



GROWTH-ORIENTED LOCAL DEVELOPMENT (GOLD)



F I BUSINESS BAROMETER

Sarajevo, October 2015

BOSNIA AND HERZEGOVINA

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Acknowledgement

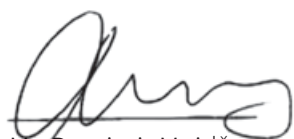
I wish to express my deep gratitude and appreciation to all those who participated in the preparation of this First Foreign Investors Council Business Barometer. By developing this Business Barometer, the Foreign Investors Council of Bosnia and Herzegovina expresses its continued strategic intent and direction in advocating on behalf of its members, the foreign investors.

The performance of the economy of Bosnia and Herzegovina at all levels hinges on the ability of all parties to engage in honest and constructive dialogue with one another. This Business Barometer is published with this open dialogue in mind and with the hope for more robust mechanisms for serving as a lens to the concerns of both sides, the investors and the government, who are mutually engaged in trying to find a viable and permanent solution to the vast economic potential that Bosnia and Herzegovina has to offer. As such, I express deep gratitude to our counterparts in the government for their willingness to engage while urging for continued service with integrity, dedication, and professionalism. On our side, we will continue to focus on building the economic sector through capacity building, collaboration and partnerships, advocacy for improvement through legislation, policy and infrastructure development, and human resource development to ensure that our mutual goals are met.

I am confident that this Business Barometer combined with our White Book will serve as framework for decision makers and as a basis for planning, resource mobilization, performance management, and monitoring the government actors in their engagement with the business community.

I wish to conclude by expressing my profound appreciations for the ongoing support of USAID and Sida for their support through the Growth-Oriented Local Development (GOLD) 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 even greater collaboration with the community of investors, USAID, Sida, and other partners in growing the economy of Bosnia and Herzegovina.



Mr. Branimir Muidža
President, Foreign Investors Council

Contents

Acknowledgement	1
Executive Summary	4
Introduction	6
About the Foreign Investors Council	6
About USAID/Sida Growth-Oriented Local Development (GOLD) Project	7
Methodology	8
A - General Information on the BiH Foreign Investors Council Members	9
B - Evaluation of the Current Business Climate in Bosnia and Herzegovina	12
C - Past and Future Investments of the FIC Members	18
D - Employment & Education	22
E - Legislation & Advocacy	28

Table of Figures

Figure 1: Foreign investments in BiH by sector	9
Figure 2: FIC members by country of HQ	10
Figure 3: FIC members by legal status	10
Figure 4: Geographical distribution of foreign investments	11
Figure 5: Key reasons for investing in specific location	11
Figure 6: The level of satisfaction/dissatisfaction with the business climate in BiH	12
Figure 7: Assessment of the business climate in BiH in 2014 compared to 2013	13
Figure 8: Factors affecting operations of foreign companies in BiH	13
Figure 9: Advantages of investing in BiH – the main reasons for reinvesting in BiH	14
Figure 10: Priority target markets when making an investment decision	15

Figure 11: Predictable business climate in BiH	15
Figure 12: Governments' three priorities to improve business environment	16
Figure 13: Recommendations to municipalities for attracting more investments	17
Figure 14: Reinvesting in BiH in the last two years	18
Figure 15: Investments by the value in the last two years	19
Figure 16: Reinvestments by the sector	19
Figure 17: Willing to reinvest	20
Figure 18: Planning to reinvest in the next two years	20
Figure 19: Reasons for reinvesting in BiH	21
Figure 20: Recommending others to invest in BiH	21
Figure 21: Foreign investors by hired new employees	22
Figure 22: Foreign investors by the number of employees hired	22
Figure 23: Plans to hire new employees in the next two years	23
Figure 24: Foreign investors by the number of new employees	23
Figure 25: Required profile of employees	24
Figure 26: Governments' ability to align skills of the workforce and educational programs to the private sector needs	24
Figure 27: VET's usefulness	25
Figure 28: FIC members interested in the local community initiatives	25
Figure 29: Recommendations for local authorities to improve foreign investments and employment	26
Figure 30: Recommendations for the state and entity governments to increase investments and employability	27
Figure 31: Implementation of the laws by inspections	28
Figure 32: Business associations and international organizations solving foreign investors' problems	29



Executive Summary

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

Investors, and members of the Association of Foreign Investors Council (FIC) in BiH, completed a survey in order to identify the obstacles they face while doing business. They identified the benefits of investing in BiH, and further, the reasons for reinvesting. To date FIC members have invested over 9 billion BAM in BiH, and employed over 13,000 BiH citizens.

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

Among our members 71% believe that the business climate in BiH is unpredictable, which has a very negative effect on attracting new foreign investment. Notably, despite the perceived obstacles that FIC members indicated in the survey, 81% of those surveyed are willing to recommend BiH as a country to invest and 67% plan to reinvest in Bosnia and Herzegovina during the next two years.

The investors identified highly qualified personnel such as engineers, sales managers, economists, and bankers as the most desirable profile of employee. However, the investors are also looking for skilled labor with secondary school education, such as technicians and salespeople.



Comparing 2014 with the previous year, 71% of respondents believe that the business environment has not changed, while another 29% think that the conditions for foreign investors are now even worse. This alarming response shows that if BiH is to attract and retain serious investors it is necessary to initiate changes in the economic system and to implement reforms as soon as possible.

When asked to rate their level of satisfaction with doing business and the investment climate, the average response was 2.43 on a scale of 1 – 5. This corresponds to somewhere between “neither satisfied nor dissatisfied” and “moderately satisfied”.

In summary, the survey has shown that FIC members invest in BiH because of the potential of the domestic market as well as the geographic and strategic position of BiH. It also offers a competitively priced workforce.

However, many shortcomings discourage the significant potential that can be realized. The obstacles emphasized by foreign investors for doing business in BiH are:

- Political instability,
- Cumbersome bureaucracy and administration,
- Shortcomings in the enforcement of court rulings,
- Inadequate legislation that prevents joint ventures,
- Unevenly enforced and selective tax administration, and
- Tax policies that discourage investment.

Similarly, at the local level, complicated bureaucracy, inefficient administrative procedures, lack of incentives for foreign investors and high parafiscal charges are identified as obstacles for investments. This report complements the White Book published by the FIC, which has very specific prescriptive measure identified to address many of these findings.



Introduction

This, first “FIC Business Barometer” report is a milestone activity of the Foreign Investors Council of BiH (FIC BiH) implemented in cooperation with the Growth-Oriented Local Development (GOLD) Project, which is funded jointly by the United States Agency for International Development (USAID) and the Swedish International Development Cooperation Agency (Sida).

The survey aims at gaining better insight into the level of satisfaction of the members of the Foreign Investors Council with the business environment in Bosnia and Herzegovina (BiH), the obstacles faced by the investors, their plans for reinvesting and creating more employment opportunities in BiH.

Collected information will be used to improve the overall business environment, the regulatory framework, and the efficiency of the state administration, with the aim of attracting new investments. Furthermore as the Foreign Investors Council conducts future surveys it can monitor and report on the changes observed.

About the Foreign Investors Council

The Foreign Investors Council (FIC) is a non-profit business association, representing the interests of foreign businesses in BiH. The FIC was established in August 2006. Our mission is to advocate on behalf of our members for improvements in doing business in BiH, with a goal of achieving further economic development and general prosperity for the citizens of BiH. FIC is committed to delivering practical support to all investors who wish to engage in good business practices. The FIC aims to speak as the voice of foreign investors present in BiH.

FIC gathers over 40 international and regional companies from different sectors. To date, our members have invested over 9 billion BAM in BiH and employed over 13,000 citizens of the BiH.



About USAID/Sida Growth-Oriented Local Development (GOLD) Project

The Growth-Oriented Local Development (GOLD) Project is jointly-financed by United States Agency for International Development (USAID) and the Swedish International Development Cooperation Agency (Sida). To assist local communities in achieving their economic growth and development goals, the USAID/Sida GOLD Project will:

- Promote integrated and inclusive local economic development planning and implementation in collaboration with targeted municipalities in sectors with the highest potential for rapid, sustainable job growth;
- Unlock the economic potential of municipal assets and promote new investments that support targeted sectors through public-private partnerships;
- Engage stakeholders to improve public service delivery and the business enabling environment;
- Promote new direct investment and support competitive supply chains to create new jobs. To create jobs for youth, the Project supports entrepreneurship and works with the private and public sectors to implement vocational education programs to train youth in skills suitable to the local economy.



Methodology

This research 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 members of the Foreign Investors Council 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 in this area. The questions are related to members' activities through 2014. Not all members of the FIC completed the survey; 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 data.

