

INVESTMENT OPPORTUNITIES IN BOSNIA AND HERZEGOVINA

**Fifth Edition
FEBRUARY 2008**

FIPA



FOREIGN INVESTMENT PROMOTION AGENCY
OF BOSNIA AND HERZEGOVINA

TABLE OF CONTENTS

4	FOREWORD
8	BOSNIA AND HERZEGOVINA — KEY FACTS
10	GENERAL ECONOMIC INDICATORS
15	FDI IN BOSNIA AND HERZEGOVINA
15	TOP INVESTOR COUNTRIES
16	FDI BY SECTORS
17	TOTAL FDI INFLOW
18	EXTERNAL TRADE
20	STOCK EXCHANGE IN BOSNIA AND HERZEGOVINA
21	WHY INVEST IN BOSNIA AND HERZEGOVINA
21	ENVIRONMENT FOR INVESTMENT
22	FINANCIAL STABILITY
22	PRIVATIZATION
23	FAVOURABLE LEGISLATIVE TREATMENT
24	FREE TRADE ZONES
25	TAXATION
26	CONTRIBUTIONS
27	TAX INCENTIVES FOR FOREIGN INVESTORS
29	AGREEMENTS ON AVOIDANCE OF DOUBLE TAXATION
30	FREE TRADE AGREEMENTS AND PREFERENTIAL EXPORT REGIMES
31	POLITICAL RISK INSURANCE
32	TYPES OF COMPANIES
33	STEPS FOR ESTABLISHING A BUSINESS
34	INVESTMENT OPPORTUNITIES - ATTRACTIVE SECTORS
36	TOURISM SECTOR
42	AGRICULTURE AND FOOD PROCESSING INDUSTRY
49	ENERGY SECTOR
58	WOOD SECTOR
63	TRANSPORT SECTOR
67	MINING AND METAL PROCESSING SECTOR
72	AUTOMOTIVE INDUSTRY
75	FIPA SUPPORT

FOREWORD

Bosnia and Herzegovina (BiH) 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.



BiH has become an ideal location to invest in, with numerous investment opportunities in various sectors. BiH'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 BiH is the signatory of the Central European Free Trade Agreement (CEFTA), which provides free access to this consumer market with 50 million people. BiH also has free trade agreements with Turkey, as well as preferential export regimes with the European Union, USA, Japan, Canada, Switzerland, Australia, Norway, New Zealand and Russia.

Therefore, starting a business in Bosnia and Herzegovina means the opportunity of exporting to a market of over 1 billion 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; BiH is a potential candidate country for EU accession. In this respect, it is worth mentioning that BiH has initialled the Stabilization and Association Agreement to the EU and expects to sign it very soon, which will establish formal contractual relations between the EU and BiH.

The Foreign Investors Support Fund is a new financial incentive established in 2007 with the aim to encourage investors and contribute to the predictable business environment.

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

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

I believe this brochure will help you get better acquainted with the business environment and economic potentials of BiH. In this regard, you can expect full support from the Council of Ministers of BiH, 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 BiH.

*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 BiH

Dr. Nikola Špirić, m.p.

A WORD BY THE FIPA DIRECTOR

On behalf of the Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA), the main governmental institution supporting FDI, it is our great pleasure to present the fifth edition of Investment Opportunities in Bosnia and Herzegovina.

This publication prepared by FIPA team is a handy comprehensive guide, which provides complete and actual information on business and investment trends in Bosnia and Herzegovina. Its aim is to present all the opportunities and advantages of investing and running a business in BiH, making Bosnia and Herzegovina one of the most attractive locations for investment in the region.



“Investment Opportunities” will assist you in exploring the advantages Bosnia and Herzegovina has to offer over other countries in the region.

I would particularly like to lay emphasis on the fact that the real growth of GDP in BiH is about 8%; BiH has the most liberal law on foreign investment in the region, as well as significant comparative advantages for potential investors, primarily economic growth and macroeconomic stability and exceptionally developed banking sector. Bosnia and Herzegovina has the lowest customs rates in the region, it is signatory to Central European Free Trade Agreement (CEFTA), and has signed a Free Trade Agreement with Turkey.

Moreover, the rapid growth of the number of foreign investors in BiH every year confirms the point as well. Bosnia and Herzegovina welcomes you with open arms and invites you to come and share the profit and excitement of doing business in BiH.

Finally, I would like to point out that the Foreign Investment Promotion Agency (FIPA) provides a wide range of free and confidential services for potential and existing investors. To find out more about investment opportunities in BiH, to obtain more information on any of the topics covered in this brochure, or to learn more about our services and support, please contact us directly.

*So let FIPA help you make your business in Bosnia and Herzegovina
a success story!*

Director of FIPA BiH
Haris Bašić

BOSNIA AND HERZEGOVINA KEY FACTS



Official name:	Bosnia and Herzegovina (locally Bosna i Hercegovina, most commonly abbreviated as BiH)
Capital city:	Sarajevo (population 400,000)
Other major cities:	Banja Luka, Bihać, Mostar, Tuzla, Zenica
Geographic location:	South Eastern Europe, borders with Croatia (932km), Serbia (312km) and Montenegro (215km).
Area:	51,209 km ²
Population:	3.4 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 BiH and Republic of Srpska) and Brčko District of BiH
Government structure:	BiH 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:	11.6 billion EUR (2007)
GDP per capita:	3,412 EUR (2007)
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

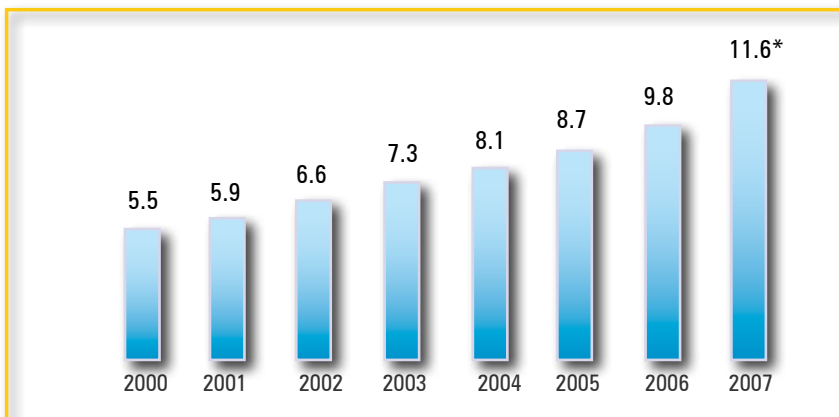
GENERAL ECONOMIC INDICATORS

Indicators	2000	2001	2002	2003	2004	2005	2006	2007*
Nominal GDP (billion EUR)	5.5	5.9	6.6	7.4	8.1	8.7	9.8	11.6
GDP per capita (EUR)	1,660	1,786	1,958	2,214	2,388	2,561	2,873	3,412
Real GDP growth rate (%)	5.5	4.5	5.5	3.0	6.3	4.3	6.2	8.0
Industrial production growth rate (%)	8.8	12.2	9.2	4.8	9.0	10.0	11.0	10.0
Average net wages (EUR)	190	209	228	247	258	275	300	329
Annual inflation rate (%)	4.8	3.1	0.4	0.6	0.4	3.7	6.1	4.9
Annual unemployment rate (%)	39.7	40.3	40.9	42.0	43.2	31.1	30.0	28.0
Currency reserves (million EUR)	522	1,379	1,270	1,428	1,779	2,160	2,787	3,420
Trade balance (billion EUR)	- 3.00	- 3.31	- 3.52	- 3.67	- 3.68	- 4.01	- 3.41	- 4.14
Deposits of households in Commercial Banks, mill EUR	267	740	829	985	1,273	1,629	2,097	2,543
Total FDI (mill EUR)	159	133	282	338	567	478	564	1,628
FDI contribution to GDP (%)	2.9	2.2	4.3	4.6	7.0	5.5	5.8	14.0
Population (in million)	3.30	3.32	3.35	3.35	3.38	3.38	3.40	3.40

Source: Central Bank of BiH, Agency for Statistics of BiH, 2007 - FIPA

* Estimation FIPA

NOMINAL GDP, BILLION EUR

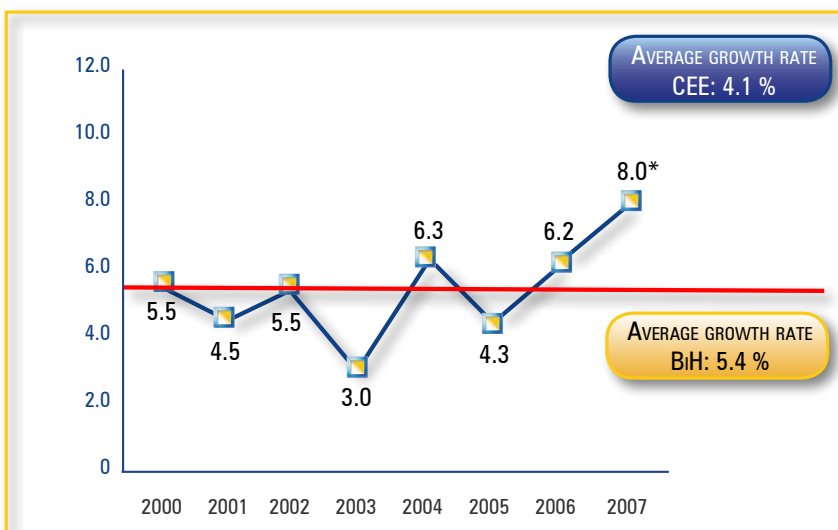


Source: Central Bank of BiH, * FIPA Estimation

GDP is continuing fast growth in 2007 with nominal rate of 11.8% and real growth rate of 8%. For the first time GDP per capita exceeded amount of 3,000 EUR and is continuing to approach GDP per capita of less developed EU member states (Bulgaria and Romania).

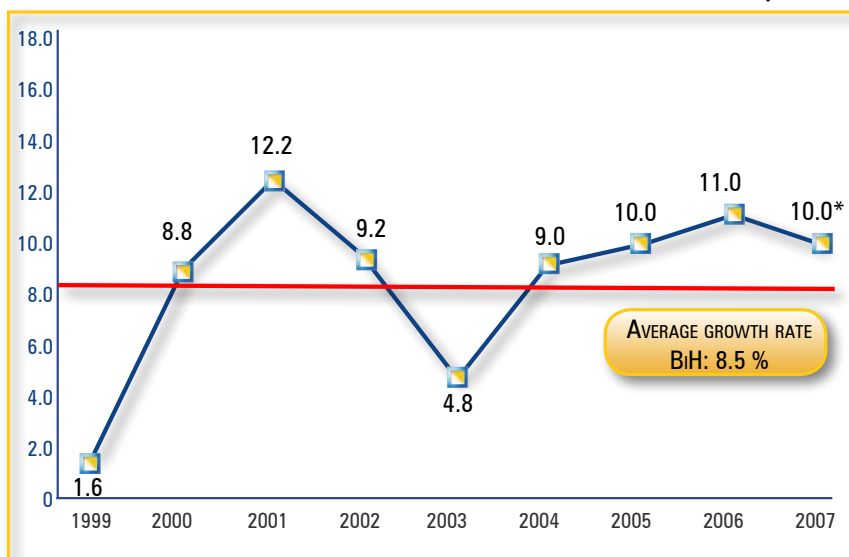
We are assured that BiH will keep that growing trend in the current year and maintain its leading position among neighbouring countries regarding the level of real GDP growth rate.

