

## Chapter 13

# Bringing Bosnia and Herzegovina to the Global Tourism Market: Reforms for a Better Future

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As the world tourism market is recovering from the effects of the economic slowdown following the 2008–2009 recession, it is becoming clear the sector is well on its way to become an important global industry. In 2015, tourism amounted to 7 percent of the world's export in goods and services. In addition to receipts earned in destinations (amounting to 1.26 trillion dollars), international tourism also generated 211 billion dollars in exports through international passenger transport services rendered to non-residents in 2015, bringing the total value of tourism exports up to almost 1.5 trillion dollars, or an average of 4 billion dollars a day.<sup>1</sup>

This increase in tourism is the result of several factors, the most important being globalization as an inevitable process following developments in transportation and communication technologies. It is now easier than ever before to share and find information, and to travel around the world. However, tourist demand is differentiated according to the cultural diversity of attractive destinations. This results in the rejection of the concept of a “world culture,” which would in effect decrease the need and desire to visit authentic locations, and this rejection works well in favor of tourism growth.

Bosnia and Herzegovina has tremendous capacity for the growth and development of this sector due to its unique combination of natural resources and a rich cultural heritage. The sector could become a major driving force for the economy, allowing other industries in the country to grow and develop through the fresh capital pouring in. This would also allow for easier implementation of reforms and could contribute to the development of both the country as a whole, as well as local communities. However, even though BiH has increased in popularity as an attractive destination in recent years, with 776,889 international tourist arrivals in 2016 (an increase of 14.54 percent from 2015),<sup>2</sup> it is still nowhere near its

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<sup>1</sup> UNWTO “*Tourism Highlights*,” 2016 Edition, 2016, pp. 2–3.

<sup>2</sup> Agency for Statistics of Bosnia And Herzegovina *Tourism Statistics: Cumulative data, January–December 2016*, 2017, p. 2.

maximum potential. Current developments in the tourism sector of Bosnia and Herzegovina are at a very low level and, for the most part, not coordinated and streamlined properly. To change the current state of affairs, a wholesome approach is needed, taking into account several factors, ranging from global tourism trends and the concepts of sustainable growth to local interaction and the legal framework.

## **An Overview of Tourism in Bosnia and Herzegovina**

Despite its huge potential, tourism in Bosnia and Herzegovina is only in the initial stages of development. In 2016, tourists in Bosnia and Herzegovina counted to 1,148,530 tourist arrivals which represent an increase of 11.6 percent and 2,376,743 overnight stays, or an increase of 10.9 percent as compared to the same period in 2015. The number of domestic tourist nights increased by 2.5 percent, and the number of foreign tourist overnight stays increased by 15.1 percent as compared to the same period in 2015. Domestic tourist's share of total number of overnight stays was 30.9 percent and foreign tourists share was 69.1 percent.<sup>3</sup>

Concerning the structure of foreign tourist nights, most of them (49 percent) were realized by tourists from Croatia (11.9 percent), Serbia (8.4 percent), Turkey (8.1 percent), Italy (6.5 percent), Slovenia (6.0 percent), Poland (4.1 percent) and Germany (4.0 percent). Tourists from other countries realized 51 percent of tourist overnight stays.<sup>4</sup>

Regarding the average detention of foreign tourist stays, Malta comes in first with an average stay of 5.5 nights, South Africa with 3.9 nights, Ireland with 3.5 nights and Lithuania and Kuwait by 3.4 nights each. According to the type of accommodation facility, the highest number of nights was recorded in hotels and similar accommodation with share of 92.4 percent.<sup>5</sup>

It is estimated that the tourism sector (defined here narrowly as businesses with direct activity in catering, hotels, and lodging) achieved receipts amounting to 656 million dollars in 2016,<sup>6</sup> accounting for 4.05 percent of the country's GDP (16.182 billion dollars),<sup>7</sup> and help employ over

<sup>3</sup> Agency for Statistics of Bosnia And Herzegovina *Tourism Statistics: Cumulative data, January–December 2016, 2017*, p. 2.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> UNWTO. "Tourism Highlights," 2016 Edition, 2016, p. 5.

