

## **PIC Statements on Economic Matters**

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| <b><u>Peace Implementation Conference</u></b><br>London, 8-9 December 1995   |
| <b><u>Peace Implementation Council</u></b><br>Florence, 13-14 June 1996  |
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## **Peace Implementation Conference, London, 8-9 December 1995**

### Reconstruction

40.The economic and physical infrastructure of Bosnia and Herzegovina has suffered serious damage as a result of the war. Responsibility for reconstruction must lie primarily with the authorities of Bosnia and Herzegovina. At the same time, donors, including through the international financial institutions (IFIs), are prepared to make a substantial contribution on the basis of appropriate burden-sharing within the international community of the overall effort needed to secure and implement the peace.

41.This process will begin with the organisation by the World Bank and European Commission of the meeting in Brussels on 20-21 December referred to in paragraph 21 indicating the urgent reconstruction needs of Bosnia and Herzegovina over the next three months. It will be followed by a pledging conference in early March.

42.The President of the World Bank outlined the Bank’s role in reconstruction and the arrangements to be

established on the ground for coordination of technical aspects. The World Bank and creditors indicated they would exercise their best endeavours in respect of the settlement of outstanding arrears of Bosnia and Herzegovina as soon as possible. The IMF stated that membership of the IMF for Bosnia and Herzegovina and the provision of financial resources under the Fund's emergency policy was expected in the very near future. Work was beginning immediately to agree a programme for further use of Fund resources. The President of the EBRD, the European Commission, and other major donors indicated the parts they expected to play.

43.The Conference stresses the importance of the parties:

creating effective central institutions capable of adopting responsible fiscal and monetary policies; conducting business with the international community and in particular the IFIs; and contracting and servicing debt on behalf of Bosnia and Herzegovina; pursuing policies which foster the creation of a market economy and an open trading system.

## **Peace Implementation Council, Florence, 13-14 June 1996**

Reconstructing the Economy of Bosnia and Herzegovina

40.Reconstruction and economic recovery are crucial to the restoration of peace and stability in Bosnia and Herzegovina.

41.A \$5.1 billion priority reconstruction programme has been prepared by the European Commission, the European Bank for Reconstruction and Development (EBRD) and the World Bank and endorsed by Bosnia and Herzegovina and pledges of financial support totalling \$1.8 billion have been obtained through two donors' conferences held in Brussels to meet the reconstruction needs of the country in the first year. Disbursement has begun. Bosnia and Herzegovina has become a member of the International Monetary Fund (IMF), the World Bank and the EBRD and a beneficiary of the EU PHARE programme.

42.The Council has heard statements from the Commissioner for External Relations of the European Commission and from the Managing Director of the World Bank. A joint report of the European Commission and the World Bank has been presented to the Council on progress to date in the reconstruction. The Council commends the work done by the international financial institutions and the European Commission and expresses its appreciation for the contribution made by IFOR to economic rehabilitation.

43.The economic reconstruction of the country is in its early stages. The opportunity for progress bringing employment, including to demobilised soldiers, and a progressive return to normal life, is now available. The rapid disbursement of funds pledged so far is a top priority. The speed of action in the second part of 1996 depends to a large extent on the co-operation shown by the parties themselves and their willingness to bring about the political and administrative conditions in which project implementation can take place rapidly. The Council regrets that Republika Srpska did not attend the Brussels Donors Conference thereby losing a major opportunity. It welcomes their presence in Florence and reiterates the importance it attaches to re-integrating the economy of Bosnia and Herzegovina by linking the economies of the two entities, assisting them both according to their needs on a fair basis provided they comply with their obligations under the Peace Agreement.

44.The Council had before it a report from the Special Representative of the United Nations Secretary General on the functioning of the Mine Action Centre (MAC) in Sarajevo. The Council notes the major importance of mine

clearance for economic reconstruction and resettlement of the population and the urgency of getting a large-scale programme under way. The Council supports an acceleration of the MAC's work. It draws attention to the responsibility of the parties to undertake demining and to provide personnel for this.

45. Priorities are the revival of economic activity and the creation of jobs. Of crucial importance in this respect is the restoration of public utilities: electric power, water, gas, functioning communications, transport and telecommunications. The international community is also willing to assist the people of Bosnia and Herzegovina to return to normal life and to make the psychological transition to the pursuit of economic well-being instead of war by helping with such things as the re-opening of schools and hospitals and other day to day facilities.

46. During the next six months, the Council notes that complementary action in Bosnia and Herzegovina and in the international donor community is indispensable.

47. Within Bosnia and Herzegovina there must be:

domestic policies and leadership which facilitate rapid implementation, promote a stable economic environment and sustainable growth no further delays in establishing and strengthening key economic institutions both within and between the entities, since these would seriously delay economic recovery, re-integration and the implementation of reconstruction projects.

48. The Council is encouraged by the fact that, following the Sarajevo agreement of 30 March, a Federation Customs Agency has been established as a first step towards a unified customs administration. Internal check-points have been removed and an International Customs Observer Mission (ICOM) has been deployed. The Council had before it a report from the Customs and Fiscal Assistance Office (CAFAO) concerning the assistance given to set up an efficient finance administration. In order to bring about free movement of goods and the harmonisation of the legal and institutional framework for economic policy, the Council also calls for the urgent initiation between the entities of institutional co-operation in areas of common interest, beginning with operational links between their payments systems, removal of customs checkpoints between them and co-operation on customs administration.

49. The Council notes the report from the International Monetary Fund on implementation of macro economic and structural policies in Bosnia and Herzegovina. It is concerned that little progress had been made so far by the parties in agreeing on the modalities and timetable for establishing the new Central Bank and common currency. In their own interest, the Council urges them to co-operate fully with IMF in accelerating agreement on issues still unresolved.

50. The Council stresses the importance of the early adoption of laws and regulations encouraging private investment, inter alia, in the fields of ownership and sale of property, contracts, bankruptcy and labour relations to form the basis of a market economy. The parties should also encourage the return on a voluntary basis of qualified and skilled people to take key positions in the public and private sector. IOM is willing to assist in this important task. The Council appeals to the international business community to consider early business engagements in Bosnia and Herzegovina thus making a contribution to job creation.

