



BOSNIA AND HERZEGOVINA  
INVESTMENT CLIMATE STATEMENT  
2015

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## **Executive Summary**

Bosnia and Herzegovina is a country on the Balkan Peninsula in southeastern Europe. Bosnia and Herzegovina's (BiH) political environment and complex government structures create significant obstacles to economic development and foreign direct investment. Although open to foreign investment, investors face a number of serious obstacles including complex legal and regulatory frameworks, non-transparent business procedures, corruption, insufficient protection of property rights, and a weak judicial system. BiH is effectively a landlocked country; its 12-mile coastline (Neum) lacks major transportation links. BiH's poor investment climate, coupled with the lingering effects of the global economic downturn, make BiH the least competitive economy in Southeast Europe, currently ranked 107 out of 189 global economies on the World Bank's 2015 Doing Business report (down 3 spots from 2014).

Historically, U.S. investment in BiH has been low, primarily due to the challenging business climate. Nonetheless, BiH offers business opportunities to well-prepared and persistent exporters and investors. The country is richly endowed with natural resources, providing potential opportunities in the energy (hydro and thermal power plants), agriculture, timber, and tourism sectors. The best business opportunities for U.S. exporters to BiH include energy generation and transmission equipment, telecommunication and IT equipment and services, transport infrastructure and equipment, engineering and construction services, medical equipment, and raw materials and chemicals for industrial processing. In 2014, the U.S. exported USD 323 million in goods to BiH (source: BiH Statistics Agency).

### **1. Openness To, and Restrictions Upon, Foreign Investment**

#### **Attitude toward Foreign Direct Investment**

While theoretically open to foreign investment, Bosnia and Herzegovina struggles to attract investors. A complicated political structure, non-transparent regulatory regime, complex labor and pension laws, and inadequate judicial and regulatory protections deter any investments, both foreign and domestic.

Under the BiH constitution established through the 1995 Dayton Accords, Bosnia and Herzegovina is divided into two "entities," the Federation of BiH (the Federation) and the Republika Srpska (RS). A third, smaller area, the Brčko District, operates under a separate administration. The Federation is further divided into ten cantons, each with its own government and responsibilities. Each entity also has municipalities for a total of 143 municipalities in BiH (63 in the RS and 80 in the Federation.) As a result, BiH has a multi-tiered legal and regulatory framework that is often duplicative and contradictory and not conducive to attracting foreign investors.

Employers bear a heavy burden toward governments, contributing 69 percent in payroll taxes in the Federation and 52 percent in the RS for mandatory health and pension systems. Labor and pension laws also discourage investment. While corporate income taxes in the two entities and Brčko District are now harmonized at ten percent, business registration requirements are not harmonized. The RS has its own registration requirements, which apply to the entire entity. Each of the Federation's ten cantons has different business regulations and administrative

procedures affecting companies. Simplifying and streamlining this framework is essential to improving the investment climate.

Generally, BiH's legal framework does not discriminate against foreign investors. However, given the high level of corruption, foreign investors can be at a significant disadvantage in relation to entrenched local companies, especially those with formal or informal backing by BiH's various levels of government.

### **Other Investment Policy Reviews**

The World Bank's, 2015 Doing Business Economic Profile and Economist's Intelligence Unit provide broad information about BiH's economy.

### **Laws/Regulations of Foreign Direct Investment**

The state-level Law on the Policy of Foreign Direct Investment accords foreign investors the same rights as domestic investors and guarantees foreign investors national treatment, protection against nationalization/expropriation that is not in the public interest, and the right to dispose of profits and transfer funds. With the exception of the defense industry and certain elements of the media sector, where foreign control is limited to 49 percent of a single company, there are no restrictions on foreign investment.

As a result of FDI Law amendments adopted in March 2015, foreign investors can now own more than 49 percent of capital business entities dealing with print media activities, such as publishing newspapers, magazines and other journals, publishing of periodical publications, production and distribution of television programs, privately-owned broadcasting of radio and TV programs, and other forms of daily or periodic publications of edited produced program content through transfer of recordings, voice, sound or images. However, the amended FDI Law maintains the restriction that foreign investors cannot own more than 49 percent of public television and radio services. The March 2015 amendments also set clear and precise conditions to enhance legal security and clarity for foreign direct investment flows.

The complex legal environment in BiH points to the need for a local attorney. The legal framework is sometimes contradictory or overlapping, creating confusion and uncertainty. The experience base of Bosnian attorneys is still limited with respect to legal questions and the issues that arise in a market-oriented economy. However, local lawyers are quickly gaining experience in working with international organizations and companies that are operating in BiH. Companies' in-house legal counsel should be prepared to oversee their in-country counsel, with explicit explanations and directions regarding objectives. The U.S. Embassy maintains a list of local lawyers willing to represent U.S. citizens and companies in BiH. The list can be accessed at <http://sarajevo.usembassy.gov/lawyers.html>.

