

INVESTMENT OPPORTUNITIES IN BOSNIA AND HERZEGOVINA

2011

FIPA



FOREIGN INVESTMENT PROMOTION AGENCY
OF BOSNIA AND HERZEGOVINA

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FOREWORD

Bosnia and Herzegovina (B&H) is a forward-moving country that has achieved astonishing progress in improving the business climate. It lies in the very heart of South Eastern Europe and on the crossroads between Europe, the Middle East and Northern Africa.



B&H has become an ideal location to invest in, with numerous investment opportunities in various sectors. B&H's economy remains one of the fastest growing in Europe, offering potential investors significant opportunities of penetration into a wider regional market and of running their business on the world scale, since B&H is the signatory of the Central European Free Trade Agreement (CEFTA), which provides free access to this consumer market with 50 million people. B&H also has free trade agreements with Turkey, generalized system of preferences with the European Union, USA, Switzerland, Norway, Japan and New Zealand, as well as preferential export regime with Iran.

Therefore, starting a business in Bosnia and Herzegovina means the opportunity of exporting to a market of over of app. 600 million people without paying any customs duties!

Bosnia and Herzegovina has achieved a satisfactory political stability that guarantees security for your capital and your business. The main goal of Bosnia and Herzegovina is EU membership; B&H is a potential candidate country for EU accession. In this respect, it is worth mentioning that B&H has signed the Stabilization and Association Agreement (SAA) with the EU, establishing formal contractual relations between the EU and B&H. Until the ratification process of the SAA is completed by all the EU member states, the Interim Trade Agreement with EU is in force.

The improvement of the business environment in B&H and creation of a favourable climate for foreign investments are the key features of economic development of B&H.

Constant growth of FDI clearly indicates that foreign investors and businessmen have already identified many opportunities for making profit in B&H.

In order to encourage foreign investors and contribute to the predictable business environment, the Council of Ministers of B&H established the Foreign Investors Support Fund as a financial incentive for foreign investors.

I believe this brochure will help you get better acquainted with the business environment and economic potentials of B&H. In this regard, you can expect full support from the Council of Ministers of B&H, through its Foreign Investment Promotion Agency (FIPA) that stands firmly at your disposal in the process of identification and taking advantage of investment opportunities offered by B&H.

*We wish you a lot of success in your intention to run your business in
and with Bosnia and Herzegovina!*

Chairman of Council of Ministers of B&H

Dr. Nikola Špirić, m.p.

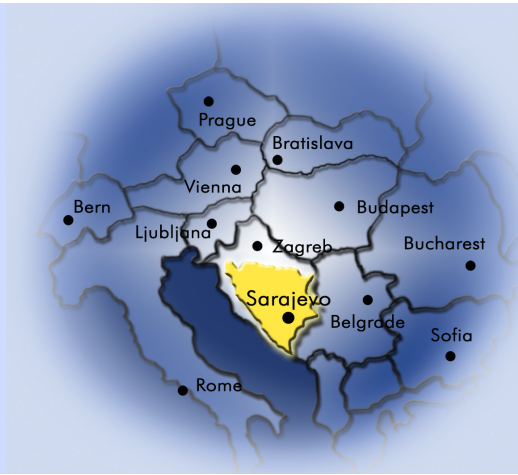


FOREIGN INVESTMENT PROMOTION AGENCY
OF BOSNIA AND HERZEGOVINA





BOSNIA AND HERZEGOVINA KEY FACTS



Official name:	Bosnia and Herzegovina (locally Bosna i Hercegovina, most commonly abbreviated as B&H)
Capital city:	Sarajevo (population 400,000)
Other major cities:	Banja Luka, B&Hac, Mostar, Tuzla, Zenica
Geographic location:	South Eastern Europe, borders with Croatia (932km), Serbia (312km) and Montenegro (215km).
Area:	51,209 km ²
Population:	3.84 million (estimation)
Religions:	Islam, Orthodox Christian, Roman Catholic, others
Ethnic groups:	Bosniaks, Serbs, Croats and others
Languages:	Bosnian, Serbian, Croatian (all official)
Administrative organisation:	Two entities (Federation of B&H and Republic of Srpska) and Brčko District of B&H
Government structure:	B&H is a parliamentary democracy with a bicameral parliament (House of Representatives and House of Peoples), three-member rotating presidency, Council of Ministers, and Constitutional Court
GDP:	12.5 billion EUR (2010)
GDP per capita:	3,258 EUR (2010)
Currency:	Konvertibilna Marka (BAM-official; KM-common use)

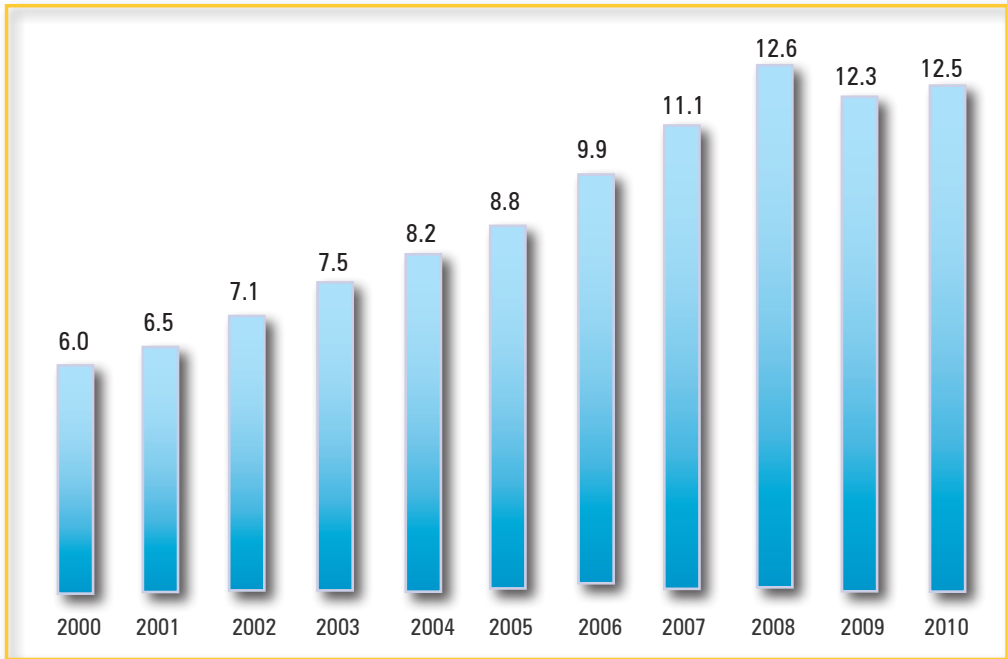
Exchange rate:	1 EUR = KM 1.95 (fixed exchange rate)
Landforms:	A very hilly country with the Dinaric Alps dominating the landscape. The highest point, Mt. Maglić, rises to 2,387m. Thick forests cover almost 50% of the land. In the north, along the Sava River valley, a hilly, fertile plain stretches east to west. The country has 20 km of coastline in the southwest of the country, providing access to the Adriatic Sea.
Climate:	Winters can be very cold with a lot of snow, especially in the hills and mountains. Summers are generally warm and comfortable, occasionally hot. Cooler temperatures in higher elevations.
Latitude/longitude:	44° N, 18° E
Time zone:	CET (GMT + 1 hour)
Internet domain:	.ba
Int. telephone code:	+387

GENERAL ECONOMIC INDICATORS

Indicators	2004	2005	2006	2007	2008	2009	2010
Nominal GDP (billion EUR)	8.2	8.8	9.9	11.1	12.6	12.3	12.5
GDP per capita (EUR)	2,122	2,283	2,564	2,898	3,289	3,194	3,258
Real GDP growth rate (%)	6.3	3.9	6.0	6.2	5.7	-2.9	0.7
Average net wages (EUR)	258	275	300	322	385	404	408
Annual inflation rate (%)	0.4	3.8	6.1	1.5	7.4	-0.4	2.1
Annual unemployment rate (%)	43.2	43.0	31.0	29.0	23.4	24.1	27.2
Foreign currency reserves (million EUR)	1,779	2,160	2,787	3,425	3,219	3,176	3,301
Trade balance (billion EUR)	-3.68	-3.96	-3.41	-4.14	-4.82	-3.48	-3.33
Flows of FDI (million EUR)	412	282	442	1,329	684	180	174
FDI contribution to GDP (%)	5.0	3.2	4.5	12.0	5.4	1.4	1.4
Deposits of households in Commercial Banks, million EUR	1,273	1,629	2,097	2,641	2,662	2,895	3,318
Population (in million)	3.84	3.84	3.84	3.84	3.84	3.84	3.84

Source: Agency for Statistics of B&H, Central Bank of B&H

NOMINAL GDP, BILLION EUR

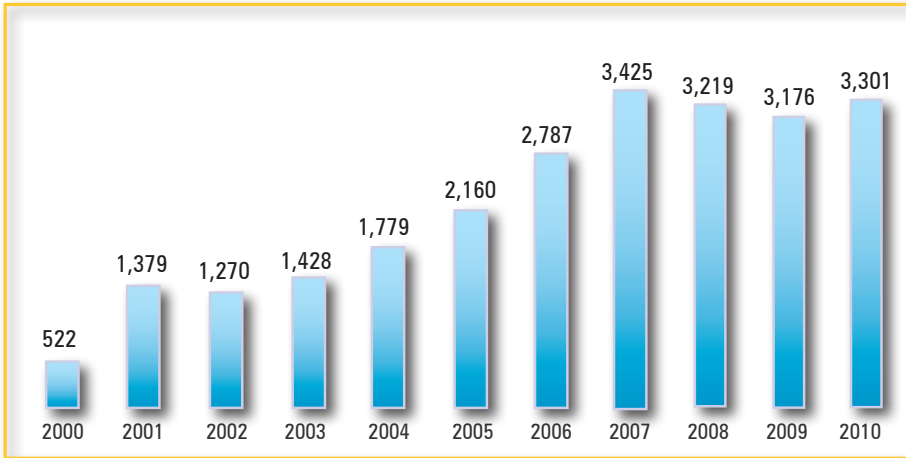


Source: Agency for Statistics of B&H

Gross Domestic Product (GDP) has been rising for years with average real growth rate of 5 %. Negative effects of the global financial and economic crisis on B&H economy peaked in 2009. Slight progress was achieved in 2010, and GDP growth rate was 0.7%

World economy recovery in 2011 will lead to the growth of B&H economy which is projected to be at the level of 3 % in 2011 (according to IMF estimation), while full recovery is expected in 2012.

