

# Foreign Investment in the Function of Accelerated Economic Development of Countries in Transition with Special Reference to Republika Srpska

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## Abstract

*In terms of the lack of domestic accumulation, foreign investments represent a significant source of additional capital to accelerate economic development.*

*Political developments on a global scale and instability which they bring, as well as instability in commodity markets and reducing economic growth in developed countries led to the fact that foreign investors have become more cautious when making investment decisions.*

*These developments have led to a decrease in investment activity, which is particularly reflected in the transition countries, and thus in Republika Srpska. Although Republika Srpska conducted a series of reforms, the situation at the global level leads to the need to review investment policy and its harmonization with the new situation.*

*The aim is to analyze the volume of foreign investment in the world, the region and in Republika Srpska, as well as the factors influencing investment decisions and to find solutions for increasing the volume of foreign investments based on this analysis, in order to accelerate the economic development of Republika Srpska. The analysis showed that although Republika Srpska conducted a series of reforms in order to attract new investments, it is necessary to conduct e-business registration, improve the business environment, with special attention paid to reducing the tax burden on labor, education reform and carry out targeted attracting of investors, not only in the agricultural sector – fruits and vegetables, but also in other sectors.*

*Keywords: foreign investment, economic development, reform processes, transition countries*

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## Introduction

For an invest destination, FDI means new job creation, export stimulation and in general, that presents the generator of economic growth and development as well as the establishment of macroeconomic stability (Radovic Markovic, *et al.*, 2009). Foreign investment in transition countries has a special role in economic development for several reasons. First of all, foreign investments represent additional capital in conditions where domestic accumulation is

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insufficient for accelerated economic development. Also, certain forms of foreign investment, such as public-private partnerships, especially for large projects in infrastructure, health care and education, enable investment without additional government borrowing from international financial institutions. Consequently, not only is the government borrowing reduced, but also the balance of payments, which is in a constant deficit in most of the countries in transition, is improved. Foreign investments are not only allowed to conduct the transfer of technology, but also the transfer of managerial knowledge and skills, which significantly influence the increase in employment of all available resources, their more efficient use, productivity and competitiveness increase. All these factors significantly influence the acceleration of economic development and more efficient involvement of the economy in transition into global flows.

However, despite a number of positive effects of foreign investment, it is necessary to point out the negative effects, especially when it comes to countries in transition, because foreign investors are mostly resource-oriented. Without a well-defined investment policy, foreign investors, motivated only by achieving as much profit as possible, can significantly affect the economic structure of the countries receiving foreign investments. This is especially true when it comes to natural resources, because foreign investment in this sector of economic activity can lead to the exhaustion of natural resources.

Foreign investments in the world and in the countries in transition

#### *Foreign investment in the world*

According to the World Report on Investment 2017, in 2016, US \$ 1.75 trillion of foreign investments were made in the world. Compared to 2015, when there was an increase in foreign investments in the world by 38%, the decline in foreign investments by 2% in 2016 represents a significant change.

If we look at the structure of foreign investments by groups of countries, we can say that developed countries have recorded a slight increase by 5%, countries in transition have a significant increase by 81%, while developing countries have fallen by 14%. According to the opinion of multinational corporations, the reason for this trend of foreign investments is the weak economic growth of the developed countries, which is reflected in the reduction of the funds of international corporations for investment, as well as the unfavorable developments in the international political scene, which significantly increases the risks of investing, so the international corporations became much more careful when investing.

Overview of foreign investment flows by groups of countries in the period 2011-2016 is shown in the following table:

**Table 1.** Foreign investments in the world by groups of countries for the period 2014-2016 and projections for 2017 (in billions of US dollars and percentages)

Group of countries	2014	2015	2016	Increase rate 2015-2016 (%)	Projection 2017 (%)
<b>World</b>	1.324	1.774	1.746	-2	from -4 to 7
<b>Developed countries</b>	563	984	1.032	5	from -9 to 2
<b>Developing countries</b>	704	752	646	-14	from 2 to 15
<b>Countries in transition</b>	57	38	68	81	10 to 25

*Source: UNCTAD, World Investment Report 2017*

Although UNCTAD predicted a mild recovery in foreign investment flows in 2017 and 2018, the level of foreign investment in the year 2017 is expected to remain well below the 2007 level. A significant increase in foreign investment in the world is expected in 2018.

