

# **Speech by the High Representative, Paddy Ashdown, at the Bosnian Business Conference**

*Merchant Tailors' Hall, London*

Rebuilding a country is like rebuilding a house.

You have to put a huge amount of effort into things that are necessary but won't show when the work is over. Solid foundations, naturally. Wiring and plumbing: also essential – and to put these in, you have to take other things out, like walls and windows. There will be weeks of plastering and laying new floors after the last hot-water pipe has been installed. If the weather turns inclement you may have to put the roof on in a hurry, and if a large family is moving in, there will be disputes over everything, from the colour of the bathroom tiles to the shape and resonance of the knocker on the front door.

I'm familiar with all of this because I have bought a house in Bosnia and Herzegovina, and spent a great deal of time supervising home improvements.

But, of course, I'm not here principally to talk to you about interior décor.

There is, however, a metaphor in the masonry, as it were.

My message to you today is that Bosnia is now open for investment. The country you remember from your TV screens in the early 1990s has been transformed.

Since the end of the war in BiH a huge amount of work has been done to rebuild the country, rehabilitate its physical infrastructure, get its democratic institutions working and engineer a necessary transition from the old socialist economy to a market model.

This has been time-consuming and messy – like any building work – and the benefits of much of what has been done – at today's conference I might usefully draw attention to the lengthy and largely successful process of upgrading the country's system of commercial law – will only become apparent over a period of years.

In the first five years after the war, BiH benefited from an international aid programme worth around US\$5 billion. Many of you will be familiar with the impressive infrastructure rehabilitation already completed as a result of this aid. Sarajevo Airport has been transformed from the days when its buildings were raked by shellfire and its runway was an active frontline. Housing stock – 70 percent of the country's buildings were destroyed or damaged by the war – has been systematically upgraded. And the transport network is being rehabilitated, albeit in a piecemeal way.

Political will has for much of the postwar period been applied in the wrong places – but that is now beginning to change. The BiH political establishment appears to have wakened up to the fact that citizens want higher living standards – not nationalist rhetoric. Just last week the three prime ministers and the three finance ministers agreed on a medium-term reform programme to expand the private sector and initiate a new round of tax cuts aimed at stimulating investment. And in the last year, domestic business has, with the assistance of international agencies, formed a highly effective organisation, dubbed the Bulldozer Commission, to lobby for deregulation. Many of their proposals have now been adopted by government and parliament.

BiH is moving out of post-conflict and into pre-transition. Many of the problems it is now addressing are similar to those that Hungary, Poland and other countries tackled on their path towards EU membership.

At the end of October the European Commission announced that if the BiH authorities can move forward decisively in 16 policy areas over the next six months, the Commission will begin negotiations for a Stability and Association Agreement, a major step forward in the country's systematic integration in European structures. These policy areas include the implementation of indirect tax reforms, the creation of a single business registration system, the formation of a coherent and comprehensive trade policy, the setting up of EC certification procedures to boost exports, and improvements to statistics gathering and government budget structures. These are achievable goals

— and every one of them will make BiH a more attractive place to invest.

Significant strides are already being made in the area of corporate governance. Last year I appointed a Special Auditor to look into the management operations of major public companies. Last week, a working group of BiH and international experts delivered to the Entity Prime Ministers corporate governance legislation they had requested in the wake of the Special Auditor's reports. This legislation, which the Prime Ministers are committed to steering through the parliamentary process, will require the setting up of internal controls and strict approval processes for procurement, distribution of profits and adherence to business plans. Companies will be obliged to compile financial statements to international bookkeeping standards — that means every last Convertible Mark accounted for. And if they break the rules they will be liable to a fine, or imprisonment in serious cases.

European-standard regulations at the level of public companies, we believe, will have a positive impact on the management culture of BiH's public sector, and on the country's business environment as a whole.

The comprehensive overhaul of the judicial system and the police forces, now nearing completion, has set in place a modern, independent and professional law-enforcement system. Efforts are also underway to establish commercial departments within the judiciary that will greatly enhance the efficient administration of commercial law.

