

Newsletter

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Reconstruction
Bosnia and Herzegovina

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TAX POLICY

**Indirect Tax Policy Commission Completes its work
– Draft Law on the Indirect Taxation System in
Bosnia and Herzegovina completed**

On 23 July 2003, the Indirect Tax Policy Commission (ITPC) presented the Draft Law on the Indirect Taxation System in Bosnia and Herzegovina (Draft Law) to the High Representative. This was a major achievement for the ITPC. The Draft Law was complete with the exception of three issues requiring a degree of political settlement. This was subsequently achieved by the two Entity Prime Ministers and the State Prime Minister on 29 and 30 July.

The major aspects of this Draft Law are the following:

- The Law provides for a fully functional Indirect Tax Authority (ITA) which will act as the collecting and implementing administration for all customs tariffs, and, by

the time of the introduction of VAT, all indirect taxes (VAT, customs, excise) across BiH

- The ITA will have a Director who is responsible to the ITA's Governing Board (GB)
- The GB will consist of the three Finance Ministers (both Entities and the State) and three other experts on indirect taxation. During the first five years of the ITA and GB, there will be an international chairman of the GB
- The GB will make all indirect taxation policy. All legislative changes or short-term amendments to indirect tax rates and structures not requiring legislation must be approved by the GB
- From the current 19 customs houses scattered around BiH, the merger process will have an end result of four regional centers, all of which will cross the Inter Entity Border Line (IEBL)
- The ITA Director is required to ensure that the ITA is ready to operate Value Added Tax (VAT) within two years of entry into force of the draft Law
- The Seat / Headquarters of the ITA, will be based in Banja Luka

On June 30 2003, the Interim Law on Merging the Customs Administrations and Establishing the Indirect Tax Administration (Interim Law) was adopted by the State parliamentary procedure. This Law was the first piece of legislation produced by the ITPC and it paved the way for the commencement of the merger process of the three Customs Administrations. Most significantly, this Interim Law allows for the recruitment process for the position of the Director of the ITA to take place. At the time of writing, this is underway.

It must be stressed that there is a vast amount of work ahead before the ITA is fully operational, the GB becomes fully functional and VAT – the end game for the ITA transition period – is in effect in BiH.

However, the fact that there is such a draft Law and that the Entity and State Prime Ministers reached agreement on key political issues is evidence of the kind of constructive and pragmatic approach to economic reform which few believed existed in BiH, even as recently as the end of 2002. Adopting the Indirect Tax System set out in the draft Law is a clear and unequivocal condition for BiH to proceed with the process of joining the European Union.

Change of Collection Point of Sales Tax on Excisable Items

Legislation was adopted by the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District during July which provided for the change of collection point of sales tax on excisable goods (high value items). With effect from 1 August, sales tax on these goods has been collected at the point of production or import as opposed to the place of final sale.

Evidence from the Customs and Fiscal Assistance Office of the European Union (CAFAO) and Entity Tax Administrations indicated that vast amounts of sales tax on excisable goods (alcohol, beer, coffee, soft drinks, tobacco products, petroleum products) was being evaded as such goods were never officially "finally sold".

The full impact of this change will be apparent during the late autumn. This is because sales tax will be paid on stocks held on 31 July over a sixty day transitional period and amounts collected from such stocks may cause additional collection fluctuations.

It is important to note that the Ministers of Finance and Assistant Ministers from the Entities and the Brcko District worked together in a highly cooperative manner to achieve this tax change. The commitment and dedication shown bodes well for future cooperation on the Governing Board of the Indirect Tax Authority

TRANSPORT

Establishing an organized legal framework at the State level and freedom of movement of goods and people is critical for the economic development of BiH.

Rail Transport

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 railway operations in the country in line with constitutional powers over international and inter-Entity transport and EU standards. A Roundtable in early September is planned with Ministers and railway management to discuss the business of the railways, operational issues

and the draft law. Following this, the next step will be to finalize the law and put this on the agenda of the Council of Ministers.

Road Transport

Bosmal, a Bosnian-Malaysian company, initiated the possibility of building the entire 330 km of the 5C Corridor from Sava to the Adriatic based on a concession agreement. Bosmal proposes a one-year period for preparation work and another four years for the construction of the entire highway.

The BiH Council of Ministers discussed this and several other possibilities for the construction of the 5C Corridor at a session in Sarajevo. At this phase the initiative has been described as acceptable. Its adoption gives Bosmal the opportunity to show within four months its financial potential and credibility for participation in this project. In the meantime the BiH Council of Ministers needs to establish a BiH Commission for Concessions. Bosmal estimates that the construction of the 5C Corridor through BiH would cost approx 2.5 billion Euro. Bosmal proposes a concession of 40 years. BiH law allows a concession of 30 years, or up to 50 years under special circumstances.

The Republika Srpska (RS) Direction for Roads announced a tender for reconstruction of the highway Srpsko Sarajevo-Zvornik.

The transport sector of BiH incorporates many of the basic building blocks of the single economic space that is now taking shape.

