

# FOREIGN INVESTMENTS IN BOSNIA AND HERZEGOVINA



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## FOREIGN INVESTMENTS IN BOSNIA AND HERZEGOVINA

In recent years Bosnia and Herzegovina has been investing more efforts to attract foreign investments as one of the important ways to encourage economic development and solve problems of unemployment. A substantial progress has been made in this field through the adjustment of legislation in order to facilitate the process itself.

Some of the reasons to invest in Bosnia and Herzegovina are the following:

- Favorable geographical position,
- Availability of natural beauty and resources,
- Long tradition of industrial production,
- Large number of available industrial zones, attractive locations and manufacturing facilities,
- Favourable legislation for foreign investors,
- Favourable tax system,
- Educated workforce,
- Stable EUR related currency ,
- Signed regional and bilateral trade agreements,
- Perspective of joining the European Union,
- Safety of political risk (MIGA/IGA)
- European credit system entry of foreign banks into the market of Bosnia and Herzegovina:

UniCredit, Zagrebacka Banka, Raiffeisen Bank, Sberbank, Hypo Alpe Adria, Turkish Ziraat, BBI

The appropriate normative and institutional framework has been provided for this purpose. In order to attract foreign investment costs, procedures and time of registration of business have been reduced and many benefits related to customs and taxes have been ensured.

Main laws governing the area of foreign investment are as it follows:

- Revised text of the Law on Foreign Direct Investment Policy of Bosnia and Herzegovina („Official Gazette of BiH“ no. 17/98, 13/03 and 48/10),
- Law on Foreign Investment in the Republic of Srpska („Official Gazette of RS“ no. 25/02 i 24/04, 52/11 and 68/13 ),
- Law on Foreign Investment in the Federation of Bosnia and Herzegovina („Official Gazette of FBiH“ no. 61/01, 50/03),
- Law on Companies of the Republic of Srpska („Official Gazette of RS“ no. 127/08, 58/09, 100/11 and 67/13),
- Law on Companies of the Federation of Bosnia and Herzegovina („Official Gazette of FBiH“ no. 23/99, 45/00, 2/02, 6/02, 29/03, 68/05, 91/07, 84/08, 88/08, 7/09, 63/10 i 75/13).

Foreign investment issues relating to taxes, free trade zones, business entities registration, labour and employment, and customs, are regulated by the relevant laws.

## Agreements

Bosnia and Herzegovina has concluded bilateral agreements on the promotion and protection of investments with the following countries: Albania, Austria, Belgium and Luxembourg, Belarus, Czech Republic, Denmark, Egypt, Finland, Greece, Netherlands, Croatia, India, Iran, Italy, Jordan, Canada, Qatar, China, Kuwait, Lithuania, Hungary, Macedonia, Malaysia, Moldova, Germany, Countries OPEC, Pakistan, Portugal, Romania, USA, San Marino, Slovakia, Slovenia, Serbia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom.

In the application are also agreements on the avoidance of double taxation with the following countries: Iran, Croatia, Serbia, Montenegro, Pakistan, Slovenia, United Arab Emirates, Moldova, Turkey, Malaysia, Czech Republic, Jordan, Qatar, Kuwait, Ireland, Albania, Azerbaijan, Austria, Greece, Algeria, Spain, France, Sweden, Belgium, Denmark, Great Britain and Northern Ireland, the Netherlands, Slovakia, Italy, Norway, Poland, Cyprus, Sri Lanka, Hungary, Finland, Romania, Germany, Egypt, China; while in the process of ratification or signing with countries: Malta, Belarus, Syria, Hungary, Macedonia, Estonia, Brunei, Bulgaria, Libya, Saudi Arabia, Singapore; and in the process of negotiations with: Russia, Italy, Egypt, Switzerland, Luxembourg, Ukraine, Portugal and Poland.

Bosnia and Herzegovina has also signed a free trade agreement with Turkey, which provides access to a new market of 70 million people.

Interim Agreement on trade and trade-related matters of the EU with Bosnia and Herzegovina entered into force on 1 July 2008 (shall stay in force until the Agreement on Stabilisation and Association starts implementing) which effectively created a free trade area with the gradual opening of the market of Bosnia and Herzegovina facilitating economic and social development. There is a significant contribution of autonomous measures which the EU introduced for Bosnia and Herzegovina since 2002, while after the entry into force of the Interim Agreement, BiH exports as well as imports from the EU have been facilitated.

