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Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, June 1999, Vol. 2, Issue 5

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

Economic Indicators BiH

Bosnia and Herzegovina

	Sep-98	Oct-98	Nov-98	Dec-98
Unemployment (pers)	389254	391243	394496	398639
Net wage (KM)	303	316	319	330

Federation of BiH

	Jan-99	Feb-99	Mar-99	Apr-99
Unemployment (pers)	259020	261019	262609	
Employment (pers)	407051	407057	407064	
Unemployment ratio (1)	39%	39%	39%	
Net wage (KM)	361.5	371.9	365.1	
Retail price growth	-0.1%	0.2%	-0.1%	-0.2%
- annual growth (2)	1.4%	1.2%	0.5%	-0.2%
Cost-of-living growth	0.3%	0.5%	-0.1%	-0.1%
- annual growth (2)	2.0%	1.7%	0.8%	0.0%
Industrial prod growth	-19.9%	-1.6%	11.9%	1.5%
- annual growth (3)	17.2%	3.6%	14.4%	11.7%

Republika Srpska (RS)

	Jan-99	Feb-99	Mar-99	Apr-99
Unemployment (pers)	142152			
Employment (pers)	250000 (rough estimate)			
Unemployment ratio (1)	36%			
Net wage (KM)	203	195	198	200
Retail price growth	0.2%	0.0%	2.5%	2.6%
- annual growth (2)	3.6%	8.3%	16.1%	12.7%

Cost-of-living growth	0.5%	1.3%	3.2%	5.0%
- annual growth (2)	8.2%	12.6%	20.3%	16.4%
Industrial prod growth	-45.8%	23.5%	14.6%	
- annual growth (3)	5.6%	6.3%	15.9%	

Sources: BH 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, last 3 months over 3 months last year.

(3) Annual figure, month this year over month last year.

Economic Policy and Reform

Fifth Donors' Conference

At the fifth Donors' Conference, held May 20-21 in Brussels and co-hosted by the World Bank and the European Commission, 45 countries and 20 organizations pledged US \$1.052 billion (\$762 million—reconstruction; \$155 million—balance of payments; \$135 million—peace implementation). With these new pledges, donors met the target of \$5.1 billion identified under the Priority Reconstruction Program after the signing of the Dayton Peace Accords. Despite the generous pledges, an additional \$50 million must be raised to address the additional needs related to the effect of the Kosovo crisis on both Entities. *(See article on RS Budget Support below.)*

The key priorities of reform and reconstruction are: community and social services in support of refugee return; deepening institutional and policy reforms; targeted economic initiatives (credit lines); and provision of fiscal support for recurrent expenditures, including social assistance. These themes are consistent with those approved by the Peace Implementation Council (PIC) in Madrid and addressed by the High Representative at the Feb 2 Donors' Information Meeting *(see OHR web site for details)*.

The main themes of the Conference reinforced the High Representative's message regarding the way ahead—a democratic society; responsible governance; economic reform; protection of human rights; and refugee return.

RS Budgetary Support

At the Donors' Conference, the High Representative appealed for immediate budgetary support for the Republika Srpska, stressing that the moderate Government of the RS had clearly demonstrated that implementing Dayton is the only way forward. However, the government is facing a difficult economic situation impacted by events in Kosovo, which is drastically straining the RS's finances.

Tuzla Business Promotion Forum

As called for by the Madrid PIC, a countrywide conference on private sector development was held from May 26-28 in Tuzla. The conference was supported by BiH, the EU, the World Bank, USAID, EBRD, OHR and other donors. About 300 local and international business people, representatives of international organizations and elected officials met and confirmed that the European orientation in building an economic system for BiH should be the basic criteria and preconditions for the private sector to flourish. Discussions also included integrating BiH into the European Union; the production structure suited for the 21st century; and macro-economic reforms to create a fitting environment for international investment.