A significant complication of the global political situation has led to major changes when it comes to **factors influencing decision making on investment**.

In previous years, the most important factor for the decision on investment was the size of domestic market. In 2017, the most important factor is the general security environment. Labor costs moved from second place in 2016 to 12<sup>th</sup> place in 2017. Skilled labor moved from eighth place in 2016 to 15<sup>th</sup> in 2017. Domestic economic performance did not even exist in the list of the 20 most important factors that influenced the decision on investment in 2016, and in 2017 it was placed in the seventh place.

Based on the sectoral analysis of foreign investments at the global level for 2016, it can be noted that the most important sectors are software and IT services (20%), textile (15%) and business services (14%). Out of the ten most important sectors by number of projects, the only growth was achieved by the communication sector (10%), although it is in the sixth place.

According to capital investments, the highest increase is in the real estate sector (58%). Coal, oil and natural gas are in the second place, and in the third place are alternative/renewable energy sources.

According to the number of created jobs, the most important sectors are: real estate, textile and consumer goods.

**Investment policy** management in contemporary conditions, and especially after 2015, has become more complex, divergent and insecure. The pursuit of sustainable development has made investment policies more complex and multifaceted. Making investment policies has become more diversified due to the way societies and governments respond to the effects of globalization. This fact, together with the increase in government intervention, reduces the possibility of predicting investment policies for investors.

If we observe changes in the management of national investment policies, we can conclude that the share of liberalization and promotion measures is gradually reduced, and the share of restriction and regulatory measures is increasing. The share of liberalization and promotion measures is at the lowest level since 1990, when UNCTAD began to monitor them it was 90%, and in 2016 it was 79%.

According to UNCTAD (2017), 58 countries and economies in 2016 adopted 124 measures related to foreign investments, which is more than 25% compared to the previous year. 84 measures relate to the liberalization, promotion and investment facilitation, and 22 measures introduce new restrictions or regulations.

The increase in trade restrictions (according to the World Trade Organization) can have negative consequences on investment activities in global value chains, which, with political pressures on companies over their investment decisions, can lead to discouraging companies to invest abroad.

#### *Foreign investment in transition countries*

Foreign investment in transition countries amounted to US \$ 68 billion in 2016, an increase of 81% compared to 2015. The largest part of the increase relates to privatization processes in the Russian Federation (\$ 61.78 billion) and increased investments in mining research in Kazakhstan (US \$ 9 billion). In the countries of Southeast Europe, US \$ 4.57 billion of foreign investments was made in 2016, which represents a slight decrease by 5.5% compared to 2015.

In total foreign investment to transition countries in 2016, Southeast Europe participates with 6.7%. (UNCTAD, 2017)

**Table 2.** Foreign investments in transition countries (in millions of dollars)

Country or region	2011	2012	2013	2014	2015	2016
<b>Southeast Europe</b>	7.890	3.606	4.733	4.605	4.844	4.579
<b>Commonwealth of Independent States</b>	70.403	60.104	78629	50.385	41.146	61.779
<b>Georgia</b>	1.048	911	950	1.763	1.576	1.661
<b>Countries in transition</b>	<b>79.342</b>	<b>64.621</b>	<b>84.311</b>	<b>56.753</b>	<b>37.567</b>	<b>68.029</b>

*Source: UNCTAD, World Investment Report 2017*

In the opinion of foreign investment promotion agencies, the most perspective sectors for attracting foreign investments for transition countries are: information and communication, agriculture and mining.