REAL GDP GROWTH RATE, %



Source: Central Bank of BiH, IMF, * FIPA Estimation

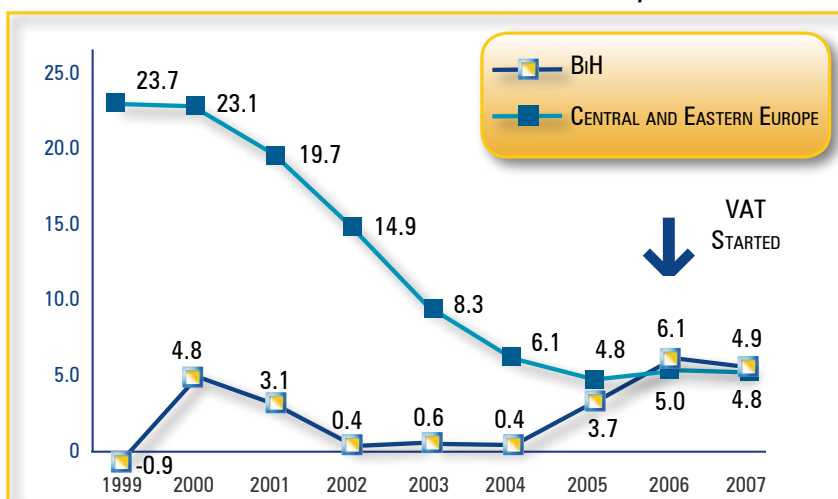
INDUSTRIAL PRODUCTION GROWTH RATE, %



Source: Agency for Statistics of BiH, * FIPA Estimation

Since 1999 average annual growth rate of industrial production was 8.5% and in 2007 reached growth rate of 10%. Previously announced new investments, especially in metal processing and wood industry, confirm optimism regarding further industrial production growth.

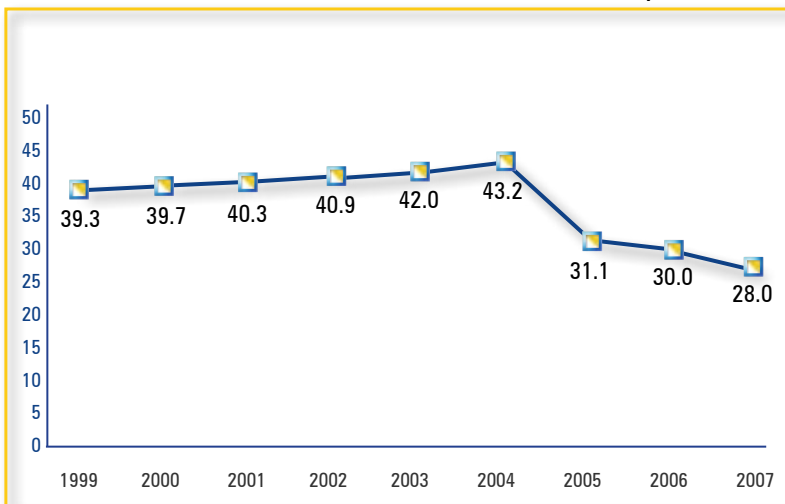
ANNUAL INFLATION RATE, %



Source: Central Bank of BiH, IMF

Inflation in 2006, mainly caused by VAT introduction, was reduced to 4.9% in 2007 which is equal to the estimation for CEE countries. It is expected that inflation rate in the next period will be at the same level as before introduction of VAT.

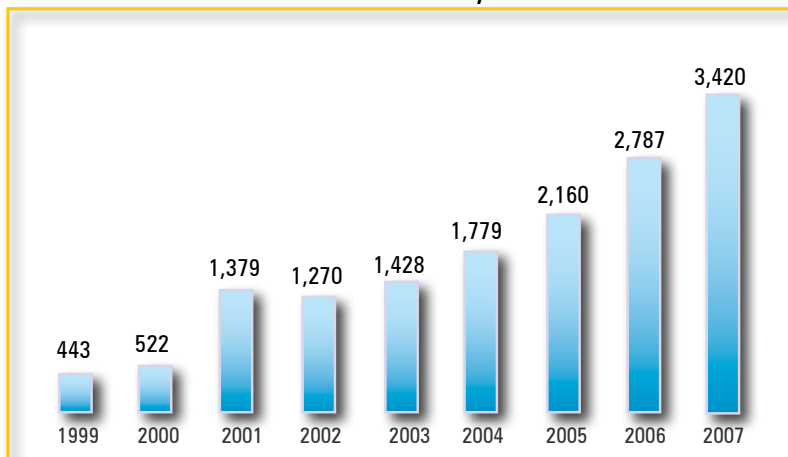
ANNUAL UNEMPLOYMENT RATE, %



Source: Agency for Statistics of BiH, FIPA

Unemployment, which is one of the most serious problems of domestic economy, slowly declined in 2007 (according to official records, number of registered unemployed persons in 2007 was reduced for 2.7%). Even though capital inflow during the first stage of privatization process caused decrease in the number of workplaces, it can be stated that FDI made a positive impact on the decrease unemployment rate. The largest contribution to the decrease of the unemployment was made by Greenfield investment (establishment of new companies), which in the year 2007 participate with 40% in the total FDI. Labour Force Survey gives more realistic picture about labour market in BiH. Result of the survey is unemployment rate of 29%. The World Bank statistics show the real unemployment rate in BiH, which is around 16%.

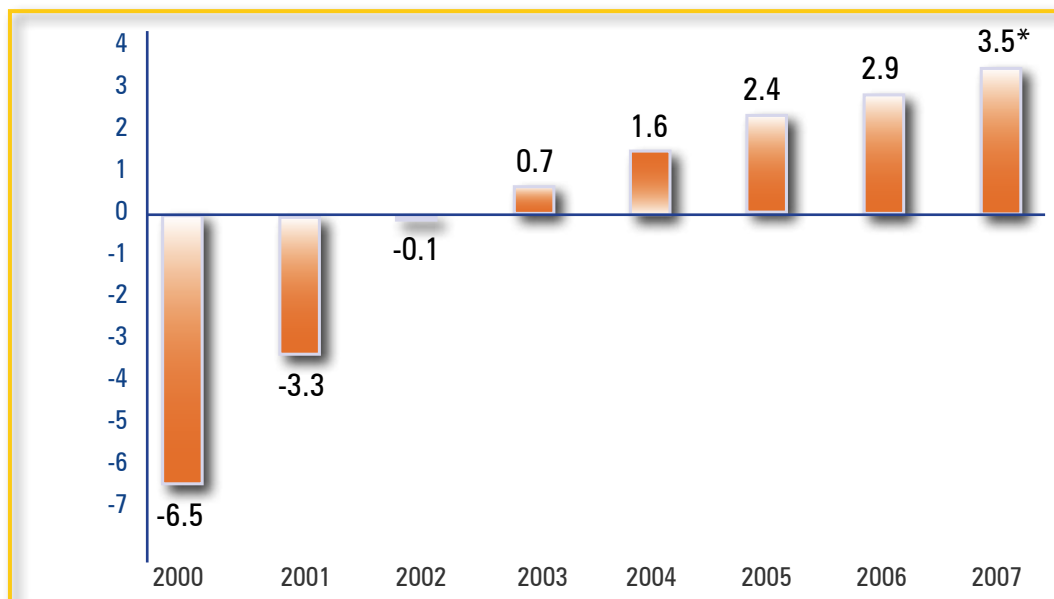
CURRENCY RESERVES, MILLION EUR



Source: Central Bank of BiH

Currency reserves record permanent growth and at the end of 2007 they were 3,420 million EUR, which is 18.5% more than in the previous year.

STATE BUDGET BALANCE, % GDP



Source: Central Bank of BiH, * FIPA Estimation

The consolidated budget balance turned from a deficit of even 6.5% of GDP in 2000 to a surplus of near 3% in 2006.

Current expenditures amounted to around EUR 3.8 billion, which is by 19 % higher than in 2005. The highest growth of expenditure was recorded within the state institutions, which is the consequence of transfer of authority from the entities levels.

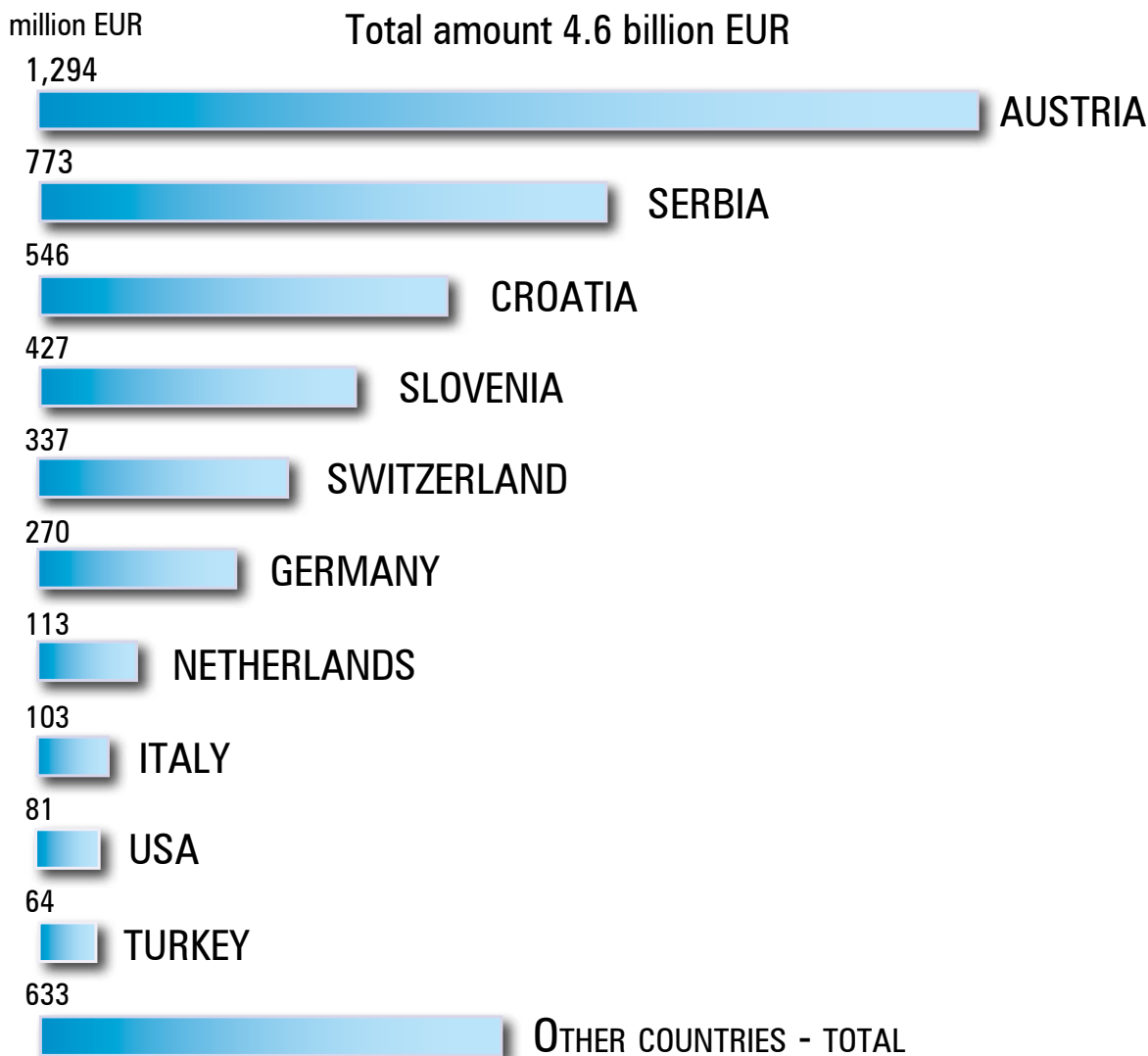
At the same time consolidated income in BiH was EUR 4.3 billion, and it grew faster than expenditures.