This survey is also intended for the Foreign Investors Council in BiH and the USAID/Sida GOLD Project to identify major impediments to growing investments in BiH. The survey and this resulting report aims to influence the creation of more favorable 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 BiH Foreign Investors Council Members

This section provides the general information on the FIC members, such as the type of businesses they are engaged in, their country of origin, their legal status in BiH, the geographical distribution of investments, and the key reasons for investing in BiH.

Type of Business Activity/Sector

Members of the FIC BiH have invested in numerous sectors. The majority of investments are realized in the manufacturing sector (38%), and financial, i.e. banking sector (19%). Intellectual services are represented with 14%, while 10% of foreign investments are realized in the telecommunications. Information Technology (IT) and oil processing sectors are represented with 5% each.

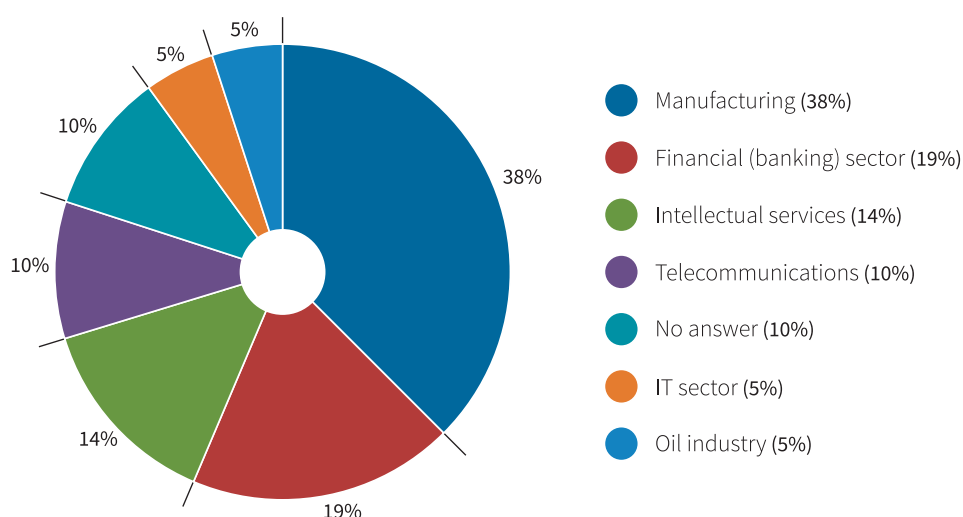


FIGURE 1: Foreign investments in BiH by sector

Country of Headquarters of the Investors

According to the origin of investments, the greatest number of investors are companies from Austria with a share of 19%, the United States with a share of 14%, followed by foreign investors from Italy and Turkey, each with a share of 9%, while Belgium, Germany, Serbia, Sweden, Switzerland and BiH each account for 5%.

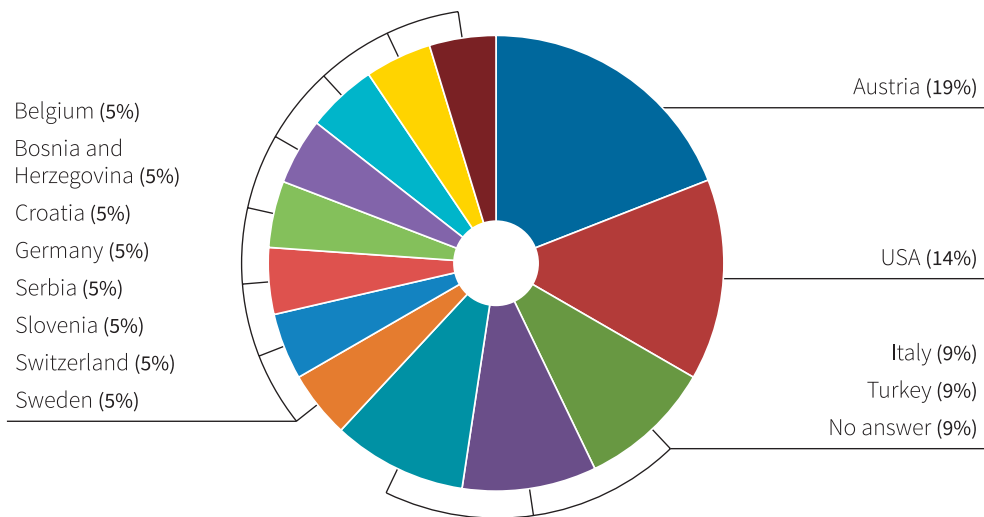


FIGURE 2: FIC members by country of HQ

Legal Status

Of the total number of surveyed companies, 57% are limited liability companies, 38% corporations, while the share of joint ventures is only 5%.

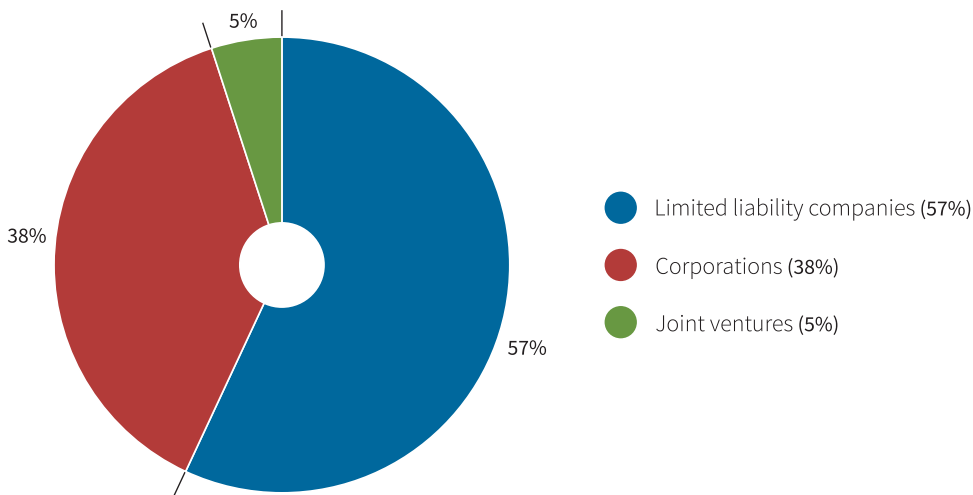


FIGURE 3: FIC members by legal status

Geographic Distribution of Investment

More than half (61%) of the total investment was realized in the Federation of BiH, while the Republic of Srpska attracted 27% of the investment, and the Brcko District BiH the balance of 12%.

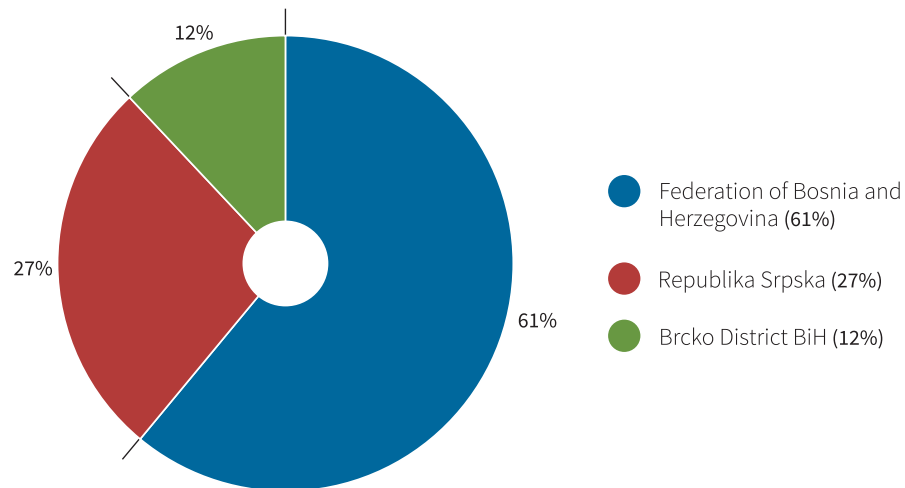


FIGURE 4: Geographical distribution of foreign investments

Main Reasons for Investing in the Particular Location in Bosnia and Herzegovina

FIC members usually invest in BiH because of the potential of the domestic market (21%), the geographic and strategic position of the country (16%). The major reasons for investing are the existing resources and logistics in BiH (13%), as well as the easy access to raw materials and other inputs (10%). The previous experience of investors in a particular industry i.e. the existing tradition in a particular sector, and cheap workforce are factors that account for 8% of the reasons for investing in BiH.

