



Foreign
Investors
Council

Improving the Business Environment in BiH

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H.E. Dr. Miroslav Lajčák

High Representative
OHR

Speech by High Representative and EU Special Representative Miroslav Lajčák At a Conference on the BiH Road Map to the European Union

Organised by the Foreign Investors' Council

Investment Equals Jobs

Ladies and Gentlemen,

Thank you for asking me to join you this afternoon. I particularly wanted to take part in this forum because the event is structured as a dialogue. I am not here to speak and then leave; I am here to speak and then listen.

This is more than a matter of courtesy. The fact is that in Bosnia and Herzegovina there is insufficient dialogue between policymakers and stakeholders, and this problem is particularly acute in the economic field.

In public debate the political routinely out-trumps the practical.

Efforts to modernise the commercial code and strengthen the banking system, for example, have been unhelpfully politicised. There is too little consideration of how initiatives like this would stimulate business and create jobs. Instead, the focus is on how they would strengthen the state or weaken the state, strengthen the entities or weaken the entities.

I believe this is because politicians are better than businesspeople at focusing public attention on their own agenda.

One of the points that I would like to make this afternoon is that businesspeople – and foreign investors in particular – have to become more vocal especially with the experience from their home countries.

For some of you this may go against the grain. Reticence is often the most effective response to problems such as excessive bureaucracy or patently unworkable regulations. But over the long term the consequence of reticence is a business environment that drives investment and jobs countries offering better conditions to business .

That is what has happened in Bosnia and Herzegovina.

Consensus on Economic Issues

Even during the most difficult periods of political turbulence over the last months or so, economic policy has been one area where it has been possible to secure a working consensus.

We should not make too much of this – we all know there is a terrible lack of urgency in producing legislative solutions to economic challenges. But at the same time we shouldn't belittle what has been achieved.

The fact is that the political establishment does have the capacity when it comes to the economy. But too often there is a lack of political will to implement or follow through economic reforms.

I think all of you are familiar with the *Platform for Action*, the list of economic priorities to which the three prime ministers and the mayor of Brcko committed themselves in October last year.

Well, government leaders have started to deliver.

The Federation Income and Profit Tax laws were adopted at the beginning of February; and also in February the Pharmaceutical Law was adopted by the Council of Ministers and is now before the Parliament.

As agreed in the *Platform*, the Entity Prime Ministers and Governments have begun meeting on a regular basis to coordinate economic policy. However, they have not begun to fully involve economic stakeholders in the preparation for or during these meetings.

These are relatively modest steps, but I believe they are significant. At a time when leaders have been deadlocked on political issues they have made progress on economic ones.

What we now need to see is an expansion and acceleration of this progress.

Among the most pressing operational tasks is to promote fiscal sustainability through an agreement on a permanent ITA revenue allocation methodology, and the establishment of the National Fiscal Council

This is absolutely necessary to create a fiscally sustainable State. It will also help to improve BiH's credit rating at the benefit of businesses and citizens.

International Support

When it met in Brussels last month the Peace Implementation Council laid out the steps that must be taken before the OHR can be closed and most of its competencies transferred to the Office of the European Special Representative.

It gave the authorities five benchmarks, or policy objectives, through which they can demonstrate that they have the capability and commitment to assume full responsibility for governing Bosnia and Herzegovina.

The first four of these benchmarks are in one way or another connected to the overall economic reform effort, and the fifth – rule of law – has a fundamental bearing on the business environment.

The authorities must resolve the issue of State Property and Defence Property; they must complete the implementation of the Brcko Final Award; they must set in place the necessary administrative and legal structures to ensure the fiscal sustainability of the state; and they must demonstrate that the rule of law has become entrenched in the politics, the administration and the daily life of Bosnia and Herzegovina.

In addition the PIC will not consider closure of the OHR until Bosnia and Herzegovina and the EU have signed an SAA, and until the PIC itself has made a positive assessment of the overall political and security situation.

Popular Understanding

Reforms can only be carried forward if they have popular support, and they will only have popular support if the public understands how the reforms are expected to work and what they are expected to achieve. This may seem like a truism, but the fact of the matter is that many citizens in Bosnia and Herzegovina view economic reforms with considerable skepticism.

At the same time there is suspicion about investment and about the intentions of investors.

I recognise this skepticism and suspicion, because fifteen years ago it was the same in my country, Slovakia.

Yet the record shows that economic transition can only be achieved if the power of enterprise is unleashed – and it can only be unleashed if the message that investment equals jobs is properly communicated to the public at large.

This message is one that members of the Foreign Investors' Council have to shout more loudly.

You have to shout it from the rooftops, and you have to shout it into the ear of politicians and bureaucrats.

Blueprint for Transformation

It isn't a new message – but the circumstances in which it can now be spread *are* new.

In December Bosnia and Herzegovina and the EU initialed an SAA. I am hopeful that it will be possible for the Agreement to be signed before the summer.

This places the country on an entirely different footing from before.

Bosnia and Herzegovina now has in effect a blueprint for economic transformation and a clear political incentive – eventual membership of the EU – to implement the blueprint.

Things are going to get better, and if progress towards integration is sustained, they will get better quickly.

This will require an arduous legislative effort, but it can be done. It *has* been done by the countries – including my own – which began the accession process in the mid 1990s.

At the start of this process each of these countries engaged in intense public debate over what had to be done, how it had to be done and why it had to be done – that way, everyone had a clear idea of what, collectively, the country was trying to achieve.

This is why in my capacity as EU Special Representative I have launched a campaign that will stimulate public debate among the people of Bosnia and Herzegovina on how they see their European future and how this future can be turned into reality. I am now meeting citizens from all over the country to listen to their concerns and aspirations and to discuss directly with them what the EU integration process involves and what it can deliver. The debate is taking place at town-hall meetings and also online.

I believe that businesses must participate in this popular dialogue on EU integration. Economic reform is a key element in adopting the *acquis communautaire*, and you understand economic reform better than anyone.

People who run companies, create jobs, pay wages and focus on keeping the customer satisfied know what is wrong with the economy and what has to be done in order to fix it. You need to make your voice heard and to actively exert influence on economic reforms.

Improving the BiH Investment Climate

There are clear and practical tasks that have to be fulfilled as a matter of the utmost urgency if the investment climate in Bosnia and Herzegovina is to be made competitive and productive.

Legal, fiscal and administrative discrepancies between the entities and among the cantons continue to represent a massive and damaging disincentive to investment in this country.

The result is fewer jobs and more poverty.

If the single economic space can be consolidated, the possibility of a rapid expansion in business and jobs would increase exponentially.

The people in this room are best qualified to lobby for this. Investors are often criticised for trying to influence policymakers. I would argue that in Bosnia and Herzegovina the problem is the opposite. You have not tried hard enough to make the authorities do your bidding.

In this respect I would like to recommend that you as employers would strongly support and push for the establishment of the BiH Economic and Social Council. The economic and social dialogue needs to get an institutionalised framework and in future you would have a saying on reforms in the labour and employment sector and other related economic issues.

I would also call on members of the FIC whenever you have meetings with representatives of the authorities to remind them of the commitments that were made by the heads of government when they signed the *Platform for Action*. These commitments represent concrete steps towards a better business environment in this country – that is good for business and it is good for every citizen.

Thank you