The following reasons were identified as obstacles to foreign investments in Bosnia ad Herzegovina:

- Political and legal instability, frequent governmental changes;
- Administrative barriers and shared economic space;
- Tariff and non-tariff barriers;
- Fiscal and para-fiscal burden.

Due to the aforementioned reasons, and according to the information provided by the World Bank, BiH is 131<sup>st</sup> out of 189 countries when it comes to the obstacles that prevent investments, which requires more efforts to remove these obstacles and enable the foreign investments. Therefore these problems will be solved by establishing the institutional framework and the relevant legislative solutions.

## **Institutional framework**

Existence of different forms of organization such as the form of agency, chambers and representative office whose task is to contribute to increasing number and quality of foreign investment, the main institutions with this role are:

- Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA),
- Ministry of Foreign Trade and Economic Relations in Bosnia and Herzegovina, Department for Foreign Investments,
- Ministry of Economic Affairs and Regional Cooperation of the Republic of Srpska, Department for foreign investment, export promotion and development projects,
- Representation offices in the Republic of Srpska,
- Investment and Development Bank of the Republic of Srpska,
- The Foreign Trade Chamber of Bosnia and Herzegovina / Chamber of Commerce of the Republic of Srpska / Chamber of Commerce of the Federation of Bosnia and Herzegovina and cantonal chambers,
- Republic Agency for Development of Small and Medium Enterprises of the Republic of Srpska,
- Local Development Agency.

**Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA)** as an independent administrative organization is

established by the Council of Ministers of Bosnia and Herzegovina with the following mission:

- To attract and increase the inflow of foreign investments in Bosnia and Herzegovina and to encourage existing investors in the country for further investment and business expansion,
- To improve cooperation between the private and public sector, to propose measures for improvement of the investment environment and, therefore, economic development,
- To represent Bosnia and Herzegovina as a country desirable for foreign investors.

Law on FIPA (Article 5) determines FIPA's jurisdiction among other things:

1. The Agency carries out the promotion and enhancement of direct foreign investments in accordance with the law, decisions and guidelines of the Council of Ministers of Bosnia and Herzegovina,
2. The Agency creates the image of Bosnia and Herzegovina as a modern state, a serious, competitive and safe partner for investment capital.

In order to achieve the aim from the previous paragraph, the Agency:

1. Provides information to potential investors about the legislation of Bosnia and Herzegovina;

2. Directs investors to potential investment projects in the entities, cantons, regions and certain sectors of the economy;
3. Presents the benefits and features related to various projects, including: legal, economic and financial framework, taxation, industrial environment, and facilities to be provided to investors at the state or entity level or even a lower level;
4. Organizes and/or participates in seminars, exhibitions and conferences in order to promote the country;
5. Monitors and analyses the investment environment at national and international level;
6. Proposes legislation and legal measures aimed at improvement of investment conditions;
7. Participate in negotiations related to interstate, bilateral and multilateral investment agreements;
8. Initiates and maintains cooperation with the same or similar agencies in other countries.

The task of FIPA is to provide information, analysis and advice to potential investors about business and investment environment (legislation relating to foreign investment, incentives relating to investment, economic and business trends in the country), to represent the existing opportunities for foreign investment (investment projects under development or projects that are ready for implementation,

companies in the privatization process, domestic companies seeking foreign business partner), as well as to assist potential investors and those who have already invested in cooperation with public and private sector, local, regional and international organizations.

The FIPA database, with over 150 investment projects, aims to facilitate foreign investors in the process of finding their business interests in Bosnia and Herzegovina. Investment projects belong to different sectors: agriculture and food production, metal industry, automotive industry, tourism, energy and many others, and can easily be searched for by sectors and sub-sectors. Projects are presented in the short form with basic information: description of the project, investment costs and the desired form of cooperation with foreign partners. If a foreign investor is interested in a specific project (all projects are available in English), it is possible to deliver the project proponent contacts and additional information about the project. In relation to the investment locations the data base presents municipality of Srebrenik, municipality of Novi Grad, municipality of Tešanj and Una-Sana Canton.

