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Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, August 1999, Vol. 2, Issue 7

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

	Mar-99	Apr-99	May-99	June-99
Unemployment (persons)	262609	262273	262228	
Employment (persons)	407064	407179	407194	
Unemployment ratio (1)	43.6%	43.5%	43.5%	
Net wage (KM)	365.1	375.5	372.5	
Retail price growth	-0.1%	-0.2%	0.0%	-0.7%
- annual growth (2)	-0.3	-0.5%	-1.0%	-0.9%
Industrial prod growth	11.9%	1.5%	-3.5%	9.0%
- annual growth (2)	14.4%	11.7%	1.7%	9.9%
Sales to RS (KM mln)		3.40	7.07	6.08

Republika Srpska (RS)

	Mar-99	Apr-99	May-99	June-99
Unemployment (persons)	142152 (Dec 1998)			
Employment (persons)	250000 (estimate 1998)			
Unemployment ratio (1)	36% (estimate Dec 1998)			
Net wage (KM)	198	200	201	211
Retail price growth	2.5%	2.6%	1.3%	2.8%
- annual growth (2)	16.1%	12.7%	16.7%	21.3%
Industrial prod growth	14.6%	-25.4%	-3.9%	20.5%

- annual growth (2)	15.9%	-12.6%	4.2%	10.1%
Sales to Fed. (KM mln)		2.45	2.36	

Sources: BiH Agency of Statistics, Federation Statistical Institute, 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 Steering Board

On 12 July 1999 in Brussels, the Steering Board of the Peace Implementation Council (PIC) reviewed progress in implementing the General Framework Agreement for Peace (GFAP) since the last full meeting of the PIC in Madrid in December 1998. The Board also reviewed the progress made over the last two years under the leadership of the High Representative Carlos Westendorp and expressed gratitude for his outstanding contribution. Further, the Board thanked Ambassador Jacques Paul Klein and Ambassador Hanns Schumacher for their work as Principal Deputy High Representative and Senior Deputy High Representative and welcomed the appointments of Ambassador Ralph Johnson and Ambassador Matei Hoffmann, their respective successors.

Mr. Westendorp provided an overview of the main issues and the chief achievements during his tenure. In the economic arena, these included the creation of a single economic space (e.g., currency, single customs policy, abolition of preferential treatments of imports from neighboring countries, harmonization of trade and indirect taxes, a Statistical Agency at the State level); reforms towards a market-oriented economy (e.g., privatization, reform of the financial sector); governance (e.g., fight against corruption); and restructuring of the public utility sector (e.g., a single numbering plan for telephones). The Madrid Declaration will continue to be the benchmark for economic reform.

The Steering Board warmly congratulated High Representative Westendorp for his extraordinary commitment to the peace process. The Board emphasized that there had been considerable progress over the last two years in a variety of areas and, although much still had to be done, Bosnia and Herzegovina was substantially more stable and democratic than it had been when Ambassador Westendorp assumed office. The introduction of unified license plates, a flag and anthem, a common currency and passport, as well as the passage of essential legislation – such as the citizenship law, the privatization law, the telecommunication law, the amendments on the property laws – are only a few examples of Ambassador Westendorp's accomplishments.

The Steering Board Members approved the EU nomination of Austrian Ambassador Wolfgang Petritsch as the new High Representative from the end of July, and asked the United Nations Security Council to endorse his appointment. They also urged all members of the PIC and the donor community to continue to support the peace process and the efforts of the High Representative.

Law on Audit Institutions

On 13 July 1999, the Council of Ministers approved the Law on Auditing of Joint Institutions of Bosnia and Herzegovina. The legal ground of this Law is chiefly contained in Article III 1.e) of the Constitution of Bosnia and Herzegovina (BiH).

Establishing Audit Institution, as an independent system of auditing financial activities of governments at all level is one of the key elements of institutional strengthening in BiH. Independent external audits in BiH will reinforce public sector management through increased transparency in public finance, accountability of public officials, and increase the efficiency of the administration as a whole. Governments in BiH have expressed their support to establish such independent system and accepted it as an obligation, as confirmed in the Madrid Declaration of December 1998.