What has been Accomplished

Civil Aviation

Re-construction of airports and transfer of airspace from military to civilian control is being completed.

The new Law has been adopted by the CoM and, once approved by the Parliaments, it will bring BiH into full compliance with ICAO regulations and Eurocontrol recommendations.

Rail Sector

Much of the reconstruction has now been completed. Implementation of a 60-million Euro loan is now underway. The Samac Bridge has been opened and international services are being restored. Passenger services on the routes Sarajevo-Zagreb, Sarajevo-Budapest and Banja Luka-Belgrade have been established.

Road Sector

The Law on International and Inter-Entity Road Transportation for bus and truck transport is being implemented. A World Bank \$30 million US Road

Safety and Management Program, is being used to rehabilitate much of the secondary road network throughout BiH.

Water Sector

Signing of the Framework Agreement on the Sava River Basin by the four riparian countries, Croatia, BiH, Serbia and Montenegro, and Slovenia was completed under the guidance of the Stability Pact, and an Action Plan has now been completed. A location for the headquarters of the Sava River Commission must now be chosen and the Action Plan must be implemented.

What Remains to be Completed

Development of a Transportation Policy for BiH

A transportation policy is required as a basis for transport planning. Without a vision for the future that addresses necessary trade-offs, no transport planning can be done. The recommendations of the chapter on transport under the PRSP provide a good basis.

Civil Aviation

The New law is awaiting Parliamentary approval. The CoM has to appoint the new Director General for BH DCA and his two Deputies. By the end of 2003, the airports of Sarajevo (controllers and new radar) and Mostar should be under the full management and control of the local authorities.

Railway Law

This law provides for the State's authority over railways in BiH, provides for a regulatory board and establishes the structure of the sector in line with EU directives. Slovenia has passed such a law and Croatia is planning to introduce one in the near future. This law is of importance to BiH to improve efficiencies and reduce costs of rail transport. The Railway Law is part of the Reform Agenda for BiH.

Inter-Rail Agreement

An application for membership by BiH Railways in the Inter-Rail Agreement for tourist travel by rail is being prepared for presentation and approval to the Inter-Rail Board at its annual meeting, which will take place in September.

Law on Roads

The development of Corridor Vc is important for BiH. What is required for this to proceed is an organized long-term planning approach beginning with the pre-feasibility studies that will be required to justify such a huge investment and attract financing. In order to formalize the management framework for the roads of BiH, a Law on Roads is required to outline basic responsibilities and powers.

Amendment to Law on International and Inter-Entity Road Transportation

The licensing process for truck and bus transport must be fixed to give the State full authority over the distribution of licenses. A Licensing Commission for bus transport has been established and the Bulldozer initiative recommended setting up a Licensing Commission for trucks, to eliminate black marketing of international truck licences and to monitor how licences are being used. The establishment of a single Licensing Commission for both bus and truck licenses should be provided for by amendment to the Law on International and Inter-Entity Road Transportation.

TIR Carnet System

The TIR Carnet System allows free movement for trucks across borders so that they may clear customs at destination. This has faced many organizational obstacles. At a recent signing ceremony between the Foreign Trade Chamber and the Customs Authority, a customs agreement was signed authorizing the Foreign Trade Chamber to enter in an agreement with the International Road Union IRU for the establishment of the TIR Carnet system for Bosnia and Herzegovina. This is a very big step forward, which will finally make the establishment of this important system a real possibility.

Law on Road Safety

A Law on Road Safety has been drafted and is going through final revisions to proceed towards passage. This law involves policing issues such as traffic violations, licensing, and accident investigations and reporting, among other things.

Law on Transportation of Dangerous Goods

Such a law is a basic element of any transport ministry. This is provided for in the work plan of the Ministry and must be completed as soon as possible.

Law on Maritime and Inter-Entity Water Transport

Such a law is required in order for the Ministry to regulate all international and inter-Entity transportation by water. This is on the work program of the Ministry

Transportation Statistics

While this is not a major priority, transportation statistics are important for transportation planning especially considering the large sums involved in investment decisions that require sound data. An effort must be made to provide for the organization and development of the transportation statistics database under the coordination of the State Statistics Agency.

With completion of these tasks, there will clearly be established a single economic space for transport allowing for freedom of movement with a State Ministry

of Communications and Transportation having a sound basis for carrying on its work in the future.

BULLDOZER COMMITTEE



BACKGROUND:

On 12 November 2002, at 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. Within the Bulldozer Committee, each proposal was studied in detail by a qualified group of lawyers and economists, who developed legal solutions and assessed the likely consequences for the economic environment. More than 20 local associations, such as regional business institutions, the Employers' Confederation, the Women's Business Network, the Central Bank, the Foreign Investment Promotion Agency and the Micro-Credit Network, worked with the Bulldozer Committee to evaluate the reform proposals. **During three Plenary Sessions, the Committee voted on the best 50 proposals for eliminating economic roadblocks to present to the governing bodies.**

Following these high-profile events, intensive dialogue took place between the Bulldozer Committee and the BiH Council of Ministers, and the RS and FBiH Governments. A coordinator was appointed in each government. These coordinators dispatched their respective proposals to the relevant Ministries, and asked for comments, reactions, and counter-proposals.

