

# Newsletter

Economic Reform and  
Reconstruction  
Bosnia and Herzegovina

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## BULLDOZER COMMITTEE

On 12 November 2002, on the initiative of the High Representative, Paddy Ashdown, a group of BiH businesspeople, together with representatives of the main international financial organizations, launched the Bulldozer Committee. The object was to build a working partnership between BiH politicians and businesspeople and identify specific clauses in legislation that prevent companies from expanding their businesses and creating more jobs. The Committee set itself the task of having 50 reforms enacted within 150 days. Drawing up its first round of reforms, the Committee received input from more than 500 firms. Issues raised included compulsory fees for professional associations, double taxation, cumbersome administrative procedures, and job-destroying labor practices.

Each proposal was worked on by a qualified group of lawyers and economists, who studied the recommendation in detail, developed legal solutions

and assessed the likely consequences for the economic environment.

#### Q1 HIGH-LEVEL EVENTS:

- On February 25<sup>th</sup> 2003, the Bulldozer Committee finalized the design of 50 roadblocks and held a Press Conference, standing in front of a real bulldozer with Adnan Terzic and Paddy Ashdown.
- On March 12<sup>th</sup>, the bulldozer Committee local representatives were officially invited by the Head of the State Council of Ministers, the 2 Entity Prime Ministers and the Mayor of Brcko District to hand them over the 50 Bulldozer reforms.
- On March 24<sup>th</sup>, a 60-page Bulldozer Information Brochure was distributed (84.000 copies) through 4 local newspapers (Dnevni Avaz, Dnevni List, Nezavisne Novine, Glas Srpski) in 3 languages, educating the public with the content of the 50 reforms, as well as providing lobbying tools. The brochure is available in electronic format, in all languages including English, on this web page: <http://www.ohr.int/ohr-dept/econ/bulldozer-initiative/>
- On March 25<sup>th</sup>, a Joint Parliament Meeting took place at the National Theatre. This historic meeting (it was the first time the three parliaments met together) included 190 parliamentarians from all parliaments of the country, 75 International Community representatives (36 Ambassadors and their Economic Attaches) and 115 businesspeople. Bulldozer proposals were discussed in four panels/roundtables on domains such as Enterprise, Labor, Trade and Registration. Each panel was composed of one local bulldozer representative and three parliamentarians.

#### DIALOGUE WITH POLITICAL REPRESENTATIVES:

Following these high-profile events, intensive dialogue took place between the Bulldozer Committee and the BiH Council of Ministers, RS and FBiH Governments. A coordinator was appointed in each government (BiH: Mr. Tarik Djodjic; FBiH: Mr. Ismet Trumic; RS: Mr. Branislav Zucic). Each coordinator dispatched their

respective proposals [BiH: 13; FBiH: 28; RS: 19; and Brcko: 6] to their relevant Ministries, and asked for their comments, reactions, and eventually counter-proposals.



In each Ministry, working groups were formed to look at each reform and responses were formulated. The Bulldozer Committee met with all the principal Ministries and discussed the reforms and the working group responses in great details. Each time, there was either complete agreement or a legal middle ground that did not detract from the

original intent of the proposal was negotiated. On some occasions, the working groups went even further than what the Bulldozer Committee had asked for. Of course, the Committee encountered expected resistance for certain reforms.

#### SUCCESS REPORT:

Nevertheless, all governments finally considered all reforms. Some of them were dealt with through a government decision, and the others (that consisted of legal amendments to existing laws) were sent to the parliaments. The BiH, FBiH and Brcko parliaments adopted all the Bulldozer amendments. At the time of writing of this newsletter, the RSNA had not yet met, but after thorough dialogue with parliamentarians it is foreseen that all RS Bulldozer amendments will also be passed.