Additional English-language information on the procedures and business registration process can be obtained from:

BiH Ministry of Foreign Trade & Economic Relations (MoFTER)

Tel: +387-33-220-093

Fax: +387-33-445-911

[www.mvteo.gov.ba](http://www.mvteo.gov.ba)

BiH Foreign Investment Promotion Agency (FIPA)

Phone: + 387 33 278 080

Fax: + 387 33 278 081

[www.fipa.gov.ba](http://www.fipa.gov.ba)

### **Industrial Promotion**

There are no specific government programs to attract foreign investment. Sporadically, high-ranking government officials give media statements inviting foreign investments in the energy, transportation, and agriculture industries; however, the announcements are rarely supported by tangible, commercially viable investment opportunities.

### **Limits on Foreign Control**

With the exception of the defense industry and certain elements of the media sector, where foreign control is limited to 49 percent of a single company, there are no restrictions on investment.

### **Privatization Program**

Although many state-owned enterprises (SOEs) do exist in BiH, privatization offerings are scarce and often require unfavorable terms. Some formerly successful SOEs have accrued significant debts from unpaid health and pension contributions, and potential investors are required to assume these debts and maintain the existing workforce. Under the State-level FDI Law, foreign investors are allowed to bid on privatization tenders.

The Federation government has approved the privatization of 14 companies based on the Privatization Plan of the Federation Agency for Privatization for 2015. However, this decision is non-binding, and there is no enforcement mechanism. Some of the companies listed have posted losses and suffered significant decline in value; others have only a small amount of public ownership. The 14 companies are: Bosnalijek, Energopetrol, Energoinvest, Aluminij Mostar, Hidrogradnja, Remontni Zavod Travnik, Šipad export-import, Zenica Steel plant, KTK Visoko, Agrokomerc, Borac Confection Travnik, Tobacco Factory Mostar, Vitezit, and Holding Company Putevi BiH. The Government website on privatization is here:

<http://www.apf.com.ba/default.aspx?pageIndex=1&langTag=en-US>

### **Screening of FDI**

The Bosnia and Herzegovina government does not screen or review foreign direct investments, except in the cases of privatization in order to ensure the privatization contract has been met. If the privatization contract commitments are not fulfilled, the government retains the right to cancel the privatization contract. A foreign investor has the right to appeal the review process.

## Competition Law

BiH has a Competition Council, designed to be an independent public institution to enforce anti-trust laws, prevent monopolies, and enhance private sector competition. The Council reviews and approves foreign investments in cases of mergers and acquisitions of local companies by foreign companies. The Competition Council consists of six members appointed for six-year terms of office with the possibility of one reappointment. The BiH Council of Ministers appoints three Competition Council members, the Federation Government appoints two members, and the RS Government appoints one member. From the six-member Competition Council, the BiH Council of Ministers affirms a president of the Council for a one-year term without the possibility of reappointment.

## Investment Trends

The country's political environment, complex government structure, slow pace on implementing economic reforms, and lack of a single economic space creates significant obstacles for domestic and foreign investors.

*Table 1*

Measure	Year	Index or Rank	Website Address
<b>TI Corruption Perceptions index</b>	2014	80 of 175	<a href="http://transparency.org/cpi2014/results">transparency.org/cpi2014/results</a>
<b>World Bank's Doing Business Report "Ease of Doing Business"</b>	2015	107 of 189	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
<b>Global Innovation Index</b>	2014	81 of 143	<a href="http://globalinnovationindex.org/content.aspx?page=data-analysis">globalinnovationindex.org/content.aspx?page=data-analysis</a>
<b>World Bank GNI per capita</b>	2013	USD 4,780	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## 2. Conversion and Transfer Policies

### Foreign Exchange

The Law on Foreign Direct Investment guarantees the immediate right to transfer and repatriate profits and remittances. Local and foreign companies may hold accounts in one or more banks authorized to initiate or receive payments in foreign currency. The Central Bank's adoption of a currency board in 1997 guarantees that the local currency, the convertible mark or KM, is fully convertible to the euro with a fixed exchange rate of KM 1.95583 = EUR 1.00.

#### *Remittance Policies*

BiH has no remittance policy although remittances are generally high due to a large diaspora. Remittances are estimated to range up to 15 percent of total GDP. Based on the two entities'

Laws on Foreign Currency Exchange, all payments in the country have to be in national currency.

