

OHR, World Bank Meet With Federal Government, Parliamentarians And Union On Bankruptcy Law

The Office of the High Representative (OHR) and the World Bank Country Office in Bosnia and Herzegovina welcome the continued progress achieved at the meeting with representatives of the BiH Federation Government, Parliament and BiH Trade Union, on the expected adoption of amendments to the federal bankruptcy law. Today's meeting resulted in constructive discussion on a very sensitive and crucially important aspect of economic reform in this country. All participants agreed that they wanted more investment, more jobs and higher standards of living for BiH people. These amendments are a key part of the ongoing reform business and investment environment, which is supported by the World Bank's Business Environment Adjustment Credit worth US\$ 44 million, which is provided in a form of budget support.

Yet even more importantly this new Bankruptcy Law is aimed at restructuring the corporate sector to restore its competitiveness, so that it preserve old and create new jobs as much as possible. Contrary to some media reports, bankruptcy does not mean immediate liquidation. When adopted, this law will not mean immediate liquidation but will primarily aim at restructuring companies through the bankruptcy process. This in turn means preservation of as much jobs as possible, and not eliminating those. It is possible that this law may result in some short term job losses. Yet in many cases these losses will be only "on paper" since companies in aggravated condition cannot be salvaged and usually keep their workers on the "waiting lists," without a real job and

payment and only pro-forme. Being aware of this possible short-term adverse effect, the World Bank is working closely with the governments to mitigate this risk through additional support to adequate labor market projects.

Proposed amendments to existing Bankruptcy Law in FBiH are still giving workers priority status among creditors up to the certain time-limit, which is in accordance with International Labor Organization Convention 95 on Protection of Wages, Art 11. Outstanding liabilities to workers will be honored with these amendments – workers are given priority for a significant part of their claims over other creditors, and the rest of the claims will be treated equally with other creditors. The proposed amendments provide for better treatment of workers in priority than in neighboring countries.

However if the old law remains as it is in the FBiH, then companies will be more inclined to go into liquidation, and all of their workers would lose their jobs eventually. When workers are given full and unlimited priority, which does not exist almost anywhere in modern economies, creditors have no incentive to work-out the restructuring solution and the company is eventually forced into liquidation, i.e. selling the assets and closing-down. This option will also fail to attract possible investors.

When the proposed amendments are adopted in FBiH, both the FBiH and the RS will have modern Laws adopted to Bosnian environment – GTZ and WB worked extensively with Entity governments on the drafting of the Law. Now, the OHR and World Bank would urge Federal parliament to swiftly adopt this key legislation.