Speech by Principal Deputy High Representative Larry Butler at the BiH Regional Investment Forum

Ladies and Gentlemen,

Today’s conference can be an invaluable interface between wealth creators and legislators.

It offers an important opportunity to change opinions, practices and attitudes which – in many cases – desperately need to be changed.

Over the course of today’s discussions I hope this opportunity will not be missed.

First the good news:

The BiH business environment is measurably better than it was even three or four years ago.

All of the main economic indices are moving in the right direction. Inflation remains negligible, exports are rising faster than imports, FDI is up, industrial production is up;GDP growth this year is projected to be the fastest in Southeast Europe.

This upbeat performance reflects real improvements in the legislative and administrative environment.

The previously fractured and inefficient customs system has been integrated under the Indirect Taxation Authority, which is preparing to introduce VAT at the start of 2006, a move which will help significantly to reduce the grey economy and

which will further improve the trend in public revenue.

Utilities regulation is on its way to meeting international standards; and banking reform, which began in the late 90s, is beginning to sustain a vibrant finance sector that is now channeling funds into promising SMEs.

A series of detailed audits, and a corresponding series of tough new laws, has begun to make inroads on corporate governance in BiH. It used to be exceptionally poor; now it is getting better. If this continues, the large public companies will start playing the role they have played in other economies, as engines of growth.

An ambitious project to streamline business registration is now in the final stages of implementation, while commercial chambers have been established at basic courts to specialize in business litigation and clear the backlog of outstanding court cases.

Now the less good news.

Things could and ought to be significantly better.

That they are not significantly better is a result of political myopia.

And that’s a problem that can be very effectively addressed at this conference.

The business environment could be more attractive; exports could be stronger; industrial production could be higher. And – this above all else – job creation could be greater.

Results have been good, but they have not been optimal, and this is because some political leaders appear not to have grasped a basic tenet of modern politics.

It’s the economy, stupid.

Here are some examples.

The RS Government is refusing to allow the state to issue bonds to settle debts for frozen foreign currency savings, as ordered by the Human Rights Commission of the Constitutional Court.

This is a roadblock on the way to eliminating the economically debilitating uncertainty generated by outstanding claims against the authorities for losses incurred in the early 90s. In addition, the RS has still not provided funds to its own agency working to verify frozen foreign currency accounts – another roadblock preventing the speedy resolution of a chronic economic problem.

The vast improvement in the BiH banking sector has spread benignly into every segment of the economy. The end result is more jobs and higher living standards. Yet here, too, we are seeing shortsighted obstruction. Until now there has been resistance in Banja Luka to a proposal by the Central Bank that it take the Entity banking agencies under its wing. As the Single Economic Space becomes a reality there is no systemic rationale for maintaining two separate regulators. The agencies have been performing heroically in the battle against money launderers, black marketeers and war-criminal support networks, and they have paid the price in terms of physical intimidation. Centralising this regulatory function is a proven way of nullifying the capacity of criminals to intimidate regulators and of ensuring the regulator's independence. Political resistance to centralization only causes one to question the real motives behind saying no.

Elsewhere there are welcome signs of a more positive and constructive political outlook.

The BiH Justice Ministry is completing the process of gathering public and professional input for a draft Law on Obligations that will be debated in the new year. This will

furnish BiH with a modern business law capable of facilitating investment and job creation in a 21st century commercial environment.

Although the BiH Statistics Office has not yet received the detailed support that it must receive from the Entity agencies if it is to provide prospective investors with the kind of information they need – there are signs that this cooperation will soon be forthcoming thanks to an important development last Friday.

I believe this conference will prove to have been extraordinarily useful if wealth creators can persuade policymakers to commit themselves to a handful of initiatives that will hugely improve the BiH business environment.

The ones I have already mentioned are a good starting point.

- BiH must pass a Law on Obligations by the middle of 2006;
- The BiH Statistics Office must be in a position to provide investors with essential data – with full cooperation from its Entity partners – also by the middle of next year;
- The Entity Banking Agencies must be incorporated in the Central Bank by the middle of 2006;
- The RS Government must provide funds for foreign currency account verification and it must agree to the issuance of state bonds to settle frozen foreign currency debts so that the Law on Frozen Foreign Currency Savings can be enacted by 20 November.

None of these tasks is particularly arduous; each will directly and substantially benefit citizens.

BiH is getting better – but it must get better faster. The people of this country have had to suffer hardship for long enough. Much has been done to create the infrastructure

necessary to attract investment and create jobs. We are on the right path – but we must move along that path more quickly.

If the wealth creators communicate effectively with the policymakers at this conference, I believe we can secure real improvements in the business environment.

Do not pass up this opportunity.

Thank you