The Financial Action Task Force (FATF) does not sanction Bosnia and Herzegovina. On March 11, 2015, required amendments for terrorist financing were added to the criminal code; however, there are remaining bylaws that need to be updated in order to fulfill FATF obligations.

### **3. Expropriation and Compensation**

The BiH investment law prohibits expropriation of investments, except in the public interest. According to Article 16, foreign investment shall not be subject to any act of nationalization, expropriation, requisition or measures that have similar effects, except where the public interest may require otherwise. In situations dealing with public interest, expropriation of investments can only be carried out in accordance with applicable laws and regulations, should be free from discrimination, and would include payment of appropriate compensation. No government entity has expropriated any foreign investments to date.

### **4. Dispute Settlement**

#### **Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts**

BiH has a lagging court system and it often takes several years for a case to be brought to trial. Moreover, commercial cases with subject matter that judges do not have experience adjudicating such as intellectual property cases are often left unresolved for lengthy periods of time. Most judges have little to no actual experience adjudicating international commercial disputes and would benefit from training on applicable international treaties and laws.

The U.S. Government has provided training to judges, trustees, attorneys, and other stakeholders at both state and entity levels to assist in the development of bankruptcy and intellectual property rights laws, which are now in effect at both the entity and state levels, but their implementation remains deficient.

#### **Bankruptcy**

Both entities have Laws on Bankruptcy; however, the existing laws are inadequate since bankruptcy proceedings are not resolved in a timely manner, and there is insufficient emphasis placed on companies' rehabilitation and/or reorganization. The entities' laws define the rights of creditors, equity shareholders, and holders of other financial contracts. Foreign contract holders enjoy the same rights as local contract holders. Bankruptcy is not criminalized. The U.S. Government has provided recent training to judges on international bankruptcy principles.

#### **Investment Disputes**

Over the last decade, there has been only one investment dispute involving a U.S. investor and the local government. While efforts are being made to improve BiH's commercial court system, its current capacity and practical inefficiencies limit timely resolution of commercial disputes.



## **International Arbitration**

Since 1997, Bosnia and Herzegovina has been a member state to the International Centre for the Settlement of Investment Disputes. BiH does not have a BIT or trade agreement with the United States. International arbitration to settle private investment disputes is accepted if the parties outline this option in a contract.

The only domestic arbitration body currently available is the Arbitration Court of the BiH Foreign Trade Chamber – lacks experience as an institution. It has yet to update its laws and regulations in line with international norms and standards. There is no formal process for training and licensing the arbitrators. Domestic arbitration legislation is encompassed within the Civil Procedure Code, is not currently modeled on internationally accepted regulations, and is generally poorly addressed. Namely, there are few provisions in the entities' laws that regulate litigation procedures, which are the legal basis for parties in dispute to entrust the dispute to arbitration. There is no legislation that is modeled on internationally accepted regulations, such as the model law of the United Nations Commission on International Trade Law (UNCITRAL).

### *ICSID Convention and New York Convention*

BiH is a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention). This convention guarantees that local domestic courts must enforce international arbitration awards if they meet certain criteria. Bosnia and Herzegovina is a member state to the International Centre for Settlement of Investment Disputes (ICSID convention).

## **Duration of Dispute Resolution**

Government agencies and courts are often unpredictable and intermittent in their enforcement of commercial violations. In the rare instances that cases reach a court of law, prosecutors and judges too often put commercial cases on the back burner, leading to excessively long court procedures. Creating a commercial court focused on contract disputes, company restructuring procedures, and intellectual property protection, would significantly improve protection of Bosnian companies and improve the country's reputation in terms of the rule of law.

## **5. Performance Requirements and Investment Incentives**

### **WTO/TRIMS**

BiH is at the last stage of the World Trade Organization (WTO) accession process. A remaining outstanding issue is the Federation's Law on Internal Trade, which requires that 50 percent of products in shopping malls be of local origin, and this requirement is inconsistent with WTO guidelines.

## Investment Incentives

There are several incentives for foreign direct investment, including exemptions from payment of customs duties and customs fees. Bosnia and Herzegovina is divided into three jurisdictions for direct tax purposes: the Federation, the RS, and the Brčko District.

In the Federation, RS, and Brčko District, the corporate income tax allows offsetting of losses against profits over a five-year period. Foreign investors can open bank accounts in all jurisdictions and transfer their profits abroad, without any restrictions. The rights and benefits of foreign investors granted and obligations imposed by the Law on the Policy of Foreign Direct Investment cannot be terminated or overruled by subsequent laws and regulations. Should a subsequent law or regulation be more favorable to foreign investors, the investor has the right to choose the most beneficial regulations.

