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Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, October 1999, Vol. 2, Issue 9

**Economic Task Force Secretariat
OHR in co-operation with IMG International Management Group**

Economic Indicators

Bosnia and Herzegovina (BiH)

	Dec-98	Jan-99	Feb-99	Mar-99
Unemployment (persons)	398639	401775	404940	407859
Net wage (KM)	330	335	337	329

Federation of BiH

	May-99	June-99	Jul-99	Aug-99
Unemployment (persons)	262228	261660	263075	
Employment (persons)	407194	407212	407224	
Unemployment ratio (1)	43.5%	43.4%	43.5%	
Net wage (KM)	372.5	368.5	378.0	
Retail price growth	0.0%	-0.7%	-1.0%	0.0%
- annual growth (2)	-1.0%	-0.9%	-0.7%	-0.8%
Industrial prod growth	-3.5%	9.0%	0.0%	5.2%
- annual growth (2)	1.7%	9.9%	8.2%	9.5%
Sales to RS (KM mln)	7.1	6.1	5.3	8.4

Republika Srpska (RS)

	May-99	June-99	July-99	Aug-99
Unemployment (persons)	142152 (Dec 1998)			
Employment (persons)	250000 (estimate 1998)			
Unemployment ratio (1)	36% (estimate Dec 1998)			
Net wage (KM)	201	211	229	215

Retail price growth	1.3%	2.8%	-0.7%	0.5%
- annual growth (2)	16.7%	21.3%	15.0%	11.4%
Industrial prod growth	-3.9%	20.5%	-0.9%	13.1%
- annual growth (2)	4.2%	10.1%	-4.3%	17.9%

Sources: BiH Agency of Statistics, Federation Statistical Institute and RS Statistical Institute. Growth figures are over one month, unless indicated otherwise. Inflation in KM prices.

(1) Number of unemployed over employed plus unemployed, excludes waiting list and gray economy; (2) Annual figure, month this year over month previous year.

Economic Policy and Reform

PIC Endorses the High Representative's Strategy

The High Representative (HR) met with the Peace Implementation Council (PIC) Steering Board Foreign Ministers in New York on September 22, 1999. The Steering Board welcomed the HR's commitment to carry out the civilian aspects of the Dayton/Paris Peace Accords and subsequent PIC declarations.

The Steering Board welcomed and endorsed the HR's outline of his concept of "ownership" – the people of Bosnia and Herzegovina becoming the owners of their progress in implementation of the Dayton/Paris Accords and the eventual entry of BiH into European institutions. The Steering Board noted that political leaders in BiH are accountable for leading and not impeding the transformation of their country from war and ethnic strife to pluralism and a modern civic society. They noted that this requires a truly independent media and the strengthening of the Rule of Law.

The Steering Board also welcomed the HR's decision to focus his efforts on key strategic areas: economic reform, with a special emphasis on fighting corruption to allow BiH to reach levels of transparency and prosperity that meet European standards; the continued return of displaced persons and refugees; and the development of common institutions that will ensure BiH functions as a modern state, accountable to its citizens.

The Steering Board confirmed the HR's powers granted by the Dayton/Paris Accords and subsequent PIC declarations. The Steering Board encouraged the HR to continue to coordinate the activities of other international agencies in BiH. (The full text of the High Representative's speech to PIC Ministers is available on the OHR's website.)

First Meeting of the Anti-Corruption and Transparency Group (ACT)

On October 1, the High Representative addressed the first meeting of the Anti-Corruption and Transparency Group (ACT Group) at the OHR offices in Sarajevo. Stressing the importance of the ACT Group, he said that the Group was set up to demonstrate publicly and forcefully the International Community's commitment to fight fraud and corruption, foster transparency at all levels of government, and ensure that the International Community's Comprehensive Anti-Corruption Strategy, which was endorsed by the Steering Board in March, was fully coordinated and implemented. The ACT Group, chaired by Principal Deputy High Representative Ralph Johnson, includes representatives from the International Monetary Fund (IMF), the World Bank, the European Commission (EC), the Customs and Fiscal Assistance Office (CAFAO), the European Bank for Reconstruction and Development (EBRD), the US Agency for International Development (USAID), the International Management Group (IMG), the Council of Europe (CoE), the Organization for Security and Cooperation in Europe (OSCE), the UN Judicial System Assessment Program (UN JSAP), the International Police Task Force (IPTF), the

Stabilization Forces (SFOR), and the US Anti-Corruption Team (FACT).