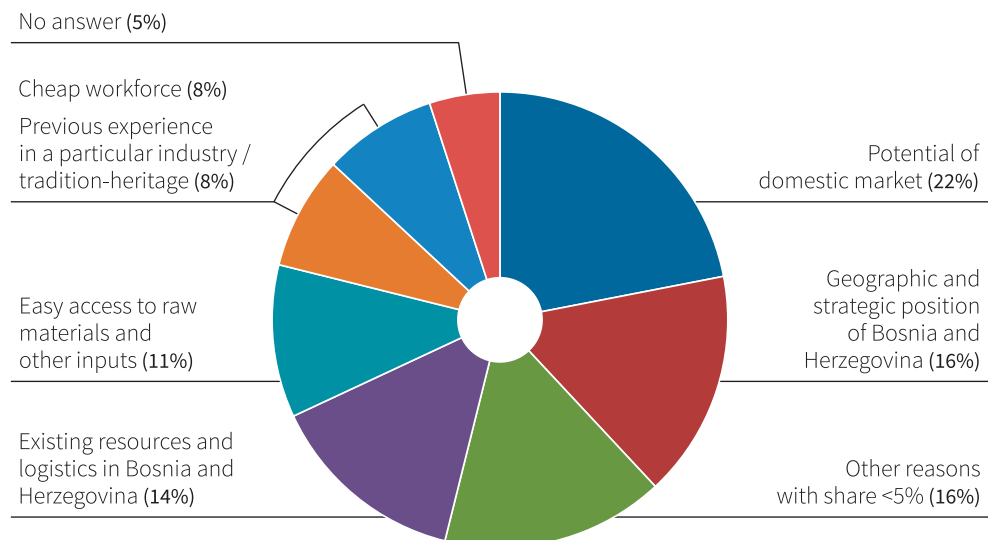


FIGURE 5: Key reasons for investing in specific location



B - Evaluation of the Current Business Climate in Bosnia and Herzegovina

This section elaborates on the business climate in BiH starting with the level of satisfaction with the current business climate compared to last year. It also summarizes the level of predictability of the business environment and the reasons why investors choose to reinvest.

Evaluation of the Current Business Climate in BiH

– The business climate in BiH is far from ideal –

According to the FIC members, the business climate in BiH is far from ideal. Slightly less than half of surveyed members (48%) expressed moderate dissatisfaction with the business climate in BiH, while only 19% were moderately satisfied.

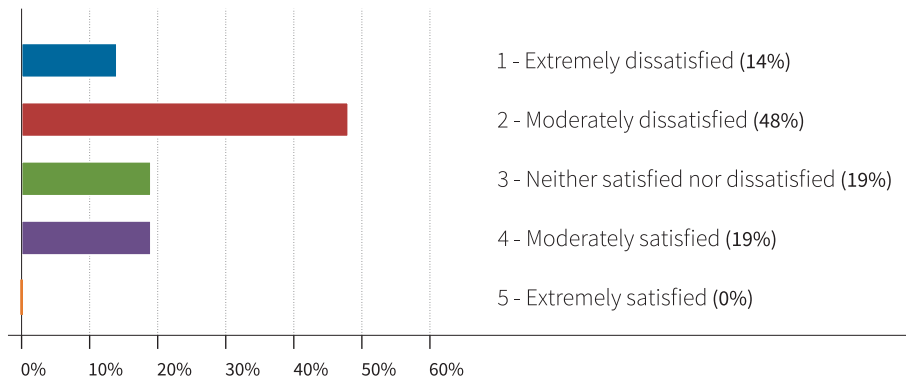


FIGURE 6: *The level of satisfaction/dissatisfaction with the business climate in BiH*

Rating the Economic and Business Environment in 2014 Compared to 2013

In terms of changes, 71% of respondents believe that the economic and business environment has not changed in relation to the previous year, while 29% find it to be even worse.

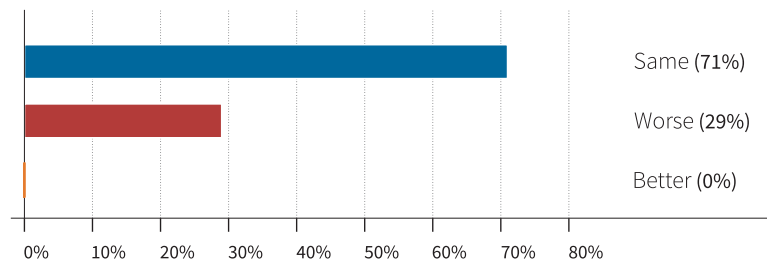


FIGURE 7: Assessment of the business climate in BiH in 2014 compared to 2013

The Top Five Things That Affect Operations in BiH

– Political instability is a greatest factor affecting the operations of foreign companies –

According to the survey the investors consider political instability is having the greatest impact on their operations (15%), while the complexity of the bureaucracy ranks as second (12%). The third factor is the enforcement of court rulings or lack thereof (9.5%), with the functioning of tax administration (7.6%) ranking as the fourth greatest impediment. Companies identified the tax policy and the Labour law (6.6%) as the fifth factor that affects their operations in BiH.

According to the surveyed companies, other factors include corruption, inadequate infrastructure, collection of account receivables, etc.

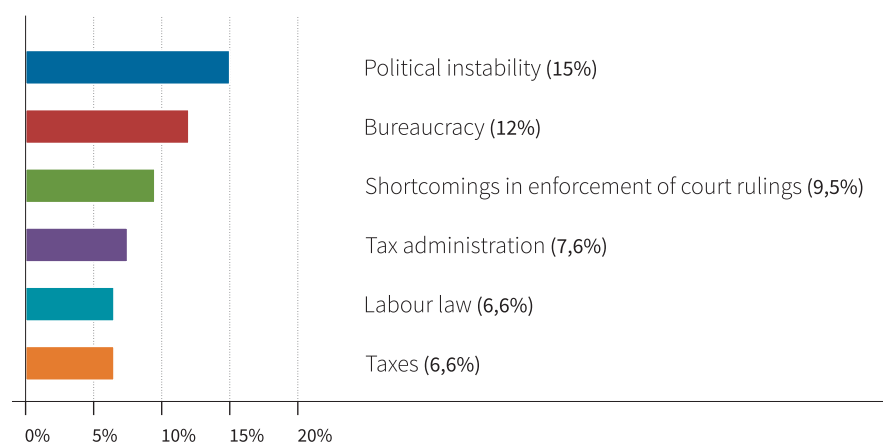


FIGURE 8: Factors affecting operations of foreign companies in BiH

Advantages of Investing in BiH and the Main Reasons for Reinvesting in BiH

– The proximity of the EU market and competitive educated workforce are the biggest advantages for investing –

The Proximity to EU markets, educated and skilled workforce, as well as low costs of labor were among the top reasons for investing and reinvesting in Bosnia and Herzegovina. This was followed by a favorable tax policy (VAT and income taxes) and the relatively low cost of energy combined with the regular supply, and solid transport connections. Investors also

cited availability of suppliers of goods and services as determinants. In general, FIC members are satisfied with adequate local services offered to the business sector. According to surveyed investors, areas in which there is room for improvement are incentives for investors at the local level, and the ability to conduct dialogue between foreign investors and the government.



FIGURE 9: Advantages of investing in BiH – the main reasons for reinvesting in BiH

Principal Target Market When Investing in BiH

– FIC members did not see countries of the CEFTA as a priority target market –

At the time of making their investment decision, more than half (57%) of the surveyed FIC members planned to sell their products in the domestic market, and for those who planned to export to foreign markets, countries of the European Union were exclusively targeted (19%). Foreign investors did not see countries of the CEFTA economic organizations as a priority target market (less than 1%). Of the FIC members, surveyed 24% did not specify any specific reasons.

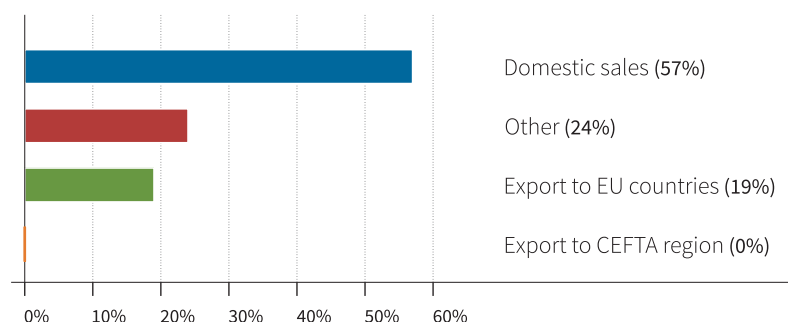


FIGURE 10: Priority target markets when making an investment decision

Predictability of the Business Climate in BiH

– Less than 1/3 of FIC members consider the business climate in BiH predictable –

Even though a predictable business climate is necessary for increasing investments, the data shows that only less than 1/3 of the total number of surveyed FIC members considered the business climate in BiH predictable; while as many (71%) of them consider it to be unpredictable.