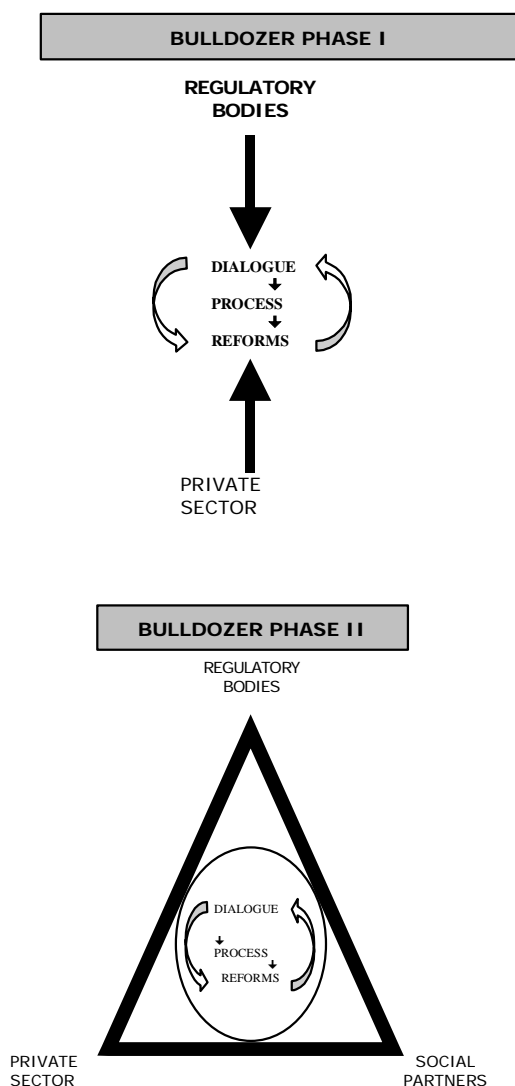
Special cases concerned two tax reforms (sales tax collection point and corporate profit taxation), which need to be passed identically and simultaneously by the three legislative bodies together (RS, FBiH, Brcko) due to the memorandum of understanding on tax issues between the different jurisdictions. The governments signed a principle of adoption and established an inter-entity working group to set-up the implementation of harmonized amendments.

#### STARTING ON BULLDOZER PHASE II:

By the end of April, the date at which the first 50 proposals should be adopted, Phase II of the Bulldozer Initiative will be launched. The aim of Phase II is to continue promoting the legitimate interest of the business community and civil society and to lobby and create a working partnership with elected representatives, while reinforcing local advocacy associations.

With that goal in mind, the Bulldozer Committee will identify organizations that represent local businesses throughout BiH to take over the process. These regional Bulldozer Committees will be established by organizations representing local businesses in their areas. Their focus will be to identify new reforms at the municipal/cantonal/regional level as well as to oversee the Phase I reforms implementation at the local level.

A dialogue has opened up with governments. Entrepreneurs and civil society need to keep this dialogue open and expand it to ensure that the dialogue is one that will continue long after the IC's involvement is reduced. Involving the unions representing BiH's workers will help identify private business reform issues that are of concern to the broader BiH society. By giving responsibility to all three partners in developing,



bringing forward, and implementing the reforms, support of the overall process will be ensured through their desire to be constructive partners in reforming the BiH business environment.

## TAX POLICY

### The High Representative's Decision of 12 February 2003 Establishing the Indirect Tax Policy Commission (IPTC)

On 12 February 2003, the High Representative issued the Decision Establishing the Indirect Tax Policy Commission (IPTC). This Decision provided for the establishment of the IPTC to examine, consider and propose technical solutions for the following objectives:

- The merger of the separate customs administrations in Bosnia and Herzegovina into one single customs administration of Bosnia and Herzegovina;
- The establishment of a single State-wide value added tax;
- The establishment of an Indirect Taxation Administration (ITA). This Administration shall operate at State level, include the single customs administration and be responsible for the collection and administration of indirect taxes, including customs duties and value added tax.
- It was made clear in the Decision that any legislation drafted or agreed by the IPTC shall fully respect the Constitution of Bosnia and Herzegovina. Such legislation shall also ensure the economic viability of BiH, including the two Entities and the District of Brcko.
- As at the time of writing, several meetings have taken place and progress is reported by the Chairman of the IPTC, Mr. Joly Dixon.

The IPTC should complete its work by the end of July 2003.

## BUDGETS

The budgets of the Federation and BiH Common Institutions have been adopted, thus honoring the IMF

Stand By Arrangement. Since these were the technical governments' proposals, the Entities and the State will have to engage in a rebalance process in order for the budgets for 2003 to reflect the new priorities and changed policies.

#### Revenues:

The overall revenues in BiH have somewhat increased when compared with 2002, mostly due to a change in sales tax collection point for tobacco products, and to the improved functioning of the Tax administrations in the Entities and BD.

The positive trend, however, is still not reaching the levels planned by various governments, and this shall be taken into account in the rebalance process.

