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

Dr Hornstein,
Ministers,
Ladies and Gentlemen,
First of all, allow me to commend Prime Minister Mikerevic on his lucid and authoritative presentation this morning. The Prime Minister has spoken about measures that are necessary in order to stimulate investment. It will fall to the Prime Minister and his government to implement these measures – his working day is dominated by the challenge of putting theory into practice.

In fact, the history of Bosnia and Herzegovina's postwar economic recovery has revolved around the successes – and, alas, the failures – of putting theory into practice.

The good news, I believe, is that in BiH today we stand a good chance of substantially increasing the proportion of good ideas that are transformed into sound and useful legislation. We have talked for years about creating a positive business environment in BiH. Now we are in the process of actually creating such an environment.

The improvement in operating conditions arises from the fact

that governments are now in place which have a long enough mandate to get things done. The cycle of economic reform can be politically problematic when the period between elections is just two years. Eighteen months to two years after fundamental reforms are introduced the public is customarily still contending with the *pain.* It takes another 18 months to two years before they begin to benefit from the *gain*.

Today for the first time in postwar BiH, incoming administrations can consider launching desperately needed reforms and reaping the political benefits. By the time the next elections come round, in 2006, voters may be making their choices on the basis of practical economic benefits that have been successfully delivered to them. This is by no means a cynical observation. Politicians in every democracy, including those whose economies are competently managed, keep a close eye on the electoral consequences of every innovation. There is no shame in that. The point that should be made though – and made forcefully – is that the virtuous cycle that can now begin in BiH, must begin quickly. If there is any further delay in implementing reforms, politicians will start to calculate that pain will still be with us around about the time of the 2006 polls. That will diminish the impetus for reform, and more years will be wasted. BiH simply cannot afford that

So we have to begin now, not next month and certainly not next year.

Which brings me to the second reason I believe we can have a certain amount of confidence that after seven years of the very patchiest implementation of economic theory we may begin to see something more coherent and productive emerging. All of the mainstream parties ahead of last year's election endorsed the Jobs and Justice reform package presented by the BiH authorities to the Peace Implementation Council. The International Community is giving its unequivocal support to this package. Jobs and Justice lists the specific legislation

that must be enacted if the BiH economy is to be turned around. Thus, the parties that are now in office for long enough to tackle real reforms have a comprehensive reform blueprint from which to work.

At the Bjelasnica Retreat two weeks ago, the BiH leadership and the major international organisations identified their near-term priorities in implementing Jobs and Justice – real and positive change can be effected by the end of this year. If this is done successfully then a weary populace will at last begin to iew reform with more hope than skepticism. Reform will begin to deliver. There will be real gain as well as pain.

The theory that is being put into practice is cogent and concise. Establishing a clean business environment involves, among other things, enacting civil codes and bankruptcy legislation, and introducing effective arbitration services. Setting up the 15 Business Chambers attached to municipal courts by the end of this year will be a centrepiece of this. Boosting exports involves the undramatic but immensely important business of establishing and maintaining efficient certification bodies – something BiH should have done years ago and is now at last beginning to address with a measure of political seriousness. Accelerating the process of European integration includes successsfully concluding the work of the Indirect Tax Policy Commission – whose work, I am happy to report, is now on track.

Looking at this partial list we can see that turning economic theory into practice requires sustained political focus, attention to detail, and disciplined use of government and parliamentary time. But if we succeed we will have the inmmeasurable benefit of creating a groundswell of popular support, a following wind that can carry the reform process forward faster and faster. This has been achieved in other transition countries and it can be achieved in BiH. The test will be whether or not we succeed in transforming pain into

gain, at least in some significant sectors of the economy, by the end of this year. I believe that can be done. I believe Prime Minister Mikerevic and his colleagues believe it can be done too. We shall find out in the next six months or so whether we are right.

Thank you.