i.e. utilizing existing networks of BH Diaspora worldwide in terms of "who is who" guidance, promoting professional networks such as LinkedIn, business information exchange, focal points within MoHRR in regard to replying to Diaspora's concerns on establishing business relations with BH;
  - MoHRR's Analysis on migration profiles and interests; i.e. conducting a qualitative surveys and constructing profiles on BH business Diaspora; exploring Diaspora's interests in facilitating FDI inflows barriers and opportunities;
  - Through Ministry of Foreign Affairs (Department of Economic Diplomacy) and embassies, information about the investment opportunities in BH should be made easily accessible to potential investors, complete and up to date.

#### 4.2.3. Recommendations to MoFTER

MoFTER was identified as secondary stakeholder because we believe that, through its Sector for foreign trade policy and foreign investments' activities, it contributes to FDI increase and, consequently, to the development of BH. MoFTER is involved in many meetings and negotiations with representatives, business people and potential investors from other countries.

Although MoFTER is very active in the field of attracting foreign countries to BH, much attention is not given to Diaspora. Therefore, recommendations for MoFTER refer to utilizing Diaspora's potential, which is not negligible considering large part of BH population living abroad. More precisely, recommendations refer to organizing meetings, round tables and other ways of communication with Diaspora, especially business people and successful people who, if not themselves potential investors, usually represent an important channel for getting to know potential investors in their country.

#### 4.2.4. Recommendations to FIC

FIC aims to be the single voice of foreign investors in the country. Its mission is to promote pro-business initiatives and deliver practical support to all investors to improve the business environment in the country. FIC doesn't consider Diaspora as foreign investment facilitator in its recommendations. Considering that FIC works a lot on building communication and cooperation with BH authorities, we recommend the following:

- Inclusion of the question of non-exploitation of Diaspora's potential for attracting FDI. The Diaspora's potential could also be addressed and presented in the White Book's recommendations for BH authorities.
- Within its activities, FIC is to submit recommendations on draft laws and forms of legislative or regulatory documents which may relate to the purposes of the FIC. We recommend FIC to actively engage with FIPA in expanding the Law on FIPA in the way that gives FIPA jurisdictions for working with Diaspora what will result in increasing FDI inflows to BH.

#### 4.3. Concluding remarks

At this moment, some activities in the field are undertaken by state institutions in BH. Mapping academic Diaspora and its associations is done by the Ministry for Human Rights and Refugees. FIPA is also engaged in different activities aimed at FDI increase. FIC regularly publishes White Books on obstacles faced by FDI projects in BH. Survey conducted among foreign investors' representatives in BH revealed new information gaps related to investment process in BH. At the same time, the evidence suggests that Diaspora could be effective mechanism for FDI increase. Our policy paper designs some new roles for state institutions in order to further motivate FDI to BH. These new roles are presented in a set of policy options that utilize possibilities of Diaspora for the reduction in the information asymmetry foreign investors are exposed to. This research has also generated new knowledge related to the benefits for BH that can be obtained through strengthening business links between Diaspora and potential foreign investors.