<sup>7</sup> World Bank. "World Bank national accounts data, and OECD National Accounts data files," 2017.

35,000 workers in the accommodation and food service activities alone.<sup>8</sup> In addition, the tourism industry, including indirect effects on sectors related to tourism (transport, trade, banking, financial services, entertainment, construction, real estate, sports, culture, etc.) has a larger effect for the country. Considering the wider effects of tourism on the economy, and based on global trends, it is estimated that the tourism industry adds over 1.5 billion dollars, and affects over 90,000 jobs. Considering the presence of an extensive shadow economy, these figures could increase by up to 40 percent.<sup>9</sup> A more in-depth and focused study needs to be conducted to properly gauge the effects of the shadow economy on tourism, and to formulate action plans to reduce it.

The legal framework is, just like the administrative system in the country, quite complex, with laws being on the entity level.<sup>10</sup> In the Federation of Bosnia and Herzegovina (FBiH) this is even more pronounced, as cantons<sup>11</sup> also have their own laws regarding tourism and the environment.<sup>12</sup> This has proven to be a problem, as there have been several instances where laws on different levels of government in FBiH contradicted each other, negatively affecting the administrative and institutional approach to the development of tourism, and greatly slowing down its progress.<sup>13</sup>

On a more positive side, certain key objectives, such as the ones set out in the Strategy for the Development of the tourism sector in FBiH for 2008–18, are likely to be realized, based on current data and growth trends. The document set out to increase the number of tourists in 2018 to 924,000 with an annual growth rate of 4 percent and reach 3,262,000 overnight stays with a growth rate of 8 percent. Additionally, the Strategy anticipated

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<sup>8</sup> Agency for Statistics of Bosnia And Herzegovina. “*Persons in paid employment by activity*,” December 2016.

<sup>9</sup> EY (Ernst & Young), “*Reducing the Shadow Economy through Electronic Payments: Bosnia and Herzegovina*,” 2016.

<sup>10</sup> Bosnia and Herzegovina has two entities, the Federation of Bosnia and Herzegovina (FBiH), and Republika Srpska (RS).

<sup>11</sup> FBiH consists of 10 cantons, which often have conflicting laws and administrative processes.

<sup>12</sup> See Federation of Bosnia and Herzegovina tourism related laws and bylaws: <http://www.fmoit.gov.ba/ba/page/23/zakonski-okvir#>; Republika Srpska tourism related laws and bylaws: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/MTT/PAO/Akti/Pages/Zakonski-akti-u-oblastima-turizma-i-ugostiteljstva.aspx>; Canton Sarajevo tourism related laws and bylaws: [http://mp.ks.gov.ba/sites/mp.ks.gov.ba/files/zakon\\_o\\_turizmu\\_19\\_16.pdf](http://mp.ks.gov.ba/sites/mp.ks.gov.ba/files/zakon_o_turizmu_19_16.pdf)

<sup>13</sup> As was the case regarding the founding of the new Tourism association of Canton Sarajevo in 2016, where the legal status of the old association, supposedly founded on the Federal law was quite unclear

an increase in the direct contribution of tourism to GDP growth and employment, reaching 9.3 percent of GDP in 2018 (approx. 1.48 billion dollars) up from a 5.6 percent share in 2007. The total investment in the development of tourism is expected to reach about 1.6 billion dollars and other investments in the physical infrastructure should continue to open up new perspectives for tourism.<sup>14</sup> While the numbers seem highly optimistic, with increased support and investment in tourism, these objectives can be reached, and even surpassed.

### **Current Legislative and Institutional Framework Regarding Tourism in Bosnia and Herzegovina**

The institutional structure of BiH, which is often cited as one of the main obstacles to overall economic development, is also an obstacle to the development of tourism. Indeed, the institutional framework is complex, leaving little room for the efficiency and coordination of tourism activity in BiH. A simplified stratification of institutional infrastructure is shown in Tables 1 and 2 of competent institutions below.

However, slow progress in tourism development in BiH cannot be justified just with a complex institutional structure. Local authorities and local communities, as well as private business entities and tourist organizations, should be more active in facilitating the development of tourism within their jurisdiction and at the micro level.

