



Foreign
Investors
Council

FI



BUSINESS
BAROMETER

Sarajevo, June 2018.

BOSNIA AND HERZEGOVINA



Foreign
Investors
Council

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Acknowledgements

I wish to express my deep gratitude and appreciation to all our members who participated in the preparation of this 2nd Business Barometer. The Foreign Investors Council of Bosnia and Herzegovina (**FIC**) expresses its continued strategic intent and commitment to advocating for the improvement of the business environment on behalf of its members – foreign and domestic investors.

Referring to the period behind us, when it comes to the business climate in Bosnia and Herzegovina (**BiH**), we can notice that the 2017 was marked by only partial implementation of announced reform processes. Although the attitude towards foreign direct investments (**FDI**) has changed for the better over the past few decades, we cannot disregard the fact that the FDI inflow over the last two years has been extremely low. However, the recently published preliminary indicators for the four quarters of 2017, nevertheless, allow for a certain amount of optimism, as the FDIs recorded an increase by 57.3% compared to figures recorded in 2016, and an increase by 26.4% compared to the five-year average.

Over the past year, one of the FIC's most important goals, *inter alia*, was to indirectly promote investments through our activities and media dissemination efforts. The FIC, in cooperation with its partners, achieved sound results in terms of activities aimed at providing reliefs to the businesses, thus strengthening the position of foreign investors in BiH.

I am confident that this new edition of the Business Barometer combined with our latest *White Book* will serve as a guideline for decisions-making processes essential for the economic development and as a basis for planning, resource mobilization, performance management, and aligning the government services in terms of their engagement with the business community.

I wish to conclude by expressing my appreciation for the ongoing support of the *MarketMakers* Project in providing technical and financial assistance to ensure the completion of this Business Barometer. I also thank all FIC members who participated in this Survey.

We look forward to continuing our collaboration with the investors community, *MarketMakers* and other partners in further development of the BiH economy.



Branimir Muidža
President

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Executive Summary

Foreign investments are an essential component of economic development of all countries in transition, including Bosnia and Herzegovina. These investments are an important tool for achieving greater efficiency of existing companies, technology development, transfer of new skills and knowledge, and cornering new markets. In summary, they are important component of business activities and contribute to improved competitiveness, employment, and overall economic growth and development.

Investors, and the FIC members in BiH, completed this Survey in order to identify the obstacles they face while doing business. In addition, they have identified the benefits of investing in BiH, as well as the main reasons for reinvesting. To date, FIC members have invested over 9 billion BAM in BiH, and employed more than 20,000 citizens.

Although BiH identified attracting foreign investments as one of the strategic priorities, the desired level of investment has not been achieved yet, largely due to the political instability, complicated administrative structures, excessive bureaucracy, and business environment that is insufficiently incentivised.

Among our members, 77% believe that the business climate in BiH is unpredictable, which reduces the likelihood of attracting new foreign investments. Notably, despite the perceived obstacles that the FIC members indicated in the Survey, 84% of the current investors are willing to recommend BiH as a country to invest in, and 70% of them intend to reinvest in BiH over the next three years.

The investors have identified highly qualified personnel, mostly in technical and economic professions (such as mechanical and electrical engineers, developers, managers), as the most desirable profile of employees. However, the investors are also looking for other types of skilled labour force. In 2017, 49% of the FIC companies saw an increase in the number of employees.

In summary, the Survey has shown that the FIC members invest in BiH, because of its geographic and strategic position and the potential of the domestic market, as well as because of the resources and logistics available in BiH.

This report complements the White Book published by the FIC, which provides for a very specific set of prescriptive measures identified to address many of these findings.



Introduction

The second “FIC Business Barometer” report is a milestone activity pursued by the FIC and implemented in cooperation with the *MarketMakers* Project, as part of the Swiss Government’s contribution to the transition of BiH towards a socially inclusive market economy. The first ‘FIC Business Barometer’ report was developed in 2015, as a pilot activity aimed at gaining better insight into the level of the investors’ overall satisfaction with the business environment, reinvesting prospects and new employment opportunities in BiH. The data presented in FIC Business Barometer will be updated regularly on an annual basis.

This Survey resulted in aggregated FIC membership statistics, which was collected and subsequently presented. Furthermore, the Survey results were summarized and uploaded to the FIC Homepage Business Barometer – www.businessbarometer.ba, and they will be used to improve the investors’ position and their requests towards BiH institutions, with the aim of improving the regulatory framework, the efficiency of state administration and political decisions, for the purpose of strengthening the position of the current investments and encouraging new ones. We hope that the Survey results will demonstrate to the new governments how much BiH would benefit in terms of new capital and job creation, had it consistently implemented the economic reforms.

About the Foreign Investors Council

The FIC in BiH is a major non-profit business association currently gathering 70 foreign and domestic companies from different sectors of the economy. The FIC members have invested more than 9 billion BAM in BiH so far, and employed more than 20,000 BiH citizens.

The FIC was established 12 years ago with the aim of advocating for investment and business environment improvements in BiH for the overall benefit of future economic development, and the establishment of communication and cooperation between foreign investors and BiH authorities.

The FIC aims to act as a single voice of foreign investors present in BiH, to provide practical support to all investors and promote good business practices of foreign companies.



About the MarketMakers Project

The *MarketMakers* Project is part of the Swiss Government's contribution to the transition of BiH towards a socially inclusive market economy and a decentralised, democratic political system, with the long-term perspective of European integration.

The Swiss Government has assigned the implementation of the *MarketMakers* Project to a consortium consisting of *Helvetas Swiss Intercooperation* and *Kolektiv Ltd. (Posao.ba)*, combining international development expertise and experience with the context-specific knowledge of a national partner. The *MarketMakers* Project stimulates private sector growth in selected markets leading to the creation of new job opportunities for young women and men.

The *MarketMakers* Project has an overall duration of eight-and-a-half years, and the goal is to contribute to improved access to gainful and decent job opportunities for young people.

Methodology

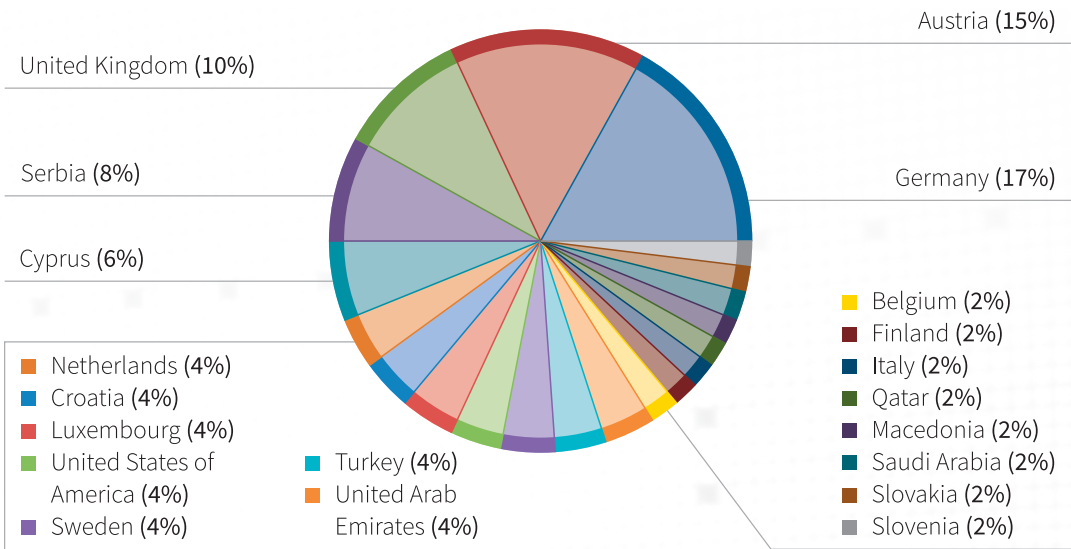
The Business Barometer Survey on the needs of foreign investors in BiH, from the perspective of improving business environment, was carried out using an online survey instrument. The questionnaire was completed by the member companies of the FIC in BiH, with the aim of offering recommendations to the relevant institutions at the state, entity, and local levels on removing the major obstacles faced by investors, including the improvement of the existing legislation governing this area. The questions are related to members' activities throughout 2017. The Survey was completed by 85% of our members. Conversely, not all foreign investors in BiH are members of the FIC. The data from the Survey is presented in charts and figures to facilitate easy visualization of the collected information. This Survey is also intended for various stakeholders in BiH to identify major impediments to growing investments in BiH. The Survey and this resulting report aim to influence the creation of more favourable economic and business climate for existing foreign investors in BiH in order to increase the likelihood of reinvestment, expanding operations, hiring additional workforce, and reducing unemployment.



A – GENERAL INFORMATION ON THE FIC MEMBERS¹

COUNTRY OF HEADQUARTERS OF THE INVESTORS

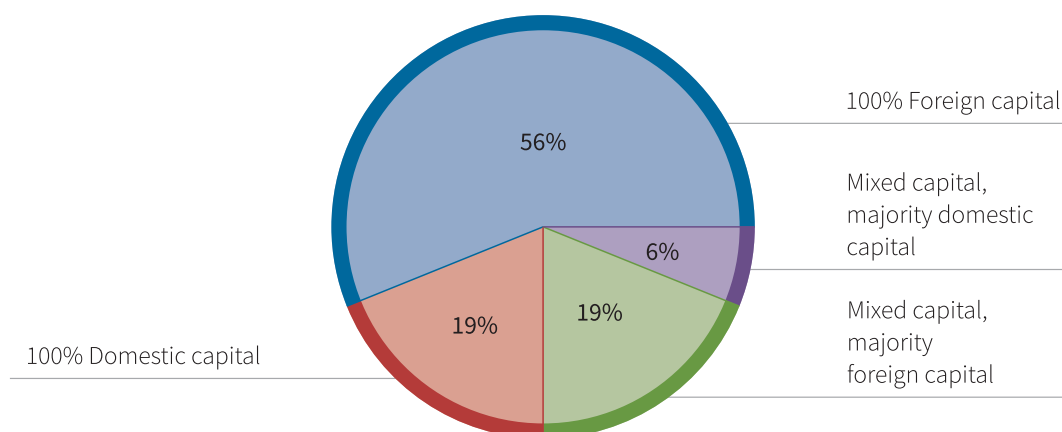
According to the origin of the surveyed companies, the major investors are companies from Germany with a share of 17%, and Austria with share of 15%, followed by foreign investors from the United Kingdom with a share of 10% and Serbia with a share of 8% and Cyprus with a share of 6%, while other countries each account for either 4% or 2%.



1 General information on the FIC members has been complemented with their master data available at the FIC Executive Office (Country of Origin, Equity Origin, Type of Investment, Type of Economic Activity, Geographical Distribution of the Investment, Legal status).

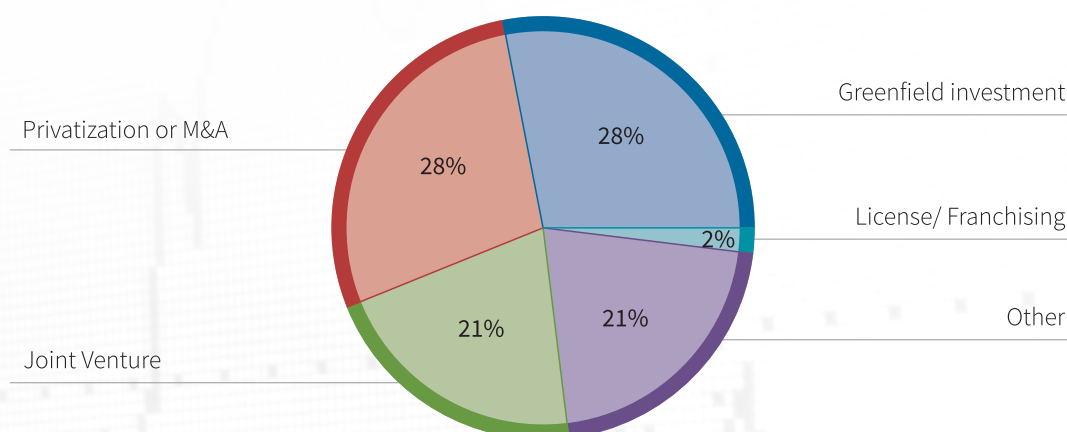
EQUITY ORIGIN

With respect to equity origin, most of the companies are foreign-owned with a total share of 56%, followed by domestic-owned ones with a share of 19%; mixed-equity companies with a foreign controlling interest account for (19%), while mixed-equity companies with a domestic controlling interest account for 6%.