Each Ministry formed working groups to look at each reform and formulate a response. The Bulldozer Committee met with all the principal Ministries and discussed the specific reforms and the working-group responses in great detail. In each case, there was

complete agreement, or a legal middle ground was negotiated that did not detract from the original intent of the proposal.

All of the governing bodies finally adopted all of the reforms. Some of the reforms were dealt with through government decision, while others (consisting of legal amendments to existing laws) were sent to the parliaments. The BiH, FBiH, RS and Brcko parliaments adopted all the Bulldozer amendments, just 30 days beyond the original 150-day deadline. Despite this delay, the results were attained within a time frame that had never been met before. On average, the Bulldozer initiative produced one economic reform every four days.

In order to build on this success, **Phase II of the Bulldozer initiative was launched on 4 June 2003.** The aim of Phase II is to continue promoting the legitimate interests of the business community, local advocacy associations and civil society and to create a working partnership with elected representatives.

In Phase II, the Bulldozer Committee is represented by one specialized Bulldozer Committee on **Agriculture, Agribusiness and Natural Resources** and **six regional Bulldozer Committees** that have been established by organizations representing local businesses in their areas. Their focus is to identify new reforms at the municipal/cantonal/regional level as well as to oversee the implementation of Phase I reforms at the local level.

The seven Bulldozer Committees have expanded the dialogue already established by the original Bulldozer Committee with the country's elected representatives to include the trade unions. This will help the committees identify reform areas that concern BiH society as a whole. By giving responsibility to all three partners (private sector, governing bodies and unions) in developing, bringing forward, and implementing reforms, support for the overall process will be enhanced. Each of the three partners has a real interest in reforming the BiH business environment.

In recognition of the civil-society movement for reform, the three Prime Ministers, the six Heads/Speakers of Parliaments, the Mayor of Brcko, and seven Bulldozer local representatives have all signed an agreement called "**The Protocol for Prosperity**", which commits them to continuing and deepening their support for the Bulldozer reform process.

In light of this commitment, the BiH Council of Ministers is now establishing an inter-ministerial working group at the State level called the "Emergency Reform Unit". The Emergency Reform Unit is the governmental counterpart of the Bulldozer Committee.



Signature of the Protocol for Prosperity in the Botanical Garden

The first Plenary Session of Bulldozer Phase II took place on 29 July 2003. Those present voted on 19 new reforms. These will be part of the package of 50 reforms that will be handed over to the governments and parliaments at the end of September 2003.

Q2 HIGH-LEVEL EVENTS:

May 29th 2003 - The 50th Bulldozer reform, on liberalizing the land surveying market is enacted in the RSNA. The package of 50 Bulldozer reforms from Phase I is finally enacted, 187 days after the launch of the initiative.

June 4th 2003 - Through the signing of a document called the "Protocol for Prosperity", Bulldozer Phase I is concluded and Bulldozer Phase II is launched. The Protocol for Prosperity is signed jointly by the three Prime Ministers, the six heads of Parliament, the Mayor of Brcko District, representatives of the six Regional Bulldozer Committee, and a representative of the Agriculture and Natural Resources Bulldozer Committee..

June 14th 2003 - Six Regional Bulldozer Committees are launched successfully. Each committee is composed of many associations, and they each have a coordinator.

- Northwest Bulldozer Committee
- Sarajevo Region Bulldozer Committee
- Central Bosnia Bulldozer Committee
- Northeast Bulldozer Committee
- Banja Luka Regional Bulldozer Committee
- Herzegovina Bulldozer Committee

The Committees jointly define the new timeline that describes all the events that will take place until completion of Phase II on December 4th. The slogan for phase II is: "Unlocking Local Wealth".

July 4th 2003 – Launch of Bulldozer Committee on Agriculture, Agribusiness and Natural Resources. The participating organizations are Foreign Trade Chamber (lead coordinator), Cooperatives Union (Zadrusni Savez) (co-coordinator), DrvoBiH (co-coordinator), OK Organic Certification Association, Association for Meat producers and distributors, Medicinal Herbs Group of

FBiH, Medicinal and Aromatic Herbs Association of RS, Union of Associations of Agricultural Producers FBiH, Agribusiness Association RS, FBiH Chamber of Commerce.

July 15th 2003 – Meeting of the seven Bulldozer Committees with the Federation Parliament House of

Representatives and House of Peoples. Mr Ibrahimovic and Mr. Jukic both pledge their support to the effort. The head of clubs and heads of caucuses are given the Phase II timeline and agree to set up working groups on specific issues, even before the Bulldozer Committees forward their reforms to the governments.

July 24th 2003 - Meeting of the seven Bulldozer Committees with the Confederation of Trade Unions. It is decided that an official Union representative will sit on each of the seven Bulldozer Committees.