In addition to the BiH-wide incentives listed above, the two entities and the Brčko District have specific incentives. In the Brčko District, investments in fixed assets are subject to tax relief. Describe any form of investment incentive (i.e. grants, tax credit or deferral, access to loans, reduced cost of land) available to foreign investors. If available, indicated if incentives are outlined in domestic laws, government administrative procedures, or obtained through party agreement.

In the Federation:

The Law on Corporate Income Tax enables a company, which has achieved 30 percent of its total revenue by export to be exempted from corporate income tax payment for that year.

A taxpayer who invests KM 20 million (USD 12 million) over the period of five years is exempted from the payment of corporate income tax for the period of five years beginning from the first investment year, in which a minimum KM 4 million (USD 3 million) must be invested. [If the taxpayer, in the time period of five years, does not achieve the prescribed 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 with a penalty interest payable for untimely paid public revenues.]

A taxpayer with more than 50 percent of employment by disabled persons and persons with special needs year is exempted from the payment of corporate income tax. The exemption applies to the applicable year in which disabled persons and persons with special needs met the required threshold (employees must have been with the company for longer than one year to be considered).

In the Republika Srpska:

In its Amendments to the Law on Profit Tax, the RS has introduced a tax base reduction in the value of investment for:

- Investment in equipment intended for the company production activity
- Investment in plants and immovable property used for manufacturing and processing activities

For employers with at least 30 workers during a calendar year, there is a tax base reduction in the personal income tax and the mandatory contribution of the employer (employees must be officially listed with the RS Employment Office).

Also, in the RS, new incentives were established by the Decree on Conditions and Implementation of the Investment and Employment Support Program (Official Gazette of RS No. 70/12). The incentives aim to encourage and support direct investments, employment growth, and transfer of new knowledge and technologies. Participants must be investors with existing investment projects in the RS manufacturing sector. There is as a minimum investment value of KM 2 million (USD 1.2 million) and new employment for at least 20 workers to qualify for the incentives. The total funding to be awarded shall be set in proportion to the value of investment in the manufacturing sector and the number of the newly employed, as well as the development level of the investment location.

In early 2015, several economic-focused laws were passed in the RS including the Law on Property Tax, which imposes a flat rate for property taxes in all municipalities; Law on Income Tax which exempts dividends and profit shares from taxation; Law on Corporate Income Tax which broadens the scope of deductible expenses and also harmonizes taxes for foreign investors; and the Law on Contributions which decreases tax contributions employers pay on salaries by 1.4 percent

#### *Research and Development*

The host government does not restrict participation of foreign companies in government-financed research and development programs.

#### **Performance Requirements**

The host government does not mandate local employment and does not impose excessively onerous visa, residence, work permit, or similar requirements that would inhibit mobility of foreign investors and their employees.

#### **Data Storage**

BiH government does not have a forced localization policy in which foreign investors must use domestic content or sourcing in goods or technology. Also, there are no requirements for foreign IT providers to turn over source code and/or provide access to surveillance.

#### **6. Right to Private Ownership and Establishment**

Under the state-level investment law, a foreign enterprise has the same rights as a BiH enterprise or citizen, and foreign entities can establish and own a business with the same rights as domestic entities. However, the Federation Companies Law, unlike laws in the RS and the Brčko District, does not provide an option for foreign legal entities to establish a branch office. Foreign investors may own real estate in BiH and enjoy the same property rights as BiH citizens and legal entities, except in the defense industry and certain elements of the media sector, where foreign control is limited to 49 percent of a single company. Also, a foreign person cannot own

property in an area declared by the law to be exempt due to the interests and security of the government. Foreign interests must follow the same regulatory procedures when establishing their enterprises.

## **7. Protection of Property Rights**

### **Real Property**

Registration of real property titles is generally acknowledged as a significant barrier to the development of real property and mortgage markets. The present system consists of separate Geodetic Administrations for FBiH and RS, which are responsible for the real property cadasters. The real property cadasters describe and certify the legal object e.g. land, house. Separately, the land registry establishes legal ownership and rights for the specific object (e.g. land, house) and is maintained by municipal courts. A significant portion of land and real estate property does not have a clear title due to restitution issues.

### **Intellectual Property Rights**

Bosnia's intellectual property rights (IPR) framework consists of seven laws, adopted and put into force by the BiH Parliament in 2010. This legislation is compliant with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and EU legislation. BiH belongs to over 20 international treaties related to IPR and in 2009 ratified the 1996 World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performance and Phonograms Treaty. Although existing legislation provides a basic level of protection, BiH's civil and criminal enforcement remains weak.

