Keywords: Bosnia and Herzegovina; Institutional framework; FIPA; Tax regulations

Abstract: The paper deals with foreign direct investments (FDI) with a special focus on Bosnia and Herzegovina. Most of the world’s economies are interested in FDI, especially today in a globalized society. They can generate new jobs, and contribute to the development of new technology, and their special contribution is reflected in the stimulation of economic growth, development and employment. In recent years, Bosnia and Herzegovina made a lot of effort to attract foreign direct investments as one of the important ways to stimulate economic development and solve the problem of unemployment. Considerable progress in this field has been achieved by adjusting the legislation and institutional framework. The costs, procedures and time of registration of craft-entrepreneurial activities have been reduced, and various benefits in the field of customs and taxes have been provided, which will be presented in the paper.

1. INTRODUCTION

Investments represent a necessary condition for achieving progress and implementation of man’s constant effort to master natural forces and use them to meet his needs as efficiently as possible. Without investments, there is no technological progress and no progress as a whole. Investing is a part of the global problem of development as a continuous process by which every society and every company ensures its future efficient business.

Investment comes as the final act of the entire process, which realizes the planned development goals, and thus the entire development. The largest share in international investments at the end of the XX century was foreign direct investments (FDI). Almost every country in the world is interested in attracting FDI. They can generate new jobs, contribute to the development of new technology, and accelerate economic growth and development. In addition to this, the government has direct revenues from FDI through taxation of wages, profits of foreign-owned companies and other business taxes. Policymakers should continuously review their taxation procedures in order to attract foreign investors and facilitate the inflow of foreign direct investment.

2. LITERATURE REVIEW

Foreign direct investments (FDI) means the international movement of capital which, viewed from a time perspective, represents the riskiest form of investment and the investment that brings the highest return with the basic purpose of creating transnational organizations and achieving high profits (Krugman & Obstfeld, 2009).
Motives for the arrival of FDI are location (proximity to resources, reduction of transport costs and customization of products and services), internalization (technology transfer, vertical integration, etc.), avoiding tariffs, tempting subsidies, taking over oligopolies, and other.

The OECD defines foreign direct investment as: “Foreign direct investments are investments that involve long-term relationships and maintain permanent interests and control of a company-resident of one country (foreign direct investment investor or parent company) in a company that is a resident of another country” (Damjanović, 2015).

If you want to invest, it is important to assess the risk (commercial and political) of the country where the investment is made. The most common division of direct investments is into direct investments that create new production assets, (“greenfield investments”), while the purchase of existing facilities and companies and taking control of them with the aim of more efficient management are brownfield investments, which also include foreign direct investments. created by privatization (Babić et al., 2001). The motives of foreign investors are usually divided into the motive of optimizing the multinational company’s portfolio, the motive of externalities or market imperfections, and the motive of industrial organization.

It is very important to emphasize that FDI has a strong development potential: firstly, it is an additional inflow of investment capital, especially important for countries that have a low rate and volume of domestic savings; secondly, it initiates a new economic activity or increase an existing one, in the production or service sector; third, one of the most significant effects is the spillover of technologies, knowledge and productivity (Antevski, 2008).

The largest volume of FDI flows takes place between developed industrial countries, which are normally abundant with investment capital. The positive effects that they expect to take advantage of and for which they offer various types of benefits and facilities to foreign investors can be: first, raising the general level of business activity (thereby preventing stagnation or recession); secondly, the development of less developed regions; third, the development of certain industries (eg. automotive); fourth, acquisition of new knowledge and technologies, improvement of productivity, most often associated with new, especially information and communication technologies - ICT; fifth, connection and inclusion of domestic companies in international technological, production and distribution networks of TNCs.

3. BOSNIA AND HERZEGOVINA AND FOREIGN DIRECT INVESTMENT

3.1. Institutional Framework

The existence of different forms of organization in the form of agencies, chambers and representative offices has the task of contributing to increasing the number and quality of foreign investments and to emphasize openness towards foreign investments. The main participants of that role are:

- Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA),
- Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (Sector for foreign trade policy and foreign investments),
- Ministry for European Integration and International Cooperation of the Republic of Srpska,
- Investment and Development Bank of the Republic of Srpska,
Foreign Trade Chamber of Bosnia and Herzegovina/Chamber of Commerce and Industry of Republic of Srpska/Chamber of Economy of the Federation of Bosnia and Herzegovina,
Development Agency of the Republic of Srpska,
Local Agencies for Development.

