

Interview: Paddy Ashdown, High Representative for BiH: “Economic Reform in BiH”

Preduzetnik: Mr. Ashdown, you assumed the duty of the High Representative in a very difficult economic situation. What is your assessment of the economic situation in BiH at that time?

Paddy Ashdown: At the end of 2002 I made it clear that the economic situation in BiH was simply untenable. I pointed out that we were spending three times more on imports than we were earning from exports; I drew attention to the appallingly low rate of foreign direct investment – per capita, BiH attracts one tenth of the FDI attracted by Croatia; with unemployment running at anything from 20 to 40 percent of the workforce (depending on whose figures you use) industrial production in BiH is a fraction of what it was before the war, and the level of commercial activity is still painfully low. Worst of all, 20 percent of the population lives below the poverty line and another 30 percent live on or just above the poverty line—that’s half the citizens of this country!

Whenever I talk about boosting exports, boosting privatisation, cleaning up the business environment, bulldozing the pointless bureaucracy that makes it harder not easier to create jobs in this country I am thinking about the real living conditions of citizens – we have to change things and we have to change things quickly.

Now, I’ve painted a bleak picture, but it’s an accurate one. Yet the situation is not all bad – indeed there are real signs that we are turning the corner as far as the economy is concerned.

One huge advantage BiH has is the Convertible Mark, the most stable currency in Southeast Europe. The inflation rate is

practically zero. That's an incredibly strong foundation on which to build a market economy. Also, as you know, since 1999 there has been steady annual GNP growth, averaging around 5 percent. It's not enough (the World Bank calculates that we need 12 percent over the next decade to power the country into sustainable prosperity) but what it does show is that the BiH economy is functioning – and (very important, this) as the level of international aid declines, the BiH economy is functioning under its own steam. So, we have a firm foundation and we have the start of activity to build on that foundation.

Preduzetnik: From the very beginning of your mandate, you focused the attention on jobs and justice. What are the biggest obstacles for opening of new jobs and improving living conditions for BiH citizens? What economic reforms are being implemented in BiH at this moment in order to improve the economic situation?

Paddy Ashdown: One obstacle that has emerged in BiH – and this has been a major problem in all transition countries – has been the sclerosis of an entrenched bureaucracy. Bureaucracies grow – that's almost a law of nature. Usually this is not a conscious fault of bureaucrats – and I must stress that there are very hard-working and efficient civil servants in BiH and we want to work with them to help them do their jobs better. But the fact is that BiH is awash with unnecessary forms, permits and licenses and this excessive paperwork is strangling business. What is the result of that? The result is that the single greatest task facing BiH today – to create hundreds of thousands of jobs – is not being carried out.

So we had to change the status quo – and that's why we launched the Bulldozer process. We set out to bulldoze job-destroying paperwork and pointless regulations. We said to businesspeople – define what you need and then tell that to the politicians. We said to the politicians, the businesspeople know what they are talking about; they are the ones that are going to create jobs; listen to them, work with

them. The result, as you know, was a reform every four days during Bulldozer Phase I and we want to repeat that success during Bulldozer Phase II, which is now underway.

Another obstacle to growth was the very short, two-year, electoral cycle, which meant that those voted into power had no time to implement long-term economic strategy, and the constantly rotating Council of Ministers, which meant that there was no coherence in BiH's overall economic policy.

That's all changed.

The governments have a four-year mandate. Before the October elections all of the main parties endorsed the Jobs and Justice reform agenda. At Bjelasnica in April, together with representatives of the main international financial organisations, the governments defined their near-term economic priorities, identifying Jobs and Justice targets that can be met before the end of this year. They expanded on this at Mrakovica in June. Now they have produced an action plan that commits them to implementing key reforms by the end of this year. These include preparing the ground for the introduction of the treasury system in all the municipalities in both Entities, so as to maintain effective control over public spending. They've also committed themselves to adopting framework laws on Company Registration, at the BiH and Entity levels. Making it easier to register a company is a crucial and too-long-delayed step in creating an attractive business environment.

Preduzetnik: Do you believe that the Governments' "Emergency Reform Units" will contribute to the development of the cooperation between entrepreneurs and politicians?

