Remarks by Principal Deputy HR Donald Hays at his Farewell Press Conference in Banja Luka

– check against delivery –

Ladies and Gentlemen,

I began my work as Principal Deputy High Representative on 16 July 2001 , more than three and a half years ago.

I will be leaving BiH two weeks form now, on 16 March.

My own direct involvement in a broad range of political and economic initiatives will come to an end – but all of these initiatives are going to move forward, and that's what I want to talk about this morning.

As some of you may know I first came to BiH in 1994, when I was part of Richard Holbrooke's team responsible for getting the original Dayton process underway.

There had already been huge changes since the end of the war when I arrived as PDHR. Yet, in 2001 – it's almost hard to believe now – we were still dealing with sustained and damaging political obstruction, with regard to refugee return, for example. At the same time, constitutional issues consumed a huge amount of political energy, and BiH was not yet on the EU accession path.

Today, the situation is fundamentally different – and very much better. Twin aspirations – to get into NATO and the European Union – serve as the constructive and practical template of political debate.

That’s a major and very positive change.

And it has already delivered substantial results. Just in the economic sphere:

- The customs services are being merged.
- The ITA has been established.

- Last autumn, an internal debt settlement was reached. Total claims had been projected to exceed KM 26 billion, which would have threatened the financial viability of the entire country. The settlement has averted that threat, and cleared the decks so that steps can now be taken to attract investment that can create jobs.
- A new legal and regulatory framework has been established in the utilities sector, and the foundations have been laid for a rational, European-standard electricity system.
- Similar progress has been made in the telecom sector, where a BiH Regulatory Agency is now up and running.
- Public audits of utilities companies have begun a long-term process of making them transparent and competitive. (Average telecom tariffs dropped by 20 percent over the last two years as a result of this, though prices remain too high, to the detriment of start-up businesses).
- A series of laws have been enacted that will significantly improve the BiH business environment – a prerequisite for attracting investment and creating jobs. These include the BiH Laws on Procurement and Public Enterprise, State & Entity Laws on Auditing and Accounting, and Entity Bankruptcy Laws.
- A single BiH registry of companies has been established, and company registration is now being streamlined.
- 16 Commercial Chambers are operating, and the average time required to get a court ruling in a commercial case has been reduced by a third.

Altogether, close to 85 per cent of all the economic actions

listed in the Jobs and Justice agenda have been fulfilled.

These economic reforms have not been pursued and implemented in isolation. They are part of a matrix of reforms that will help attract the investment BiH desperately needs in order to create new jobs.

And the reforms are starting to work – annual economic growth over the last four years has stayed fairly consistent at between four and five percent, despite a steep decline in external aid.

But they are not working fast enough. Half the population continues to live on or under the poverty line, and the World Bank estimates that growth rates of 12 percent annually are needed if BiH is to lift itself out of poverty.

That's why the pace of reform must now be accelerated.

There simply is no time for political dithering.

The immediate priorities are to get police reform implemented and get Ratko Mladic and Radovan Karadzic to The Hague, because those two things will

- open the way to PfP membership (removing once and for all any residual security threats to the people of this country), and
- open the way to EU membership (with all the economic and social benefits that come with that).

In addition, we have to ensure that customs reform is completed this year, that all of the necessary preparations are made in time for the successful introduction of VAT at the start of 2006, and that the improvements in the business environment – easier company registration, more efficient commercial courts, more rigorous scrutiny of management of public companies – are all consolidated.

These are the foundations: now it's time to build on the

foundations.

Fiscal Sustainability

Just as the problem of internal debt created a climate of legal and financial uncertainty that undermined all efforts to attract investment and create jobs, so, today, the problem of fiscal unsustainability threatens to undermine much of the progress that has been made in other areas.

In order to meet the EU's accession requirements, BiH must boost the competency and staffing of State ministries. This means transferring some competencies from the Entities, a process that can save money. And it also means setting up new ministries, a process that inevitably costs money.

At the same time, there is mounting pressure to increase funding for health care, pensions, veterans benefits, infrastructure spending and so on.

So we can either increase taxes.

Or we can cut the cost of government.

That's a non-choice.

We have to cut the cost of government.

I've been criticized for drawing attention to this issue just as I am leaving.

Let me make a few things clear. The issue of funding State ministries is a new one – because the State government, in line with EU requirements, has been systematically expanded in the course of the last two years. That's why we are addressing the issue now.

But the issue of excessive government per se is by no means new. It's been with us for a decade and now the time has come to fix it.

Because fixing it will mean less government, better government and cheaper government.

There isn’t anyone in this room, or in this country who doesn’t want those three things.

The Working Group that is now meeting will look at ways of

- eliminating duplication of services; and
- allocating appropriate service delivery to the appropriate tier of government.

The solution must be based on

- political consensus;
- providing the optimal service to citizens; and
- dispassionate cost benefit analysis.

The Working Group will produce short-term proposals by this summer and medium-term proposals by the end of the year.

It is made up of politicians, including the Finance Ministers, but it also has academics and other experts. That’s as it should be. The time when all the important decisions in this country were decided by a small number of well-connected politicians behind closed doors is, I believe, coming to an end.

Civil Society

It’s coming to an end not because the politicians want it to end, but because the people want it to end. And the people are starting to flex their muscles.

The direct election of mayors has infused new life into local politics; and the remarkable resilience of the Bulldozer Process has shown that what businesspeople need is not inside-track favours or privileged access to decision-makers, but a public voice and a forum where that voice will be listened to.

By the way, I read recently that the Bulldozer Process cost millions of KM. It has in fact cost very little – a handful of salaries paid for by the International Community for a small secretariat. It's whole premise has been that if you get politicians and businesspeople together and structure the dialogue, you can accelerate economic reforms that will boost job creation and reduce poverty. Simple but effective.

I believe that fixing the cost of government (by which I mean cutting the cost of government) and making sure that the voice and aspirations of the citizens of this country are heard and understood are priorities that will help sustain the progress already made in the economic and political reform.

I am proud of the contribution I have been able to make to a reform process that is now beginning to deliver benefits to citizens.

I am grateful too for the friendships I have made here.

I do not intend to stay away. I will maintain my engagement with Bosnia and Herzegovina in a different capacity.

I will remain a friend of this country.

It has been my privilege to live and work here.

Thank you