The Foreign Investment Promotion Agency (FIPA) of Bosnia and Herzegovina (BiH) is a State Agency established with the mission to:
• Attract and maximize the flow of foreign direct investment into Bosnia and Herzegovina, and encourage existing foreign investors to further expand and develop their businesses in Bosnia and Herzegovina.
• Facilitate the interaction between public and private sectors, and have an active role in policy advocacy in order to contribute to continually improving the environment for business investment and economic development.
• Promote a positive image of Bosnia and Herzegovina as a country that is attractive to foreign investors.

3.2. Reasons for Investing in Bosnia and Herzegovina

There are several factors affecting investment climate, such as crime levels, poverty rate, employment rate, judicial system, political stability or instability, regulatory uncertainty, stability of financial markets and tax regime. In recent years, Bosnia and Herzegovina made a lot of effort to attract foreign direct investments as one of the important ways to stimulate economic development and solve the problem of unemployment. Considerable progress in this field has been achieved by adjusting the legislation and institutional framework.

Some of the reasons for investing in Bosnia and Herzegovina are:
• Geographical position,
• Availability of natural resources,
• Long tradition of industrial production,
• Large number of available industrial zones, attractive locations and production facilities,
• Favorable legislation for foreign investors,
• Low taxes,
• Educated workforce,
• Stable currency linked to the euro,
• Signed regional and bilateral trade agreements,
• The perspective of joining the European Union.

Bosnia and Herzegovina has a very favorable geographical position - at the crossroads between the West and the East, the Mediterranean and the Continent (Krejic & Karadza, 2015). This position certainly attracts foreign investors, especially due to the proximity of certain markets. Attractive locations such as lakes, rivers and mountains, as well as thermal and mineral springs, agricultural land, forests, ores, etc., can greatly influence the attraction of foreign investors.

Within industrial production with a long tradition, the following branches stand out in particular: the mining and metal processing industry, as well as the wood and automotive industry. The Swedish company Zinkteknik has invested money in certain production facilities located near Mostar, where certain parts for cars are produced and exported to the European market.
An important factor in making the investment decision was surely high-quality and trained, and at the same time, cheap labor force. The fact is that we have an extremely educated and high-quality workforce, but it is underutilized because a significant number of people do not have a job or are not adequately paid, if they have it.

In addition to skilled labor, low taxes also encourage foreign investors to come to a certain country, including Bosnia and Herzegovina. However, creators should be very careful when determining certain tax rates because the benefits of such rates should be greater than the costs or other negative effects. It is also very important that our currency is pegged to the euro and there is a low possibility of inflation, which again represents security and stability for foreign investors.

### 3.3. Privileges for Foreign Investors

First of all, the importance is on the exemption of foreign investors from the obligation to pay customs duties on the import of equipment, because the equipment has the status of investment capital (the equipment must not be older than 10 years and must comply with technical standards). In addition, investors are exempt from paying income tax for 5 years.

Following the Law on the Policy of Foreign Direct Investment in Bosnia and Herzegovina, foreign investors are guaranteed the following:

a) The national treatment - foreign investors shall have the same rights and obligations as the residents of Bosnia and Herzegovina.

b) Foreign investors shall have the right, for their investments, to open on the territory of Bosnia and Herzegovina accounts in any commercial bank denominated in the national or any freely convertible currency.

c) Foreign investors, concerning all payments related to their investments in Bosnia and Herzegovina, shall have the right to freely convert the national currency of Bosnia and Herzegovina into any other freely convertible currency.

d) Foreign investors shall have the right to transfer abroad, freely and without delay, in freely convertible currency, proceeds resulting from their investment in Bosnia and Herzegovina, including, but not limited to:
   a. income from investments received in the form of profit, dividends, interest, and other forms of profit;
   b. funds received by investors after partial or full liquidation of their investments in Bosnia and Herzegovina, or disposal of invested property or proprietary rights.

e) Foreign investors shall have the same property rights with respect to real estate as the citizens and legal entities of Bosnia and Herzegovina.

f) Foreign investment shall not be subject to any act of nationalization, expropriation, requisition or measures that have similar effects, except in the public interest in accordance with applicable laws and regulations, without any type of discrimination and against the payment of appropriate compensation (FIPA, n. d.).

