Remarks by Principal Deputy HR Larry Butler at a Conference on Attracting Foreign Investment to BiH "BiH Needs Tough and Compelling Arguments from Business Community"

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Ladies and Gentlemen,

I'm accustomed to speaking in public about Bosnia and Herzegovina 's efforts to move forward with the European integration process while developing the institutions that will allow it to function as a modern state and interact productively with other modern states. Today, I am in distinguished company: Osman Topcagic and Jakob Finci are key figures in this country's Euro integration and civil service reform respectively, so I will happily defer to them on these core issues of Bosnia and Herzegovina 's transition to market democracy.

I also speak regularly about the need for the authorities to unleash the power of the market – but I believe that I would be preaching to the converted if I spoke on that theme before this particular audience.

So let me try a different tack.

The history of the last fifteen years in central and Eastern Europe has been the history of setting in place a business

environment that allows the market to function.

But we are inclined to forget that this environment didn't emerge fully formed in the capitalist democracies. They didn't establish regulatory systems and anti-monopoly laws and consumer protection regimes in the space of 15 years. It took 150 years or more. And these basic pillars of the free market were not set in place on the strength of government or parliamentary enlightenment. They were established in response to tough and compelling arguments advanced by the business community.

The political and regulatory systems in the West were obliged to *accommodate* the market – they didn't create it. They certainly – and this is an important point in Bosnia and Herzegovina's transition – *moderated* the requirements and the performance of the market, but it was the market itself that set the agenda and the pace.

Today's conference offers a useful platform from which to address a significant shortcoming in Bosnia and Herzegovina's not-yet-complete though nonetheless substantial progress towards the creation of a viable market economy – the relatively mute voice of wealth creators.

Till now, the European accession process and the conditionality attached to international aid have acted as the twin incentives for the authorities to get the building blocks of a functioning market in place.

A lot has been done on the back of these incentives:

- 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;
- utilities regulation now meets international standards;
- banking reform, which got properly underway in 2002, has produced a vibrant finance sector that now offers more

competitive interest rates;

- standards of corporate governance at public companies (which continue to have a preponderant influence on the performance of the overall economy) are at last being raised, through effective audits and through a package of recently-enacted laws;
- the Convertible Mark is among the most stable currencies in the region; inflation is negligible; real unemployment is about half the official rate of 40 percent; and annual growth rates hover at around 5 percent.

These improvements in the BiH business environment have not gone unnoticed – inward investment was five times higher last year than at the end of the nineties.

However, the incentives for making the business environment more competitive have been the European accession process and the conditionality attached to aid. A key element in the alchemy of transition has been substantially absent – it is not just *a* key element, it is perhaps *the* key element. It is the force that forged the markets of the Western democracies – the tough and compelling arguments of the business community.

I include company managers in the catch-all term "business community" – I also include employers, economists, trade union members and all those who see a way to turn a business plan into profit, and create jobs while they are at it. The business community includes men and women sitting in board rooms, but it also includes men and women sitting in garages and garden-sheds contemplating original software programmes or schemes that would fill an unexploited niche in the market. It includes anyone who has the ideas and the capacity to create wealth.

These are the people whose needs have to be met if the market is to take root and flourish. And these are the people who must take the lead in changing the BiH business environment.

Many of the reforms that will facilitate wealth creation – and in due course that means facilitating job creation – have had to be extracted from the political establishment, kicking and screaming, by international pressure.

It's high time the pressure came from within. Let me allude to just two major reforms that should be implemented in coming months.

Next week the BiH House of Representatives will discuss the Debt Framework Law. The law is part of a comprehensive debt settlement that will allocate compensation to creditors of the governments while ensuring that government liabilities are manageable. This will remove what has been until now a disastrous deterrent to inward investment. It will remove the large and debilitating question mark over public finances in BiH that has raised the spectre of sudden tax rises to pay off huge debt claims.

The Debt Framework law will create the conditions for setting up a functioning bond market, providing the governments with a mechanism – used by governments in all developed economies – to raise money by issuing bonds. It represents a long-term proven way of raising the funds that governments need in order to improve the services they provide for citizens.

A functioning bond market will also bolster the already solid performance of the thriving BiH stock markets.

This legislation will open the way for a significant improvement in the BiH business climate – it is something for which that the business community should be lobbying aggressively, to make sure that obscure political arguments are not allowed to undermine a law that promises to set the stage for the expansion of wealth – something that will benefit all citizens.

Another major step forward will be the enactment of a modernized Law on Obligations. As you know, the Law on

Obligations regulates all forms of buying and selling: it is a rulebook for the marketplace. Existing Obligations legislation in BiH does not cover all aspects of normal 21st century business, for example e-commerce, advanced consumer protection, and leasing and franchising. This puts BiH consumers and BiH businesspeople at a disadvantage. It makes the BiH business environment less competitive – which means low investment and few new jobs.

Among other things, the new law will

- protect companies from misleading advertisements put out by their competitors;
- harmonize BiH consumer credit rules with those applied throughout the European Union, including a single formula for interest rates;
- codify the consumer's right to terminate an unsatisfactory contract;
- establish rules to cover cases of overdue payment; and
- integrate the BiH money transfer system with the EU system.

If all goes well the updated legislation will be adopted by the end of this year – but only if the business lobby sets out to keep legislators on the straight and narrow, and ensures that legislation that can help create desperately needed jobs in BiH is enacted without unnecessary delay.

Next week I will attend a meeting in Sarajevo with representatives of the BiH Employers' Organisation, the Bulldozer committees and the trades union. The object of this meeting is to explore ways in which we can help get tough, sustained and logical arguments from the business community into the mainstream of BiH political discourse.

We have come a long way on the strength of EU integration and aid conditionality – we have to go further powered by the dynamo of entrepreneurial argument. We have to do this for the

simple reason that *wealth* creators are *job* creators – and creating jobs is the number-one priority of BiH economic management.

The laws on Obligations and Debt are a good place to start, but the legislative and implementation agenda for improving BiH's business environment is long and varied. It should not be the International Community that is pushing this agenda; it should be the people who need this agenda enacted and implemented so that they can get on with the business of creating wealth and jobs. BiH needs tough and compelling arguments for change from its business community.

Thank you