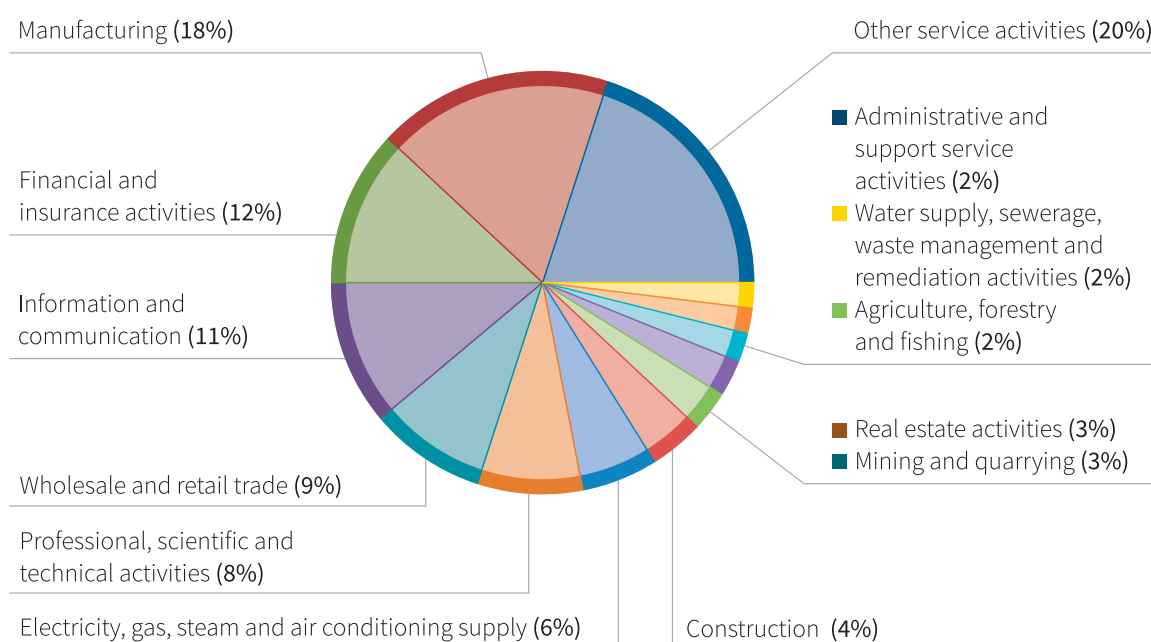
TYPE OF INVESTMENTS

Most of the FIC members, 28% of them, carried out their investment as a Greenfield investment and through privatization or acquisition of domestic companies (28%), while 21% of FIC members made their investment by joint ventures. The same number of members used other models to implement their investment.



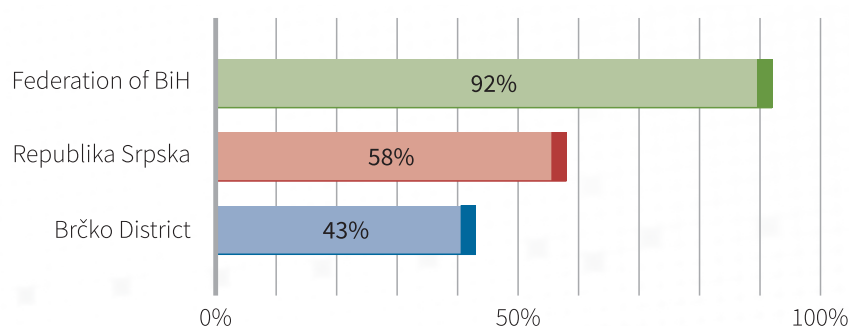
TYPE OF BUSINESS ACTIVITY

Members of the FIC BiH have invested in numerous business activities and sectors. The majority of investments have been made in the service-oriented sectors (20%) and processing industry (18%). Financial and insurance sectors account for 12%, while information and communication sectors each account for 11%. Wholesale and retail trade account for 9% of the total share. Service-oriented sectors are mostly represented by financial and consultancy services, while the chemical industry, food and beverages processing, as well as energy and construction sectors account for the largest share of the manufacturing industry.



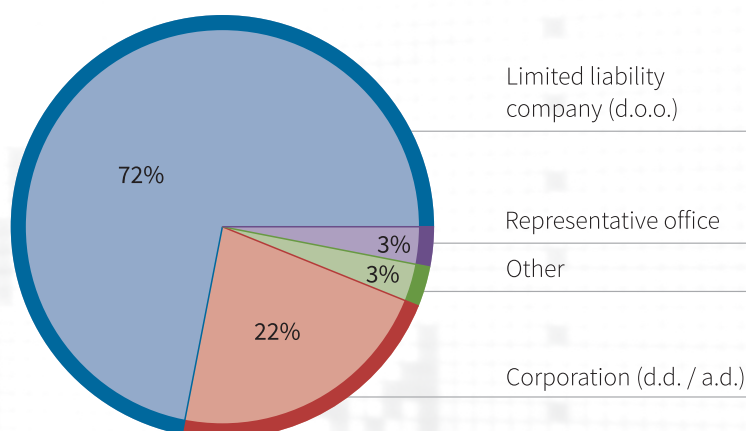
GEOGRAPHIC DISTRIBUTION OF THE INVESTMENTS

Out of the total number of FIC members, 92% invested in the territory of the Federation of BiH, while 58% invested in Republika Srpska and 43% in the territory of Brčko District.



LEGAL STATUS

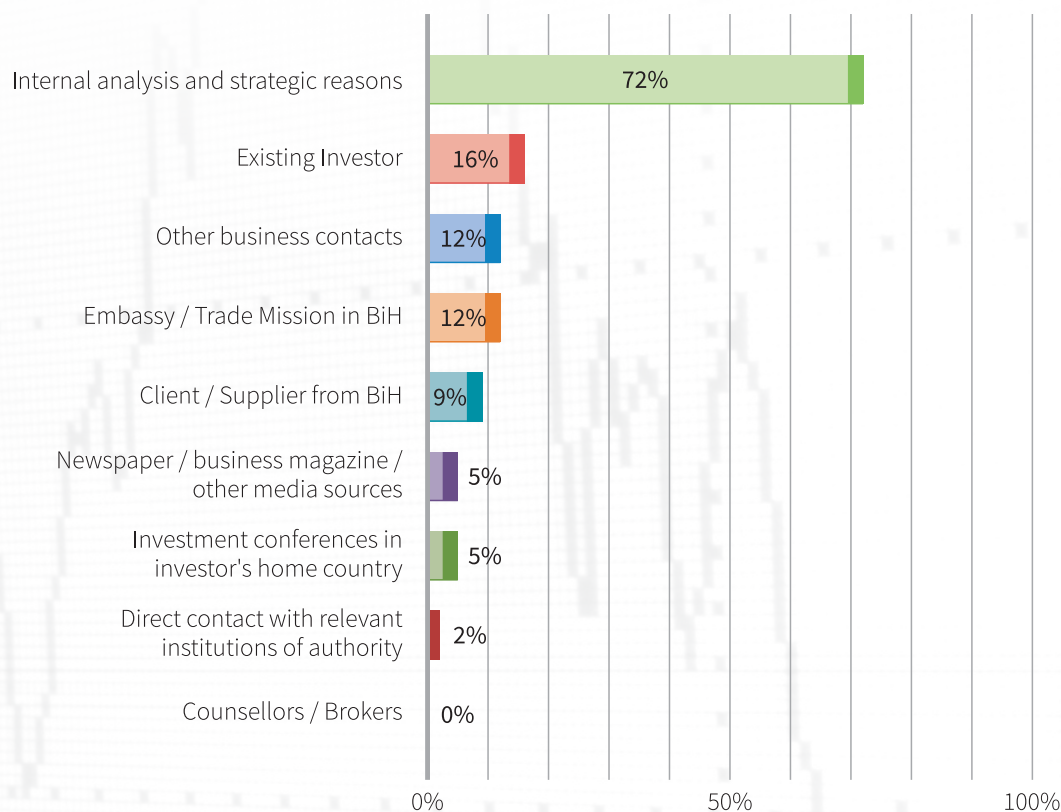
Limited liability companies account for 72% of the total number of FIC members, 22% of them are joint stock companies, while representative offices and other types of organization have each the same share of 3%.



B – PAST AND FUTURE INVESTMENTS OF THE FIC MEMBERS

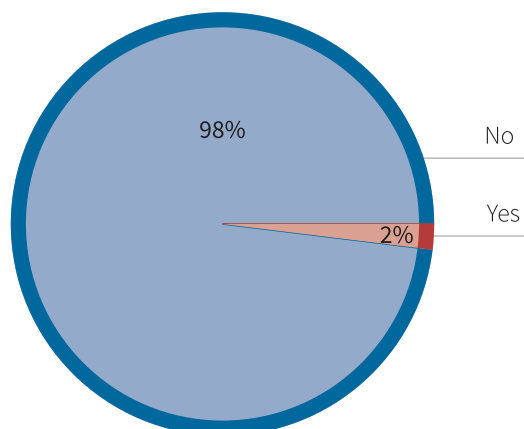
SOURCES OF INFORMATION ON INVESTMENT OPPORTUNITIES

Out of the total number of companies surveyed, 72% of them learnt about the investment opportunities in BiH by conducting an internal analysis; 16% of the respondents received the information from another investor who had already invested in BiH, while 12% of investors got the information through the embassies/trade missions and business contacts, and 9% of them, from the existing clients or suppliers from BiH. Only 5% of the respondents received the information at investment conferences and media sources. Only 5% of the respondents received the information at investment conferences and media sources.



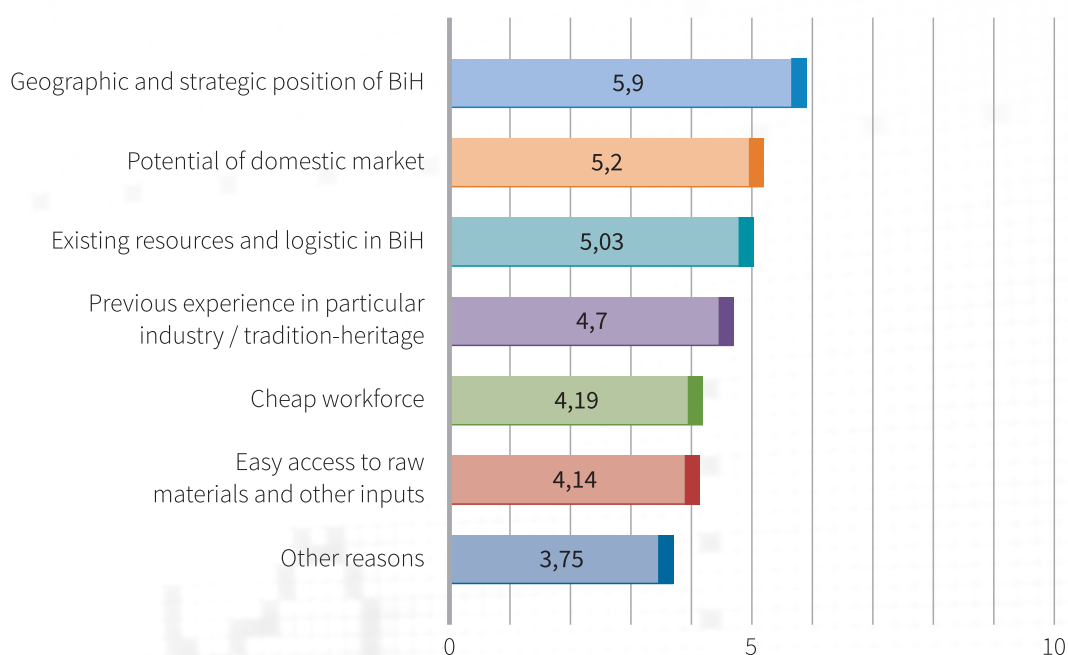
SUPPORT TO INVESTMENT

Responding to the question if they received some kind of free-of-charge legal, logistical or institutional support when making their investment in BiH, 98% of the members said that they had not received any kind of free-of-charge support, while only 2% of them received an assistance from the state-level institutions.