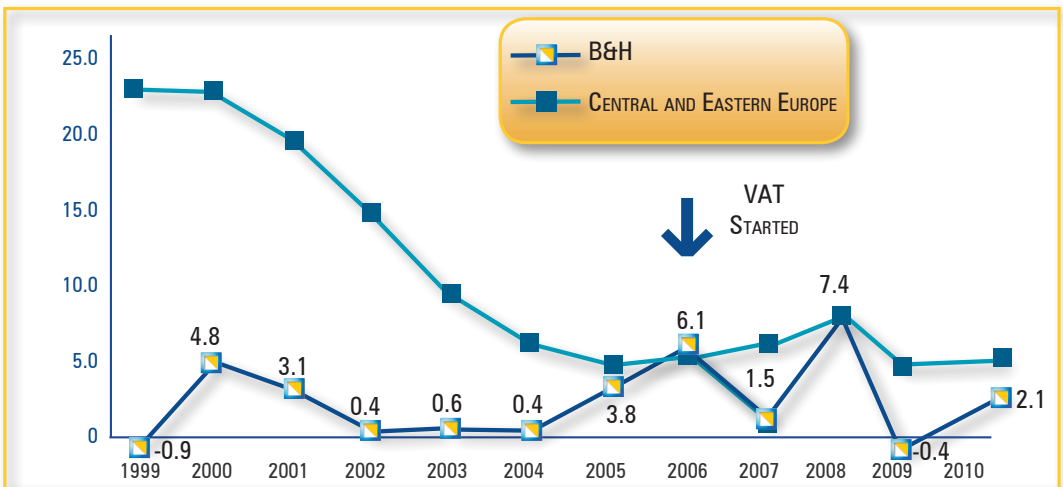
FOREIGN CURRENCY RESERVES, MILLION EUR



Source: Central Bank of B&H

In the previous period, the foreign currency reserves had a trend of increase year after year with a rate higher than 20%. In 2008 the foreign currency reserves have decreased as a result of the undertaken interventions to ease the negative repercussions of the financial crisis. In 2009 the foreign exchange reserves have stayed at the approximately same level, and slight progress was achieved in 2010.

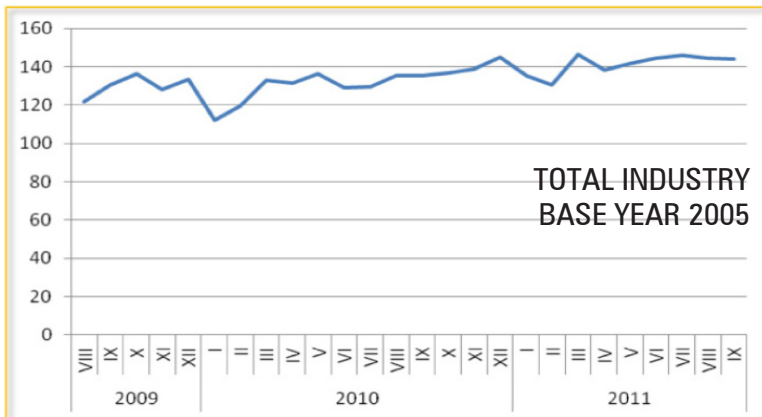
ANNUAL INFLATION RATE, %



Source: Agency for Statistics of B&H, International Monetary Fund

For years B&H had extremely low inflation rate. As the prices in B&H depend on the trends of prices at the global market, enormous growth of the oil prices in the period of global crisis influenced increase in prices of all products and services in 2008. The stabilization of the prices of oil and food had an impact on the reduction of prices in B&H, evident by considerably price slowdown and noted deflation in 2009. As it was expected inflation is stabilised in 2010.

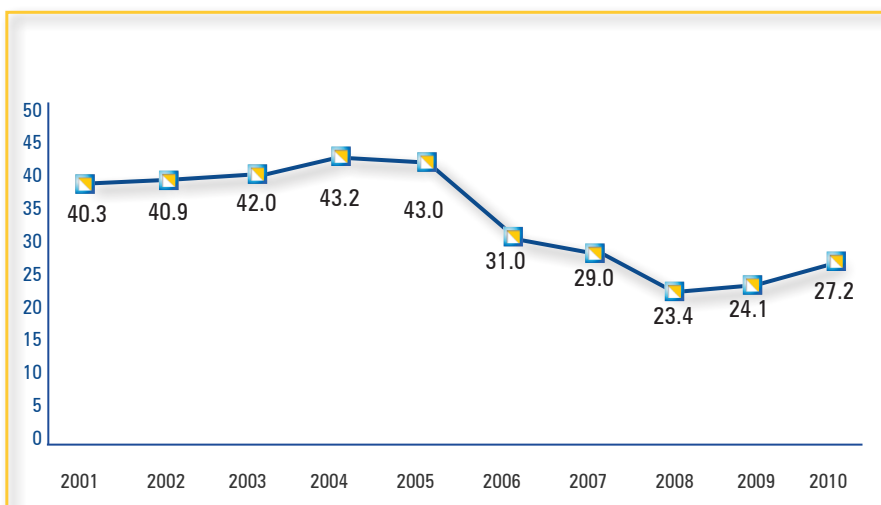
VOLUME INDEX OF INDUSTRIAL PRODUCTION IN B&H



Source: Agency for Statistic of B&H

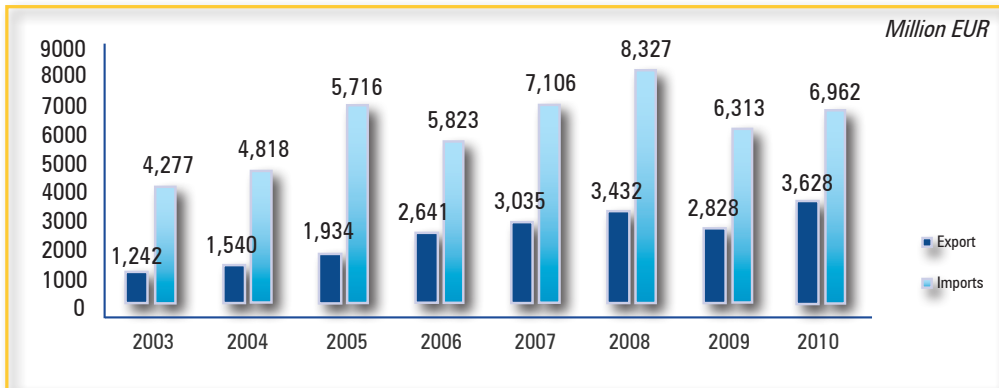
Growth trend in industrial production in B&H is determined by the effects of internal and external factors. The industrial production in B&H, consisting mostly of the processing industries, is considerably export-oriented, therefore the conditions on foreign markets have the primary role. Besides decrease in 2009, slight recovery in the previous year is positive sign for future industrial production growth rate. In September 2011, the rate of change in cumulative production, relative to the same period of 2010 was 6.9% (Source: Agency for Statistic of B&H).

ANNUAL UNEMPLOYMENT RATE, %



Source: Agency for Statistics of B&H

EXTERNAL TRADE STATISTICS



Source: Agency for Statistics of B&H

EXTERNAL TRADE IN 2010

PRODUCT GROUPS - SITC	EXPORT (MILL EUR)	SHARE IN TOTAL EXPORT (%)	IMPORTS (MILL EUR)	SHARE IN TOTAL IMPORT(%)
Food and Live animals	224	6%	952	14%
Beverages and tobacco	28	1%	226	3%
Crude materials, except fuels	463	13%	243	3%
Mineral fuels and lubricants	564	16%	1,343	19%
Animal and vegetable oils and fats	28	1%	43	1%
Chemicals	187	5%	840	12%
Manufactured goods classified chiefly by material	931	26%	1,365	20%
Machinery and transport equipment	430	12%	1,290	19%
Miscellaneous manufactured articles	773	21%	660	9%
Commodities and transactions, n.e.c.	1	-	1	-
Total	3,628	100%	6,962	100%

SITC - Standard International Trade Classification
Source: Agency for Statistics of B&H

Compared to the 2009 trade deficit is reduced, but it is still one of the challenges of B&H's economy. The trade balance in 2010 was -3.33 billion EUR. Compared to 2009, exports increased by 28.3% and imports by 10.2%.

In order to eliminate a trade deficit The Government support export oriented companies through the additional incentives.

COUNTRIES, 2010	Exports (in 000 EUR)	Imports (in 000 EUR)
Developed Countries	2,123,570	3,787,392
EU Countries	1,978,654	3,196,329
EFTA Countries	86,159	49,569
Other Developed Countries	58,757	541,493
Developing Countries	1,463,486	3,167,531
European Developing Countries	1,326,725	2,509,868
African Developing Countries	72,373	14,343
Asian Developing Countries	63,331	460,662
American Developing Countries	1,053	182,608
Oceanian Developing Countries	4	50
Not classified	40,817	6,932
TOTAL	3,627,874	6,961,855

Source: Agency for Statistics of B&H

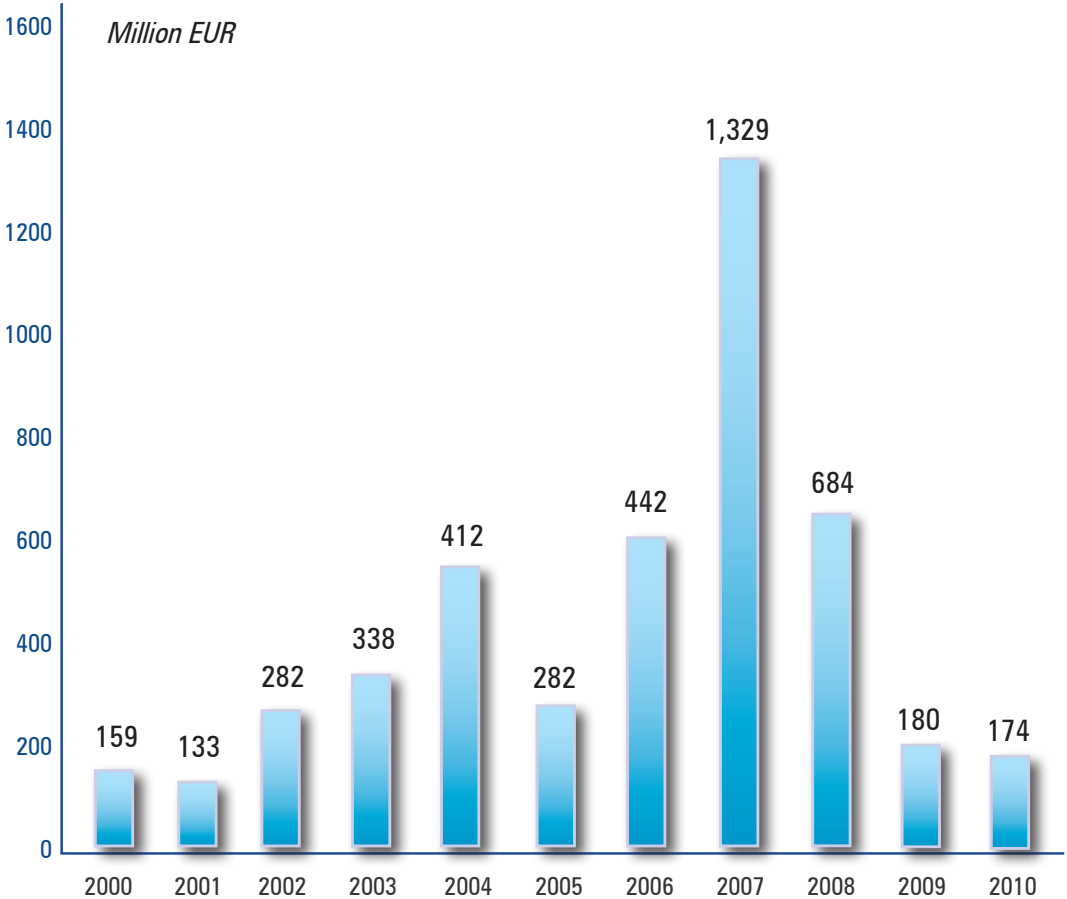
MAJOR FOREIGN TRADE PARTNERS (IN 000 EUR)