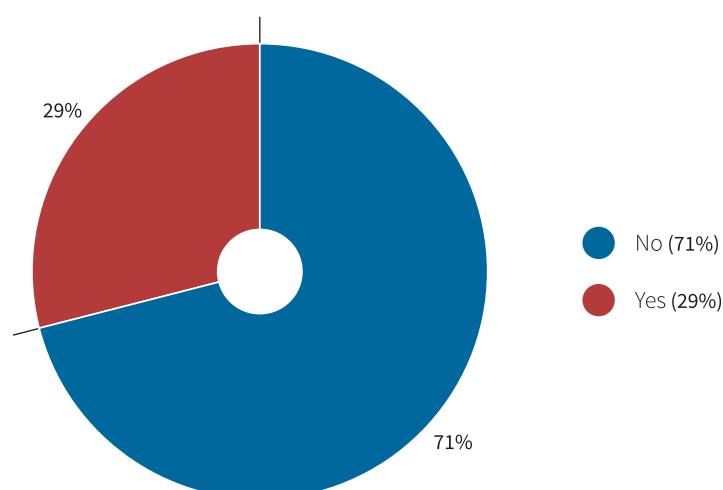


FIGURE 11: Predictable business climate in BiH

Three Key Priorities for the Governments to Consider in Order to Improve Business Environment

– Improved rule of law, reforms as a priority for the EU integration and incentives for foreign investors are among the three priorities –

The FIC members identified the key priorities the governments should set in order to improve the existing conditions for business development in BiH. Strengthening the rule of law was recognized by 25% of surveyed companies as the number one priority in terms of faster amendments to the existing laws, but also the adoption of new laws in other areas which directly or indirectly affect the foreign investments. Reforms as priority for the EU integration are identified as the second highest priority (15%), while incentives for investors and employment placed as third highest priority with 12%.

In addition to favorable tax policies which ranked fourth (7.7%), other priorities were identified though in insignificant numbers of 1.7% to 3.8%.

These results certainly justify the existence of the White Book and related documents pointing to the existing problems and effective implementation, enforcement, and transparent functioning of institutions.

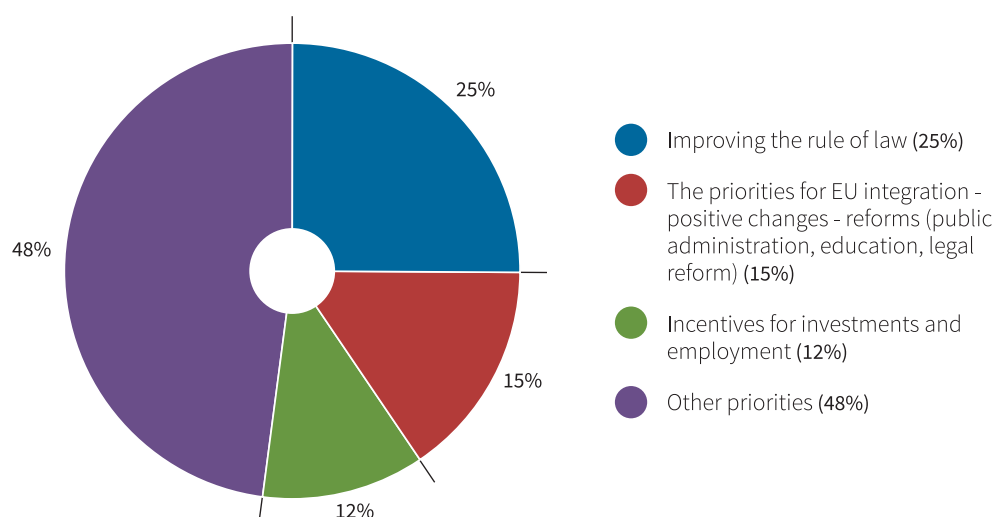


FIGURE 12: Governments' three priorities to improve business environment

Recommendations to the Local Governments (Municipalities) to Attract More Investments

– Municipalities should reduce bureaucracy, improve administrative efficiency, and introduce greater incentives for investors and export-oriented manufacturers –

One-third of the surveyed foreign investors (31%) find reducing bureaucracy at the local level and improving administrative efficiency to be the most important element for attracting foreign investment. Among those surveyed, 21% recommend municipalities to introduce greater incentives for investors and export-oriented manufacturers in order to attract more foreign investments. Others (10%) suggested that the local authorities should introduce a favorable tax policy in terms of lower and more harmonized parafiscal levies and local taxes. In addition, 5% of those surveyed recommend that municipalities demonstrate more professional attitude towards investors in solving their problems, such as avoiding giving false promises, the abolition of existing levies, more intense dialogues with representatives of private businesses in order for these problems to be solved more easily and quickly.

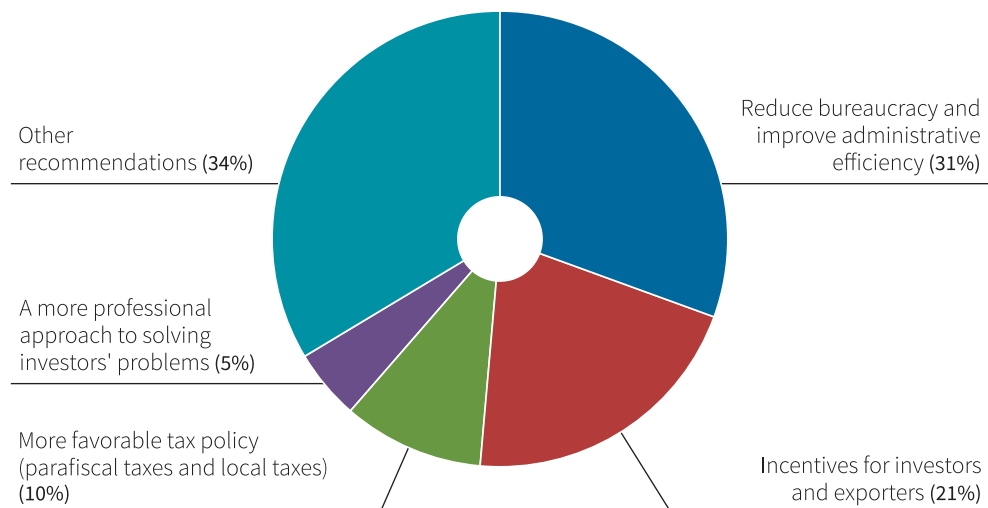


FIGURE 13: Recommendations to municipalities for attracting more investments



C - Past and Future Investments of the FIC Members

This section addresses the findings vis-a-vis investments and reinvestments of the FIC members; reasons why they did or did not invest; their value and sector in which they invested as well as their plans for investing.

Reinvestments in BiH in the Past Two Years

– Despite challenges investors are facing, 72% of foreign companies reinvested in BiH in the past two years –

During the past two years 72% of FIC members reinvested in BiH, while 14% of them did not reinvest due to insufficient growth opportunity and the absence of need for reinvesting. Of the 72% that have reinvested, one-quarter (25%) invested in a range of 1 to 5 million Euros, and 20% invested more than 10 million Euros. Interestingly 5% of those surveyed reinvested less than 1 million Euro, and again 5% reinvested 5 to 10 million Euros.

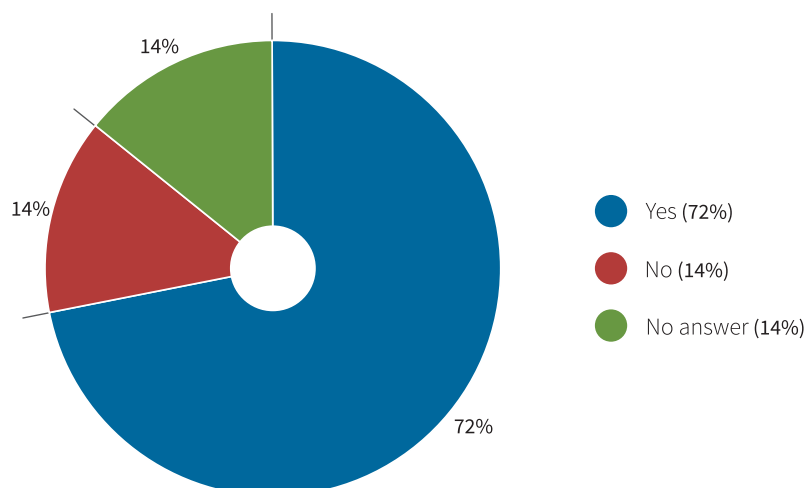


FIGURE 14: Reinvesting in BiH in the last two years

Amount reinvested over the past two years

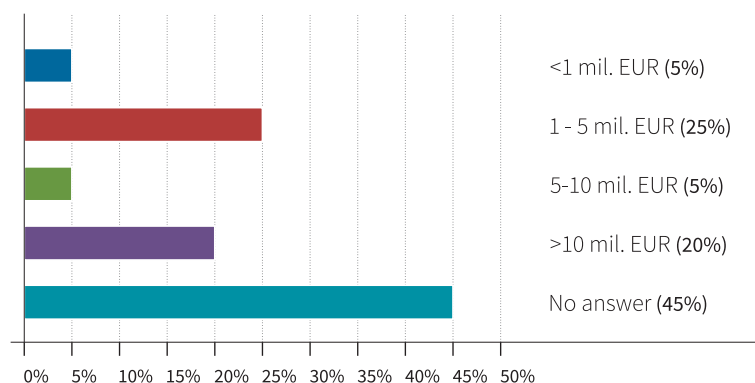


FIGURE 15: Investments by the value in the last two years

Sectors that Benefited from Reinvestments in the Past Two Years

– FIC members invested in manufacturing, financial sector and telecommunications –

Among those companies that have reinvested, a majority did it in manufacturing (25%), financial (15%), and telecommunications (10%) sectors followed by IT, oil industry and ecology sectors, each accounting for 5%.