Regarding legislation, there is no tourism law at the state level. According to the constitution of Bosnia and Herzegovina, tourism falls under the competencies of the entities and the Brčko District, while the state coordinates and coordinates existing laws. The legal regulation of tourism and accommodation in BiH is resolved with entity laws based on the following current laws: the law on tourism activity,<sup>15</sup> the law on accommodation<sup>16</sup> and tourism laws of the Brčko District.<sup>17</sup>

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<sup>14</sup> Federal Ministry of Tourism and Environment, “*Strategy for development of tourism sector in FBiH for the period 2008–2018*,” 2008.

<sup>15</sup> FBiH: law on tourist activities (“Official Gazette of the Federation of BiH”, No. 32/09) RS: law on tourist activities (“Official Gazette of Republic of Srpska”, No. 45/17)

<sup>16</sup> FBiH: law on accommodation activities (“Official Gazette of the Federation of BiH”, No. 32/09) RS: Law On Accommodation Activities (“Official Gazette of Republic of Srpska”, No. 45/17)

<sup>17</sup> Brčko District: law on tourist activities of the Brčko District (“Official Gazette of the Brčko District”, No. 22/05)

**Table 1. Regulatory framework**

State level

<b>Institution</b>	<b>Role</b>
Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina: Sector for natural resources, energy and environmental protection - Department of tourism	Coordination and the creation of tourism policies

Common body

<b>Institution</b>	<b>Role</b>
Work group for coordination of activities in tourism	<ul style="list-style-type: none"> <li>• Ensure that the tourism sector in BiH complies with the directives of the European Union and complies with the standards applicable in the EU countries,</li> <li>• Organize and regulate tourism in the tourism sector in accordance with legal regulations and to harmonize the level of joint activities, taking into account the existing legal framework, in order to contribute to the establishment of a single economic space in BiH, which is one of the key priorities of the European Partnership,</li> <li>• To establish an effective regulatory framework in the tourism sector in a way that strengthens the competencies of the existing institutions and establishes competencies of tourist associations in BiH,</li> <li>• Ensure efficient and coordinated work of the tourism structure of BiH</li> </ul>

Entity and BRCKO district level

<b>Institution</b>	<b>Role</b>
<ul style="list-style-type: none"> <li>• Federation of Bosnia and Herzegovina: Federal Ministry of Environment and Tourism – Sector for Tourism and Accommodation</li> <li>• Republika Srpska: Ministry of Trade and Tourism of the Republic of Srpska - Sector for Tourism and Accommodation</li> <li>• Brcko District: Department for Economic Development, Sports and Culture – Subdivision for Tourism</li> </ul>	Legislation and implementation of accompanying regulations

The working group consists of representatives from the Ministry of Foreign Trade and Economic Relations of BiH, representatives of entity ministries in charge of tourism, Brcko District representative and a representative of the Foreign Trade Chamber of BiH.

**Table 2. Institutional framework for support of promotion and strengthening of the tourism sector**

State level

<b>Institution</b>	<b>Role</b>
Foreign Trade Chamber of Bosnia and Herzegovina	Promotion, Strengthening of the Sector and Representing the Interest of Legal Persons in the Group for Tourism and Accommodation

Associations:

- Association of hoteliers and restaurateurs of BiH (UHIRBiH)
- Association of travel agencies of BiH (UTABiH)  
Strengthening the sector and advocating the interests of members of the association

Entity level

<b>Institution</b>	<b>Role</b>
Entity Chambers of Commerce: <ul style="list-style-type: none"> <li>• Chamber of Commerce of FBiH (Association of Trade and Tourism)</li> <li>• Chamber of Commerce of RS (Association for Tourism and Accommodation)</li> </ul>	Promotion, strengthening the sector and advocating the interests of legal entities in tourism and accommodation associations
Tourist boards and organizations: <ul style="list-style-type: none"> <li>• Tourist Board of the FBiH</li> <li>• Tourist Board of the RS</li> </ul>	Promotion and strengthening of the tourism sector

Canton level

<b>Institution</b>	<b>Role</b>
Cantonal Tourist Boards	Promotion and strengthening of the tourism sector in individual cantons