## Appendices

**A.1.**  
Review results of the FIPA  
documents

	Keyword	No. of hits *	Explanation
1	Diaspora	6, 14	<p><b>Frequently Asked Questions</b> (1)** - One of the FIPA activities is improving of cooperation with B&amp;H Ministry of Foreign Affairs, diplomatic-consular networks and Diaspora on FDI promotion abroad.</p> <p><b>B&amp;H Tourism Sector</b> (1) - Number of foreign tourists in B&amp;H (from Diaspora) was 498.000,00 in 2011. (p. 8)</p> <p><b>FIPA Leaflet Forestry and Wood Industry</b> (1) - We expect, first of all successful business people from BiH Diaspora, particularly those with experience in the wood sector, to show interest in investment and involvement in the agents' network, as the opportunities to develop and improve their own business and also assist the development of BiH economy. (p. 1)</p> <p><b>FIPA Newsletter 101</b> (2) - The FIPA Director had a meeting with representatives of USAID led by Advisor for Diaspora. The meeting was focused on the role of the Diaspora in attracting FDI. (p. 6)</p> <p><b>FIPA Newsletter 96</b> (8) - Text about the first Diaspora investment in Prijedor.</p> <p><b>FIPA Newsletter 98</b> (14) - Prijedor hosted the first B&amp;H diaspora investment forum (p. 12)</p>
2	Migration	7, 9	<p><b>Investment opportunities in Bosnia and Herzegovina</b> (1) - Foreign investors are entitled to freely employ foreign nationals, subject to the labor and immigration laws in B&amp;H</p> <p><b>B&amp;H Agriculture and Food Processing Industry</b> (2) - Although before the war there was unused agricultural land because of migration of people from rural areas to towns and abroad, its amount greatly increased during the war. (p. 8) - Production of indigenous dairy products in Bosnia and Herzegovina has been preserved for centuries, in spite of numerous wars, displacement and frequent migration of population to the cities. (p. 32)</p> <p><b>Steps for Obtaining Work Permits in B&amp;H</b> (1) - The annual work permit quota is determined by the Council of Ministers of B&amp;H in accordance with the migration policy and the situation in the labor market. (p. 7)</p> <p><b>Cleansed text of the Labour Law of FBiH</b> - migration policy (1), immigration centre (19), immigration sector (1).</p> <p><b>FIPA Newsletter 97</b> (1) - The region of Eastern Herzegovina and Podrinje, despite these potentials, is the least developed region of RS, hence it is essential to raise engagement of people in order to transform this region from an area of constant emigration, to an area of quality life and comeback. (Conference DANI HERCEGOVINE, p. 11)</p>
3	Brain drain	0, 0	
4	Information asymmetry	0, 0	
5	Migration networks	0, 0	

\*First number in column "hits" shows in how many documents the key word is mentioned while the second number shows how many times the key word is mentioned in all documents together.

\*\*Number in brackets shows how many times the keyword is mentioned, e.g. in document Frequently Asked Questions.





### List of the reviewed documents:

1. Investment Opportunities in Bosnia and Herzegovina, FIPA, Sarajevo, 2013.
2. Frequently Asked Questions, FIPA, Sarajevo, 2013.
3. B&H Military Industry - document can't be open
4. Bosnia and Herzegovina Metal Sector, FIPA, Sarajevo, 2013.
5. Bosnia and Herzegovina Agriculture and Food Processing Industry, FIPA, Sarajevo, 2013.
6. Bosnia and Herzegovina Information and Communication Technologies Sector, FIPA, Sarajevo, 2013.
7. Bosnia and Herzegovina Automotive Industry, FIPA, Sarajevo, 2013.
8. Bosnia and Herzegovina Beverage Industry, FIPA, Sarajevo, 2013.
9. How to Establish a Business in Bosnia and Herzegovina, FIPA, Sarajevo, 2013.
10. Steps for Obtaining Work Permits in Bosnia and Herzegovina, FIPA, Sarajevo, 2013.
11. Bosnia and Herzegovina Tax System, FIPA, Sarajevo, 2013.
12. Bosnia and Herzegovina Tourism Sector, FIPA, Sarajevo, 2013.
13. Bosnia and Herzegovina Energy Sector, FIPA, Sarajevo, 2013.
14. Bosnia and Herzegovina Forestry and Wood Industry, FIPA, Sarajevo, 2013.
15. Bosnia and Herzegovina Textile and Footwear Industry, FIPA, Sarajevo, 2013.
16. FIPA Leaflet
17. FIPA Leaflet Automotive Industry
18. FIPA Leaflet Administrative and Territorial Organization Of B&H
19. FIPA Leaflet Energy Sector
20. FIPA Leaflet Agriculture and Food Processing Industry
21. FIPA Leaflet ICT Sector
22. FIPA Leaflet Metal Sector
23. FIPA Leaflet Tourism
24. FIPA Leaflet Textile, Clothing, Leather and Footwear Industry
25. FIPA Leaflet Forestry and Wood Industry
26. Cleansed text of the law on the policy of foreign direct investment in Bosnia and Herzegovina
27. Cleansed text of the law on foreign investments in the Republica Srpska
28. The law on foreign investments
29. Law on amending the law on foreign investments
30. Law on Companies of FBiH - EXCERPT
31. Law on Company of Republic of Srpska - EXCERPT
32. Law on Value Added Tax
33. Instruction on conditions for and methods of VAT refund to foreign persons
34. Law on Corporate Income Tax of FBiH
35. Law on Corporate Income Tax of RS
36. Law on Amending of the Law on Corporate Income Tax of RS
37. Law on Free Trade Zones of BiH
38. Law on Free Zones of RS
39. Law on Free Zones of FBiH
40. Law on Amending of the Law on Free Zones of FBiH
41. Framework Law on Registration of Business Entities of BiH
42. Law on Registration of Business Entities of RS
43. Law on Registration of Business Entities of FBiH
44. Excerpt from the Decision on Establishment and Work of Foreign Representative Offices of BiH