Decisions by the High Representative

On 30 July 1999, exercising the powers vested in him by Annex 10 to the Dayton Peace Agreement and by Article

XI of the Conclusions of the Peace Implementation Council Conference held in Bonn in December 1997, the High Representative issued a series of Decisions. These were taken following the failure of the relevant local authorities and institutions to reach agreement on a number of issues vital to continued implementation of the General Agreement for Peace (GFAP) in BiH.

The Decisions include: Decision on the Restructuring of the Public Service Broadcasting System in Bosnia and Herzegovina; Decision on Freedom of Information and Decriminalisation of Libel and Defamation; Law on Amendments to the Law on the Supreme Court of the Federation; Law on Amendments to the Law on the Federation Prosecutor's Office; Law on Special Witness Identity Protection in Criminal Proceedings in the Federation; Decision on Identity Cards; Decision on the Reconnection of Pre-Conflict Subscribers to the Telephone Networks in Bosnia and Herzegovina; Decision on Common Insignia and Symbols; Law on Administrative Fees of Bosnia and Herzegovina; and Decision on Dragan Cavic. Details are available from the OHR's website (see also the article on Judicial Reform in this issue.)

Judicial Reform

On July 30 1999, the High Representative imposed three laws that will enhance the Rule of Law and promote justice throughout the Federation. Given the urgency of these issues, the High Representative decided to impose the legislation on an interim basis, until these laws could be adopted by the Federation.

The Law on Amendments to the Law on the Supreme Court of the Federation creates a first-instance jurisdiction court within the Federation Supreme Court, thereby making the Supreme Court a trial court for a number of serious crimes (terrorism, drug trafficking, etc.). These crimes are defined in the Federation Constitution as being within the jurisdiction of the Federation. The Constitution, however, failed to provide for a first-instance court, which forced prosecutors to bring such cases to Cantonal courts instead of a Federation-level court.

The Law on Amendments to the Law on the Federation Prosecutor's Office augments the powers of the Federation Prosecutor with the authority over Cantonal prosecutors and empowers him/her to initiate criminal prosecution at the Federation level for those criminal acts within the jurisdictions of the Federation.

The Law on Special Witness Identity Protection in Criminal Proceedings gives witnesses the opportunity to present their testimonies to the courts without fear of threats, intimidation or reprisals. The Law enables a panel of three Supreme Court judges to hear a witness and convey the witness's testimony anonymously to the court.

Payment Bureau Reform Update

The Federation House of Peoples is expected to discuss the Amendments to the Payments System Law in early September. The Law, inter alia, will clear the way for a new Governance Board of the Federation Payment Bureau, abolish over-night ceilings on cash holdings and remove monopoly powers of the payment bureaus in accomplishing payment transactions.

Other developments include:

- An expert will prepare (August) a plan that addresses the aspects of employment transition for nearly 3,000 employees of the payment bureaus. The majority is expected to move to new or current institutions (e.g., Ministry of Finance, clearing house, commercial banks) along with their functions.
- Financial verification of the payment bureaus could proceed once the contract with an internationally reputed auditing firm is signed (August).
- A statistics expert will prepare recommendations on transferring the statistical functions of the payment bureaus to either the Statistics Institute, and/or the Central Bank of Bosnia and Herzegovina/treasury; and improving the availability of macro-economic data.
- To raise broader awareness about the reform process, a public education plan is being drafted.

In the RS, once the payment bureau (SPP) is separated from the Development Bank, the SPP will undergo transformation, similar to those underway for the Federation Payment Bureaus (ZPP and ZAP). The RS is in the process of writing a new Internal Payments System Law.

Framework Law on Privatization

The BiH Framework Law on Privatization of Enterprises and Banks was adopted on 19 July 1999, following its passage by the BiH House of Representatives, more than a year ago (14 July 1998). The Law was imposed by the High Representative in July 1998 on an interim basis. The Council of Ministers had adopted the Law in May 1998 with the understanding that the High Representative would establish an independent commission to monitor the privatization process.

The Law, inter alia, ensures the establishment of a secure legal environment for privatization; protects the principles espoused in the Dayton Accords; and ascertains the eligibility criteria for general claims based on the criteria of pre-war citizenship and permanent residence (31 March 1991).