July 24th 2003 - Meeting of the seven Bulldozer Committees with the State Parliament House of Representatives and House of Peoples. Mr. Dzaferovic welcomes the new developments and decides to send the deputies to visit the Regional Bulldozer Committees.

July 29th 2003 – First Plenary Session of Phase II. 19 proposals are approved out of the 21 presented.

A "MADE IN BOSNIA" PROCESS:

The process started on Phase I has proven successful. The intent of the OHR was to launch an effort that would then be carried on by local business representatives. Phase II and its seven self-engineered Committees demonstrates just that. The Committees are still coordinated by a Bulldozer team at the OHR. Successively, the US, Swiss and now Norwegian Embassies have financed the effort. Italian and Dutch Embassies may participate in future funding. This demonstrates the success of the initiative, which has also been chronicled in several international newspapers with articles about how the Bulldozer initiative is changing the BiH landscape in citizens' participation and advocacy. They have positively presented the innovation as "made in Bosnia". Indeed, the Bulldozer initiative has so far succeeded at reconnecting the political representatives with their constituents. It has managed to do so in a manner never done before, relying on inputs from



Launch of Central Bosnia Bulldozer Committee

businesswomen and men and focusing on concrete and rapid reform results. By staying close to the OHR mandate of promoting economic development as a factor of stability and peace, the initiative has provided much needed grassroots' support for the BiH authorities' structural reform agenda. The commencement of Phase II shows that the process has fulfilled its promise and that it is, indeed, sustainable.

Articles about the Bulldozer effort are accessible through the OHR website on <http://www.ohr.int/ohr-dept/econ/bulldozer-initiative/index.asp>.

ENERGY SECTOR

After almost no progress for the last 12 months, the Power III project has reached a critical stage where donors are expecting steps forward in implementation in order to continue with their technical and financial support. During the last quarter, some progress has been achieved with respect to Electricity Sector Restructuring and Privatization Action Plans, the establishment of electricity regulatory commissions and the establishment of a Transmission Company and Independent System Operator.

Action Plans have been finalized and currently the RS and FBiH plans are in the process of adoption by their respective parliaments. The appointment process for the State Electricity Regulatory Commission has been completed with the nomination of the two commissioners from the FBiH. The nomination process for the two Entity regulatory commissions remains to be completed.

In June, the two Entity Prime Ministers signed an agreement on establishing one company for transmission of electricity at the State level (Elektroprenos BiH). During July, draft laws for establishing Elektroprenos BiH and the ISO (Independent System Operator) were forwarded to the CoM. Adoption of these laws is a crucial next step for the electricity sector reform.

BUDGETS

The IMF's July mission made the recommendation to all three governments not to rebalance due to revenues not performing satisfactorily. The next IMF mission will come again in September, and will give final recommendations on the rebalance process.

Internal Debt:

A set of working group meetings has been organized by the IMF in order to assess the level of all claims on Government. The final estimate was 5.2 billion KM. The IMF's recommendation was that a write-off of 80% of these claims is needed in order for BiH to avoid severe economic crisis. It is now up to BiH Governments to devise a strategy for resolving the domestic debt, and come up with a plan outlining the write-offs and the mode of settling acknowledged debt.

PRIVATIZATION

There was no substantial progress in the privatization process in either Entity during the first half of 2003. As a result, both Entities retain companies that are unsustainable and operating at a fraction of capacity. Many of these companies nominally employ scores of people, while in many cases the majority of employees have not worked or received a salary or benefits in years.

Currently, both Entities are considering how to address the obstacles for privatization in order to facilitate this process. The Federation Privatization Agency has prepared a proposal for the new approach to the government, which has formed an inter-ministerial group to address this issue. In the Republika Srpska, amendments to the privatization law have been adopted in an attempt to facilitate the privatization process.

During the June 15th 2003 session of the Coordination Board for Economic Development and European Integration, representatives of the BiH Council of Ministers and the Entity governments discussed the action plan for the implementation of the most important reforms over the next six months. One of the key elements of this action plan is to re-start the

privatization process. To that end, they committed themselves to launching tenders for at least 10 companies within the next six months.

SOCIAL SECTOR

HNC Employment Service

The High Representative's Decision on the Law on Employment and Social Security of the Unemployed (Dec 2000) stipulates that all cantons should form a "Canton Employment Service," as a subsidiary of the Federation Employment Bureau System. Herzegovina-Neretva Canton (HNC) was lagging behind other Cantons in implementing this Law. While the Bosniak institute functioned as a branch of the Federation Employment Bureau, the Croat institute was an independent institution, which was established to cover employment services for Croat majority areas.

The main problem for the registration of the Bureau was the lack of a statute, which was pending adoption due to disagreements between the two sides over voting procedures and harmonization with Constitutional changes. Accepting OHR recommendations for resolving the disputed issues, the Management Board drafted and adopted the statute. The next step for the Employment Bureau will be to start working jointly, providing services to all citizens of the Canton. OHR will continue providing support to the Bureau management until the integration process is fully completed.