**Table 3.** Foreign investment flows in the region in the period 2011-2016 (in millions of US dollars)

Country	2011	2012	2013	2014	2015	2016
<b>Bosnia and Herzegovina</b>	497	395	276	529	270	285
<b>Macedonia</b>	479	143	335	272	240	397
<b>Montenegro</b>	558	620	447	497	699	226
<b>Serbia</b>	4.932	1.299	2.053	1.996	2.347	2.299
<b>Albania</b>	876	855	1.266	1.110	945	1.124
<b>Croatia</b>	1.692	1.504	958	2.870	270	1.745
<b>Slovenia</b>	1.087	339	-151	1.050	1.625	919
<b>Romania</b>	2.363	3.199	3.601	3.211	3.839	4.573
<b>Bulgaria</b>	2.945	1.697	1.837	1.540	2.822	776
<b>Hungary</b>	6.300	14.409	3.402	7.752	-14.804	-5.314
<b>Slovakia</b>	3.491	2.982	-604	-512	-196	-295
<b>The Czech Republic</b>	2.318	7.984	3.639	5.492	465	6.752

*Source: UNCTAD, World Investment Report 2017*

Foreign investments in countries in the region are shown in the following table: In the table above, we can see that in Montenegro, Serbia, Slovenia and Bulgaria, foreign investments fell in 2016 in comparison with 2015, and in Bosnia and Herzegovina, Macedonia, Albania, Croatia, Romania and the Czech Republic it has been increased.

### **Indicators of Competitiveness Between Countries in Transition (Southeast Europe)**

The competitiveness analysis of Southeast European countries can best be done through indicators and ranking carried out by international institutions. The most important indicators, which also show the changes in investment policies, as well as the need for changes and reforms if a comparative analysis between the countries is being made, are: a global competitiveness index, ease of doing business and starting a business (Appendix 1), economic freedom index (Appendix 2) and index of innovation (Appendix 3).

The above-mentioned indices for the countries of Southeast Europe are presented in the following tables:

**Table 4.** Global Competitiveness Index for Southeast Europe for 2016-2017

Country	Rank (2016-2017) (138 countries in total)	Total number of points
Albania	80	4,06
Bosnia and Herzegovina	107	3,80
Bulgaria	50	4,44
Montenegro	82	4,05
Croatia	74	4,15
Macedonia	68	4,23
Romania	62	4,30
Serbia	90	3,97

Source: *The Global Competitiveness Report 2016-2017*

**Table 5.** Ease of doing business in Southeast Europe in 2016

Country	Overall ranking (190 countries)	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Taxes	Trading across borders	Enforcing contracts	Closing a business
BiH	81	174	170	123	99	44	81	133	36	64	41
Serbia	47	47	36	92	56	44	70	78	23	61	47
Bulgaria	39	82	48	104	60	32	13	83	21	49	48
Montenegro	51	58	93	167	78	7	42	57	43	41	40
Croatia	43	95	128	68	62	75	27	49	1	7	54
Macedonia	10	4	11	29	48	16	13	9	27	36	32
Romania	36	62	95	134	57	7	53	50	1	26	49
Albania	58	46	106	156	106	44	19	97	24	116	43

Source: *Doing Business Report 2017*

If we analyze the position of Bosnia and Herzegovina in the above ranking lists of the above-mentioned indicators, we can state that from most Southeast European countries, Bosnia and Herzegovina has the worst position. However, most of the international institutions when developing indicators for BiH use data for the capital city, i.e. Sarajevo, therefore the position of Republika Srpska cannot be seen. If we consider only one indicator of the ease of doing business, which is related to starting a business, we can fully realize how unrealistic these indicators are, because Bosnia and Herzegovina are at the 174<sup>th</sup> place on the list, and it takes 65 days to start a business. Republika Srpska's reform of business registration and introduction of APIF has reduced the number of days for business registration to 3. Also, in 2011, the World Bank prepared a report for other levels in which Banja Luka was declared a reformer city, next to Skopje, among 22 cities in Southeast Europe. However, by not going into the relevance of ranking in individual countries, the analysis of individual indicators and their comparison with other countries can give directions and guidelines which the investment policy and reform processes should follow to make Republika Srpska more competitive and more attractive to foreign investors.