51. Among international donors, there must be:

continued strong and concerted support for the priority reconstruction programme with timely financing on flexible terms strengthened continuing co-ordination, in order to avoid possible fragmentations and focusing support on projects contained in the priority reconstruction programme active support by donors for the work in the field of the co-ordinating task forces urgent allocation of the 25% of donors' pledges for 1996 which have yet to be committed to enable rapid disbursement on the ground the closure as a matter of urgency of funding gaps, which are especially serious for some major infrastructure projects, notably power, transport and telecommunications assistance given in the form of grants as far as possible continuing commitment to the totality of the priority

reconstruction programme.

52.The Council requests:

the Steering Board to monitor closely the extent of compliance and co-operation of authorities in Bosnia and Herzegovina with their obligations under the peace treaty the High Representative to report to the Steering Board on any reconstruction projects or measures he considers necessary to ensure proper balance between compliance and the receipt of reconstruction assistance.

## **Ministerial Meeting of the Steering Board on “Guiding principles of the Civilian consolidation plan” Paris, November 14, 1996**

Concerning reconstruction, the resources required will be granted for an initial duration of one year, on the occasion of a Donor Conference, arrangements for which will be made in London on December 4-5, 1996. Depending on progress, another conference will be called at the mid-term of the consolidation period. The donors will endeavour to implement the conclusions of the Economic Task Force, chaired by the High Representative, on priorities and principles of international reconstruction assistance.

## **Peace Implementation Conference, London, 4-5 December 1996**

7.The Council underlines the importance of providing an economic and political framework for the international community's work on reconstruction. It therefore:

welcomes the undertaking of the international agencies to continue to hold regular meetings of their senior representatives in Sarajevo in the framework of the Economic

Task Force, under the chairmanship of the High Representative, and of all donors to endeavour to implement the conclusions of the Economic Task Force on the priorities

and principles of international reconstruction assistance, taking into account their mandates, policies and procedures;

notes that the Economic Task Force will monitor, report on and support the implementation effort with the objective of helping to avoid duplication, accelerating disbursement of pledged funds, ensuring coverage of priority projects and eliminating obstacles created by the authorities in Bosnia and Herzegovina to the timely completion of projects;

welcomes the agreement of the World Bank, the European Commission, the EBRD and others to support the Economic Task Force, notably with secondment of personnel to its Secretariat.

Economic Development and Reconstruction

1.The Council recognises that the primary responsibility for the economic development of Bosnia and Herzegovina rests with the people and authorities of the country. Successful economic development will depend on the adoption of sound, market-based economic policies and the establishment of effective institutions. To encourage the achievement of a self-sustaining economic structure, the emphasis of the international community will gradually switch from reconstruction aid to support for appropriate economic policies and reforms.

2.The Council notes that:

the authorities in Bosnia and Herzegovina have committed themselves to ensuring that the Central Bank will be operational as early as possible in 1997 in order to carry out the tasks set out in Article VII of the Constitution, on the basis of a Central Bank law approved by the Parliamentary Assembly;

the authorities in Bosnia and Herzegovina are committed to restructuring their economies on the basis of market-oriented economic policies and significant privatisation of publicly-owned companies, and to establishing a sustainable fiscal framework which addresses revenue and expenditure responsibilities for all levels of government, including external debt obligations, and provides for reform where necessary and harmonisation of customs practices, tariffs, duties and tax policies;

the authorities in Bosnia and Herzegovina agree to take urgent practical steps to ensure full freedom of movement of persons, goods, services and capital throughout Bosnia and Herzegovina, which is an essential condition for promoting inter-Entity trade and economic development. This includes the establishment of a fully functioning customs service in each of the Entities which should operate on the basis of the customs policies and tariffs to be agreed by the common institutions, facilitating establishment of border crossing points along the entire state border line where appropriate, as well as an effective and fully functioning payments system;

3.Bosnia and Herzegovina has undertaken to develop urgently a foreign trade policy with the aim of promoting an open trading policy and encouraging inward investment;

4.the authorities in Bosnia and Herzegovina have agreed to cooperate closely with the IMF, the World Bank, the European Commission and the Office of the High Representative on structural reform, and with the IMF in maintaining financial stabilisation, undertaking institutional reform and developing their long-term economic strategy,with the aim of agreeing an IMF-supported economic adjustment

programme as soon as possible.

5.The Council welcomes the commitment of the authorities in Bosnia and Herzegovina to passing laws to implement the commitments set out above, whether at the central or Entity level, including legislation on the 1997 budgets and fiscal framework, external debt, foreign trade, tariffs, foreign investment and banking. It also welcomes their undertaking to establish at the central and Entity levels the legal

framework for a market-oriented economy, including in the areas of property and contract rights and labour law.

6.The Council commends the work of the donor community in Bosnia and Herzegovina in 1996, including the World Bank and the European Commission. It recognises that the future economic development of Bosnia and Herzegovina will require further support from the international community. Such support will be forthcoming during the consolidation period, on condition that the authorities in Bosnia and Herzegovina comply fully with the provisions of the Peace Agreement, as well as the commitments on economic development undertaken at this Conference.

7.The Council stresses that, while there is a continuing need for reconstruction assistance from the whole donor community, especially in key areas such as utilities, transport and telecommunications infrastructure and housing, the primary objective of future assistance should be to promote the economic development of Bosnia and

Herzegovina, including durable employment, structural reform and programmes that link and integrate the Entities. To this end, it endorses the indications given by the World Bank and the European Commission with respect to their programmes for Bosnia and Herzegovina for 1997. It also welcomes the fact that the European Commission has begun discussions with Bosnia and Herzegovina on the possibility of establishing a contractual relationship between Bosnia and Herzegovina and the EU, designed to promote closer trading links.

8.The Council encourages the international community to consider substantial debt relief for Bosnia and Herzegovina in the appropriate fora, including the London and Paris Clubs, once an appropriate package of economic reforms has been agreed with the IMF.

9.The Council underlines that the success of all forms of economic assistance depends on that assistance being well targetted and properly implemented, and stresses the need for the closest possible cooperation between the authorities in Bosnia and Herzegovina, the international financial institutions, other relevant international

organisations and bilateral donors.