HNC Health Fund

The Herzegovina-Neretva Canton Health Insurance Fund (HNC HIF) Statute has not been verified yet by the HNC Assembly and is still pending a decision of the Constitutional Court Vital National Interest Panel, which was only appointed recently. Because of the delay in adoption of the HNC HIF Statute, which has been pending since February of this year, activities and progress of unification of the Fund have taken a slower pace.

Nevertheless, HNC HIF Management has started printing and issuing new uniform health insurance cards, which should be completed by September 2003. Although the OHR's unification plan has not yet been fully implemented, the HNC HIF Management and its staff now work jointly. However, they are now faced with the problem of signing payments from their

account, given the fact that they still do not have control over it and that the new Cantonal Prime Minister cannot sign any payments on his own (since the position of Deputy Prime Minister was abolished). By the Decision of the FBiH Government from February 2002, which was introduced in order to speed up the establishment and functioning of the HNC HIF, the Prime Minister and Deputy Prime Minister were designated as the cosignatories of the account.

The current Prime Minister requested that the control of the bank account be given back to the Fund Management since the fund is now established and fully operational. In support of his request, OHR proposed to the Federation Government to reconsider its February 2002 Decision and to grant control of the HIF's funds to the Fund Management, as is the case in all other cantons in the Federation.

(by OHR Mostar)

CIVIL AVIATION

The Civil Aviation Steering Committee (CASC), chaired by OHR with the full involvement of the local authorities, was created with the objectives of the establishment and effective functioning of the Bosnia and Herzegovina civil aviation authority. In order to achieve these objectives, it was decided from the second CASC meeting to write a new civil aviation law, establish a new BHDCA organization, and accelerate the designation of a new director general for BHDCA.

The Civil Aviation Law of BiH, which is in complete compliance with ICAO regulations and practices and European recommendations, will facilitate the establishment of a unique civil aviation authority (CAA) and accord a clear separation between the regulatory functions at State level (BHDCA) and operational functions at Entity level (FEDCAD, RSCAD and, if necessary, external bodies). Full adoption and implementation of this law is also a requirement for BiH's membership in the Joint Aviation Authority. (The New Law was adopted by the CoM on July 28, 2003. It is now pending before Parliaments).

During the same period a national commission including international members was established, which selected the best candidate for the post of Director General for the Directorate of Civil Aviation (DCA), and two Deputies Director General, one as head of the Regulatory division and the other as head of the Air

navigation division. The nomination of the Director and his two Deputies is awaiting the COM's decision.

In the future, the CASC will continue to monitor the implementation of the new BHDCA structure, support and monitor the implementation of the new civil aviation law, monitor the ongoing ATM transfer of responsibility from the SFOR to the civil authorities of the MOSTAR International Airport, and ensure that ICAO and European regulations, where safety is paramount, are being implemented in the framework of the training of the local controllers and the use of the new radar system at Sarajevo International Airport.

MOSTAR AIRPORT

In view of the withdrawal of SFOR's French Air Detachment from Mostar Airport, planned for the end of 2003, International Community representatives together with Federation, Cantonal and City authorities have begun preparations for the transfer of all Airport services (air and ground) to the local authorities. These preparations include development of the Transitional Business Plan, drafted by Mostar Airport authorities in co-operation with the FEDCAD.

The Plan contains all prioritized necessary steps that need to be implemented in order to have a safe and secure handover and for the Airport to be able to continue with its operations after the withdrawal. Once the Transitional Business Plan is fully accepted by all concerned local parties, it will be signed in the form of an agreement, precisely defining commitments from all sides that have already expressed readiness to support the existence and future functioning of the Mostar Airport.

(by OHR Mostar)

VETERINARY SECTOR

There is no doubt that rebuilding a well-functioning and respected veterinary system in accordance with EU and other international regulations is a high priority. BiH is a country with limited natural resources but does possess certain predispositions to develop specific sectors that can generate significant comparative advantages. Indisputably, one of these sectors is livestock breeding and food production/processing.

Since the appointment of the new leadership (Director Mr. Jozo Bagaric, Deputy Director Mr. Nihad Fejzic and Secretary Slavisa Krestalica) on April 16, 2003 the SVO

(State Veterinary Office) has begun to act strongly and started to show the characteristics of a well-functioning institution. The new leadership restructured the working plan and committed the team to a new working dynamic. As an example of serious engagement a set of new regulations has been drafted, e.g. Rulebook on Animal Identification and Movements Control Scheme, Rulebook on Blue Tongue, and Rulebook on Bioreziduias. In accordance with EU recommendations the SVO initiated the process for establishment of The National Network of reference/diagnostics laboratories.

The SVO has resolved the issue of single information dissemination to the OIE, WHO, FAO and WTO. May 2003 will be remembered by the BiH Veterinarian Service as the month in which the first Bulletin in accordance with OIE requirements was published. A single and harmonized information dissemination procedure is especially important for transparency during monitoring and reporting on animal health conditions.