MOTIVES FOR INVESTING IN BIH²

The FIC members mostly invest in BiH because of its geographic and strategic position, the domestic market potentials, the available resources and logistics, and the experience and tradition BiH has in certain industries. Cheap workforce and easy access to raw materials and other inputs were assessed as the least important motives for investing in BiH.

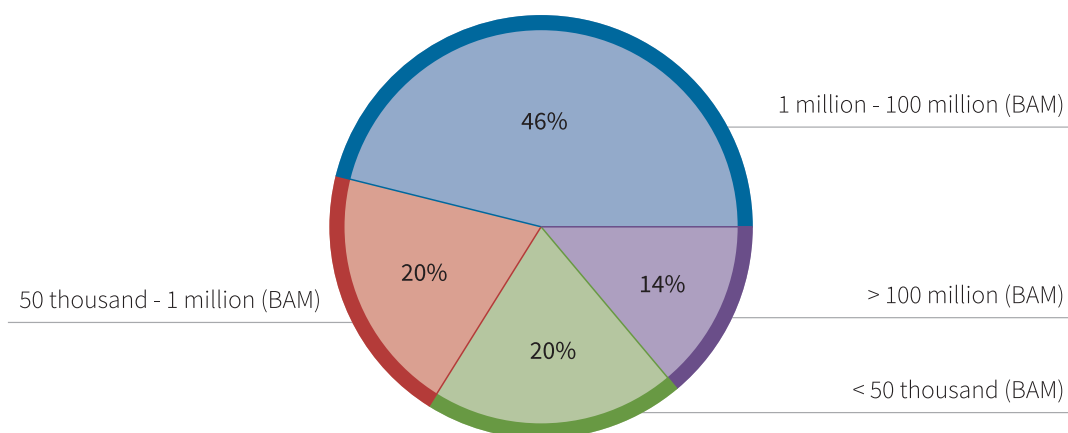


² The figures given in the graph above represent the mean weighted value of all responses for the given category, where seven points have been awarded if the category was designated as top priority and one point if the category was ranked as the last priority.

VALUE OF TOTAL INVESTMENTS AND INVESTMENTS REALIZED IN 2017

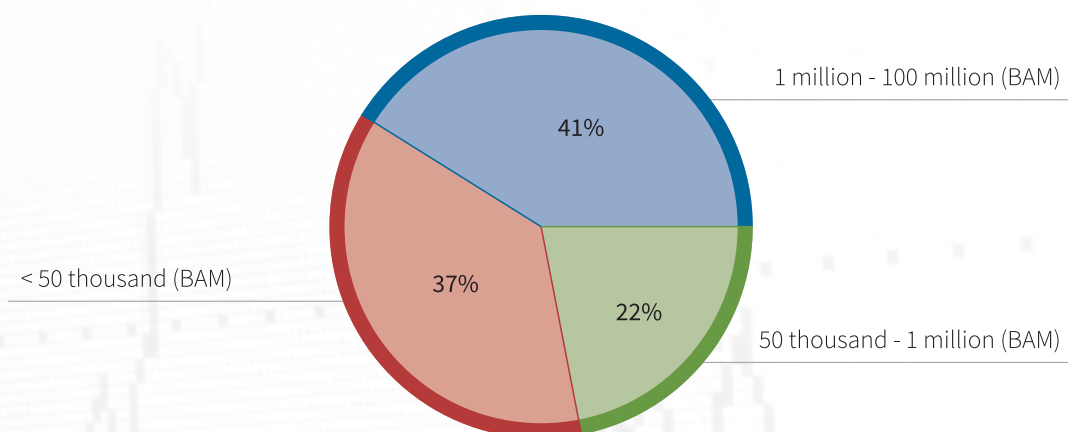
A. Total Investments

Since the beginning of its business operations in BiH, 46% of the surveyed FIC members invested between 1 and 100 million (BAM), 20% invested between 50 thousand and 1 million (BAM) in total, while the same percentage of FIC members invested less than 50 thousand (BAM). 14% of the members invested over 100 million (BAM).



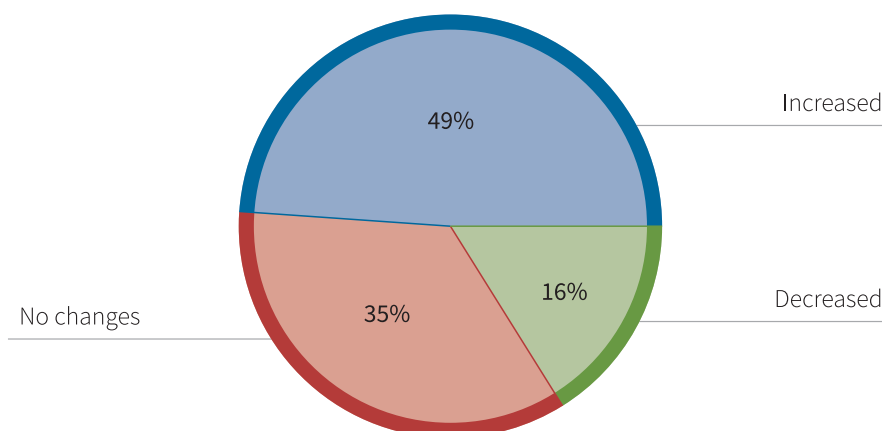
B. Investments in 2017

Last year (2017), 41% of the surveyed FIC members invested between 1 and 100 million (BAM), 37% of them invested less than 50 thousand (BAM), and 22% made an investment amounting between 50 thousand and 1 million (BAM).



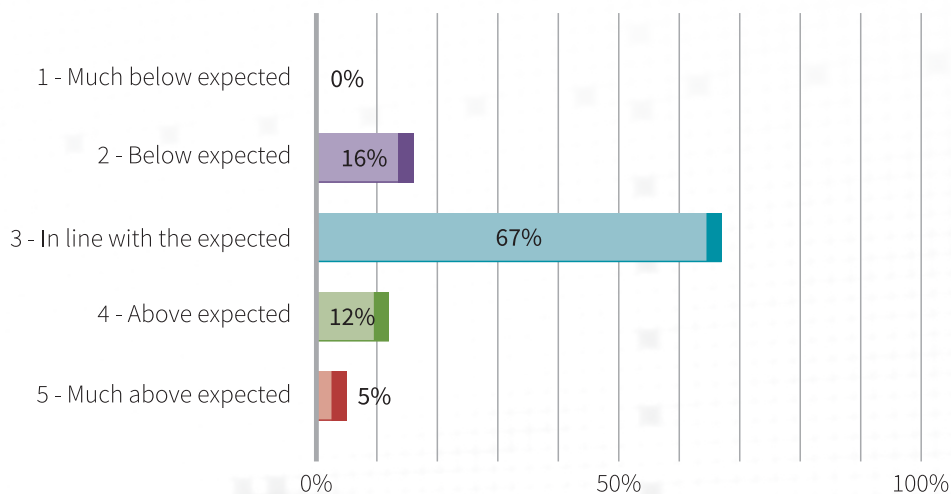
NET EMPLOYEES IN THE LAST CALENDAR YEAR (2017)

In 2017, 49% of the companies saw an increase in the number of employees, while in 16% of the companies there was a decrease in the number of employees. Out of the aforementioned 49%, 38% of them have employed up to 10 new employees; 43% employed between 10 and 50 employees, while 19% of them employed more than 50 employees, including those that employed more than 100 employees. In 35% of the companies, there were no changes in the number of employees in 2017.



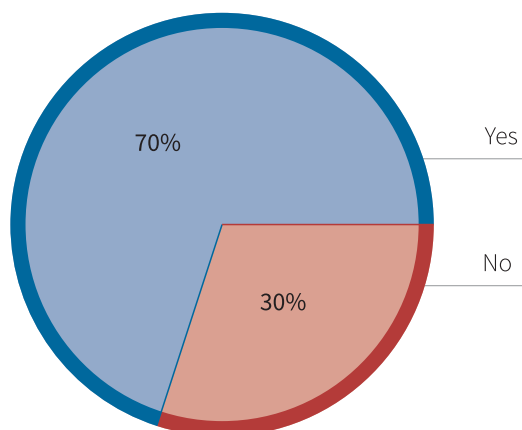
FINANCIAL BUSINESS RESULTS

Over the past three years, more than half of the FIC members (67%) have achieved financial results that corresponded to the expected business projections and targets set for 2017. The business results achieved by 16% of the companies were below the expected ones, while 12% of them achieved the results above the expected, and 5% much higher than the expected.



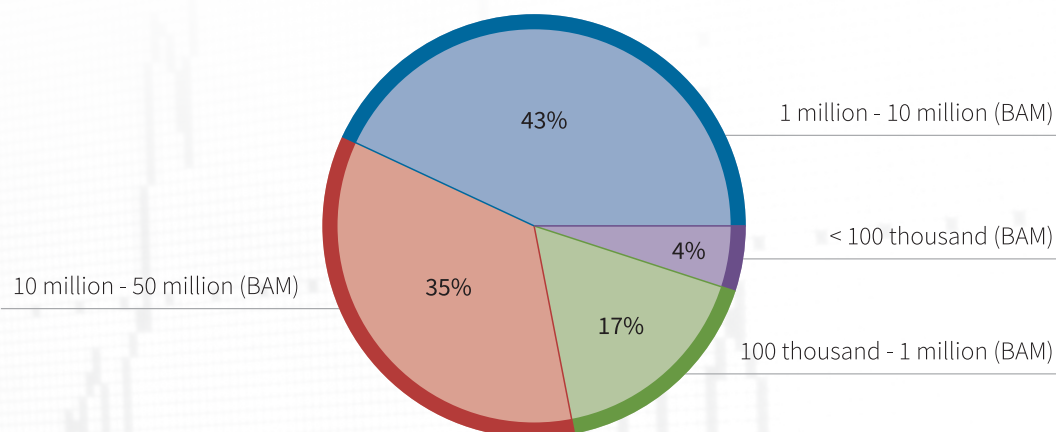
REINVESTING PLANS FOR THE UPCOMING THREE YEARS

The results show that 70% of the respondents opted for reinvestment in BiH over the next three years, while only 30% decided not to reinvest. No company has any plans to withdraw the investment. As reasons for not reinvesting, the companies stated that their priority was to gain return on their current investment. Other reasons included poor support from the local authorities and their resistance to new investments.



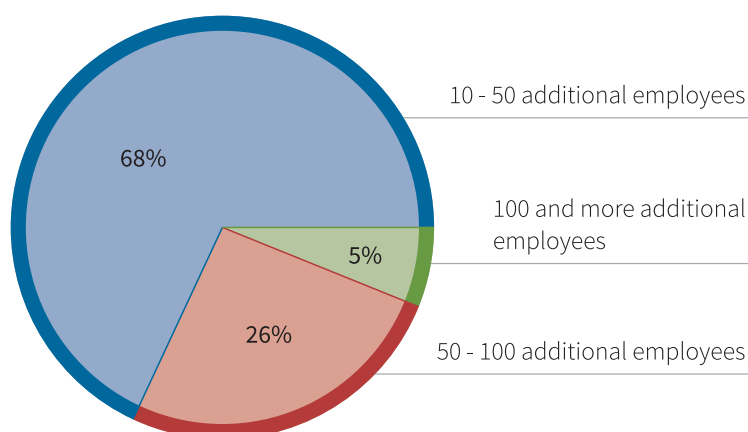
A. Value of Planned Investments over the Next Three Years

Among the companies planning to reinvest over the next three years, 44% intend to invest between 1 and 10 million (BAM), 35% have plans to make an investment amounting between 10 and 50 million (BAM), while 17% of the surveyed companies made plans to invest between 100 thousand and 1 million (BAM). Only 4% plan to invest less than 100 thousand (BAM) over the next three years.



