OHR: Economic Newsletter, Vol. 2, No. 3, April 1999

Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, April 1999, Vol. 2, Issue 3

Economic Task Force Secretariat
OHR in co-operation with IMG International Management Group

Economic Indicators BiH

The BiH Statistics Agency (BiHAS) has collected a wealth of new data on key economic indicators which will be incorporated in a new analysis next month.

Economic Policy and Reform

Konvertible Marka
Trading in Europe: Starting 1 April 1999, the Konvertible Marka (KM) was available to buy or sell at four major European banks in three countries Bank Austria and Raiffeisen Zentralbank in Austria; Dresdner Bank in Germany; and Credit Suisse in Switzerland. The KM, pegged to the Deutsche Mark, is the strongest currency in the region and supports a sound and stable macro-economic policy for BiH's transition to a market economy. Its acceptance in these countries will further enhance confidence and improve convenience. The KM will also be available in Hungary starting 1 May in three banks (Raiffeisen-Hungary, Budapest Bank, and Kommercial and Kredit Bank) and it is expected to be ready for transaction in Croatia on June 1.

Acceptance: The KM has gained wide public acceptance in BiH. A recent public opinion survey indicated that 86 percent of those polled in Banja Luka said that they trusted the KM the most against the Kuna or the Yugoslav Dinar. Four out of five people in Livno said the same. Respondents in Zenica overwhelmingly believed that the KM should be the only legal means of payment in BiH. We also note that about 40% of taxes in the RS are now collected in KM, and that RS government wages and pensions are paid in both KM (50%) and YUD (50%).

Donors' Conference

The High Representative recently met with the major donors to discuss the 1999 Donors' Conference. There was a broad consensus that further progress in various fields is needed for the conference to be held as planned. Donors expect to see satisfactory progress on minority return; implementation of the property laws; full implementation of the BiH Customs Law and extra customs duties according to the decision by the Council of Ministers; a plan by the entities on the liquidation and reform of the Payment Bureaus; more progress in the privatization process, specifically the full functioning of all Privatization Agencies and harmonization of the entity laws with the Framework Law, as well as the enforcement of its provisions; and funding of public television by the passage of respective legislation, which is the responsibility of the entities. The High Representative and the donors acknowledge that the current period is challenging, but do not consider this to be a reason for the overall goals for this year to be abandoned and for momentum to be lost.

Conditions for 1999 Donors Conference

1. Returns: There exists a satisfactory rate of progress on minority returns.

2. Property Rights: There is substantial progress in realizing property rights under Annex 7 and, in particular, a resolution of the problems raised by the existence of new permanent occupancy rights.

3. Economic:

i) Full implementation of BiH Customs Law and Tariffs: The Law on Customs is fully implemented by Entities Customs Administrations in all parts of the BiH territory and extra customs duties, as decided by the Council of Ministers, are effectively applied.

ii) Reform of Payment Bureaus: R.S. and Federation authorities agree on the overall strategy for the liquidation of payment bureaus and the reform of the payment system and those Authorities duly cooperate (including through the amendment of relevant laws) on conducting the functional audit and the formation of the corporate governance board.

iii) Privatization: The Entities actually enforce the existing legal framework for eligibility and participation. All privatizing agencies are operational and able to conduct rapid and transparent privatization according to the legal framework, share information at all levels and facilitate active participation of eligible citizens, especially refugees and displaced persons.

4. Media: The provision of funding for public television is the responsibility of the Entity Governments. They are to ensure that the necessary legislation to establish transparent public funding mechanisms is put in place. Furthermore, the Entity governments must demonstrate a clear commitment to funding public broadcasting by providing transparent grants in the interim period before the legislation is passed.

Joint Statistics Bulletin

The first Joint Statistical Bulletin, published by the BiH Statistics Agency (BiHAS), is available from: BiHAS, Fra Andela Zvizdovica 1, Unis Building, Sarajevo, Tel: 483-221 or 483-220. The cost is 30 KM. The Statistical Bulletin 1999 contains countrywide, aggregate data on various key sectors such as agriculture, forestry, construction, education, transport and communication.