One of the most important parts of BiH's veterinarian system is the Operating Agency (OA), newly established in Banja Luka. OA is the organizational part of the SVO, responsible for Animal Identification and Movement Control. Activities performed by the SVO directly contributed to the establishment of the Operating Agency as an SVO department that will be responsible internationally for animal movement records.

It is clear that certain improvements have been made but the SVO still has to implement fully the State Veterinary Law. For the next period it is expected that the following tasks will be undertaken: harmonization of Entity veterinary laws, establishment of single State Veterinary Border Inspection, continuation of the Animal Identification Movement Control Scheme, establishment of the FBiH Veterinary Chamber, and full implementation of the BiH Veterinary Law in both Entities and Brcko District.

BiH is moving forward in the veterinary sector. This positive movement will provide possibilities for faster economic recovery as well as enhancing consumer protection and animal health. In this regard creating a legal and institutional framework for increased exports and fulfilling EU requirements is a key task. The SVO has begun to address its responsibilities seriously by removing technical barriers to international trade. During the next period it is expected that exports will depend more on the initiative and capability of local and international entrepreneurs.

TELECOMMUNICATIONS

During the second quarter no major developments have occurred with regard to telecom sector reform. The key objective remains the same: to introduce fair competition so as to ensure the provision of affordable and efficient telecom services. Without this, businesses will not invest in BiH and consumers will continue to pay more than they should.

Despite the need to introduce fair competition rapidly, the process of issuing the third mobile licence has still not been finished. This process began in January 2003 and the CoM has yet to determine the value of the licence premium that the third operator must pay in order to receive the licence. Mobile telephony could be the first major component of the telecom sector where the advantages of effective competition among various operators materialises. It is therefore regrettable that the CoM has not taken a decision yet.

BANKING

Central Bank releases 2002 Annual Report

The continued positive evolution of the Central Bank's (CBBH) activities in 2002 was highlighted in its recently released annual report. In line with its primary function as a currency board, a major development was the CBBH's decision to a shift in alignment of the Convertible Mark (KM) from the Deutschemark (DM) to the Euro. (Since January 1, 2002 the exchange rate has been maintained at 1 Euro to 1.95528 KM.) This shift was accomplished smoothly, and continued the transfer of over 6 billion of DM banknotes from BiH to Germany dating from 1997. By universal consensus, the efficiency and reliability of the Bank's exchange operations has provided the fundamental basis for maintaining public confidence in the KM.

Other developments cited in the report include the establishment of a State-level deposit insurance agency (previously reported in the Newsletter), the formation of a governing board audit committee to further improve the Bank's internal controls, and the Bank's assumption of the function of fiscal agent for BiH in its relations with the IMF.

As noted in the report, the soundness and economic role of the BiH banking sector continued to improve, with higher minimum capital requirements and consolidation of the sector resulting from the privatization process. In addition, bank deposits grew by nearly 25% in 2002, while lending increased by 53%. As discussed previously, commercial banks displayed a continuing clear preference for household lending to commercial loans, a situation that will require careful attention if broader activity in the economy is to be stimulated.

OHR MOSTAR

Herzegovina-Neretva Cantonal Budget

Political problems concerning the formation of the Government resulted in significant delay in preparation and adoption of the Herzegovina-Neretva Canton (HNC) Budget for 2003. At the last Government session, the draft version of the budget was finally adopted; however the Budget will become valid only when the HNC Assembly adopts it.

Given the large debts, insufficient funds and unpaid salaries, the budget for this year will only address rehabilitation issues and not economic development matters. Its adoption will provide elements for putting the Single Treasury Account System into operation, which will ensure greater transparency in public spending.

Although the last year's Budget was unified to some extent, there still remained a double administrative structure that involved considerable duplication, waste and inefficiency. Hence, extra efforts need to be put into further integration of the Budget in 2003, which will require, among other things, additional harmonization of coefficients and salary bases for all budget beneficiaries.

OHR Banja Luka

"Hot Summer" for the RS Government

The Republika Srpska Government has been challenged by a series of protests by medical workers who have been on strike for almost three months now.

The medical workers of Banja Luka Medical Clinic are requesting clearance of six months' salary arrears. Farmers of the RS have also been on strike. In addition to the usual difficulties of transition (delayed privatization, assets stripping, lost markets etc.) the situation in the agriculture sector has deteriorated due to the drought. Pensioners, education sector and metal processing industry employees intend to join the medical and agricultural workers in protests against the RS Government. The RS Government has promised to increase pensions by 30% by the end of 2003. Thus, the average pension will be increased from 125 KM to 165 KM (45% of the average salary). This would require additional funding of the RS Pension Fund in the amount of 14.5 Million KM.

The limited budget resources are not encouraging. Public revenues collected in January-May 2003 are 11% less than projected. However, the positive trend in industrial production continued in the second quarter of 2003. Industrial production in January-June 2003 compared to the same period of 2002 was higher by 4.3%. Bearing in mind the complexity of the economic situation and the problems the current Government inherited from its predecessor, it is not unrealistic to expect such problems; however, it is hoped that they can be solved in the short-term.