### Foreign investments Republika Srpska

According to the Central Bank of Bosnia and Herzegovina, total foreign investments in Republika Srpska by the end of 2016 amounted to BAM 4,605,9 million. Foreign investment flows for the period from 2009 to 2016 are presented in the following table:

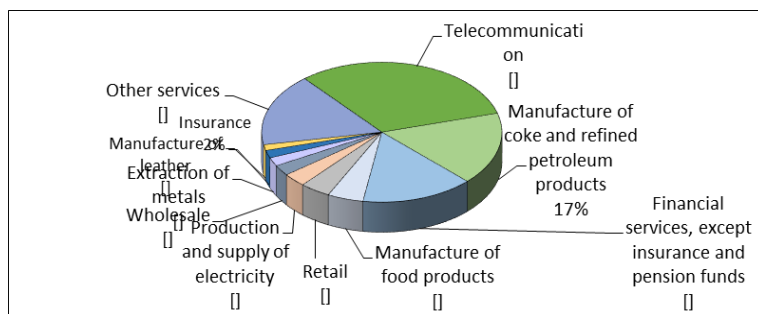
**Table 6.** Foreign investment flows by components for the period 2009-2016  
(In millions of BAM)

year	owner's equity	retained earnings	owner's equity and retained earnings	other capital			TOTAL (FDI) IN RS	TOTAL BiH
				loans	other	Total other capital		
2009	79.0	-264.0	-185.0	332.0	23.3	355.3	170.4	351.9
2010	122.0	-102.4	19.7	187.8	-2.4	185.4	205.1	599.7
2011	117.1	-1.4	115.6	211.9	45.0	256.9	372.5	698.6
2012	144.8	-75.7	69.1	292.9	41.6	334.4	403.6	601.1
2013	188.2	-80.4	107.8	55.8	1.7	57.5	165.3	407.1
2014	165.7	13.8	179.5	238.4	4.4	242.8	422.3	811.1
2015	71.9	11.1	83.0	84.7	-17.5	67.2	150.3	615.3
2016	23.8	35.0	58.7	-5.1	-13.2	-18.2	40.5	536.1

Source: Central Bank of BiH

From the above table it is obvious that in 2016 there was a significant fall of foreign investments in Republika Srpska, which was caused not only by unfavorable developments on a global scale but also by the manner of foreign investment records. Republika Srpska has a small and open economy, so it is much more sensitive to unfavorable economic and political trends on a global scale. Reduced economic growth in developed countries, which are significant investors in Republika Srpska, has also led to reduced investments from these countries. The economic sanctions imposed on Russia have also reflected on the size of the investment from this country, as Russia's investments are in the second place by size. Also, data on foreign investments in Republika Srpska are published by the Central Bank of BiH, based on the survey being conducted. The survey does not include investments below BAM 100,000. Loans are deducted from the amount of foreign investment, as well as the losses of business entities with an element of foreign investment.

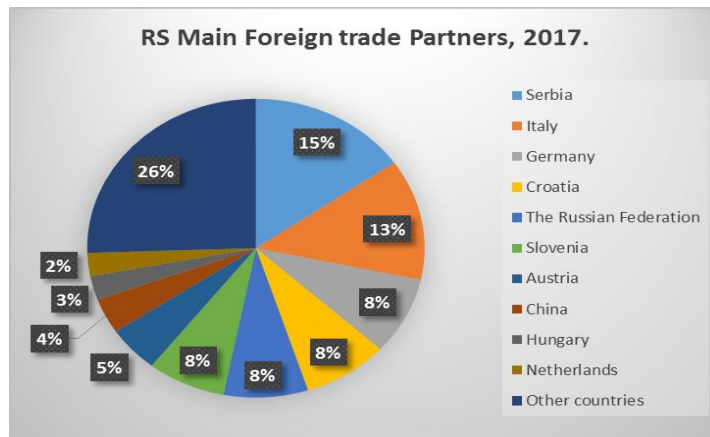
Current total foreign investments in Republika Srpska according to the sectoral structure and by investment countries are shown in the following graphs:



**Fig. 1.** Percentage of foreign investment by activities within total foreign investments in Republika Srpska by 31.12.2016.