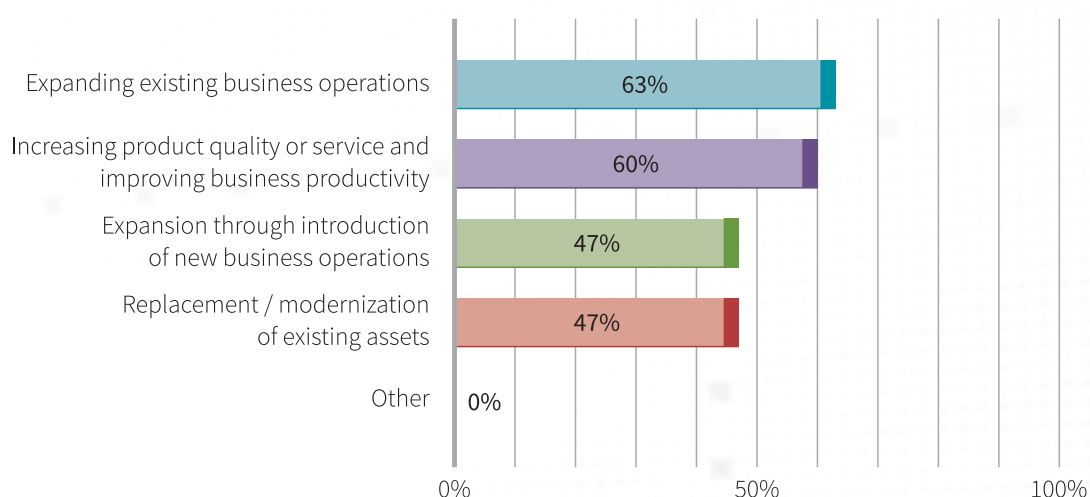
B. Planned Number of Net Additional Employees over the Next Three Years

63% of the companies planning to make new investments over the next three years also intend to hire additional workforce. Out of the aforementioned 63%, 38% are planning to employ between 10 and 50 employees, 26% plan to employ between 50 and 100 employees, while 5% plan to employ over 100 additional employees.



REASONS FOR REINVESTING

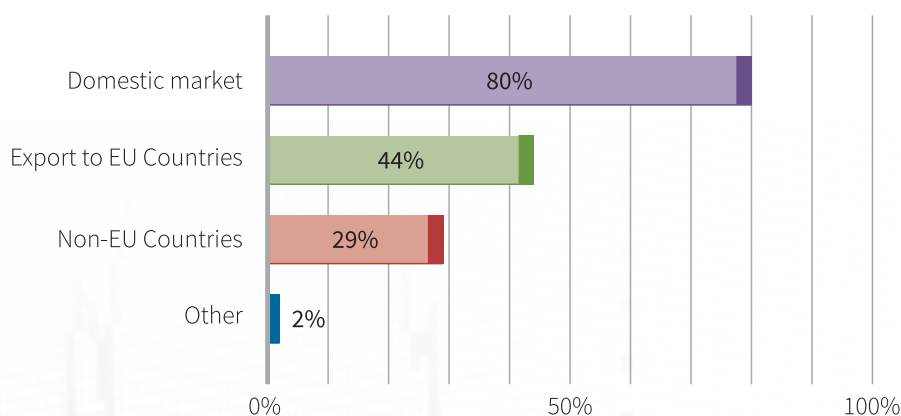
Among the companies that decided to reinvest, 63% will invest in expanding their business, 60% in increasing the quality of their products or services and improving productivity, while others, in a share of 47%, intend to invest in the expansion of their business through the introduction of new business operations, and 47% will invest in replacement/modernization of the existing assets.



C – ECONOMIC PERFORMANCE OF THE FIC MEMBERS

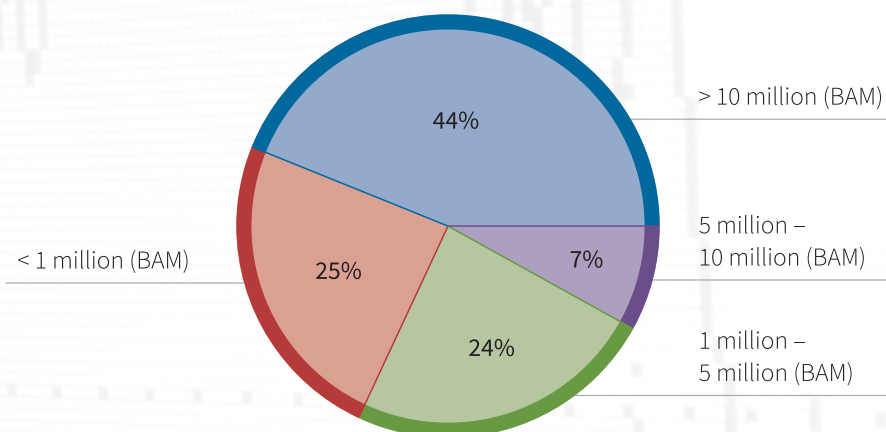
PRIORITY TARGET MARKETS

At the time of making the investment decision, more than half (80%) of the surveyed FIC members planned to place their products on the domestic market, while in terms of foreign markets, they were mostly targeting the EU countries (44%). The countries outside the EU accounted for 29% in the structure of the potential foreign investors markets.



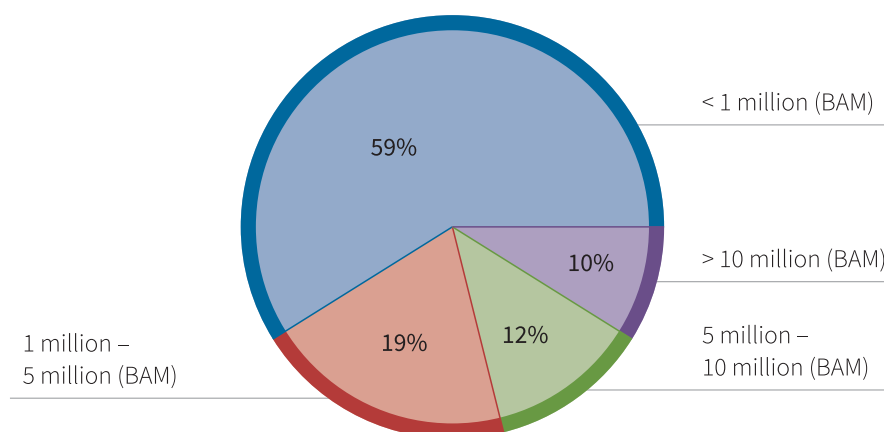
2017 ANNUAL TURNOVER ACHIEVED IN BIH

44% of the surveyed FIC members achieved turnover of more than 10 million (BAM) in the previous year; 24% had a turnover between 1 and 5 million (BAM); last year's turnover achieved by 25% of the companies was less than 1 million, while 7% of the companies had a turnover ranging between 5 and 10 million (BAM).



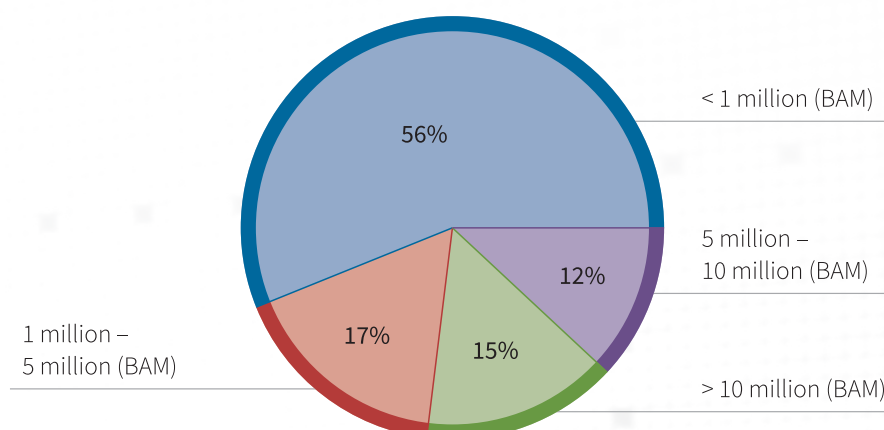
2017 PROFIT MADE IN BIH

More than half of the companies (59%) made profits of less than 1 million (BAM), 19% of them between 1 and 5 million (BAM), 12% of the companies made profits ranging between 5 and 10 million (BAM), while only 10% made profits higher than 10 million BAM.



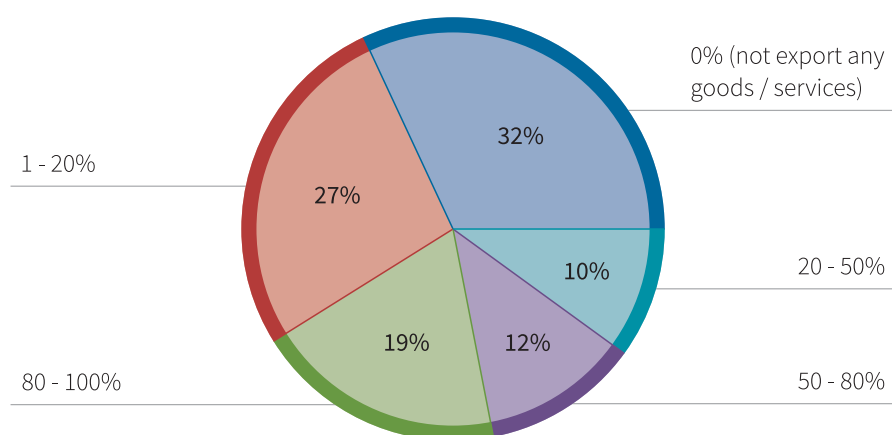
2017 ANNUAL TURNOVER ACHIEVED FROM EXPORTS

More than half of the export-oriented FIC members (56%) had an export-based turnover of less than 1 million (BAM), 17% had an export-based turnover ranging between 1 and 5 million (BAM), and 15% of the members in the amount of more than 10 million (BAM), while 12% of them realized a turnover ranging between 5 and 10 million (BAM).