Economic Agreements Between BiH and Croatia

As expected, a first meeting between the BiH delegation and the Croatian Ministry of Trade was organized in Zagreb on March 17 concerning a trade agreement between Croatia and Bosnia and Herzegovina. Minister Loncar could not join the delegation, but was kept fully informed of the meeting and its outcome.

Croatian Minister Porges expressed the wish to see a free trade agreement (more than 80% of goods exempted from customs duties) signed between the two countries and stated that this would be Croatia's objective during negotiations. The BiH delegation took note of the Croatian position. Both delegations also agreed to set up sectoral working groups to address in parallel the different sections of the agreement.

Political tensions in the RS and within the Federation have since prevented further work on drafting the agreement. The Special Relationship Agreement between the Federation and Croatia still must be ratified by the Federation parliament. This has been delayed due to political difficulties within the Federation and the absence of Parliamentary sessions. In the meantime, the annex to the Agreement on the Economy is being drafted by OHR and will be discussed further with both partners of the Federation before negotiations with Croatia.

Economic and Political Situation in the RS

It is difficult to assess what influence the current political situation in the RS the turmoil created by the uncertainties

about the present government, the Brcko award, the removal of Mr. Poplasen, and protests against NATO actions in Yugoslavia – has had on the economy. While there is no clear freeze of the international community's (IC) assistance to the RS, the uncertainties about the political situation, as well as the present instability, are apparently contributing to a slow down in the progress of many projects. It should be noted, too, that the absence of the IC in the RS at a time (early summer) when projects are usually prepared and contracts signed could have a negative impact on the RS's ability to capture international reconstruction funds in 1999.

There is no indication that RS companies which trade with Yugoslavia will not do so as a result of the NATO air strikes, although these companies may face supply, transport, or payment difficulties which could force them to stockpile goods. Additional payment difficulties are likely to occur, although the situation was already more or less blocked due to a recent Belgrade decision on the use of Payment Bureaus (SPP).

The destruction of bridges in Yugoslavia (Novi Sad and Ilok/Backa Palanka) will force national and international north/south civilian traffic to use alternative roads, for example, through Belgrade or to Croatia at a later stage. This might increase the traffic on the Sava river bridges, as many RS imports were transiting through Yugoslavia, thereby adding to the pressure created by reconstruction work on these bridges. There might also be additional pressure on the old Raca bridge near Bijeljina.

Payment Bureaus Reform Update
Good progress was made in reform of the Payment Bureaus (PBs) in March. Amendments to the Federation Law on the Internal Payment System were prepared by the the Central Bank of Bosnia and Herzegovina (CBBH) and the International Advisory Group on Payment Bureaus (IMF, USAID, IMF, OHR, EC, CAFAO, US Treasury, and the World Bank). These amendments were forwarded to the

Federation government. When the law is adopted, it will end the monopoly over domestic payments.

In both the Federation and Republika Srpska, a Governing Board is to be established to oversee the process of dismantling and finally liquidating the PBs. There will be one Governing Board in each Entity. The Boards will have three members, nominated by the Prime Minister, the Minister of Finance, and the Banking Agency of the respective Entity.

Starting March 15, a team coordinator and five experts (payment system, tax collection, treasury, accounting, and statistics) began work on a functional audit of the PBs. The purpose of the functional audit is to provide the detailed information needed to design and implement the transformation of the functions of the PBs to the appropriate (public and/or private) institutions. The team's analysis, a strategic plan and timetable for transforming BP functions will be presented to the International Advisory Group during the first week of May.

Anti-Corruption Strategy Approved
At its March meeting, the Peace Implementation Council's Steering Board formally adopted the comprehensive anti-corruption strategy developed by OHR.

The strategy has two levels: an overall systemic approach; and assistance to local authorities in the prosecution of major corruption, fraud and economic crime cases.

The systemic approach utilizes four pillars to provide the tools necessary to identify and implement changes in the structure and procedures of government to eliminate or significantly reduce corrupt activities.