During the meeting, the participants actively discussed key issues to ensure the effectiveness of the fight against corruption, such as the de-politicization of public administration, transparency in budgetary matters and the funding of political parties, reform of the criminal procedure and other legal codes. They also stressed the importance of working with civil society to energize them to participate in their government and to take responsibility for its actions.

Senior Deputy High Representative Mattei Hoffmann concluded that it is only when civil servants serve all the people who elected them, and not party officials or ethnic groups, that the citizens of BiH will be able to rebuild their lives and their country. Mr. Johnson summarized the discussions by saying that participants agreed that all available resources needed to be maximized in the fight against fraud and corruption.

State Law on Audit Adopted

The BiH House of Representatives and the BiH House of Peoples recently adopted the State law on audit. This will strengthen public financial management and improve transparency. The next step is to select and appoint an Auditor General, mandated to undertake audit activities.

Establishing auditing procedures and institutions at State and Entity governments form an integral condition of the Public Finance Structural Adjustment Credit Program of the World Bank.

Customs Hotline Established

A significant step was recently taken to involve the public of BiH in the fight against customs crime. A Customs Hotline was launched simultaneously in each Entity in mid-September and was accompanied by an advertising campaign of billboard ads, pamphlets and television commercials. The Customs and Fiscal Assistance Office (CAFAO), a program funded by the European Commission, has worked very closely with the Federation and Republika Srpska customs services in the development and introduction of these Hotlines.

The Hotline in each Entity is a dedicated and easy-to-remember telephone number – (071) 200 000 in the Federation and (051) 213 000 in Republika Srpska – which the people of BiH are being encouraged to call if they have any information they believe could assist in combating customs crime. The information gathered through the Hotlines will form just one of the elements in the collection of intelligence information aimed at reducing the level of revenue evasion and customs crime in BiH.

Similar customs or drug Hotlines exist in many EU countries; these have proven to be a significant tool in combating drug and commercial smuggling. Since the launch on 22 September 1999, the Entity Hotlines have already received around 700 telephone calls, some of which have provided valuable information and which are now forming the basis for ongoing larger scale investigations. In addition, a number of significant seizures of illegally imported goods have been made, including approximately 380,000 cigarettes and large quantities of coffee.

A Single Cantonal Account for the Herzegovina-Neretva Canton

Parallel budgetary accounts of the Herzegovina-Neretva Canton have been a longstanding matter. An agreement was reached in July 1999 between the Payment Operating Institute of Federation of Bosnia and Herzegovina, the Canton Ministry of Finance and the OHR to open a single joint account for the collection of Cantonal revenues.

The Cantonal bureau is to be situated within the ZAP office, under Croat jurisdiction, located in the Central Zone of the City of Mostar. The account is to be serviced by the ZAP with agreement on the working procedures by the ZAP

and ZPP; the latter is managed by the Bosniaks. It was agreed that all revenues that are accrued by the Canton would now be deposited in this single account. However, subaccounts have been established to ensure that until a budgetary agreement is reached, revenues from the two tax administrations would be tracked separately. Starting October 1 1999, the Herzegovina-Neretva Cantonal Government Budget is operating from a single account located in the ZAP.

BiH Statistical Directors Meet with Eurostat

In September 1999, Eurostat invited Directors of the BiH State and Entity Statistical Institutions. The General Director of Eurostat welcomed the recent developments in the statistics filed in BiH. Discussions included various topics including the population census and the transfer of statistical functions from the Payments Bureaus to the Bosnia and Herzegovina Agency for Statistics (BHAS). Concerning census, it was agreed that 2001—the year initially foreseen—would be unrealistic to implement this initiative. The political situation and the necessary legal framework to conduct a population census are not yet in place. Moreover, there should be full financial and political commitment from governments of BiH. On the transfer of statistical functions, Eurostat supported bilateral technical assistance from Slovenia, which had undergone a similar experience.

The meetings were successful and there was a spirit of cooperation. This visit marked the full international representation achieved by the BHAS. Eurostat's message was clear: financial support will be dependent upon the cooperation among the BiH Statistical Institutions. Eurostat also stressed the coordination role of the BHAS vis-à-vis the Entity Institutions. Finally, Eurostat emphasized the need for various statistical legislation for BiH including a law at the State level, harmonizing laws at the Entity levels, preparing a list of joint activities (State and Entities), and creating the necessary conditions for a population census.