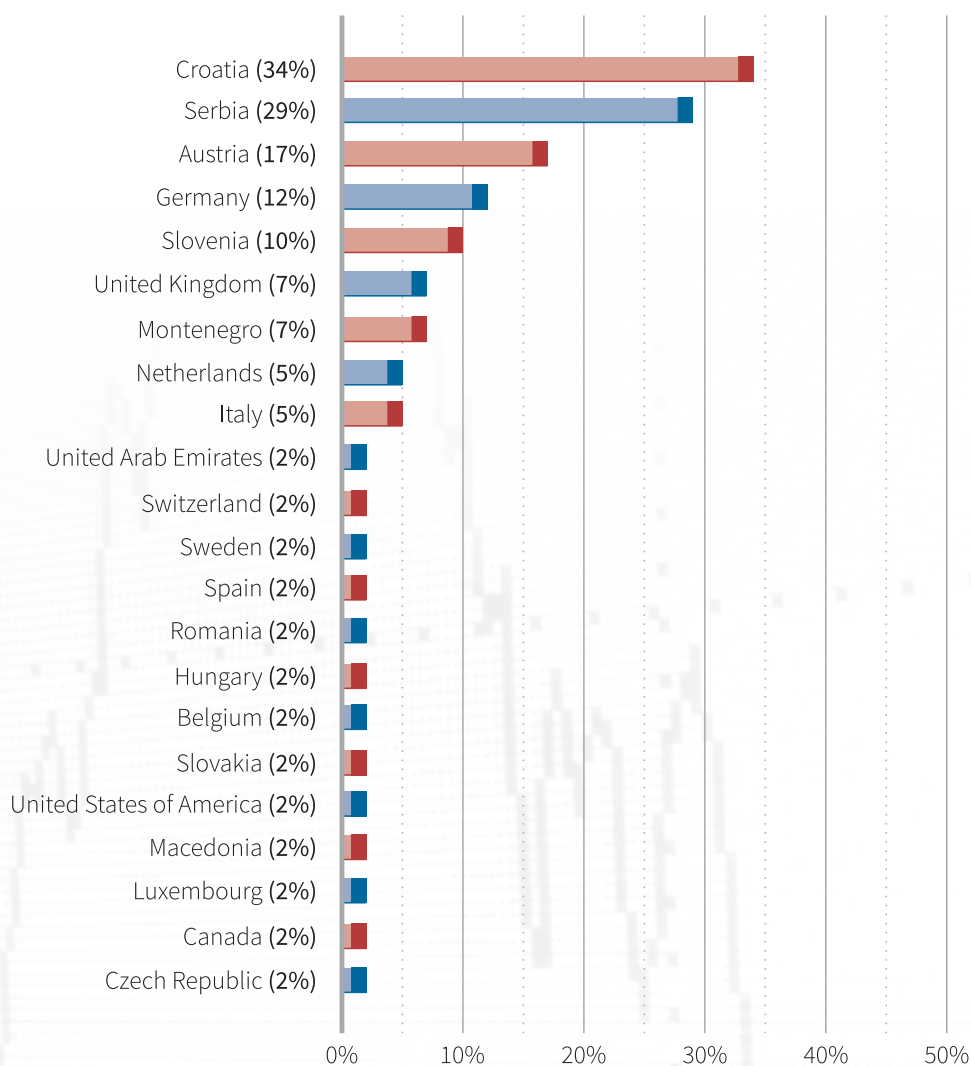
PERCENTAGE OF ANNUAL EXPORT-BASED TURNOVER IN BIH EXPORT OF GOODS / SERVICES

32% of the surveyed members stated that they did not export their goods and services; 27% of them had an export sales between 1% and 20%; 10% of the FIC members had an export-based turnover of 20-50%; and 12% of them had an export-based turnover ranging between 50 and 80%, while an export-based turnover ranging between 80-100% was realized by 19% of the members.



COUNTRIES TO WHICH MOST OF THE GOODS AND SERVICES ARE EXPORTED

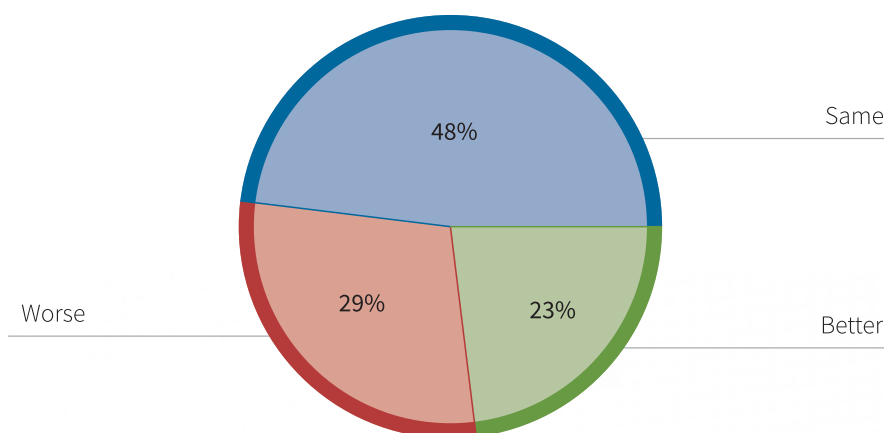
The FIC members export mostly to Croatia, Serbia and Austria that is followed by Germany as the fourth country, while the Slovenia ranks fifth.



D – EVALUATION OF THE BUSINESS CLIMATE IN BiH

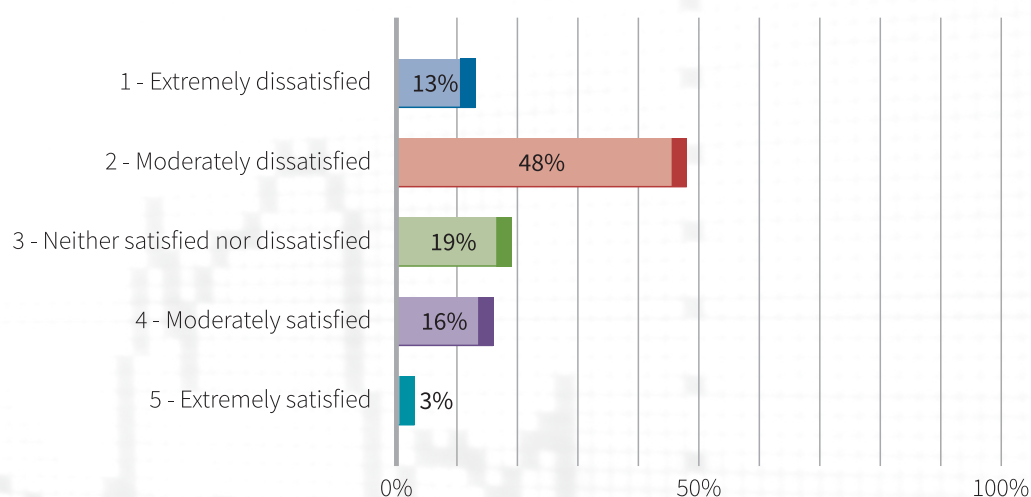
ASSESSMENT OF THE ECONOMIC AND BUSINESS CLIMATE IN BIH IN 2018 COMPARED TO 2017

In terms of changes, 48% of the respondents believe that the economic and business environment in BiH has not changed compared to the previous year, while 29% of them is of the opinion that the business environment has somewhat deteriorated.



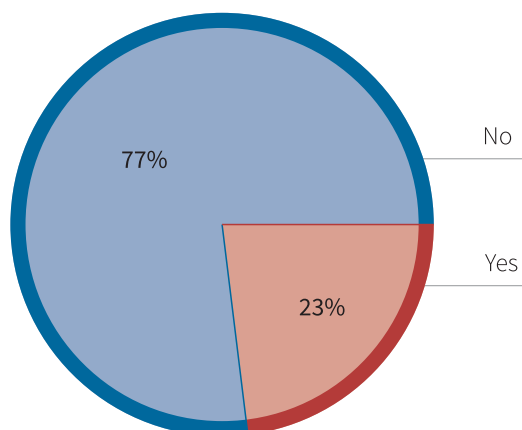
EVALUATION OF THE CURRENT BUSINESS CLIMATE IN BIH

In the opinion of the FIC members, the business climate in BiH is far from ideal. Slightly less than half of the surveyed members (48%) expressed moderate dissatisfaction with the business climate in BiH, while 19% were neither satisfied nor dissatisfied and 16% were moderately satisfied. Only 13% of the respondents stated that they were extremely dissatisfied with the business climate, while there were merely 3% of those who were extremely satisfied with the current business climate.



PREDICTABILITY OF BUSINESS CLIMATE IN BiH

Even though a predictable business climate is necessary for increasing investments, the data shows that only less than 1/4 of the total number of surveyed FIC members considered the business climate in BiH predictable, while as many as 77% of them considered it to be unpredictable, which is not a favourable indicator for foreign investors.

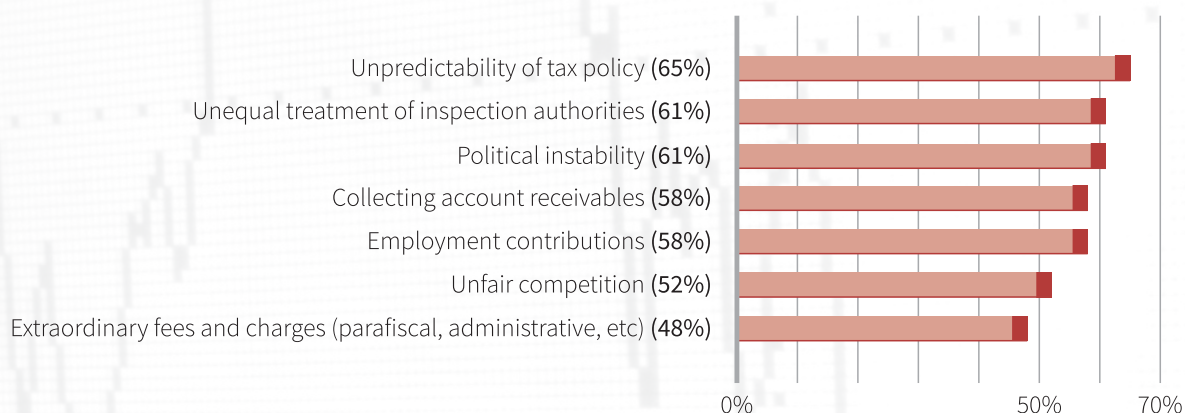


BUSINESS CLIMATE-RELATED RISKS

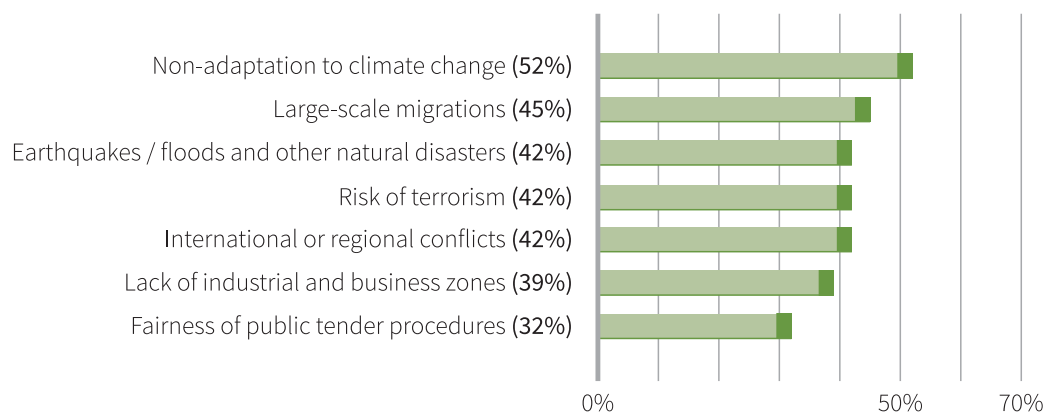
In the opinion of the FIC members, the risks that have the greatest significance and impact on their successful operations are: unpredictability of tax policy, unequal treatment by the inspection authorities, and political instability. This is followed by collectability of receivables, employment benefits, unfair competition and extraordinary fees and charges.

The FIC companies are of the opinion that the following risks have the greatest growth trend: negative demographic structure (outflow of workforce), political instability, employment benefits, cyber-crime, inefficiency of public administration, unpredictability of tax policy, and unequal treatment by the inspection authorities.

