

## **Speech by Deputy HR and Head of OHR Economic Department, Patrice Dreiski at the Conference on “Economy between Theory and Practice” Organised by the Konrad Adenauer Foundation**

Ladies and Gentlemen,

The connection between economic theory and practice is a crucial issue, at the heart of the present effort to create a self-sustaining market democracy in Bosnia and Herzegovina.

The good news is that today the proportion of good ideas being transformed into sound and useful legislation is increasing substantially. This is because governments are now in place which have a long enough mandate to get things done.

But there cannot be any *delay* in implementing reforms. We must do this now, not next month and certainly not next year.

At Bjelasnica in late April, the BiH leadership committed itself to Jobs and Justice Phase II, specifically to:

- creating a cleaner, better regulated business environment and improving corporate governance
- 2. re-launching the privatisation programme
- 3. rapidly stepping up exports

This summer must see real progress in transforming these ideas into tangible policies and laws that make a difference to citizens' lives. The people of BiH are tired of empty promises. Poverty is too widespread, unemployment is too high, crime and corruption cast too much of a shadow over everyday life – all of this means that reform must be real and it must be rapid.

A programme of real and rapid reform emerged from Bjelasnica.

Creating a cleaner, better regulated business environment is not an obscure, theoretical aspiration, any more than creating a better, cleaner living environment would be. It is something that affects citizens directly. Until a modern, competitive, transparent business environment is in place, foreign direct investment in BiH will remain low. As long as FDI remains low, the number of new jobs created will remain low.

BiH currently attracts FDI at ten percent per capita of the Croatian figure. That's 90 percent less money for jobs and services. That dreadful figure can only be changed if we clean up the economic space. The Entity Civil Procedure Codes are a basic element in doing that. This legislation will make it infinitely easier and safer to do business in BiH – which means more investment, which means more jobs. The RSNA has just enacted the Civil Procedure Code and we expect the Federation Parliament to do this by 1 July.

From 1 August, sales-tax collection on certain products will be moved from point of sale to point of production, which is another significant step forward in creating a sound, transparent system of fiscal management. This process will be completed by 1 January 2004 at the latest.

The work of cleaning up the Elektroprivredas is continuing. Here the link between theory and practice is straightforward and incontestable. Public companies should be run for the benefit of the public – that means they must be efficient and profitable and their managers must be accountable. The Special Auditor has recommended steps that must be taken by the companies and by the Entity governments in order to staunch the vast losses that were the result of years of mismanagement. These steps are now being taken, and we are closely monitoring this. The same corporate governance criteria – stressing transparency and accountability – must be extended to other public companies. Again, this is a fundamental element in the overall strategy. Public companies can be a model for the business sector – if they are run professionally and profitably they set the standard for the rest of the

country.

Work is now underway to relaunch the privatisation process. Here, I believe, the theoretical arguments have not yet been adequately aired in public. Too many people in BiH see privatisation as a threat rather than an opportunity. The process has been discredited because it is associated with job losses. We have to change that. The governments have committed themselves to taking the process in hand and ensuring that a series of successful privatisations is set in train over the summer. "Successful" here means privatisations where foreign capital is injected into companies to make them competitive. This process is never pain free – change always meets resistance. In the early stages of privatisation, when companies are being restructured, there are often job losses – but in the long term, and this must be emphasised again and again, competitive companies create jobs.

The authorities have committed themselves, among other things, to amend the Entity privatization laws. It is in the interest of BiH workers and BiH citizens as a whole that this be done quickly.

On the export front, we are beginning to see progress – but the trade figures are such that it is impossible to overemphasise the urgency of swift action during the summer. In 2002 BiH imported 6.5 billion KM worth of goods more than it exported. In the first two months of 2003 BiH imported 973 million KM worth of goods, and exported just 283 million KM. These figures are unsustainable.

The most important aspect of this problem is that low exports are as much a result of bureaucratic shortcomings as of production shortcomings. BiH can't export farm products to the rest of Europe not because its farm products aren't good enough but because it hasn't set up the systems that *prove* these products are good enough.

Likewise, BiH industrial manufacturers can compete internationally, but first of all they have to get their products certified. So there have to be industrial standard certification systems in place.

During the summer we must facilitate and publicise the work of the State Veterinary Agency, which is a crucial institution for certifying BiH food products for export. And improvements must be made in the running of the Institute for Standards so that it can supervise implementation of laws enacting EC standards.

BiH is not operating in a vacuum — far from it. The success or failure of its economic reforms is intimately connected to the success or failure of economic reforms throughout the region. The Thessaloniki Summit later this month will generate new impetus in the Stabilisation and Association process, which has already created a regional synergy. The reforms being implemented in BiH are consistent with reforms being implemented by her neighbours. The momentum for reform is not limited to this country; it is regional. This in itself is an example of a theoretical construct – the emergence of a Southeast European economic area – becoming a reality.

Just this week, the first Phase of the Bulldozer Process was concluded and Phase II was formally launched. As all of you will know, the Bulldozer Committee secured an average of one reform every four days, after its launch at the end of last year. It did this by creating a new and effective dialogue between businesspeople and politicians – a remarkable example of an idea being turned into a reality, and in this case the reality surpassed most people's expectations. Some of our neighbours are now expressing an interest in applying the Bulldozer technique in their own countries

At Thessaloniki BiH will be able to report on solid progress. There is a long way to go, but to a significant degree, I believe, this country has begun to demonstrate a rewarding capacity to turn economic theory into fact.

Thank you