

PRESS RELEASE:

**FIC List of Priority Reforms to Improve the Business Climate in the Country
Presented to the Government Officials**

White Book 2009 outlines key impediments to investments and provides recommendations to the identified issues

Sarajevo, 02.02.2010: Today the Foreign Investors Council (FIC) presented the White Book 2009 outlining the key impediments to investing in Bosnia and Herzegovina while providing a set of recommendations on how to remove administrative barriers that are hindering companies operations. The FIC is primarily concerned with improving the legal and regulatory framework in BiH, but the practical steps that government officials can take in order to improve the work process within the institutions are equally important.

The White Book is a publication produced on an annual basis by FIC Members. Its purpose is to suggest to the authorities of Bosnia and Herzegovina (BiH) a prioritized agenda of reforms in order to address key obstacles to investments. The White Book 2009 tackles eight areas: registering a business, obtaining work and residence permits for foreign employees, taxes, labor relations and tax related issues, law on enforcement procedure, obtaining construction permits and law on company liquidation in the Federation of BiH. FIC Members identified a short list of priority reforms that can be implemented within the next 12 months. (List attached)

Tie Sosnowski, FIC President of the Board of Directors and CEO of Triland Development stated that "BiH has been affected in many ways by the economic and financial crisis; the economic downturn hit exports and imports, inflow of foreign investment and public spending. Therefore, it is essential for all levels of the government to turn their attention to the challenges that the private sector faces and to continue to push through reforms in order to keep existing investors in the country and to attract new investors."

Established in 2006 as a non-profit business association, the FIC aims to be the single voice of foreign investors in Bosnia and Herzegovina. The FIC strives to promote pro-business initiatives and deliver practical support to all investors to improve the business environment in the country. FIC Members have invested over 4 billion EUR in BiH and employ over 10.000 employees.

THE END



Improving the Business Environment in BiH

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FIC List of Priority Reforms for 2009

Area	Issues	Key Recommendations
<p>Business Registration</p>	<p>Legislation: FBiH</p> <ul style="list-style-type: none"> Unclear definition of the cases that may result in a suspension of registration procedure Notarization of changes and amendments to founding act requested <p>Practical Aspects: BiH</p> <ul style="list-style-type: none"> Inadequate availability of general information on registration procedure Lack of consistency in processing registration applications in courts Collective annual leaves and unannounced leaves (except sick leave) are not timely notified to parties involved <p>FBiH</p> <ul style="list-style-type: none"> Hours for consultation with registration judges in Municipal Court Sarajevo has been canceled 	<p>Legislation: FBiH</p> <ul style="list-style-type: none"> The Business Registration Law should more precisely define which facts may lead to a suspension of registration procedure The Business Registration Law needs to be amended such that the notarization is no longer a requirement for every change in the founding act <p>Practical Aspects: BiH</p> <ul style="list-style-type: none"> Publish all information on the registration procedure on web pages of all institutions involved in the procedure Implement laws consistently in processing registration applications in courts Organize court's operations to provide continuous services to end users Long-term solution is moving the registration process outside the court like in the neighboring countries, and the establishment of One-Stop-Shop online registration <p>FBiH</p> <ul style="list-style-type: none"> Reinstate in the Municipal Court Sarajevo hours for consultation with end users
<p>Temporary Residence and Work Permit</p>	<p>Legislation: FBiH</p> <ul style="list-style-type: none"> Work permit can not be obtained without employment contract for certain categories of foreign citizens Laws and practice related to the procedure of issuing work permits without the approval of temporary residence in the Canton of Sarajevo are not harmonized <p>Practical Aspects: BiH</p> <ul style="list-style-type: none"> Inconsistency in the implementation of the laws and lack of coordination between state agencies and institutions in the information exchange <p>FBiH</p> <ul style="list-style-type: none"> Non compliance with laws regarding working hours of a foreign citizen 	<p>Legislation: FBiH</p> <ul style="list-style-type: none"> Allow the issuance of work permits in BiH on the basis of a valid documentation regarding the temporary posting from the home country Harmonize the BiH Law on Movement and Stay of Aliens and Asylum and the FBiH Law on Employment of Foreigners <p>Practical Aspects: BiH</p> <ul style="list-style-type: none"> Improve communication and coordination of workflow between the Service for Foreigners' Affairs and the courts responsible for the registration of business entities Publish all information on obtaining /extending temporary residence and work permit procedure on web pages of all institutions involved in the process <p>FBiH</p> <ul style="list-style-type: none"> Respective institutions to act in line with regulations and positive practices in regard to working hours per week for foreign citizens

