

Addendum 7a(1)

**Seminar on the Promotion of  
Foreign Direct Investment to  
Southeastern Europe**

**Bosnia and Herzegovina(1)**  
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Being a country in which the International Community assists in the adoption of laws facilitating market economy, with the access to the leading international monetary institutions, Bosnia and Herzegovina COULD BE very interesting for foreign investors. The provisions of the our Laws are very similar to those in modern market-oriented economies. Major internal and external trade barriers have been removed. Today Bosnia and Herzegovina is a single market with 3\$ billion of import sales and 4 billion of domestic produced goods sales.

Macroeconomic stabilization is now by a large intact. We successfully concluded an IMF Stand by Arrangement in May 2001, and are negotiating a new IMF program now. The strong economic recovery has allowed post – war output to more than double, from US\$ 1,867 million in 1995 to US\$ 4,451 million in 2000. In year 2001, Gross domestic product (GDP) amounts to US\$ 1,176 per capita. Unemployment has halved from its high of nearly 80 percent at the end of the war, but unemployment is too high and is 41,1%. Inflation has fallen progressively, and is currently running at an annual rate of 0 percent. Since January 2002 the Convertible Mark was directly tied to Euro under the exchange rate 1KM = 0,51292 EUR. The KM rate is fixed and it shall not change in relation to EUR. Convertible Mark was included in the exchange rate lists of some commercial banks in Austria, Switzerland, Croatia, Hungary, Slovenia, Czech, Slovakia, Turkey and Yugoslavia.

However, we are aware that prospect for entering a phase of self-sustained growth will require successful and accelerated implementation of economic and institutional reforms. The current economic and social situation in Bosnia and Herzegovina is difficult and current technological level, industrial production has achieved only 30% of the pre-war (1990) production, coverage of import by export is 25,8%.

Working with the Entity governments, Council of Ministers of BH has for the first time started developing the Global Framework of Economic Development Strategy of BH (GFEDS) called **Entrepreneur Society**. The intention of the Council of Ministers and entity governments is to involve broader public in defining this strategy soon. Main purpose of this effort is achieving sustainable economy that would eliminate high poverty currently exists among BH population. In cooperation with WB and IFC (FIAS), some studies have been made that have given many answers related to creation of a better business environment for domestic and foreign investment. Those are the Study of Administrative Barriers to Investment in BH, the Study of Diagnostic Study of Corruption in BH and the Study of Reduction Poverty.

Bosnia and Herzegovina needs to transform the economy, so it becomes capable of creating jobs and generating wealth. Comprehensive action plan, encompassing the legal environment, administrative procedures, the judicial system and anti-corruption efforts provides a baseline strategy for improving business environment in BH. Specific required actions include:

- Support private enterprise, accelerate privatization, remove barriers to business and make this country attractive to investors by:
  - Cutting businesses registration to 15 days,
  - Enacting laws that allow small businesses to borrow and expand,
  - Reforming land ownership registry and laws in order to restore confidence in ownership and investment,
  - Driving forward strategic privatization.
  
- Make government more efficient, secure government revenues and cut government waste by:
  - Fighting tax and customs fraud and evasion,
  - Cutting unnecessary bureaucracy,
  - Simplifying taxes by replacing current inefficient sales tax regime with VAT.
  
- Guarantee the free movement of goods, people, services and capital and promote trade with EU and our trading partners through the creation of a single economic space by:
  - Eliminating double taxation within BH borders,
  - Setting up agencies in BH that command international confidence and can certify products for export to the EU,
  - Working with the EU to implement fundamental economic reforms which are indispensable if we to move towards EU membership.
  
- Work to deliver high quality, affordable utilities and essential public services by:
  - Modernizing road and rail infrastructure and ensuring safe and fully functional air transport,
  - Increasing the quality and efficiency of essential services, including by restructuring the public utilities and reforming their regulatory environment .
  