## BANKING SECTOR

### The Central Bank of BiH: Six Years After, and Whither to Now?

**A**rticle VII of Annex 4 to the Dayton Peace Agreement established the Central Bank of BiH (CBBH) and stipulated that the Bank would operate as a currency board and would not be authorized to extend credit by creating money. The same article, however, indicates that after a period of six years following entry into force, the Parliamentary Assembly may give it that authority. As this period is now nearing an end (August 2003), discussions among government leaders, the international community, academicians and the media have begun to consider whether and how to modify the CBBH's role to date.

On February 10, 2003 the Bosnian Presidency announced its decision to continue the current Currency Board arrangements beyond the six year period. CBBH Governor Peter Nicholl applauded the Presidency's decision, noting that *"the Currency Board arrangements have brought BiH a stable currency and low inflation. These are very important benefits as they substantially lower the risks of investment in BiH, which is positive for the future development of the country. They also produce important social benefits as it is the poor who are hurt most by high inflation."*

In a recent conference hosted by the CBBH on the "Monetary Policy Role of Currency Boards", a wide range of speakers and participants lauded the performance of the Bank over the past six years. As a convincing indicator, the Bank's foreign currency assets when it opened its doors on August 11, 1997 were

132.5 million DM; by the end of 2002, those assets had grown to a remarkable 2.5 billion DM. Recounting the early history of the negotiations to establish the Bank, Warren Coats of the IMF related the difficulty of reaching agreement between the negotiating parties in the tense immediate post-war environment. Standard provisions considered as "boilerplate" in other currency board frameworks were subject to bitter contention, and the predictably difficult elements such as the name of the new currency were deferred until the end of the negotiations. In fact, Coats recounted, throughout the talks the future currency was referred to as "glasses", a completely ordinary term with no identifiable ethnic connotations. Only in the final stage was the term Konvertible Marka (KM) agreed, after exhaustive efforts to find a mutually acceptable name.

Other, more substantive issues also sparked lengthy and sharp debate, such as the voting powers of the Board and the role and powers of the branches of the Central Bank, with the parties' positions characterized by their respective views concerning the autonomy to be afforded to the Bank as it operated in each of the Entities. In addition, in the initial stages of the Bank's operation, the confusion generated by the continued existence and limited operation of the National Bank of Bosnia and Herzegovina (NBBH) threatened to undermine the institution's shaky introduction. In time, this problem – along with others associated with the functions of the now defunct payment bureaus and the design of the currency – was overcome and the Bank steadily increased its credibility and image of stability in the eyes of the public, to the point where, when DM banknotes held by the public in BiH were converted at the beginning of last year, about one third of the total of DM 4.3 billion was deposited in local banks, one-third was exchanged for KM bank notes and only one third was kept as foreign currency (Euro), thus offering perhaps the most compelling evidence of the Bank's success in achieving its objectives of providing a stable currency enjoying the trust of the entire BiH citizenry.

In view of the critical need to maintain this stability in order to restore consumer confidence and investor interest, at the CBBH conference there was a clear consensus among the government representatives and the international financial institutions (IFIs) that the current overall economic conditions in the country do not support expansion of the Bank's role in monetary policy by increasing its mandate to extend credit. With sluggish growth, a heavy and increasing current account deficit and substantial internal debt, such an expansion of authority would threaten to undermine the confidence essential to generate new economic activity. The benefits of retaining the existing currency board arrangements were, in summary:

- It is producing real economic and social benefits, largely by virtue of its identity as a scarce stable component in post-conflict recovery.
- Most countries in the region now have a high degree of exchange rate stability against the Euro and for BiH to move in the opposite direction would be risky.
- Under the current conditions, there is simply no viable alternative being offered.
- Finally, the long-term goal of BiH policy is to take the economy closer to and eventually into Europe. As the KM is already tied to the Euro it makes sense to maintain this link.

As the formal Parliamentary Assembly review and consideration of the Central Bank's role approaches there will undoubtedly be considerable pressure for a modification to increase the scope of its monetary policymaking and administration. At this stage of the debate, however, it will be the task of those advocating change to offer compelling evidence in support of altering an institution whose record of performance to date has been little short of spectacular.

## PRIVATISATION

The privatisation process is at a crossroads in BiH.

In both Entities the sale of Small-Scale Companies has been quite successful as 78% of them have been sold in the FBiH and 55% in the RS. It shows once again that the more straightforward privatisation approach chosen for this category of companies has brought benefits: auctions for cash, no vouchers/certificates, possibility to use Frozen Foreign Currency Accounts, limited amount of accumulated liabilities.