COUNTRY	SHARE	2009	SHARE	2010
Total	100%	9,141,307	100%	10,589,729
CROATIA	15.65	1,430,440	15.11	1,600,125
GERMANY	12.35	1,129,286	12.12	1,283,822
SERBIA	11.32	1,034,759	11.22	1,188,371
ITALY	10.87	994,117	10.01	1,059,608
SLOVENIA	6.83	624,782	6.86	726,339
RUSSIAN FED.	4.98	455,310	5.92	627,354
AUSTRIA	4.36	398,700	4.63	490,670
CHINA	3.14	286,956	3.20	338,974
HUNGARY	2.76	252,034	2.62	277,608
USA	1.94	176,894	2.43	257,734
TURKEY	2.34	214,063	2.22	235,535
FRANCE	2.02	184,942	1.74	184,111
MONTENEGRO	1.41	137,127	1.71	181,366
CZECH REP.	1.85	168,894	1.70	180,012
POLAND	1.67	152,523	1.57	166,712
TOP 15	83.61	7,640,829	83.08	8,798,341

Source: Agency for Statistics of B&H

FOREIGN DIRECT INVESTMENT IN B&H

Total FDI amount 4.9 billion EUR (stock)



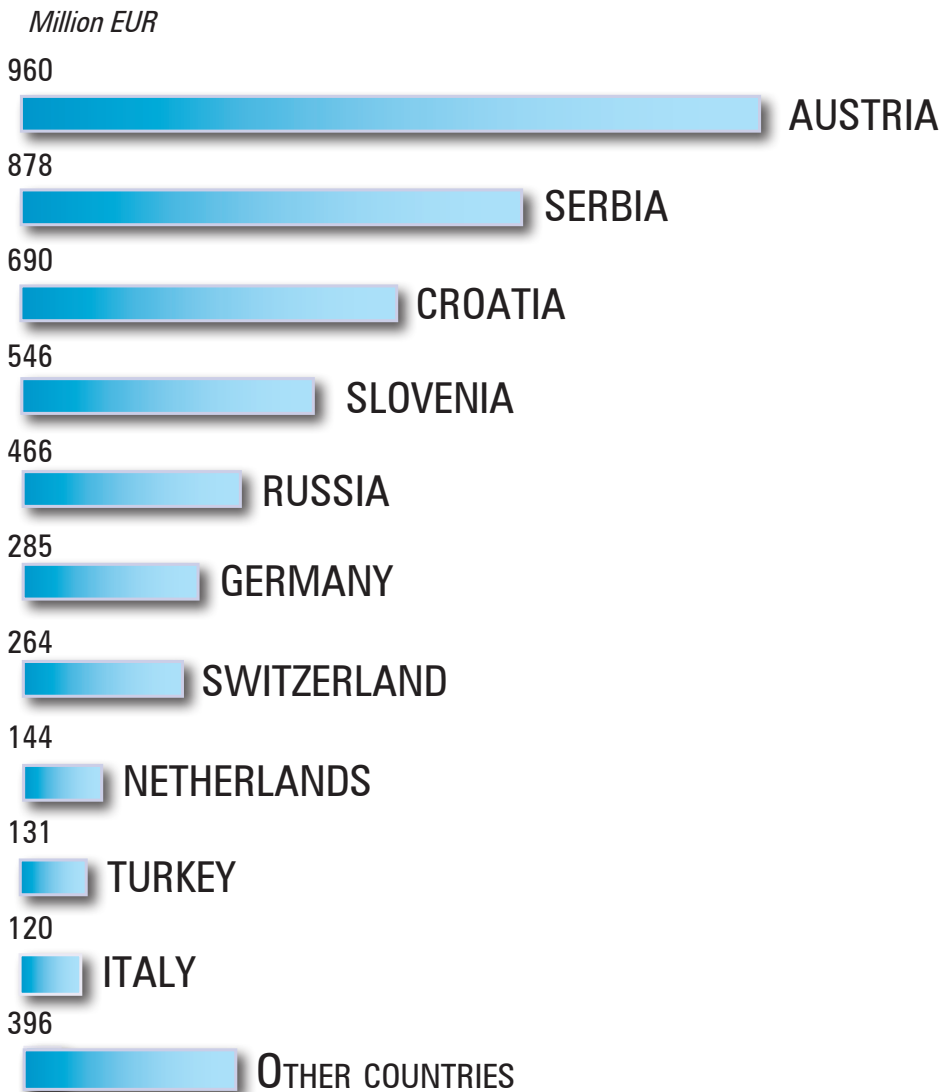
Source: Central Bank of BiH 2004 - 2010, FIPA estimation 2000 - 2004

Note: Values present Flow of foreign direct investment in BiH (including inflow and outflow of assets and liabilities of FDI in BiH)

In 2007 we attracted 1.3 billion € which is absolutely the highest amount recorded in the last 15 years mainly thanks to the privatization of certain large state-owned enterprises. In 2008 FDI inflow was 684 mill €, without the expected privatization, can be considered as satisfied, especially if we take into account its positive structure (investment in production sector and high contribution of Greenfield investments). In 2009 and 2010 the global economic crisis hit the inflow of FDI.

Data for 2011 confirm a slight recovery, while the announced investments and planned projects make us optimistic regarding future FDI.

TOP INVESTOR COUNTRIES IN B&H (1994 - 2010)

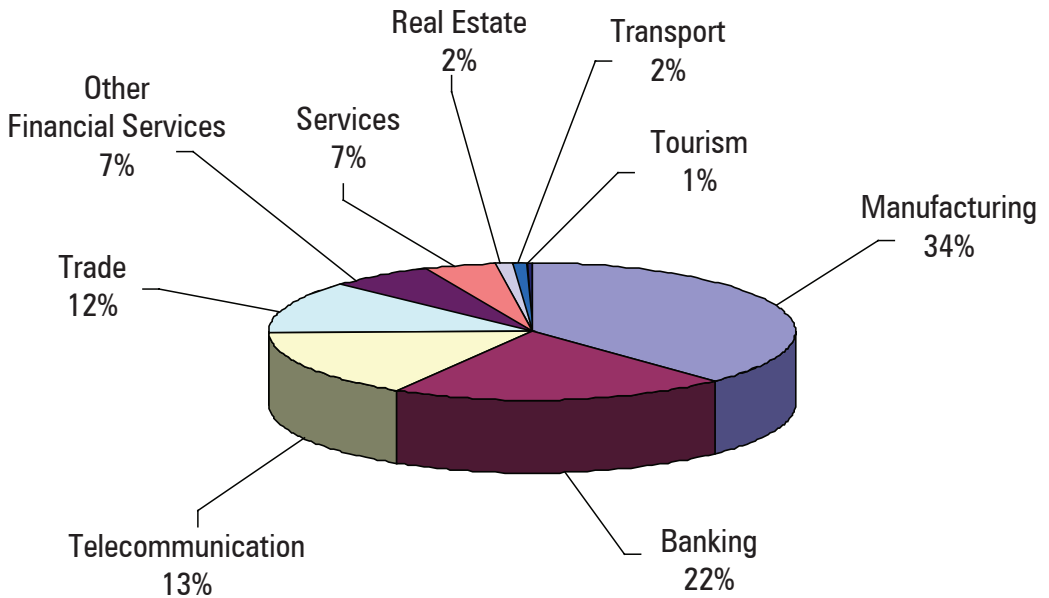


Source: Central Bank of BiH

The capital of foreign investors, from 91 countries, was invested in B&H, in the period from May 1994 to December 2010. European countries have invested more than 90% of total FDI in B&H. The most investment was realized by the companies from Austria 19.6%, Serbia 17.9%, Croatia 14.1%, Slovenia 11.1%, Russia 9.5%, Germany 5.8%, Switzerland 5.4%, Netherland 2.9%, Turkey 2.7% and Italy 2.5%.

FOREIGN DIRECT INVESTMENT IN B&H BY SECTORS TOTAL AMOUNT 4.9 BILLION EUR

(MAY 1994 – DECEMBER 2010)



Source: Central Bank of B&H, Ministry of Foreign Trade and Economic Relations, FIPA

Due to the good reputation and long industrial tradition of B&H, the manufacturing sector received the most amount of FDI. The biggest share of investment is in the production (34%) and banking (22%) sectors.

In the forthcoming period there is a plan to conduct the privatisation of the state-owned companies. Additional enormous investments are expected in the energy sector through construction of new and revitalisation of the existing facilities and plants.

WHY INVEST IN BOSNIA AND HERZEGOVINA?

1. ENVIRONMENT FOR INVESTMENT

B&H's accelerated Economic Reform Process has contributed significantly to a greatly improved business climate. As a result, B&H has recorded the fastest growth of business in all of South Eastern Europe.

The aim of B&H is to eliminate legal and administrative obstacles for doing business in B&H, as well as create the most attractive business environment in the SEE.

The main goal of B&H is EU membership. Bosnia and Herzegovina is a potential candidate country for EU accession. Bosnia and Herzegovina has signed the Stabilization and Association Agreement with the European Union, which is a step toward EU membership.

Bosnia and Herzegovina has signed the Central European Free Trade Agreement (CEFTA), creating a free trade zone with access to a large consumer market. Also, the process of negotiation to join the World Trade Organisation is underway.



„There are many reasons why investing in Bosnia and Herzegovina is an attractive option for foreign companies. I believe it should be that investing in Bosnia and Herzegovina, is a clever way of investing in Southeast Europe.”

High Representative and EU Special Representative,
Valentin Inzko

2. FINANCIAL STABILITY

Bosnia and Herzegovina has the most stable currency in South Eastern Europe, which is directly linked to the Euro. The country also has the lowest inflation in the region and privatization of the banking sector is almost completed. 98% of the capital is privately owned, of which 83% is foreign private capital.

B&H was assigned B+ credit rating by Standard & Poor's Agency and B2 sovereign credit rating by Moody's Investors Service. Unfortunately, in 2011, both sources revised the outlook from stable to negative while the sovereign credit rating has not been changed.

"The banking sector of B&H is completely developed and offers the full range of banking services. In conjunction with the Central Bank of B&H, this creates a sound base for the financial stability of the country."

Kemal Kozarić, Governor of the Central Bank of B&H

3. PRIVATIZATION

Great investment opportunities in Bosnia and Herzegovina are in the process of privatization. Privatization in Bosnia and Herzegovina is an overall process, through which attractive investment opportunities are opened up to foreign investors in sectors such as the energy sector and telecommunications. Bosnia and Herzegovina is accelerating the privatization process for companies of strategic importance in order to increase economic growth and enhance the volume of foreign investment.

In the Federation of B&H, the privatization process is conducted by the Agency for Privatization of FB&H and by cantonal privatization agencies, while in the Republic of Srpska it is the responsibility of the Investment and Development Bank of RS.

State owned capital in the enterprises dealing with generation and distribution of electricity, railway traffic, telecommunications, water supply, mining, forestry, public media, games of chance, arms industry and military equipment, and in other enterprises of strategic importance, is privatized in accordance with this law, but under special Government privatization programs.