45. Cleansed text of the Labor Law of FBiH
46. Labour Law of RS
47. Law on Movement and Stay of Aliens and Immigrants of BiH
48. Customs Policy Law of BiH
49. FIPA Newsletter 81
50. FIPA Newsletter 82
51. FIPA Newsletter 83
52. FIPA Newsletter 84
53. FIPA Newsletter 85
54. FIPA Newsletter 86
55. FIPA Newsletter 87
56. FIPA Newsletter 88
57. FIPA Newsletter 89
58. FIPA Newsletter 90
59. FIPA Newsletter 91
60. FIPA Newsletter 92
61. FIPA Newsletter 93
62. FIPA Newsletter 94
63. FIPA Newsletter 95
64. FIPA Newsletter 96
65. FIPA Newsletter 97
66. FIPA Newsletter 98
67. FIPA Newsletter 99
68. FIPA Newsletter 100
69. FIPA Newsletter 101
70. FIPA Newsletter 102
71. Information for investors: Starting a Business in BiH
72. Information for investors: Operating a Business in BiH
73. Information for investors: Working and Living in BiH
74. Information for investors: Incentives for Investors
75. Information for investors: Essential Data and Statistics



**A.2.**

Questionnaire: Information asymmetry of foreign investors, existing and new B&H policies in working with Diaspora

**QUESTIONNAIRE FDI.01**

**1. General information about the foreign investor**

<b>1.01</b>	Number of employees in our company is	<input type="checkbox"/> 1-49	<input type="checkbox"/> 50-249	<input type="checkbox"/> 250 and more	
<b>1.02</b>	We are present in B&H since	<input type="text"/> year			
<b>1.03</b>	We primary operate in the area of	<input type="checkbox"/> Agriculture, forestry and fishing	<input type="checkbox"/> Extraction of ore and stone	<input type="checkbox"/> Manufacturing	
		<input type="checkbox"/> Production and supply of electricity, gas, steam and air conditioning supply	<input type="checkbox"/> Water supply, sewerage, waste management and remediation activities	<input type="checkbox"/> Construction	
		<input type="checkbox"/> Wholesale and retail trade, repair of motor vehicles and motorcycles	<input type="checkbox"/> Transportation and storage	<input type="checkbox"/> Accommodation and food service activities	<input type="checkbox"/> Information and communication
		<input type="checkbox"/> Financial and insurance activities	<input type="checkbox"/> Real estate activities	<input type="checkbox"/> Professional, scientific and technical activities	<input type="checkbox"/> Administrative and support service activities
		<input type="checkbox"/> Public administration and defense, compulsory social security	<input type="checkbox"/> Education	<input type="checkbox"/> Human health and social work activities	<input type="checkbox"/> Arts, entertainment and recreation
		<input type="checkbox"/> Other service activities	<input type="checkbox"/> Activities of households as employers; undifferentiated goods-and services-producing activities of households for own use	<input type="checkbox"/> Activities of extraterritorial organizations and bodies	

**2. Evaluation of the existing investment conditions and availability of information for attracting foreign direct investments to B&H**

<b>2.01</b>	Investing in B&H has been done by	<input type="checkbox"/> Building new production capacities (Greenfield)	<input type="checkbox"/> Joint business venture (part of our resources, and part from the existing BH company)	<input type="checkbox"/> Takeover, privatization, acquisition
<b>2.02</b>	Our decision about investing in B&H has been made based on	<input type="checkbox"/> Previously developed strategy of appearance in foreign markets (internationalization)	<input type="checkbox"/> Personal acquaintance with BH Diaspora in the country our company is coming from	<input type="checkbox"/> Information about the benefits of investing in B&H received from the B&H Embassy (or any other official body) in the country our
		<input type="checkbox"/> The tender for privatization	<input type="checkbox"/> Engaging the professional agent/mediator	
	Other, specify:	<input type="text"/>		