Jurisdiction over IPR investigations is split between customs officials, entity inspectorates, and state and entity law enforcement agencies, and no institution has specialized IPR investigation teams. IPR crimes are prosecuted primarily at the state level. Those cases indicted often involve fairly low-level violators. The more significant cases have sometimes languished for years with little action from prosecutors or judges.

The government has been using licensed software for a number of years. The state-level government came into compliance in 2009, a significant step forward in the government's commitment to IPR protection. However some officials still lack understanding of the importance of IPR. Illegal DVDs and CDs are still available for sale in small public markets. BiH's enforcement record still leaves much room for improvement. At this time, there is no mechanism to combat digital piracy.

In BiH's private sector, awareness of IPR, particularly the importance of copyright protection, remains low. Curbing business software piracy could significantly improve the local economy through the creation of new jobs and the generation of significant tax revenue. Failure to recognize the importance of reducing copyright infringement makes software producers and official distributors less competitive and the establishment of a legitimate market more difficult. Businesses lose an estimated USD 15 million from the sale of counterfeit software, CDs, and DVDs. According to the Business Software Alliance (BSA), the rate of illegal software installed

on personal computers in Bosnia and Herzegovina currently remains at 66 percent, which is the regional average.

Collective copyright protection also remains a challenge in Bosnia and Herzegovina. AMUS, the only licensed collective management organization for music authors in BiH, faces enforcement challenges and both members and users remain skeptical and unfamiliar with collective copyright management protection. Other rights holders like visual artists, filmmakers, and literary authors remain unrepresented in BiH, without a collective society protecting their creative works or collecting and distributing royalties for use of their works on their behalf.

The U.S. Government, in conjunction with local partners, has made IPR awareness within the enforcement community a priority through training and public awareness programs. In February 2013, the Embassy organized an IPR enforcement discussion with entity and cantonal market inspectors, representatives of the Business Software Alliance (BSA), the American Chamber of Commerce in BiH, and several U.S. software companies. In addition, the Embassy sponsored an IPR project with the Association for the Protection of Audiovisual Works (APAW) BiH focused on the film industry, digital piracy, and necessary updates to BiH legislation. That same year, the U.S. Department of Commerce also provided technical assistance through a judicial capacity building project focused on the adjudication of intellectual property infringement cases. The U.S. Department of Commerce also published a Judicial Intellectual Property Benchbook to be used by judges for both training purposes and as a resource when adjudicating IP cases.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at [www.wipo.int/directory/en/](http://www.wipo.int/directory/en/).

Embassy lawyers list link: [www.sarajevo.usembassy.gov/lawyers.html](http://www.sarajevo.usembassy.gov/lawyers.html)

#### *Resources for Rights Holders*

Embassy point of contact:  
Matthew Fullerton  
Economic and Commercial Officer  
email: FullertonMA@state.gov  
Phone: +387 33 704 000

## **8. Transparency of the Regulatory System**

The government has adequate laws to foster competition but due to corruption, laws are often not implemented transparently or efficiently. The multitude of state, entity, cantonal (in the Federation only), and municipal administrations – each with the power to establish laws and regulations affecting business – creates a heavily bureaucratic, non-transparent system. It is difficult to know all of the laws or rules that might apply to certain business activities, given overlapping jurisdictions and the lack of any central source of information. Foreign investors often, therefore, obtain local assistance and advice. In an effort to promote the growth of business in its entity, the Republika Srpska government passed a series of amendments in fall and winter 2013 to create an RS one-stop-shop for business registration. This institution

centralizes the process of registering a business, ostensibly making it easier, faster and cheaper for new business owners to register their companies in the RS.

Businesses are subject to inspections from a number of entity and cantonal/municipal agencies including the financial police, labor inspectorate, market inspectorate, sanitary inspectorate, health inspectorate, fire-fighting inspectorate, environmental inspectorate, institution for the protection of cultural monuments, tourism and food inspectorate, construction inspectorate, communal inspectorate, and veterinary inspectorate. Some investors have complained about non-transparent fees levied during inspections, changing rules and regulations, and an ineffective appeals process to protest these fines.

## **9. Efficient Capital Markets and Portfolio Investment**

Capital markets remain underdeveloped in BiH. Both entities have created their own modern stock market infrastructure with separate bourses in Sarajevo (SASE) and Banja Luka (BLSE), both of which started trading in 2002. The small size of the markets, lack of privatization, and public mistrust of previous voucher privatization programs has impeded the development of the capital market. However, during the global economic crisis, foreign investment dwindled and investors saw previous gains dissipate on both exchanges. Foreign investment has shown no signs of growth since 2008, shaped not only by the global financial crisis but also by BiH's lack of political stability and slowdown of reforms.