Nevertheless, a number of these "strategic enterprises", which includes large enterprises, telecommunications and power utilities sectors, public utilities, mines, etc, are not still privatized, presenting a choice of opportunities for potential foreign investors.

Domestic and foreign natural persons and legal entities may be buyers in the privatization process.

Privatization of strategic companies is underway. Privatization of state monopolies: telecoms, energy: utilities – electricity, etc. has started.

For more information see:

- ▶ Investment and Development Bank of Republic of Srpska
www.irbrs.net
- ▶ Agency for Privatization of Federation of B&H
www.apf.com.ba

4. FAVOURABLE LEGISLATIVE TREATMENT

- ▶ The Law on the Policy of Foreign Direct Investment, in force since 1998, ensures national treatment of foreign investors, i.e. foreign investors have the same rights and obligations as defined for the residents of B&H.
- ▶ In addition, the rights and benefits of foreign investors granted and obligations imposed by the Law cannot be terminated or overruled by subsequently passed laws and regulations. If any subsequently passed laws and regulations are more favourable for the foreign investors, the investors have the right to choose under which regime the respective foreign investment to be governed.
- ▶ Foreign investors are entitled to open accounts in any commercial bank in domestic or any freely convertible currency on the territory of B&H.
- ▶ Foreign investors are entitled to freely employ foreign nationals, subject to the labour and immigration laws in B&H.
- ▶ Foreign investors are protected against nationalisation, expropriation, requisition or measures having similar effects; such measures may take place only in the public interest in accordance with the applicable laws and regulations and against the payment of an appropriate compensation, i.e. compensation that is adequate, effective and prompt.
- ▶ Foreign investors may own real estate in B&H and have the same property rights with respect to real estate as any legal entity of B&H.
- ▶ Foreign investors are entitled to transfer abroad, freely and without delay, in

freely convertible currency, any proceeds resulting from their investment in B&H.

- ▶ There are no restrictions on management of companies with foreign capital. The founder selects the management him/herself.
- ▶ Equipment being imported as a part of share capital is exempt from paying customs duties (this exemption does not refer to passenger vehicles, slot and gambling machines).

For more information see:

- ▶ Foreign Investment Promotion Agency of B&H
www.fipa.gov.ba

5. FREE TRADE ZONES

A free zone is part of the customs territory of Bosnia and Herzegovina, which is specially fenced and marked and where business activities are carried out under special conditions in accordance with the Law on Customs Policy of Bosnia and Herzegovina and the Law on Free Zones of B&H. A founder of free zone can be one or more national or foreign legal and natural persons and a user of free zone can be the founder of free zone or any other legal and natural person.

The Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina shall institute the procedure for the adoption of decision of the Council of Ministers of Bosnia and Herzegovina on designation of parts of the customs area of Bosnia and Herzegovina as a free zone if it is economically justified and if the requirements for establishment of a free zone set out in the Law on Free Zones of B&H and Law on Customs Policy of Bosnia and Herzegovina have been met. Establishment of a free zone shall be considered as economically viable, if the feasibility study for the establishment of free zone and other evidence submitted provide grounds for estimation that value of goods exported from the free zone will exceed at least 50% of the total value of manufactured goods leaving the free zone in a period of 12 months. Users of free zone do business in the area of free zone under special conditions in accordance with the Law on Customs Policy of Bosnia and Herzegovina and the Law on Free Zones of B&H, on the basis of concluded contracts with the founder of free zone, with prior approval of the customs authorities.

Any industrial, commercial or service activity, (banking, insurance and reinsurance of property and persons, etc.), can be carried out in the free zone. The users of free zone do not pay VAT and import customs. Investment in the free zone,

transfer of profit and transfer of investment are free of charge. Customs and tariffs are not paid on imports into the free zone. The imports of equipment that will be used for manufacturing within the free zone are exempt from paying customs duties and fees.

The users of free zone do not pay VAT and import customs. Investments in the free zone, transfer of profit and transfer of investment are free of charge.

The import of equipment that will be used for manufacturing within the free zone is exempt from paying customs duties and fees.

TAXATION

One of the main reasons for investing in B&H is also favorable tax system. Bosnia and Herzegovina has one of the lowest rates of VAT (17%) in the region and Europe, as well as the very acceptable corporate tax rates that are also among the lowest in the region and Europe (10%).

The taxation categories at state level:

▶ Value Added Tax

Unique VAT tax rate is 17%.

▶ Excises Duties

Excises are a special type of sales tax paid on some commodities like: oil products, non-alcoholic drinks, soft drinks, alcohol drinks, coffee and tobacco products:

- oil products (per litre) - BAM 0.30 (BAM 0.40 motor petrol and BAM 0.35 unleaded motor petrol),
- non-alcoholic drinks (per litre) - BAM 0.10,
- soft drink (per litre) - beer BAM 0.20 and wine BAM 0.25,
- alcoholic drinks and Ethyl alcohol (per litre) - BAM 15,
- raw coffee (per kilo) - BAM 1.50 (BAM 3.00 roasted and ground coffee; BAM 3.50 for coffee extract),
- tobacco products - 42% on the tax base plus a special excise depending of the number of boxes.

The taxation categories at entity level:

▶ Corporate Income Tax

Corporate tax rate is 10% on the whole territory of Bosnia and Herzegovina.

▶ Withholding Tax

Withholding tax rate is 10% in FB&H (5% on dividends) and 10% in RS (10% on dividends).

▶ Personal Income Tax

In FB&H, personal income tax is 10% on net wage (tax base calculated in accordance with gross model).

In RS, personal income tax is 10% on net wage (tax base calculated in accordance with gross model).

In BD, personal income tax is 10% on net wage.

▶ Property Tax

Property tax rates depend on the location of the property. In FB&H, the property tax rate is 5% with the exception of Zeničko-dobojski Canton where the property tax rate is 8%. In FB&H the tax base is the value of the property estimated by the commission appointed by the local tax administration office (according to the seat of the property).

In RS, property tax rate cannot be less than 0.05% of the appraised value of real estate, and shall not exceed 0,50% of the appraised value of real estate.

In Brčko Distrikt, the tax rate on real estate cannot be less than 0.05% of the appraised value of real estate, and shall not exceed 1,0% of the appraised value of real estate.

CONTRIBUTIONS

In Republic of Srpska, as well as in the Federation of B&H, contributions are calculated on the basis of gross wage. Gross wage includes net wage earned by regular employment, multiplied by the determined coefficient, plus contributions from wage. In Brčko District, pension insurance contributions are regulated by entity laws.

a) Employee's Share:

- FB&H: 17% for pension insurance, 12.5% for health insurance, 1.5% for unemployment insurance (in total: 31% on gross wage).
- RS: 18% for pension insurance, 12.5% for health insurance, 1% for

unemployment insurance, 1.5% for child protection (in total: 33 % on gross wage).

- Brčko District: 17% for pension insurance for employers who apply FB&H law and 18% for pension insurance for employers who apply RS law, 12% for health insurance and 1.5% for unemployment insurance (in total 30.5 or 31.5% on gross wage).

b) Employer's Share:

- FB&H: 6% for pension insurance, 4% for health insurance, 0.50% for unemployment insurance (in total: 10.50% on gross wage).
- Brčko District: 6% on gross wage for pension insurance for employers who apply FB&H law.
- In Republic of Srpska no such contributions are paid.

INCENTIVES FOR FOREIGN INVESTORS

The B&H government supports foreign investments with a number of measures, including:

1. State Level Incentives

- ▶ Foreign Investor Support Fund:
 - ▶ The budget of the Fund per year is 2 million BAM (cca. 1 million EUR). The amount of means provided to each applicant is maximum 150.000 EUR. For more information on how to apply for means from the Fund, please contact FIPA directly.
 - Resources of the Fund may be used in order to finance foreign investment projects in production, research and development sectors.
 - Evaluation of the projects will be made according to the following criteria:
 - Amount of investment
 - Number of newly opened vacancies
 - Investing in an undeveloped area
 - Ecological requirements
 - Participation of export in total sale
 - ▶ Equipment of the foreign investor being imported as part of share capital is exempt from paying customs duties (with the exception of passenger vehicles, slot and gambling machines).

2. Entity Level Incentives

Tax Benefits

2.1. In the Federation of B&H

- ▶ The Federation Law on Corporate Income Tax enables the taxpayer, who in the year for which the corporate income tax is being determined, has achieved 30% of their total revenue by export to be exempted from the tax payment for that year.
- ▶ The taxpayer who in the period of five consequent years invests into production in the value of minimum 20 million BAM, on the territory of the Federation of Bosnia and Herzegovina, is being exempted from the payment of corporate income tax for the period of five years beginning from the first investment year, in which minimum four million BAM must be invested.

If the taxpayer, in the time period of five years, does not achieve the prescribed census for investment, he loses the right of tax exemption, and the unpaid corporate income tax is determined in accordance with the provisions of the Law on Corporate Income Tax augmented for penalty interest payable for untimely paid public revenues.

- ▶ The taxpayer who employs more than 50% of disabled persons and persons with special needs longer than one year is being exempted from the payment of corporate income tax for the year in which more than 50% disabled persons and persons with special needs were employed.

2.2. In the Republic of Srpska

- ▶ If a legal person obtains revenue from a foreign state and the revenue is taxed both in Republic of Srpska and in the foreign state, then the tax paid to the foreign state, whether paid directly or withheld and remitted by another person, is to be credited from the Republic of Srpska profit tax, unless such Republic of Srpska legal person elects to treat the foreign tax as a deductible expenditure in determining the fiscal year tax base.

2.3. Other Incentives

- ▶ In both entities, foreign investors, who have the same status as domestic companies, can also apply for incentives that are planned and allocated from the state budgets.

Incentives such as e.g. incentives for tourism development, agricultural subsidies, support projects to small and medium-sized enterprises: are awarded on the basis of a public call which is announced by the competent institution. Companies compete on the basis of conditions that are mentioned in public call.

Funds from the public call for above mentioned programs are awarded on the basis of project application, beneficiaries program and required documentation. These programs, in principle, remain more or less the same every year.

Companies also have the option to apply for funds from entity investment and development banks with their development projects.

AGREEMENTS ON AVOIDANCE OF DOUBLE TAXATION

Bosnia and Herzegovina has signed Agreements on avoidance of double taxation with the following countries:

Albania	Algeria	Austria	Belgium	China	Croatia
Czech Republic	Cyprus	Denmark	Egypt	Finland	France
Germany	Hungary	Iran	Italy	Jordan	Kuwait
Malaysia	Moldova	Montenegro	Netherlands	Norway	Pakistan
Poland	Qatar	Romania	Serbia	Slovakia	Slovenia
Spain	Sweden	Sri Lanka	Turkey	United Arab Emirates	United Kingdom and Northern Ireland

Agreements on Avoidance of Double Taxation, which mean that companies only have to pay tax in their home country, accelerate the flow of investments into the signatory countries, encourage joint ventures, create more investment opportunities, expedite the transfer of technology and constitute a legal framework to bolster economic cooperation and enhance strategic economic partnership.

