

Bosnia and Herzegovina

2013 INVESTMENT CLIMATE STATEMENT: BOSNIA AND HERZEGOVINA

Openness to, and Restrictions Upon, Foreign Investment

Bosnia and Herzegovina (BiH) still struggles to attract foreign investment. Although open to foreign investment, foreign investors continue to face a number of serious obstacles including: multiple complex legal and regulatory frameworks and government structures; non-transparent business procedures; corruption; poor infrastructure; insufficient protection of property rights; and weak judicial structures. In addition, the country's political environment, coupled with the pressures of the global economic downturn, has stalled many key economic reforms.

Under the BiH constitution established through the Dayton Accords, Bosnia and Herzegovina is divided into two "entities," the Federation of BiH (the Federation) and the Republika Srpska (RS). A third, smaller area, the Brčko District, operates under a separate administration. The Federation is further divided into ten cantons, each with its own government and responsibilities. Each entity also has municipalities. As a result, BiH has a multi-tiered legal and regulatory framework that is often duplicative and contradictory. Employers pay a heavy burden to governments, an extra 69 percent of the wage level in the Federation and 52 percent in the RS, for mandatory health and pension contributions. Labor and pension laws are deterrents to foreign investment, specifically in the area of privatization. For example, some formerly successful state-owned enterprises have now accrued significant debts from unpaid health and pension contributions, and potential investors are required to assume these debts and maintain the existing workforce.

The lack of a single economic space throughout BiH creates difficulties for companies trying to do business across the entire country. While corporate income taxes in the two entities and Brčko District are now harmonized at ten percent, entity business registration requirements are not harmonized. The RS has its own registration requirements, which apply to the entire entity. Each of the Federation's ten cantons has different business regulations and administrative procedures affecting companies. Simplifying and streamlining this framework is essential to improving the investment climate.

According to the World Bank, BiH now has the lowest rank in the region in terms of ease of doing business. It ranked 126 out of 183 countries in the 2013 World Bank Doing Business report, almost unchanged from its ranking of 127 in 2012. BiH's position improved in three categories: registering property, paying taxes, and resolving insolvency. BiH's worst performance was in the following categories: starting a business, dealing with construction permits, and obtaining electricity. Starting a business requires approximately 37 days and 11 separate procedures, which is well above the average for the region. BiH's full doing business review can be found at:

<http://www.doingbusiness.org/ExploreEconomies/?economyid=26>

Potential investors have also been frustrated by the lack of attractive privatization opportunities, non-transparent government tender processes, and impediments to greenfield investment. Although some government authorities have begun to address these obstacles, much more needs to be done. As a result, foreign investment -- including greenfield investment -- has significantly shrunk in the last several years. From a high of \$2.1 billion in 2007, foreign direct investment (FDI) totaled \$380 million in 2011 and was only \$56 million in the first six months of 2012. Most investments in 2011-2 came from Russia, Austria, Serbia, Slovenia and Germany.

The state-level Law on the Policy of Foreign Direct Investment provides a generic framework for foreign investment. The law accords foreign investors with the same rights as domestic investors, including bidding on privatization tenders. With the exception of the defense industry and the media sector, where foreign control is limited to 49 percent of a single company, there are no restrictions on investment. Investors are also protected from changes in the Law on Foreign Investment. Should the government amend the legislation, the investor may choose the most favorable regulations to apply. The law prohibits expropriation and nationalization of assets, except under special circumstances and with due compensation. Neither entity government nor the state government has expropriated any foreign investments to date.

A Competition Council was established in 2004. It is an independent public institution mandated to enforce anti-trust laws, prevent monopolies, and enhance private sector competition. The Council reviews and approves foreign investments in cases of mergers and acquisitions of local companies by foreign companies.

Public-private partnerships (PPPs) are gradually gaining wider acceptance with BiH officials. The RS currently has PPPs in the health-care and transportation sectors. The Federation adopted laws on public-private partnerships in several cantons, with the goal of providing incentives for entrepreneurs and facilitating access to certain projects.