For SMEs and Large Companies the situation is quite different and, overall, the results obtained in this category are rather disappointing with about 40% of all companies in the whole of BiH having changed hands thus far after 2 ½ years of privatisation efforts. We have on numerous occasions in this newsletter described the reasons that led to this situation such as, inter alia, the slow and complicated vouchers/certificate system, the limited dynamism, decision power and expertise on the part of the Privatisation Agencies, the often overstated value of the companies offered for sale and the excessive red tape and political interference in the process.

With regard to Strategic Companies, the third privatisation sector, the situation is by any standard disappointing although radically different from one Entity to the other. In the FBiH, 15 companies out of a total of 56 (25 %) have been sold with the help of experts from GTZ, USAID and lately the EU. The WB has not yet started its support and still expects final ratification by the Parliament of its Privatisation Technical Assistance Credit (PTAC). In the RS, the situation is outright unacceptable and only 4 companies have been sold in the past 18 months. The dismal state of the world economy, the perturbing indicators of the stagnating BiH situation and the reluctance of international investors to venture in the country, while substantial factors, are not sufficient in themselves to explain fully the RS state of affairs. There is an endemic lack of will to sell "the crown jewels" on the part of the local political class with repercussions at all levels from the PM to all the Ministries and Institutions involved in the privatisation process. The Directorate for Privatisation (DfP) is itself quite de-motivated to see its own efforts curtailed by, amongst others, recent changes in the privatisation laws increasing the political interference in the process. The international community has recognized already at the end of 2002 that new impetus had to be injected into the privatisation process and has contributed actively in the "new approach to privatisation" which is now being introduced in the FBiH and a similar version under discussion in the RS. The removal of administrative obstacles to investing in BiH are also on the agenda and will be fully supported if not imposed by the OHR.

The measures discussed above will, however, not be sufficient if they are not accompanied by radical changes in the level of commitment by the political leaders. Their full commitment to further support the transformation of the economy is essential and will be even more necessary with respect to the major challenges lying ahead, i.e., the full or at least partial privatisation of the vital BiH economic sectors of energy, utilities and telecommunication.

## TRANSPORT

Rail Transport

Rail passenger service was re-established between Hungary, Croatia and BiH on 1 March with direct train service from Budapest to Sarajevo.

At a meeting between railway managers and OHR representatives, it was agreed that a formal application would be made for membership in the INTER RAIL Community of railways, which includes 29 member countries of Europe and eastern Europe. The INTER RAIL agreement provides for unlimited travel to EU nationals throughout the networks of member railways. It is expected that this application will be accepted at the annual meeting of the INTER RAIL members, which will take place in September.

The draft Law on Railways was delivered to the Minister of Communications and Transport by the Working Group headed by the EBRD. The Law on Railways for Bosnia and Herzegovina provides for state level regulation of all railway operations in the country in line with constitutional powers over international and inter-entity transport and EU standards. Following briefings and consultations with Ministers and railway management, the next step will be to put this on the agenda of the Council of Ministers.

### Road Transport

At its session in Sarajevo on March 27, the Federation Government accepted information on completion of the remaining works on the highway Zenica-Sarajevo. The Government expressed its support for the continuance of construction from the section Podlugovi - Josanica to Visoko. The funding for this section, in the amount of 35 million KM, is expected to be provided from the profits of BH Telecom.

### Water Transport

At its meeting on 12 March, the Stability Pact Working Group on the Sava River completed the development of a draft Action Plan that provides a framework for identifying, prioritizing, scheduling and managing activities and projects for executing the framework agreement. The Action Plan is intended to be the "road map" for the Sava River Commission. The priority activities and projects are organized in accordance with activities directed at revitalizing navigation, developing a basin management plan, and assuring regional flood protection.

## CIVIL AVIATION

Since January 1, 2003, the Federation Civil Aviation Department, under the monitoring of the BH Department of Civil Aviation (BH DCA), has taken over

the aerodrome and approach control function at Sarajevo International Airport. A new radar is expected to be in service midyear. The other three BiH airports (Banja-Luka, Mostar and Tuzla) are now open to domestic and international flights.

All the airways with the neighboring countries in both the upper and intermediate airspace corridors have been reopened, and a new Rescue Coordination Center (RCC) has been opened in Banja Luka.