Privatization Disputes Hinder Foreign Investments in Canton 1

Economic news from Canton 1 was mainly characterized by disputes in the privatization process and related labor unions protests. The biggest foreign investor in Canton 1, CITRUS company from Slovenia, encountered difficulties in its efforts to restore economic activities in some of the 12 companies in which it obtained majority ownership. The Government initiated dialogue with representatives of Citrus, the Cantonal Agency for Privatization and the labor unions insisting on strict adherence to privatization contracts.

In the next period the Cantonal Government plans to concentrate on:

- Strategic privatization and attracting foreign investors (Accordingly, it will consider rescheduling or writing off debts for some companies.)
- Economic reforms, in particular support to the bulldozer initiative.
- Fighting the gray economy, including reorganization of cantonal market inspections.

Mass privatization (of 11 companies from Canton 1) has not provided expected results so far. However, there are some good examples of strategic privatization and foreign investment, such as the wood processing factory d.o.o. Sanica from Kljuc (with 260 employees) bought by a Swiss company. The same investor is interested in other companies in the sector. Other foreign investors are also considering investing in Canton 1. An Italian company is interested in starting briquette production in Bos Petrovac, while a French company is considering gypsum production in Kulen Vakuf. Disputed privatization cases such as Citrus send negative signals to potential investors and therefore it is important to resolve these in order to start production.

Obstacles to Exporting (Certification)

Goods entering the European Union must be labeled with a mandatory CE Mark, which serves as a clear sign to member states' authorities that the product is in compliance with the EU Standardization Directives. The second most visible sign in the EU market is the ISO marking (quality management system standards). This enables a business to establish itself as a reliable organization in which domestic and foreign customers can have confidence. While it is not obligatory, it is however required by most EU importers.

The cost of receiving the EU certificates varies from 10,000 to 20,000 KM, and the procedure can last up to one year. In the Republika Srpska, the main body providing the CE and ISO certificates is the German-based Tuev, an institution accredited in the European Union. Tuev not only helps companies obtain certification, it is also involved in organizing training and seminars for local managers. In some cases, Tuev can also provide subsidies for obtaining the EU certificates. Interest among domestic firms in acquiring the certificates is high. However, the cost of certificates combined with the present difficult financial situation have resulted in a low number of firms that have actually managed to obtain them (in the RS just five companies).

Additionally, the current status of the BiH Accreditation Institute and the BiH Institute for Standardization, Metrology and Intellectual Property, which are still not functioning properly, suggests that the number of certificates will not rise significantly and that the dependence on foreign bodies in the RS will continue.

OHR TUZLA

BiH Coal Mine Restructuring and Privatization Roundtable

On June 26, 2003 the Mining Faculty of the Tuzla University, Mining Institute in Tuzla, and BiH Coal Mines organized a roundtable to discuss restructuring and the privatization of BiH Coal Mines. BiH Coal Mines are currently going through one of the most difficult phases in their development. In order to ensure the survival of coal mines, and to ensure their strategic development, mining leaders are considering embracing radical restructuring reforms. While no firm conclusions were reached during the roundtable discussion, the dialogue was robust, and future discussions will surely be launched.

Key issues that were discussed included: (1) The lack of growth in domestic electricity consumption (2) the need for coal mines to secure larger market share (3) lack of investments (4) production of electricity exceeding local market demand (5) obsolete technology (6) excessive numbers of employees in electricity and coal mine production, and (7) inadequate legislation in the mining sector. These issues were cited as being among the problems that hinder the development of coal mines in BiH.

Bosnia North-East Economic Regional Summit Held In Tuzla

Mayors from among 40 municipalities in Northeast Bosnia and Herzegovina convened in Tuzla for a one-day summit on regional economic development. The event was sponsored by the Regional Development Association of Tuzla (RDA), the Brcko District Development Agency (BDDA), the Semberija Development Agency (RAS) and the Economic Development Agency of Birac (BREDA).

The comprehensive agenda included information regarding the following issues of importance to the region's economic development strategies:

- The EU Regional Economic Development (RED) program
- The EU QUF financing program
- The SUTRA-EU/UNDP Program for Sustainable Transfer to Return-Oriented Authorities, and
- A Bulldozer II update

The most significant element for many participants was that this event showcased the importance of mayors

and economic development officials from both Entities and Brcko District coming together to discuss economic issues that are important to everyone in the Northeast. Indeed, future meetings are already being planned. The OHR Tuzla Regional Office was pleased to be involved in this program.

EU QIF II Regional Assessment Board begins with assessment of applications

July 17, 2003 was the closing date for submission of applications to the EU QIF 2 grants project. On July 18, the Regional Assessment Board (consisting of RDA Tuzla, BREDa, Semberija Development Agency, Development Agency Brcko, Taldi Tuzla, OHR, UNDP, and OSCE) began assessing applications. The aim of the EU QIF II is to facilitate sustainable return, i.e., create 700 sustainable new jobs of which 50% would employ returnees. A total of 1.5 million Euros in grants will be divided among three groups: SMEs, Non Profit Organizations, Municipalities and other governmental organizations.