### **The Republic of Srpska Investment-Development Bank (IRB RS)**

on its website also presents a database of investment sites, and the same also contains information about municipalities, clusters, entrepreneurial business centres, on-going and planned investment projects, and provides general information about the activities depending on the required options and fields of interest.

Reviewing the current dynamics and structure of foreign investments in Bosnia and Herzegovina it can be noted that foreign investors have freely chosen the sectors and municipalities for investments which can be noted from the above data but also from the content FIPA's and RS IRB's webpages that offer information for potential investors but do not promote specific sectors, activities or regions according to economic interest of the state, i.e. foreign investment was not intentionally directed.

The largest number of new companies with elements of foreign investment in RS is registered (57.20%) in Banja Luka, Bijeljina and Laktaši, then Gradiska, Brod, Prijedor, Doboj, Derventa, Zvornik, Istocno Sarajevo, while the remaining part relates to the rest of the Republic of Srpska i.e. still neglected the eastern part of the Republic of Srpska.

What is also necessary to mention is that the Republic of Srpska is trying to change this practice, and in that sense there is a website in Serbian and English language [www.investsrpska.net](http://www.investsrpska.net) within the RS Government with an aim to attract foreign investment and facilitate access to information. The aforementioned website provides an overview of specific potential investment projects that are available in one place to potential investors in the form of project summaries, offering information about the place/ municipality, basic information about the project. In this regard, investment offer provided by municipalities of the Republic of

Srpska is presented to investors through various channels, mainly through the website presentations, but also through representation offices and through direct contacts. The same applies to Bosnia and Herzegovina, i.e. the Federation of Bosnia and Herzegovina, although the Republic of Srpska devotes more importance to foreign investments and is also better organized and prepared to attract investors unlike the Federation of Bosnia and Herzegovina, enabling easy access for potential investors to essential information.

A large number of investments come from the reinvestments of foreign investors already present in this region, which requires so-called post-investment support to be provided i.e. these investors should be provided necessary protection in order to keep them in an area (a combination of legal and procedural measures).

In accordance with the Law on the Policy of Foreign Direct Investment in Bosnia and Herzegovina ("Official Gazette of BiH", no. 17/98, 13/03 and 48/10) foreign investors are guaranteed the following:

- A national treatment of foreign investors, i.e. foreign investors have the same rights and obligations as residents of Bosnia and Herzegovina,
- Foreign investors in the territory of Bosnia and Herzegovina have the right to open accounts in any commercial bank in domestic or freely convertible currency,

- Foreign investors have the right to freely employ foreign nationals from abroad unless otherwise specified by the laws of Bosnia and Herzegovina on labour and immigration,
- Foreign investors are protected against nationalization, expropriation, requisition and measures having equivalent effect; such measures may be taken only in the public interest, in accordance with applicable laws and regulations, along with payment of equitable remuneration,
- Foreign investors have the same ownership rights on the real estate as domestic legal entities,
- Foreign investors have the right to transfer abroad profit resulting from their investment in Bosnia and Herzegovina, freely and without delay.

The rights and benefits granted to foreign investors and obligations arising from the Law on Foreign Direct Investment cannot be reversed or undone by entering into force subsequently passed laws and regulations. If such subsequently passed laws and regulations are more favourable for foreign investors, they have the right to choose the regime that will govern their investments.

### **Protection against the investment risks:**

foreign investors who are concerned about the restrictions in profit transfer, expropriation, war and civil disturbances and denial of justice,

may be secured against these risks at the Multilateral Guarantee Agency for Investment (MIGA part of the World Bank), but those investing in the Republic of Srpska may also seek insurance for political risks from the US Overseas Private Investment (OPIC).

Bosnia and Herzegovina has signed agreements on the promotion and protection of investments with 40 countries.

All foreigners residing in the Federation of Bosnia and Herzegovina and the Republic of Srpska pay tax on income earned in a calendar year in BiH territory. Equally, all foreigners who do not have registered residence in Bosnia and Herzegovina, but who earn income in the Federation of Bosnia and Herzegovina or the Republic of Srpska shall be considered taxpayers.