The result of this was the overall fiscal balance improvement (EUR 285 million surplus).

In the period January-September 2007 net surplus amounts to EUR 398 million (according to Government finance Statistics of Central Bank of BiH – Statement of Government Operation).

FOREIGN DIRECT INVESTMENT IN BIH

TOP INVESTOR COUNTRIES IN BIH (1994 - 2007)

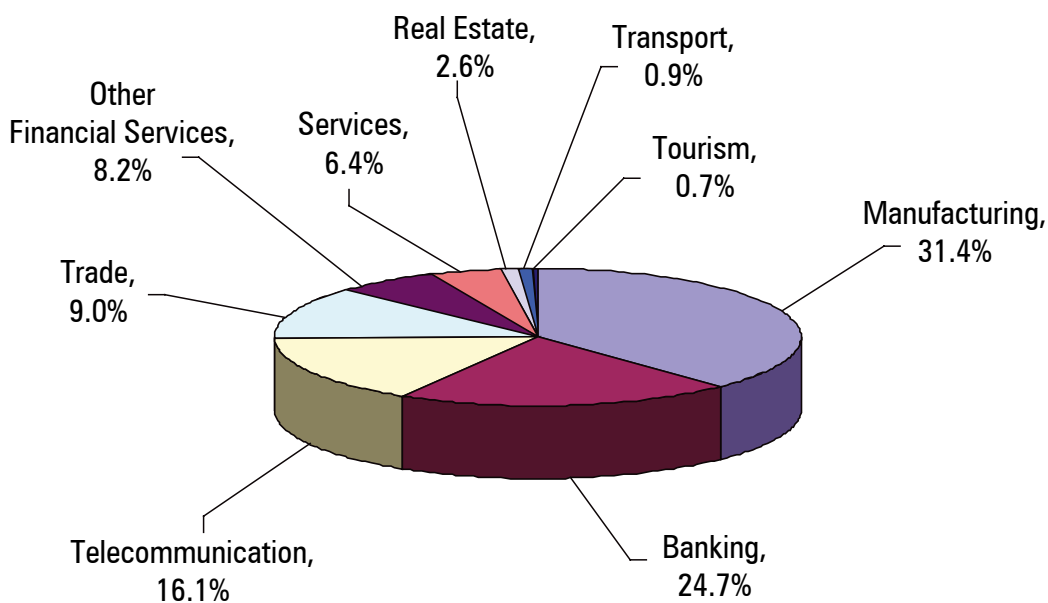


Source: Central Bank of BiH, MOFTER, FIPA

Since May 1994 to December 2007, the most investment was made by companies from Austria 27.9 %, Serbia 16.7%, Croatia 11.8%, Slovenia 9.2%, Switzerland 7.3%, Germany 5.8%, The Netherlands 2.4%, Italy 2.2%, USA 1.7%, Turkey 1.4%, and other countries 13.6%.

FOREIGN DIRECT INVESTMENT IN BIH BY SECTORS

(1994 – 2007)

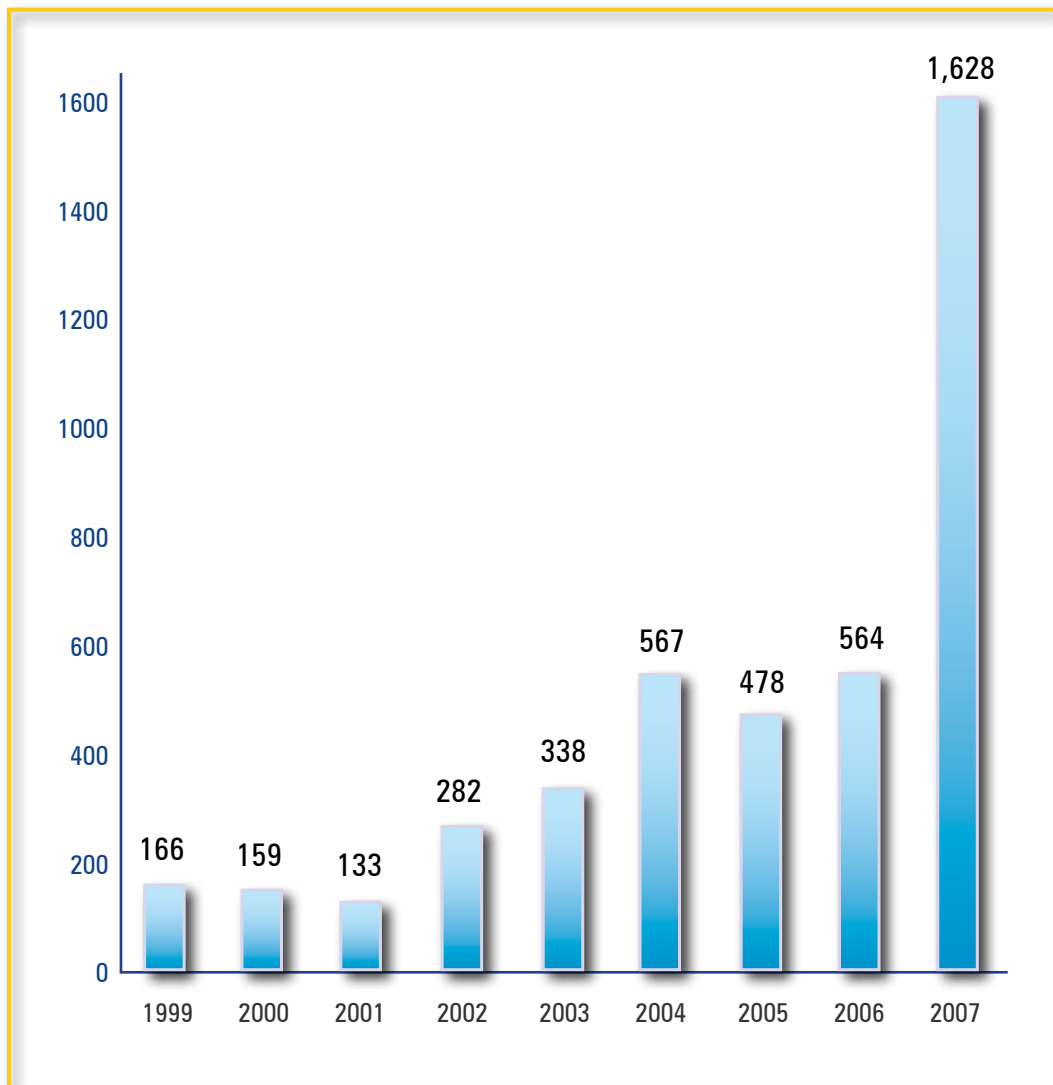


Source: Central Bank of BiH, MOFTER, FIPA

It is very important to point out that investment in manufacturing still participates with 31.4% in total investment. Investment in Telecommunication, Transport, Tourism and Services records constant growth. Also Real Estate sector is being regulated in line with international standards to attract new investment.

TOTAL FDI INFLOW IN BIH

Million EUR



Source: Central Bank of BiH, FIPA

According to the FDI inflow year 2007 is a record year. Foreign direct inflow in 2007 was 1.62 billion EUR and was tripled comparing with 2006. Investment in 2007 is 36% of total FDI recorded since May 1994. Greenfield investments participate with 40% in total FDI in 2007. FDI contribution in GDP in last year was 14% and it proves that BiH economy is significantly improving investment climate and that it became attractive location for investment.

EXTERNAL TRADE IN 2007

PRODUCT GROUPS	EXPORT (IN 000 EUR)	SHARE IN TOTAL EXPORT
Food and Live animals	131,259	4.32
Beverages and tobacco	15,657	0.52
Crude materials, except fuels	479,401	15.79
Mineral fuels and lubricants	240,375	7.92
Animal and vegetable oils and fats	16,138	0.53
Chemicals	124,206	4.09
Manufactured goods classified chiefly by material	964,469	31.77
Machinery and transport equipment	443,210	14.60
Miscellaneous manufactured articles	620,667	20.45
Commodities and transactions	104	0.00
Total	3,035,486	100.00

PRODUCT GROUPS	IMPORT (IN 000 EUR)	SHARE IN TOTAL IMPORT
Food and Live animals	835,486	11.76
Beverages and tobacco	226,367	3.19
Crude materials, except fuels	270,281	3.80
Mineral fuels and lubricants	997,052	14.03
Animal and vegetable oils and fats	41,016	0.58
Chemicals	748,998	10.54
Manufactured goods classified chiefly by material	1,582,955	22.28
Machinery and transport equipment	1,717,815	24.17
Miscellaneous manufactured articles	685,092	9.64
Commodities and transactions	1,234	0.02
Total	7,106,297	100.00

Source: Agency for Statistics of BiH

Foreign trade deficit is not unusual for the countries in transition, even though it achieved 40-50% of GDP. BiH foreign trade deficit in 2006 was reduced to 34.8% of GDP and its further decrease is expected. Export coverage in 2006 was 44.1%, the biggest so far, and kept the same level in 2007.

It's very important to emphasise that the following goods dominate BiH's import: basic metals, coke, petroleum products, machine, devices and equipment, chemicals, rubber and plastics, vehicles, and represent 60% of total import, with amount over 4 billion EUR.

Those data show that trade deficit is mostly caused by goods needed for manufacturing and investment activities, proving the fact BiH is generating investment.

It is significant to emphasize that BiH records the largest coverage exactly by the import and export of primary raw-materials, respectively that the deficit in the foreign trade exchange is realized only by following groups of products: wood and wood products, wood coal, iron and steel products, aluminium and aluminium products, lead and lead products.