Express the level of agreement with the following statements (2.01 – 2.10)		1 – I don't agree at all					7 – I agree completely		
If the statement doesn't apply to you, circle number 99!		1	2	3	4	5	6	7	99
<b>2.03</b>	Before the realization of the investment in B&H, we'd had enough general information about that country (culture, population, traditions, education, work habits, level of corruption, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.04</b>	Global reports of the economy state, competition, corruption, etc., are very useful in the process of making decisions about investing in B&H.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.05</b>	Information from the B&H institutions for incentive/promotion of foreign direct investments (FIPA, FIC, etc.) are very useful in the process of making decision about investing in B&H.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.06</b>	Gatherings of embassies and chambers of commerce as well as discussions with existing investors are very useful when making decision about investing in B&H.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.07</b>	For gathering information we've used exclusively our own scouts/mediators, who have personally gathered information and negotiated on our behalf.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.08</b>	Without locally relevant information and local contacts investing in B&H is extremely difficult to obtain.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.09</b>	Information about tax policy has been crucial for making decision to invest in B&H.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2.10</b>	Information about corruption, obstacles for starting a business, bureaucratic barriers and obtaining permission has significantly affected our considerations regarding the investing in B&H.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



2.11	Direct contacts and information on land availability, business zones, contacts for registration and issuing licenses have significantly helped implementation of our	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.12	We consider that the process of making investment decision and obtaining the relevant information is extremely expensive for starting a business in B&H.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.13	Business experience in B&H shows us that, when a need for new highly qualified employees arises (engineers, economists, etc.), it's very hard to find them through local labor markets.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.14	We haven't been able to acquire specific information on business in B&H (administration efficiency, state structures competence in the business sphere, tax rates, the state of traffic and transport networks, the prices of individual services such as notaries, lawyers, accountants; the level of contributions, other financial obligations towards the state, etc.) in the country our	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO				
2.15	In order to improve our own awareness about B&H, we've discussed, visited or contacted in any other way, persons from BH Diaspora in the country our company is	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO				
2.16	<p><i>Instruction for the interviewer: if the answer to the previous question was yes, ask the following question:</i></p> <p>That way, we got the information about B&amp;H which have been useful when making decisions about investing in that country, particularly:</p>	<input type="checkbox"/>	General information (culture, population, traditions, education, work habits, level of corruption, etc.)	<input type="checkbox"/>	Specific information (administration efficiency, state structures competence in the business sphere, tax rates, the state of traffic and transport networks in the locality of investment implementation, the prices of individual services such as notaries, lawyers, accountants, and the level of contributions, other financial obligations towards the				
2.17	After we spent some time in B&H as an investor, our initial general information about that country, with which we've came to B&H, have been confirmed and proved to be accurate.	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO				
2.18	After we spent some time in B&H as an investor, our initial specific information about that country, with which we've came to B&H, have been confirmed and proved to be accurate.	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO				
2.19	We have compared total information we possessed about B&H, general and specific, to similar information about other countries in the region, and then we made the final decision about investment.	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO				

2.20	When a need for new highly qualified employees (engineers, economists, etc.) arises in our company in B&H, first we consider the possibility of:	<input type="checkbox"/> Employment of the local workforce because of its significantly cheaper wage and knowledge of the local regulations	<input type="checkbox"/> Employment of the workforce with the same qualifications but from the country our company is coming from
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**3. Guidelines for the mitigation of information asymmetry policies**

