

# Remarks by Principal Deputy High Representative Donald Hays on BiH's European Integration Process

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Ladies and Gentlemen,

Perhaps the most surprising thing about today's meeting is the topic itself and the ease with which we think and talk about it.

European integration isn't a distant dream – it now sets the parameters for day-to-day policy in BiH; it provides a coherent structure to the huge reform effort that has noticeably gathered pace in the course of the last year, and it is the core policy objective that commands a solid consensus among the vast majority of BiH citizens and all but a handful of eccentrics among BiH politicians.

Yet, just a decade ago, the prospect of BiH joining the European Union was painfully remote. Then, it was a pipe dream. Today, it's a policy platform.

Our new familiarity with Europe, though, carries with it a disadvantage.

The disadvantage is that familiarity breeds . . . if not contempt then at the very least complacency. The view that BiH is firmly on the European path and that reforms, albeit rather slowly and with a huge amount of international assistance, are

being implemented masks the scale of misery created by unemployment and poverty; it masks the fact that BiH's transition to market democracy is still too patchy to represent a decisive break with the trauma of the recent past. And it obscures the scale of what still has to be done. If you think the pace of change till now has been fast, think again. To secure EU accession by the end of the decade – the prime minister's timeframe – the pace will have to quadruple.

To reach and then maintain that face the structure of BiH government will have to be rationalized – the existing structure simply cannot accomplish the work. The BiH administration supporting the Council of Ministers has to be equipped and staffed adequately, so that, as in any modern European state, overarching policies that affect all citizens can be managed in a properly coordinated fashion. The Entity administrations must be made more efficient; the cantons must be downsized, the municipalities must be equipped to deliver the services that citizens expect from their local administration. When that basic system is established, we will have a reasonable chance of maintaining coherent policies.

In addition to a change in structure, we need a change of mindset. The EU integration process dictates a long list of reforms, but it's often forgotten that these reforms have value *in their own right*. Their usefulness is not limited to the fact that they will help get BiH into Europe.

In fact, BiH cannot and will not get into Europe simply by passing laws. What has to happen is more profound – the laws will be passed, the reforms will be implemented and BiH – changing from the inside – will begin to look like the kind of country that has a natural place in modern Europe. When that happens, EU accession becomes simply a formality.

For many citizens, "reform" is a word so often repeated, so often invoked, and so rarely connected to real improvements in daily life that it has been debased. Any political party –

right, left or centre – will tell you they are one hundred percent for reform. No one is *against* reform. But if you ask them for details about specific reforms, they start to prevaricate. Then if you ask them how these particular reforms will benefit citizens they will often be dumfounded – because they have not really thought about how to turn the “reform” slogan into detailed policy, and they have not even begun to think about the ways in which that policy can be expected to improve people’s lives.

We were faced with an example of this on Thursday, when the BiH House of Representatives’ Budget and Finance Committee considered amendments to the VAT Law. As you know, introducing VAT in order to put the public finances of BiH on a sound footing so that the country can achieve real and sustained economic recovery, is a significant element in BiH’s European integration process. All the EC member countries have VAT.

Now, BiH’s political leaders grasped this EU aspect of VAT, and so they supported its introduction.

But VAT isn’t an EC norm because of some arbitrary whim. It’s an EC norm because it works.

And that is the real reason that BiH politicians should be supporting it.

As we all know, the current sales tax system is generally ineffective, and where it is effective it is often unfair. Tax evasion is rife, and those businesses which do pay the sales tax trade at a disadvantage to those who don’t pay it. Honest businesspeople are penalized, and at the same time the government has millions of KM less to spend every year on social services because its revenue base is inadequate.

VAT is hard to dodge – which means that everyone will pay their fair share. Since it is levied on consumption – people who spend more will pay more, which is an ethically sound way of raising revenue.

But in the recent debate over whether there should be one rate or multiple rates of VAT we did not, for the most part, hear politicians explaining what they thought the impact of their preferred system would be on the general public. Many of BiH's leaders simply hadn't made that connection.

The Governing Board of the Indirect Taxation Authority, the institution that will administer the VAT, consulted with BiH parliamentary and government representatives and with BiH and international economists and concluded that the system that would suit this country best would operate at a single rate. This minimizes bureaucracy, minimizes opportunities for fraud and tax evasion; and minimizes the complications that businesspeople face when they pay VAT. It also maximizes the revenues that the governments will receive and will thus help them implement better quality social programmes.

This is the *substance* of the reform – but many BiH politicians simply wanted to comply with the *letter* of the reform.

Their thinking appears to be: if VAT is necessary for Europe, so be it, but we can always make amendments, no matter what the operational consequences. After all, we'll have introduced the tax; we'll have met the EU requirement; we'll have done what they want us to do.

The amendments in this case appeared to have been based on not much more than a desire to strike a pose in the newspapers. They certainly weren't based on a detailed study of their likely impact on the people of BiH – given a choice, most people would opt for fewer bureaucrats, fewer opportunities for corruption and better social services – not the opposite.

The lesson of this is that we should not allow politicians to say simply that they are “for reform” because this or that reform is a European requirement, or to say simply that they are for reform and leave it at that.

We – and when I say we, I really mean *you* – have to start

asking: *Why* are you for this reform? What do you think the *impact* of this reform will be on the lives of citizens? Why do you believe that this reform is going to make things *better*?

And if they can't supply answers to these questions, their support for reform is worthless.