COUNTRIES	Exports (in 000 EUR)	Imports (in 000 EUR)
Developed Countries	1,898,249	4,207,093
EU Countries	1,738,832	3,396,195
EFTA Countries	63,210	160,125
Other Developed Countries	96,207	650,773
Developing Countries	1,134,500	2,894,622
European Developing Countries	1,095,190	2,317,848
Middle Eastern Developing Countries	5,100	10,657
Asian Developing Countries	14,251	415,091
African Developing Countries	18,625	18,316
American Developing Countries	1,100	132,664
Oceanian Developing Countries	236	46
Not classified	2,737	4,582
Total	3,035,486	7,106,297

MAJOR FOREIGN TRADE PARTNERS (IN 000 EUR)

COUNTRY	SHARE	2006	SHARE	2007
Total	100%	8,780,267	100%	10,325,363
CROATIA	17.3	1,468,590	17,53	1,809,627
GERMANY	12.5	1,056,941	12,41	1,280,863
ITALY	10.4	881,098	10,08	1,040,562
SERBIA	10.8	*915,207	9,90	1,022,197
SLOVENIA	8.8	748,112	7,58	782,248
AUSTRIA	4.6	388,979	4,48	463,013
TURKEY	2.0	169,068	4,12	424,925
HUNGARY	3.4	285,102	3,46	357,074
SWITZERLAND	2.2	186,416	2,08	215,064
FRANCE	1.8	150,736	1,89	194,663
CZECH REPUBLIC	2.2	186,070	1,80	185,794
USA	2.4	207,049	1,55	160,465
RUSSIAN FEDERATION	1.6	133,969	1,41	145,964
POLAND	1.4	117,428	1,18	121,819
NETHERLANDS	0.9	75,935	0,98	101,548
TOP 15	82.3 %	6,970,700	80,44	8,305,826

Source: Central Bank of BiH, Agency for Statistics of BiH

* SERBIA AND MONTENEGRO

STOCK EXCHANGE IN BOSNIA AND HERZEGOVINA

There are two stock exchanges in Bosnia and Herzegovina: Sarajevo Stock Exchange (SASE) and Banja Luka Stock Exchange (BLSE).

Turnover in million EUR	2002	2003	2004	2005	2006	2007	Total
Sarajevo Stock Exchange	21.31	60.79	102.84	283.95	334.75	651.56	1,455.20
Banja Luka Stock Exchange	3.57	37.08	51.54	142.19	198.62	379.67	812.68
TOTAL	24.88	97.87	154.38	426.14	533.37	1,031.23	2,267.88

Source: Sarajevo Stock Exchange and Banja Luka Stock Exchange

It is very interesting fact that recently large number of investments in companies have been affected through the Stock Exchange in Sarajevo and Banja Luka.

The total turnover of Stock Exchanges, for the last 6 years, is more than 2.3 billion EUR. Foreign companies have invested about 300 million EUR in capital of BiH companies through the stock exchanges.

WHY INVEST IN BOSNIA AND HERZEGOVINA?

1. ENVIRONMENT FOR INVESTMENT

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

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

The main goal of BiH is EU membership. Bosnia and Herzegovina is a potential candidate country for EU accession. Bosnia and Herzegovina has recently initialled the Stabilization and Association Agreement with the European Union, which is a step toward EU membership. The signing of this Agreement is expected very soon.

Bosnia and Herzegovina has signed the Central European Free Trade Agreement (CEFTA), in effect as of November 2007, creating a free trade zone with access to a large consumer market. It has also started its process of negotiation to join the World Trade Organization.



“As the special representative of EU, I would once again like to confirm the confidence of EU regarding the perspective of BiH to become completely integrated and prosperous part of European economic trends. I believe that investors in BiH, together with its citizens, will have significant benefit from the incising economic growth of BiH ”.

High Representative and EU Special Representative,
Miroslav Lajcak

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 as a result there has been a significant inflow of foreign banks - foreign ownership currently stands at 86% of the private banking capital.

BiH was assigned B2 credit rating with a stable outlook by Moody's Agency.

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

Kemal Kozarić, Governor of the Central Bank of BiH

3. PRIVATIZATION

In the Federation of BiH, the privatization process is conducted by the Agency for Privatization in FBiH and by cantonal privatization agencies in accordance with the Law on Privatization of Enterprises, 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. 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 already started. 'Telekom Srbija' has become the new owner of 65% of total capital in 'Telekom Srpska, the telecom company of RS.

For more information see:

- ▶ Investment and Development Bank of Republic of Srpska
www.irbrs.net
- ▶ Agency for Privatization of Federation of BiH
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 BiH.
- ▶ 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 BiH.
- ▶ Foreign investors are entitled to freely employ foreign nationals, subject to the labour and immigration laws in BiH.
- ▶ 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 BiH and have the same property rights with respect to real estate as the citizens and legal entities of BiH.
- ▶ Foreign investors are entitled to transfer abroad, freely and without delay, in freely convertible currency, any proceeds resulting from their investment in BiH.
- ▶ 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 BiH
www.fipa.gov.ba

5. FREE TRADE ZONES

The free zones are part of the customs territory of BiH managed by the founder of the free zone. There are several free zones in BiH.

Each free zone has the status of legal entity and it acquires legal and business capability by registration under the Act on Establishing Free Zone in the Court Register.

Free zone founders may be one or more domestic or foreign legal entities registered in BiH. The Council of Ministers of BiH, following a proposal of the Ministry for Foreign Trade and Economic Relations, gives its consent for the free zone establishment, if the conditions for establishment are economically justified, i.e. if, on the basis of the submitted feasibility study on justification of the establishment of the free zone and other evidence, it can be assessed that the value of goods exported from a free zone will exceed at least 50% of the total value of manufactured goods leaving the free zone within a period of 12 months.

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.

For more information on current free trade zones, please contact FIPA directly.

TAXATION

The taxation categories in BiH are:

► Value Added Tax

Introducing Value Added Tax in 2006 enabled the creation of a unique economic space in BiH, with a flat rate of 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) - KM 0.30 (KM 0.40 motor petrol and KM 0.35 unleaded motor petrol)
- Non-alcoholic drinks (per litre) - KM 0.10
- Soft drink (per litre) - beer KM 0.20 and wine KM 0.25
- Alcoholic drinks and Ethyl alcohol (per litre) - KM 15
- Raw coffee (per kilo) - KM 1.00 (KM 2.5 roasted and ground coffee; KM 3.50 for coffee extract)
- Tobacco products - 49% on the tax base

► Corporate Income Tax

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

► Withholding Tax

Withholding tax rate is 10% in FBiH (5% on dividends) and 10% in RS.

Other taxes are regulated differently at entity level:

► Personal Income Tax

In FBiH, wages are taxed 5% (tax base is gross salary), while tax rates for other types of income range from 10% to 30% (depending on the tax-base type, e.g. income from property, copyrights, capital gains, etc.).

In the RS, wage tax is from 0% to 15% (tax base is net salary and depending on the amount of wage). Tax rates for other types of income are the same.

► Property Tax

In FBiH the purchase of real estate is taxed at a level set by each canton individually. In all cantons in FBiH property tax rate is 5% (except for property tax rate of 8% in Zeničko-dobojski Canton). In RS the purchase of real estate is taxed with tax rate 3%.

CONTRIBUTIONS PAID BY THE EMPLOYER AND THE EMPLOYEE

In Republic of Srpska, contributions are calculated on the basis of net wage. Net wage implies the income earned by the employee during regular working hours, plus some additional receipts like vacation allowance, paid sick leave, national holidays, paid leave, overtime and reduced working time.

In the Federation of BiH¹ there are contributions paid by the employer and those paid by the employee, on gross wage amount. Gross wage includes net salary earned by regular employment, plus contributions, taxes and participations.

In Brčko District, pension insurance contributions are regulated by entity laws.

a) Employee's Share:

- FBiH: 17% for pension insurance, 13% for health insurance, 2% for unemployment insurance and 5% tax on net wage, 0.50% tax on protection of natural disaster (in total: 32% on gross wage and 5.5% on net wage).
- RS: 24% for pension insurance, 15% for health insurance, 1% for unemployment insurance, 2% for child protection and 0-15% tax on net wage, depending on total salary (in total: 42-57% on net wage).
- Brčko District: 17% on gross wage for pension insurance for employees from the FBiH, and 24 on net wage for employees from the RS; 12% on gross wage for health insurance and 10% tax on net wage (total: 29% on gross wage plus 10% on net wage for employees from the FBiH, and 34% on net wage plus 12% on gross wage for employees from the RS).

b) Employer's Share:

- FBiH: 7% for pension insurance, 4% for health insurance, 0.50% for unemployment insurance (in total: 11.50% on gross wage).
- Brčko District: 7% on gross wage for pension insurance.
- In Republic of Srpska no such contributions are paid.

¹ The new Law on Personal Income Tax and new Law on Social Security Contributions in FBiH is expected to be in effect as of next year.

INCENTIVES FOR FOREIGN INVESTORS

1. State Level Incentives

- ▶ **Foreign Investor Support Fund:**
 - The budget of the Fund for 2008 is 2 million BAM (cca. 1 million EUR). The amount of means provided to each applicant is maximum 150.000 EUR. Information on how to apply for means from the Fund is available on FIPA website: www.fipa.gov.ba.
 - 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

2.1. In the Federation of BiH

- ▶ The Federation Law on Corporate Income Tax² 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.

² The new Law on the Corporate Income Tax went into force on January 1, 2008. However, Articles 27., 28. and 29. of the previous Law on the Corporate Income Tax ("Official Gazette of the Federation of Bosnia and Herzegovina", no. 32a/97 and 29/00), which regulate lowering of the tax obligation, did not cease to apply, until the period for which they could be used, elapses.

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.
- ▶ For taxpayers investing into machinery and equipment for performing their own registered production activity, the tax base shall be reduced for the amount of the respective investment. The tax base reduction for the amount of investment shall be valid until December 31, 2008.

AGREEMENTS ON AVOIDANCE OF DOUBLE TAXATION

Bosnia and Herzegovina has signed 28 Agreements on Avoidance of Double Taxation, which aim to eliminate the double taxation of income or gains arising in one territory and paid to residents of another territory, with the following countries:

BELGIUM	CROATIA	CYPRUS	CZECH REPUBLIC	DENMARK	EGYPT
FINLAND	FRANCE	GERMANY	GREECE	HUNGARY	IRAN
ITALY	JORDAN	MOLDOVA	NETHERLANDS	NORWAY	PAKISTAN
POLAND	ROMANIA	SERBIA	SLOVAKIA	SLOVENIA	SPAIN
SWEDEN	TURKEY	UNITED ARAB EMIRATES	UNITED KINGDOM		

Initialled but not signed with: ALBANIA, AUSTRIA, BELARUS, KUWAIT, LATVIA, MACEDONIA, MALAYSIA, MALTA, QATAR, RUSSIA and SYRIA.

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

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	

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

According to the **preferential export regime with the European Union**, all goods of BiH origin that fulfill EU technical-technological standards and conditions, can be imported to all EU countries until the end of 2010 without any quantitative restrictions and without paying customs and other similar duties.

BiH has **preferential export regimes** with:

ALL EU COUNTRIES	SWITZERLAND	RUSSIA
USA	NORWAY	JAPAN
AUSTRALIA	NEW ZEALAND	CANADA

As a result, starting a business in Bosnia and Herzegovina means the opportunity of exporting to a market of over 1 billion people without paying any customs duties!