In the Brcko District, foreigners are treated as taxpayers, if residing in the territory of the Brcko District for at least 183 days continuously.

## **CUSTOMS BENEFITS**

Direct foreign investment may be exempt from customs duties and obligations, except for passenger vehicles, entertainment and gambling equipment. In order to use customs benefits, along with a written request for exemption from payment of import duties, beneficiary

submits to the customs authority, competent according to the seat of the beneficiary, the following documentation:

- Contract or other relevant document on investment on the basis of which the equipment, which is to be excluded from customs duties, shall be imported,
- Proof of registration of foreign investment by the competent government authorities,
- Equipment specification in accordance to the Tariff Classification and BIH Customs Tariff Classification, with an indication of the quantity and to the individual and total value, verified by beneficiary,
- Statement of the investor that the equipment is not older than ten years,
- Confirmation that imported equipment meets the standards in terms of environmental protection and other standards in the field of safety at work, issued by the institution or other body in charge of the area.

Customs Service shall make a decision within 15 days from the date of application.

**Free zones in Bosnia and Herzegovina** are part of the customs territory of Bosnia and Herzegovina and have the status of legal entities. The same are being established along with the river or sea ports, close to airports or highways and must be fenced and marked. In accordance with the BiH Law on Free Zones, a founder of a free zone may be one or more domestic or foreign legal and natural entities that are registered in Bosnia and Herzegovina, with the prior approval of the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, and the Republic of

Srpska. Users of free zones do not pay VAT and import duties on equipment that will be used for production. Investments in the free zone, transfer of profit and transfer of investment are free. The establishment of free zones is economically justified if on the basis of the submitted study on economic viability for establishment of the same and other submitted evidence it may be assessed that the value of goods to be exported from a free zone, will exceed at least 50% of the total value of manufactured goods leaving the free zone during the period of 12 months.

**Business zone** is geographically delimited area, usually physically secured with a common management and administration, which has a separate customs areas and streamlined procedures and operates at much more liberal laws than those prevailing in the country. The existence of business zones brings direct benefits (foreign currency revenues, foreign direct investments, generating employment, government revenues and increase in exports) and indirect benefits (upgrading skills, tested area for wider economic reforms, technology transfer, export diversification, strengthening trade efficiency of domestic companies).

Rulebook on conditions and manner of establishing business zones regulates issues relating to the existence, type, conditions, methods, holders and activities needed to establish business zones in the Republic of Srpska, which is under the jurisdiction of local governments.

The existing business zones in the Republic of Srpska are: Business Zone Poljavnice Novi Grad, Aleksandrovac Laktaši, Agro - Industrial Zone Nova Topola, Lipova greda Kozarska Dubica, Industrial zone Derventa, Business Zone Nevesinje, Business Zone Pale, Business Zone Roteks Rogatica, Business Zone Samac, then zones of Petrovo, Bijeljina, Zvornik Jadar, Volujac Trebinje.

Special attention was paid in the area of tax relief, both in the Federation of BiH and the Republic of Srpska and Brcko District.

In terms of tax rate categories it can be noted that the value-added tax is 17% (FBiH, RS, BD), corporate income tax is 10% (FBiH, RS, BD), while the revenue tax is also 10% (FBiH, RS, BD). The corporate income tax transferred from abroad is not taxed if previously subject to taxation abroad.

## **TAX EXEMPTIONS**

In the Federation of Bosnia and Herzegovina, according to the Law on Corporate Income Tax of FBiH foreign investors enjoy the following benefits:

- the taxpayer who, in the year for which the income tax is determined, realizes the exports exceeding 30% of total income (turnover) shall be exempt from profit tax for that year,

- the taxpayer who, over the period of 5 consecutive years, invests in the production not less than 20 million BAM in the territory of the Federation of Bosnia and Herzegovina, shall be exempt from profit tax during the period of 5 years, starting with the first year of the investment during which at least 4 million BAM must be invested; if the taxpayer for a period of 5 years does not reach prescribed investment census, he will lose the right to tax exemption,
- the taxpayer who, employs more than 50% of disabled persons and persons with special needs for more than one year, shall be exempt from profit tax for the year in which he employed more than 50% of disabled persons and persons with special needs.