In the last year, there have been significant efforts in order to pass new laws on tourism and harmonize the entity laws on tourism with each other the EU *acquis* as much as possible. Republika Srpska has already passed a set of new laws regarding tourism,<sup>18</sup> while the Federation of Bosnia and Herzegovina has not yet passed any laws through the parliament, but are currently in the regular parliamentary procedure.<sup>19</sup> The laws of both entities are virtually identical, and the regulation of relations in the tourism

<sup>18</sup> Law on tourist activities (“Official Gazette of Republika Srpska”, No. 45/17); Law on accommodation activities (“Official Gazette of Republika Srpska”, No. 45/17)

<sup>19</sup> Draft law on tourism of the Federation of Bosnia and Herzegovina, number: 02-02-1826 / 16 of 26 September 2016; Draft law on residence taxes of the Federation of Bosnia and Herzegovina, No: 02-02-2255 / 16 of 12.12. In 2016

sector is based, *inter alia*, on the principles of comprehensive and sustainable development of tourism and related activities, harmonization of service levels in order to ensure uniform standards, protection of users of tourist services, the provision of a single, public electronic register of registered entities and data for the entity level, as well as on planning and implementation of tourism development policies in line with strategic documents.

Provided for in these laws, is the process of creating planning documents for this sector in both entities. These documents include a tourism development strategy, a tourism promotion plan, master plan, marketing plan, and a program for the development of tourism products. The tourism development strategy defines medium-term objectives for the planning and development of tourism for a minimum of five years adopted by the government at the suggestion of the competent ministry.

The tourism promotion plan includes research on target groups on the market, a specified marketing program, and other essential elements for tourism promotion. Companies and individuals participating in the tourism industry must be registered and must meet the requirements prescribed by the respective laws mentioned above. Tourist operators will have to ensure proper office space, facilities and equipment and meet the employee requirements. In addition, the laws help out fill the legal vacuum, defining tourist organizations in the entities, cantons, cities, and municipalities.

The laws contain a basis for establishing tourist organizations at the entity level, based in Sarajevo and Banja Luka, respectively. Their purpose is to create and promote tourism at the entity level. Also under its competence is the proposal and implementation of promotional activities in the entities and abroad, which are of common interest to all operators in the tourism industry and improve the complete tourist offer. They will also have to submit a financial report on operations for the previous year, to the entity governments no later than the deadline for adoption of the financial statements of the public institutions established by special regulations.

The governing bodies of the above-mentioned organizations consist of a supervisory board and a director, who is appointed by the entity governments. The Federal Ministry of Environment and Tourism and the RS Ministry of Trade and Tourism will establish and manage the electronic registry of tourism at the entity level. It will contain all registered tourist (travel) agencies, tour operators, and other organizations that provide tourist services.

The passing of this legislation is a start for the reform of the tourism sector, but their implementation is crucial. The sector can only thrive if the responsible agencies follow current global trends, and adjust their strategies, laws, and activities accordingly.

The Constitutional Court of the Federation of Bosnia and Herzegovina<sup>20</sup> declared the current federal Law on tourist organizations, the promotion of tourism, and all its bylaws unconstitutional, making the existing tourist board of Canton Sarajevo effectively non-existent. Nevertheless, the board remained operational, and even collected tourist taxes, but these funds were not diverted to the cantonal budget. This resulted in a dubious legal and factual situation, especially after a new law on tourism of Canton Sarajevo had been passed in April of 2016<sup>21</sup> and the government of Canton Sarajevo had established a “new” Sarajevo Canton tourist board.<sup>22</sup> Finally, in June 2017, the Cantonal administration for inspection issued a resolution<sup>23</sup> to close down the “old” Tourist Board of Canton Sarajevo because it did not have the necessary documentation to perform its work. This effectively means that Canton Sarajevo, one of main tourist centers in Bosnia and Herzegovina, will finally reach a greater level of transparency with a clear legal framework, thus allowing for an efficient use of the tourist tax-collected funds. These funds can then be reinvested to enhance the tourism sector in the canton, leading to a larger influx of tourists.