Privatization Monitoring Commission

During the last week of July, the Commission held its third session. They also met with RS authorities and members of the Council of Ministers. They considered a number of issues, provided various recommendations, and encouraged certain principles to proceed with a swift but fair and transparent privatization. These included unobstructed transferability of vouchers; availability of information on prices of vouchers; widespread efforts to reach the displaced persons and refugees; maximum participation by bidders for enterprises to be privatized; the principle of restitution; and, fair decisions on joint ventures.

The Commission provides independent advice and recommendation. It was established by Mr. Carlos Westendorp, the former High Representative.

Federation Labor Law

On 21 July 1999, the Federation House of Peoples approved the Federation Law on Labor, following recent amendments, since its adoption by the Federation House of Representatives in August 1998. The revisions require approval of the House of Representatives.

The leading donor agencies of the international community (IC) are seriously concerned that the obligations arising from Article 143 of the Law place huge burdens on enterprises due to the provisions for severance payments. In addition, the Law allows generous compensation for maternity leave and other benefits, thus burdening the employer even further. It will introduce inefficiencies, permit distortion, and prevent competition at a time when Bosnia and Herzegovina is attempting to enter the European market. In view of this, the IC is addressing this matter with the Federation authorities.

Republika Srpska Conference on Trade

On 23 July 1999, the Republika Srpska (RS) Government convened a conference on international trade to explore opportunities, promote trade and seize new markets following the recent loss of trade with Federal Republic of Yugoslavia (FRY), formerly the main trading partner (over 70% of total exports from the RS flowed to FRY). For the first half of 1999, the Entity imported six times more than it exported, with Slovenia ranking first (KM 80 million) followed by two distant equals Hungary and Germany (about 40 million, each).

The conference was attended by members from the common institutions of BiH and the international community. While acknowledging that Customs policy is a State matter, the Government sought assistance from the international community to secure new markets. Participants concluded that the next steps should focus on trade promotion, supporting entrepreneurs, exploring niche markets, improvements on the railways sector, identifying products and developing contacts to nurture trade.

In December 1998, the RS Government decided to adjust the KM-Dinar exchange rate to insulate itself against the effects of the weak Dinar. The reaction from FRY was stern as the operations of the payment bureaus with the RS came to a halt. This had an adverse impact on external trade. The NATO strikes exacerbated this further.

Special Relations Agreement: Federation-Croatia

Significant progress continues on the development and agreement on the Annexes to the Agreement on Special Parallel Relations. Recently, Federation Ministers approved two additional annexes; the Annex on Cooperation in

Environmental Protection and the Annex on Cooperation in Traffic which have been forwarded to the Federation President. Two other annexes, the Annex on Property Relations and the Annex on Health Care will be forwarded to the Joint Council on Cooperation for further discussion.

Organization of Public Services

State Border Treaty

On July 30 1999, President Alija Izetbegovic on behalf of the BiH Presidency, and President Tudjman signed the *Treaty on the State Border between Bosnia and Herzegovina and the Republic of Croatia* which defines the mutual border line of more than 1,000 kilometers between the two countries. This was a significant historic event in the development of positive mutual relations between BiH and Croatia. Future activities of the Interstate Diplomatic Border Commission include the development of a Border Zone Regime Agreement which is expected to enhance the living conditions of people from both countries living in close proximity to the border.

Border Crossings

On Friday 6 August 1999, the Border Crossing at Brgat Ivanica was opened as a Category II international border crossing between Bosnia and Herzegovina and the Republic of Croatia. It opens up an important transportation artery necessary for economic prosperity in the region. Close links that previously existed in the energy, agriculture and tourism sectors could once again be restored.

In order to satisfy the great demand for traffic crossing the Sava River, a temporary pontoon bridge will be opened on 12 August 1999 at Gradiska during the reconstruction of the fixed bridge. Currently, the reconstructed bridge is scheduled to be completed by the end of this year.

Telecommunications

On 2 August 1999, the GSM system in the RS ("MS 1", the network name shown on the mobile phones) was officially put into service along with a new digital fixed network exchange and the connection with Deutsche Telekom through lines to Frankfurt, Dusseldorf and Munich. The mobile system has a capacity of 20,000 subscribers.