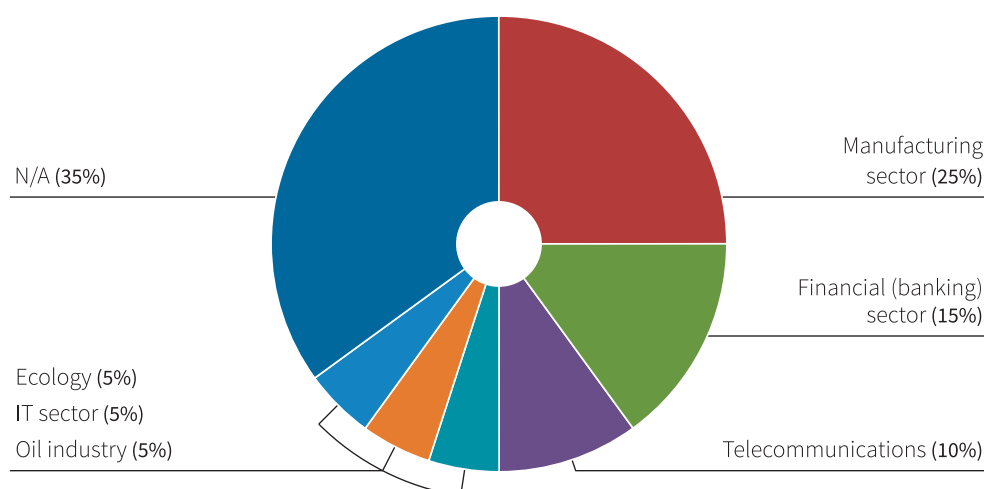


FIGURE 16: Reinvestments by the sector

Likelihood of Reinvesting in BiH

– Majority of FIC members are willing to reinvest in BiH –

When asked if they would reinvest, 76% of responded positively, while 14% stated that they would not invest again.

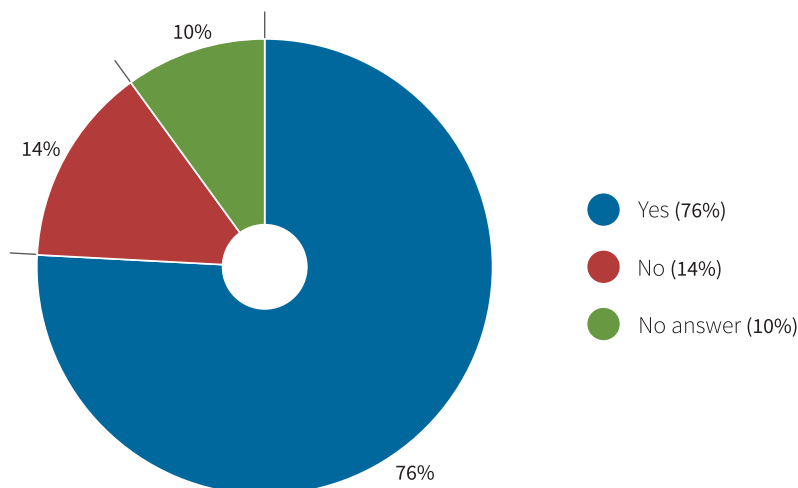


FIGURE 17: *Willing to reinvest*

Plans for Reinvesting in BiH in the Next Two Years

When asked about their specific plans for reinvesting, 67% of FIC members stated that they are planning to reinvest in BiH in the next two years.

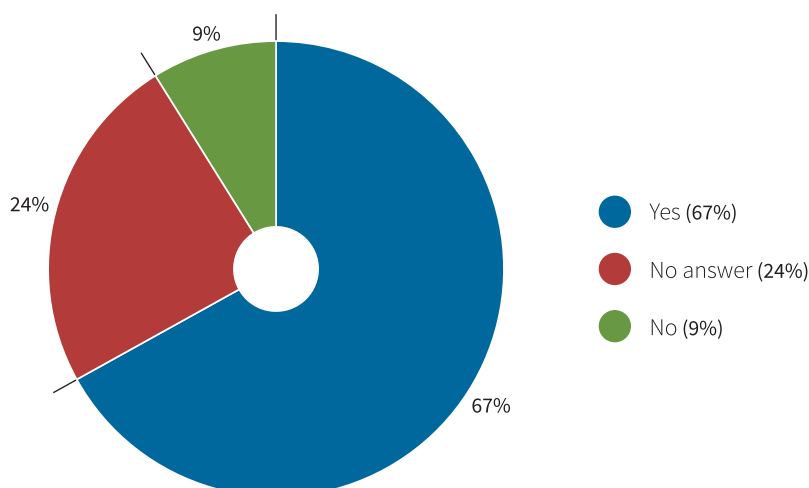


FIGURE 18: *Planning to reinvest in the next two years*

Reasons for Reinvesting

Of the companies that decided to reinvest, 19% will invest in business expansion and new acquisitions, 9% will invest in the expansion of existing facilities, while the rest (a negligible share of 5%) will invest in the modernization of production, increasing energy efficiency, and environmental protection. Considering this, government institutions should focus on enabling environment for investments in energy efficiency and ecology.

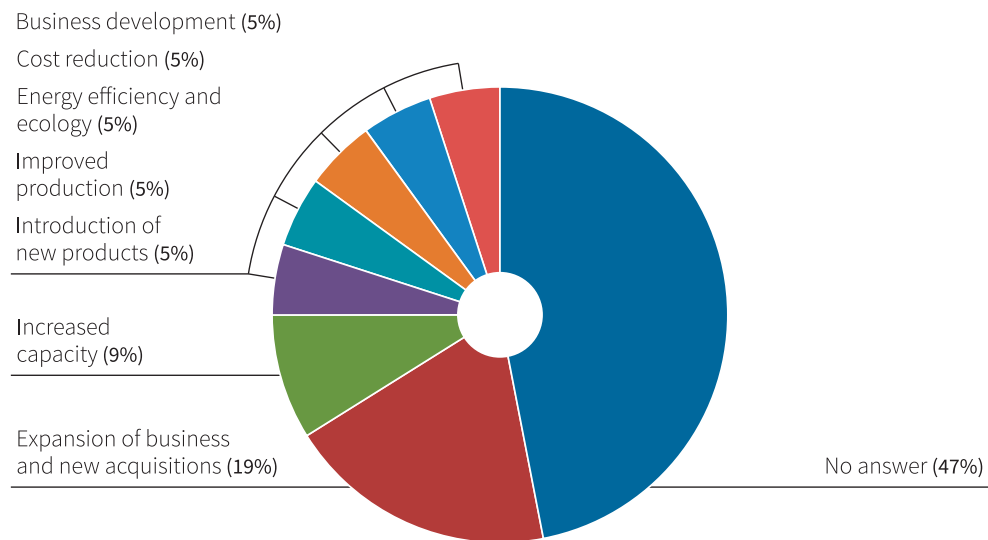


FIGURE 19: Reasons for reinvesting in BiH

Likelihood of Recommending Foreign Companies to Invest in BiH

– Majority of FIC members are willing to recommend other foreign companies to invest in BiH –

Despite the obstacles, 81% indicated that they are willing to recommend other foreign companies to invest in BiH, while 5% stated that they would not.