This kind of public dialogue, this holding of elected leaders to account is not something that effective politicians should fear. Quite the opposite: it is something that can quickly expose the sham pretensions of political grandstanding – the attempt by politicians who do not expect to have to answer for the consequences to back flawed policies with faulty arguments and extravagant promises. And it works to the advantage of politicians who are prepared to explain what their proposals are and why their proposals will work to the general benefit.

This last point is crucial – because the experience of the Central European transition countries clearly demonstrates that reformist leaders must think in cycles of ten or 15 years – they cannot tailor their policies to meet the political requirements of the next election. As the former Hungarian Finance Minister, Lajos Bokros, points out, reforming Public Finance (which is a central plank of preparing BiH for EU accession) is a long-term process that delivers positive benefits painfully slowly; in the short term, reforms cause pain before they bring gain and that means there will always be a bedrock of resistance and resentment. So the key is to strive for consensus and to make sure that where reforms *do* deliver benefits everyone understands what the benefits are and that they are the result of the transition process. Bokros and other leaders of European transition countries learned the hard way that reforms may be necessary but that that will not make them popular. The Hungarian administration of which he was a part introduced an impressive raft of sensible changes – to public finance, to pensions, to welfare provision – only to be voted out of office at the next election. The incoming government – following a Europe-wide pattern – having

criticized the reforms, did nothing to reverse them.

What this clearly demonstrates is that if it is to ratchet up the pace of reform and have any chance of securing EU accession in the course of this decade BiH will have to elevate the level of public debate.

That's where *you* come in.

If *you* start to ask the right questions in the right way, political leaders will sharpen their messages and their arguments; they will start to talk about EU integration less in terms of slogans and more in terms of detailed policy. The discussion will no longer be just a matter of finding and agreeing ways of meeting EU requirements. It will revolve around the *nature* of reforms and their likely impact on the lives of citizens.

That's a lot more interesting, a lot more compelling – there is much more political traction in that.

This will also have a positive impact on BiH's negotiating stance. Till now, I believe it is fair to say that BiH representatives in their dealings with the EU have tended to think in terms of "compliance". This is what happens when you embrace an agenda without assimilating the *reasons* for that agenda. And, unless BiH alters this posture, this will become more pronounced when Brussels agrees to start negotiations for a Stabilisation and Association Agreement.

Successful negotiations are based on mutual confidence and on *self*-confidence. I believe that a climate now exists in the relationship between BiH and the EU for mutual confidence to be nurtured. The issue of *self*-confidence, however, is less clear-cut. Do BiH leaders have the self-confidence to negotiate membership – on the best possible terms – of the world's richest trading bloc?

Well, there are signs that as the authorities start to take on

board the *reasons* for reforms rather than just introducing them for the sake of compliance, a new and productive self-confidence is developing. For example, the Medium Term Development Strategy – which incorporates but is not limited to the reforms that are needed for EU accession – is distinguished by the fact that it does not simply lay out a list of reforms; it sketches a picture of how those reforms are likely to interact with one another and how they are likely to change the lives of BiH citizens. As you know, the elements of the strategy are being broken down into realistically implementable six-month action plans and these action plans maintain the same structure, of identifying reforms and identifying why these reforms matter and how they will help make things better for the people of BiH.

With this kind of strategy in place, the nature of negotiations becomes fundamentally changed in a positive way. Because when the BiH delegation sits down to face the EU delegation and talk about a Stability and Association Agreement – something we hope will happen some time in 2005 – they will be able to draw on the kind of authority that comes from having a plan.

If you don't have a plan, negotiation can quickly descend to the level of an unequal encounter between those who lay out their demands and those who try desperately to meet those demands.

The BiH political establishment cannot acquire the negotiating strength that it needs unless it is buttressed – to a degree infinitely greater than has been the case until now – by a vibrant, articulate, engaged and determined civil society.

That means you.

Clearly, civil society plays a key role in transition – at many different levels. In the Central European countries, before, during and after the revolutions of 1989 we saw that

element of civil society that had survived the years of dictatorship act as an elementary catalyst for change. Artists and playwrights, environmentalists, religious leaders, pop singers and university professors were prominent among those who took to the streets to chase away the decrepit communist regimes, and they were active in explaining the rationale for change. As transition progressed, these people often receded from the forefront of political debate, but they have retained a residual and important relevance; they remain an integral part of public discussion.

We haven't seen that kind of engagement in BiH during recent years, except in one, rather surprising sector. Businesspeople have become engaged in economic reform through the Bulldozer Process. Bulldozer works because the two participating sides – businesspeople and government officials – bring complementary strengths to the table. This synergy is being expanded as the trades union are brought into the process, so that workers, employers and government representatives can sit down and hammer out reforms in a way that those who are affected by the reforms have a direct say in drafting them. Bulldozer has provided a vehicle for communication, unleashing a latent dynamism that can promote reform.

Other civil society groups can exploit this model.

The introduction of direct elections to the municipalities has inaugurated a new responsiveness on the part of local politicians to the needs of their constituents. This responsiveness must be matched by a willingness to engage on the part of civic groups. It is all very well for civic groups to complain that they are sidelined by the political establishment. Yet as BiH becomes more and more a normal European state, I suspect that it may sometimes be more accurate to complain that civic groups are sidelining themselves. It's no use throwing your hands up in despair and complaining that the entire political class is corrupt and incompetent. The valid response to inadequate politics in a



functioning democracy is to identify the inadequacies and suggest ways in which they can be corrected. This is the job of civil society in BiH and until this job is done we will not see the authorities acquitting themselves competently – in their regular administrative duties, in their understanding of and commitment to reform, and in their negotiations with the International Community.

The bottom line is this: European integration is not up to *them*; it's up to *you*.

Thank you