

Speech by Principal Deputy HR Donald Hays at the conference “From Transition to Development - Globalisation and the Political Economy of Development in Transition Economies”

Ladies and Gentlemen,

This gathering is particularly important because you are — or should be — among the opinion leaders in this country as far as its future economic framework is concerned. You are the experts, and it falls to you to assist in providing an intellectual framework for Bosnia and Herzegovina's economic development, making that development understandable to the average citizen. Right now there is a void, and you need to fill that void with your voice.

You are the people who can make — and should make — sense of the economic chaos that is transition — privatization, investment, exports/imports and job creation — of what should be happening and how the people of this country should be reacting to the government's efforts.

I am convinced that one of the greatest challenges facing the authorities in BiH today is not simply the orchestration and acceleration of the reform process, in order for BiH and its people to begin reaping the benefits of European integration and globalization — it is the need to *explain* this process and what must happen in order to take the process forward.

Until now, unfortunately, neither the government nor the experts in this country have communicated the truth about transition effectively.

Europe has seen a decade of transition and it is clear for those of us who have participated in it that it is about much more than a change of regulations and laws — it's about a change of mindset. Ask any of your counterparts from the Czech Republic or from Hungary or from Poland and they will tell you that real transition didn't begin with the first privatisation or the first free-market piece of legislation — it truly began when citizens developed a clear understanding of the mechanics of successful enterprise, when the population as a whole understood what companies need to do in order to succeed.

In every dynamic economy in the world, the prerequisites for corporate success are the same: a) the need for a high quality product or service, b) customer satisfaction and c) a highly qualified and well-motivated workforce.

Yet it often takes time to absorb this simple message.

The establishment of the Special Auditor in cooperation with the governments of this country was in part an effort to help the public corporations move into a transitional mindset. It is clear that the Special Auditor's reports on public companies uncovered a management culture in which the basic requirements listed above are not being met. Public companies in BiH are not delivering high-quality products to customers at competitive prices. If you don't believe that, ask the customers, ask those investing in this country. The audit reports uncovered a management culture where tenders are conducted in a way that favors privileged insiders instead of consumers, where senior managers operate without adequate oversight or controls, where bookkeeping is opaque at best and where management and administration are both inefficient and self serving..

This is not a Balkan problem; it is the same socialist legacy that reformers in the other Central European transition countries have had to come to terms with.

And they are coming to terms with this. That's why they are well on the road to European integration.

Competitive companies will propel Bosnia and Herzegovina into Europe and into the global economy. But in order to be competitive, companies have to be managed efficiently. This requires board members and directors to properly fulfill their respective roles, to establish and maintain necessary internal controls. This is particularly important when it comes to areas such as procurement, contracting, revenue collection, distribution of profits and development/fulfillment of rational business plans. Directors and managers have to understand that they are responsible to shareholders and customers in the case of private companies, and responsible to governments and

citizens (both as owners and customers) in the case of public companies. Management must also recognize that they are fully accountable for the company's actions towards its workers. This is particularly important in BiH, where too many companies are unable to pay their employees regularly. The old style of treating public companies as political fiefdoms with constant political interference simply won't work. It can only damage these companies as they struggle to adjust in a competitive global economic environment.

The audits conducted in the Elektroprivredas, Vodoprivredas, employment bureau and telecom companies all revealed that a modern management culture, and a respect for the interests and rights of citizens still hasn't taken root. For instance, if a Steering Board meets only four times a year, and the agenda is not about the future, as in the case of one of the telecom companies, how can the Board supervise the management or make serious strategic decisions? In short, how can they fulfil their responsibility? Is it in the company's or the public's interest for an internal auditor to be paid for *not* investigating company procedures or recommending improvements?

Why am I pursuing this issue? Because the people of BiH can make a solid economic future for this country, but only if those who control their economy – politicians and senior executives – learn the lessons of the global market in time. However, if they continue with business as usual it will mean continued migration, continued stagnation and continued job losses.

I want to make it clear: neither I nor the rest of the International Community is going to make this change for you. If it is to be done it must be done by the citizens of Bosnia and Herzegovina and their leaders.

Many of your neighbors have already had to face the same choice. They were in the same position as you. Perhaps they could lay claim to a more dynamic reform movement. Perhaps there, the voices of citizens were more forceful; there were more lobbying groups and consumer groups. That is why this meeting is so important. You can and should have an important voice in this society. I urge you to place that voice in the service of your citizens and the future of this country and support necessary, practical economic reforms.

I urge you to *explain* to the people of this country why it is that their public companies must be run at the very highest standards and why the private sector must be fostered and expanded.

The object is to create a business environment in which companies are run transparently, honestly, and efficiently – to the benefit of workers and customers and to the benefit of BiH as a whole.

Better run companies will generate higher revenue — and that translates into increased tax revenue, which will in turn allow the governments to provide better public services such as education, health care, retirement pensions and public transport.

By the way, there is no reason why the State and Entity governments, the cantons and the municipalities shouldn't be run on the same management principles. Indeed there is every reason why they *should* be run on these principles.

Changing the popular mindset will significantly increase the possibility of changing an unacceptable reality. For decades, citizens became used to the government being involved in every aspect of life. The government tried to do everything, and eventually that was not sustainable.

In a free market economy less government is better. Fewer civil servants with better pay and modern education can do a better job – and the result will be a better run country that provides a better life for its citizens.

Let me be clear: the International Community cannot bring this about. The people of BiH and their leaders will do this – if they enable the country to accept a shift in public mindset. But all of you – journalists, politicians and professional economists – have a crucial role to play in bringing about that change. Remember what a baseball player in the U.S. once said, “sometimes when you come to a fork in the road – you have to pick it up.” I have full confidence that you will accept this challenge and that this country will succeed. You are far too capable to fail.

Thank you.