- Work to provide the elderly and the vulnerable with a secure safety net, over time as the country can afford by:
  - Securing the viability of the health insurance funding structure and work steadily to improve access to healthcare,
  - Unemployment benefits for those without jobs and revitalize the labor market to liberate the potential of BH`s work force
  - A dependable and regular income for pensioners by improving the efficiency and sustainability of the pensions system.

Trade integration must be one of the first components of overall and long term integration of the Countries of South Eastern Europe in Euro – Atlantic structures. At the meeting of “Trade Policy Forum” that was held in Geneva 17-18 January 2001, the ministries of South Eastern Europe countries agreed on starting elaboration and signing the MoU, which would regulate the issue of trade liberalization and trade concessions facilitation among the countries of the region. This Memorandum institutes the Free

Trade Zones in South Eastern Europe countries for specific time period. BH is concerned Free Trade Agreements are signed with following countries: Croatia (enforced from 1.1.2001), Slovenia (1.1.2002), Yugoslavia (1.6.2002), and FYR of Macedonia (1.7.2002). The Agreement with Turkey is concluded too and is under process of ratification. The remaining Free Trade Agreements that are to be signed with Albania, Bulgaria, Romania, and Moldavia until the end of 2002 are in the negotiating process.

One of the goals of BH is improving the quality of infrastructure services. Competent Stability Pact institutions made proposal for 27 infrastructure projects valued about 2,3 billion EURO. In the scope of this amount, BH participates with 3 projects, which value 303 million EURO. These projects are follows:

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|----------------------------------|-------------------|
| - Road infrastructure            | 120 million EURO. |
| - Railway network rehabilitation | 80 million EURO.  |
| - Power III (el. Energy)         | 103 million EURO  |

The essence of process of transition is the property transfer from State owned to private owned. A total of approximately 2,200 companies were targeted for privatization, and the process is now complete for around 1,600. Most of these are small companies, for larger companies, particularly strategic utilities, the process is taking longer than we originally hoped. The bank reform continues in the banking sector and it expected that bank privatization to be ended to end of 2002.

Law on Competition in Bosnia and Herzegovina was adopted in the House of Peoples on 23 October 2001, in the House of Representatives on 19 April 2001, and was published in the "Official Gazette of Bosnia and Herzegovina No. 30/01. The aim of passing the Competition Law is to establish principles and competition institutions designed for maintaining and stimulating economic competition in Bosnia and Herzegovina. The Competition Law defines the market competition implementing bodies. They are:

- Competition Council
- Offices for Competition and Consumers Protection

Bosnia and Herzegovina has specific organization with The Competition Council is an independent body established at the state level, and within their territorial jurisdiction both entities shall within the ministers in charge of trade establish their Office of Competition and Consumer Protections. Its will be separate organizational units.

BH Law on Foreign Trade Policy is very liberal. The basic principle of this law is a free international flow of goods and services. The provisions of the BH Law of the Direct Foreign Investment Policy define that foreign investors shall be entitled to invest into any and all sectors of Bosnia and Herzegovina and shall have same rights and obligations as the residents of Bosnia and Herzegovina . Only restrictions are investments in the production and sale of arms, ammonution, explosives for the military use, military equipment and public information. In case of investments in restriced sectors foreign control is limited to 49% of the capital in the enterprise.

Foreign investment shall be exempted from customs and customs duties, except for customs registration – provisions of the Custom Policy Law: ” Equipment, released for

free circulation, based on Foreign Direct Investment, shall be relieved from payment of customs duty in accordance with the Law on the Policy of Foreign Direct Investment in BH.”

The institution charged with the responsibility for promoting Bosnia and Herzegovina as a destination for FDI is the **Foreign Investment Promotion Agency**. I would also like to stress that special agency to encourage investment (**The Investment Guarantee Agency – IGA**). IGA was established in 1997 by Bosnia and Herzegovina and the World Bank to provide political and commercial risk guarantees for investment.

In 1997, MIGA (WB) established a special guarantee trust fund, sponsored with funds from the EU, to facilitate the flow of foreign investments into Bosnia and Herzegovina: the **European Union Investment Guarantee Trust Fund** for Bosnia and Herzegovina. The fund provides investment insurance against major political risks.