## Tourism and The Reform Agenda

Tourism is, by its nature, extremely sensitive to risk and uncertainty in the environment in which it operates and is constantly exposed to both external and internal shocks. For a well-functioning tourism sector, it is necessary to have a stable political situation and a secure environment, economic growth, and established transportation, infrastructure, and technology. The first three conditions are closely linked to the security and well-being of tourists, while the latter two enable the tourism industry to become a mass phenomenon. In all, tourism is very sensitive and uncertain when it comes to short-term and especially long-term planning.

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<sup>20</sup> Constitutional Court of the Federation of Bosnia and Herzegovina—Ruling number: U-34-13 Date: 03.07.2014

<sup>21</sup> *Official Gazette of Canton Sarajevo* No. 19/16

<sup>22</sup> *Official Gazette of Canton Sarajevo* No. 38/16

<sup>23</sup> Cantonal administration for inspection issues—Resolution number: UP-1-14-08-20-09046/17 Date: 01.06.2017.



As political and economic instability are deeply interlinked with the well-functioning of the tourism sector, the success of the Reform Agenda of 2015–2018 will greatly impact the performance of this sector, as well as the international image of Bosnia and Herzegovina. The Reform Agenda itself is a product of necessity, being crucial in helping Bosnia and Herzegovina receive the EU candidacy status. The Council of Ministers of BiH, the government of the Federation of BiH, the government of Republika Srpska, and the governments of all ten cantons in the Federation of BiH and the Brčko District have started monetary recuperation procedures and the process of modernizing the economy to bolster a socially just and stable financial development. Additionally, the governments understand the critical need to increase job security, and to redesign social and welfare benefits.<sup>24</sup>

For example, guided by the objectives set out in the Reform Agenda, which foresees the abolition of parafiscal charges, membership fees are also abolished by the new set of tourism laws for RS and FBiH. Businesses in the FBiH, regardless of the activity they are engaged in, were obliged to pay 0.05 percent of the total annual turnover on behalf of the membership fee. In the future, this will be a great relief for all businesses, especially for those that do not have a direct connection with tourism. According to the Reform Agenda, business environment reforms will include simplifying and automating the registration of business entities, as well as obtaining various licenses, which will in turn lead to a greater number of private companies whose main activities are tied to tourism, and this will promote business growth and increase competitiveness in the field. This should result in a more diverse and numerous selection of tourist services, as well as improve quality and innovation in this sector.

## **Current Global Trends, opportunities for Bosnia And Herzegovina**

Current global trends in tourism (religious, adventure, eco-tourism, cultural, historical, and health tourism are gaining) present a great opportunity for Bosnia and Herzegovina. BiH certainly has potential to develop its tourism sector given its vast natural beauty and the uniqueness of its cultural heritage, but its lack of organized tourism at the national level

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<sup>24</sup> Bosnia and Herzegovina: Council of Ministers of BiH, the government of the Federation of BiH, the government of Republika Srpska, the governments of the ten cantons in the Federation of BiH, and the government of the Brčko District. Reform Agenda 2015–2018.

and institutions at the state level (such as a National Tourism Organization, a National Tourism Agency, or a Ministry of Tourism), pose significant hurdles when it comes to the developing this sector and increasing global tourist flows. Tourism is a comparative (but not competitive) advantage of the BiH economy. In order to reach its maximum potential and increase competitiveness to a global scale, any development strategy must necessarily include tourism development at the national level and not merely at the entity and lower levels of government. Accordingly, it is necessary to provide an institutional framework at the national (state) level and form a NTO and NTA (Nationality Tourism Organization, Nationality Tourism Agency) to allow the structure of the sector to follow the organizational examples of leading tourist countries (e.g., Spain, France, Ireland, Greece, among others).

## **The Potential of Bosnia and Herzegovina**

Increasing competition in an ever-changing tourism market forces tourist organizations to keep upgrading and creating new offers. In an effort to attract more tourists and to increase the number of places visited, more tourist destinations around the world are boosting their efforts in marketing, with the aim of diversifying their portfolio. Bosnia and Herzegovina, having plenty of cultural and historical monuments, should be more creative in promoting its products. Moreover, tourism can constitute a mechanism of economic rejuvenation for the country and serve as a reason to increase efforts in preserving its cultural heritage. BiH offers a wide variety of types of tourism, with large potential to increase its visitors.