Both the RS and Federation issued government securities for the first time during 2011, as part of their plans to raise capital in support of their budget deficits during this period of economic stress. Both entity governments continue to issue government securities in order to fill budget gaps. These securities are also available for secondary market trading on the stock exchanges.

On March 13, 2015 Standard & Poors (S&P) affirmed BiH's B/B long- and short-term foreign and local currency sovereign credit ratings. The agency kept the outlook stable based on its expectation that the country will continue to receive stable creditor support. In the rationale, the S&P noted that BiH's ratings are constrained by its fragile, overlapping government institutions, its weak fiscal management framework and its vulnerable external position arising from persistent current account deficits. The agency said that despite devastating May floods last year that inflicted damages of up to 15 percent of GDP, BiH's fiscal and external metrics did not deteriorate as sharply as it anticipated. S&P forecasts real GDP growth to average just under 3 percent annually, led by exports, in 2015-18. It also sees investment financed by multilateral institutions, as well as private projects (particularly in the energy sector), as important growth drivers. S&P expects that the BiH authorities will likely negotiate a new program jointly with the IMF in summer 2015. S&P believes that disbursements linked to conditionality will provide a policy anchor as it is with the current IMF arrangement.

### **Money and Banking System, Hostile Takeovers**

Bosnia and Herzegovina's banking and financial system has been stable with the most significant investment coming from Austria. As of February 2015, 27 commercial banks operated in BiH; 18 with headquarters in the Federation and 9 in the Republika Srpska. 24 commercial banks are members of a deposit insurance program, which provides for deposit insurance in the amount of

KM 50,000 (USD 27,000). Recently, one commercial bank in the RS, Bobar Banka, Bijeljina collapsed and it is currently under provisional administration. The banking sector is divided between the two entities with entity Banking Agencies responsible for banking supervision.

BiH passed a state-level framework law mandating the use of international accounting standards, and both entities passed legislation that eliminated differences in standards between the entities and Brčko District. All governments have implemented accounting practices that are fully in line with international norms.

## **10. Competition from State-Owned Enterprises**

In BiH, the vast majority of public companies are owned by subnational governments: the two entities and ten cantons. In sectors such as telecommunications and electricity, government-owned enterprises (SOEs) hold a near-monopoly, making hefty profits as a direct result of their dominant market position. Generally, government-owned companies are controlled by various alliances of political parties, increasing the possibilities for corruption and inefficient company management.

### **OECD Guidelines on Corporate Governance of SOEs**

BiH is not an OECD member and does not promote the Guidelines on Corporate Governance of SOEs, as described above. Corporate governance is not part of the broader economic mindset, and shareholder protection is not a priority. The financial system is not yet developed enough to understand and apply principles of corporate governance and shareholder protection.

### **Sovereign Wealth Funds**

None applicable.

## **11. Responsible Business Conduct**

Foreign and local companies exercise some responsible business conduct activities and awareness. In general, consumers tend to view favorably companies that initiate and carry out charitable activities in the local market.

### **OECD Guidelines for Multinational Enterprises**

The BiH government does not mandate or actively encourage responsible business conduct (RBC) principles such as the OECD Guidelines for Multinational Enterprises.

## **12. Political Violence**

In November of 1995, the war in Bosnia and Herzegovina was halted by the Dayton Peace Accords. There have been no attacks targeting foreign investments. However, there are still risks from occasional, localized political and criminal violence.

In mid-June 2013 and early 2014, large groups of citizens protested the country's economic stagnation and the government's apparent inability to improve the situation. The vast majority of protests were peaceful with relatively small numbers of participants. The first string of protests took place in Sarajevo, while the second outbreak of protests occurred in several cities throughout the country but mainly within the Federation. Protests in early 2014 in the cities of Sarajevo, Mostar, and Tuzla resulted in attacks on government buildings, destruction of government property, and injury. There were no reports of foreign investors being directly targeted in the protests.

### **13. Corruption**

Corruption remains prevalent in many political and economic institutions in Bosnia and Herzegovina and raises the costs and risks of doing business. BiH's overly-complex business registration and licensing process is particularly vulnerable to corruption. The multitude of state, entity, cantonal, and municipal administrations, each with the power to establish laws and regulations affecting business, creates a system that lacks transparency and opens opportunities for corruption. With the large number of levels involved, there are multiple opportunities to demand "service fees". Paying bribes to obtain necessary business licenses and construction permits, or simply to expedite the approval process, occurs regularly.