## **Ministerial Meeting of the Steering Board of the Peace Implementation Council Sintra, 30 May, 1997**

### **The Necessity of Economic Reform**

39.Without fundamental economic reform which moves away from the practice of a bureaucratic, socialist economic system, the economic and social issues of Bosnia and Herzegovina can never be solved and conditions for the return of refugees will remain problematic.

40.The Steering Board welcomes agreements on all key elements of the economic parts of the Quick Start Package, including the Central Bank Law and the Customs and Foreign Trade Laws. It calls on the Presidency and Parliamentary Assembly to approve these decisions speedily.

41.A Donors' Conference for Bosnia and Herzegovina is planned to be held in Brussels on 24 June 1997 at senior official level. The Steering Board urged continued strong international support for humanitarian and inter-Entity infrastructure projects. For the conference to be held as planned Bosnia and Herzegovina has to reach agreement with the International Monetary Fund. In any case, success at the Donors'

Conference and the dispersal of pledged funds depend on progress towards fulfilment of the obligations of the Peace Agreement.

42.The Steering Board urged the authorities of the Entities, in particular, to establish a sound legal and political basis for an open and dynamic free market economy.

43.Of particular importance are the speedy adoption by the Entities of sound schemes for privatisation, and full respect for the single integrated economic space of the country as laid down in the Constitution. The opening up of the country for trade and contact, across all its borders and in all directions, is essential. The Steering Board demands the immediate and unconditional opening of the full border between Bosnia and Herzegovina and Croatia.

44.The Steering Board asks the High Representative to proceed speedily with the preparation of the second package of essential legislation to be presented to the authorities of the country. This should include legislation on frequency management and telecommunications, airspace management, permanent election law, immigration law and permanent law on customs and customs tariffs. The authorities are urged to adopt the package before the meeting of the Peace Implementation Council in December 1997.

## **Bonn Peace Implementation Conference, Bonn, 10 December 1997**

### VII. Economic Reconstruction and Reform

#### 1.Reconstruction

a.The Council notes that generous international reconstruction aid has continued to fuel economic recovery throughout 1997. The Council reminds the authorities in Bosnia and Herzegovina that economic assistance by the international community remains strictly conditional upon compliance with the Peace Agreement and subsequent obligations.

The Council reconfirms its determination to apply conditionality to international reconstruction assistance, both by excluding non-compliant municipalities from reconstruction as well as by applying positive measures. In this context, the Council invites the High Representative to continue to advise donors on the performance of municipalities in the framework of the ETF and the RRTF.

b.The Council expresses concern that the authorities in Bosnia and Herzegovina are placing reconstruction and sustained economic growth at risk by: the common institutions' shortcomings in addressing economic management; allowing political differences to slow down the pace of economic transition; taking insufficient action against fraud; the lack of transparency in the use of public funds; and the failure to establish Public Corporations.

#### 2.Economic Management

a.The Council considers it unacceptable that the package of essential legislation establishing the common institutions of economic management has not been implemented in full, nor has the state-level legislation, specified in the Sintra Declaration, been adopted. The Council notes with concern that the consequent lack of a policy framework could freeze the economic reconstruction programme, notably by preventing an IMF Standby Arrangement and World Bank adjustment lending, rendering the country vulnerable to financial crisis. The Council calls upon the

authorities in Bosnia and Herzegovina to agree on a common approach on an IMF Standby Arrangement and to open negotiations with the IMF on the conclusion of such an arrangement without delay.

b.The Council demands that the competent authorities in Bosnia and Herzegovina and the Entities:

i.submit to the printers, by 20 December 1997, agreed designs for the common currency coupons and publicly announce the time-table for their introduction;

ii.adopt the Foreign Investment Law by 20 December 1997;

iii.apply the interim common customs tariff schedule by 20 December 1997;

iv.adopt mutually consistent 1998 State and Entity budgets by 31 January 1998;

v.adopt and start implementing the permanent Customs Code and Customs Tariff with no more than four different rates by 31 January 1998;

vi.implement automatic monthly transfers from the Entity budgets covering the State's administrative expenditures and debt service, by 1 March 1998.

### 3.Economic Transition

a.The Council emphasises the need to increase the pace of the transition to a market economy, in order to create the conditions for sustained growth based on private investment, exports and privatisation.

b.The Council calls upon

Republika Srpska to halt immediately the distribution of shares in state enterprises;

the Federation to adopt, by 31 March 1998, legislation on the reform of the pension system drafted in consultation with the World Bank;

both Entities to adopt, by 30 June 1998, a package of basic commercial legislation drafted in consultation with the European Commission and USAID.

### 4.Corruption and Diversion of Funds

a.The Council is deeply concerned by the potential for corruption and diversion of funds for unauthorised purposes as outlined in the two reports submitted by the European Commission's Customs and Fiscal Assistance Office (EC CAFAO) in the area of customs. Corrective measures should be taken against corruption. Foreign aid must not be a substitute for diverted state resources. Donors have to protect their assistance funds from possible misuse, as well as from having to compensate for misappropriation. The Council recognises that the lack of transparency and accountability of public finances, as attested in the Public Expenditure Review of the World Bank, undermines democratic values and the prospects for foreign investment in both Entities. It commends the recommendations set out in the EC CAFAO and World Bank reports and supports the policy of the High Representative to hold the competent authorities responsible for following-up on the reports. The Council deplores that persons compromised in the EC CAFAO reports should be promoted to new public positions before that follow-up has been completed.

b.The Council endorses the anti-fraud strategy presented by the High Representative. The following points are highlighted:

i.The criminal prosecution of corruption and diversion of funds is hampered by inadequate criminal procedures and prosecution capacities. The Council:

welcomes the intention of the High Representative to form an Anti-Fraud Unit to assist the authorities in Bosnia and Herzegovina to identify illegal activity and co-ordinate international technical assistance. The unit will identify the need for IPTF assistance;

urges members of the Peace Implementation Council to second experienced prosecutors, judges and other personnel to the Anti-Fraud Unit.

ii.Reconstruction funds managed by aid institutions lacking adequate control structures, and remaining outside the aid co-ordination structure, are vulnerable to fraud. The Council urges members to ensure that aid institutions using public funds participate in the co-ordination structure and use the services of existing Project Implementation Units as necessary.

iii.Legislative and administrative shortcomings in public finance generate opportunities for fraud in public revenue collection, budgetary spending and the activities of extra-budgetary institutions.