The rights and benefits of foreign investors granted and obligations imposed, by this Law cannot be terminated or eliminated by the subsequently passed laws and regulations. If such subsequently passed laws and regulations shall have been more favourable to foreign investors, they shall have the right to choose under which regime the respective foreign investment will be governed.
3.3.1. Tax Benefits

In the Federation of Bosnia and Herzegovina: Companies whose exports exceed 30% of the total revenue and companies that have invested at least 20 million KM in a period of five consecutive years in production are completely exempted from paying profit tax, provided that the investments in the first year amounted to at least 4 million KM. Companies that employ more than 50% of people with disabilities or special needs for a period longer than one year are exempt from paying profit tax for that year. All costs related to research and development (R&D) can be recognized as an expense. There are also incentives for scientific and development research (FIC, 2018).

In the Republic of Srpska, tax benefits were introduced for investments in equipment, plants and real estate to conduct the taxpayer’s business, up to the amount of the realized investment. Tax incentives also exist in the case of hiring at least 30 new workers for an indefinite period, up to the amount that the taxpayer pays for income tax and social security contributions for the employed worker (FIC, 2018).

3.4. Foreign Direct Investment in 2021

In 2021, according to the Central Bank of Bosnia and Herzegovina (2021), foreign direct investments (FDI) amounted to 496.6 million EUR (or 971.2 million BAM). FDI increased by 32% compared to 2020, with the highest amount since 2009.

The COVID-19 pandemic affected FDI, with a decline registered in the last quarter of 2019 and 2020. The decrease in FDI in 2020 was -7.8%.

The main investor countries in Bosnia and Herzegovina in 2021 were: Switzerland (107.8 million EUR), Turkey (75.2 million EUR), and the United Kingdom (64.5 million EUR). The following countries also registered significant capital increases: Austria (49.1 million EUR), Croatia (41.9 million EUR) Serbia (40.6 million EUR), Germany (39.3 million EUR), Slovenia (36.2 million EUR), and Italy (30.0 million EUR).

Based on CBBH data, by activities, most investments were realized in the area of retail trade at 88.4 million EUR, followed by the area of production of finished metal products at 58.4 million EUR and the area of base metal production at 52.5 million EUR.

Significant capital increases have been registered also for electricity, gas, steam and air conditioning supply (42.3 million EUR), wholesale trade (39.9 million EUR) and manufacture of paper and paper products (32.9 million EUR).

The total amount of Foreign Direct Investment in Bosnia and Herzegovina, until December 2021, was 8.3 billion EUR (8,322 million EUR). Based on CBBH data, the Federation of Bosnia and Herzegovina participates in total FDI with 62.8% (5,226 million EUR), the Republic of Srpska 34.4% (2,861 million EUR), and Brčko District with 0.9% (78.8 million EUR).

According to the FDI Stock by countries, the largest share still refers to Austria (1.5 billion EUR), Croatia (1.4 billion EUR), Serbia (1.2 billion EUR) and Slovenia (0.6 million EUR). European countries are still the most important investors in Bosnia and Herzegovina. Investments
from EU-27 countries amounted to 63% of total FDI. Out of total foreign direct investments, 36% have been invested within the production (primary, industrial and electricity production), followed by the banking sector with 23%, trade with 13% and telecommunications with 12% (UHY, 2022).

4. CONCLUSION

The inflow of foreign direct investments primarily raises the level of investment and general economic activity in a country or region, with the following consequences: growth of the volume of production or services and employment growth. So, investments are welcome in both, rich and poor countries, so the inflow of FDI is especially important for countries poor in capital because they cannot provide it from domestic sources to the required extent, although they often accept negative costs (environmental pollution, company shutdown or expulsion from the market).

It can be concluded that some basics for a good investment climate are certainly as follows:

• Stable politics and government that would be able to produce stable and reasonable economic guidelines;
• Avoidance of excessive restrictions (access to convertible currency or profit return regime) and regulation;
• Stable and functional legal and tax system;
• Macroeconomic stability and size of the domestic market;
• Availability of basic infrastructure such as roads, electricity and communication;
• Low level of corruption;
• Market-friendly regulations.

Foreign direct investments cannot and must not be the basis of the development of the national economy. They can and should be only a complementary factor of the domestic economy, that is, one of the factors that significantly influences the growth and development of the domestic economy.

References