The first pillar, which provides for public education and training, underpins every sector. The second pillar seeks to identify and eliminate the opportunities for corruption, thereby eliminating the problem at its source. The third

pillar addresses government functions. By requiring transparency in all phases of governmental operations and by requiring financial reports, it creates an environment in which corruption cannot hide and makes government more accountable. The fourth pillar provides the legal standards and civil and criminal penalties for corruption not deterred by the other pillars.

Under the strategy, the High Representative will take the lead in coordinating the IC's anti-corruption efforts. OHR will be contacting members of the IC to support individual program activities. As soon as the strategy is translated and presented to local authorities, copies of it will be available.

Agricultural Task Force Update

The Agricultural Task Force (ATF) met March 31. The mission of the ATF, chaired by OHR, is co-ordination between the international community and local authorities on long-term rehabilitation and development of the agricultural sector.

ATF has two components. The Steering Committee discusses agriculture initiatives and their sectoral effects. It is comprised of members from seven international organizations and both Ministries of Agriculture. The Open Forum is a dialogue session for all members of the international community interested in the agriculture sector. Topics discussed at the March Open Forum meeting included: the European Union/Phare program providing policy advice to the agriculture ministries; agriculture extension and education program initiatives; land registration initiatives; rural development; the status and projects of the UN Food and Agriculture Organization (FAO); and the sharing of efforts of the international community. The next Open Forum will be held April 28 at 15:45 in the Chamber of Commerce Auditorium.

As IMG collects and distributes information on agriculture activities in BiH, all donors and implementing agencies with

activities affecting agriculture are asked to submit this information to IMG. For more information, contact Herman Assen, OHR Agricultural Adviser.

Reconstruction Update

IMG Web-Site
The new IMG website (http://www.img.ba) provides general information about BiH, the reconstruction process, and information on IMG services and publications.

Extensive information on BiH as well as sectoral information on BiH infrastructure is provided in the form of maps automatically produced by the IMG General Information System (GIS), a database recording general data on BiH, as well as technical data on both the pre-war and current status of BiH's infrastructure.

Information on ongoing and completed donor-funded reconstruction projects, in addition to information on non-reconstruction sectors, is provided in the form of reports generated through the IMG PIMS (Project Monitoring and Information System) and RCM (Reconstruction Contract Module) databases. Online custom reports can be created through a user-friendly selection of the required information.

Together with Donors' Databases, the IMG data-bases are the only databases used by the OHR for official statistics as they are the only source of information at the disposal of the IC covering all BiH regions/cantons and all sectors of donor activities. IMG databases on the website represent a valuable took to facilitate the coordination process, reduce funds/project duplication, increase the efficiency of funds usage, as well as the level of transparency of expenditures for reconstruction.

Border Issues
Various commissions are addressing different border issues. The JCBC (Joint Commission on Border Crossing between BiH and

Croatia, is tasked with proposing categorization of border crossings and determining the locations at which border control facilities are placed. The JCBC is currently considering the following issues:

- Delayed closure of the bridge at Gradiska for reconstruction because of demining needs;
- Opening a border crossing point at Novi to handle goods traffic while Gradiska is closed;
- Ferry crossings on the Sava river (proposed at Gradiska, Srbac and Brod);
- Border crossing points between Trebinje and Dubrovnik;
- Preparation of annexes to the Croatia/BiH border contract; and
- Harmonization of existing regulations.

The MDP (Medudrzavno Diplomatsko Povjerenstvo/Interstate Diplomatic Commission) is tasked with coordinating various sub-groups working to identify, mark, and maintain the border between BiH and the Republic of Croatia. The MDP is currently considering the following issues:

- Resolving differences related to the location of the border between BiH and Croatia;
- Addressing ongoing issues related to the border near Martin Brod, Zeljava Airfield and Licka Kaldrma;
- Use of base maps for identification and resolution of border issues; and
- Preparation of a memorandum of understanding to facilitate crossing of the inter-state borders.

The bridge reconstruction program for the Una and Sava river bridges continues. The European Commission and USAID are providing financing for these reconstruc tion projects. See insert for status of the bridge program.

Further information concerning this publication, please contact:

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- Excise Duties on Imported Goods 1998
- Donor Aid to BiH as of April 1, 1999
- Sava Bridges Schedule

Office of the High Representative