And finally, in order to encourage the creation or reactivation of flying clubs and flying schools in this country, flights according to Visual Flying Rules (VFR) are authorized without prior authorization from SFOR. Only the filing of flight plans is required.

In other efforts to integrate the civil aviation world, assure the safety of all air travelers in and over BiH, develop its aviation and coordinate all the actions BiH has signed several agreements and become integrated in the following organisations:

1992 - Became a member of ICAO (International Civil Aviation Organisation), whose objectives are to develop civil aviation in a safe and orderly manner and to ensure that international air transport services are established on the basis of equality of opportunity and operated soundly and economically.

2001 - Signed up to CEATS (Central European Air Traffic Services), foreseeing the development of a joint regional control centre for the upper airspace of eight countries - Austria, the Czech Republic, Croatia, Hungary, Italy, Slovenia, the Slovak Republic, and now Bosnia and Herzegovina.

2002 - Admitted to ECAC (European Civil Aviation Conference), the first and foremost task of which is to react, coordinate and review with ICAO and others international organisations the development of intra-European air transport with the objective of promoting their coordination.

2003 - Signed the Eurocontrol Convention (European Organisation for Safety of Air Navigation), whose main goal is the development of pan European system of Air Traffic Control (ATC).

After reorganisation of the Department of Civil Aviation BH intends in the near future to become a member of JAA (Joint Aviation Authority) that aims for a continuous improvement of an effective safety system leading to further reductions of the annual rate of accidents.

### MOSTAR AIRPORT

Ensuring that the City of Mostar undertakes all responsibilities and competences that belong to it as stipulated by the Mostar Interim Statute, OHR assisted

with transferring of competences over the Mostar Airport from the three Mostar Municipalities with Croat majority, namely South, Southwest and West, to the City of Mostar. To this end, the Mostar City Council passed the Decision on overtaking these competencies at its session held on February 10, 2003, and will thus, from now on, administer the Airport.

Now that the transfer of competencies is completed, City of Mostar has the possibility to invest and work on attracting further funds for the Airport, through which the City and the entire Herzegovina region have a great potential in enhancing economic growth. Mostar Airport, located in an intermountain river valley approximately eight kilometers southeast of Mostar, has been reconstructed after the war in 1998 mostly by the European aid investments. The European Commission, in fact, has invested in the Airport four million euros over the last six years.

Having strong commercial potential and an economically viable future, Mostar Airport is of particular importance for the development of the region. Besides that, it has favorable geographical conditions, considering that the City of Mostar is well placed as a transport hub for both road and rail traffic in the region and it could provide services from Ploce Port on the Croatian Coast through Mostar to Sarajevo and beyond. Furthermore, Mostar region has excellent climate characteristics: flying weather is excellent throughout the year with minimum days when the airport could not be used, especially given its mild winters without snow and fog, compared to Sarajevo or Banja Luka Airports.

OHR South will continue working with the City of Mostar and other International Organizations in attracting investments and making this Airport fully operational again.

*(by OHR Mostar)*

## ENERGY SECTOR

### EP Audits

The Special Auditor to the Federation of BiH and the Republika Srpska appointed by the High Representative completed audits of the three electric companies in BiH and published the reports on all three electric companies in March 2003.

The Special Audits found the running of the Elektroprivredas to be infused with second-rate

practices that have prevented companies in BiH from delivering services to citizens in an efficient and competitive way. It is estimated that if Elektroprivreda Sarajevo addresses basic inefficiencies it could add at least 50 million KM per year to its income. Mismanagement, conflicts of interest, theft and neglect are costing Elektroprivreda RS at least KM 166 million annually. Corruption and waste at Elektroprivreda Mostar produced losses of KM 50 million in 2001.

In a reaction to the results of the audit presented in the Reports, the High Representative has removed General Manager of EP RS Mr. Acimovic and a member of management board, Mr. Bosko Lemez (former Minister of Energy and Mining) and also banned Ehem Bicakcic (Elektroprivreda BiH, Sarajevo) from holding any public office, any employed or advisory role in any public company.

The High Representative also imposed the new Law on Public Appointments and Laws on Donations.

In addition, the High Representatives requested from both Prime Minister Mikerevic and Prime Minister Hadzipasic to undertake important steps to take control over these companies and their finances. Consequently, new general managers and management boards have been appointed in Elektroprivreda RS and Elektroprivreda Mostar.