BiH has a Foreign Investment Promotion Agency: www.fipa.gov.ba

Following are BiH's third-party rankings on widely accepted measures of the business and investment environment:

Measure	2013 Index/ Ranking	2012 Index/ Ranking	2011 Index/ Ranking	2010 Index/Ranking
Transparency International Corruption Perception (CPI) Index	72 (out of 176)	91 (out of 178)	91 (out of 178)	91 (out of 180)
The Heritage Foundation Index of Economic Freedom	103 (out of 177)	104 (out of 179)	104 (out of 179)	110 (out of 179)
World Bank Ease of Doing Business	126 (out of 183)	127 (out of 183)	110 (out of 183)	116 (out of 183)

Ranking				
The World Economic Forum Global Competitiveness Index	88 (out of 144)	100 (out of 142)	102 (out of 142)	102 (out of 142)

Conversion and Transfer Policies

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

Expropriation and Compensation

The state investment law forbids expropriation of investments, except in the public interest. According to Article 16, “Foreign investment shall not be subject to any act of nationalization, expropriation, requisition or measures that have similar effects, except where the public interest may require otherwise.” In such cases of public interest, expropriation of investments would only be executed in accordance with applicable laws and regulations, would be free from discrimination, and would include payment of appropriate compensation. Neither entity government nor the state government has expropriated any foreign investments to date.

Dispute Settlement

BiH has implemented reforms to court operations and staffing, designed to streamline commercial disputes and other proceedings. However, it often takes several years for a case to be brought to trial. The U.S. Government is implementing a number of court reform programs to expedite case processing and further develop judicial capacity. The U.S. Government has provided training to judges, trustees, attorneys, and other stakeholders at both state and entity levels to assist in the development of new bankruptcy and intellectual property rights laws. Those laws are now in effect at both the entity and state levels.

Bosnia and Herzegovina has been a member of the International Center for the Settlement of Investment Disputes since 1997. It accepts international arbitration to settle private investment disputes if the parties outline this option in a contract.

Over the last decade, there has been only one case of a legal dispute involving a U.S. investor and the local government. Although this dispute remains unresolved, the claimant is currently pursuing negotiations with the local government and has not opted for international mediation. While efforts are being made to improve BiH’s commercial

court system, its current capacity and practical inefficiencies limit timely resolution of commercial disputes.

Performance Requirements and Incentives

There are several incentives for foreign direct investment, including exemptions from payment of customs duties and customs fees. Bosnia and Herzegovina is divided into three jurisdictions for direct tax purposes: the Federation, the RS and the Brčko District. The corporate income tax in the Federation allows tax relief to foreign investors who invest KM 20 million (roughly USD 14 million in December 2012) over a five-year period. The Federation exempts domestic and foreign companies from annual corporate profit tax if at least 30% of turnover at year end is from exports. In the Federation, RS, and Brčko District, the corporate income tax allows offsetting of losses against profits over a five-year period. In the Brčko District, if an investor invests in fixed assets and pays taxes, this investment is subject to tax relief. There are no special investment incentives in the RS. Foreign investors can open bank accounts in all jurisdictions and transfer their profits abroad, without any restrictions. The rights and benefits of foreign investors granted and obligations imposed by the Law on the Policy of Foreign Direct Investment cannot be terminated or overruled by subsequent laws and regulations. Should a subsequent law or regulation be more favorable to foreign investors, the investor has the right to choose the most beneficial regulations.

Right to Private Ownership and Establishment

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

Protection of Property Rights

The BiH Government is strengthening its intellectual property rights laws in preparation for eventual membership in the European Union and the World Trade Organization. Bosnia's IPR framework consists of seven laws, adopted and put into force by the Parliament in 2010. This legislation is TRIPS and EU-compliant and includes laws on copyrights, patents, trademarks, geographical indications, and the topography of integrated circuits. BiH belongs to over 20 international treaties related to IPR and in 2009 ratified the 1996 WIPO Copyright Treaty and the WIPO Performance and Phonograms Treaty. Although existing legislation provides a basic level of protection, BiH's civil and criminal enforcement remains weak.