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<p>Company Law</p>	<p>Legislation: BiH</p> <ul style="list-style-type: none"> • Legislation do not provide for conversion of the debt and liability into equity • Prohibition of financial assistance <p>FBiH</p> <ul style="list-style-type: none"> • Legislation do not provide for establishing branch offices of foreign companies • Non harmonized wording in the respective legislation regarding stock subscription and payment • Deadlines in the respective legislation need to be coordinated to submit applications for approval of public share offering • Lack of harmonization of the Company Law articles (244, 247) related to provision of materials to shareholders for the Shareholders' Meeting • Existence of the Law provision requiring vote of confidence for Supervisory Board Members • Age limit for Supervisory Board Members set at 65 • Limitations regarding appointment as Supervisory Board Member <p>Practical Aspects: FBiH</p> <ul style="list-style-type: none"> • Insufficient information and participation of the private sector in consultations during drafting of laws and secondary legislation. In addition, draft amendments to laws and secondary legislation are not made publicly available 	<p>Legislation: BiH</p> <ul style="list-style-type: none"> • Incorporate in the Laws an option for conversion of loans and other receivables into equity shares or ownership interest, and specify terms for such conversion or swap • Financing a purchase of equity shares/stakes should be regulated and defined in more details in legislation <p>FBiH</p> <ul style="list-style-type: none"> • Allow for the establishment of a branch office as envisioned in the majority of jurisdictions. The legal frameworks between the entities and the District should be harmonized • FBiH Company Law and the FBiH Securities Market Law should be harmonized in regard to stock subscription and payment and deadline for submission of applications for approval of public share offering • Harmonize respective Articles of the Company Law (244,247) related to provision of materials to shareholders for the Shareholders' Meeting • Provision requiring a Shareholders' Meeting to be convened for a mandatory vote of confidence for the Supervisory Board Members after two years' term needs to be removed • Extend the age limit for Supervisory Board Members to at least 70 years of age • Affiliated companies should be exempted from the limitations regarding appointment as Supervisory Board Member, taking into account specific features of state and private ownership <p>Practical Aspects: FBiH</p> <ul style="list-style-type: none"> • Involve private sector in the process of changing and amending laws • During drafting of laws and secondary legislation organize public consultations with the private sector and make publicly available draft of all legislation allowing representatives of the private sector (domestic and foreign companies) to provide feedback
<p>Taxes</p>	<p>Legislation: BiH</p> <ul style="list-style-type: none"> • Unclear provisions on personal income tax and social security contributions • Paying social security contributions using straight-line rates • VAT refund to foreign persons 	<p>Legislation: BiH</p> <ul style="list-style-type: none"> • Laws regulating taxation of personal income for individuals residing in FBiH, the RS and the District and earning their income in one of the other two administrative units need to be harmonized to ensure that all persons enjoy equal treatment regarding recognition of tax deductions

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	<ul style="list-style-type: none"> Lack of harmonization between VAT Law and instructions Inefficient forced collection on debtors' bank accounts <p>FBiH</p> <ul style="list-style-type: none"> A permanent business unit in FBiH cannot be registered as a taxpayer Production companies prevented from using the tax relief <p>Practical Aspects:</p> <p>BiH</p> <ul style="list-style-type: none"> Bilateral Agreements signed/ratified by the BH authorities are not publicly available <p>FBiH</p> <ul style="list-style-type: none"> Implementation of bilateral Agreements by the tax authorities 	<ul style="list-style-type: none"> The Rulebooks on Personal Income Tax in RS, FBiH and the District need to precisely define recognition of tax deductions for foreign nationals sent on duty in BiH who pay social security contributions in their home countries, as well as techniques for recognizing other deductions these persons are entitled to under the Personal Income Tax Laws of FBiH, RS and the District. Initiate reform of the health and retirement insurance system In VAT Law or respective secondary legislation specifically identify all situations in which a tax payer without a registered business in BiH is entitled to VAT refund levied in BiH Harmonize the Instructions for completing VAT form with the BiH Law on VAT and the ITA BiH internal instructions to allow tax deduction for incoming invoices that are received by 10th of the month or before the submission of the VAT application The entity laws regulating payment transactions should be upgraded by including mechanisms by which all company bank accounts will be blocked <p>FBiH</p> <ul style="list-style-type: none"> Supplement the Rulebook on Taxpayer Registration and Identification to allow the registration of foreign legal entities which constitute permanent business units in FBiH as taxpayers The Corporate Income Tax Law regulation should specify a final date for submitting the Investment Plan as a basis to use the tax relief for production companies <p>Practical Aspects:</p> <ul style="list-style-type: none"> Publish all bilateral Agreements on website of the BiH Ministry of Treasury and Finance. The Ministry to issue the Instructions for implementation of Agreements that is aligned with interpretations and positive taxation practice of the OECD countries
<p>Labor Rights and Tax Related Issues</p>	<p>Legislation:</p> <p>BiH</p> <p>Lack of harmonization of principles of accounting and the contribution rate on different government levels (entities, District and cantons in FBiH) for:</p> <ul style="list-style-type: none"> Annual leave bonus Commuting allowance Sick leave payment Maternity leave payment Refunding employer's costs for sick and maternity leaves 	<p>Legislation:</p> <p>BiH</p> <p>Harmonize principles of accounting and the contribution rate on different government levels (entities, District and cantons in FBiH) for:</p> <ul style="list-style-type: none"> Annual leave bonus Commuting allowance Sick leave payment Maternity leave payment Refunding of employer's costs for sick and maternity leaves Regulate taxation of severance pay for employees being retired or being laid off in

