Speech by Deputy HR, Patrice Dreiski, to the Regional Investment Forum 2002

Ladies and Gentlemen,

There are sound reasons to invest in Bosnia and Herzegovina, and the medium-term impact of a well-implemented investment cycle can be profound. Prosperity in this country is not a mirage; it is not a distant dream; it is achievable within five to ten years. When I use the word prosperity, I mean exactly that – not sustainability, not subsistence, but dynamic, competitive economic activity that delivers benefits to citizens and profits to corporations and entrepreneurs.

So, why should anyone invest in Bosnia and Herzegovina? Well, here are a few reasons:

- BiH has a skilled workforce with an unusually broad familiarity with international business, because of the high prewar propensity to travel, especially for employment, and because of the postwar interaction with the extensive international presence in BiH.
- Not only is BiH on the doorstep of the European Union, it also has strong cultural, geographical and economic connections with the rest of the Balkans and the Mediterranean.
- To a greater extent than any other Central or East European economy BiH is a green-field investment site. Postwar economic recovery efforts have avoided mistakes of the past, altering, for example, the prewar dependence on obsolete heavy industry.
- There is a stable currency, pegged to the Euro, and an acceptable level of inflation.
- There is an efficient and profitable commercial banking

sector with the capacity to finance trade and business start-ups.
- The government in co-operation with the IC is working actively to develop laws necessary to promote trade and investments.

Now let us turn to the vexed question of why investors – so far – are proving hesitant about committing funds to Bosnia and Herzegovina.

The war, of course, left a legacy of negative perception – images of violence and instability scare away business. Less dramatic but at least as serious is the lack of market transparency, a tradition of non-responsive bureaucracy, an outdated education system and the presence of significant corruption and criminality. Investors face a divided state that is unresponsive to the needs of modern trade and industry.

When we talk about the best way of fixing these problems we are not talking about something abstract. We are talking about something real and urgent. Unnecessary obstacles to investment – created as a rule either by political or bureaucratic incompetence – have prevented this potentially wealthy country from becoming wealthy.

These obstacles MUST be removed, and they must be removed soon.

The governments of the two Entities and the State have agreed an Action Plan for removing administrative barriers to investment. I believe that after years of preoccupation with arcane nationalist politics, Bosnia and Herzegovina's leaders have twigged to the fact that political progress without economic progress can be largely meaningless – you can put together any number of formulae for sharing out the national pie – but if there is no pie, the formulae are redundant. The OHR and the International Community will give the authorities

every assistance in implementing the Action Plan and eliminating political and bureaucratic obstacles to investment and job creation.

The High Representative, Paddy Ashdown, in his address to the BiH Parliamentary Assembly on 27 May, said that his guiding motto will be, “First Justice, then jobs, through reform.” The country needs justice; the country needs jobs. And investors need the rule of law if they are to channel funds into businesses that will create employment. Through the comprehensive overhaul of the BiH court system, now underway, the rights of the people of BiH will be better protected. The revamped judiciary will also administer the modern commercial legislation that has been steered through the State and Entity parliaments. This legislation includes, for example, a Foreign Direct Investment Law, passed in 1999, that provides for unrestricted repatriation of capital, unrestricted company ownership, and equality in law of BiH and foreign citizens and firms.

Bosnia and Herzegovina’s official unemployment rate – still around 40 percent – is unacceptably high. The real figure may actually be somewhat lower, since there is a large uncontrolled grey economy. Efforts are being made to incorporate the unregulated sector in the formal economy – not least because workers at unregistered businesses do not for the most part enjoy adequate social protection, and because unregistered businesses offer unfair competition to the growing number of successful small and medium sized enterprises which are taking over from the old state-run heavy industry conglomerates as the backbone of the economy.

Jobs are created by profitable firms, and the government’s job is to create conditions in which firms can be profitable – and after that to make sure that no piece of legislation will actually have the effect of making it more difficult for firms to be profitable.

Work is continuing on eliminating absurd internal barriers. A firm operating in both Entities is for tax purposes treated like two separate firms, taxed at a different rate in each Entity. This type of arrangement is unsustainable. The International Community is maintaining constant pressure on the authorities to create a Single Economic Space. What can already be said is that the legislative legacy of the nationalists who ran the country during and immediately after the war has been largely dismantled. The remaining economic laws that were designed to divide rather than unify the territory of BiH no longer represent a significant deterrent to inward investment. Indeed, many companies are now running successful manufacturing and marketing operations throughout the territory of BiH. It is a rule of modern society that market forces make more sense than nationalist divisions.

Under a program currently being implemented by Britain's Department for International Development, a countrywide company registration system is being established which will allow new companies to register, at various locations around the country, in weeks rather than months, and will provide a corporate database that offers practical benefits to business people.

The Foreign Investment Promotion Agency, a dedicated channel through which capital from abroad can flow into BiH and energise an entrepreneurial resurgence, is creating a countrywide database of potential investment opportunities. If a dairy farm in Bihac is looking for backers, or an entrepreneur in Foca has a bright idea that needs financing, or an industrialist in Sarajevo or Banja Luka or Tuzla or Mostar needs capital in order to expand, FIPA will find out about it and try to match the BiH firm with potential investors. FIPA is also compiling detailed information on the infrastructure, facilities, work force and administrative assistance for inward investment that exist in individual municipalities throughout BiH.

Education is an area where intangible barriers to investment can be tackled. There is an over emphasis on theory at the expense of practice, which, as far as secondary schools and technical colleges are concerned, means that new workers with the right academic qualifications require substantial and expensive training before they start making a positive contribution to their companies. For those in vocational schools there must be a system of internships that combine classroom experience with real-life on-the-job training. Start-up companies cannot afford the added burden of training newly hired employees from scratch. Internship programs require flexibility on the part of schools and imagination on the part of employers, but they don't require much money. Such programs could be implemented comprehensively and quickly, and the authorities could play a useful and effective role by ensuring that this is done immediately.

The authorities have identified the problems; they must now find and implement solutions. They will have the full support of the International Community in doing this. There is a need for speed. Sensible and swift reform will help create jobs and usher in an era of prosperity. Why should BiH citizens be made to wait?

Thank you very much