Jurisdiction over IPR investigations is split between customs officials, entity inspectorates, and state and entity law enforcement agencies, and no institution has specialized IPR investigation teams. IPR crimes are prosecuted primarily at the state level. Those cases indicted often involve fairly low-level violators. The more significant cases have sometimes languished for years with little action from prosecutors or judges. However, there are signs of progress. In August 2011, the BiH State Court issued a verdict in a significant software piracy case. In that case, the accused was found guilty of unauthorized use of copyrighted material, based on having provided unlicensed products to a government agency. He was sentenced to one year in prison and ordered to pay approximately 195,000 Euros in damages. Undoubtedly, this will have an impact on discouraging similar instances of software piracy.

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

The U.S. Government, in conjunction with local partners, has made IPR awareness within the enforcement community a priority through training programs, partnerships in campaigns run by the American Chamber of Commerce's IPR committee, and an IPR program to build the capacity of BiH's IPR Institute by improving efficiencies in the IPR application process and by assisting with drafting of regulations. In December 2011, the Embassy organized a joint meeting with entity Inspectorates, representatives of the Business Software Alliance, and several U.S. software companies to launch an awareness campaign – for both businesses and the general public -- about the importance of protecting intellectual property rights. Authorities in both entities began inspections to determine which companies – including banks, microcredit organizations, insurance companies, and construction companies – were using unlicensed software. The educational campaign was a major success, increased business and citizen awareness of the issue, and significantly boosted business and government compliance rates for licensed-software usage.

In BiH's private sector, awareness of IPR, particularly the importance of copyright protection, remains low. Curbing business software piracy could significantly improve the local economy through the creation of new jobs and the generation of significant tax revenue. Failure to recognize the importance of reducing copyright infringement makes software producers and official distributors less competitive and the establishment of a legitimate market more difficult. Businesses lose an estimated USD 15 million from the sale of counterfeit software, CDs, and DVDs. According to the Business Software Alliance (BSA), the rate of illegal software installed on personal computers in Bosnia and Herzegovina currently remains at 66 percent, which is the regional average.

Transparency of the Regulatory System

Establishing a business in BiH can be an extremely burdensome and time-consuming process for investors. Registration is a 12-step procedure that takes, on average, 37 days to complete. Retaining a local lawyer may expedite the process. The administrative costs are approximately USD 450 and attorney's fees range from USD 200 to USD 1,000. Notary services are necessary when establishing a company, for real estate proceedings and for changes to the court registry. Once a company is registered in one of the entities, branch offices can be established in the other entity without a separate company registration procedure. This significantly reduces the time and administrative hurdles to expand operations. Other administrative procedures can be more time-consuming. For example, obtaining a construction permit can take six months to one year. Investors often complain about lack of transparency and potential corruption in this process.

The multitude of state, entity, cantonal (in the Federation only), and municipal administrations – each with the power to establish laws and regulations affecting business – creates a heavily bureaucratic, non-transparent system. It is difficult to know all of the laws or rules that might apply to certain business activities, given overlapping jurisdictions and the lack of any central source of information. Foreign investors often, therefore, obtain local assistance and advice.

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

Efficient Capital Markets and Portfolio Investment

Capital markets remain underdeveloped in BiH. Both entities have created their own modern stock market infrastructure with separate bourses in Sarajevo (SASE) and Banja Luka (BLSE), both of which started trading in 2002. The small size of the markets, lack of privatization, and public mistrust of previous voucher privatization programs has impeded the development of a market. Nonetheless, both stock exchanges experienced a significant boom in the first half of 2007, supported by strong performances in neighboring stock markets in Belgrade, Zagreb, and Ljubljana. However, during 2008 and the global economic crisis, foreign investment dwindled and investors saw previous gains dissipate on both exchanges. This downward trend continued in 2011 and 2012, shaped not only by the global financial crisis but also by BiH's lack of political stability and slowdown of reforms. Both the RS and FBiH issued government securities for the first time during 2011, as part of their plans to raise capital in support of their budget deficits during this period of economic stress. These securities are also available for secondary market trading on the stock exchanges.