Amendments to the Law on Corporate Income Tax **in the Republic of Srpska** introduced the following tax incentives in form of reduction of the tax rate for the following investment:

- Equipment and installations for manufacturing activities of the company,
- Real estate, used for manufacturing and processing activities of the company,
- Indefinite employment of at least 30 new employees who are registered at the Employment Service of the Republic of Srpska during the calendar year.

A new feature aimed at stimulation and support of direct investment, increase of employment and transfer of new knowledge and technologies was introduced in the Republic of Srpska with the **Regulation on the**

**implementation of the programme of support to investments and employment** (“The official Gazette of the Republic of Srpska”, number 88/14).

Application for participation in the process of allocation of funds may be submitted by investors with existing projects in the manufacturing sector, in the territory of the Republic of Srpska, which ensure recruitment of new workers, and the application is to be submitted through the Ministry of Finance of the Republic of Srpska. Total resources to be allocated shall be determined according to the value of investment and the number of newly employed workers, and depending on the place of investment and fulfilment of the criteria specified in this Regulation, for the investments in the manufacturing sector, with a minimum value of investments in amount of 2,000,000 BAM and which provide employment for at least 20 workers in the territory:

- of developed and medium developed local self-government units of the Republic of Srpska in the amount of 3,500 BAM (per each newly employed worker), where development of local communities is determined by the decisions of the RS Government.
- of undeveloped and extremely undeveloped local self-government units of the Republic of Srpska in the amount of 5,000 BAM (per each newly employed worker).

For investment projects with a value of investments over 25 million BAM, which provides employment for at least 100 new workers, regardless of the level of development of local self-government unit in

which the investment is made, funds shall be provided in the amount of 15% of the total investment value.

Thereby it is required:

- that assets acquired with direct investment are used exclusively by beneficiary of the same,
- that the investor did not reduce the number of employees employed for an indefinite time in the past year counting from the date of the public announcement, as well as in the period of realization of the investment project
- that the number of employees for an indefinite period employed by the beneficiary of funds after the realization of the investment project, or after payment of the last tranche of allocations, shall not be reduced over a period of at least three years from the payment.

The criteria for allocation of funds are the following:

- Number of newly employed workers
- Investor's references
- Participation of domestic suppliers
- Sustainability of investment i.e. business
- New technologies and transferability of knowledge and skills to domestic suppliers
- Economic effects of the investment project
- Letter of support, i.e. letter of intent of the municipality or city, providing incentives and benefits, in accordance with the laws of

the Republic of Srpska in the areas in which the investor intends to invest.

Each of the criteria is assigned a certain number of points, where the total number of points is 160. The allocation of funds is to be carried out in accordance with a public announcement, which is to be published by the Ministry of Finance of the Republic of Srpska.

Law on Foreign Investments in the Republic of Srpska (Official Gazette of the Republic of Srpska, No. 25/02, 24/04, 52/11 and 68/13), provides:

- Foreign investor has the same rights and obligations as domestic investors,
- The rights and benefits of foreign investors cannot be suspended or rejected by subsequent adoption of laws or regulations,
- Foreign investors can own real estate in the Republic of Srpska and enjoy the same property rights in respect to real estate as citizens and legal entities of the Republic of Srpska,
- Foreign capital in equipment is exempt from payment of import duties and customs duties (with the exception of passenger vehicles, slot and gambling machines),
- Foreign investors can open a bank account in any commercial bank in domestic and / or in a freely convertible currency on the territory of the Republic of Srpska,
- Foreign investors have the right to freely employ workers from abroad unless otherwise provided by the labour legislation of the Republic of Srpska,

- Law on Amendments to the Law on Corporate Income Tax allows reductions of the tax base for investment in plant and real estate in case when used for manufacturing and processing activities. Tax Base reduction is also envisaged in case 30 employees are employed during the calendar year,
- Foreign investors are protected from the process of nationalization, expropriation, requisition or measures having similar effect; these measures can be undertaken only in the public interest in accordance with the laws of the Republic of Srpska,
- Foreign investors can freely transfer abroad earnings, as a result of their investments in the Republic of Srpska,
- Foreign investors who are concerned about the risks in terms of transfer restrictions, expropriation, war, civil disorder and denial of justice, may be insured against these risks at the European Union Investment Guarantee Trust Fund for BiH, managed by MIGA agency (member of the World Bank Group - Multilateral Investment Guarantee Agency).