Federation Forum on Economic Matters

On May 11, the Prime Minister and the Deputy Prime Minister of the Federation hosted the Federation Forum on Economic Matters. The Forum was jointly sponsored by U.S. Ambassador Richard D. Kauzlarich and OHR Principal Deputy High Representative Jacques Paul Klein. The objective of the Forum was to remove political obstacles that undermine and impede BiH's transition to a single economic space, and speed accession to regional and international trade institutions. The Prime Minister and Deputy Prime Minister agreed to remove barriers and

implement the necessary steps to proceed with swift reform over a wide array of areas: privatization (e.g., a single site office in Mostar for the Hercegovina-Neretva Cantonal Privatization Agency, completing the privatization laws swiftly); reform of the Payment Bureaus; measures to implement the KM as the only official currency; fulfilment of conditions relating to the IMF Stand-By Arrangements; staffing of the Federation Customs Service to reflect the multi-ethnic composition of the Federation population; passage of the *Federation Labor Law*; accountability of the public utility sectors; and abolition of ethnic-based communication and chain of command.

Eligibility to Receive Vouchers in the Privatization Process

On May 31, at the request of the privatizing authorities and the governments of both Entities, as well as members of the international community, OHR issued a document, "Eligibility of Vouchers." The document clarifies who is eligible for which category of vouchers in the privatization programs of the Entities and ensures that the basic principles of the *State Framework Law on Privatization of Enterprises and Banks* are not violated. The Entities have the right to privatize, but inter-Entity cooperation is required to protect the rights of displaced persons. Consequently, a minimum political consensus on the "eligibility question" is required which the document provides (see insert).

Update on Ending of Preferential Customs Treatment

The Council of Ministers agreed to cease the preferential customs treatment of imports from neighboring countries by May 15 (see May Newsletter). Both Entities instructed their customs administrations accordingly and the customs legislation of BiH is now being fully implemented. Customs revenues are expected to increase substantially in the next months.

Payment Bureau Reform Update

On June 3, the Federation adopted a *Law on Changes and Amendments to the Law on the Internal Payment System* that is consistent with the recommendations made by the International Advisory Group on Payment Bureau Reform (IAG). The amended law, which will be submitted to both houses for immediate passage, takes away the monopoly position of the Payment Bureaus over domestic payment transactions, and provides a legal basis for a governing board to guarantee transparency in the transformation process. The governing board in the Federation will consist of five members: two appointed by the Prime Minister; two by the Minister of Finance; and one by the governor of the Central Bank. Next steps include establishment of a similar governing board in the Republika Srpska (3 members) by governmental decree, and the adoption of a Payment Transactions Law in both Entities.

The team of experts has completed a functional analysis and developed a strategic plan for transfer of the functions of the Payment Bureaus to the appropriate governmental institutions and commercial banks. Donors have begun to provide technical assistance to these institutions in several areas to prepare them for their new functions and to ensure that the transformation will proceed smoothly. With the exception of the establishment of the governing boards, all deadlines have been met and the transformation process is on schedule. A public awareness process will start shortly to make the public aware of the timetable for elimination of the Payment Bureaus.

International Community Looks Into BH Banka

Members of the international community met recently under the auspices of OHR to discuss issues regarding BH Banka's performance. Several members of the international community, as well as private individuals, have filed both civil and criminal lawsuits against BH Banka because millions of dollars of funds deposited with the Banka, including funds for reconstruction projects and governmental monies, were repeatedly diverted and are not available for use by depositors or beneficiaries, including the citizens of Bosnia and Herzegovina. Investigations by local authorities are ongoing. A sum of at least DM 20 million is believed to be involved, although that sum is expected to rise significantly in the near future.

OHR views this situation as very serious. A credible and functioning banking system is essential for the economic development of the country. As corruption not only costs society in terms of diverted or wasted financial resources, but undermines the legitimacy of government and public confidence in democracy, OHR urges full cooperation with the ongoing investigations by local law enforcement agencies. OHR also encourages other individuals or organizations who have experienced problems with BH Banka or any other bank to come forward.

Private Sector Development Task Force

The Industry Task Force (ITF) met in Tuzla on May 26. ITF's initial mandate included setting policies, needs assessment and project development, identifying funding gaps, monitoring project implementation and information dissemination. Members agreed to redefine and intensify ITF's operations and unanimously adopted a series of resolutions for achieving these objectives. The ITF will now be called the Private Sector Development Task Force (PSDTF) to better reflect the current environment and need. PSDTF will strive to include representation of the Federation and RS governments as cochairs, strengthen information dissemination, encourage active participation by local experts and officials and a team effort.