FREE TRADE AGREEMENTS AND PREFERENTIAL EXPORT REGIMES

With the purpose of facilitating trade, creating preconditions for the increase in exchange of goods (and particularly export), the creation of a favorable environment for domestic and foreign investments, Bosnia and Herzegovina concluded certain number of bilateral/multilateral free trade agreements.

Bosnia and Herzegovina has signed the Central European Free Trade Agreement (CEFTA), in effect as of November 2007, with the following countries:

ALBANIA	SERBIA	MOLDOVA	MONTENEGRO
CROATIA	MACEDONIA	UNMIK/KOSOVO	

B&H has also signed a Free Trade Agreement with Turkey which provides additional free access to this consumer market with 70 million people.

The Interim Agreement on Trade and Trade-related Matters (IA) between EU and B&H entered into force on July 1, 2008, and will be in force until the Stabilisation and Association Agreement (SAA), signed in Luxemburg on June 16, 2008, is ratified by all EU member states. The IA effectively creates a free trade area, with progressive opening of the market of Bosnia and Herzegovina facilitating economic and social development.

Bosnia and Herzegovina has profited from EU autonomous trade measures since 2000. Following the entry into force of the Interim Agreement, access of products from Bosnia and Herzegovina to the EU expanded, and EU exports to the country have been granted trade preferences.

B&H has generalized system of preferences with:

USA	SWITZERLAND	NORWAY
JAPAN	NEW ZEALAND	

Furthermore, B&H has preferential export regime with Iran.

As a result, and due to the position that B&H has in the South Eastern and Central Europe, starting a business in Bosnia and Herzegovina means the opportunity of exporting to a market of app. 600 million people without paying any customs duties!

POLITICAL RISK INSURANCE

Bosnia and Herzegovina has signed 36 Agreements on Promotion and Protection of Investments with the following countries:

Albania	Austria	Belarus	China	Croatia	Czech Republic
Denmark	Egypt	Finland	Germany	Greece	Hungary
India	Iran	Italy	Kuwait	Lithuania	Macedonia
Malaysia	Moldova	Netherlands	OPEC Fund	Pakistan	Portugal
Qatar	Romania	Serbia	Slovakia	Slovenia	Spain
Switzerland	Sweden	Turkey	Ukraine	United Kingdom	USA - OPIC

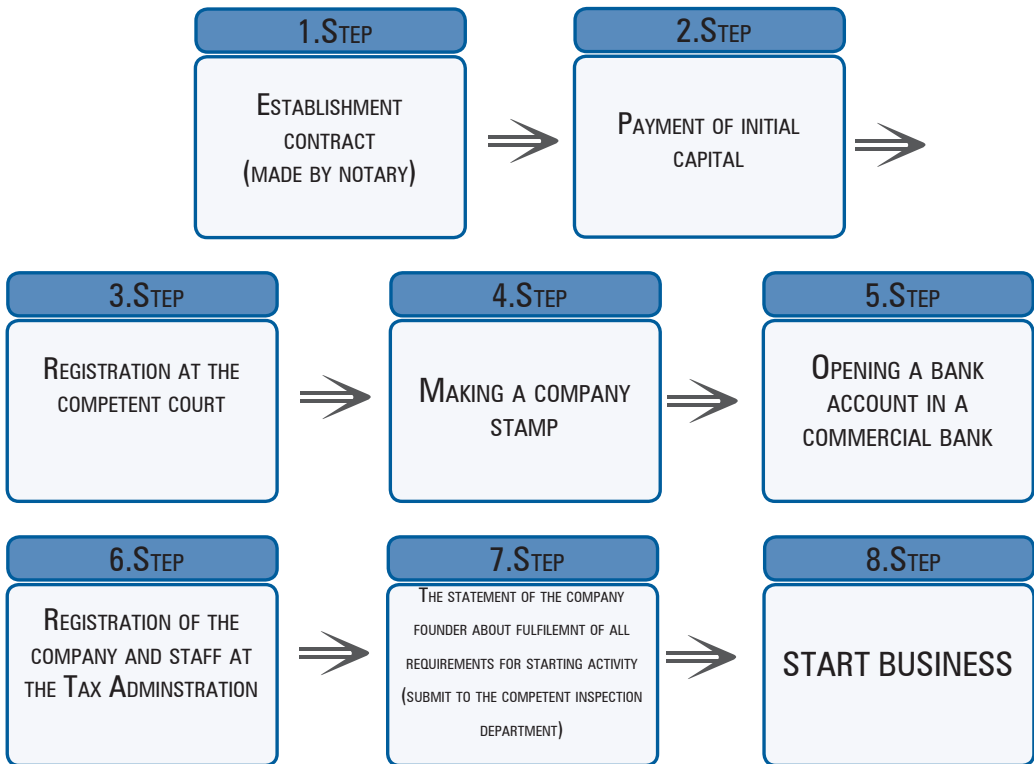
Foreign investors concerned about risks of transfer restrictions, expropriation, war and civil disturbances and denial of justice, can be insured against these risks with the European Union Investment Guarantee Trust Fund for Bosnia and Herzegovina, administered by the Multilateral Investment Guarantee Agency (MIGA, member of the World Bank Group).

TYPES OF COMPANIES

The Company Law of the Federation of B&H (Official Gazette of FB&H No. 23/99, 45/00, 2/02, 29/03, 68/05, 91/07, 84/08, 7/09 and 63/10) and the Company Law of Republic of Srpska (Official Gazette of RS No. 127/08, 58/09 and 100/11) regulate the establishment, operation and termination of businesses in B&H.

TYPES OF COMPANIES	FEDERATION OF BOSNIA AND HERZEGOVINA	REPUBLIC OF SRPSKA
Unlimited Joint Liability Company (d.n.o./o.d.)	Founded by the establishment contract of 2 or more partners, domestic or foreign, natural persons only; Founders are liable to use all their assets, including personal property; There are no requirements for minimum or maximum contributions.	Founded by the establishment act of 2 or more domestic/foreign natural and/or legal partners who commit to do certain activity under the same company name, with their own solidary liability for company commitments; There are no requirements for minimum or maximum contributions.
Limited Liability Company (d.o.o.)	Founded by the establishment act or establishment contract by 1 or more domestic/foreign natural and/or legal entities with initial capital divided in parts; A member in a limited company is liable for the value of his investment in that company; Minimum initial capital is 2,000 BAM (approx. 1,000 EUR).	Founded by the establishment act of 1 to 100 domestic/foreign natural and/or legal entities; A shareholder in a limited company is not personally liable for any of the debts of the company, other than for the value of his investment in that company; Minimum initial capital is 2,000 BAM (approx. 1,000 EUR).
Limited Partnership (k.d.)	Company founded by the establishment contract of 2 or more domestic/foreign natural and/or legal entities; There must be at least 1 partner with full liability (including private property) and at least 1 partner with limited liability, the liability being limited by the value of his share in that company. There are no requirements for minimum or maximum initial capital.	Founded by the establishment act of 2 or more domestic/foreign natural and/or legal entities; One person at least has unlimited liability for the company, and one person at least has liability to the amount of his investment in the company; There are no requirements for minimum or maximum initial capital.
Joint-Stock Company (d.d./a.d.)	Legal entities founded by the establishment contract of 1 or more domestic/foreign natural or legal shareholders with initial capital divided into shares; 1. Open joint-stock company is a legal entity (banks, insurance companies, or companies with minimum initial capital of 4 mil BAM (approx. 2 mil EUR) and 40 shareholders at least), whose shares may be publicly listed; 2. Closed joint-stock company is a legal entity whose shares are distributed among a limited number of shareholders. The minimum initial capital is 50,000 BAM (approx. 25,000 EUR).	Legal entities founded by the establishment contract of 1 or more domestic/foreign natural and/or legal entities with initial capital divided into a defined number of shares; 1. Open joint-stock company is a legal entity whose shares may be publicly traded, i.e. offers its shares for sale upon the open market and they are listed on the stock exchange and other public markets. Minimum initial capital is 50,000 BAM (approx. 25,000 EUR). 2. Closed joint-stock company is a legal entity whose shares are distributed among a limited number of shareholders. Minimum initial capital is 20,000 BAM (approx. 10,000 EUR).

STEPS FOR ESTABLISHING A BUSINESS IN B&H



DURATION AND COSTS OF ESTABLISHING A BUSINESS

The court procedure of establishing a business takes 5 days according to the law (due to technical difficulties, the complete procedure in practice may take up to 30-45 days).

The costs are as follows:

- ▶ Administrative costs: cca. 500 EUR
- ▶ Lawyer and notary costs: 500-1000 EUR

REPRESENTATIVE OFFICES OF FOREIGN PERSONS IN B&H

Foreign person can establish a Representative Office in B&H for performing market research, informative and promotional activities, and for its own representation.

The Representative Office does not have the status of a legal entity, i.e. the Representative Office can not conclude agreements in name of its founder except representative offices of foreign air transportation companies which can sell transportation documents in accordance with bilateral agreements and international conventions signed by Bosnia and Herzegovina.

The Representative Office becomes operational after entering into the Register of Foreign Representative Offices kept by the Ministry of Foreign Trade and Economic Relation B&H

B&H Ministry of Foreign Trade and Economic Relations must adjudicate on the application for entry into the Registry within 10 days from the day of its filing.

INVESTMENT OPPORTUNITIES ATTRACTIVE SECTORS

TOURISM

AGRICULTURE AND FOOD PROCESSING INDUSTRY

ENERGY

WOOD

TRANSPORT

MINING AND METAL PROCESSING

AUTOMOTIVE

CONSTRUCTION INDUSTRY

The economy of Bosnia and Herzegovina offers strong human and resources base, long industrial tradition, as well as favorable business environment, which enable sustainable and profitable investment in various value-added, and particularly export oriented businesses.

B & H made serious transformations and restructuring, broadly adjusted legal and regulatory framework to the European standards, preparing favorable business environment for further substantial investments.

Well developed education system, availability of research & development institutions and engineering companies, as well as of all categories of qualified, foreign language spoken, highly motivated and competitive workforce are main guaranty for successful investments.

Furthermore, huge natural recourses and beauties, an abundance of the spare production halls and facilities, industrial zones and attractive locations are additional motivation and warranty for profitable business ventures. In spite of the impressive development achievements within past years, there is still a huge gap between real potentials and actual performances within various sectors. Capital shortage has become a main limitation for efficient and faster activation of the powerful recourses and other production factors; what open numerous opportunities to foreign investors.

To materialize these huge potentials and recourses, including strong human base, supporting infrastructure, an abundance of production facilities, B & H economy seeks for increased capital investments, new technologies and access to the new markets, what could be met with strong strategic partners and large international companies, especially in following sectors:

- Tourism
- Agriculture and Food Processing Industry
- Energy
- Wood
- Transport
- Mining and Metal Processing
- Automotive
- Construction Industry

Particularly large-scale development programs and huge investment projects have been prepared within energy, transportation and tourism sectors, requiring significant capital investments, which B & H alone can not afford.

Involvement of strategic investors and applying various business and investment models, such as concession arrangements, various PPP models, financing from specialized institutions like World Bank, EBRD, etc, present a solution for achievement of these ambitious goals.