### ***Historical Tourism and UNESCO World Heritage sites***

Archaeological sites, cultural and historical monuments, cultural institutions, objects of religious architecture, are but a few segments of Bosnia and Herzegovina's cultural heritage, representing a unique mix of traditions, cultures, and religions that lived together for centuries, with strong Medieval, Byzantine, Ottoman, Austro-Hungarian, Central European influences.

Cities like Mostar, Počitelj, Banja Luka, Trebinje, Travnik, Bihać, Višegrad, Jajce, and others are engraved with memorials, monuments, and other signs of continued habitation from as early as the 1300s. Bosnia and Herzegovina is a meeting point for Judaism, Roman Catholicism, Christian Orthodoxy, and Islam with plenty of religious treasures for visitors.

Three important monuments and tourist attractions that are included at UNESCO World Heritage list are the Old Bridge in Mostar, Stehci in Herzegovina and the Mehmed Paša Sokolovic Bridge in Višegrad.<sup>25</sup>

### *Winter Tourism*

Bosnia and Herzegovina has a truly exquisite potential for mountain and ski tourism, as well as eco-tourism, spa tourism, and adventure tourism. BiH has a number of national parks, well-suited for eco-tourism.<sup>26</sup> Sutjeska national park is one of the first established in Europe and also includes Perućica, a thousand-year-old rainforest. BiH has two swamps that are home to bird habitats: Bardača (north) and Hutovo Blato (south). Both are declared “destinations of international significance” by the Ramsar International Convention.<sup>27</sup>

Sarajevo hosted the 1984 Winter Olympic Games, which, at the time, were the largest Winter Games ever (in terms of athletes and media).<sup>28</sup> Skiing, hiking, and alpinism tradition in Bosnia and Herzegovina has existed for over a hundred years, but the expansions of winter tourism came after the XIV Olympic Games held in 1984.

The canyons, lakes, clean rivers, waterfalls, springs, and many more unspoiled natural resources represents a unique eco-tourism offering. Furthermore, mountain villages offer tourists the possibility to enjoy the special rural ambient with traditional hospitality along with rich culinary offer of domestic products.

### *Health Tourism*

In recent years, the tourists are increasingly interested in spa tourism because the country is rich in high-quality thermal and mineral springs, health resorts, and spas. Usually nestled in beautiful surroundings with unspoiled nature and clean air, these health resorts offer true rest and

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<sup>25</sup> Unesco World Heritage Sites List—<http://whc.unesco.org/en/statesparties/ba>.

<sup>26</sup> Examples are: Sutjeska, Kozara and Una national parks, and Hutovo Blato, Bardača, Blidinje nature parks.

<sup>27</sup> The Ramsar Convention on Wetlands of International Importance especially as Waterfowl Habitat is an international treaty for the conservation and sustainable use of wetlands. It is also known as the Convention on Wetlands. It is named after the city of Ramsar in Iran, where the Convention was signed in 1971.

<sup>28</sup> Official report published by the Organising Committee of the XIVth Winter Olympic Games 1984 at Sarajevo—Available for download at <https://www.olympic.org/Sarajevo-1984>

relaxation, in addition to health care. At present, there are 15 health spas registered in BiH.<sup>29</sup> In the last few years, BiH has actively worked in upgrading its spas. However, most spas are in need of investment to modernize existing facilities and programs.

### *Adventure Tourism*

Bosnia and Herzegovina is an emerging adventure-tourism destination, with excellent whitewater rafting on the Una and Neretva rivers. Adventure trips and packages offer different types of active holidays for tourists including: rafting, kayaking, walking the canyons of a series of crystal clear waters of the river Tara, Una, Neretva, Vrbas, climbing rocks, hiking, mountain-biking, paragliding and hang-gliding, skydiving, adventure driving off-road vehicles in a beautiful and magical ambience of the Olympic Mountains, Treskavica, Romanija, Prenj, Čvrstica, Zelengora, Velež, Vranica, Ozren, etc.