The Council agrees that the work of EC CAFAO, the World Bank, US Treasury and USAID is crucial for reducing such opportunities. The Council urges the authorities in Bosnia and Herzegovina to agree to an extension of EC CAFAO's assistance to cover all indirect taxes levied by the Entities or Bosnia and Herzegovina. The Council requires the Entities and Bosnia and Herzegovina to give EC CAFAO access to all relevant customs and fiscal records and documentation.

The Council calls upon neighbouring countries to co-operate with EC CAFAO and make available relevant customs documentation and data.

The Council requests that Bosnia and Herzegovina and the Entities, by 30 June 1998:

a.enact revised Organic Budget laws drafted in consultation with the World Bank;

b.adopt legislation on the creation of independent Supreme Audit Institutions reporting to the respective parliaments;

c.form parliamentary commissions, supported by a representative of the High Representative, for the review of the reports of the Supreme Audit Institution; and with the powers to: investigate all areas of public revenue collection, public expenditures and public utility accounts; publish its findings; and summon witnesses.

d.The existence of non-constitutional bodies and extra-budgetary funds diverts funds for unauthorised purposes. In this context, the Council welcomes the announcement by the Federation authorities that the so-called State Directorate for Strategic Reserves Sarajevo will be dissolved immediately. The Council demands that the authorities in Bosnia and Herzegovina make public all accounts related to all public companies and corporations, and transfer surpluses to the relevant budgets.

## 5.Public Corporations

a.Despite the efforts of the Chair of the Commission on Public Corporations, obstruction by officials in both Entities has blocked establishment of new Public Corporations and implementation of the Transportation Corporation. Only one temporary agreement has been signed by local authorities on telecommunications.

b.Because of the lack of co-operation between the Entities, and within the Federation, economic resources and infrastructure reconstruction are not being maximised and the quality of service is limited. The failure to restore railway traffic between the Entities is of great concern. The Council expects the authorities in Bosnia and Herzegovina to comply fully with the recommendations of the High Representative and the Chairman

of the Commission on Public Corporations in this respect; in particular it calls on the authorities in Bosnia and

Herzegovina to implement the recommendation on railways by 31 March 1998. It encourages international donors actively to support reconstruction of the Bosnian railway system through the Transportation Corporation.

c. The Council recalls that the Entities have an obligation under Annex 9 of the Peace Agreement to agree to the operation of transportation facilities by the Transportation Corporation. It urges the Entities to establish other joint public corporations, such as for the operation of utility, energy, postal and communications facilities, in accordance with the recommendations of the Commission on Public Corporations and the legal opinion of the High Representative. In the event of non-compliance, the High Representative will ask international bodies, such as the UCPTE, UIC, ITU, UPU and others, not to recognise the credentials of the representatives of Bosnia and Herzegovina.

#### 6. Economic Task Force

The Council confirms the crucial role of the Economic Task Force (ETF) in advising the High Representative on the economic aspects of peace implementation, including the application of political conditionality in reconstruction and development assistance, in close co-ordination with the RRTF. The Council is satisfied that co-ordination between the programmes of the major donors represented in the ETF is functioning well. It welcomes the High Representative's intention to create an ETF Secretariat for the purpose of improving and strengthening the action of sectoral Task Forces.

## **Ministerial Meeting Of The Steering Board Of The Peace Implementation Council, Luxembourg, 9 June 1998**

### Peace Implementation Agenda for the Remainder of 1998

#### Economic Reintegration and Reform

40. The Steering Board reminds the authorities in Bosnia and Herzegovina of the importance of establishing an integrated economy, as well as the urgent need to move towards a market oriented economy with an attractive investment climate.

41. Privatization is essential for the economic recovery of the country. The Steering Board stresses that refugees and displaced persons should not be discriminated against in the privatization process and that the process ensures transparency and fairness. The Steering Board welcomes the passage of privatization legislation in the Federation, the adoption of the State-level privatization law by the Council of Ministers and the revision of privatization legislation in Republika Srpska. It calls for the immediate passage of the State-level privatization law by the Bosnia and Herzegovina parliament and urges passage of new privatization legislation in Republika Srpska, consistent with it, by 15 July 1998. The Steering Board calls for the privatization process to be underway in both entities by 30 August, 1998.

42. The Steering Board notes that too many obstacles still prevent free and fair trade in Bosnia and Herzegovina. Therefore:

illegal Entity tax legislation should be repealed, or amended, by the Entities by 15 July 1998;

- b.Entities should harmonize sales taxes and excise legislation before 1 November 1998;
- c.the Federation authorities should unify the tax collection and payment systems in the Federation under a single Payment Operations Institution before 30 September 1998;
- d.illegal bilateral customs agreements should be repealed by 15 July 1998;
- e.the customs code should be passed by 15 July 1998 and fully applied by January 1999.

43.The Steering Board is pleased to note that Bosnia and Herzegovina now has a stand-by arrangement with the IMF: the new Konvertible Marka currency will be put in circulation before end of June 1998. However, further actions are needed in the financial sector. Therefore:

- a.new banking legislation should be adopted in both Entities by 15 July 1998;
- b.a country-wide system of payments in Konvertible Marka should be developed further in cooperation with the IMF and the Governor of the Central bank;
- c.a plan for comprehensive reform and reorientation of existing payment bureaux should be prepared by 31 October 1998.

44.The Steering Board commends recent progress in organizing public utilities. The Steering Board encourages the eventual privatization of such utilities. In particular it welcomes the establishment of the Bosnia and Herzegovina Joint Railway Corporation as part of the Transportation Corporation. In order to ensure a further improvement of the infrastructure network:

- a.the law on Telecommunication should be adopted by the Council of Ministers before 30 September 1998 and implemented before December 1998;
- b.a Framework Agreement should be signed by the authorities setting the principles for the reorganization of the electricity sector before 31 October 1998;
- c.a Framework Agreement should be signed by the authorities setting the principles for the reorganization of the postal sector before 31 October 1998;
- d.the Transportation Corporation should be activated by 30 November 1998.