POLITICAL RISK INSURANCE

Bosnia and Herzegovina has ratified/signed 37 Agreements on Promotion and Protection of Investments with the following countries:

AUSTRIA	BELARUS	BELGIUM AND LUXEMBOURG	CHINA	CROATIA	CZECH REPUBLIC
DENMARK	EGYPT	FINLAND	FRANCE	GERMANY	GREECE
HUNGARY	INDIA	IRAN	ITALY	JORDAN	KUWAIT
LITHUANIA	MACEDONIA	MALAYSIA	MOLDOVA	NETHERLANDS	OPEC FUND
PAKISTAN	PORTUGAL	QATAR	ROMANIA	SERBIA	SLOVENIA
SPAIN	SWEDEN	SWITZERLAND	TURKEY	UKRAINE	UNITED KINGDOM
USA (OPIC)					

Initialled, but not signed with: ALBANIA, LIBYA and UNITED ARAB EMIRATES.

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).

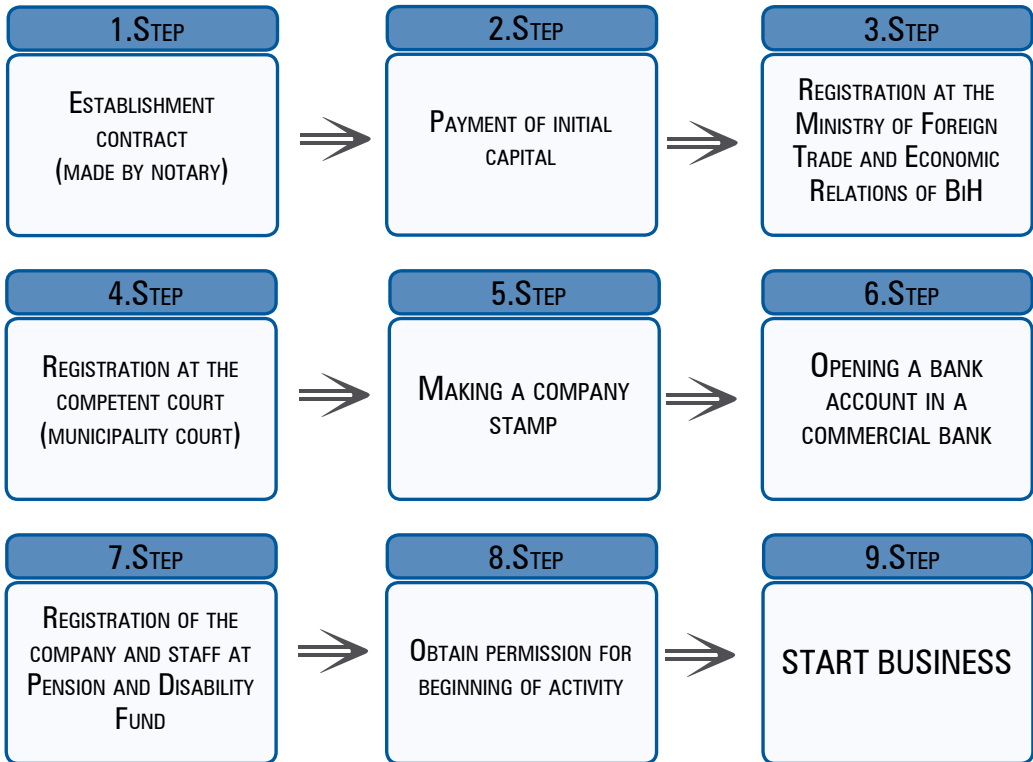
BiH is eligible for assistance from the US Overseas Private Investment Corporation (OPIC), which also provides political risk insurance for investors.

TYPES OF COMPANIES

The Company Law of the Federation of BiH (Official Gazette of FBiH no. 23/99, 45/00, 2/02, 6/02, 29/03, 68/05) and the Enterprise Law of Republic of Srpska (Official Gazette of RS no. 24/98, 62/02, 66/02, 38/03, 97/04, 34/06) regulate the founding, operation and terminating of businesses in Bosnia and Herzegovina.

TYPES OF COMPANIES	FEDERATION OF BOSNIA AND HERZEGOVINA	REPUBLIC OF SRPSKA
Unlimited Joint Liability Company (d.n.o.)	Two 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.	Two or more partners, domestic or foreign; There are no requirements for minimum or maximum contributions.
Limited Liability Company (d.o.o.)	One or more members; Minimum initial capital is 2,000 BAM (cca. 1,000 EUR).	From 1 to 30 partners; the number is not limited in case the shareholders are company's employees; Minimum initial capital is 2,000 BAM (cca. 1,000 EUR).
Limited Partnership (k.d.)	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 the share agreed upon.	One person at least has unlimited liability for the company, along with another partner.
Joint-Stock Company (d.d.)	One or more shareholders; Minimum initial capital is 50,000 BAM (cca. 25,000 EUR).	From 1 to 50 shareholders for companies incorporated simultaneously and 2 or more shareholders for companies incorporated successively; The minimum capital is 10,000 BAM (cca. 5,000 EUR) for companies incorporated simultaneously and 20,000 BAM (cca. 10,000 EUR) for companies incorporated successively.

STEPS FOR ESTABLISHING A BUSINESS IN BIH



DURATION AND COSTS OF ESTABLISHING A BUSINESS

The court procedure of establishing a business takes 5 days and the registration at the Ministry of Foreign Trade and Economic Relations takes 10 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 costs: 500-1000 EUR

INVESTMENT OPPORTUNITIES - ATTRACTIVE SECTORS

TOURISM

AGRICULTURE AND FOOD PROCESSING INDUSTRY

ENERGY

WOOD

TRANSPORT

MINING AND METAL PROCESSING

AUTOMOTIVE

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

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 market in B & H is gradually increasing, and B & H became an emerging tourism destination. 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.

In addition, B & H has much to offer to the global travelers regardless of their budget, seeking diversity, quality, friendliness, sense of security and safety.



New BH Tourism Logo

WINTER TOURISM

Ski and winter sport has a long tradition due to favorable conditions primarily referring to the two main ski resorts in proximity of Sarajevo - Bjelasnica & Igman and Jahorina, which successfully hosted the 14th winter Olympic Games in 1984.



In addition, there are a number of other smaller ski resorts all around of B & H, which possess huge development potentials, such as Blidinje (near Sarajevo and Mostar), Vlasica (Travnik), Kupres (Livno) and Kozara (nearby Banja Luka), etc.

In order to capitalize huge unused potentials, all these destinations require investments targeted to the upgrading and modernization of the infrastructure (particularly vertical transport and ski slopes) and other tourist facilities, as well as to the diversification of the tourism offer and development of the other kinds of mountain tourism for year round offerings.



Recently completed business & master plans for Bjelasnica & Igman and Jahorina demonstrate great opportunities for further development of these resorts (for more details see the reports publicly available).

In addition, the other countless and diverse mountain areas of B & H are particularly suitable for various leisure, sporting and adventure activities, all around the year (large, unspoiled open spaces, wild animals, the chance to walk in the countryside without meeting any other people), but in this moment only partially exploited.

SPA TOURISM

Bosnia and Herzegovina is richly endowed with thermal and mineral springs which are the basis of spa tourism, becoming more popular with each day. Due to the healing properties of the thermal and mineral waters, accompanied by mild climate, clean air, natural beauties, B & H spas have been popular for centuries, such as Spa Fojnica, Banja Vrućica – Teslić, Gradačac, Mljčanica – Dubica, Aquaterm – Olovo, Gata – Bihać, Gušter – Srebrenica, Ilidža – Sarajevo, Kiseljak – near Sarajevo, Dvorovi – Bjeljina, Kulaši – Prnjavor, Laktaši - Banja Luka, Sanska Ilidža - Sanski Most, Slatina - Banja Luka, Vilina Vlas – Višegrad, etc.



Many B & H spa resorts are located far from busy areas, within unspoiled scenery, where stressed out urban citizens will find the relaxation and tranquility they seek. Majority of spa resorts offer a whole range of modern and very high quality treatments under very moderate prices.

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

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, making B & H wealthy of cultural, historical and religious attractions.

An array of the remains from prehistory and antique period are present at many places in B & H, like walls of ancient Hellenistic town Daorson ner Stolac, antique villa on Mogorjelo near Capljina, the complex of Roman buildings in Ilidza near Sarajevo or near Zenica, etc.

“Stećci”, the unique forms of tombstones, most authentic symbols of medieval B & H, are scattered all around country.



There are a number of towns, which are memorials to past time, and testimonials of the continuity of habitation at these places from antique and medieval periods to present time, such as Mostar, Pocitelj, Blagaj, Stolac, Jajce, Fojnica, Bobovac, Kraljeva Sutjeska, Vranduk, Prusac, Tesanj, Maglaj, Banja Luka, Sarajevo, Gradacac, etc.



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 Medjugorje, 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 before mentioned favorable prerequisites are only symbolically exploited, opening an array of opportunities to the potential investors to invest in tourist facilities, in order to valorize these huge potentials.

NATIONAL PARKS & PARKS OF NATURE AND ECO TOURISM

In B & H, has been already established a number of national parks and parks nature. 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) etc. The most famous are National park Sutjeska, National park Una, National park Kozara, Park of nature Hutovo Blato, Park of nature Bardača, Park of nature Blidinje (For more details contact FIPA, or see the reports publicly available).



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

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



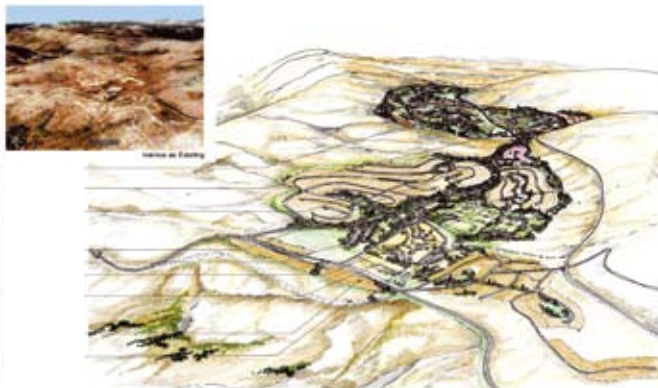
MARITIME TOURISM

Bosnia and Herzegovina has 24 km of seaside; with 240 sunny days every year 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 tourist season. Private accommodations are also available and pleasant pensions, restaurants and cottage houses offer unforgettable stay to the visitors.



However, resort needs investments for upgrading and modernization of existing facilities and particularly for enlarge of capacities, diversification of the offer, construction of new facilities, like yachting (ACI) marinas, etc.

In addition, regions along south - eastern border of B & H, such as Ivanjica, Trebinje, etc, 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, availability of free land, under competitive prices, etc, presenting new potentials for tourism development.



MORE DETAILS ON TOURISM SECTOR ARE AVAILABLE AT FIPA, OR PUBLICLY AVAILABLE DOCUMENTS:

- PROPERTY & TOURISM SECTOR STUDY
- Business & Master Plans, etc.

AGRICULTURE AND FOOD PROCESSING INDUSTRY

AGRICULTURE



Bosnia and Herzegovina is richly endowed with natural recourses and conditions which create superb environment for agricultural production, including availability of labor, land, and other natural resources, as well as suitable climate.