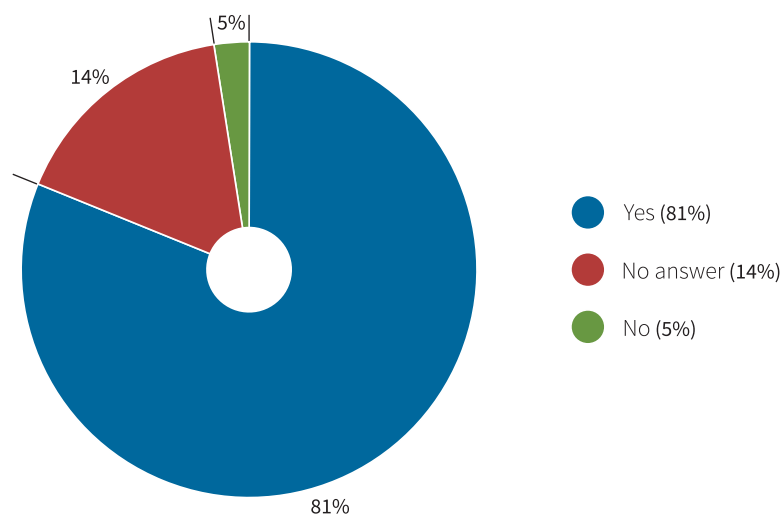


FIGURE 20: Recommending others to invest in BiH

D - Employment & Education

New Employees Hired in the Last Two Years

– Over the last two years, 73% FIC members employed new workforce –

Of all FIC members that have reinvested in the last two years, 73% employed new workforce, while 23% did not employ any additional staff. Of the 73% who employed new staff, 19% hired more than 100 employees.

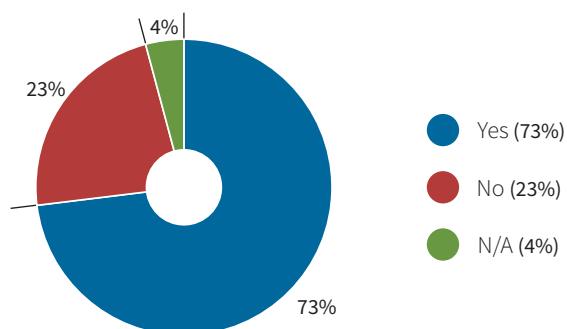


FIGURE 21: Foreign investors by hired new employees

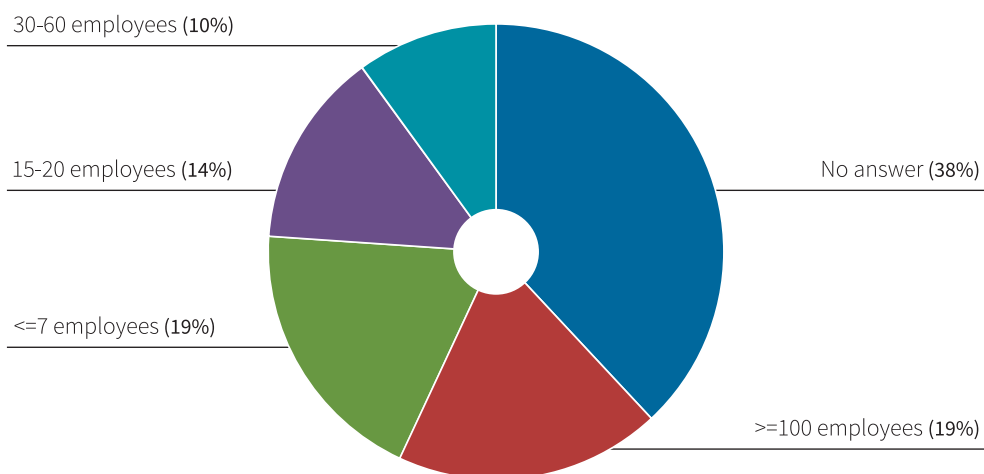


FIGURE 22: Foreign investors by the number of employees hired

Plans for Hiring New Employees in the Next Two Years

– 81% of the surveyed companies plan to employ new workforce in the next two years. Stable and predictable business environment is precondition for new employment –

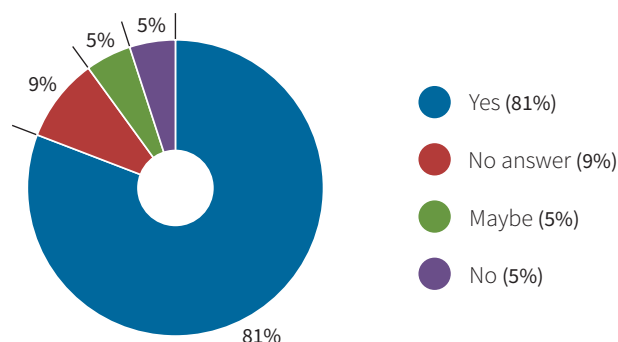


FIGURE 23: Plans to hire new employees in the next two years

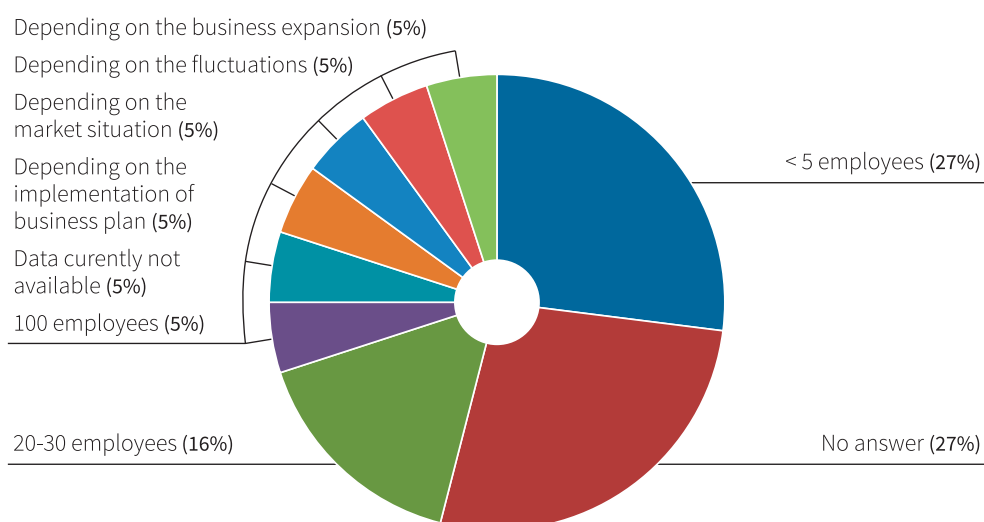


FIGURE 24: Foreign investors by the number of new employees

Profile of Workers or Skills Required

– Engineers, sales managers, economists, and bankers will be among most wanted occupations –

According to the data collected from the survey, slightly less than half (41%) of the 67% of FIC members which decided to reinvest in BiH in the next two years, will have the need to employ highly educated staff, mostly the ones with technical and economic expertise (engineers, sales managers, economists, bankers). Investors stated that it would be highly desirable for employees to have command over foreign languages.

A workforce with at least a secondary school education and technical and economic expertise (technicians, electricians, salespeople) was stated as a necessity by 23% of the responders, while only 9% of those surveyed will have a need for skilled factory workers, mostly technical professions working on batch production.

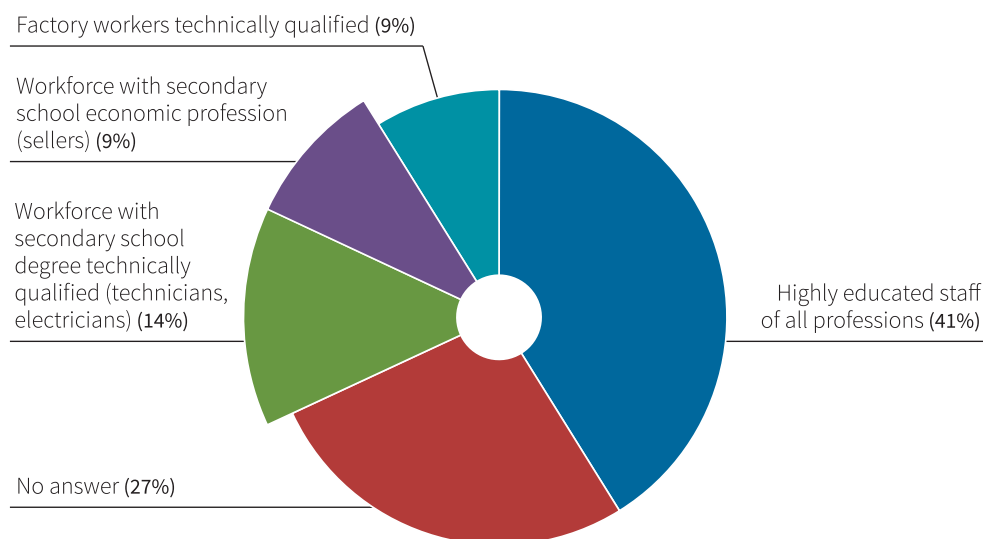


FIGURE 25: Required profile of employees

Ability of the Education System (formal, non-formal, informal) of BiH to Deliver Qualified Workforce

– Government should be more effective in harmonizing educational curricula and workforce skills with the actual needs of the private sector –

Majority of FIC members (90%) expressed the opinion that the government does not work effectively and in accordance with its authority on the harmonization of educational curricula and workforce skills with the actual needs of the private sector.

