

Speech by the High Representative Paddy Ashdown at the Economist Conference

Ladies and Gentlemen,

The Economist Business Roundtable deals with management culture, investment conditions and government intervention, and it is this focused business perspective that makes the discussion here so refreshing – because your bottom line is whether companies can do business profitably in Bosnia and Herzegovina.

The short answer is yes, they can.

What the BiH authorities, together with their partners in the International Community, are now doing is consolidating a business environment that makes it possible for companies in this country to prosper. This is the key to creating jobs, and it is the key to engineering Bosnia and Herzegovina's transition to economic stability.

Perhaps I should point out that I am speaking to you on a day when the focus of all our efforts is on getting BiH politicians to acknowledge the wisdom or pragmatic compromise in the area of defence reform. On the economy we are seeing a new pragmatism – and most importantly a new pragmatism that is beginning to deliver tangible benefits for the people of this country. It would be a tragedy if we were to stumble in our efforts to secure real military reform that will set BiH on the path to NATO membership – because that would in turn raise questions about the ability of BiH politicians to forge sustained consensus on other reforms, including economic reforms. In the economy, though, as I said, a huge amount of real reform has already been achieved and a large number of significant reforms are now in the parliamentary and

administrative pipeline.

The transition to economic sustainability cannot be bought by international aid, and it certainly cannot be conjured up by government fiat.

To unleash the entrepreneurial dynamism that I am convinced exists in Bosnia and Herzegovina we must create a modern administrative and legal framework in which businesses can operate successfully.

This is painstaking work, but that doesn't mean that it has to be carried out at a snail's pace.

We are now seeing acceleration in the pace of economic reform. And it is important to point out that, as it picks up speed, this process has the benefit of clear and agreed strategic goals.

Before the elections last October all of the main parties publicly endorsed a Jobs and Justice programme that itemises the core legislation required to kick-start the economy and furnish this country with the institutional mechanisms needed to uphold the rule of law.

In April this year the governments sat down with the main international organisations at Bjelasnica just outside Sarajevo and drew out of that programme a near-term reform agenda focusing on:

- cleaning up the business environment
- re-launching the stalled privatisation process, and
- boosting exports.

At Mrakovica in June the governments drew up a 131-point action plan that gives legislative and regulatory substance to these three broad commitments.

The Mrakovica Action Plan is to be implemented by the spring of this year. This near-term perspective, with the likely

impact measured in months rather than years, reflects the urgency of getting benefits of reform to BiH citizens, who are still faced with a situation of severe unemployment and endemic poverty.

And beyond this, there is of course the on-going EU Stabilisation and Association process, in which BiH will, over the coming years, harmonise its legislation with the *aquis communautaire*.

And this in turn is complemented by the impressive legislative agenda laid out in the medium-term Poverty Reduction Strategy Plan.

These programmes and plans do not compete; they are complementary; they constitute an overarching economic strategy supported by strong domestic political consensus and by BiH's partners in the International Community.

It is important to emphasise that the impetus for reform and the substance of reform are increasingly home grown:

The Mrakovica Action Plan is very much a Made-in-BiH document.

It was drawn up by the leaders of BiH.

It will be implemented by the authorities of BiH.

And it will benefit the people of BiH.

So we have a blueprint for development that enjoys political and popular support. Much of my time is taken up with encouraging, persuading and cajoling the relevant authorities to step-up the pace of implementation.

There are fewer arguments about *what* to do; the main area of contention tends to be *how fast* we can do it.

The results so far have been promising.

In August the Indirect Tax Policy Commission – comprising the

prime ministers and finance ministers of the State and the two Entities – agreed a draft law providing for a merged BiH customs service and a countrywide VAT system, which we expect to be introduced by the beginning of 2006.

The draft law will shortly be debated in parliament and should be enacted before the end of the year.

This legislation will give BiH a coherent and efficient fiscal system, capable of normalising its public finances.

In recent months the Entities and cantonal authorities have enjoyed considerable success in matching expenditure with income. This has been made possible by successful military downsizing and improved revenue collection.

At the same time, BiH continues to benefit from a stable currency and practically zero inflation.

This country has done a great deal to transform its fortunes. It is completely unrecognisable from the shell-shattered wreck that emerged from the 1992-95 conflict. In fact its condition has changed in fundamental ways over just the last two or three years.

These changes are reflected, I believe, in a new political pragmatism. The consensus that has been achieved on tax policy, for example, can now be extended to other areas of economic management.

This in turn reflects a new willingness to address economic challenges in a serious way.

Municipal administrations that were once preoccupied with chronic political infighting are at last beginning to focus on the desperate need to attract investment, create jobs and tackle widespread poverty.

Practical politics is beginning to replace arid ideological disagreement as a staple of public debate.

But it takes two to tango.

Bosnia and Herzegovina has changed; because it has changed, I believe it is entitled to a fresh look from investors.

You will not find everything to your liking. There is still a great deal to be done.

But I can say with confidence that Bosnia and Herzegovina justifies very detailed and extensive research. There are investment opportunities arising from the particular phase of transition in which this country finds itself.

Labour costs, rental costs and taxes remain extraordinarily competitive; infrastructure is improving noticeably month by month; and the governments, from the state down to the municipalities, are starting to think in terms of what incoming businesses need.

This is fertile ground for economic success. BiH is, indisputably, open for business.

This year we have witnessed a remarkable manifestation of the new pragmatism in the form of the Bulldozer Initiative.

At the end of 2002 I suggested that we should take a bulldozer and push aside all the pointless bureaucracy that makes it harder rather than easier to run a business in this country. BiH businesspeople took up this idea and ran with it.

The result astonished even the most hardened cynics.

The Bulldozer Committee, at short notice and to great effect, canvassed hundreds of recommendations from businesspeople, suggesting ways in which laws and regulations could be changed so as to make it easier to do business. These ideas were narrowed down to 50 reform proposals. I should emphasise that none of the 50 proposals diminished workers' rights or eroded health and safety requirements and all met European standards.

These targeted reform proposals were presented to the three governments and then debated and enacted by the State and Entity parliaments.

The result: 50 reforms in 180 days – a reform every four days.

The Bulldozer too has been a 'Made-in-BiH' exercise, one which can be copied in developing countries and transition countries and, for that matter, in developed countries too.

We are now engaged in a second Bulldozer campaign, and we expect to secure another 50 reforms before the end of the year.

What I have described is a country that is beginning to turn the corner.

Reform is beginning to work in Bosnia and Herzegovina. It will work faster if we can increase the flow of international investment. There are very sound commercial reasons for that to happen.

As I said at the beginning, the bottom line is whether companies can do business profitably in Bosnia and Herzegovina.

And the unequivocal answer is yes