Agricultural Development

From 1996-98, international support programs for agriculture were focused on *emergency help*—distribution of livestock, machinery and elementary agricultural supplies. Subsistence farmers now complain, however, of very low incomes, saturated local markets, and their inability to compete with imported subsidized products.

BiH has 5 million ha in land resources. More than 80% of the land is mountainous with slopes of more than 13%, making it unsuitable for agriculture other than grazing and forestry. The valleys covering the remaining one million ha (20% of the land) contain most of the roads, waterways, industries, and housing complexes. It is estimated that 30% of these valleys are taken up by infrastructure, industry, and habitation. State farms cover approximately 250,000 ha. This leaves 450,000 ha for private farming by some 300,000 rural families—1 1/2 ha per family, usually divided into a number of scattered plots. This is not a strong basis for commercial farming, since commercial daily farming requires 50 ha and commercial crop cultivation 100 ha.

To date, formal agricultural policy and strategy have focused on commercial farming, leaving the majority of villages and rural population without help. There is a need for *integrated rural development planning (RPD)* to explore all possibilities for improving the living conditions in villages and rural areas where agricultural activities play an important role. The RDP should focus on social programs for subsistence farmers (about 300,000 families) and also install a "facilitating framework" to promote small and medium-size private businesses without jeopardizing long-term prospects for commercial agriculture. *(This is the first in a series of articles on the agricultural sector. Future articles will explore issues such as the high cost of processing and marketing, international trade and border inspection, limited scope of commercial farming, etc.)*

Organization of Public Services

Telecommunications Update

The proposed numbering plan for BiH has been agreed to by all parties and has been sent to the Council of Ministers for urgent adoption (*see insert*). The Telecommunications Task Force met again on June 2.

The draft Post Law will be discussed at a meeting in Bern on June 17-18. A workshop on Postal Banking will be held at the Holiday Inn, Sarajevo, on June 14. Presentations will be made by Dutch consultants from the Post and Post Bank sectors, the World Bank and the Bank Privatization Unit. *(More information OHR Erik MacKinlay).*

Reconstruction Update

International Bridge Reconstruction

Three bridges are now open on the northern BiH border: Bosanski Novi, Brcko and Orasje. The Border Crossing Point (BCP) at Bosanski Novi-Dvor opened on May 22 and will remain open as a first category BCP while the Gradiska bridge is repaired. In Brcko, work will start as soon as the Republic of Croatia and BiH approve the reconstruction permits. In Samac, the contract with the reconstruction company will be signed after it is approved by the EC.

Back to the Future-Mostar's Old Bridge

Reconstructing Mostar's Old Bridge (Stari Most) will cost US \$16 million. The project will be financed through a US \$4 million World Bank credit and donations made to the Stari Most Trust Fund. So far, Italy and Holland have

committed US \$3 million to the Trust Fund.

The project involves three components: reconstruction of the Old Bridge and tower structure; the restoration of fifteen cultural monuments; and the rehabilitation of the surrounding Stari Most neighborhood. The first component will require 50% of the funding. UNESCO, the World Bank and the City of Mostar will provide technical/cultural, financial and implementation capacities respectively.

Actual reconstruction of the Old Bridge is scheduled to be completed by 2001. The project offers a unique opportunity to study and practice Ottoman construction techniques from 500 years ago, hence the implementation process will be different from any other in BiH. To ensure historical and cultural accuracy, ten preliminary studies will be conducted to define the actual technical methodology to be used in reconstruction. Only upon completion of this initial phase will the actual work begin.

Restricted Access for Alksine Han Bridge

Starting June 5, the bridge between Sarajevo and Mo-star will be subject to a number of restrictions. Vehicles over 3 tons will have only limited access. Vehicles under 3 tons will be allowed to cross, but only one vehicle at a time to prevent vibration which might disturb the concrete crystallization process. This will cause long delays. SFOR suggests the following alternative route: Finch-Diamond-Gull-Crow.

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- [Numbering Plan for Bosnia and Herzegovina](#)
- [Eligibility to Vouchers](#)
- [Donor Aid to BiH as per 1 June 1999](#)

Office of the High Representative