Source: Central Bank of BiH

By analyzing the chart, it is obvious that the largest foreign investments in Republika Srpska have been made in the following sectors: telecommunication, manufacture of coke and refined petroleum products, financial service activities except for the insurance and pension funds, and food production. Such a sectoral structure is common for countries in transition, considering that a significant amount of foreign investment comes through privatization and extractive industries. However, the objective of Republika Srpska in the coming period is to attract investors to production sectors to a greater extent, or to the labor-intensive sectors, due to high unemployment rates as well as to the service industry (such as the IT sector or tourism).



**Fig. 2.** Foreign Investments in Republika Srpska by countries of origin of foreign Investors (participation in percentages)  
*Source: Central Bank of BiH*

The largest investments by the country of origin of a foreign investor were made by: Serbia, Italy, Germany, Croatia, Russia, Slovenia and Austria.

During the year 2017, the largest investments traditionally came from EU countries (Italy, Germany, Croatia Slovenia, Austria) and Serbia and Serbia.

### **Republika Srpska's reform processes in order to improve the business environment and attract investments**

Republika Srpska has carried out a number of reforms to create a stimulating business environment, in order to be recognized as an attractive investment location among foreign investors. However, given that in line with changes in the global plan, but also with changes in the region, the investment policies and policies of attracting foreign investors to Republika Srpska must constantly improve, the reform processes have become continuous. This is particularly important because almost all countries in the region are striving to attract as many foreign investors as possible so that countries would move toward accelerated economic development. In this way the countries of the region become mutually competitive, which is most noticeable when it comes to incentives given to foreign investors.

With the reform processes Republika Srpska has made significant steps in improving the business environment, increasing competitiveness and attracting foreign investment, but the low level of foreign investment flows in 2016 undoubtedly points to the need to create a new approach to investment policy and attracting foreign investment.

Reform processes carried out in the previous period are:

**Reform of business registration**, which significantly reduced the costs, procedures and time needed to start a business. Since December 1, 2013, a one-stop shop registration system has started, which implies filing an application for registration with one of the institutions, the Agency for Mediation, Information and Financial Services (APIF) in eleven branch offices.

By the **tax reform** implemented through the new Income Tax Act of 2015 income taxation from foreign sources has been defined, and investors are granted the status of a qualified investor on the basis of which the investor receives significant tax relief. Income from dividends and the share of profits of a company is exempted from payment of income tax.

In order to implement **regulatory reform**, the process of assessing the impact of regulations has been introduced permanently in Republika Srpska legal system and in its implementation Republika Srpska is among the leaders in the region.

The new **Law on Construction Land of Republika Srpska** has reduced the deadlines and costs of obtaining building permits.

During last year, the **regulatory reform** was carried out in several local self-government units: Pale, Sokolac, Istočno Novo Sarajevo, and is currently being implemented in the city of Banja Luka and the municipality of Gradiška with the help of the World Bank Group.

A new **Law on Foreign Investments** was adopted in 2018 with the aim of further liberalizing of the possibilities for foreign investments in the field of media affairs up to 49% of the core capital of a business entity.

The **Council for Foreign Investors of Republika Srpska** was established by representatives of republican and local institutions and foreign investors, with the aim of solving current problems of foreign investors, as well as suggesting system solutions and initiatives for additional investments.

Specific **financial incentives** for employment, training and investment were introduced through the Employment Support Program, implemented by the Public Institution, Employment Service of Republika Srpska. Funds are allocated on a variety of grounds, separately for each budget year based on the action plan and public call. Support for investment and employment has also been provided through the Regulation on Conditions and the Method of Implementation of Investment and Employment Support Programs (Official Gazette of Republika Srpska, 70/12, 38/13) and the Regulation on the Conditions and the Method of Implementation of Employment Programs (Official Gazette of Republika Srpska, 88/14, 24/15).

Being aware of the fact that a foreign investment is always carried out in one of the local communities, there was a need to strengthen cooperation and develop **partnerships between the republic and the local authorities** and strengthen the capacity of local self-government units to accept and attract foreign and domestic investors. Also, taking into account the fact that about 50% of foreign investments are reinvested by existing investors, a system of **post-investment support** has been established whose purpose is to stimulate investors to expand their activities in Republika Srpska and to identify problems in the work of investors. With the support of the IFC/World Bank Group, the Government of Republika Srpska has implemented a Post-Investment Support Program from 2013 not only for domestic but also for foreign investors. Until 2016, 26 units of local self-government have been included in the program, with the aim of further spread or increase of the number of local self-government units.