The Yugoslav Dinar Slides Further

The Yugoslav Dinar has depreciated sharply in recent months. It had stabilized to more than 10 against the Konvertible Mark, earlier this year, but has continued to decline following the recent events in the Federal Republic of Yugoslavia. The RS Banking Association had set the rate at 12 in late August and lowered it to 14 on September 30.

A number of reasons contribute to this devaluation including weak confidence and presumably influx of Dinars from FRY. In contrast, the KM continues to gain trust and circulation in the RS. The RS Government has taken steps to bolster the KM but needs to reinforce the currency further by ceasing the acceptance of Dinars for public utility charges. This move would discourage the current practice of purchasing Dinars for various transactions – particularly payment of utility bills – at the street rate, which now hovers around 16.

The RS Government authorized the Banking Association to set the Dinar-KM exchange rate in April of this year. In early 1998, the Dinar traded at 3.3 against the Deutsche Mark.

Organization of Public Services

Energy Sector Update

Natural Gas – After nearly a month-long pause in September, natural gas supply resumed in Sarajevo primarily due to successful negotiations by representatives of BiH Gas and Energoinvest with Gasprom (Russia), MOL (Hungary) and NIS (Federal Republic of Yugoslavia) companies. The total debt of \$6.7 million has been partially paid (\$3.2 million) and the reminder has been rescheduled for payment by 1999. Over 80 percent of the debt are attributed to Sarajevo Gas Company, BiH Federation. There is a serious concern regarding the payment of the outstanding debt. This could result in another shutdown during November 1999. Meetings with the newly appointed Director of

Sarajevo Gas are continuing to prevent this.

Power – Norwegian experts, with assistance from the Entity Ministries, are preparing State and Entity laws on electricity. The first draft of the Entity law(s) is being reviewed. Targeted completion date for the State and Entity Laws is December 31, 1999.

A Grant Agreement has been signed between the Joint Power Coordination Centre (JPCC) and US Trade and Development Agency to fund the SCADA (Supervisory Control and Data Acquisition System) Feasibility Study. The study, estimated to be completed by 1 March 2000, will provide specifications and related costs to implement SCADA in JPCC and three Regional Control Centers.

Teshmont Consultants have completed the initial Feasibility Study Report to determine an optimal configuration of the BiH State Electrical Transmission Grid. The study will establish rehabilitation priorities and estimated costs to fund the World Bank's Power III Program. The final report is expected in November 1999.

Telecommunications

Regulatory Agency – On 9 September 1999, the Council of Ministers made the final appointments to the Telecommunications Regulatory Agency. During its first meeting on 16 September, the Agency elected Mr. Jasenko Lasta as the Chairman. The members of the Agency are working cooperatively.

Numbering plan – On 23 September 1999, it was agreed that the migration plan i.e. the technical details of the new numbering system will be ready by October. The launch of the new numbering plan is expected mid-December.

Financial Reviews of the PTTs – Both HPT Mostar and PTT BiH have completed and submitted their financial reviews as was required of them by the European Bank for Reconstruction and Development in the context a loan agreement from the EBRD. The reviews suggest that many anomalies and inappropriate accounting practices are present in the financial management of both companies. There will be changes to their accounting systems in accordance with International Accounting Standards and fully audited accounts should be available in 2000. This requirement is urgent in order to enhance accountability of public utilities. Telecom Srpska is in the process of selecting an auditor.

Postal Sector

A meeting to discuss the advisability of establishing a Public Corporation for Posts was held on 27 September. All parties agreed that the basic universal postal services (e.g. letter post/small parcels) should be offered to all citizens at the same price with the same quality of service requirements. Other postal services would be provided on a competitive commercial basis.

At a recent meeting (30 September-1 October) at the headquarters of the Universal Postal Union in Bern, the draft of the State Law for Posts was discussed. It was agreed that there would be a Bosnia and Herzegovina Union of Postal Operators. The terminal dues for the international traffic would be directed to the Union and distributed within the parties to that Union who provide the service. There is general agreement on the shape of the law and the OHR will amend the present draft law considering the new agreements.

Reconstruction Update

Please see separate table on donor aid.

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Information on economic data and trends in BiH are also available on the USAID web site: <http://www.usaid.ba/>

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