### Reform of the electricity sector

There was very little progress in the implementation of the Power III project. Despite expectations, selection of the commissioners for the State Regulatory Commission has not been completed: only the candidate from the RS, Mr. Vladimir Dokic, has been approved by the BiH Parliamentary Assembly. Due to the Parliament's rejection, selection process of the other two candidates (from the FBiH) has to be repeated.

Due to slow implementation, the Power III Project is about one year behind schedule. In order to regain momentum, the international community organized a round table discussion about the reform of the electricity sector on April 4, 2003, which was attended by all three Prime Ministers, representatives from the industry, unions and the international community.

Prime Ministers Terzic, Mikerevic and Hadzipasic gave strong support to the reform process, stressing that the BiH strategy of restructuring first and privatizing second will allow the country to realize the potential of its electricity market, attract investment and begin to provide companies, especially small and medium-sized companies, with reliable electric energy.

Edhem Biber of the Confederation of Independent Trade Unions of BiH emphasised the need to ensure that any negative social impact from power sector restructuring is minimized, but he emphasized that over the long run restructuring will benefit workers by producing more jobs.

## TELECOMMUNICATION

The Communications Regulatory Agency (CRA) has begun to implement the Communications Law by, among other issues, collecting and analysing tariff data and starting to approve tariffs. In particular, the costs of telecom services and the fact that the rates that the three operators charge for calls inside BiH vary widely has recently received wide public attention.

At the telecom roundtable in February, business people expressed their dissatisfaction with the level of telecom services in this country. They complained that cost differentials such as the one faced here in Bosnia are a disincentive to investment and job growth. Since then, the debate concerning how best to provide BiH citizens and companies in this country with competitive telecom services at competitive prices has been engaged.

The licensing process with regard to the issuance of the third mobile license has continued. It was started at the end of December pursuant to the Council of Ministers' Telecom Sector Policy. It is now up to the Council of Ministers to decide on the licence premium upon a recommendation prepared by PriceWaterhouse & Coopers, the private consulting and auditing group.

## SOCIAL SECTOR

### HNC HEALTH INSURANCE FUND

Positive developments in implementation of the OHR's unification plan for HNC HIF have been overshadowed when the HNC Assembly, at its session held on February 25, 2003, failed to verify the HNC HIF Statute, adopted unanimously by the HIF Management Board last December. Making objections to the proposed Statute, the Bosniak Caucus of the Assembly invoked the Vital National Interest Clause, and the Statute was sent to the Vital National Interest Panel of

the Constitutional Court for review. Unfortunately, the review process has been delayed, given the fact that the Vital National Interest Panel has not been appointed yet.

Although the Assembly rejected the HIF Statute, HIF Management Board has continued with the implementation of the unification plan, adopting the Rulebook on Internal Organization and moving its staff into unified premises. They have also announced the tender for selection of the best bidder for printing the new uniform health insurance cards.

The HIF Management Board, in the meantime, has also held its seventh session during which they discussed several issues, such as the Opening Balance Sheet, the Financial Plan for 2003 and the Agreement on financing activities of the Federation Health Insurance Fund. However, despite a very constructive discussion, none of the documents were put to a vote, due to the fact that the HIF Statute has not been approved.

In order to successfully proceed with the implementation of health reforms, OHR has urged local authorities to complete the procedure and appointment of the Vital National Interest Panel, so that the issue of HNC HIF Statute, as well as the other future possible vital interest issues, could be dealt with in a timely manner.

*(by OHR Mostar)*

## OHR MOSTAR

### TRADE FAIR AND ECONOMIC FORUM IN MOSTAR

Sixth International Trade Fair "Mostar 2003" was opened in Mostar, Free-Trade Zone, on March 25, 2003, and it lasted six days. This year, Serbia and Montenegro were the partner-countries, who were represented by more than fifteen firms and their Chambers of Commerce. Beside the companies from both BiH Entities, around 350 firms from twenty countries participated in the Trade Fair in Mostar. Most of the presenters were from neighboring countries, which made this Trade Fair particularly important considering that it further improved regional economic cooperation.

This year, the Fair was for the first time organized in three sections that included the general Trade Fair and two specialized sections, the Fair of Wine, tourism and wine-growing equipment and the Trades and



handicrafts fair. Within this manifestation, announced were many contract signings, seminars, as well as the presentations and round tables. One of the most important documents signed within the Fair was the Protocol "Memorandum on development of economic cooperation," about the ten-year investment plan worth 1,5 billion US dollars, between the American-German Corporation Daimler Chrysler and Bosnia and Herzegovina. Moreover, a round table on the "Situation in BiH wine-growing industry production with an emphasis on export" and a lecture on "Strategy and approach to development of entrepreneurship and craftsmanship in Bosnia and Herzegovina" were organized as part of the Trade Fair.

