

# **OHR: Economic Newsletter, Vol. 2, No. 8, September 1999**

Newsletter

## **Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)**

Sarajevo, September 1999, Vol. 2, Issue 8

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

#### **Economic Indicators**

##### **Bosnia and Herzegovina (BiH)**

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

##### **Federation of BiH**

	<b>Apr-99</b>	<b>May-99</b>	<b>June-99</b>	<b>Jul-99</b>
Unemployment (persons)	262273	262228	261660	
Employment (persons)	407179	407194	407212	
Unemployment ratio (1)	43.5%	43.5%	43.4%	
Net wage (KM)	375.5	372.5	368.5	
Retail price growth	-0.2%	0.0%	-0.7%	-1.0%
- annual growth (2)	-0.5%	-1.0%	-0.9%	-0.7%
Industrial prod growth	1.5%	-3.5%	9.0%	0.0%
- annual growth (2)	11.7%	1.7%	9.9%	8.2%
Sales to RS (KM mln)	3.40	7.07	6.08	5.31

##### **Republika Srpska (RS)**

	<b>Apr-99</b>	<b>May-99</b>	<b>June-99</b>	<b>Jul-99</b>
Unemployment (persons)	142152 (Dec 1998)			
Employment (persons)	250000 (estimate 1998)			
Unemployment ratio (1)	36% (estimate Dec 1998)			
Net wage (KM)	200	201	211	229
Retail price growth	2.6%	1.3%	2.8%	-0.7%
- annual growth (2)	12.7%	16.7%	21.3%	15.0%
Industrial prod growth	-25.4%	-3.9%	20.5%	-0.9%

- annual growth (2)	-12.6%	4.2%	10.1%	-4.3%
Sales to Fed. (KM mln)	2.45	2.36		

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

**Customs Developments Common Customs Tariff** The situation in customs is improving in BiH. On 15 May 1999, the Federation of BiH and the RS finally complied with the Customs Tariff Law of BiH in full. The jurisdiction of customs tariff falls within the purview of the State. The State had adopted the law in February 1998; but it was only partially implemented due to opposition from the Entities. Imports from Croatia to the Federation and from the Federal Republic of Yugoslavia to the RS received preferential treatment as goods were exempt from customs duties and only an administrative fee of 1 percent was applied. Goods entering BiH are now charged the same customs duty rate regardless of country of origin and point of entry (Border Crossing Point). This is a major step forward in the implementation of the customs aspects of the Dayton Peace Agreement and has resulted in an increase in revenues from customs duties in comparison to 1998 (see below). **Customs Duties**

### Revenue (excluding excise duties)

**All figures in Konvertible Mark**

<b>Federation</b>			
	<b>June</b>	<b>July</b>	<b>August</b>
<b>1998</b>	23,149,015	17,772,449	23,497,417
<b>1999</b>	27,660,477	28,613,250	38,372,796
<b>Republika Srpska</b>			
<b>1998</b>	2,323,970	1,788,235	601,066
<b>1999</b>	11,881,660	10,714,660	13,865,040

Sources: Federation Ministry of Finance; RS Customs Administration

Total revenues collected by Customs (customs duties and excises) for the first eight months of 1999 were: Federation: KM 352,184,589 and RS: KM 156,979,489.

**Fighting Customs Fraud and Evasion** The focus in customs is now moving to enforcing the law including identification, capture and charging of persons and/or companies avoiding payment of customs duties and taxes either by smuggling goods to BiH, or by using fraudulent documents during import.

The Customs and Fiscal Assistance Office (CAFAO), a programme, funded by the European Commission, is working with the Federation Customs Service and the Republika Srpska Customs Service to establish Customs Enforcement Sections within each Service.

All personnel have been appointed to the Enforcement Sections and have participated in classroom training provided by the CAFAO programme. The on-the-job training component is now underway and being facilitated by CAFAO officers working in the field with the Federation and the RS Customs Enforcement staff. CAFAO has also provided the Customs Services with all equipment necessary to support law enforcement activities including cameras, vehicles, satellite communication equipment and equipment to search vehicles and containers.

Although the first six months of this year has been largely devoted to selecting, training and equipping the two Enforcement Sections, there has been considerable success in detecting major customs fraud in the region. In this short period of time and while not yet fully operational, evasion of revenues, estimated to be more than some KM 12 million has already been identified.

Changes are planned in the near future to enhance customs officers' powers to enable them with more effective law enforcement. The introduction of additional and more appropriate legislation to deal with customs offenses and penalties is also planned.

**Entity Cooperation Against Fraud** The Entity Customs Services have developed close cooperation in their efforts to eliminate illegal customs activities. Customs officers now exchange information on a daily basis and meet regularly.

CAFAO is assisting the Entities to establish formal cooperation on customs matters with BiH's trading partner countries' customs authorities, aimed at further minimizing opportunities for smuggling and customs fraud in the region.