Transparency International's (TI) 2014 Corruption Perception Index ranked BiH 80 out of 174 countries. According to TI, relevant institutions lack the will to become actively involved in fighting corruption; law enforcement agencies and the judiciary are not effective in the prosecution of corruption cases and are visibly exposed to political pressures; and prosecutors complain that citizens generally do not report instances of corruption and do not want to testify in these cases. In 2011, BiH established a state level agency to prevent and coordinate efforts to combat corruption; while officially active, the agency has shown limited results.

Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It deters foreign investment, stifles economic growth and development, distorts prices, and undermines the rule of law. U.S. companies must carefully assess the business climate and develop an effective compliance program and measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms should take the time to become familiar with the relevant anticorruption laws of both BiH and the United States in order to properly comply, and where appropriate, seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, and uphold obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies.

U.S. firms should become familiar with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.



The U.S. Department of Commerce offers several services to aid U.S. businesses. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting due diligence when choosing business partners or agents overseas and provide support for qualified U.S. companies bidding on foreign government contracts. For a list of U.S. Foreign and Commercial Service offices: [www.trade.gov/cs](http://www.trade.gov/cs)

*UN Anticorruption Convention, OECD Convention on Combatting Bribery*

BiH signed and ratified the UN Anticorruption Convention on October 2006. BiH is also the party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

*Resources to Report Corruption*

Contact at government agency responsible for combating corruption:

BiH Agency for the Prevention of Corruption and Coordination of the Fight against Corruption

Phone: +387 57 322 540

email: [kontakt@apik.ba](mailto:kontakt@apik.ba)

[www.apik.ba](http://www.apik.ba)

Contact at watchdog organization:

Transparency International BiH

Phone: +387 51 216928

Fax: +387 51 216369

email: [info@ti-bih.org](mailto:info@ti-bih.org)

[www.ti-bih.org](http://www.ti-bih.org)

## **14. Bilateral Investment Agreements**

BiH does not have a bilateral investment treaty with the United States.

BiH has signed/ratified 42 agreements to promote and protect investments with the following countries: Albania, Austria, Belgium, Belarus, China, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Netherlands, Hungary, India, Iran, Italy, Jordan, Kuwait, Lithuania, Luxembourg, Macedonia, Malaysia, Moldova, Montenegro, Netherlands, Pakistan, Portugal, Qatar, Romania, Serbia, Libya, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UAE, Ukraine, and the United Kingdom.

BiH had been designated as a beneficiary country under the United States Generalized System of Preferences (GSP) program; however, legal authorization for the GSP program has expired. As of August 1, 2013, imports from BiH, previously eligible for duty-free treatment under GSP, are subject to regular, normal trade relations duties. The U.S. Congress is considering legislation that would extend the authorization of GSP.

The Interim Agreement on Trade and Trade-related matters (IA) between the European Union and Bosnia and Herzegovina is currently in force. According to the IA, all goods of BiH origin

that fulfill EU technical-technological standards and conditions can be imported to all EU countries without any quantitative restrictions and without paying customs or other similar duties. Only sugar, wine, fish and baby beef are subject to specific quotas beyond which duties are to be paid by Bosnia and Herzegovina for the export to the EU. Since 2009, import tariffs have been eliminated for more than 11,000 products that BiH imports from the EU. With Croatia's accession to the EU, Bosnia and Herzegovina now imposes substantial import duties on agricultural products from Croatia, in particular on milk and certain meat and meat products. The EU has raised concerns over these agricultural import duties.

### **Bilateral Taxation Treaties**

BiH does not have a bilateral taxation treaty with the United States.

### **15. OPIC and Other Investment Insurance Programs**

Overseas Private Investment Corporation (OPIC) activities in BiH include insurance for investors against political risk; coverage of losses due to expropriation of assets, political violence, and currency inconvertibility; and insurance coverage for contracting, exporting, licensing and leasing transactions.

Political risk insurance is also available from the EU Investment Guarantee Trust for BiH, administered by the Multilateral Investment Guarantee Agency, a World Bank affiliate.

### **16. Labor**

BiH has a workforce with lower labor costs by western standards, and university enrollments have been increasing for a number of years. However, several sectors such as construction, information technology, and health care have experienced a significant loss of skills over the past decade due to a lack of education and job training opportunities, as well as emigration. Tax rates on labor are high, discouraging employment of new workers and increasing incentives for unregistered employment. Current labor legislation provisions make it difficult to dismiss redundant and inefficient workforce. Employers complain of the long and tedious court process if a dismissed employee alleges unjust dismissal. While no legal or technical barriers prevent an employee from bringing a complaint against an employer, high unemployment coupled with fear of losing one's job, a backlogged court system, and the lack of legal protection for the approximately 40 percent of the labor force working in the informal economy are disincentives to filing complaints. The labor inspectorates and courts do not deal effectively with complaints of antiunion discrimination by employers, although Federation and RS courts often rule in favor of workers in union-related disputes. The government does not impose fines on employers who prevent workers from unionizing.