Energy

Electricity – Elektroprivreda BiH and Morrison Knudsen Corporation of USA has signed an agreement to complete a feasibility study of the Konjic Hydro Power plant by February, 2000. Discussions with Elektroprivreda and government officials have commenced.

Negotiations between Elektroprivreda BiH (EP BiH) and Elektroprivreda RS (EP RS) to restart the Bogatoci hydro power plant continued. Electricity produced at the plant will be shared between the EP RS (72%) and EP BiH (28%). EP BiH had made a commitment to repair the hydraulic equipment and enable resumption by July 26, 1999 (installed capacity 7.2 Mw). After the repairs are complete, the Bogatoci plant will resume its operation. This concludes sixteen months of negotiations with the OHR's involvement during the last two months. Resolution of this problem will enhance return of Bosnian refugees to Trnovo, RS.

Two electrical distribution reconstruction packages for municipality of Ilijas, Sarajevo Canton, prepared by Elektro-distribucija Sarajevo, are under review by USAID. The villages in this municipality are closely tied to return of refugees.

Natural Gas – BiH Gas company owes \$8.0 million for supply and transportation of natural gas to Gasprom and MOL companies; the share of Sarajevo Gas BiH Federation is \$6 million. During recent negotiations, BiH Gas representatives agreed to clear the debt by December 31, 1999. A default will have adverse consequences.

Civil Aviation

The Civil Aviation Law for BiH was enacted by the House of Representatives on 27 July, 1999. This Law creates the Department of Civil Aviation (DCA), responsible for coordination activities of the two Entities. The DCA was

functioning following a Memorandum of Understanding signed by the Council of Ministers in September, 1997.

The Law not only grants to the BiH-DCA the powers necessary to carry out its responsibilities for air traffic control but permits BiH, through the DCA, to assume a role in the international aviation community.

The Law safeguards the principles of international aviation conventions (the Chicago Convention) to which BiH is a party and encourages the adoption of regulations consistent with those adopted by other European states. The responsibility for operation of airports is reserved to the entities.

In short, this Law creates a workable scheme for the regulation and management of all facets of civil aviation and enables BiH to normalize air commerce and to become an active participant in the European civil aviation system. The Law permits the DCA to be self-financed through a scheme of user charges and deal with policy, regulatory matters and air navigation. The DCA will begin the task of organizing the management of the airspace of BiH in coordination with the Standing Committee on Military Matters (SCMM).

Reconstruction Update

Geographical Breakdown of Ongoing and Completed Projects in BiH

By the end of July, the total value of completed projects in reconstruction and non-reconstruction sectors amounted to nearly DEM 2.7 billion, while the total value of on-going projects were nearly DEM 1.7 billion (see insert).

As regards completed projects, the Federation represented about 73% and the RS accounted for nearly 14%. The remainder (nearly 13%) comprises of projects at the national/inter-Entity level.

For ongoing projects, the Federation's share is 70% and the RS represents about 25% of the total value with the remainder attributed to inter-Entity/national level (4.6%).

Chart 1 shows in details the breakdown of completed projects by cantons/regions. Out of DEM 1.698 billion, 90% (excluding multi-Cantonal projects) was allocated to six of the ten cantons in the Federation Una-Sana, Zenica-Doboj, Central Bosnia, Neretva, Tuzla-Podrinje, and Sarajevo while Tuzla-Podrinje, and Sarajevo cantons accounted for nearly half with 24% and 21% respectively.

Of the DEM 280 million disbursed to implement projects in the RS regions (excluding multi-regional projects), the Banja Luka region received 36%, followed by Doboj and Bjelina both at 19%, thus representing 74%.

The cantonal/regional segregation of ongoing projects represented in Chart 2 shows a similar picture for the Federation, with the six above-mentioned cantons representing 91% of the DEM 1.006 billion for projects under implementation (excluding multi-Cantonal projects) and Sarajevo alone accounting for 26%.

At the regional level, the three regions — Banja Luka (34%), Doboj (32%), and Bijeljina (20%) represent 86% of the total value of on-going projects (DEM 404 million, excluding ongoing multi-regional projects in the RS).

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

- Economic Summary – Ongoing Projects by Canton/Region
- Completed Projects by Canton/Region
- Donor Aid to BiH as per 1 August 1999

Office of the High Representative