In Republika Srpska, a regional project for the **Certification of municipalities with a friendly business environment (BFC SEE)** is being implemented through the establishment of a unique quality standard of services and information provided by municipalities and cities to potential investors and business people operating on the local level. By 2016, six friendly business environment certificates were obtained by the units of local self-government, three of them are in the recertifying process and five at different stages of certification.

Through the **Registry of Approvals in the Economy** ([www.regodobrenja.net](http://www.regodobrenja.net)), the public-private dialogue takes place on a daily basis.

The registry provides answers to business community issues.

The **portal [www.investsrpska.net](http://www.investsrpska.net)** improves the quality of information for foreign investors by presenting a detailed business guide, indicating the accompanying business expenses, a description of the legal framework, referring to institutions that can help investors, as well as the investment profiles of local self-government units with investment potentials and concrete projects.

## Conclusion and Recommendations

Last year, Republika Srpska attracted a relatively small amount of foreign investments, although, according to APIF, the number of founding companies with foreign investment increased. This points to the need to develop a new and different approach to investment policy.

Undoubtedly, the position of Republika Srpska would provide great support to creating RS investment policies, in international reports such as the global competitiveness index, ease of doing business, economic freedom index and innovation index. By analyzing the ranking of all the above indicators, Republika Srpska could identify the segments in which reforms are needed, in order to improve its position and competitiveness. However, since all international institutions are monitoring indicators for Bosnia and Herzegovina as a whole, i.e. Sarajevo, Republika Srpska is not able to fully realize and compare its competitiveness in relation to the environment.

The underlying dilemma is why Republika Srpska is not attractive to foreign investors even though it has very stimulating tax policy (with tax rates below the rates of many neighbouring countries), with competitive labor costs and low cost of doing business, and what needs to be done to make Republika Srpska become attractive to foreign investors, and thus make the inflow of foreign investment significantly higher, which would also increase the impact of foreign investment on the country's economic development.

It is true that Republika Srpska represents a small and open economy, but with various international treaties Republika Srpska allows access to markets of 600 million inhabitants.

In the forthcoming period, Republika Srpska would have to pay particular attention to reducing the tax burden on labor, education reform and the introduction of e-registration in line with regional trends and the requirements of the business community and foreign investors.

Also, due to the large outflow of skilled personnel, Republika Srpska should make a special program that would stimulate, especially young professionals, to stay and use their knowledge and skills for the benefit of their country. Otherwise, Republika Srpska will remain without available labor force, which represented the comparative advantage of Republika Srpska in the previous period.

The incentive policy is very present in the region, and many countries spend the large amounts of money from their budgets in order to attract foreign investors. However, we think that first of all, it is necessary to examine the effects of money incentives, therefore analyze whether they are needed, and if so, how big money incentives should be. We believe that the same effects can be achieved by stimulating tax policy, so in that case it is not necessary to allocate funds from the budget for incentives. Tax policy and tax incentives could also provide the sectoral structure of foreign investment in line with the needs of Republika Srpska's economic development.

There are insufficient clusters in Republika Srpska. By strengthening clusters in certain branches of industry, the competitiveness of certain branches of industry would improve and

these branches would become more attractive to foreign investors. This is particularly important for the wood and metal industry, as foreign investments in furniture manufacturing, especially those export-oriented, would lead to increased export of end-products with a higher newly added value, while the export of raw materials and semi-finished products would be reduced.

Public-private partnership would not only build a quality infrastructure, which is a prerequisite for attracting investments, but would significantly improve the quality of services in the education and health sectors.

Republika Srpska has no free economic zones, which in many countries played a significant role in attracting foreign investors and economic development. The establishment of business zones in many local self-government units in Republika Srpska did not give the expected results. In the future, an assessment of the impact of the Free Zones Act is planned, which would create an adequate investment policy in this segment of economic activity.

Republika Srpska needs to work more on promoting investment potentials.