It is remarkable that in spite of huge human and natural recourses, enormous agricultural potentials are only partly realized. Strong development and permanent production growth, which characterized B & H agricultural sector is considerably below its real potentials and expected performances.

One of the core limitations for faster development of this sector is the lack of financial resources, which are desperately required for overall modernization of all segments of agricultural production, replacement of both outdated technologies and equipment; upgrading of the existing structure of agriculture sector, etc.

Before mentioned limitation for faster development of B & H agricultural sector could be grate opportunity for potential investors which could activate and benefit these huge frozen potentials, with reasonable investments, based on the following main advantages:

- Abundance of agricultural land - Around 50 % of agriculture land is not used (uncultivated) and excellent climatic conditions
- Good availability of skilled low cost labor & long tradition in agriculture
- Developed education system, R & D institutions, agronomical and veterinarian support
- B & H is a considerable net importer of agricultural and food product
- Privatization of state owned companies

Rural development is being in focus of all governmental institutions in Bosnia and Herzegovina, which intend to enable faster and more effective sector integration into EU institutions, as well as to facilitate access to the funds along accession process.

Natural conditions & production factors

All natural conditions & production factors, except capital, are very suitable for sustainable development of agriculture and food processing industry in B & H.

Land



Land, as well as water and other natural resources are unpolluted and free from chemical fertilization and the routine use of pesticides. About half of the land area in B & H is agricultural land, or in total around 2.4 million hectares comprising approximately:

- 1.2 million ha of arable land
- 100,000 ha of orchards and vineyards
- 500,000 ha of improved grazing land
- 850,000 ha of mountain pastures

Permanent grass-land dominates, participating with over 50 %, arable land occupies approximately 45 %, and permanent crops approximately 5 % of total agricultural land.

Climate

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

Water availability

Natural water resources are abundant and ground water is accessible in many places.

Labor

Taking in consideration the presence of the rural unemployment, and the fact that agriculture employs about 15 % of the labor force, agricultural labor is abundant and 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.

Development and investment potential in sub sectors

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 part 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 raising for fattening meat production as well as dairy production.

Fruit & vine-growing

The most convenient fruit-growing regions are the hilly and hilly-mountainous regions and along the rivers (Sava, Bosna, Drina, Una, Neretva, etc.), which are abundant in sunny sites with the right type of well drained soil, as well as Mediterranean region (Southern Bosnia and Herzegovina). Currently, there are an estimated 14 million trees producing plums, pears, apples and other fruits, for export and fruit-juice production.

In addition, both the climatic and the economical conditions are very well suited for berry production in many parts of Bosnia and Herzegovina.

Vegetable-growing

Applying watering and correct crop choice, 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.

Livestock & Forage production



A large part of the agricultural land in B & H is suitable for livestock, milk, dairy and meats production, with lots of grassland, and climatic conditions, which are favorable for cattle, sheep and goat intensive and extensive raising, as well as for cultivation of silage etc.

B & H is richly endowed with pastures and grazing land, particularly in the Central part of B & H with great mountain grasslands that are full of water. Exploitation rate of these potentials is extremely low, what could be turned to competitiveness in products that make considerable use of this resource.

Furthermore, B & H could be expected to have comparative advantage in products that make considerable use of grazing land, such as extensively raised veal and beef as well meet dairy products from sheep and goats.

In addition, intensive commercial cattle raise for meat production as well as dairy production can be developed in both flat and hilly regions where there are enough ploughed fields for fodder.

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. Fish farming is already developed, especially trout and carp raising.

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.

All before mentioned production capacities are still limited and insufficient to satisfy even local consumption requirements, making food processing sub-sector prospective for further development and enlargement, following augmenting and development in primary production.

The b&h organic food production

The organic food production in Bosnia and Herzegovina has a lot of comparative advantages due to natural conditions and specific structure of production factors.

The structure of B & H organic food sector

The B & H organic sector is very young, and diversified. The development of the B & H organic sector started in 1996 when the first B & H organization became a member of IFOAM. Nevertheless, the full agribusiness chain from input sector, primary agricultural production, processing, distribution and exporting is developed.

As a very important part of the value chain of the B & H organic sector, are the internationally recognized certification institutions, which launched B & H organic label very successfully.

Organska Kontrola (OK) with accreditation in accordance to EN 45011 (ISO 65) norms is B & H organization which offers services of organic certification in organic agriculture in the following areas: vegetable production, animal production, food processing, collection of wild herbs and apiculture for all producers, processors, exporters and all others who meet the requirements and want to certify their production in accordance with organic principles.

Education system and institutions contribute and support development of the organic sector, introducing organic agriculture as a subject at the Faculty of Agriculture and Food Sciences, University of Sarajevo, Faculty of Agriculture Mostar and at Biotechnical Faculty in Bihać, as well as in some secondary agricultural schools. Various course of Organic Agriculture was established too.

Following-up the policy briefs on rural development in Bosnia and Herzegovina, Economic Institute of Sarajevo in cooperation with the Urban Institute in Washington, prepared the study Organic Food Production – Generator of Rural Development in Bosnia and Herzegovina.

This study identified and evaluated enormous potentials of the organic food sector for rural development generation in B & H, demonstrating that this sector in B & H offers a much higher level of competitiveness in respect to the conventional food, because of land and natural resources available, cheap labor, and production function which reflects high level of capital substitution with labor and makes production more productive.

In spite of the very good economic results and high export performances attained within a short period, B & H organic sector is still in its initial development phase, requiring further investment, as well as various forms of strategic partnership and technology transfer.

All before mentioned offers an array of opportunities for potential investors, which are supposed to provide apart of investment capital, the knowledge, new technologies and ideas in organic food production and managing, to introduce the new varieties suitable for organic production, as well as to open new export markets, etc.

INVESTMENT OPPORTUNITIES

The existing structure of agriculture in B & H, characterized by small sized farms, and undeveloped (broken down) former co-operative system provides huge chances to large integrator companies in each sub sector, to integrate existing primary producers, and processors, and to start their operations, as well as develop new branded products for local and particularly export markets. This is an opportunity for medium and large food producers, processors and wholesalers to establish new modern system and infrastructure for production, collection, processing and marketing, on their own.

Privatization of big state owned companies is an opportunity too.

Taking in consideration, that B & H is endowed with abundant, uncultivated and unpolluted land and water recourses, free from chemical fertilization and pesticides, as well as with extraordinary pristine nature (mountains, rivers, lakes, seaside, etc.), the recourses which are only symbolically used by now, the organic food production of (crops and animal), particularly combined with tourism activities is a huge opportunity for investment with high-income potentials.

ENERGY SECTOR

Energy sector is one of the most powerful in B & H, 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.

Energy Related International Obligations

Energy Charter Treaty

B & H is a member of the Energy Charter Conference and signatory of the Energy Charter Treaty (ECT) and the Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA), which main issue areas include investments; trade, transit; and energy efficiency.

Energy Community

Bosnia and Herzegovina signed two Athens Memorandums of Understanding on the Regional Energy Market in South East Europe and its integration into the European Community Internal Energy Market.

Energy resources

Bosnia and Herzegovina is endeavored with various indigenous energy recourses, including as follows:

- The main energy resource of B & H is coal (brown coal and lignite), with estimated reserves of 10 x 109 tons



- Huge, in this moment partly exploited hydro potential is estimated at over 6000 MW
- According to the extensive researches, there is significant wind energy potential
- Raw material resources for the bio-mass energy are extremely favorable, including approximately 1.5 million m3 of forest / wood industry residues (all wood waste, sawdust, chips, chipped technical wood), etc.
- Potential for exploitation of geo-thermal and solar energy are available too, but have not been sufficiently explored and exploited
- Preliminary research surveys of oil and gas, had indicated the presence of promising deposits on a number of sites in B & H (off-balance sheet reserves are estimated at about 50 million tons of oil)

Energy subsectors

B & H energy sector encompasses the following main subsectors:

- Coal
- Electric power
- Oil & Natural gas

COAL SUBSECTOR

Identified coal deposits in B & H are considerable, accounting for 93 percent of the total energy potential, making coal the most important primary energy resource in B & H economy. The most of the coal production is used for electricity generation. Currently, the majority of coal is produced in the Tuzla, Central Bosnia and Gacko Basin, but recent researches identified large additional coal reserves at new locations.

Main existing coal mines in B & H are Kreka, Đurđevik, Banovići, Kakanj, Zenica, Breza, Stanari, Ugljevik, Gacko and Miljevina.

Potential new coal mines in B & H are Bugojno, Kongora, etc.

In order to make the most of this huge potential, in most efficient way, the coal sector reform is recognized as indispensable, assuming a serious restructuring and updating of coal mines, as well as introduction of the new technologies, in order to yield the production costs lowering, increase productivity, reduce employment, and improve environment protection, as well as overall profitability.

Introduction of the new production approaches and techniques, such as subsurface gasification, IGCC coal gasification technology and refined processing, are possible variants.

All above mentioned requires significant capital investments, as well as reliable strategic partners.

OIL & NATURAL GAS SUBSECTOR

Bosnia and Herzegovina is predominantly dependent on import of the liquid fuel and natural gas.

Oil subsector

B & H oil industry encompasses imports and refining of imported crude oil and production of petroleum products.

The B & H oil sector developed significant production capacities, comprising two refineries based on the most up-to-date world technologies, but presently only partly employed, including:

- Refinery Brod, which capacity is 4 million t/year, processes imported crude oil into various products (motor fuels, liquid petroleum gas, bitumen, etc)
- Refinery Modriča, which produces motor oils and various special purpose technical oils for the industry and other commercial purposes

Recently, both refineries have been privatized and their full capacity production is expected soon.

In addition B & H has significant storage and transport capacities.

Natural gas subsector

Within B & H energy sector the gas subsector is the least developed and the development of the gas sector in B & H is unquestionable in terms of strategy. Currently, the gas is procured / imported over only one pipeline, with the length of 191 km and the projected annual capacities of 1 billion m³.

The demand projections until 2020 amount from 1.5 to 3 billion m³ of gas, foreseeing serious gas sector reform and development, which comprises:

- Construction of an alternative supply route
- Distribution network development
- Construction of the underground storages
- Diversification of the gas supply sources, etc.

The option of substituting the imported natural gas with the gas produced by coal gasification is under consideration too.

Legal and institutional framework

The starting point for the analysis of the prospects of the coal sector in B & H is in the following international and internal documents:

- Entities Laws on Mining
- B & H and Entities Laws on Concessions
- BiH Law on Geological Research
- Law on Privatization of State Equity
- Laws on Bankruptcy

Key stakeholders in the electric power subsector of B & H are:

- B & H Ministry of Foreign Trade and Economic Relations
- FBiH Ministry of Energy, Mining and Industry
- RS Ministry of Economy, Energy and Development

ELECTRIC POWER SUBSECTOR

The electricity sector is one of the mainstays in the development of Bosnia and Herzegovina. Recognizing these huge potentials, Bosnia and Herzegovina is strictly orientated towards the reforms of the electric power sector which will ensure sustainability, efficiency and competitiveness of the electric power production, as well as towards reconstruction and large upgrading of existing and construction of the numerous new capacities.