On April 3, 2012, Moody's Investors Service downgraded BiH's long-term rating from B2 to B3, citing the weakening of BiH government's financial position, weakened government effectiveness, and low-growth economic prospects. On July 10, 2012, Moody's confirmed BiH's B3 rating and stable outlook. In Moody's annual credit analysis released September 28, 2012, Moody's explained BiH's ratings reflect the country's complex political structure, limited access to external finance, and vulnerabilities to demand slumps from Europe. On November 30, 2011, S&P cut BiH's long-term credit rating by one notch from B+ to B citing political deadlock over central-level government formation. On March 28, 2012, S&P affirmed its B/B ratings, but changed the outlook from negative to stable, stating the improved outlook was due to the formation of a central government, 2011 budget adoption, and approval of a fiscal framework to allow for future IMF program renegotiations. However, S&P also noted several long and short-term challenges, including political uncertainties and tensions within BiH, as well as needed reductions in public-sector spending.

Bosnia and Herzegovina's banking and financial system has been stable with the most significant investment coming from Austria. As of December 31, 2012, 30 commercial banks operated in BiH; 20 with headquarters in the Federation and 10 in the Republika Srpska. Total assets of commercial banks operating in Bosnia and Herzegovina reached USD 14.6 billion at the end of September 2012. 25 commercial banks are members of a deposit insurance scheme, which provides for deposit insurance in the amount of KM 35,000.

In 2004, BiH passed a state-level framework law mandating the use of international accounting standards, and in 2005 both entities passed legislation eliminating the previous differences in standards that existed between the entities and Brčko District. All governments have implemented accounting practices that are fully in line with international norms. However, these standards have not yet been fully implemented throughout the country due to weak accounting capacity and failure of the government to translate international standards into local language so that firms can implement the standards. Legislative officials have been criticized for attempts to change these standards in an effort to protect local accounting firms. Foreign investors should therefore carefully scrutinize Bosnian corporate financial statements.

Competition from State-Owned Enterprises (SOEs)

Generally, private companies compete with public enterprises under the same terms and conditions with respect to access to markets, credit and other business operations. However, in the sectors such as telecommunications and electricity, state-owned enterprises hold a near-monopoly, making hefty profits as a direct result of their dominant market position. There have also been allegations that the Government-owned Postal Service has an unfair advantage when competing with private firms in the field of expedited mail delivery.

Corporate Social Responsibility (CSR)

Foreign and local companies exercise some corporate social responsibility activities and awareness. More could be done in this area to respond to BiH's various social and economic needs. In general, consumers tend to view favorably companies that initiate and carry out charitable activities in the local market. USAID manages a project to foster greater corporate social responsibility in BiH.

Political Violence

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

Corruption

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

Transparency International's (TI) 2012 Corruption Perception Index ranked BiH 72nd out of 174 countries. The country was ranked 91st last year. In 2012 BiH outperformed most of its Western Balkan peers (Montenegro, Serbia, Kosovo and Albania) but remained behind Croatia (62nd) and Macedonia (69th). According to TI, which maintains offices in BiH, relevant institutions lack the will to become actively involved in fighting corruption. Law enforcement agencies and the judiciary are not effective in the prosecution of corruption cases and are visibly exposed to political pressures. Prosecutors complain that citizens generally do not report instances of corruption and do not want to testify in these cases. At the end of 2011, BiH established a state level agency to prevent and coordinate efforts to combat corruption.

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

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

U.S. Foreign Corrupt Practices Act: The Foreign Corrupt Practices Act of 1977 was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business. Since 1977, the anti-bribery provisions of the FCPA have applied to all U.S. persons and certain foreign issuers of securities. With the enactment of certain amendments in 1998, the anti-bribery provisions of the FCPA now also apply to foreign firms and persons who cause, directly or through agents, an act in furtherance of such a corrupt payment to take place within the territory of the United States.