TOURISM SECTOR

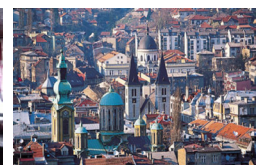
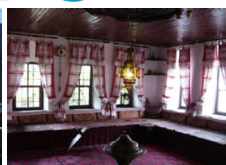
Tourism is a major contributor to B&H's economy, and to national and international recognition of B&H as a great place to visit, live, work, invest and stage events. The World Tourism Organization foresees that the B&H tourism market will be the 3rd annual fee increasing within the world market, with rate of 10.5 % from 1995 to 2020.

Tourism sector in B&H has an enormous potential for development, possessing all pre-conditions to play a significant role within the country economy. Consequently, tourism development in B&H was recognized as one of the top priorities of an overall national-economic development policy, and significant efforts have been put into creation of a favorable business and investment environment for potential investors.

B&H tourist destination, with its divers, pristine and unspoiled nature, rich historical and cultural heritage, closely match the new market travel trends, particularly satisfying the requirements of the travelers which are looking for new destinations and new forms of experience, as well as of those which hanker after adventure and authenticity.

The country has major tourist assets to offer for those people who seek different experiences, away from the crowd, whether they are lovers of skiing, rafting, hunting or patient bird-watching. Those in search of more cultural tourism will be able to relive centuries of history by visiting the very many vestiges and heritage dating back to Roman, even to prehistoric times.

However, most of existing resorts need investments for upgrading and modernization of existing facilities and programs, seeking for potential strategic partners to readjust their business models, management philosophy and marketing strategy.



WINTER TOURISM

Ski and winter tourism has a long tradition, primarily referring to the two main mountain resorts in proximity of Sarajevo - Bjelasnica & Igman and Jahorina, which successfully hosted the XIV winter Olympic Games in 1984.



There are also a number of other attractive ski destinations at diverse mountain areas, among which are most prominent Blidinje, Vlasica, Kupres and Kozara.

In order to capitalize huge unused potentials, all these destinations require investments in upgrading and modernization of infrastructure (particularly vertical transportation and ski slopes) and accompanying tourism facilities for development of diversified and all year-around tourism activities including adventurous, eco and sport tourism.

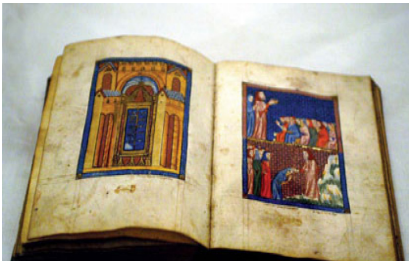
SPA TOURISM

Bosnia and Herzegovina is richly endowed with thermal and mineral springs which are the basis of spa tourism-becoming more popular each day. Due to the healing properties of the thermal and mineral waters, accompanied by mild climate, clean air and natural beauties, B&H spas such as: Fojnica, Banja Vrućica, Gradačac, Mlječanica, Aquaterm, Gata, Guber Ilidža, Kiseljak, Dvorovi Kulaši, Laktaši, Sanska Ilidža Slatina and Vilina Vlas, have been popular for centuries.

Spa resorts in Bosnia and Herzegovina are mostly located far from urban areas, within unspoiled scenery, where people will find the relaxation and tranquillity they seek. B&H spas offer a whole range of modern and high quality treatments under very moderate prices.

CULTURAL & RELIGIOUS TOURISM

Bosnia and Herzegovina is a country of long and rich history, which cultural heritage presents a complex mixture of Mediterranean, Byzantine, Ottoman and Central European influences. This diversity distinguishes B&H as a unique cultural, historical and religious attraction.



As a meeting point of different civilizations and cultures over centuries, most of the major religions Judaism, Roman Catholics, Christian Orthodox and Islam exist in harmony in B&H, offering a number of sacred places and a unique experience to domestic and international visitors.



B&H is home to the second largest Catholic pilgrimage site in the world in Medugorje, and the largest Islamic pilgrimage site in Europe at Prusac in central Bosnia, as well as to the unique Jewish pilgrimage site located in Stolac.

In addition, numerous cultural events with international reputation became part of our tradition, such as Sarajevo Film Festival, MESS – festival of modern theatre, Jazz Fest Sarajevo, etc.

All above mentioned favorable prerequisites are only symbolically exploited, opening an array of opportunities to the potential investors for investments in different tourism facilities.

NATIONAL PARKS, PARKS OF NATURE AND ECO TOURISM

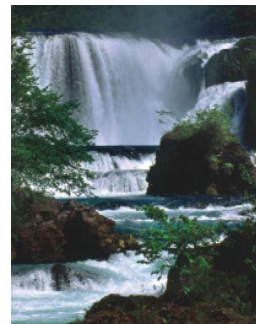
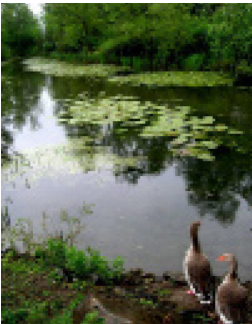
A number of national parks and parks of nature have already been established in Bosnia and Herzegovina. Moreover, National park Sutjeska was one of the first established in Europe. There is a program for formal proclamation of new areas in national parks.

All existing national parks are characterized by extreme natural beauty and diversity, preserved and rich wilderness, even primeval forests, small and big game (grouse, roe deer, lynx, wolf, bear).

The most famous are National park Sutjeska, National park Una, National park Kozara, Park of nature Hutovo Blato, Park of nature Bardača and Park of nature Blidinje.

These areas are extremely suitable for eco, geo and ethno tourism development, particularly in cooperation with local population, oriented to the organic food production.

However, these huge recourses are modestly capitalized, seeking for potential strategic partners and investors to introduce appropriate business philosophy and models, modernize existing or construct new facilities and improve the marketing strategy.



MARITIME TOURISM

With its 23 km of seaside and 240 sunny days every year, Bosnia and Herzegovina attracts more tourists from all over the world. Town Neum presents seaside door of B&H, and its accommodation capacities are approximately 5000 beds, out of which 2000 in three and four star hotels. With its capacities it cannot satisfy necessities of tourism season. Private accommodations are also available and pleasant pensions, restaurants and cottage houses offer unforgettable stay to the visitors.



However this resort needs investments for upgrading and modernization of existing facilities and diversification of tourism offer by construction of new facilities (like yachting marinas).

In addition, regions along south - eastern border of B&H, such as Ivanjica or Trebinje, which are approximately 10 km distant from Croatian Adriatic coast, became particularly interesting for construction of new tourist resorts and facilities due to agreeable climate and availability of free land, under competitive prices.



AGRICULTURE AND FOOD PROCESSING INDUSTRY

GENERAL INFORMATION

About half of the Bosnia and Herzegovina land area is agricultural land where 2.4 million hectares comprises approximately 1.2 million ha of arable land, 100.000 ha of orchards and vineyards, 500.000 ha of improved grazing land and 850.000 ha of mountain pastures.

The climate is predominantly moderate continental, particularly characteristic for Central Bosnia and Herzegovina, while northern part of the country has mostly continental climate.

South of the country has Sub-Mediterranean climate, characterized by long, summers and short, mild winters, with more than 200 sunny days and 1400 l/m² of rainfall per year.

WHY INVEST IN THE B&H AGRICULTURE & FOOD PROCESSING

INDUSTRY?

Bosnia and Herzegovina is richly endowed with natural resources and optimal climate conditions which create superb environment for agricultural production that is a great opportunity for investment with high-income based on the following main advantages:

- Abundance of fertile uncultivated and unpolluted land
- Clean water resources
- Favourable climate conditions
- Good availability of skilled low cost labour & long tradition in agriculture
- Developed education system and agronomic and veterinary support

The agriculture labor force is cheap particularly when compared to the EU. In addition, all categories of the experienced workforce (engineers, technicians, skilled workers) required in food processing industry are available under competitive prices.

The lower agricultural tariffs than all neighboring countries re-emphasize the need of B&H to increase the competitiveness of country's agriculture.

The soil quality and varying climatic conditions, accompanied with availability of the water, in Bosnia and Herzegovina offer wide potentials for agricultural production, both in terms of crop choice and cultivation systems, including:

FIELD CROPS

Northern parts of the country and river valleys are particularly suitable for field crops production, including cereals, industrial crops, vegetables, feed crops etc. as well as for intensive commercial cattle breeding, and dairy production.

LIVESTOCK & FORAGE PRODUCTION

A large part of the agricultural land in B & H , with lots of grassland, and climate conditions are favourable for cattle (sheep and goat) intensive and extensive breeding , milk, dairy and meat production, as well as for cultivation of silage etc.

VEGETABLE-GROWING

The soil and climate conditions are suitable for all types of vegetable production in all regions of Bosnia and Herzegovina, along the rivers, in flat, hilly and hilly-mountainous regions, even in mountain grasslands, where could be produced a high quality potatoes and cabbage, as well as rye, barley, oat, etc.

MEDICINAL AND AROMATIC HERBS

The biodiversity of medicinal and aromatic plants in the area of Bosnia and Herzegovina is very rich thanks to the favourable climate, geographic and soil conditions.

FRUIT & VINE-GROWING

The most convenient fruit-growing regions are the hilly and hilly-mountainous regions and the river valleys which are abundant in sunny sites with the right type of well drained soil, as well as the Mediterranean region (Southern B&H). Currently, there are an estimated 14 million trees producing plums, pears, apples, berry and other fruit for export and fruit-juice production. The B&H grape and wine production takes place in the Mostar , Čitluk, Stolac, Ljubuški, Trebinje and Capljina municipalities area.

FISH FARMING

Abundance of the clear, unpolluted rivers and streams that cross the country presents huge potential for both family owned and industrial size fish farming production, especially trout and carp rising.

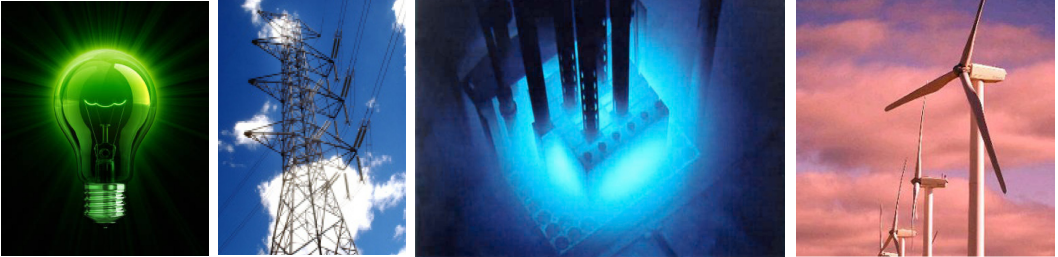
ORGANIC FOOD PRODUCTION

The development of the B&H organic sector started in 1996 when the first B&H organization "ORGANSKA KONTROLA" became a member of IFOAM (International Organization of Organic Agriculture Movements). The scientific study made by Sarajevo Economic Institute and Washington Urban Institute, identified enormous potentials of the organic food sector for rural development generation in BiH.

FOOD PROCESSING INDUSTRY

Currently B&H food processing industry encompasses the companies engaged in manufacturing or processing of foods and beverages for human consumption, including meat, milk, fruit, vegetable, sugar, oil and tobacco, as well as prepared feeds for animals and fowls.