Although there is detailed information for foreign investors on Invest in Republika Srpska site as well as investment potentials of Republika Srpska and local self-government units along with their investment projects, there is a need for more attention to targeted investors and markets. In that sense, with the assistance of the World Bank Group, in 2017 Republika Srpska organized a promotional campaign and visited targeted investors in Germany. Given that Republika Srpska, according to the analysis of assessment of the competitiveness between the three value chains in agriculture in Republika Srpska, is the most competitive in the fruit and vegetable sector, Republica Srpska visited investors in the sector of fruit and vegetables from Austria in 2018. However, in addition to this sector, Republika Srpska should conduct targeted campaigns for other sectors as well, thus promoting not only certain sectors, but also the entire Republika Srpska.

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## APPENDIXES

**Table 1a.** Starting a business in Southeast Europe (2016)

Country	Rank	Number of procedures	Number of days	Expenses (% of the income)	Minimal capital (as % GDP (Gross Domestic Product) per capita)
<b>BiH</b>	174	12	65	13,5	13,4
<b>Serbia</b>	47	5	7	6,5	0,0
<b>Bulgaria</b>	82	6	23	1,3	0,0
<b>Montenegro</b>	58	6	10	1,5	0,0
<b>Croatia</b>	95	8	7	7,3	25,5
<b>Macedonia</b>	4	2	2	0,1	0,0
<b>Romania</b>	62	6	12	2,0	0,6
<b>Albania</b>	46	5	5	10,1	0,0
<b>Europe and Central Asia</b>		4,9	10,2	4,7	4,0
<b>OECD</b>		4,8	8,3	3,1	9,2

Source: *Doing Business Report 2017*

**Table 2a.** Index of economic freedom for countries of Southeast Europe in 2016

Country	Rank	Number of points	Ownership rights	Fight against corruption	Freedom of doing	Labor market freedom	Monetary freedom	Public expenditure	Fiscal freedom	Trade freedom	Investment freedom	Financial freedom
<b>BiH</b>	92	60,2	41,2	32,7	47,4	59,3	84,0	33,7	89,3	86,6	65,0	60,0
<b>Serbia</b>	99	58,9	50,3	38,2	62,9	65,9	80,8	40,3	46,9	77,8	70,0	50,0
<b>Bulgaria</b>	47	67,9	62,5	41,8	66,7	68,3	83,3	58,4	86,4	87,0	70,0	60,0
<b>Montenegro</b>	83	62,0	58,0	43,4	72,0	67,4	82,5	33,1	44,3	84,7	75,0	50,0
<b>Croatia</b>	95	59,4	65,5	43,4	58,2	43,3	80,3	31,3	44,7	87,4	75,0	60,0
<b>Macedonia</b>	31	70,7	67,0	52,0	81,5	66,7	80,8	68,9	72,6	86,1	60,0	60,0
<b>Romania</b>	39	69,7	63,9	45,9	75,0	62,5	83,6	65,3	90,9	87,0	75,0	50,0
<b>Albania</b>	65	64,4	54,0	39,7	79,3	50,7	81,4	72,5	51,5	87,7	70,0	70,0
<b>Hong Kong</b>	1	89,8	93,7	80,3	94,6	89,1	83,2	90,0	100,0	90,0	90,0	90,0

Source: *Index of Economic Freedom 2017, Heritage Foundation*

**Table 3a.** Global innovation index for 2016

Country	GII (rank) 2015	Innovation outputs (rank)	Innovation inputs (rank)	Innovation efficiency (rank)	GII (rank) 2016
<b>BiH</b>	86	96	75	112	87
<b>Serbia</b>	62	61	58	67	65
<b>Montenegro</b>	48	52	50	62	51
<b>Croatia</b>	41	46	44	52	47
<b>Macedonia</b>	61	63	53	80	58
<b>Bulgaria</b>	36	32	45	15	38
<b>Romania</b>	42	44	51	39	48
<b>Albania</b>	93	115	70	122	92
<b>Switzerland</b>	1	1	3	2	1

*Source: Global Innovation Index 2017, Cornell University, INSEAD and the World Intellectual Property Organization*

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