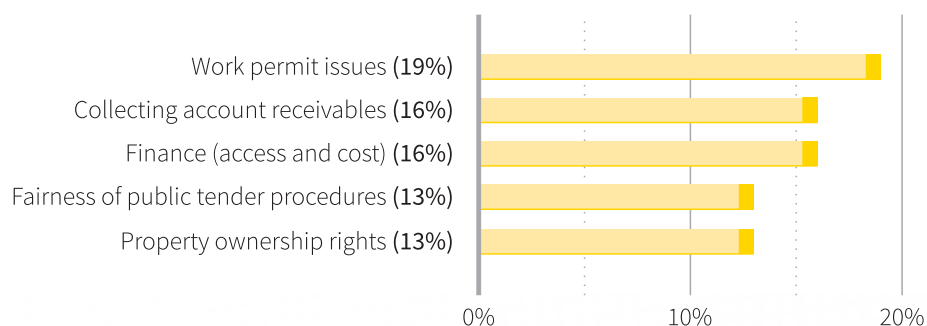
The highest risks for successful business operations in BiH



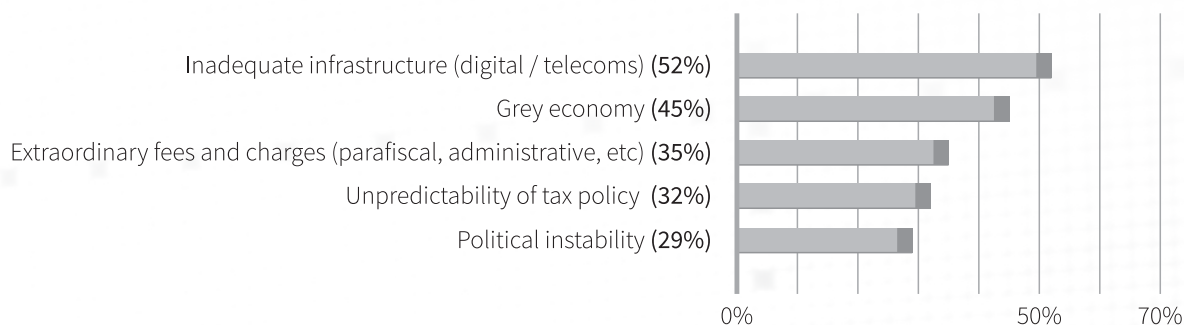
Risks that are the least relevant for successful business operations in BiH



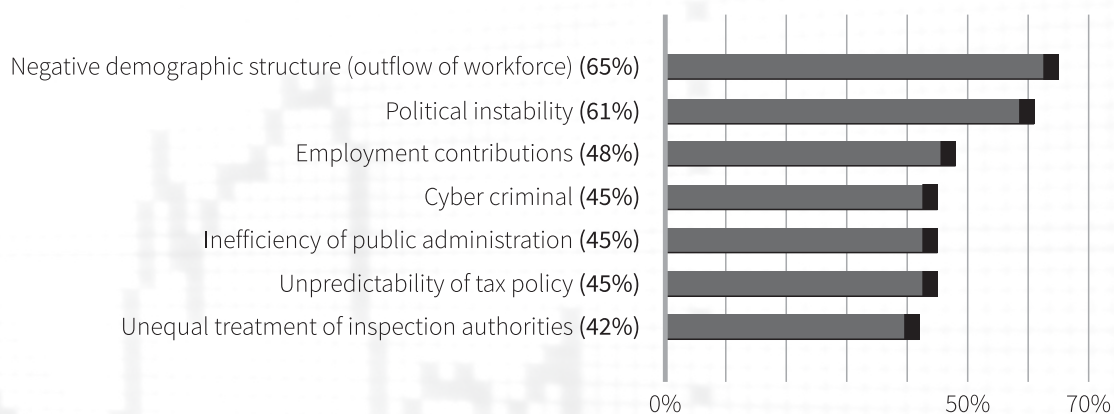
Risks that have the most positive impact on business operations in BiH



Risks that have the most negative impact on business operations in BiH



Risks with the greatest growth trend

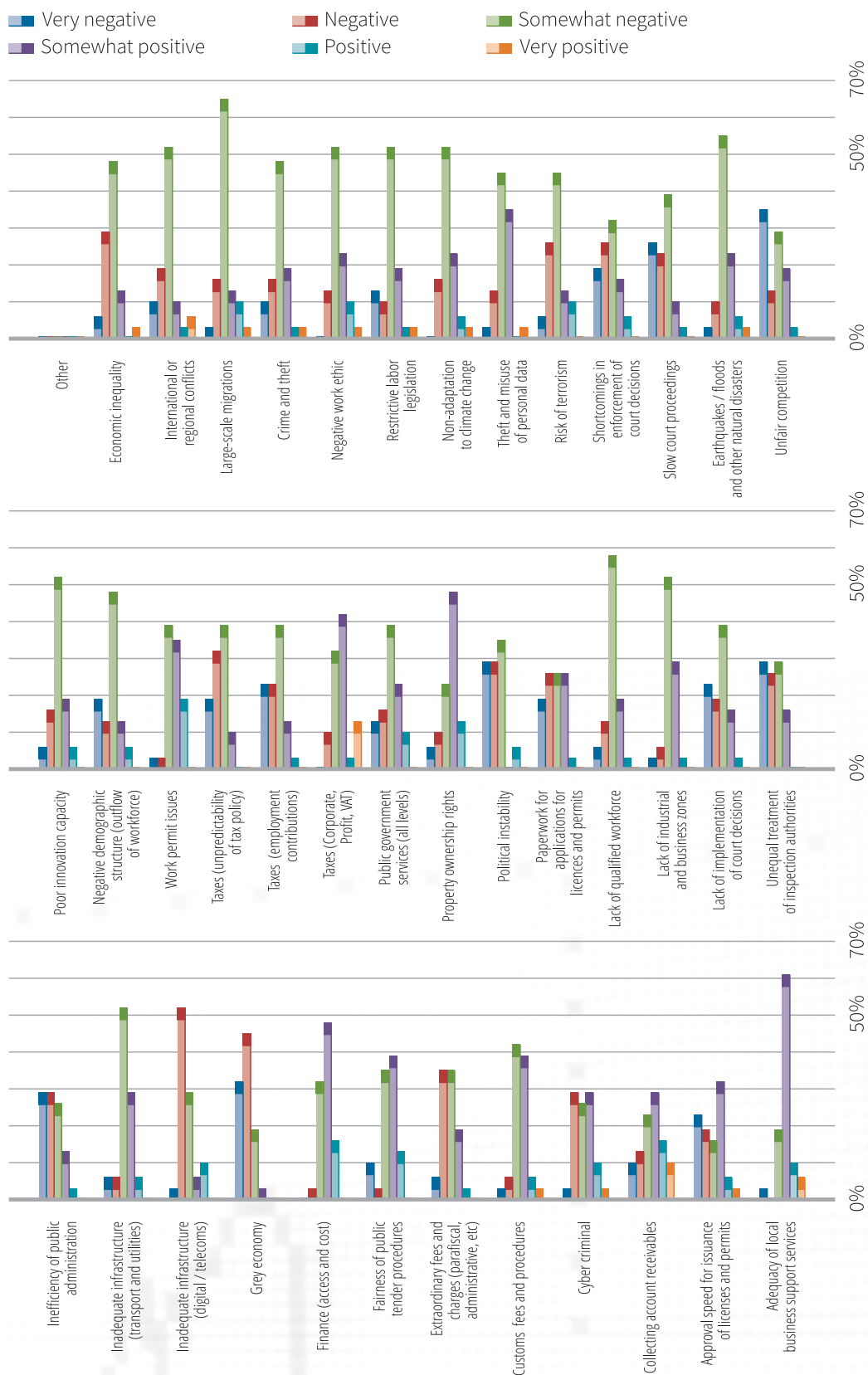


FOR A DETAILED OVERVIEW OF THE RISKS, PLEASE SEE BELOW:

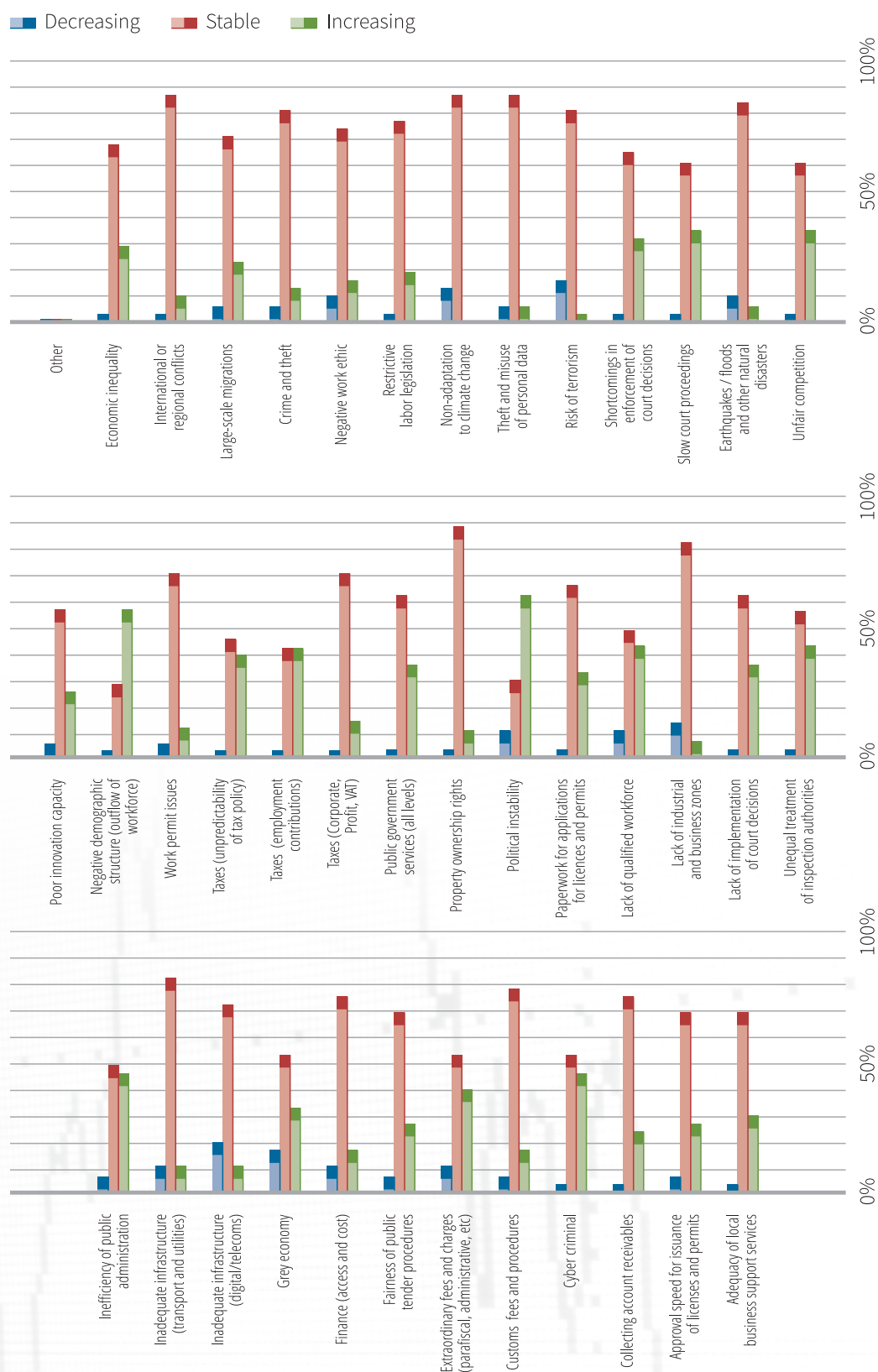
A. Significance of the risk on successful business operations in BiH