Law on Foreign Investments in the Republic of Srpska provides the following forms of investments:

1. establishment of a legal entity fully owned by foreign investors,
2. establishment of a legal entity in a joint ownership of domestic and foreign investors,

3. investment in existing legal entity,
4. special forms of investments.

The same law stipulates the establishment of the Council for Foreign Investors of the Republic of Srpska as an advisory body of the RS Government in order to support and encourage foreign investments and improve the overall business environment for foreign investors of the Republic of Srpska, more complete coordination and cooperation among institutions at the republic and local level in the area of foreign investments (Article 11a).<sup>1</sup>

Limitations are foreseen in terms of foreign investment in the equity capital of a company engaged in the production of weapons, ammunition, explosives for military use and military equipment and public information (restricted branches) which may not exceed 49% of the equity capital in that company (Article 4 of the Law on Foreign Investment), and the registration shall be approved by the Ministry of Trade and Tourism and the Ministry of Industry, Energy and Mining, or the competent authority for information of the Government of the Republic of Srpska.

Law on Foreign Investments of FBiH provides similar solutions since both laws do not deviate nor offer more detailed solutions

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<sup>1</sup> Insufficient data on the active role of the Council

compared to the Law on Foreign Direct Investment Policy, provided that this issue is less elaborated than in the Republic of Srpska.

## **Structure of foreign investment**

The largest participation of foreign investment in the period 2006-2010 in the Republic of Srpska is related to investments in telecommunications (50.34%, mainly on privatization), industrial sector (31.75%), followed by trade (8.77%) and the banking sector (6.95%). The above investments are mainly carried out in order to achieve market access (sector of trade and construction) and resources (mining and real estate), but by 2014 the investment in non-productive sectors (services) have failed. The predominant number of investments in the Republic of Srpska comes from Serbia and mainly in the field of telecommunications, and then from Russia (Oil Refinery Brod and Oil Refinery Modrica), Slovenia (metal industry, banking and trade), Austria (banking) and the UK (EFT - Mine and Thermal Power Stanari).<sup>2</sup>

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<sup>2</sup> Data used in the Study on promotion of foreign investment in the Republic of Srpska 2014-2017, the Government of the Republic of Srpska, Ministry of Economic Affairs and Regional Cooperation, June 2014

## **Attractive sectors for potential foreign investment**

Particularly interesting fields for foreign investment are the food industry, metal and electrical industry-metal processing sector, wood industry and industry of textile, leather and footwear.

In **the field of metal and electrical industry-metal processing sector** there are great opportunities for foreign investments as there is a considerable number of non-privatized companies where the Republic of Srpska is majority owner such as "Famos-Fabrika motora Sarajevo" a.d. Istočno Sarajevo, investment in companies whose assets were purchased by the Government of the Republic of Srpska in bankruptcy such as "Novi autodijelovi" a.d. Rudo and "Nova tvornica prečištača" a.d. Rogatica, since the same have been relieved of debts from the past.

Production of parts and components for energy facilities, automobile industry, and the production of household appliances have great potential too. However, it is necessary to eliminate specific problems such as the lack of modern skills in line with market needs, lack of financial resources, limited functioning of clusters, market access and international promotion.

In the **food industry sector** it can be noted that the production of milk provides significant potential, and also the production and processing of fruits and vegetables, viticulture and wine production, livestock breeding, production and processing of meat, fishing, beekeeping, production and

processing of medicinal plants, mushrooms and collecting forest fruits, growing and processing of industrial plants (sugar beets, soybeans, rapeseed).

Within the **wood industry** there are clusters<sup>3</sup> of „Drvo“ Prijedor and „Drvoklaster“ Banja Luka.

Cluster „Drvo“ Prijedor has a regional character, because it is made of 40 companies that are based in five neighbouring municipalities and cities (Banja Luka, Kostajnica, Kozarska Dubica, Novi Grad and Prijedor), while it founded clusters network with the wood industry clusters from Serbia, Austria, Slovenia, Croatia and Macedonia which aim is to develop the wood industry clusters through cooperation of clusters at the level of the entire Balkans. The objectives of the clusters are business networking, training, exchange of information and improvement of business of enterprises and entrepreneurs within the wood industry, and increasing the competitiveness of the same.