ENERGY SECTOR



GENERAL INFORMATION

Bosnia and Herzegovina Energy Sector is one of the most powerful, with long tradition and huge potentials and opportunities for further development and investment. This sector is subject to the deep reforms, restructuring and privatization processes, with intentions to become integral part of European energy market and community.

Electricity is predominantly produced in hydro and thermal power plants. Currently, the production facilities, with total installed capacities of 4000 MW, exceed the domestic demand, and the electricity is exported.

WHY INVEST IN THE B&H ENERGY SECTOR?

Bosnia and Herzegovina is endeavoured with various indigenous energy recourses, including:

- Considerable reserves of brown coal and lignite of 6 billion tons
- Huge hydro potential of over 4000 MW
- Significant wind energy potentials estimated at 1500 MW
- Raw material resources for the bio-mass energy are extremely favorable, including approximately
- 1.5 million m³ of forest/wood industry residues
- Geo-thermal and solar as well as bio-mass energy are only symbolically in use
- Preliminary research surveys of oil and gas, had indicated the presence of promising deposits on a number of sites in BiH (reserves are estimated at about 50 million tons of oil)

INVESTMENT PLAN

Strategic development programs of the Entities' Ministries of Energy, Mining and Industry, foreseen a significant investments in new power system facilities based on coal, hydro and renewable energy sources and expansion of existing power generation capacities , in order to meet growing electricity supply deficit within regional and larger European markets.

LARGE THERMAL POWER GENERATION PROJECTS

There are a total of seven new coal-fired thermal power generation projects: Kongora-coalmine/power plant; Bugojno – coalmine / power plant; Stanari – power plant ; Ugljevik 2 - coalmine / power plant ; Gacko 2 coalmine / power plant ;Tuzla – G7 and Kakanj - G8. The potential electricity production capacity will be approximately 3450 MW, including both, rehabilitation and expansion of the existing facilities and construction of entirely new coal mine / power generation plant complexes.

LARGE AND SMALL HYDROPOWER PROJECTS

Development programs identified fifteen potential new large and small hydropower projects, and four rehabilitation and expansion projects, with potential electricity production capacity of approximately over 2000 MW in total.

MINI HYDROPOWER PROJECTS (CAPACITY OF 5 MW OR LESS)

In the river basins of B & H. there were identified over 400 potential micro locations for construction of the mini hydro power plants, enabling cumulative increase of the electricity production capacity of approximately 1000 MW.

WIND ENERGY POTENTIALS

Systematic wind measurements on larger number of locations on the area of Herzegovina in the period of 2004-2005 shown wind speed in the range of 7 to 9 m/s.

The application of extrapolation models and the use of long-term scaled data sets on these locations result in expected average annual wind speed in the range of 6 to 8 m/s 50m a.g.l.

Currently there are many macro and micro locations for wind power plant construction that are evaluated as advantageous for wind power plant construction.

WOOD SECTOR



Bosnia and Herzegovina has a long tradition in forestry and wood processing, going back to the second half of the 19th century. The abundance of both hard and softwood, as well as the competitive and skilled workforce, make this sector attractive for investment, particularly in export-oriented production programs.

Of all the natural resources of Bosnia and Herzegovina, its timber is best known; 50% of the country is covered in forests that can serve both the furniture and the construction industry. These forests have the potential to provide nearly 7 million m³ round-wood per year on a sustainable basis. Beech, oak, ash, pine and fir as well as more specialised woods such as walnut, apple and cherry, are exported as raw material, half fabricates and finished products.

Over 60% of B & H wood sector production is exported, where the finished furniture is becoming more and more important export product. Currently, the largest markets for these producers are Western Europe, USA and Middle East, but the potential to export to other countries is enormous. Nevertheless, the wood processing sector is characterized by a large gap between its current performances and its real potential.

Targeted investments have the potential to bridge the mentioned gap and improve the substantial value-added outcome, starting new companies or modernizing existing ones, with some capital investments or introduction of the new technologies and equipment.

Forest resources – raw materials

B & H forestry provides reliable resource base (volume, species, quality) related to the supply of various high quality raw materials (beech, oak, ash, pine and fir, as well as walnut, apple, cherry etc.), to the wood processing industry, on long term basis.

Around 53% of B & H territory is covered by forests, where deciduous trees (hardwood) are predominant (over 60 %, mainly beech and oak). „Bosnian beech” is particularly famous worldwide, due to its high quality. The B & H forests (80.7% state owned) have the sustainable potential to provide nearly 7 million m³ round-wood per year.

Bosnia and Herzegovina has favorable demographics and consistent investment in education provide sustainable supply of flexible, adaptable, innovative, foreign language spoken and productive young workforce. There is well-developed university education system, providing sufficient qualifications for entry to professions with high skilled requirements. In addition there is abundance of labor of all categories, under competitive prices, being app. 20% of West Europe and USA wages.

Market potentials

The most attractive products in the view of market potential for B & H would be:

- pulp and paper mills,
- edge glued panels,
- veneer / hardwood plywood,
- parquet,
- furniture (preferably solid wood),
- medium density fiberboard,
- particleboard,
- joinery,
- biomass (briquette, pellets, heat generation).

Most promising options

The most promising options for potential investors in B & H forestry / wood industry lie in processing of sawn wood to edge glued panels (EGP), veneer, parquet and furniture, especially as there are small and medium companies which may be suitable for joint ventures.

In addition, there is potential for investment in one MDF and one particleboard mill of global market competitive size.

TRANSPORT SECTOR

Transport sector in Bosnia and Herzegovina became one of the most active and vibrant sectors within B & H economy, due to the ambitious physical and institutional development programs – covering roads, railways, aviation, inland waterways and urban transport - adopted by B & H governments, and supported by various international, predominantly financial institutions (World Bank, EBRD, etc.).



Main comparative advantage of Bosnia and Herzegovina is a favorable geographical position, which is the main basis for the future development of the whole transport sector. Recognizing efficiency and quality of transportation system and infrastructure as one of the key factors for faster transitional changes, regional and international integrations of B & H, as well as for overall economical development, adopted Strategy, Policy and Sector development scenario by 2020, encompassed considerable investments in transportation infrastructure, respecting the principles of liberalization and privatization.

Numerous infrastructure projects are already underway, which aims are to improve the performance of Customs and removing impediments to international road transport, including greatly increasing the efficiency of road border crossing points, implementation of the Road Management and Safety Project, with the objective to improve traffic flows and reduce accident rates on the country's road network through reconstruction and modernization of priority roads, as well as construction of new roads and motorways etc.

All these development programs aim to increase the density of high quality transportation facilities within the country, and to upgrade existing infrastructure, which encompasses at present, as follows:

ROADS

The road network of Bosnia and Herzegovina consists of approximately 22,600 km, with 3,788 km of main roads, 4,842 km of regional roads and 14,000 km of local roads.

European roads (E-roads) length amounts to 995 km, which do not provide sufficiently fast traffic operations. Therefore large scale development programs comprise reconstruction of approximately 850 km of main roads, as well as construction of the new motorways, using funds of international financial institutions, B & H funds, as well as other financing forms, such as concessions, Build-Operate-Transfer, PPP and other financial arrangements.

Main projects identified by road development program are:

- Motorway at Corridor Vc,
- Motorway Gradiška - Banjaluka - Mrkonjić Grad - Šipovo – Kupres,
- Motorway Prijedor – Banja Luka - Doboј - Šamac - Bijeljina (Serbian border),
- Motorway Tuzla – Orašje (Croatian border),
- Highway D. Vakuf – Lašva,
- Highway B&Hać – Izačić (Croatian border),
- Highway modernization / reconstruction Sarajevo – Tuzla, etc.

CORRIDOR Vc

Corridor Vc, as a part of Pan-European Corridor, connected to TEN Network, was recognized as main regional project, going from Budapest (Hungary), via Osijek (Croatia), Sarajevo (Bosnia and Herzegovina) to the Port Ploce (Croatia).

The transport Corridor Vc through Bosnia and Herzegovina includes:

- Motorway - E-road E-73 Samac- Sarajevo - Mostar - Croatian border, with exit to the Adriatic Sea (Port Ploce),
- The railway Samac - Sarajevo - Mostar - Croatian border, with exit to the Adriatic Sea (Port Ploce),
- Sarajevo and Mostar Airports,
- Waterways and quays on the Sava, Bosnia and Neretva Rivers,

Length of the Corridor Vc Motorway, from the North (Sava River to the South Croatian border) divided by sections is approximately 330 km.

Completion of the motorway at Corridor Vc will initiate new and encourage total economic activities, especially inside the central gravitation area, but also in Bosnia and Herzegovina as a whole, accelerating the economic growth and enhancing development of the other sectors from industry, trade to tourism.

RAILWAYS

The B & H railway infrastructure consists of 1,042 km of track, most of which is electrified. Main railway network encompasses the north-south route (Pan European Corridor V) and the east-west route (Parallel to Pan European Corridor X).

The proposed project comprises priority rehabilitation works of infrastructure, covering track, signaling and telecommunications, on the country's main railway network on the north-south route (Pan European Corridor V) and the east-west route (Parallel to Pan European Corridor X), which do not provide sufficiently fast traffic operations.

Therefore, considerable modernization and reconstruction project of complete B & H railway system have been foreseen by development programs, including:

- modernization / reconstruction of track for speed 160 km/h, with replacement of superstructure and substructure,
- modernization of signalization, with introduction of remote control,
- modernization of overhead contact line to new designed solution,
- modernization and increasing of the fleet sufficient for multiple traffic increase,
- reform and development of the overall subsector in compliance with new Law on Railways.

AVIATION

B & H has four main airports, compliant to the ICAO standards, all of which serve international air traffic, where Sarajevo serves approximately 90% of the total traffic.

All airports has development programs related to the modernization and expansion of existing capacities, including upgrading of the navigation equipment and other facilities, such as terminal buildings, runways etc.

INLAND WATERWAY SUBSECTOR

The Sava River, with two main ports Šamac and Brčko, being a tributary of the Danube (part of TEN Corridor VII), is the only navigable waterway, and runs for 333 km along the border with Croatia and the border with Serbia.

Both ports have the ambitious development programs related to the modernization and expansion of the existing facilities and capacities, with intention to become important international industrial zones.

INVESTMENT OPPORTUNITIES

Completion of all before identified huge infrastructural projects requires significant capital investments, which B & H alone can not afford. Therefore, attracting investors and reliable strategic partners is one of the most important preconditions for the successful development of the B & H transportation sector, applying various business and investment models, such as:

- involvement of strategic investors on Build-Operate-Transfer concession basis,
- financing from specialized institutions (World Bank, European Investment Bank),
- engagement of B & H investment funds,
- PPP arrangements,
- privatization, etc.

MINING AND METAL PROCESSING SECTOR

Mining sector that includes exploration, exploitation, metal processing and processing of the other indigenous mineral resources, has a long tradition in Bosnia and Herzegovina.



Most important motives for foreign investors to invest in mining and metal processing sectors in B&H are:

- natural resources / low cost sourcing of input / low cost of production,
- qualified, trained, motivated and at a price competitive labor force,
- available infrastructure and inputs,
- good export opportunities including geographic position and incentives,
- sector supported universities, research and development institutions, design and engineering companies.

MINING

Bosnia and Herzegovina is abundant in various natural mineral resources, particularly in large deposits of coal, bauxite, iron and limestone.