Government agencies should focus on career guidance to enable citizens of any age, and at any point in their lives, to identify and increase their capacities, competencies, and interests to make meaningful educational, training, and occupational decisions. Career guidance encompasses counselling, informing, coaching, teaching, assessment and placement.

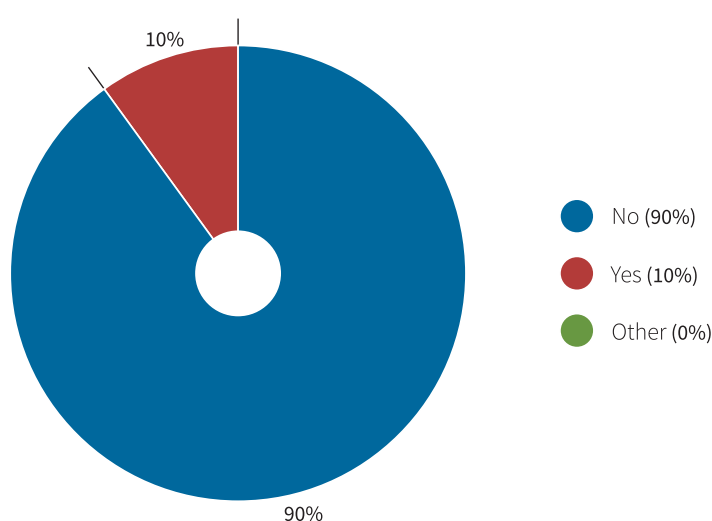


FIGURE 26: Governments' ability to align skills of the workforce and educational programs to the private sector needs

Usefulness of Vocational Education Training Councils (VETs)

– 29% of FIC members have a positive opinion about the Vocational Education Council –

More than half (57%) of surveyed companies did not have any experience working with the Vocational Education Council, and therefore were unable to provide an assessment, while 29% have a positive view of the Council. The remaining 14% of FIC members considered it unserviceable.

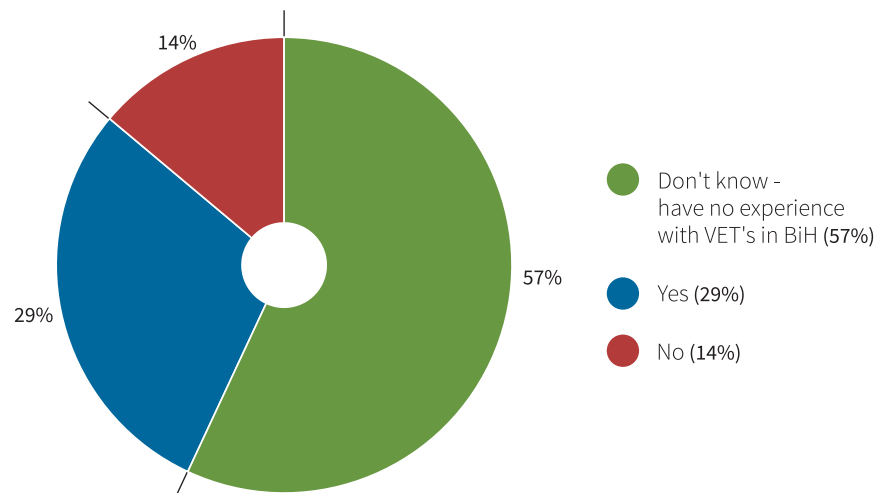


FIGURE 27: VET's usefulness

Willingness to participate in initiatives in local community where the company operates

– Local authorities should involve foreign investors in local community initiatives –

As presented in the figure below, 86% of those surveyed are ready to get involved in local initiatives in terms of participation in the work on the harmonization of the education system with the needs of the market in the municipality of the business. The share of FIC members that are not interested is 14%.

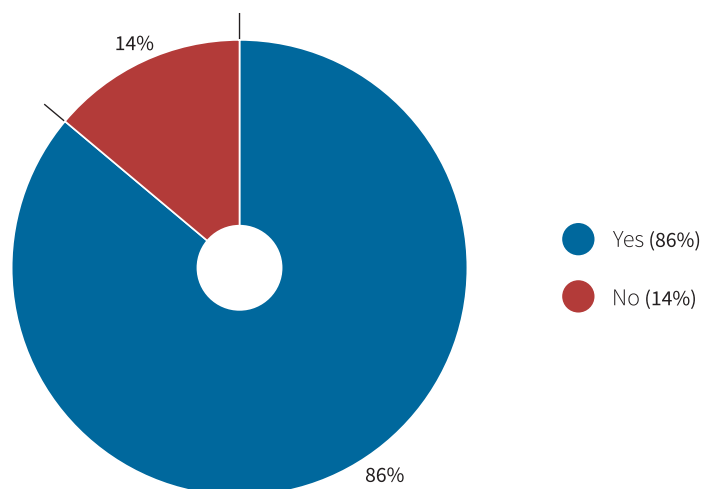


FIGURE 28: FIC members interested in the local community initiatives

How Local Authorities Can Help Improve Investments and Employment

– Local authorities should focus on streamlining the existing bureaucratic procedures –

In order for investments and employment to be increased, 17.24% of FIC members believe that local authorities should focus on streamlining the existing bureaucratic procedures in terms of reducing paperwork. Other recommendations included a need for simpler and quicker process of issuing building permits and licenses, and eliminating legal and other obstacles to the investors in the public procurement process.

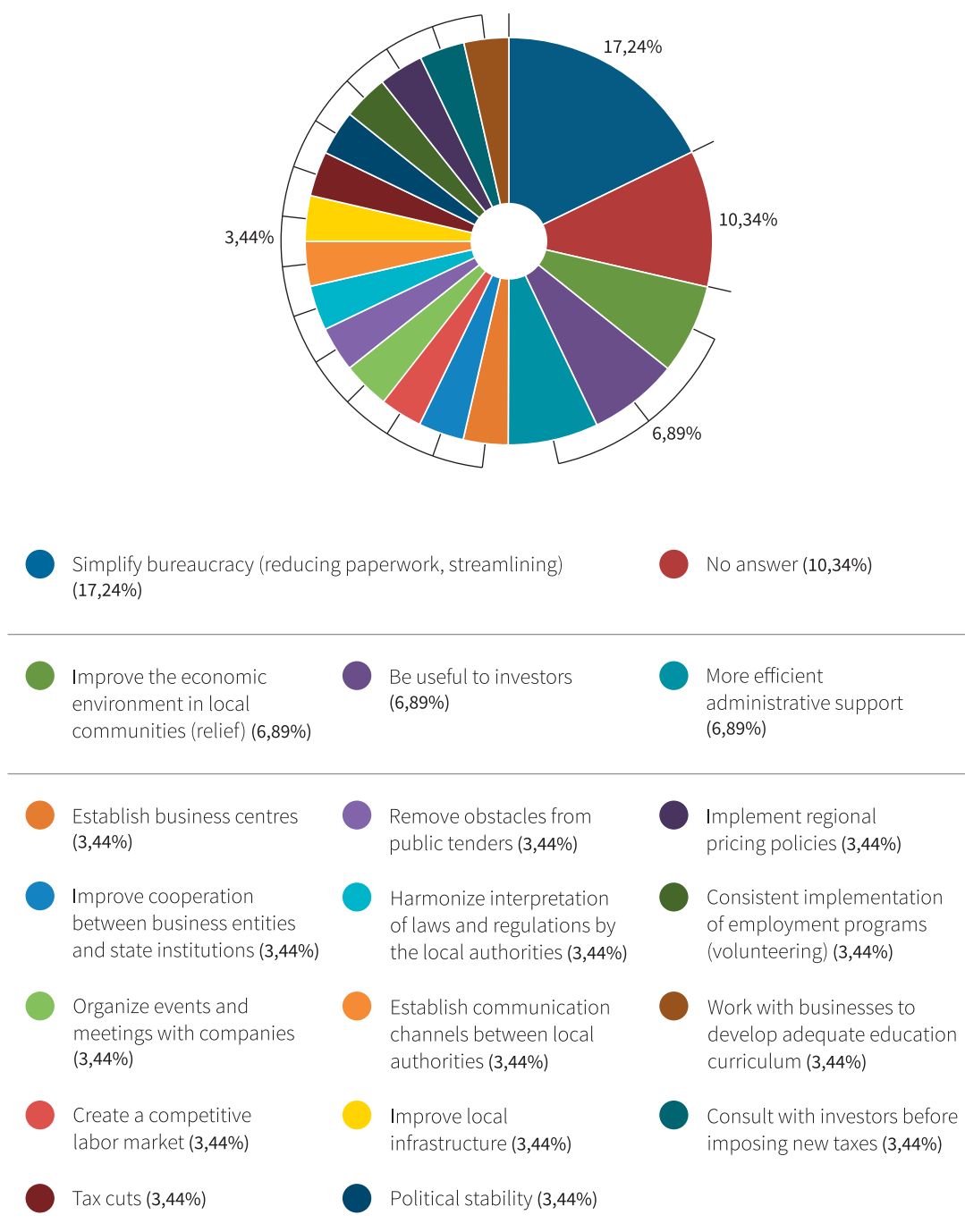


FIGURE 29: Recommendations for local authorities to improve foreign investments and employment

How National/Entity/District Authorities Can Help Improve Investments and Employment?