Furthermore, an Economic Forum on Economic cooperation between Republic of Croatia and BiH, specifically Dalmatia and Herzegovina, was held in Mostar on March 27, 2003. The City of Mostar, Consulate of Croatia in Mostar, Canton 10 and Canton 8 Chambers of Commerce and two Mostar Universities organized the Forum, which attracted around 200 entrepreneurs and guests. The main conclusions drawn at the Forum were that such events should be organized regularly and that the best way the two countries can become competitive at the international market is through regional economic integration, especially in the field of complementary industries.

## OHR Banja Luka

### Recovery of the Industrial Production in the Republika Srpska?

The RS industrial sector is functioning roughly at one third of the pre-war level, with the main reasons for the poor competitiveness of the industry sector being:

- Overstaffed companies;
- Outdated technology;
- Slow and delayed privatization, which undermines minimum level of restructuring;
- High relative capital costs (in relation to productivity) ratio compared with neighboring countries.

However, the good news is that after a two consecutive years of the physical volume of industrial production decline, this indicator in January – February 2003 compared to the same period of the last year was

higher by 3.4%.<sup>1</sup> The increase is mainly attributable to growth in the following sectors: paper industry (CELEX), textile industry, medical equipment production, furniture industry, and energy sector.

However, this positive signal should not be overestimated due to the short reporting period, thus making it premature to assess whether it means real change of the overall negative trend.

### Foreign Direct Investment in Banja Luka

The Hemofarm, a pharmaceutical company headquartered in Vrsac, Serbia and Montenegro, started its production in Banja Luka in February 2003. Hemofarm, Banja Luka d.o.o. is a joint venture of the local company Cajavec, Banja Luka and Hemofarm, Vrsac (majority owner of 78% company's value). The production plant building is the major part of the local partner's share. Hemofarm, Vrsac invested EURO 9.3 Million. Hemofarm, Banja Luka has planned production up to 24 quality drugs such as analgesics, analeptics, etc., and employs 100 workers. See [www.hemofarm.com](http://www.hemofarm.com) for more details.

## OHR TUZLA

### Mayor of Tuzla Announces Several Economic-Related Accomplishments

Јasmin Imamovic, the mayor of Tuzla, recently announced a list of accomplishments for his administration during 2002. In addition, he identified several goals for the balance of 2003.

Among his list of accomplishments were several that are either directly or indirectly related to economic development. From the perspective of improvements in the area of public works, the following accomplishments will help in enhancing conditions for economic development, as well as "quality of life" for Tuzla residents and business interests:

- The Tuzla River was dredged and cleaned
- Tuzla central heating systems were repaired

<sup>1</sup> Data source: The RS Institute of Statistics, Banja Luka. More on the RS Institute of Statistics at: <http://www.rzs.rs.ba>

- Twenty-Two (22) municipal roads were repaired, eclipsing the previous record of seventeen (17) road-repairs in a single year
- Park areas were increased by a factor of four (4) as a result of a massive reclamation of parks through clean-up, removal of old shrubs, and renewed landscaping
- Several unlawful trash dumps were closed, and regular pick up of residential and commercial trash was enhanced.

Improvements in the area of housing and residential/commercial record-keeping were cited:

- A total of 348 new apartment units were sold through Tuzla's apartment privatization program. An additional 399 apartment sales are "in the pipe line", according to Mayor Imamovic.
- All cadastral claims during 2002 were "satisfied"

Specific economic development projects that were launched in 2002, and continue to be completed in 2003 include:

- The construction of a center-city "Merkator"—which will feature space for several small retail stores
- The construction of a multi-screen movie theater
- Plans for the construction of a *McDonalds* restaurant adjacent to the movie theater

The mayor's goals for 2003 include the launching of additional retail projects, accelerated work related to opening the Tuzla Airport to commercial traffic, and beginning the process of transforming Tuzla into a "Geological and Historical" tourist destination.

#### Srebrenica Launches Plans for Incubator Development

The Municipality of Srebrenica is moving forward to enhance their economic future through plans to convert the former VEZIONICA Embroidery factory into a small business incubator.