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	<ul style="list-style-type: none"> • Taxation of severance pay for employees being retired or being laid off in the District 	<p>the District</p> <p>Practical Aspects:</p> <ul style="list-style-type: none"> • Establish mechanisms that will enable refund to employers at all levels
<p>Law on Enforcement Procedure</p>	<p>Legislation:</p> <p>BiH</p> <ul style="list-style-type: none"> • Process of determination of debtor's property does not include authentic document • Abuse of the proceeding in case when an objection is submitted against a writ of execution • Unclear definition of real property value • Abusing process of determining selling price • Lack of precise regulation regarding execution on movable property • Rules for administering course of auction are not precise • Different interpretation of provisions on real estate sale • Different courts practices in making decisions on settlement • Incomplete information about debtor's debt • Deadline not defined properly in: • Settlement on petitioner's claims • Hearing to split sales • Decision on settlement 	<p>Legislation:</p> <p>BiH</p> <ul style="list-style-type: none"> • Amend Law to include authentic documents in addition to enforceable documents for the purposes of identifying judgment debtor's property • The Law should preclude stalling of collection of claims, primarily for promissory notes and checks. For example, in case an objection is submitted against a writ of execution, the execution proceedings should continue while the debtor (not the petitioner-creditor) should be instructed to file civil action instead • Avoid dilemmas regarding suspension of execution proceedings, the Law needs to define more precisely the meaning of "a part of the creditor's claim", i.e. it needs to specify an exact amount/percentage of the claim, such as 1/3 or the like • Define a mechanism to prevent abuses in the process of determining the selling price • Introduce recording for a pending execution on a passenger motor vehicle in the vehicle records with the competent office of the Ministry of Internal Affairs and in the vehicle registration certificate. This would prevent sale of a vehicle before a petitioner's claim is satisfied, as well as a factual transfer of a vehicle by granting a power of attorney to other persons to use the car • The Law should define the course of auction in detail in order to avoid abuses • Law should clearly define the meaning of the provisions that a real property "may be sold without restrictions on the lowest price" • The Law should define decision on satisfaction of claims, i.e. clearly determine to which extent a creditor has been satisfied in cases where the creditor is also the buyer of the pledged real property • The Law should specify that employers are obligated to list all present debts of the employee, whether actual or potential, in the certificate of employee's salary, and also the Law needs to ensure that the creditor who was first issued a certified permission will have precedence in garnishment • The Law should clearly define a deadline to satisfy petitioner's claims, such as within 15, 30 or 60 days • The Law should define a specific timeframe

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		<p>within which the court must schedule a hearing to split the sales proceeds</p> <ul style="list-style-type: none"> The Law should define a specific deadline in which judge has to issue a decision on settlement e.g. within 15 or 30 days
<p>Construction Permits</p>	<p>Legislation: FBiH, Canton Sarajevo</p> <ul style="list-style-type: none"> The respective laws do not precisely define construction permit transfer in Canton Sarajevo <p>RS</p> <ul style="list-style-type: none"> The Urban Planning Law does not define treatment of telecommunication sector <p>Practical Aspects: BiH</p> <ul style="list-style-type: none"> Inefficient processing of applications 	<p>Legislation: FBiH, Canton Sarajevo</p> <ul style="list-style-type: none"> The respective laws should regulate the issues of construction permit transfer in Canton Sarajevo <p>RS</p> <ul style="list-style-type: none"> In the Urban Planning Law incorporate telecommunication infrastructure to cover set up of network, equipment and facilities <p>Practical Aspects: BiH</p> <ul style="list-style-type: none"> Improve processing of requests for construction permits in the whole BiH Comply with legal deadlines Develop a priority system where officials will sort all incoming requests according to certain criteria: private or civil sectors, project value, for a large scale investment projects introduce special treatment, etc.
<p>Company Liquidation Law in FBiH</p>	<p>Legislation:</p> <ul style="list-style-type: none"> Vague wording of liquidation procedure Different practices in courts regarding submission of documents for liquidation Different practices in courts regarding submission of a certificate proving payment of tax liabilities upon launching liquidation procedure <p>Practical Aspects:</p> <ul style="list-style-type: none"> Inability to access a list of companies being liquidated in the court register 	<p>Legislation:</p> <ul style="list-style-type: none"> The Law should more adequately address the course of liquidation procedure as well as the position, rights and obligations of liquidator The Law needs to include a list of all the documents that a liquidation petitioner is required to submit and timeline for their submission The obligation to record the liquidation procedure with the Companies Register and to include words "under liquidation" in the company name during liquidation should be included in the Law <p>Practical Aspects:</p> <ul style="list-style-type: none"> Practice in courts needs to be harmonized, and relevant regulations need to define that the tax administration shall have the same position as all other creditors of a company being liquidated