In the field of **industry of textile, leather and footwear** a significant progress could be achieved through a joint venture, where the foreign

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<sup>3</sup> The concept of clusters in the Republic of Srpska defined by the Law on the development of small and medium enterprises ("Official Gazette of the Republic of Srpska", number 50/13), Article 9, paragraph 2:

"A cluster is a form of entrepreneurship infrastructure created in one geographical area by mutual interconnected economic entities operating with the same, similar or different activities and related specialized suppliers, service providers, educational and research institutions, agencies and others."

company should modernize and expand production capacity of the existing textile company, through the purchase of new machinery, as well as the recruitment and training of new employees („Novi Elastik“, a.d. Vlasenica, Tekstilna konfekcija „Zlatka“ d.o.o. Pogoni in Knežica and Gradiška, „Dermal-R“ d.o.o. Kotor Varoš etc.).

Companies from Slovenia, Italy and Croatia have already invested in this sector (in the companies "Sportek" Kotor Varos, "Amica" doo Derventa, "Bema" doo Banja Luka, "Dubikoton" Banja Luka, "Devic textiles" Teslic, "Sannino" Derventa)

Other applicable laws:

Laws pertaining to taxes:

Law on Value Added Tax ("Official Gazette of BiH" no. 09/05, 35/05 i 100/08)

Instruction on refund of value added tax for foreign nationals of Bosnia and Herzegovina ("Official Gazette of BiH" no. 01/07)

Law on Corporate Income Tax of the FBiH ("Official Gazette of FBiH" no. 97/07 i 39/09)

Law on Corporate Income Tax of the RS ("Official Gazette of RS" no. 91/06)

Law on amendments to the Law on Corporate Income Tax of the RS ("Official Gazette of RS" 57/12)

Laws pertaining to free zones:

Law on Free Zones of BiH ("Official Gazette of BiH" no. 99/09)

Law on Free Zones of RS ("Official Gazette of RS" no.65/03)

Law on Free Zones of FBiH ("Official Gazette of FBiH" no. 2/95, 37/04 i 43/04)

Laws pertaining to registration of business entities:

Framework Law on Registration of Business Entities in BiH ("Official Gazette of BiH" no. 42/04)

Law on Registration of Business Entities in FBiH ("Official Gazette of FBiH" no. 27/05, 68/05, 43/09 i 63/14)

Law on Registration of Business Entities in RS ("Official Gazette of RS" no. 67/13)

Decision on the establishment and operation of representative offices of foreign entities in Bosnia and Herzegovina ("Official Gazette of BiH" no. 15/03)

Laws pertaining to labour and employment:

Labour Law of FBiH ("Official Gazette of FBiH" no. 43/99, 32/00 i 29/03)

Revised text of the Labour Law of RS ("Official Gazette of RS" no. 55/07)

Law on Movement and Stay of Aliens and Asylum of BiH ("Official Gazette of BiH" no. 36/08, 87/12)

Laws pertaining to customs duties:

Law on Customs Policy of BiH ("Official Gazette of BiH" no. 57/04)

Law on Amendments and Supplements to the Law on Customs Policy of BiH ("Official Gazette of BiH" no. 93/08)

Law on Amendments and Supplements to the Law on Customs Policy of  
BiH ("Official Gazette of BiH" no. 54/10)

Law on Amendments and Supplements to the Law on Customs Policy of  
BiH ("Official Gazette of BiH" no. 76/11).



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*The Law Firm "Sajić" is the partnership Banja Luka founded in 2003 with headquarters in Banja Luka.*

*We mainly deal with civil and commercial law. We provide legal advice in all areas of law, represent clients before all courts and government institutions in the Republic of Srpska and Bosnia and Herzegovina, participate in negotiations with domestic and foreign legal and physical entities, give opinions and recommendations regarding the application of regulations, etc.*

*Our team consists of 20 employees, and seven of them are lawyers. Each of us specializes in just a few narrow fields of law, which allows us to provide our clients with high quality, professional service.*

**Banja Luka, June 2015**