Legal Framework

Legal framework for power sector in Bosnia and Herzegovina is defined by:

- Law on transmission, regulator and system operator of electricity in B & H
- Law on electricity in the Federation B & H
- Law on electricity in the Republika Srpska
- Law on establishment Transmission Company in B & H
- Law on establishment Independent System Operator in B & H

Electric power potentials

Significant and diverse indigenous natural energy resources in B & H are still untapped or only partly exploited, such as:

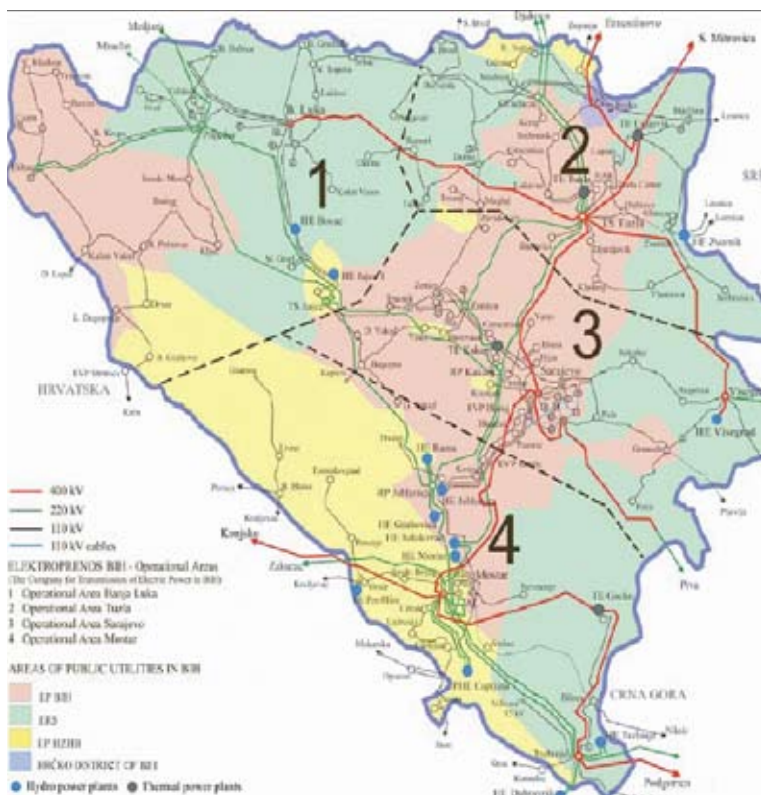
- Considerable reserves of brown coal and lignite of 10 billion tons are exploited in amount of only 8 million ton / year
- Only about 35 % of huge hydro potential of over 6000 MW is in use
- Significant wind energy potentials, which are identified and proved as commercially profitable at over 10 particularly suitable regions in B & H are only in preparation phases for exploitation
- In this moment, geo-thermal and solar, as well as bio-mass energy are only symbolically in use, etc.

Power sector utilities

Currently in B & H power sector there are three public owned utilities, which are major producers and distributors of electricity, including:

- o Elektroprivreda BH (EP BH),
- o Elektroprivreda Hrvatske Zajednice Herceg-Bosne (EP HZHB)
- o Elektroprivreda Republika Srpska (EP RS).

Main market actors (Public Utilities)



Power Generation

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.

New power generation projects development

Intending to harness the substantial and diversified energy resource base in B & H, all relevant stakeholders in B & H are adopted development and investment programs for construction of new generation plants, entirely respecting recommendation from EU Directive 2003/54.

Significant investments in new power system facilities and expansion of power generation capacities are foreseen by these programs, in order to meet growing electricity supply deficit within regional and larger European markets.

Investment programs encompass a number of the development projects, based on coal, hydro and renewable energy sources, including both expansion of existing and construction of new power generation capacities.

Large Thermal Power Generation Projects

There are a total of seven new coal-fired thermal power generation projects, with potential incremental electricity production capacity of approximately 3450 MW; including both, rehabilitation and expansion of the existing facilities and construction of entirely new coal mine / power generation plant complexes.

- | | |
|--------------------------------------|-------------------------|
| • Kongora - Coalmine/powerplant | 2x275 MW |
| • Bugojno – Coalmine / power plant | G1(300 MW); G2 (300 MW) |
| • Stanari – power plant | 420 MW |
| • Ugljevik 2 - Coalmine / powerplant | 2 x 300 MW |
| • Gacko 2 - Coalmine / powerplant | 660 MW |
| • Tuzla – G7 | 370 MW |
| • Kakanj - G8 | 250 MW |

Large and Small Hydropower Projects

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

New large and small hydropower projects;

- Ustikolina 3x22 MW
- Vranduk 21 MW
- Rmanj Monastir 2x36 MW
- Vrilo 2x26 MW
- Glavaticevo 3x9,5 MW
- Bjelimici 2x50 MW + PH 2x300 MW
- Dubrovnik 2 2x152 MW
- Buk Bijela & Foca 250 MW
- Dabar 160 MW
- Bileca 36 MW
- Paunci 42.3 MW.
- Krupa & Banja Luka 48.5 MW + 37.2 MW
- Mrsovo 43.8 MW.
- Ulog 30 MW
- Ugar 40 MW



Rehabilitation and expansion projects are foreseen in hydropower plants Jablanica, Rama, Jajce and Capljina.

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 Power Utilization Projects



Since recent research studies demonstrated favorable conditions, due to the fact that utility coefficient was 30% higher than Europe average, at the numerous locations in B & H, particularly in South-Eastern region of Herzegovina and for Bihac, a number of investors expressed their interest in construction of wind power plants.

APPROACHES TO THE FINANCING

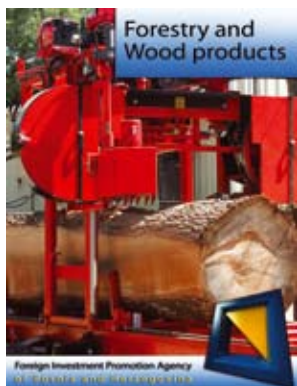
Successful completion of all these ambitious investment programs within energy sector requires significant capital investments, which B & H alone can not afford. Therefore, attracting investors is one of the most important preconditions for the successful development of the energy sector in Bosnia and Herzegovina, applying transparent processes, politically neutral decision making based on economic principles by independent regulatory authority, established as independent and non-profit institutions with the capacity of legal person, with main competences to oversee and regulate relations between producers, distributors and buyers of electric power.

Respecting before mentioned principals, B & H is looking for reliable strategic partners and financing institutions to support realization of these huge projects.

Different approaches to the financing and completion of before mentioned programs and projects is acceptable, such as:

- Involvement of strategic investors on Build-Operate-Transfer concession basis
- Involvement of strategic investors on Build-Own-Operate concession basis
- Financing from specialized institutions (World Bank, European Investment Bank)
- PPP arrangements
- Privatization, etc.

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.

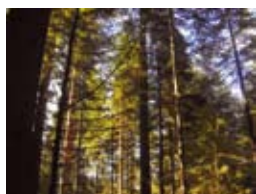
Over 60% of B & H wood sector production is exported, where the finished furniture is becoming more and more important export product.

Currently, the largest markets for these producers are Germany, Croatia, Serbia, Italy, and the UK, 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. Srebrenica region is extremely rich in beech and other broad leaf species too.

The B & H forests (80.7% state owned) have the sustainable potential to provide nearly 7 million m³ round-wood per year.

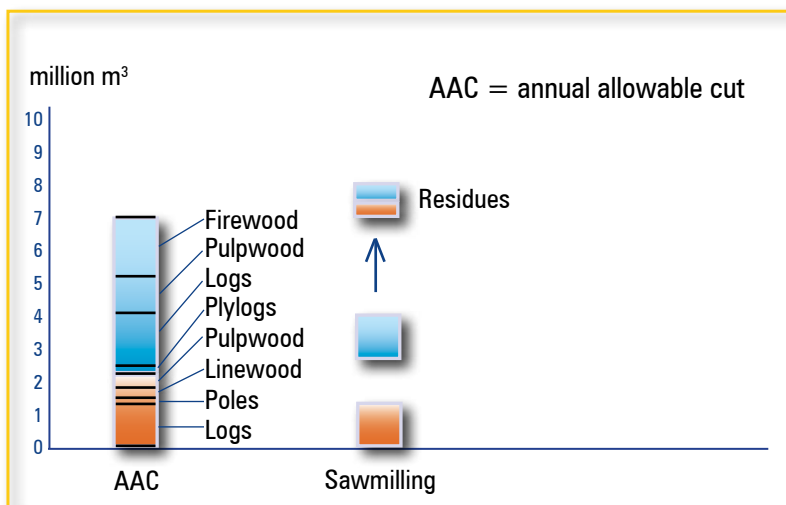
Estimated forest cover (ha) in B & H

1000 ha	State	Private	total forest and forest land
High forest	1,235	132	1,368
Coppice	455	332	787
Karsts (shrub land)	504	80	584
Total of all forest land	2,194	544	2,739

Annual Allowable Cut (AAC) in state-owned forests in B & H

Tree species	Gross volume (1,000 m ³)	Net volume (1,000 m ³)
Conifers	2,849	2,384
Broadleaves	5,101	4,504
Total	7,950	6,888

Investment potential based on forest resources



Infrastructure & Energy

Infrastructure

Existing infrastructure, including railway and road network, as well as respective transportation costs can satisfy entirely all requirements for successful development of B & H wood sector. B & H disposes with 4 international airports, 2 river ports, and 1 sea port too.

B & H distribution network brings most of Europe within 24-48 hours by truck, under acceptable prices.

B & H possesses well-developed telecommunications infrastructures (close to European standards).

Transport costs

Transport costs on railway are based on official tariffs (approximately 0.05 EUR/ton/km). Discounts up to 25% are however applied, depending on the number of wagons that are being moved. Using a wood density of 0.65 tons / m³, railway transport cost about 0.023 EUR/m³/Km.

Energy

B & H market provides reliable electrical power, water, gas and oil products supply under competitive prices

The electrical energy cost varies from EUR 0.038 to 0.08 EUR/KWh for residential use (depending on time of day) and it is about EUR 0.026/KWh for industrial uses. In case of wood processing industry, these costs can be alleviated with contained investments in combined heat and power plants.