45.The Steering Board requests that international assistance for public utility sectors be conditioned upon a program of re-structuring and transparency set up by the High Representative in close consultation with the Chairman of the Commission on Public Corporations and with the main bilateral donors. It reminds the authorities of Bosnia and Herzegovina that all accounts of all public companies should be made public.

46.The Steering Board supports the request of the High Representative that assistance directed towards Republika Srpska be increased in 1998 to make up for the past low level of international aid.

47.The Steering Board urges the authorities, in particular in the Entities, to undertake more actions and reforms, including those proposed by EC CAFAO, to reduce the scope of corruption and misuse of public funds. It welcomes the creation by the High Representative of an anti-fraud unit and encourages him to coordinate the effort of the international community in that field to better implement a comprehensive strategy.

48.The Steering Board calls on the authorities in Bosnia and Herzegovina to reach agreement by 31 July 1998 with the Government of the Republic of Croatia and the Government of the Federal Republic of Yugoslavia to determine

official border crossing points between Bosnia and Herzegovina and these respective neighboring countries. Each agreement shall also determine how to prevent traffic from using the numerous roads crossing the border at non-approved locations between Bosnia and Herzegovina and the Republic of Croatia or the Federal Republic of Yugoslavia. The Steering Board recommends that each border point be properly controlled.

49.As a key to the further revitalization of the Bosnian economy, it is critical that operations of the Central Bank and the introduction of the common currency go forward as scheduled.

50.The Steering Board regrets the failure to achieve a unified telephone system with Bosnia and Herzegovina-wide consistent dialing codes and a single international dialing code, as agreed at the 1996 London PIC Conclusions and in the August 1997 agreement on telephone area codes. It calls for these goals to be attained by December 1998.

51.Public authorities must support monetary stability and macroeconomic consolidation by adhering to budget processes that are fiscally sound, realistic, transparent and operative. Public authorities should promote a culture of public accountability. The international donor community and the people of Bosnia and Herzegovina will not continue to tolerate budget irregularities and corruption.

52.In spite of the progress accomplished so far, the Steering Board is concerned that Bosnia's economic growth to date is mainly due to donor inputs and "bounce back" after war. In real terms, Bosnia and Herzegovina's GDP is still only about half of its relatively low pre-war level. The Steering Board urges the immediate adoption of structural reforms to establish a market economy. These reforms should include:

Development of a viable financial sector. This means introducing market-oriented private banks in the place of the current state banks, developing capital markets, supporting the establishment of insurance companies, and other measures.

Privatization of socially-owned enterprises and banks.

Establishment of a regulatory framework favorable to domestic and foreign investment.

Full implementation of the joint customs tariff, and the elimination of any remaining barriers to free trade within Bosnia and Herzegovina.

The Steering Board emphasizes the importance of agriculture in the economy of Bosnia and Herzegovina, and in particular to provide an environment which will sustain the return of refugees. The Steering Board urges the Entities to take immediate measures to stop illegal exploitation of forests.

## **Declaration of the Peace Implementation Council, Madrid, 16 December 1998**

Declaration

6. We say to everyone in Bosnia and Herzegovina: yours is now one of the most assisted countries in the world. International assistance is at its height. It will inevitably begin to reduce in the near future. Bosnia and Herzegovina must use the time that remains to prepare for life without total reliance on foreign aid, and to face up to the challenge of transforming the economy to generate jobs and a better standard of living. This means abandoning the statist economic attitudes of the past, pressing ahead with privatisation and creating an environment which encourages enterprise and allows the economy to flourish, and in which the rule of law is respected. This also requires a greater degree of commitment and co-operation and a more responsible attitude from the authorities of BiH.

12.3 Self-sustaining economy: It is now essential to tackle, as a matter of urgency, the

task of transforming Bosnia and Herzegovina's economy in 1999 to make it capable

of surviving and prospering with reduced foreign aid. We agree a package of measures to:

- pursue stability-oriented macro-economic policies under the present stand-by agreement with the IMF;
- accelerate the establishment of a market economy;
- develop Bosnia and Herzegovina economy as one single economic space based on EU standards;
- install the legal and regulatory infrastructure necessary for a newly emerging, free market society;
- privatise, in a transparent and apolitical manner, state-owned industries, banks, as well as small businesses and public utilities;
- reform payments systems;
- establish properly functioning capital markets and banking institutions;
- fight against corruption, fraud and fiscal evasion;
- create adequate and sustainable conditions for the development of small and medium enterprises and stimulate foreign and domestic investments in the country.

Annex

#### IV. Self-Sustaining Economy

##### Economic Reconstruction and Reform

1. The war all but destroyed the BiH economy. Since then, it has been assisted by billions of dollars provided by the international community. This was inevitable and essential in the immediate post-war period. But that period is now at an end. BiH must start to stand on its own feet. The flow of donor assistance – unprecedented in its scope and scale – has reached its height, and will soon inevitably start to diminish. BiH and its leaders must make the most of what remains of this window of opportunity, and strive for a BiH that is ready for life with a reduced level of

foreign aid.

2.The Council commends local authorities, the Council of Ministers and the Entities, for economic reforms and transition steps achieved in 1998. In particular the Council considers that the successful introduction of the stable KM has been a major achievement towards bringing macro economic stability throughout the country. This progress must be built upon in 1999 on the basis of the macro policy framework agreed under the Stand-by Arrangement with the IMF.

3.It is also essential for progress towards an efficient market economy that the Entities integrate more open and modern mechanisms within their economic institutions and markets to ensure a self-supporting economy. BiH's economy remains crippled by a bureaucratic mind-set and a statist system. Domestic equity is very limited and mostly restricted to trade activities. Foreign capital, which is necessary for the economy to take off, will not come before a set of drastic reforms have been completed, including a transparent privatisation of enterprises and banks. The establishment of the rule of law and an independent judiciary is also a sine qua non of a free market economy. All these reforms should be in line with the European Union standards and practices.