I know that much of this will sound familiar. It fits the standard legislative agenda of transition countries.

But we in BiH are well aware that we are competing.

Let me make three points clear.

Number one: BiH is making itself as competitive as its neighbours in Southeast Europe. It already has the most stable currency in the Balkans and enjoys near zero inflation. The large diaspora created by the war, followed by a wave of returns from overseas, has produced an unusually polyglot and worldly-wise workforce; salaries are competitive, and BiH is geographically well positioned. It is next door to the EU and at the heart of the Southeast European free-trade area, which has a domestic market of 55 million consumers.

Number two: those images you remember of a decade ago with which everyone in Western Europe is familiar — images of men, women and children being herded from their homes, images of pitched battles in the middle of BiH cities — do not represent the BiH of today. Some of you may be skeptical about this. But let me share with you a remarkably revealing comparison — according to a recent comparison, the crime rate in BiH is the same as that of Switzerland.

Recognizing the transformed security situation, NATO just last week announced that it will reduce the troop strength of its stabilization force in BiH from 12,000 to 7,000 by this summer — little more than 10% of the forces that were necessary to stabilize the peace in the aftermath of the war in 1995.

Number three: BiH has a distinctive value-add that goes well beyond its proximity to major markets, and its talented workforce.

Let's be frank, you are just about the most critical audience a country can have.

If you are going to invest in BiH you will need to be persuaded that the country offers things its neighbours don't offer.

Well, it does.

And this fact is the rock on which the future prosperity of BiH is being built.

We can offer you evidence of steady economic growth and we can describe the solid progress that has been made in modernizing the business environment and bringing it up to European standard. But there are other intangible signs of recovery and opportunity that may be equally compelling.

For one thing, we believe that the economy is growing a good deal faster than official figures suggest. A vast amount of business is transacted on a cash basis — a legacy of the pre-war grey economy that existed in all socialist countries, and the black market that grew up during and after the war.

Domestic investment is well over a billion KM per year, but it needs to be much higher. Don't be fooled by the statistics, however, since they are woefully inadequate – only the first investment in a company is recorded, subsequent investments are not defined as such and are therefore not incorporated in the overall investment statistics. It's also worth noting that while consumer credit is on the rise, with bank loans growing significantly over the past two years, growth in business credits has been limited due to the absence of efficient commercial courts, and this is a problem that is now being addressed.

The bad news is that the governments are still struggling to find a way to regularise much of this unregistered commerce without destroying it. The good news is that this commerce exists at all – it indicates a vibrant entrepreneurial environment that can be the springboard for economic take off.

As in other transition countries, the challenge is to integrate the thriving grey economy in BiH into the mainstream. When we talk about upgrading the BiH economy, we are not talking about starting from scratch. We are talking about upgrading something that is already alive and very much kicking.

Today, it is not an exaggeration to say that Bosnia and Herzegovina is an investment opportunity. It is like Poland and Hungary in the early 1990s. Macroeconomic stability has been achieved. Monetary and fiscal discipline are in place. The macroeconomic reforms to clear away the debris of the formerly socialist economy and open up the country to international markets and investment are well underway.

As with all emerging markets, those who are first to spot the opportunities, and who have the confidence to act on this, will reap the greatest rewards. BiH has already had its first foreign investment success. The commercial banking sector has been transformed by international funds. Foreign banks have quickly won the confidence of the domestic market, and investors and customers have benefited. As banking services have proliferated, the competition has benefited citizens.

Perhaps we can view this as the interior-décor stage of rebuilding the Bosnian house – most of the heavy lifting has now been done. Now is definitely the time to consider moving in.

My house is half way between Sarajevo and Mostar, on the shore of a long and beautiful lake. In summer I can swim in the lake, in the winter I can drive just an hour to some of the finest ski slopes in southern Europe. I had compelling emotional reasons for investing in BiH. I believe that all of you can have compelling commercial reasons for doing the same.

Thank you