<i>Express the level of agreement with the following statements</i>		<i>1 – I don't agree at all</i>					<i>7 – I agree completely</i>		
<i>If the statement doesn't apply to you, circle number 99!</i>		1	2	3	4	5	6	7	99
3.0 1	Communication with local authorities and the business sector through the engagement of BH Diaspora would significantly facilitate the process of gathering information and initiating investments in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 2	Engagement of BH Diaspora for helping with the registration of foreign companies in B&H would significantly reduce the information gap (i.e. the lack of information about business in BH) and facilitate new FDI in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 3	Promotion of the BH Diaspora engagement for gathering initial information about the opportunities for successful investment in BH would significantly encourage and stimulate new foreign direct investments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 4	Networking of national institutions for the promotion of FDI in BH (FIPA, relevant ministries, etc.) with BH Diaspora in the world can be an effective mechanism for attracting new FDI.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 5	On the basis of our own investment experience in Bosnia, we can say that the network which connects BH Diaspora and potential foreign investors could facilitate many problems associated with the lack of sufficient general and specific information necessary for investing in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b><i>Understanding the local context and business start up</i></b>									
3.0 6	Working with Diaspora significantly enables business matchmaking in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 7	Diaspora can be engaged to overcome administrative barriers (registration, licenses, etc.).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 8	Diaspora can enable optimal way for finding adequate management for investment in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.0 9	Through Diaspora, barriers related to corruption in the public sector, can be partly bridged when conducting a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.1 0	Diaspora enhances the acceptability of business by the local community / population in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.1 1	Diaspora can serve in capacity developing among employees to integrate in business operations more easily.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



<b>3.1</b> <b>2</b>	Diaspora can significantly improve operating and management system constructing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>3.1</b> <b>3</b>	Through Diaspora engagement it's easier to implement ethical business standards in office in BH.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>3.1</b> <b>4</b>	Diaspora can be used for monitoring and controlling of the investments and foreign investors business operating.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**A.3. Statistics Report****Table A.3.1**

Percentage of responses to questions given by foreign investors (in %)

Legend: R- response, 1-Completely agree, 7-Completely disagree, 8-does not apply to an investor

R	3.01	3.02	3.03	3.04	3.05	3.06	3.07	3.08	3.09	3.10	3.11	3.12	3.13	3.14
1	5	2,5	0	2,5	0	0	12,5	2,5	20	10	10	7,5	10	5
2	0	7,5	5	2,5	2,5	10	12,5	20	15	12,5	10	15	5	15
3	15	20	10	7,5	7,5	10	7,5	7,5	10	15	12,5	15	7,5	7,5
4	17,5	20	22,5	17,5	17,5	12,5	12,5	17,5	15	15	12,5	17,5	20	27,5
5	15	7,5	7,5	25	17,5	10	12,5	7,5	12,5	10	15	5	7,5	2,5
6	7,5	5	10	10	12,5	20	10	12,5	7,5	12,5	12,5	12,5	17,5	15
7	30	22,5	27,5	27,5	27,5	25	22,5	17,5	7,5	12,5	17,5	15	17,5	17,5
8	10	15	17,5	7,5	15	12,5	10	15	12,5	12,5	10	12,5	15	10

**Table A.3.2**

General and specific information, confirmation, comparison (in %)

R	Q2.03	Q2.04	Q2.05	Q2.06	Q2.07	Q2.08	Q2.09	Q2.10	Q2.11	Q2.12	Q2.13
1	2,5	0	12,5	12,5	15	7,5	22,5	10	12,5	5	27,5
2	2,5	5	15	17,5	2,5	5	15	10	5	7,5	10
3	12,5	15	12,5	5	10	10	10	15	15	7,5	15
4	5	15	15	12,5	2,5	5	17,5	10	7,5	10	20
5	10	5	7,5	10	12,5	12,5	0	5	22,5	15	17,5
6	15	20	10	5	12,5	17,5	2,5	12,5	10	15	5
7	47,5	35	17,5	22,5	30	40	25	27,5	22,5	30	2,5
8	5	5	10	15	15	2,5	7,5	10	5	10	2,5

**Table A.3.3**

Mitigation of information asymmetry policies

Question	Response	Response	
		YES	NO
2.17	After we spent some time in B&H as an investor, our initial general information about that country, with which we've come to B&H, have been confirmed and proved to be accurate.	80	20
2.18	After we spent some time in B&H as an investor, our initial specific information about that country, with which we've come to B&H, have been confirmed and proved to be accurate.	77,5	22,5
2.19	We have compared total information we possessed about B&H, general and specific, to similar information about other countries in the region, and then we made the final decision about investment.	65	35





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