B. Risk impact on successful business operations in BiH

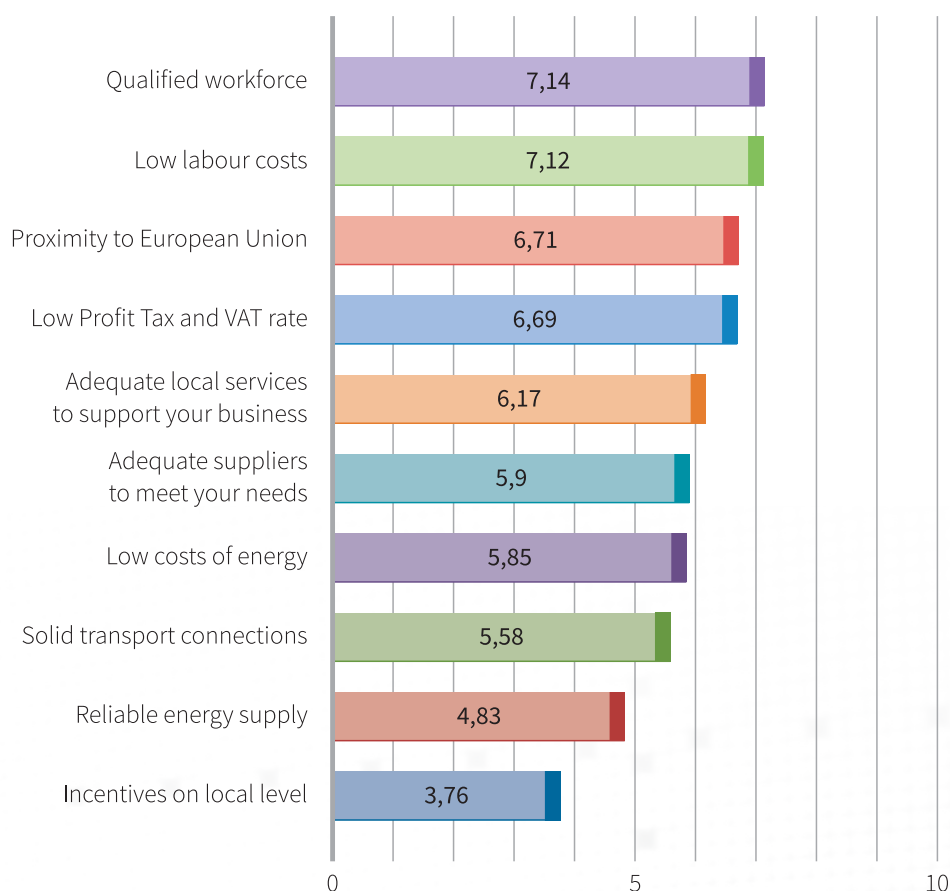


C. Risk Trend



COMPETITIVE ADVANTAGES OF INVESTING IN BIH³

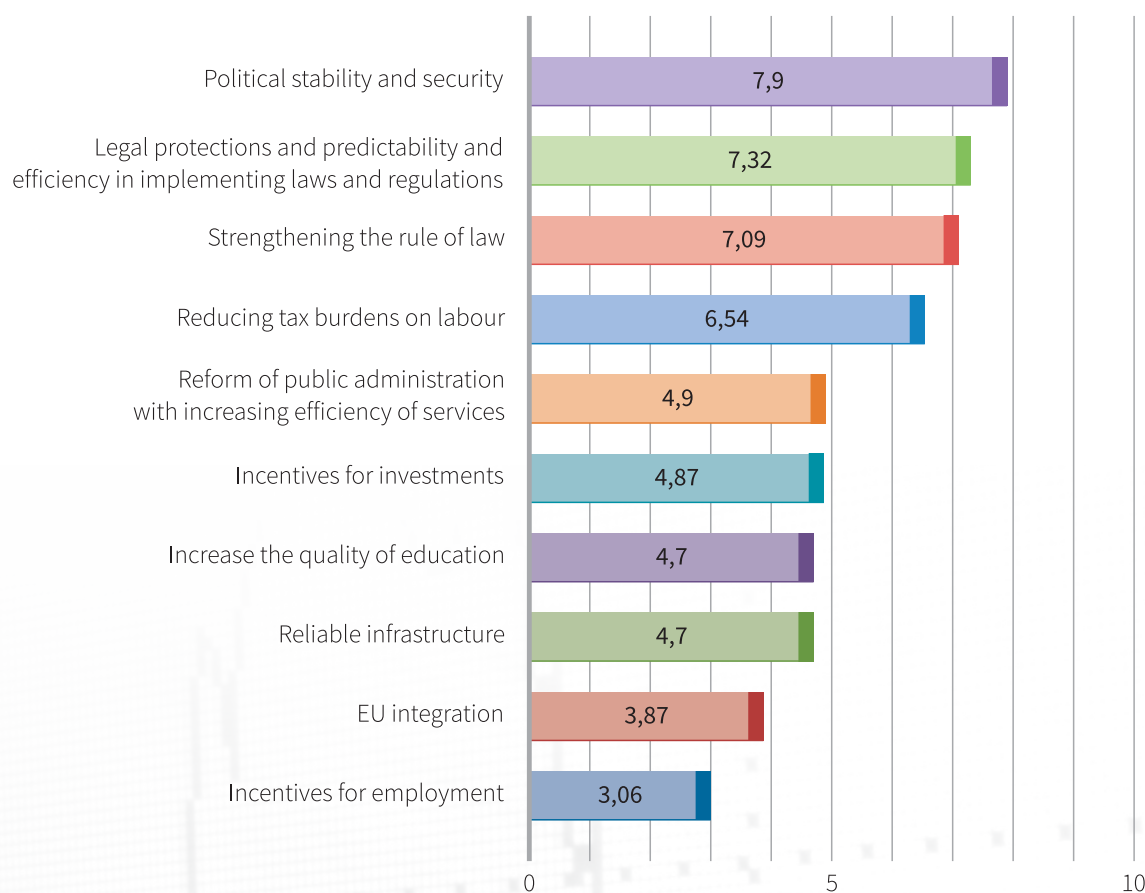
Foreign investors indicated that qualified and professional workforce, low labour cost, as well as proximity to the European Union market were the most important competitive advantages due to which they opted for entering BiH market, and later, decided to re-invest. The next-ranked advantages for making an investment in BiH refer to low tax rates (profit tax and VAT), adequate local support services, then adequate suppliers that meet the needs of foreign companies, low energy prices and solid road connections. Reliability in the supply of energy and incentives for foreign investors at the local level are the areas where, in the opinion of the respondents, there is still a lot of room for improvement.



³ The figures given in the graph above represent the mean weighted value of all responses for the given category, where ten points have been awarded if the category was designated as top priority and one point if the category was ranked as the last priority.

GOVERNMENT'S KEY PRIORITIES FOR THE IMPROVEMENT OF THE BUSINESS ENVIRONMENT⁴

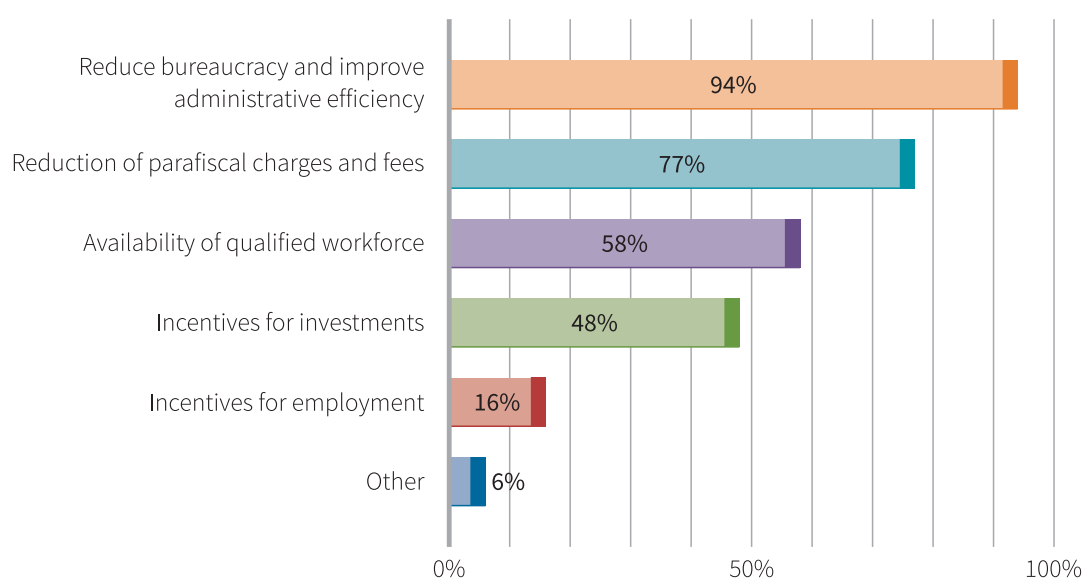
The FIC members underscored the key priorities that governments should set in order to improve the existing conditions for business development in BiH. As a number one priority, they stated the establishment of political stability and security. The second placed priority is to establish legal protection of investors with effective law enforcement practices that have either direct or indirect impact on the foreign investments. The third priority is to strengthen the rule of law. These results clearly justify the existence of the *White Book* and similar documents that point to the existing issues, along with the effective implementation, enforcement and transparent operation of the public institutions.



RECOMMENDATIONS FOR CANTONS / LOCAL SELF-GOVERNMENT UNITS

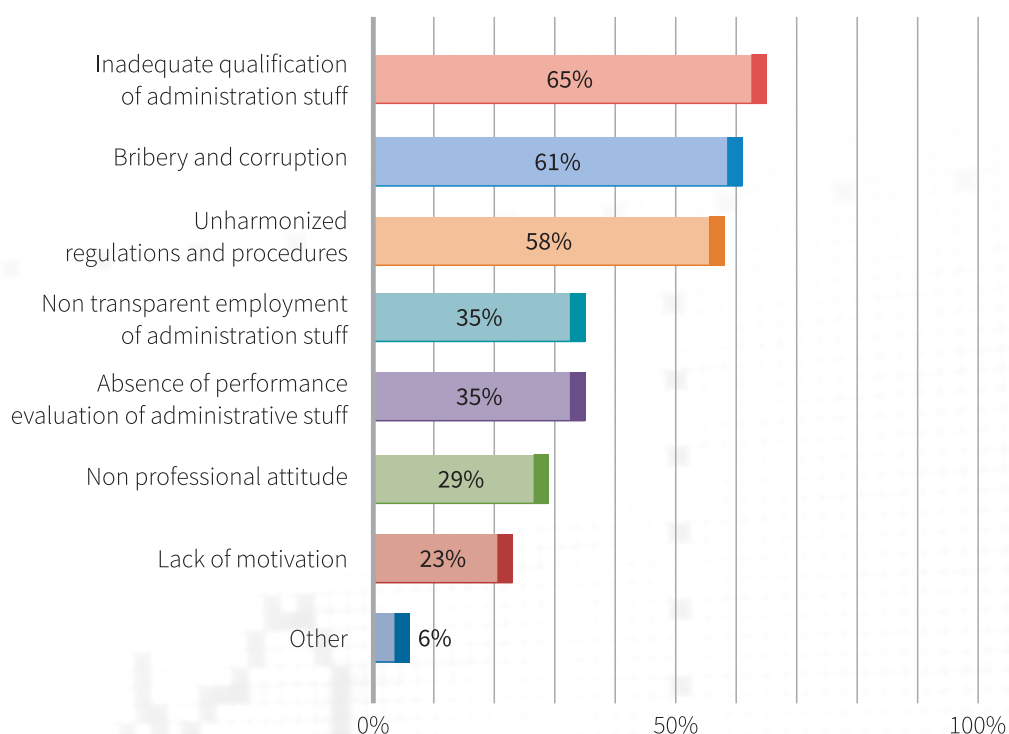
94% of the surveyed companies believe that it is the most important to reduce bureaucracy at the local level and improve the efficiency of administration. 77% of investors would recommend cantons and municipalities to reduce para-fiscal charges; 58% believe that local governments should provide for qualified workforce, while 48% believe that more incentives should be introduced for investors, and 16% of them is of the opinion that additional incentives for employment should be introduced in order to attract more foreign investments into the local communities. Other recommendations are represented by 6%.

⁴ The figures given in the graph above represent the mean weighted value of all responses for the given category, where ten points have been awarded if the category was designated as top priority and one point if the category was ranked as the last priority.