Paddy Ashdown: The Emergency Reform Units are an excellent idea because they will bring capacity within the governments to deal with reforms forwarded by the private sector. This is an idea that originated from Prime Minister Terzic in response

to a strong demand from government departments to have an internal body that can process the reforms that are forwarded by the Bulldozer Committees. The Emergency Reform Units will be the Bulldozer Committees' opposite numbers in government. It's up to the governments to put up teams of five civil servants each who will be tasked to work exclusively on this project for the next six months. It is crucial for the governments to have these teams up and running as soon as possible, since the Bulldozer Committees have started work on Phase II and have drafted 19 reforms.

Preduzetnik: The fact is that foreign investors are hesitant when it comes to BiH. What should local business people and authorities do in order to attract foreign investors? In your view, which segment of the BiH economy seems to be the most prosperous and attractive for foreign investments?

Paddy Ashdown: Foreign investors are hesitant because BiH still has an international image problem. Thankfully, that's changing. Everywhere I go when I'm abroad I tell people—this country is safe, it's beautiful, the people are friendly, the educated workforce are second to none, the hospitality, the culture are incomparable. I'm an investor in BiH myself. I bought a home here—it's where my family spend their holidays. Now, the tourism authorities are starting to participate at overseas exhibitions, and one of the items in the Mrakovica Action Plan calls for regularising FIPA's legal position so that it can do its job more effectively, identifying potential international investors and matching them with potential projects in BiH.

Clearly, we have to make the Single Economic Space a reality at every level of administration. We are taking a huge step forward with the Law on the Indirect Taxation System. All of the government leaders have signed up to this, and for good reason – it means more money will be spent on BiH citizens; it means that foreign investors will look at a country with an efficient customs administration and a modern fiscal system;

and it means that BiH will have fulfilled one of the core requirements of European integration.

Preduzetnik: To what extent has the slow implementation of privatization process influenced the bad economic situation in BiH? Do the titular of the state capital in companies work in the interest of the state or perhaps, in their own interest?

Paddy Ashdown: Privatisation has not yet delivered the economic benefits that this country needs. It has been slow, complicated and – in a hugely damaging way – it has come to be associated in the popular imagination with criminality. We have to change that. One of the things that came out of Bjelasnica was a commitment by the authorities to relaunch the privatisation process. What we need are successful tenders that bring significant investment to BiH and create jobs – it's as simple as that, and the Entity governments have committed themselves to organising the successful tender of at least five key companies by October.

Preduzetnik: To what extent do the institutions in Entities support implementation of economic reforms through concrete actions, or do they support reforms only verbally?

Paddy Ashdown: Ask me that question in six months. The new authorities have committed themselves to an action plan that has a timeline which is measured in months not years. The International Community will work with them to help them fulfill this commitment to the people of this country. I believe they can do it.

Preduzetnik: BiH as a state should have a single economic space. Is that achieved- or, how far are we in creation of it?

Paddy Ashdown: As I mentioned earlier, the Law on the Indirect Tax System is a huge step forward. Many of the Bulldozer reforms addressed the business-busting anomalies that came from the failed attempt to build two separate economic systems in BiH – like having to register a company twice, once in each

Entity (what kind of message does that send to a potential foreign investor?) I believe we have moved on from there. For example, at Mrakovica the three prime ministers committed themselves to drawing up an export promotion strategy together. Why? Because it makes sense.

Preduzetnik: It seems that in the process of revitalizing the economy, attention is focused on development of small and medium enterprises. Development of entrepreneurship is an important condition for that. What is your opinion about entrepreneurship in BiH?

Paddy Ashdown: You have standards of entrepreneurship as high as anywhere in the world. Entrepreneurs here face real problems – multiple bureaucracy is at the top of the list. Until recently, credit – or the lack of it – was a major obstacle, but that has significantly improved in the last two years; interest rates have come down noticeably as the banking sector has been consolidated. Then you have infrastructure limitations – utility costs are high and delivering goods to market – in the case of manufacturing – involves dealing with an inadequate road and rail network. But – entrepreneurship is all about solving problems and overcoming obstacles.

Recently, I visited two young entrepreneurs who run a software company in Sarajevo. In the best traditions of Silicon Valley, their workshop is in the garage at the bottom of what was previously a private home. They have a staff of ten or so. They are writing their own software programmes and supplying these programmes to domestic and international clients, and they are doing that successfully. They developed their skills abroad. They judge that BiH is a place where you can grow a software business. I trust their judgement.

Preduzetnik: The independent judiciary is one of the pillars of democracy in European countries. A lot has been invested in reform of the judiciary in BiH. Is the judiciary reacting properly and promptly to illegalities in economic and

financial segment of society or, are there some moguls who are even more powerful than the law?