4.Sustainable economic growth is essential to political stability. Normalisation of Bosnia and Herzegovina's economic relations with its neighbours and the region as a whole is essential to building sustainable trade and investment links to the larger global economy. Bosnia and Herzegovina must commit itself to free-market principles, it must be prepared to harmonise its trade and investment regimes, laws, and institutions to international standards, to begin the process of accession to the World Trade Organisation, and to become a signatory to all other generally-accepted international codes, conventions, and treaties that facilitate trade and investment.

#### Reconstruction and donors co-ordination

5.The Council invites donors to complete the four year reconstruction program in 1999 by sufficient allocations at the next Donors' Conference, due in the beginning of 1999. While it acknowledges the need to continue the physical reconstruction of infrastructure at all levels, the Council wishes to see additional international funds used in support of the political and economic priorities proposed by the High Representative and endorsed by the Council or the PIC Steering Board.

6.The Council stresses that reforms in all sectors of the country must gain further momentum. The reform programme supported by the Council needs to receive appropriate funding. Therefore the Council asks the World Bank and the European Union to stress at the next donors' conference the importance of funding:

- structural reforms in the economic sector;
- structural reforms of institutions and civil society (including police, judiciary, media and military);

1. the return of displaced persons and refugees;

- the strengthening of the Common Institutions.

7.The Council is concerned that the High Representative is not in a position to respond swiftly and urgently enough to unforeseen financial needs arising from sudden political developments on the ground, without having to refer back to capitals. The Council requests donors to seek for more flexibility in their programmes. In particular, the

Council:

- encourages the High Representative to continue, through the Economic Task Force (ETF) to integrate economic aspects of peace implementation, and asks ETF members further to co-ordinate and plan their programmes. It welcomes in this respect the existing co-operation between the High Representative and the International Management Group and calls for a further strengthening of that co-operation;

- encourages the High Representative to invite the major donors to meet quarterly to review their assistance programmes, in order to share information, evaluate progress and, if necessary, suggest mid-course corrections in the direction or implementation;

- urges donors to undertake to ensure adequate funds are available to the High Representative to support initiatives in response to situations involving urgent action.

8.The Council calls on donors to apply strict conditionality in the allocation of their funds as discussed in the ETF under the chairmanship of the High Representative.

9.The Council calls on donors to provide the necessary means to help with the establishment of new bodies, such as the Bosnia and Herzegovina Statistics Agency, the Telecommunication Agency or Mostar Airport Authority, and to complement these bodies' own budgets or funding.

Privatisation of enterprises and banks

10.The Council expects the Entities to carry out a rapid transition to a free-market economy, focusing, above all, on enterprise and bank privatisation. The Council calls on the High Representative to use his authority to achieve these economic reform objectives. It encourages donors to tailor their contributions to match progress in implementation to support the decisions of the High Representative.

The Council demands:

- that political parties immediately separate themselves from direct or indirect relationships to state-controlled enterprises and calls on the High Representative to take appropriate steps to ensure a privatisation process free from political interference;

- that an end is put to political obstructionism in the implementation of privatisation;

- that the Entities take all necessary steps to implement the privatisation of enterprises and banks in conformity with the State Law.

11.The Council welcomes the establishment of the Privatisation Monitoring Commission. It urges the High Representative to take appropriate action as proposed by the Commission or as he deems necessary to expedite the privatisation process in a fair way. The Council requests the Entities to co-operate fully with the Commission.

12.Concerning privatisation of enterprises, the Council demands that in 1999, the privatisation of small scale enterprises be completed and privatisation of large enterprises be set firmly in train. The Entities will:

- by 28 February 1999, bring in line their legislation with the State Law, in particular the eligibility criteria for issuance of vouchers;

- fully inform, through a public education campaign, all potential beneficiaries of vouchers, including displaced persons and refugees, of their rights;
- establish immediately mechanisms for inter entity co-operation, including a common data base;
- pass and implement all laws essential in a market economy, including the adoption of the Enterprise law by 31 March 1999, and the adoption of Labour and Foreign Investment Laws by 31 May 1999. EU standards and experience should serve as guidance in this area;
- adopt and publish a strategy for industrial development, which creates the conditions in which new industries can emerge in the private sector and which would facilitate restructuring of declining sectors.

The Council also calls on the donor community adequately to fund the technical assistance necessary for privatisation to be carried out in a timely manner.

13. Privatisation of the banking sector is prerequisite for creating an attractive environment for foreign and domestic investment. The Council welcomes progress achieved so far and urges rapid progress in setting up the Deposit Insurance Agency and liquidating insolvent banks in both Entities.

14. The Council calls for the convocation by April 1999 of a country-wide conference on private sector development, to be co-hosted by the BiH authorities, the EU, World Bank, IMF, USAID, EBRD and other donors and with the participation of BiH private sector representatives.

15. The Council commends the Entities on their fruitful mutual co-operation, in particular in customs administration and tax matters, and looks forward to their reinforcing it in the future.

16. As part of the process of strengthening the common institutions and making them more effective, the BiH authorities will:

- adopt, by September 1999, a Law creating a Supreme Audit Institution;
- establish, by June 1999, a Treasury as a part of the proposed Ministry of Finance;
- ensure proper implementation of the Foreign Trade, Foreign Investment and Customs Laws, including establishing, by 1 March 1999, a mechanism to monitor implementation of the Law on Customs Policy of Bosnia and Herzegovina.

17. For the immediate future, the Council attaches great importance to the creation of a single economic space within the territory of Bosnia and Herzegovina. The Council reminds the Entities of the need immediately to cease customs practices giving custom duty exemptions to imported commodities in contradiction to the BiH tariff law. The Entities should also further harmonise their legislation taxation, labour and capital markets laws.