Adventure tourism is still not sufficiently explored, but thanks to the natural beauty of the mountains, rivers, canyons, and lakes, adventure tourism can become BiH's tourism brand. In 2009 Rafting World Championship was successfully organized in Bosnia and Herzegovina at the Vrbas and Tara rivers.<sup>30</sup> With 23 kilometers of the Adriatic coast and 240 sunny days every year, Bosnia and Herzegovina attracts tourists from all over the world. The town of Neum represents Bosnia and Herzegovina's Adriatic gateway and is the only coastal town in Bosnia and Herzegovina. It was first mentioned in year 533 (under the name Neunense), and developed as a maritime retreat in 1965. The Old Town of Neum is 2 km inland. Scuba-diving, parasailing, boating and jet skiing can be arranged in any of the major hotels. Guests are also offered very attractive tourist visits to Dubrovnik, Mostar, Medjugorje, Hutovo Blato, and Vjetrenica. The current accommodation in Neum cannot meet the needs of tourists during the season, which offers investors an excellent opportunity for upgrading and construction of new facilities.

Overall, the tourism sector in BiH has enormous potential for development, possessing all preconditions to play a significant role within the

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<sup>29</sup> They are located in the areas of Olovo, Fojnica, Bjeljina, Bihać, Srebrenica, Gradačac, Sarajevo, Kiseljak, Laktaši, Bosanska Dubica, Sanski Most, Teslić, Prnjavor, Banja Luka, and Višegrad

<sup>30</sup> World Rafting Championship History—<http://www.internationalrafting.com/events-2/world-rafting-championship/>.

country economy. For this reason, the tourism development was consequently recognized as one of the top priorities of the overall national economic development policy.

## **Foreign Investment in the Tourism Sector**

Significant foreign investors are bypassing BiH, and are not willing to invest capital in the construction of infrastructure and facilities, partly because of insecurities they face while conducting business and partly because of the lack of privatization in tourism areas. The share of investment in tourism facilities, apart from various hotels, in total investments is negligible. By analyzing the potential and attractiveness of Bosnia and Herzegovina, there is also a low share of foreign investment in tourism in the total foreign direct investments.

Approaching the EU, total investments in tourism should be significantly increased. The increase in foreign investments can only be achieved by building a better international image of the country, reducing political risk, increasing efficiency, creating a more stable and prosperous economy, and adequate protection of the living and working environment. Tourism needs the help of governments, however looking at their current budgets, it is difficult that such assistance can be obtained, but should create space for local and foreign companies willing to invest in tourist facilities to attract foreign investment in the tourism sector para-fiscal and non-tax payments should be reduced or eliminated entirely, and there should be a proposal for the reduction of VAT in tourism.

In the last decade, foreign direct investment in tourism almost did not exist. Fighting shadow economy in the private sector, along with better regulation of public-private partnership and the better usage of EU and other multilateral funds, Bosnia and Herzegovina would increase FDI's in tourism, as such measures would encourage investments.

The development of the tourism industry and foreign investment is based on significant tourism potential and the fact that tourism is a promising industry.

At the same time limitations that affect the development and investment in this area are currently:

1. Lack of funds for the construction of tourist infrastructure
2. Absence of Tourism Strategy of BiH (national scope)

3. Poor roads and transport infrastructure
4. Insufficient promotion of BiH-tourism in foreign markets

The Foreign Investment Promotion Agency plan for tourism development in BiH includes:

1. Development proposals for suitable tourism regions, locations for investment, profile foreign and domestic investors. These regions are:
  - The 20 km of coastline with the town of Neum, with the aim of developing marine tourism;
  - The central (mountainous) part with the possibility of development of rural and winter tourism;
  - The plains (balanced regional development).
2. Reduction of administrative barriers and increase of the protection of private property in facility construction process.
3. Building and rebuilding of infrastructure to connect and use tourism facilities, implementation of infrastructure projects in transport and regional infrastructure connectivity.
4. The creation of additional incentives for the inflow of FDI and domestic capital investments. Investment projects with tourist amenities, in Bosnia and Herzegovina, relate to: winter tourism, building of ski slopes with artificial snow; Development of rural tourism offering healthy food; construction of a hotel complex and a modern port for the reception of tourist boats in the port of Neum.