OHR Tuzla Regional representatives attended a planning session related to the incubator concept. Among those who are quite enthusiastic about the project is Srebrenica Mayor Abfurahman Malkic.

The VEZIONICA factory was privatized in 2002. Representatives of the new (stock-holding) ownership also attended the discussion. Moreover, they

encourage plans to transform the facility into a business incubator.

A fine example of "sharing best practices" appears to be underway relative to this project. Mayor Malkic has remained in touch with representatives of the municipality of Gradacac surrounding that community's successful business incubator development program. Indeed, such advice from the municipality of Gradacac—particularly in light of their strongly entrepreneurial administration—is welcomed by the citizens of Srebrenica.

Also attending the discussions were representatives of the European Union Quick Impact Fund (QIF) financing program. The company representatives are seeking a credit facility of approximately 650,000 Euro from EU-QIF.

If the incubator project is successful, each new business tenant would invest in the range of 2,500 Euro into his/her business space. If there was any doubt that there is a demand for small business development in Srebrenica, that question was answered at the conclusion of our discussions inasmuch as more than 50 citizens were lined-up outside the meeting room to present loan applications to the EU-QIF representative. Each of them has dreams of becoming entrepreneurs and participating in the redevelopment of Srebrenica.

#### US Embassy Presents Economic Linkages for BiH Firms

The Tuzla Regional Office of OHR assisted in the arrangements for a very successful business outreach forum. The program was sponsored by the US State Department of State, through their US Embassy offices in Bosnia and Herzegovina.

About 100 business representatives attended the three-hour event that was held at the Hotel Tuzla. US Ambassador to BiH, Clifford Bond, introduced the program, and offered an enthusiastic invitation to regional business people to partner with various US-based finance, trade and business development agencies with a view toward enhancing their own business growth.

In attendance to offer insight into their respective agency programs were representatives of the following organizations:

- The United States Agency for International Development (USAID)
- The US Foreign Commercial Service
- The US Trade Development Agency

- Econlinks (a US Government program that promotes market-based solutions to urban and industrial environmental problems).
- The US Department of Agriculture
- The (US) Export-Import Bank (EX-IM Bank), and
- The (US) Overseas Private Investment Corporation (OPIC)

Among the highlights of the event was the announcement that EX-IM Bank has recently opened channels of business development in Bosnia and Herzegovina. Such a relationship had been discontinued since the beginning of the War (1992). Indeed, their presence may offer a very attractive program for local business owners. As an example, EX-IM Bank is prepared to provide low-interest financing to local businesses whose owners wish to purchase manufactured equipment from US firms. This will be particularly attractive to members of the (BiH) rural business community with respect to the purchase of US-built agriculture equipment. Similar seminars were held in Mostar, Banja Luka , and Sarajevo.

## BiH Economic Update

BiH Economic Data January 2001 – March 2003  
Source: FBiH and RS Statistical Offices

Indicator	Federation of BiH	Republika Srpska	BiH (OHR estimate)
GDP nominal 2001 GDP nominal 2000 Nominal increase 2000-2001 Real increase 2000-2001 (minus inflation in RS 6.5%)	7,224 billion KM 6,698 billion KM + 7.8%  +6,7%	2,993 billion KM 2,734 billion KM + 9.5%  +3%	9,161 billion KM 8,321 billion KM +10,0%  +5,5%
Index of Industrial Production			
02/03 compared to 2002	-10,7%	-10.7%	N/A
02/03 compared to 03/02	+4,4,4%	-3.3%	N/A
Retail Price Index			
02/03 compared to 2002	+0,3%	+2.7%	N/A
02/03 compared to 03/02	-0,8%	+2%	N/A
Average Net Salary 02/03 02/03 compared to 2002 (averages)	511,53 KM +6,0%	372 KM +7,2%	426,2 KM +10.6%
Number of Employed 02/03 (RS 3/02) Number of Registered Unemployed 02/03	386.668 persons  292.828 persons	232.722 persons  146.604 persons	N/A  439.432
Number of pensioners in 08/02 (RS 03/03) Average pension in 03/03	286.567 persons  190 KM	183.697 persons  120 KM	469.916 persons  155 KM
Imports Jan-Feb 03 Exports Jan-Feb 03 Trade deficit Jan-Feb 03 Import/Export coverage	733 Million KM  228 Million KM 505 Million KM 31,1%	240 Million KM  55 Million KM 185 Million KM 23%	973 Million KM  283 Million KM 690 Million KM 29,0%