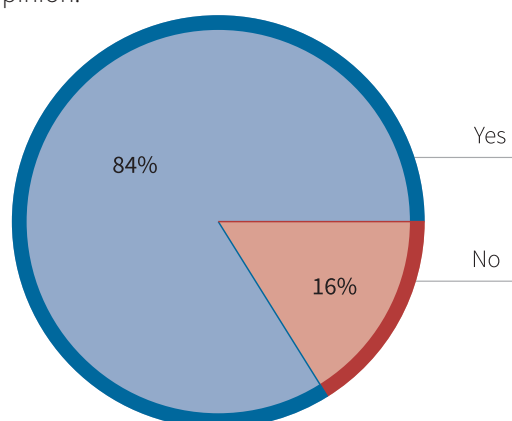
MAIN REASONS FOR THE INEFFICIENCY OF THE ADMINISTRATION

More than half of the FIC members (65%) believe that lack of qualified administration staff; bribery and corruption (61%); disharmonized regulations and procedures (58%) are top three reasons for the inefficiency of the administration in BiH. Non-transparent employment is listed as the fourth reason, followed by the absence of performance evaluation of administrative staff, non-professional attitude and the lack of motivation of administrative staff.



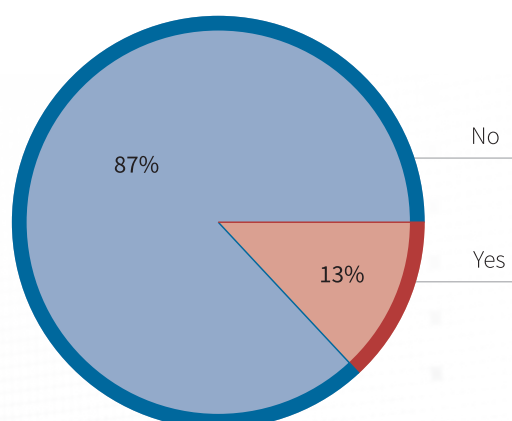
WILLINGNESS TO RECOMMEND OTHER FOREIGN COMPANIES TO INVEST IN BIH

In spite of the observed obstacles that the FIC members pointed out in this survey, as many as 84% of the respondents would readily recommend BiH as a country for investment to other foreign companies, while only 16% do not share that opinion.



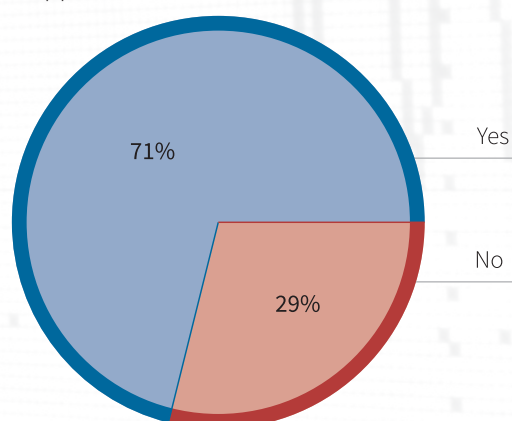
BENEFITTING FROM GOVERNMENT INCENTIVES

87% of companies stated that they had not benefitted from any incentives provided by the government, while 13% of companies benefitted from institutional incentives.



ABILITY OF BUSINESS ASSOCIATIONS AND INTERNATIONAL ORGANIZATIONS TO HELP SOLVE PROBLEMS ENCOUNTERED BY INVESTORS IN DOING BUSINESS IN BIH

Slightly less than three quarters of the surveyed FIC members (71%) believe that business associations and international organizations contribute successfully to solving the problems faced by foreign investors in BiH, while 29% think it is the opposite.

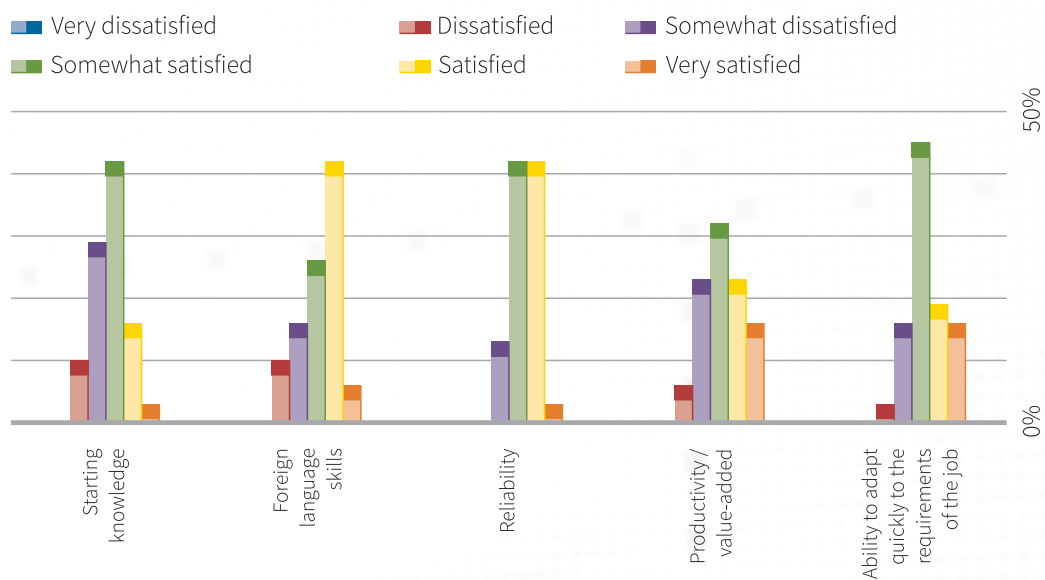




E – EMPLOYMENT & EDUCATION

EXPERTISE AND RELIABILITY OF HUMAN RESOURCES IN BIH

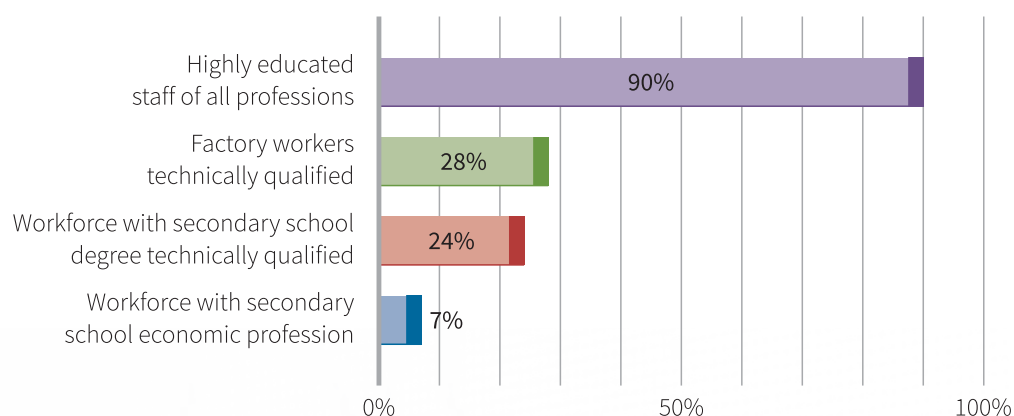
Investors assessed the expertise and reliability of human resources in BiH, where close to half of the respondents stated that they were satisfied with the reliability of employees and their foreign languages skills (42%). To some extent, they were also satisfied with the ability of employees to adapt to job requirements (45%), as well as their starting knowledge (42%), while the investors were the least satisfied with the productivity of workers in BiH.



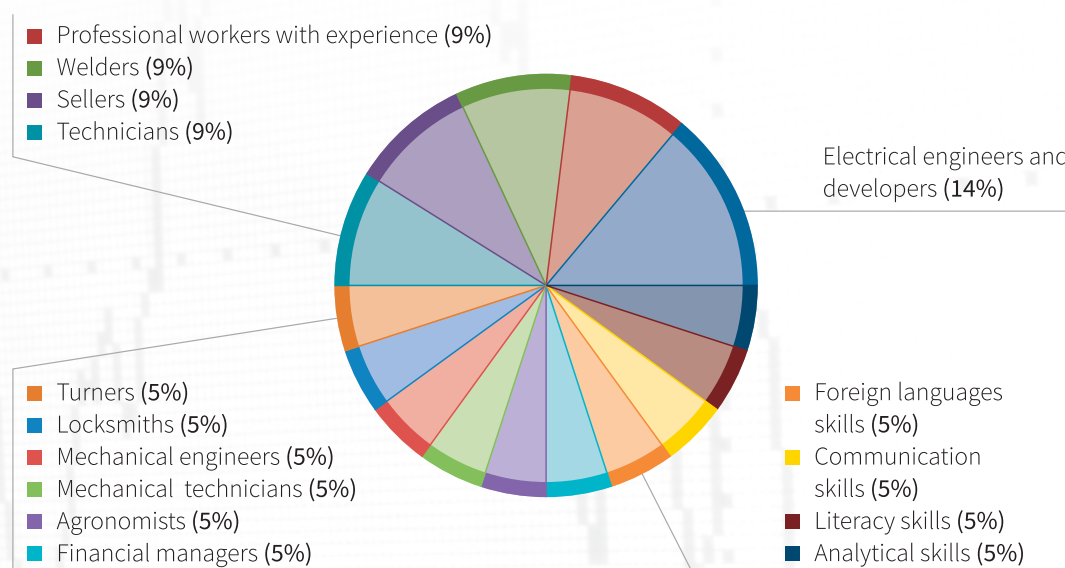
PLANS FOR ADDITIONAL RECRUITMENTS

According to previously collected data from the questionnaire, almost 90% of the FIC members will have a need for recruiting highly skilled professionals, mostly of technical and economic professions (mechanical and electrical engineers, developers, managers). The share of 28% is attributable to factory workers (technicians, welders, turners) and 24% to the workforce with secondary education in engineering, while only 7% of the respondents will have a need for secondary school graduates in the field economics. Among the extremely deficient occupations are electrical engineers, developers, agronomists and financial managers followed by technicians, sellers and welders. The three main recommendations for improving the education system in BiH in order to meet the needs of companies are: improved vocational training for high school and university students, more retraining opportunities and providing additional training for teaching staff in BiH.

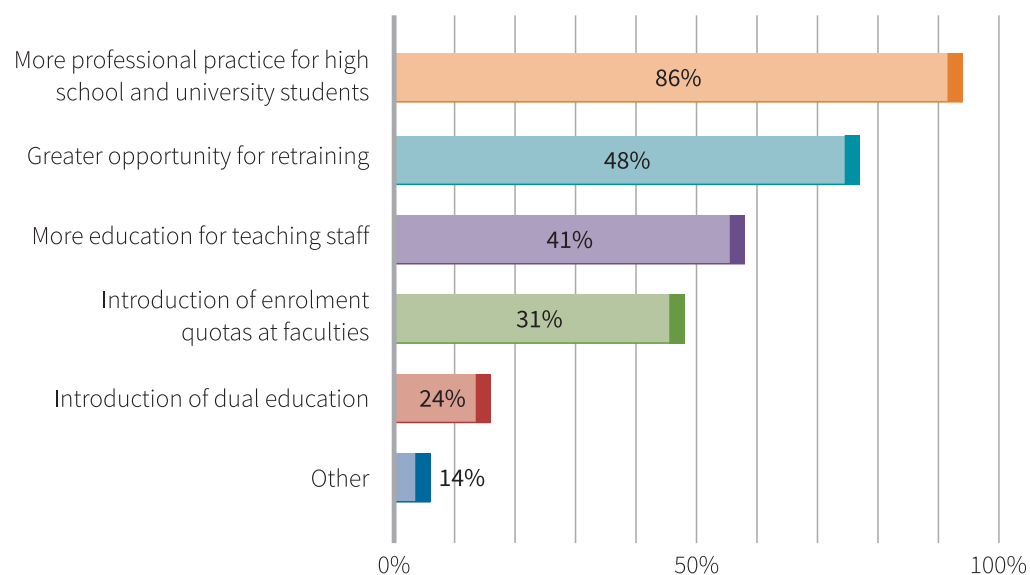
A. Profile of Workers in Demand



B. Deficient Professions / Skills



C. Recommendations for Improving the Education System in BiH in order to Match Business Needs of the Market



Members