Mineral Fuels

The main B&H energy resource is brown coal and lignite with total estimated reserves of 10 x 10⁹ tons, predominantly located in Central Bosnia, Tuzla, Gacko, and Bugojno basins. In addition, research indicated a presence of the promising deposits of oil and gas, which reserves are estimated at about 50 million tons.

Metals

Main mining resources are: iron, manganese, cobalt, nickel, chromium, lead, zinc, antimony and bauxite.

B&H has an estimated 653 million tons of iron ore deposits concentrated around Ljubija, and Jablanica.

Total bauxite deposits are estimated at 120 million tons, with over 30 million tons of accessible reserves which are scattered throughout B&H and particularly around Vlasenica and Jajce as well as in the regions of Mostar, Čitluk, Posušje, Stolac, Tomislavgrad, Žitomislići, and Bosanska Krupa.

Zinc and lead reserves are estimated at 56 million tons and located around Olovo, Vareš and Srebrenica. Reserves of magnesite are estimated at approximately 2 million tons that are predominantly concentrated around Kladanj (with 20% of magnesite content). Reserves estimated at approximately 2.5 million tons of manganese are concentrated in the area of Bužim and Konjic, and around 200.000 tons of chromium in Vareš area.

Reserves of silver, arsenic, and barite are also detected in Olovo, Vareš, Kladanj, Srebrenica and other mines.

Industrial Minerals

B&H has significant deposits of non-metal and other industrial minerals, such as salt, limestone, asbestos, pyrophyllite, kaolin, gypsums, clays, (china clay), dolomite, silica sand, stones, gravel (aggregates), sand, and other minerals.

Investment Opportunities

In order to benefit from those huge potentials mining sector requires substantial reforms and restructuring as well as modernization of all exploration and exploitation segments. It could be achieved through the introduction of new technologies. It requires significant investments and opening an array of investment opportunities for both strategic partners and reliable investors.

METAL PROCESSING SECTOR

B&H metal processing offers strong human and resources base as well as long tradition enabling sustainable development of various value-added businesses, export oriented in particular. The study of the metal processing industry in B&H, conducted by the Vienna Institute for International Economic studies, proved this statement.

According to the economic strategy conducted by the B&H government, the metal industry is a strategic industry with comparative advantages. Government supports both foreign and local investors to establish new companies or to transform existing companies to a higher value added products, using domestic semi-finished products.

The metal processing industry in B&H is fairly large, covering ferrous and non ferrous metal processing, primarily iron, steel, aluminium, lead, zinc and copper. B&H metal sector has permanent and robust production growth rate of over 10% within past years, being strongest exporter in B&H economy. Metal industry is one of the most important industrial sectors of the whole region.

In order to make concurrent advantages, metal sector development needs to make the following:

- integration of the metal sector companies in to a reproduction network in order to make trade potential and higher production effectiveness (recently established consortium of metal and electro sector within Foreign Trade Chamber of B&H),
- adoption of the international standards related to the quality and products safety,
- undertake and integrate development and research programme of the country into a realization of the metal sector strategy (draft of the metal sector strategy is under processing)

Mentioned priorities are related to the production part of the metal sector in the whole Region. Also, there is a considerable market even for the services of the metal sector, especially at the chemical industry and energy sector.

Investment Opportunities

Reliable basis for sustainable development of the metal processing sector is the availability of all categories of qualified, adaptable, innovative, foreign language spoken, highly motivated and cost competitive workforce, an abundance of the spare workshops or locations and the availability of indigenous raw material resources, particularly of iron, steel and aluminium or semi products of these metals.

Supporting infrastructure, including the education system, research and development institution, design and engineering companies, represents a strong base for a powerful development of the sector.

But there are already positive signs that this sector would return to its previous stage and again keep the leading export position in the country.

Due to the fact that medium and small enterprises are prevailing in metal processing sector, this industry is seeking integrator companies which could leverage faster development, introduction of new technologies, and promote higher level of specialization within metal processing sector.

Mentioned facts open an array of opportunities for reliable strategic partners and expected investments in a forthcoming period with significant projects undergone.

These facts open an array of opportunities for reliable strategic partners and investors in the metal processing industry.

AUTOMOTIVE INDUSTRY

Bosnia and Herzegovina has a long tradition and widespread experience in the automotive industry. For decades, major brands have relied on the skilled workforce of B&H to assemble cars for Western markets. First steps in this industry were made in 1950s with production of different parts and components for passenger cars and heavy weight vehicles. At the beginning of the 1970s, Volkswagen and UNIS-Holding merged into a concern, and the production of the first vehicles in B&H began. At the same time, Famos Holding, one of the most important companies involved in the development of automotive industry in B&H, started the production of the first diesel engines licensed under Mercedes Benz as well as gears licensed under German ZF. Before 1992, Volkswagen produced passenger and commercial vehicles at a plant near Sarajevo, while Kosmos - Banja Luka and Soko - Mostar produced buses. As a consequence of existing final vehicle assembly and automotive components production, the powerful and diversified supply chain and supporting infrastructure had been established including education system, research & development institutions and specialized and competent labour force with metalworking, automotive and electrical engineering skills.



The automotive industry of Bosnia and Herzegovina was disrupted and damaged by the war, but primary metal production, metal processing, toolmaking, plastic processing, mechanical and electrical engineering, automotive textile products and vehicle assembly still exist and gradually the original cohesion of the automotive industry in B&H is on the way to its rebuild.

Within the past ten years, this industry has experienced dynamic development, and has become strongly export-oriented, exporting in average 90 % of their production in 30 countries all around world.

B&H companies in automotive industry are producers of a wide spectrum of parts and components, such as: engines and gears and their parts, high-quality metal precision parts, drive shafts, brake parts and systems, clutches, steering parts and systems, pumps, filters, automotive electric parts (signals, relays, electronic switches), textile and leather products, plastic injection parts, aluminium wheels, car batteries, and

various small parts such as springs, screws, hoses, and components of metal, rubber or plastic.

Majority of the companies are already fully privatized by local or foreign companies. Several international automotive suppliers have taken a share in BiH companies or have taken over companies completely. The corresponding investments allowed particularly those companies a high and dynamic growth. Examples of this trend are the companies TMD Ai, (subsidiary of the Slovenian Cimos-Group), which in the area of metal processing produces high-quality precision parts, or the filter manufacturer Unico Filter, which has been taken over by the German market leader Mann-Hummel. Biggest exporter and second-largest company in the country is the Prevent as a subsidiary of a Slovenian group. Prevent has several production sites in B&H for automotive products as well as share in VW Sarajevo and FAD Jelah companies. Other companies which received significant amount of FDI are: Jajce Alloy Wheels / Croatia and Germany, Bekto Precisa/ Austria, ADK/Slovenia, Skania BH / Sweden, Unis Valjci / Slovakia.

Historically and today Auto components sector in Bosnia and Herzegovina produces for the leading automotive industry brand names (Volkswagen, Mercedes, MAN). Many BH companies forming this sub-sector are producers of a wide range of components, while Volkswagen Sarajevo used to finally assemble various types of VW, Skoda and Audi passengers' cars in SKD system. Prevent B&H, as a subsidiary of a Slovenian group, supplies the seat covers for the VW-models Golf, Polo and Lupo and French manufacturers Renault and Peugeot. There are, also, companies which had indirect contacts (as subcontractors) with Toyota and Mazda (Jajce Alloy Wheels, Bekto Precisa Gorazde).

Investment opportunities

Strategic location, high quality and reliable suppliers, good educational base, innovations, infrastructure and energy availability are the focal points of promises to potential investors. With all recent strategic movements and industry renewal in B&H, auto components supply chain has a good prospective to develop further and serve the needs of the wider region. To materialize these potentials, automotive sector seeks for increased capital equipment investments, new technologies and access to the new markets, what can be met with strong strategic partners or large integrator companies which intends to move their production, or assembling activities at lower cost regions.

CONSTRUCTION INDUSTRY

Bosnia and Herzegovina has developed a large-scale construction industry starting from spanning design and structural engineering, building construction, civil engineering and building material production. However, as infrastructure projects are now underway in the country the donor nations have aided recovery by providing funds for the purchase of up-to-date equipment.

The building and civil engineer sector businesses are experienced in a wide range of projects. This sector was involved within international projects and has built a reputation for quality and reliability. Construction companies supplying key markets in the Middle East, North Africa, Russia and Asia (in 2010 about 131% increase in construction works abroad). After the period of reconstruction serious steps on infrastructures projects and building construction were undertaken. Most building materials are readily available in B&H. Virtually all of the components needed to repair existing structures and to build new ones, ranging from motorways and airports to commercial premises and housing produced by B&H businesses. Some of those that were not made in the country require only modest levels of investment to develop. This sector of the industry also offers considerable scope for export development.

Progressing perspectives

The potential for growth in Bosnia and Herzegovina construction market is very high. First priority was given to the repair and renovation of existing property and infrastructure. As a result, a substantial latent demand has developed among industrialists and the general population for new buildings. More opportunities for growth in the B&H building industry are to be found in the civil engineering sector, where there are a number of schemes in addition to Corridor Vc under discussion for major road, rail and energy production developments. These are large-scale construction projects requiring the creation of consortiums to carry out the range of tasks involved. The European construction market has continued to grow despite of the economic downturn in Europe and financial crises whole over the world. Due to the specific circumstances in Libya and crises that negatively reflected towards already started investments and construction works for bh companies situation is a little bit chanced but positive signs are already visible and new opportunities for companies are under consideration.

Investment Opportunities

As we know, the recession period in the whole world affects the construction. The advantage of B&H market is that the priority projects in construction agreed with stable sources of funding in the country and abroad.

Requirements and opportunities in construction industry exist and will be priority for the next period.

If we resume the capacity of local companies it is obvious that skilled workers are opportunity except set-up of construction machinery. Workforce is one of the opportunities in the mentioned sector. Qualified workers with experience, graduate engineers, architect and civil engineers are main vitality of the sector.

Local companies just rebuilt previous capacity and need investments for modernization of mechanization and equipments and show an interest in partnerships with foreign companies because of the necessary investments and new markets.

FIPA SUPPORT

Are you interested in investing in Bosnia and Herzegovina?

FIPA will be pleased to assist you, our services are confidential and free of charge!

Established in 1998, FIPA - Foreign Investment Promotion Agency of Bosnia and Herzegovina is the main governmental institution supporting foreign direct investment in B&H.

FIPA will help you seize business opportunities in Bosnia and Herzegovina by:

PROVIDING CURRENT DATA AND INFORMATION ON THE BUSINESS CLIMATE AND INVESTMENT ENVIRONMENT:

- ▶ Advice on the legal framework concerning Foreign Direct Investment (FDI) in B&H
- ▶ Macroeconomic data / indicators
- ▶ Investment incentives

PRESENTING INVESTMENT OPPORTUNITIES IN B&H:

- ▶ Available investment projects
- ▶ Companies in the process of privatization
- ▶ B&H companies seeking partners

PROVIDING RELIABLE ASSISTANCE, INCLUDING:

- ▶ Effective networking with the public and private sectors
- ▶ Links with governmental and non-governmental institutions

We provide client orientated research & services helping you to make your business in Bosnia and Herzegovina a “success story”!

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