Locations suitable for new investment are mountains Jahorina, Bje-lašnica, Igman, Kupres plain, Vlašić plateau, rivers Una, Vrbas, Neretva. According to the recommendations of the OECD, it is necessary to develop targeted strategies, with the goal of fiscal and financial incentives, in accordance with the model, scope, and structure of the investment, which is looking to attract in particular the local community, and the region. Tourism is a promising economic sector, and has been recognized as a strategic sector. There is obviously a need for a strategic approach to planning and encouraging foreign direct investment in the tourism of Bosnia and Herzegovina. In order to encourage foreign investment and help create a favorable investment climate, several laws have been adopted: “the law on foreign direct investment policy in BiH,” which seeks to define clear, transparent, stable policy and legal framework for the protection of

foreign investors, “law on customs policy,” “law on profit tax,” “law on concessions of Bosnia and Herzegovina,” “foreign exchange act,” etc.

## **Conclusion**

In the short term, BiH needs to draw up a strategy for tourism development at the national level, with the aim of transforming its comparative advantages into competitive advantages, with parallel processes of building an adequate image and branding BiH as a distinctive and attractive tourist destination, and this process should be an effort shared by all levels of the government in Bosnia and Herzegovina.

Building up on the current institutional foundations, and in order to mitigate the fact that there is no ministry of tourism or agency for tourism on the national level, a tourism expert council should be established instead. Its main objective would be to further enhance cooperation between the administration, academic, and private sector by establishing a bridge to diminish the skills gap in tourism and enhance employer awareness about the benefits of employee training. The expert council could be initiated by a specific ministry (e.g., on the state level, this could be the foreign trade and economic relations of Bosnia and Herzegovina, but the council can be established on any level of government) or other government bodies and involve a broad range of stakeholders, including chambers of commerce, tourism associations, vocational training institutions and universities. Its activities could include sector analysis (e.g., scope of the sector, economic trends, workforce demographics) and skills gap analysis, as well as developing, implementing and monitoring programs to bridge the skills gap in the tourism industry (e.g., by fostering co-operation between tourism firms and VET providers).

BiH can improve its position in the regional market by building higher quality tourism with innovative concepts. They should avoid standard development models (such as ski or coastal resorts and other tourism products). For example, the development of state-level tourist routes would help compensate for a limited number of natural or historical heritage sites. Also, it would be useful to institutionalize incentives for private-sector investment in infrastructure projects and improve the visibility of tourism infrastructure through promotional materials easily accessible online and in tourist centers. Policymakers could consider supporting private-sector investment in infrastructure either directly (through grants and capital stakes) or indirectly (through incentives). They should consider

increasing the budget allocated to transport and further develop a coherent strategy for the road network.

In order to maintain a marketing strategy for BiH, tourism should primarily be directed towards the European market. Europe is the number one tourist destination in the world. Europe had about 608 million arrivals in 2015, or 55 percent of global tourism, and about 451 million dollars in tourism revenues, accounting for 36 percent of all international tourism revenues.<sup>31</sup>

On a more concrete level, BiH must compete with a wide choice of tourist destinations in attracting passengers. Nearby destinations like Croatia, Serbia, Montenegro, Turkey, and Bulgaria all have a significant budget for attracting tourists. It must first position itself before it can create a competitive advantage in relation to those destinations. Marketing must be based on research and on the needs of customers or visitors, reflecting the products and experiences that have been developed on the basis of market trends. Marketing plans should be long-term strategies, with the foresight of trends, themes and emerging markets. The marketing concept must be well integrated, from the first point of contact to the visit and after-sales service after-sales effects and customer satisfaction. The assessment of the marketing approach should also be permanent, carried out through surveys and research of visitor perception, business results and needs, in order to provide the necessary data for adapting and changing the marketing strategy as needed.

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<sup>31</sup> UNWTO “*Tourism Highlights*,” 2016 Edition, 2016, pp. 2-3.