OHR Tuzla Regional Office Presents Bulldozer II Updates

The Economics Section of OHR Tuzla's Regional Office presented two updates of the Bulldozer II reform strategy. In an effort to create strong awareness and solid support for the implementation phase of the Country's Bulldozer reforms, members of the various Regional Bulldozer Committees, in addition to OHR Economics staff have been actively meeting with elected and appointed officials during such events.

OHR Tuzla's Regional Office's two presentations were made before (1) a group of mayors representing municipalities in the Zenica-Doboj Canton, and (2) a group of legislators and the Finance Minister from the Posavina Canton.

Each event reflected strong support for implementing Bulldozer Reforms.

OHR BRCKO

Brcko District adopted a new, modern Law on Income Tax that was developed with the assistance of GTZ (German Technical Assistance). The law regulates taxation of income both for physical and legal persons. Taxation of salaries entered into force on July

01, 2003 while the law's provisions on company profits tax and individual income tax will apply from January 01, 2004.

Brcko District has privatized eight companies under its own concept, where up to 67% (minus Markovic Shares) of state capital is sold. The balance, represented by either vouchers or certificates, is held in the District Minority Share Fund and will be transformed into actual shares once a securities law is passed. The total investment commitments are 46 million KM including foreign investments of 29 million KM and domestic investments of 13 million KM. These privatization investments will provide jobs for some 740 employees. Six of these companies are in the production sector, of which four are producing for export. Details on eight more enterprises (in two tender packages) currently involved in the tender procedure can be found on the web site: www.bhbusiness.com. The Law on Securities is a critical step to meet the Final Award requirement of self-governing status for the District of Brcko. It creates a Securities Commission, a Securities Registry, and a set of rules that will enable the District to issue its own securities. The District can thus complete the process of enterprise privatization by converting vouchers, certificates, and Markovic shares into shares of private companies. The District will not create its own stock exchange.

Brcko District BiH and UNDP/BLAP have agreed to collaborate to establish, a new financial service to be known as GUARANTEE FUND BRCKO DISTRICT (GFBD), the first of its kind in Brcko District and Bosnia and Herzegovina, to increase access to credit for farmers and entrepreneurs in the rural agricultural sector.

Apartment privatization

Privatization of apartments started on July 30, 2002 when the Law on Purchase of Apartments in Which an Occupancy Right Exists in the Brcko District was adopted by the Assembly. Since then, 572 apartments (out of a total of some 3,500) have been sold, for an average purchasing price of KM 61 per square meter. The proceeds from apartments privatized so far amount to 1,9 million KM. 40% of the proceeds is invested in maintenance funds for each building in order to help new owners assume responsibility for the upkeep of common areas. The remaining 60% of the proceeds is invested in a housing fund to cover the expenses of the apartment privatization process, to repair damaged apartments, and to reconstruct destroyed apartments. Both vouchers and certificates can be redeemed for a discount on the apartment's purchase price. Other discounts include: 100% discount for orphans or persons with 80%-100% disability living alone or with

household members who do not have any income, and a 50% discount for anyone older than 65 years, widows and widows of those killed in wars, and adoptive parent(s) living in the household with the adopted child. The privatization office has finalized 572 agreements; over 3,000 people have paperwork in process. While the program allows the buyer to pay in installments, so far 85 % of the buyers have paid in cash.

Rail Repair

As a long-term investment in the economic development of the District, and in support of the Port and enterprises in the industrial zone, the District Government invested 1.3 million KM in the repair and renovation of rail tracks between the center of town and the port.

This project was completed within four weeks and connects the industrial zone, via a completely new track with the port and the main BiH rail line.

BiH Economic Update

BiH Economic Data January 2001 – May 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 05/03 compared to 2002 05/03 compared to 05/02	 +6,8% +11,7%	 -5% +10,4%	 N/A N/A
Retail Price Index 05/03 compared to 2002 05/03 compared to 05/02	 +0,6% +0,3%	 +1,5% +1,8%	 N/A N/A
Average Net Salary 05/03 05/03 compared to 2002 (averages)	523,35 KM +1,4%	373 KM +7,2%	473,2 KM +3,3%
Number of Employed 04/03 (RS 6/03) Number of Registered Unemployed 04/03 (RS 6/03)	387.378 persons 292.843 persons	249.186 persons 135.410 persons	N/A 428.253 persons
Number of pensioners in 04/03 (RS 06/03) Average pension in 03/03	286.567 persons 190 KM	183.640 persons 125 KM	470.207 persons 168,3 KM
Imports Jan-Apr 03 (RS –June) Exports Jan-Apr 03 (RS – June) Trade deficit Jan-June 03 Import/Export coverage	1.677,2 Million KM 545,5 Million KM 1131,7 Million KM 32,5%	835,7 Million KM 185 Million KM 650,7 Million KM 22%	2512,9 Million KM 730,5 Million KM 1782,4 Million KM 29,0%