Investors claim that the wage determination system stands in the way of job creation and worker mobility. This is a result of a collective bargaining system that retains most of its socialist-era characteristics. The law provides for the right of workers in both entities to form and join independent unions and bargain collectively. The law prohibits antiunion discrimination. However, the government does not effectively enforce all applicable laws. Violations of worker rights continue to be a lower priority for ministry inspectors, as state officials instead focused on

bolstering state revenues by cracking down on unregistered employees and employers who did not pay taxes. Employees and employers share the costs of health care, pension, and unemployment insurance in the Federation while in the Republika Srpska employers cover all of these costs, as well as child care contributions. Many employers underreport their labor force to avoid paying taxes and benefits, creating a significant gray market. Official unemployment is approximately 44 percent. However, unemployment based on the ILO definition, which factors in unregistered workers in the “gray economy,” is approximately 27 percent. Youth unemployment is estimated to be 60 percent. According to informal estimates, approximately 40 percent of the total work force was unregistered and in the informal economy.

Entity governments are currently working on drafts of new labor codes, with assistance from the World Bank and the IMF, in order to make local labor laws consistent with ILO labor standards and EC labor directives. In addition, the new labor laws will aim to create a more flexible labor market in order to address BiH’s endemically high unemployment rate. Collective agreements will be revised and minimum wage provisions will be adjusted to reflect age and experience.

### **17. Foreign Trade Zones/Free Ports/Trade Facilitation**

The BiH Law on Free Trade Zones allows the establishment of free trade zones (FTZs) as part of the customs territory of BiH. Currently there are four free trade zones in BiH: Vogosca, Visoko, Hercegovina-Mostar, and Holc Lukavac. One or more domestic or foreign legal entities registered in BiH may create a FTZ.

The users of FTZs do not pay taxes and contributions, with the exception of those related to salaries and wages. Investors are free to invest capital in the FTZ, transfer their profit and retransfer capital. Customs and tariffs are not paid on imports into FTZs. The import of equipment for manufacturing within FTZs may be discontinued, however, if the value of goods produced and exported abroad is less than 75 percent of the total value of goods produced in that zone.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
<b>Host Country Gross Domestic Product (GDP) (\$B USD)</b>	2013	17.8	2013	17.8	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
<b>Foreign Direct Investment</b>	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
<b>U.S. FDI in partner country (\$M USD, stock positions)</b>	2014	170	2013	6	
<b>Host country's FDI in the United States (\$M USD, stock positions)</b>	2013	0	2013	N/A	<a href="http://bea.gov/international/factsheet/factsheet.cfm?Area=358">http://bea.gov/international/factsheet/factsheet.cfm?Area=358</a>
<b>Total inbound stock of FDI as % host GDP</b>	2013	1.9%	2013	2.1%	

\*Host country source: Central Bank of BiH

*Table 3: Sources and Destination of FDI*

According to the BiH Central Bank, from a high of USD 2.1 billion in 2007, foreign direct investment (FDI) totaled USD 295 million in 2013 and approximately USD 350 million for the first nine months of 2014. Most investments in 2012-2014 came from Russia, Austria, Croatia, Serbia, and United Kingdom.

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**Direct Investment from/in Counterpart Economy Data**


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**From Top Five Sources/To Top Five Destinations (US Dollars, Millions)**


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Inward Direct Investment			Outward Direct Investment		
Total Inward	Amount	100%	Total Outward	N/A	100%
Austria	1,680	24%			
Serbia	852	12%			
Croatia	851	12%			
Slovenia	742	11%			
Germany	456	6%			
"0" reflects amounts rounded to +/- USD 500,000.					

*Table 4: Sources of Portfolio Investment*

Portfolio investment statistics are not available for Bosnia and Herzegovina.

**19. Contact for More Information**

United States Embassy Sarajevo  
 Economic/Commercial Section  
 Robert C. Frasure 1  
 71000 Sarajevo  
 Bosnia and Herzegovina  
 tel. +387-33-704-000  
 fax. +387-33-659-722  
 email: SarajevoEcon@state.gov  
 website: [www.sarajevo.usembassy.gov/business.html](http://www.sarajevo.usembassy.gov/business.html)