18. The Council emphasises the need to ensure better governance and full transparency in public finances. To that effect the Council urges the Entities:

- to co-operate fully and without reservation with the international community on a comprehensive and coherent

structural reform of the payments bureaus. The reform must cover the payments clearing functions, the treasury functions, information and accounts for tax compliance and other key aspects. Detailed functional and financial audits of the payment system should begin in January 1999 and be completed by June 1999. A detailed and final plan for the reform of the payment system and a timetable for the implementation of this plan will be prepared and agreed upon with the international community by June 1999. The implementation of the entire reform program will be completed by 31 December 2000. This will coincide with the abolition of the present payment bureaus by that date;

- to reinforce transparency, accountability and auditing. A work plan to carry this out must be finalised between each Entity, the High Representative, the IMF and the World Bank and other relevant agencies before 1 March 1999. In particular each Entity shall establish during 1999 a Treasury and a Supreme Audit Institution; parliamentary commissions should be formed in 1999, at the Entity and State level, with the obligation to review the reports of the Supreme Audit Institutions;

- in the Federation, to ensure a unified budget, customs administration and payment system immediately, and full financial accountability of the telecommunications and power companies by 1 March 1999.

The Council requires that the BiH telephone code 387 be used by all telecommunication operators for incoming and outgoing international calls before 1 February 1999.

19. The Council emphasises the need for adequate social protection. It urged the Entities to:

- develop, in co-operation with donors, a strategy to fight poverty, including social protection for vulnerable elements of society by September 1999;

- agree with donors by mid-1999, and implement, starting in September 1999, comprehensive reform of the pension and health systems based on the principles of efficiency, financial sustainability and maximum provision for private participation, and taking account of the need for the systems to offer equal and fair treatment on a non-ethnic basis.

Public Utilities and Implementation of Annex 9:

20. The re-organisation of Public Utilities is of prime importance for the economy. It must be carried out in a way which respects both the economic integrity of the country and the division of responsibilities under the Peace Agreement. The Council notes in this respect that Public Utilities companies still have to be reconstituted in the Federation. The Council notes however with satisfaction encouraging progress achieved in the railways and telecommunication sectors and fully supports the work now being done in the field of power transmission. The Council welcomes the decision on the establishment of a Joint Electric Transmission centre and requests the parties to work further on joint facilities in that sector. Similarly, restructuring must start in the postal sector, which must be separated from the telecommunication activities. Donors are invited to provide technical assistance and equipment in the postal sector.

21. The Council calls on the common institutions to adopt:

- the Civil Aviation act by 28 February 1999;

- the State Law on Transportation, by 31 March 1999;

- the State Law on Electricity, by 30 June 1999;

- the State Law on Postal Services, by 30 June 1999

and to implement them immediately.

22. The Entities must adopt corresponding legislation in accordance with the State Legislation before 30 September 1999. The establishment of a regulatory body and a regulatory framework in conformity with the Peace Agreement are required for any substantial development of public utilities, and for their subsequent privatisation. In particular the Entities must, in the fields of telecommunications, electric power generation and retail distribution adopt appropriate regulatory regimes, clarify ownership and legal structure (June 1999) and devise privatisation plans (October 1999) so that privatisation can be initiated in the following year. The Entities must pass legislation, including laws on concessions, in order to regulate the activities of private operators performing public services.

23. The Council requests the Entities and the Commission on Public Corporations to activate the Transportation Corporation established by Annex 9 of the GFAP before 30 April 1999, and to take whatever measures are necessary so that the Railway Public Corporation functions properly.

24. The Council requests further implementation of Annex 9. It requests the Commission on Public Corporations to consider actively and propose to the governments of the Entities the creation of additional public corporations as necessary, and urges those governments to implement the Commission's recommendations. Joint Public Corporations are particularly needed in the fields where close co-operation or common management of infrastructure are necessary in order to achieve co-ordination, harmonisation or economic efficiency. This is the case for all sectors which have a country-wide component, such as transport infrastructure (including roads), telecommunications, energy, broadcast transmission or post.

25. In the event of failure to proceed as stated above, the High Representative should continue to ask international bodies, such as the UIC, ITU, UPU, UCPTE and others, not to recognise the credentials of the representatives of Bosnia and Herzegovina in those organisations.

26. The Council reminds the Entities that they were required under Article III (5) (b) of Annex 4 to the GFAP to negotiate the transfer to the Institutions of Bosnia and Herzegovina of matters relating to the utilisation of energy resources or other co-operative projects. The governments of the Entities are urged to proceed accordingly by June 30, 1999.

27. The Council urges the Parties to refrain from the establishment of any obstacle to trade between the territory of the two Entities, allowing for free and unrestricted circulation of goods, capitals, services and persons all over Bosnia and Herzegovina. Any existing obstacle to such a free circulation, including those consisting of the establishment of additional administrative requirements, should be promptly removed.

Corruption, fraud and fiscal evasion:

28. The Council expresses deep concern about continuing corruption and evasion of public funds. It welcomes the High Representative's development of a comprehensive anti-corruption strategy which will be presented to the Steering Board in early 1999. The strategy will provide the framework necessary to identify, develop and implement changes in the structure and procedures of government, to significantly reduce corrupt activities and to establish a public awareness program. The strategy will contain specific action plans identifying the international organisations and local agencies responsible for implementation, as well as timelines. The High Representative will take the lead in co-ordinating International Community efforts aimed at eliminating opportunities for corruption, tax evasion and diversion of public revenue; ensuring transparency in all phases of governmental operations; strengthening the legal system and the judiciary; and implementing control mechanisms with appropriate penalties to ensure compliance. A key component of the strategy will be to develop a public awareness campaign to educate citizens about the deleterious effects of corruption on their own lives and on society. The Council emphasises again

that it will not allow the impact of funds expended by donors to be diminished by corruption and fiscal evasion of domestic revenue.

29. To implement the anti-corruption strategy efficiently and effectively, the Council welcomes the High Representative's intention to strengthen the Anti-Fraud Unit and the European Commission's intention to strengthen the Customs and Fiscal Assistance Office (CAFAO) programme. The Council recognises the successful efforts of the European Commission's CAFAO program in the customs field and welcomes its involvement in the area of indirect taxation. It calls upon the European Commission through its CAFAO programme, the OSCE, UNMIBH and other involved members of the International Community to work closely together under the co-ordination of the High Representative to combat corruption, organised crime, and other actions which divert public funds and undermine democratic institutions.