Paddy Ashdown: In addition to the huge amount of work that has already been done on overhauling the judiciary, I would draw your attention to the commitments the governments made at Mrakovica to get Commercial Chambers up and running in most of the 15 first-instance courts by October. The role of these chambers is to supply the expertise and focus needed to rule on commercial disputes in months (or weeks) rather than years.

I would also point out that criminals who have held BiH to ransom for too long are now finding themselves either in jail or with their assets frozen and their ability to travel curtailed. Momo Mandic is in a Belgrade jail and Ivan Bender has been sent to jail by a Mostar court. There is much more to be done on this front – but a real start has been made.

In short, no one is above the law.

Preduzetnik: The International Community is investing a lot in its effort to make BiH part of Europe. The vast majority of BiH citizens want the same. Do you have any indication of the existence of any group of people who make it more difficult for BiH?

Paddy Ashdown: No. It is in BiH's interest to integrate thoroughly in Europe – and it's in Europe's interest too. The prospect of EU membership has acted as a huge incentive for politicians in BiH to enact and implement legislation that brings BiH into line and – it's very important to emphasise this – that delivers practical benefits to citizens. The EU has been a proactive and enthusiastic partner in this and, as the Stability and Association Process moves forward, will continue to be so.

Preduzetnik: Do you believe that there is an 'oligarchy' in BiH that is getting rich illegally, endangering the interests of ordinary citizens? Are the measures that are being

implemented sufficient to fight crime and corruption?

Paddy Ashdown: The most effective way of tackling oligarchies is through market reforms. Competitiveness, creativity and energy are characteristics of entrepreneurship that markets respond to; they are not characteristics readily associated with oligarchies. History shows that the entrepreneurs win out in the end. There are criminal networks in BiH and they exert a significant and damaging influence on the economy, but I believe we are making serious inroads on their power. The Law on the Indirect Taxation System, for example, will vastly reduce the opportunities for tax and customs fraud, till now an area where criminals have been able to make huge amounts of money.

Preduzetnik: It is expected that the situation in both BiH Entities will improve in the future. Which economic reforms, exactly must be implemented in BiH?

Paddy Ashdown: The Entities are going to get rich together or not at all. Currently, there is a huge and scandalous waste of resources because the Entities duplicate institutions and services. BiH has seven universities. It can barely afford four. So, first of all the Entities are going to have to look seriously at rationalising their spending and starting to share resources in a sensible manner that benefits their citizens, and they have to work cooperatively at building the Single Economic Space – because the Single Economic Space benefits both Entities – it is one of the keys to prosperity.

Preduzetnik: Following the peace agreement, the International Community got the mandate to stabilize and unite this country and to help it come closer to the democratic world and join the European Union. How far are we from that goal and when will the economic and political system in BiH become self-sustainable? Can you assess the achievements of the OHR so far?

Paddy Ashdown: We have come a long way. Peace has taken hold; refugee return has taken place on a massive scale (though let me emphasise that the return process will not be complete until every person who wants to return has been able to do so); there is complete freedom of movement; the Single Economic Space is a reality; the governments are working together as never before; the economy is growing, albeit too slowly. There is much to do, but we are clearly moving in the right direction. On the day I took up my duties in BiH, I declared that our task would be to “reform Bosnia and Herzegovina and put her irreversibly on the road to statehood within Europe.” I believe that we are on course to doing that. We have a clear blueprint—the Mrakovoica Action Plan is a blueprint for the next six months; the Stability and Association Process, which incorporates a massive legislative programme that will deliver practical benefits to BiH citizens and bring BiH into line with the rest of Europe, is a mid- to long-term blueprint. Can the governments deliver? They have no excuse if they don't. The voters will not forgive them if they don't.

Preduzetnik: There has been some discussion that experiences gained in Bosnia may be used in Iraq? What has the International Community learned in BiH?

Paddy Ashdown: Bosnia and Herzegovina, Kosovo and Afghanistan have demonstrated that what happens after the fighting is every bit as important as the military campaign. Arguably, more important. In Bosnia and Herzegovina, we have spent years on the kind of nation-building that may now be needed in Iraq. The failure to establish, quickly and decisively, the rule of law in Bosnia-Herzegovina, repeated in Kosovo, is something for which we have paid a high price. That is why the lawlessness seen in parts of Iraq since the end of the war has to be treated seriously. Unless law and order is consolidated quickly and comprehensively, peace will not take hold and the benefits of the coalition victory will be swiftly lost as

criminals and corruption swarm into the vacuum.