**Ensuring Corruption-Free Customs Services** As one of the main Government authorities dealing with revenue collection and enforcement of laws, it is essential that the Customs Services in BiH are certain that their staff and organization are upholding the laws and regulations. CAFAO is helping the customs authorities to introduce internal audit and management assurance functions, which are intended to satisfy the Customs Directors, as well as the Governments themselves that there is no misappropriation of funds or revenues due to internal corruption or fraud. This function will also identify areas within the Entity Customs Services that may require improvement. **Protecting the Borders** Customs authorities are only located in each of the 30 official Border Crossing Points in BiH, while there are many unofficial crossings that are not staffed by customs officers. The creation of a State Border Service for BiH, which amongst other things will be tasked with ensuring that goods only enter and leave BiH via Border Crossing Points staffed by Customs, will together with the initiatives being undertaken in customs enforcement, reduce the opportunities for smuggling and other forms of border crime. **Corruption: Tuzla Charges Filed** Criminal charges have been brought against former Tuzla Cantonal Prime Minister Vikalo and three other high-ranking officials for abuse of their official positions. The Cantonal Prosecutor charged that Vikalo and other former officials squandered millions of KM in public funds by purchasing paint which was not needed by the schools, making unauthorized loans to private companies, and purchasing vehicles and medical supplies for the canton without following the required public tender guidelines. The Cantonal Prosecutor also indicated that other allegations were being investigated, including possible misuse of the Cantonal Strategic Reserves and the purchase of apartments for Cantonal officials. **Payment Bureau Reform Update** The Law on Amendments on Internal Payment Operations is scheduled to be discussed at the next meeting of the Federation House of Peoples (September 16 and 17). Among others, the Law will remove the monopoly of the payment bureaus over payment transactions.

During their last meeting, the current Governing Board of the Federation payment bureaus agreed to establish a new Governing Board, consisting of five members including the Governor of the Central Bank of Bosnia and Herzegovina. In addition, the Governing Board approved the start of financial verification of all assets and liabilities of the Federation payment bureaus.

The final report addressing the aspects of employment transition stemming from elimination of the payment bureaus is about to be completed. The report will, inter alia, address various issues and suggest strategies for new employment for laid-off workers, training, and early retirement. The expert conducting the research found the RS payment bureaus (SPP) to be more advanced in addressing the impact of transformation on employees than their counterparts in the Federation.

A statistical expert from the International Monetary Fund, in cooperation with an expert from the European Union, is evaluating which agencies could assume the statistical function of the payment bureaus including the availability and improving the quality of statistics.

**Konvertible Mark** The KM use continues to broaden and deepen in BiH. In Herzegovina, a region that has faced considerable resistance, the present estimated currency use, including deposit accounts and payment bureau transactions is: KM 35 percent, DM 50 percent, and Kuna 12-15 percent. Four months ago, KM use was estimated at about 10-15 percent. In the RS, currency use is estimated at 70

percent KM and 30 percent Yugoslav Dinar, although this proportion does not include DM deposits in the commercial banks.

Foreign reserve assets of the Central Bank of Bosnia and Herzegovina continue to increase in a satisfactory manner. Foreign exchange assets stood at KM 398.8 million on 31 July 1999, up from KM 287.7 million at the end of January 1999. This 39 percent increase in six months is unlikely to be sustained over the next months. It is difficult to eliminate the use of the Deutsche Mark entirely for non-public transactions. Nevertheless, continued growth in reserves should be expected.

The Governor of the Central Bank of Bosnia and Herzegovina, Peter Nicholl recently announced that Volksbank from Slovenia commenced selling and buying the Konvertible Mark in their banking offices in Slovenia from 30 August. "Slovenia was one of our important target countries because of its strong links with Bosnia and Herzegovina", Mr. Nicholl said, "therefore this agreement is important for it adds Slovenia to the group of countries where it is possible to buy and sell the KM. That group of countries is Austria, Croatia, Germany, Hungary, Switzerland and now Slovenia."

**Development of Agriculture Sector Strategy** The UN Food and Agriculture Organization, in consultation with the Ministries of Agriculture, recently prepared individual Agriculture Strategies for both Entities.

As part of the final consultation process, the Minister responsible for Foreign Trade and Economic Relations for Bosnia and Herzegovina, together with the Head of Office of OHR-Banja Luka, chaired an inter-Entity consultation on possible areas of collaboration between the Entities for implementation of the strategy. The meeting was held on 11 August 1999, in Banja Luka.

The specific aim of this meeting was to review options for harmonization of animal health, international trade measures, inter-Entity trade, development of public institutions for research, education and extension and other areas where collaboration may have a clear economic benefit for the sector. EU Phare is supporting the establishment of an Agriculture Strategy and Programming Unit, working closely with each Ministry, as part of a broader follow-up on the implementation of the strategy. The aim is to establish short-term priorities for project and policy measures.

The Federation Ministry of Agriculture presented the strategy during the Plum Fair in Gradacac (2 September). The Federation ministry will seek comments from the cantonal ministries and sector market participants in completion of a final draft.

Formal approval and government endorsement of Entity level strategies is planned to be achieved by the end of the year.

## **Organization of Public Services**

**Trebinje Region Electricity Distribution System Rehabilitated and Upgraded** A Spanish funded project (KM 5.25 million), aimed to rehabilitate and upgrade the electricity distribution system in the Trebinje region, was completed in the beginning of September.

KM 4.3 million was spent in total for the rehabilitation of the 110 kV Trebinje-Velicani transmission line, and the Ljubinje and Velicani transformer sub-stations, as well as for the construction of a new 35/10 kV transformer sub-station in Berkovici. Medium and low voltage networks in Nevesinje, Gacko, Bileca, Trebinje, Ljubinje and Berkovici were also rehabilitated and upgraded.

Furthermore, the distribution network in the Popovo Polje valley was rehabilitated/reconstructed, thus providing more than 40 villages with electricity and creating the basis for the restart of the agricultural activity. All works were satisfactorily and timely executed by BiH companies and Energoinvest-Rasklopne Oprema from Lukavica, the main contractor.

Tools and equipment amounting to KM 0.95 million for the operation and the maintenance of the rehabilitated and upgraded system were donated to the distribution company "ElektroHerzegovina" Trebinje.

In summary, the project restored and improved the provision of electricity to over 400 villages of the Trebinje

region, an economically depressed area, with a population estimated at 100,000.

## **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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