Workforce

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
- EGP
- Veneer / hardwood plywood
- Parquet
- Furniture (preferably solid wood)
- MDF
- Particleboard
- Joinery
- Biomass (briquette, pellets, heat generation)

Most promising options

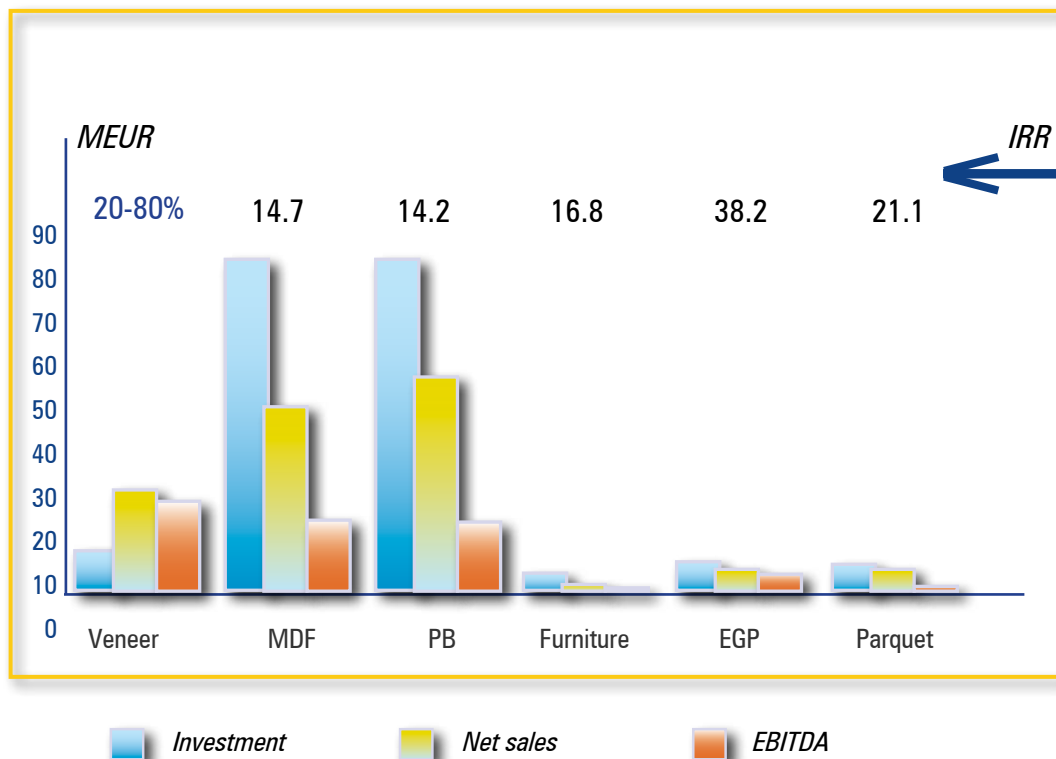
The most promising options for potential investors in B & H forestry / wood industry lie in processing of sawn wood to edge glued panels (EGP), veneer, parquet and furniture, especially as there are small and medium companies which may be suitable for joint ventures.

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

Profitability

Below presented Figure shows most promising options and feasible investment opportunities in the wood processing sector in B & H, as well as expected IRR, enabling each investor to assess the opportunities with his own business plans and expansion/transfer agendas in order to make a sound investment decision.

KEY FINANCIAL INDICATORS FOR PROFITABLE INVESTMENT OPPORTUNITIES



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.).

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, BOT, 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 Bihać – 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, including exploration and exploitation, metal processing, as well as processing of the other indigenous mineral resources have a long tradition in Bosnia and Herzegovina.

MINING

Bosnia and Herzegovina is richly endeavored with various, natural mineral resources, particularly with 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 Bogojno Basins

In addition, research surveys had indicated the 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, Bosanska Krupa, etc.

Zinc and lead reserves are estimated at 56 million tons and located around Olovo, Vareš, and Srebrenica.

The reserves of magnesite are estimated at approximately 2 million tons, which are predominantly concentrated around Kladanj (with 20% magnesite content) and reserves of approximately 2.5 million tons of manganese in the area of Bužim and Konjic, as well as about 200 thousand tons of chromium in Vares area.

Reserves of silver, arsenic, barite, etc, are identified together with other metal in a number of before mentioned mines, such as Olovo, Vareš, Kladanj, Srebrenica etc.

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.

Opportunities

In order to make the most of these huge potentials, mining sector requires deep reforms and restructuring, as well as updating of all exploration and exploitation segments, particularly through introduction of the new technologies, what requires significant investment, opening an array of investment opportunities for both, strategic partners and reliable investors.

METAL PROCESSING SECTOR



B & H metal processing sector offers strong human and resources base, as well as long tradition, which enable sustainable development of various value-added businesses, particularly of those which are export oriented.

This statement was proved and demonstrated by the Study of the metal processing industry in B & H, conducted the Vienna Institute for International Economic Studies.

Recourses base

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

Supporting infrastructure, including all levels education system, research & development institutions, as well as design, and engineering companies is favorable for powerful development of the sector.

In addition, development of the regional cross-border metal processing cluster, supported by the main stakeholders within this sector, including most powerful production companies and governmental institutions is in progress.

B & H has significant production capacities of the iron & steel, as well as of the alumina and aluminium, where large, capital-intensive enterprises dominate, producing mostly primary metals and products.

Main iron & steel producer in B & H is Mittal Steel Zenica, which is a member of the world's largest steel producer – Mittal Steel. Modernization of the existing capacities, which is in progress, will enable annual production of 2 million tons of various iron and steel products.

Aluminium smelting plant - Aluminij d.d. Mostar is main aluminium manufacturer, with daily production capacities of 700 tons of anodes and 330 tons of liquid aluminum, or alluminium alloys. Company's main products are anodes, billets, wire, ingots, T-bars and slabs.

Company Birač Zvornik, predominantly produces the alumina, which is used as row material in aluminium smelters for production of aluminium. Annual capacities of the factory are 600.000 t of alumina, 150.000 t of zeolite, 200.000 t of water glass, 10.000 t of white filler, 5.000 t of granulated zeolite and 1.500 t of ceramic fibers.

Metal Processing Industry

According to the economic strategy of the B & H government the metal industry is a strategic industry with comparative advantages, and the government supports both, foreign and local investors to establish new companies or to switch existing companies to the 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, first of all iron & steel and aluminium, but also 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 sector, including export of coke and iron ore participates in overall B & H export with approximately 50%.

The metal processing industry is strongly export-oriented; with an export rate of around 40% of the total production. Share of exports from metal processing industry in total exports is substantial, reaching about 25%, while imports take a share of about 6% only.

In spite of these impressive results, huge metal sector potentials are only partly exploited, seeking further restructuring, modernization, as well as privatization of remaining, mainly large companies, what require continued investment and increased capital equipment levels.

Sector structure

The manufacturers of basic metals are large firms, producing:

- Basic iron & steel, ferro-alloys and aluminium
- Basic precious and non-ferrous metals, etc.
- Sheets, bars, tubes, strips, etc.

Fabricated metal products are mostly made up of medium and small companies and only few bigger. There are hundreds of metal processing companies, which are more specialized and customer-oriented, prevailing in higher stages of metal processing and in the manufacture of various metal products, such as:

- Casting of metals (gray & ductile iron, aluminium, brass, etc.)
- Forging, pressing, stamping and roll forming of metal
- Treatment and coating of metals
- Precision turning, milling, forming
- Manufacturing of pressure vessels - boilers, heat exchangers, condensers, columns, reactors, etc
- Manufacturing of steel structures
- Manufacturing of components and parts for the automotive industry, etc.

The majority of these companies are in private ownership and almost all these companies plan to increase their output, modernize and diversify their production programs, introduce higher level of processing with more value-added products, as well as to upgrade overall profitability in the years to come. These goals require significant investments, new technologies and machinery and emerging at the new markets.

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

All before mentioned, as well as an abundance of production facilities and skilled labor, specialized for various metal processing operations, which are only partly used or available through privatization, open an array of opportunities for reliable strategic partners and investors.

AUTOMOTIVE INDUSTRY



Bosnia and Herzegovina has a long tradition and widespread experience in the automotive industry.

Adopting and utilizing state of the art technologies, Bosnia Herzegovina started with production of the heavy trucks, tractors and military vehicles, including engines, transmission systems / gear boxes, as well as other automotive components, in close cooperation with reputable companies, including Mercedes, fifty years ago.

Production of the components and assembling of the reputable car brands, such as NSU and Volkswagen started over forty years ago. In addition, Bosnia and Herzegovina has been producer of the aircraft engines too.

Within this period, coordinated by two large integrator companies (FAMOS and UNIS), powerful and diversified supply chain of automotive parts and components had been established, as well as supporting infrastructure, including education system, which encompassed all levels and categories of specialists and skilled workforce, research & development institutions, etc.

Due to the transition process and global changes in automotive industry, large local automotive integrator companies disappeared from the B & H market, leaving component producers alone at the business scene, what seriously hampered huge potentials and development of this sector. Nevertheless, numerous companies, members of the automotive parts and components supply chain, continued their activities and development, under completely different, rather inconvenient conditions, achieving impressive changes and results within past ten years.

This sector made serious transformations and restructuring. The majority of the companies are already privatized by local or foreign companies. Several reputable international automotive suppliers, such as MANN-HUMME, PREVENT, CIMOS group, etc. have acquired local companies completely, or have taken a share in B & H companies, which investments enhanced high and dynamic growth of both, these companies and sector as whole.

Closely cooperating with Volkswagen, ASA PREVENT GROUP - consisting of 19 firms, became the major private group in the region, operating in the car industry, and the Volkswagen Group's supply-base in South Eastern Europe. Their plant, located in Sarajevo, assembles Škoda and VW vehicles for the VW Group. Group's member PREVENT supplies about 95% of the seat covers for the VW-models Golf, Polo and Lupo, as well as RENAULT and PEUGEOT.

In addition, there are a large number of manufacturers in Bosnia-Herzegovina producing a wide range 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.

Main buyers of the automotive parts and components produced in B & H are reputable international car manufacturers, such as MERCEDES, VW, MAN, RENAULT and PEUGEOT, etc.

Within past ten years, the automotive industry in Bosnia-Herzegovina has experienced a very dynamic development, achieving annual production growth of 20 %, and has become strongly export-oriented, exporting in average 80 % of their production (some of companies over 90 %), in 30 countries all around world, shearing in total B & H export with 15%.

In order to enhance competitiveness and facilitate access to the new markets, automotive supplier industry made a decision to establish a cluster of automotive industry in B & H through which they could materialize their common interests and act towards foreign buyers.

In order to enhance efficiency, B & H Automotive Cluster established close cooperation with numerous clusters in Europe and participates in creation of the SEE regional cluster network, which has to present the regional automotive industry potentials to the international market.

Development and strengthening of competitiveness of this dynamic industry has been supported by governmental institutions, including Foreign Trade Chamber of B & H, FIPA, as well as B & H universities and research & development institution.

Investment opportunities

In spite of impressive achievements, there is still a huge gap between real potentials and actual performances of this sector. To materialize these potentials, including strong human base and experience, supporting infrastructure, as well as an abundance of unused production facilities, 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, particularly with large international companies, which intends to move their production, or assembling activities at lower cost regions.

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 BiH.

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 BiH
- ▶ Macroeconomic data / indicators
- ▶ Investment incentives

PRESENTING INVESTMENT OPPORTUNITIES IN BIH:

- ▶ Available investment projects
- ▶ Companies in the process of privatization
- ▶ BiH 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"!

FOREIGN INVESTMENT PROMOTION AGENCY

BRANILACA SARAJEVA 21/III, 71 000 SARAJEVO, BIH

PHONE: + 387 33 278 080, FAX: + 387 33 278 081

E-MAIL: fipa@fipa.gov.ba, WEBSITE: www.fipa.gov.ba

FIPA



FOREIGN INVESTMENT PROMOTION AGENCY
OF BOSNIA AND HERZEGOVINA