## **Declaration of the Peace Implementation Council, Brussels, 23/24 May 2000**

### **1. Economic Reform**

This year marks the end of the large-scale, post-war reconstruction period. BiH has been one of the most highly assisted countries in the world. The people of BiH are now in a decisive phase for accomplishing the reforms essential to long term self-sustaining stability. Major internationally financed reconstruction has taken place in the infrastructure sector, and has driven economic growth. As this assistance will decline significantly over the coming years, the economy of BiH faces the challenge of realising self-sustaining growth. In order to achieve this objective, the BiH authorities must accelerate substantially the pace of structural economic reforms in support of private sector led development. The Council urges donors to continue to condition their assistance upon the implementation of concrete and specific reforms.

The following economic reforms are critical:

Creating a single economic space: BiH cannot afford a divided economic landscape. We call on the BiH authorities to enforce the constitutional provisions for an internal market and to maximise economic coordination between the State and the Entities and between the Entities. To increase efficiency and economies of scale, there should be a

harmonised, country-wide approach in a number of areas, including: taxes, competition, public procurement, financial services, standards and regulations, banking, public utilities, electric power, telecommunications and transport/railways. The reform of the customs system must continue. These steps are preconditions for BiH's integration into Europe. These reforms should become building blocks for a single economic space; all international community policies should support these reforms.

The Council accordingly calls on the High Representative to ensure rapid development of State-level regulatory mechanisms for telecommunications, energy, transport, and media and to ensure that there are no duplicative or conflicting regulatory competences at any level of government. Establishment of a functioning State Treasury during this year is essential to strengthen the financial basis of the State institutions. The Council calls on the State authorities, in consultation with the High Representative, to identify and establish adequate domestic funding sources for the State budget.

Enabling private sector growth: To succeed economically and attract private capital to sustain growth, BiH needs an attractive business environment. Barriers to investment such as discriminatory utility fees, lack of clarity on

land titles and cumbersome tax systems must be rapidly removed and the basic legal structures of a modern market economy instituted. The Council urges BiH authorities to remove promptly the barriers obstructing the development of the private sector and to establish simplified procedures for foreign and domestic investors. The Council urges the authorities to proceed with broad-based reform of the taxation and customs systems, labour legislation, the social security system, the banking system, the unaffordable military structures and the unsustainable governmental bureaucracy at all levels. The Council calls for adherence to the current timetable to dismantle the payment bureaux system completely by December 2000. The Council strongly supports immediate reform in the area of public utilities, with an emphasis on telecommunications and energy. It urges BiH to develop its digital and Internet technology capacities crucial for economic growth. It calls for the separation of economic and political powers through liberalisation and privatisation.

**Privatisation:** A substantial number of publicly owned enterprises must be privatised expeditiously, and the process of privatisation must be seen to be transparent and in the interest of the citizens of BiH. The Council encourages greater emphasis be placed on tender privatisation that encourages the injection of new management and capital. Direct intervention by the High Representative may be necessary in strategic industries and in cases where the privatisation process is suspect. The Council welcomes the involvement of international experts, as necessary, to ensure that the privatisation process moves forward quickly and in the interest of the people of BiH. The OHR, via the Economic Task Force, will ensure co-ordination and monitoring of the privatisation process, in particular, through the International Advisory Group on Privatisation, and report to the Steering Board.

**Fight against corruption:** The Council remains deeply concerned over ingrained corruption in BiH which undermines democratic governance, wastes public resources and hinders the development of the market economy. The OHR comprehensive Anti-corruption Strategy is the solid basis for the fight against corruption. All public officials are expected to give their active and unreserved support to this Strategy and to the institutions which are implementing it. The Council urges measures for improved transparency in public budgets and institutional capacity-building required to end the systemic nature of corruption. The Council endorses the joint initiative of all parties represented in the BiH House of Representatives aimed at introducing a draft law on party financing without delay. We urge competent BiH authorities to regulate party financing and conflict of interests through legislation.

A self-sustainable market-orientated economy cannot be built in an environment where the principles of economic logic are overruled by the objectives of maintaining political control. Vestiges of the old economic system exemplified by the payment bureaux and the politically motivated allocation of real estate and other economic resources, must be eliminated.

During this crucial period of economic reform, co-ordination among the various international donors and agencies is especially important. The Council urges the BiH authorities to closely collaborate with the International Financial Institutions and other donors in the design and implementation of economic reforms. International Financial Institutions are encouraged to unequivocally apply conditionality. The Council recognises the crucial role that the High Representative plays in co-ordinating the international donor community's efforts for BiH and it supports the High Representative in the use of his mandate to remove obstacles that choke economic growth and deprive the citizens of jobs and a fruitful economic life.

## **Annex to the PIC Declaration: required actions, Brussels, 23/24 May 2000**

Complete dismantling of the Payment Bureaux (December 2000).

A catalogue of trade and investment barriers in BiH shall be drawn up in consultation with OHR and international economic experts, and urgent steps shall be taken to remove these barriers, especially the full adoption and implementation of harmonised foreign direct investment legislation at State and entity level.

Legislation on political party financing and conflict of interest must be passed by the BiH Parliamentary Assembly and Entity Parliamentary Assemblies (September 2000).

The following legislation must be adopted by the BiH Parliamentary Assembly: Law on Competition (December 2000), Law on Standardisation, including the creation of a BiH Institute for Standards (December 2000), and Laws on Patents, Trademarks and Copyrights (March 2001).

The following legislation must be adopted in a harmonised manner by the Entity Parliamentary Assemblies: Law on Land Registry (December 2000), Law on Obligations and Contracts (June 2001), Law on Public Procurement (December 2000), Law on Budget Transparency (December 2000) and Law on Public Corporate Transparency Law (October 2000).

Revisions to the Labour Law must be passed by the Federation Parliamentary Assembly (December 2000).

Steps must be taken by all relevant authorities to inaugurate the BiH Road Infrastructure Public Corporation (June 2000), launch a BiH Gas Transportation Public Corporation (October 2000) and establish an Energy Regulatory Agency for BiH (April 2001) and a Broadcasting Transmission Infrastructure Corporation.