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

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

Alleged corruption by foreign governments or competitors can be brought to the attention of appropriate U.S. government officials, including local embassy personnel or through the Department of Commerce Trade Compliance Center "Report a Trade Barrier" Website at [tcc.export.gov/Report a Barrier/index.asp](http://tcc.export.gov/Report_a_Barrier/index.asp)

Anti-Corruption Resources

Useful resources regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at <http://www.justice.gov/criminal/fraud/fcpa>
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at <http://cpi.transparency.org/cpi2012/> TI also publishes an annual *Global Corruption*

Report which provides a systematic evaluation of the state of corruption around the world. See: <http://archive.transparency.org/publications/gcr>

- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html Also refer to the Antibribery Recommendation and Good Practice Guidance Annex for companies at <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html
- The World Bank Worldwide Governance Indicators (WGI) assess six areas of governance including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at <http://go.worldbank.org/RQQXYJ6210>
- The World Economic Forum's *Global Enabling Trade Report* ranks the Enabling Trade Index, and assesses the transparency of border administration (focused on bribe payments and corruption). See: <http://www.weforum.org/reports>
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries regarding governance and anti-corruption at <http://report.globalintegrity.org/>

Bilateral Investment Protection Agreements

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

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

OPIC and Other Investment Insurance Programs

OPIC's activities in BiH include: insurance for investors against political risk, coverage of losses due to expropriation of assets, political violence, and currency inconvertibility; and insurance coverage for contracting, exporting, licensing and leasing transactions.

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

Labor

BiH has a workforce with relatively low labor costs by western standards, and university enrollments have been increasing for a number of years. However, several sectors such as construction, information technology, and health care have experienced a significant loss of skills over the past decade, due to a lack of education and job training opportunities, as well as emigration. Tax rates on labor are high, discouraging employment of new workers and increasing incentives for unregistered employment. Current labor legislation provisions make it difficult to dismiss redundant workforce. In addition, a rigid wage determination system stands in the way of job creation and worker mobility. This is a result of a collective bargaining system that retains most of its socialist era characteristics. Employees and employers share the costs of health care, pension, and unemployment insurance in the Federation, while in the Republika Srpska employers cover all of these costs, as well as child care contributions. Many employers underreport their labor force to avoid paying taxes and benefits. Official unemployment was approximately 44 percent at the end of 2012, while unemployment based on the ILO definition was 27.6 percent at the end of 2012.

Foreign Trade Zones/Free Ports

The BiH Law on Free Trade Zones allows the establishment of free trade zones (FTZs) as part of the customs territory of BiH. Currently there are four free trade zones in BiH: Vogosca, Visoko, Hercegovina-Mostar, and Holc Lukavac. One or more domestic or foreign legal entities registered in BiH may create a FTZ. The users of FTZs do not pay taxes and contributions, with the exception of those related to salaries and wages. Investors are free to invest capital in the FTZ, transfer their profit and retransfer capital. Customs and tariffs are not paid on imports into FTZs. The import of equipment for manufacturing within FTZs may be discontinued, however, if the value of goods produced and exported abroad is less than 75 percent of the total value of goods produced in that zone.

Foreign Direct Investment and Foreign Portfolio Investment Statistics

According to BiH Central Bank data, from a high of \$2.1 billion in 2007, foreign direct investment (FDI) totaled \$380 million in 2011, and was only \$56 million in the first six months of 2012. In terms of country origin of investment inflows, a significant change was recorded in 2011, because the most investments came from Russia (USD 96 million), Austria (USD 71 million) and Serbia (USD 65 million). At the same time, a decline was

recorded in 2011 from some countries, which were formerly major investors (Slovenia, Croatia and Italy). In the past fifteen years, Austria has been the largest investor (20 percent), followed by Serbia (18 percent), Croatia (14 percent), Slovenia (11 percent), Russia (9 percent) and Germany (6 percent). The manufacturing sector had the highest percentage of FDI, followed by the banking and trade sectors.

Bosnia and Herzegovina has been designated as a beneficiary country under the United States Generalized System of Preferences (GSP) program, under which more than 3,400 products are eligible for duty-free entry to the United States. The GSP program provides an incentive for investors to produce in Bosnia and Herzegovina.

The Interim Agreement on Trade and Trade-related matters (IA) between the European Union and Bosnia and Herzegovina is currently in force. According to the IA, all goods of BiH origin that fulfill EU technical-technological standards and conditions can be imported to all EU countries without any quantitative restrictions and without paying customs or other similar duties. Since 2009, import tariffs have been eliminated for more than 11,000 products that BiH imports from the EU. As of January 1, 2013 BiH revoked custom duties on most EU food imports, although under the agreement BiH is allowed to retain duties on dairy and other animal-origin products until it becomes an EU member.