– Adequate and harmonized legislation with efficient and transparent implementation can attract investments and create new jobs –

In order to increase investment and employment, 23% of FIC members believe that state and entity governments, as well as district authorities should improve the legislation in terms of the adoption of new laws and amendments to existing ones with the aim of protecting foreign investors and investments. Interestingly 15% of the responders stated that they sought more active engagement from the authorities in helping solve problems faced by investors.

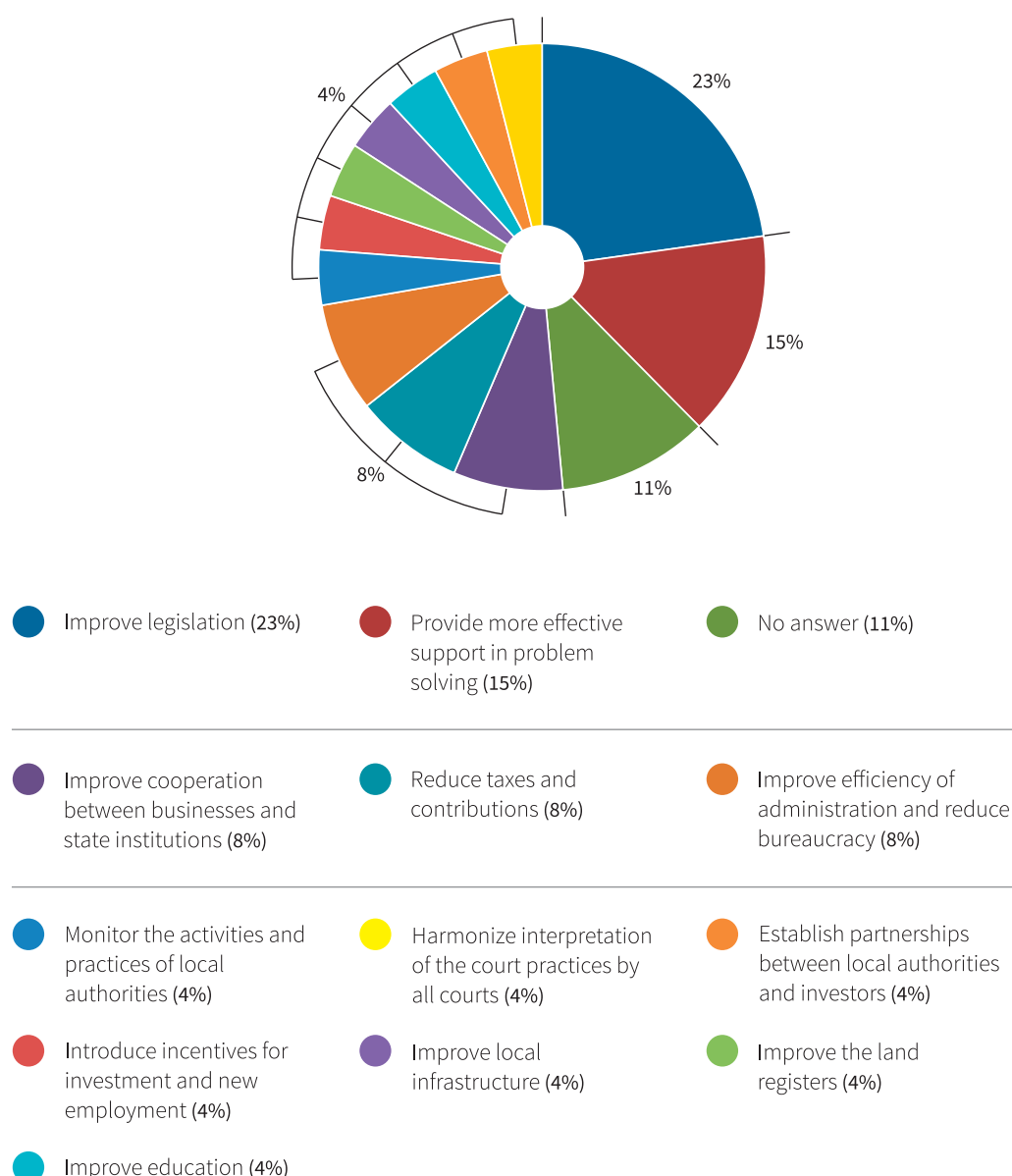


FIGURE 30: Recommendations for the state and entity governments to increase investments and employability

E - Legislation & Advocacy

Implementation of the Applicable Laws and Regulations

– Lack of unified standards by inspections when interpreting the existing legislation –

More than half of respondents (52%) consider that inspection services in BiH do not apply unified standards when interpreting the existing legislation. Investors overwhelmingly commented on the work of inspectors as lacking professionalism and often conducted with double standards. Further, investors worry about intellectual property rights not being adequately protected.

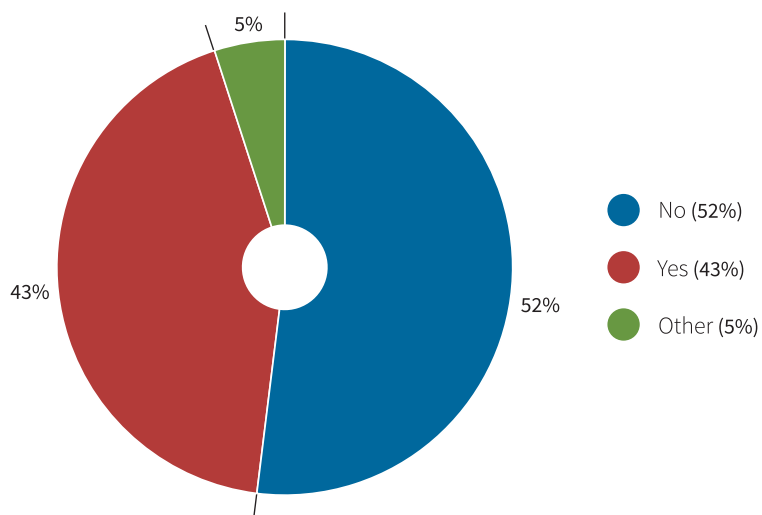


FIGURE 31: Implementation of the laws by inspections



Business Associations and International Organizations' Ability to Help Solve Problems Faced by Investors Doing Business in BiH

– Employer associations and international organizations contribute to solving problems faced by foreign investors in BiH –

More than two-thirds of surveyed FIC members (86%) believe that employer associations and international organizations can successfully contribute to solving problems faced by foreign investors in BiH, while 9% think the opposite. In the view of 5% of FIC members, there is still room for improvement in how employer associations and international organizations contribute to solving problems faced by investors.

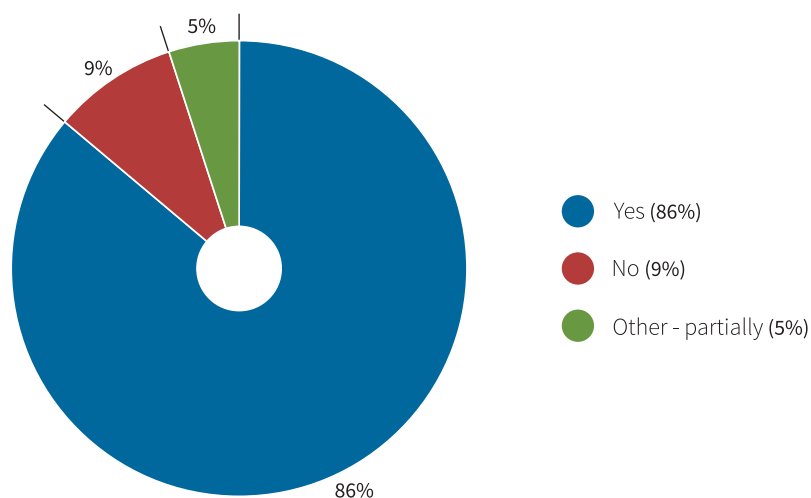


FIGURE 32: Business associations and international organizations solving foreign investors' problems

Notes

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Notes

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