

Remarks by Principal Deputy High Representative Larry Butler “Economic Challenges and Regional Implications of the Dayton Process”

Conference Organized by the Southeast Europe Association

Ladies and Gentlemen,

I think perhaps the most surprising thing about peace implementation is that we are surprised by how difficult it often is.

In the case of Bosnia and Herzegovina – and indeed in the case of a substantial number of other countries around the globe – the International Community, working with domestic partners, is engaged in root and branch rehabilitation of political, social and economic structures devastated by war and its attendant criminality and corruption.

This isn't something that can be accomplished quickly or easily; it cannot be done inexpensively either, or without a sustained and sizeable outlay of political as well as financial capital.

Yet it is worthwhile, because the citizens of war-damaged countries have the right to a helping hand, and because giving that helping hand serves the long-term strategic interests of the other states.

Today, nearly ten years after the end of hostilities in Bosnia and Herzegovina , the country and the region stands on the brink of full European integration. There is a vast amount of

work to be done – and still an element of uncertainty about the eventual outcome remains – but few people a decade ago would have predicted that we could come this far this quickly.

Indeed the constitutional evolution of Bosnia and Herzegovina is beginning to be directed by circumstances that five years ago few would have hoped could have been achieved by now. Efforts to modernise the system of administration and government and make it more cost efficient are being undertaken in the context of European integration and in the context of BiH's needs as a normal European state. The arguments that are now advanced for streamlining the expensive and inefficient multilayered bureaucracy are not about changing Dayton *per se*. They are about joining Europe, saving public money, and delivering better services to citizens.

So, let's be realistic – we can discuss today some notable successes and we can address some notable failures, but we do this against a backdrop of overall progress that has maintained peace, and initiated economic reforms that are – all to slowly but nonetheless steadily – beginning to deliver improvements to the living standards of the citizens of Bosnia and Herzegovina.

The themes of this afternoon's discussion represent a checklist of indispensable elements in any country's postwar reconstruction and transition to a viable market economy. They include sustainability, privatisation, fighting organized crime, international intervention and EU integration, donor fatigue, and regional context.

None of these issues can be tackled successfully unless they are *all* tackled. Each element is an interlocking piece of the reconstruction jigsaw puzzle. All must be dealt with as a package.

In order to deliver the package effectively you need

- Agreement on strategic goals among international and

domestic participants, at the level of capitals and in the field;

- Substantial resources (peace implementation can be cost-effective, but it can't be conducted on the cheap); and
- An appropriate pace – the momentum of recovery must be maintained, but it cannot be rushed. Recovery takes time.

Few in this room I think would take issue with these provisos – yet, in reality they are hard to maintain.

In the immediate postwar years, the aid flow into Bosnia and Herzegovina was largely uncoordinated. There were several strategic plans, domestic and international. Rather than interlocking pieces of the same jigsaw, there were overlapping pieces of different jigsaws – and despite heroic efforts, fitting disparate pieces together proved to be frustrating and impractical.

The reasons for this situation were clear.

There existed a substantial pool of goodwill and a sizeable commitment of resources on the part of contributing governments and NGOs. There was also a desperate need for the speedy launch of aid programmes. However, the domestic administrative infrastructure was wholly inadequate to the task of channeling funds and other resources in the most effective way. In some instances the influx of aid actually exacerbated the climate of corruption and criminality that had developed during the war.

This problem has been addressed in three ways.

Peace Implementation Council Coordination

One of the unique characteristics of Bosnia and Herzegovina's postwar recovery path has been the role of the Peace Implementation Council. This body of 55 governments and organizations has lent the recovery effort an overarching and

useful diplomatic structure.

In the early years this structure was – for perfectly understandable reasons related to the scale of the destruction and the absence of domestic political buy-in for peace implementation – not entirely adequate. Implementation was neither as decisive nor as rapid as had been hoped.

But the PIC, working at operational level through its Steering Board, has become increasingly responsive to and effective in addressing the specific requirements of political and economic rehabilitation. Incrementally it has imposed cohesion on a reconstruction effort that was characterized at the beginning by confusion. The Peace Implementation Council's activities were once piecemeal; they are now for the most part methodical.

Board of Principals Coordination

The drawing together of disparate activities at the level of capitals has been reflected by a similar drawing together in the field. The High Representative chairs weekly meeting of the ambassadors of the PIC Steering Board and, separately, of the Board of Principals, which brings together the heads of mission of all the key international agencies working in BiH, including the European Commission, the European Union military force and the European Union Police Mission, the World Bank and the IMF, and the OSCE and the various UN agencies.

The combination of coordination in the field and coordination at the level of capitals requires a substantial outlay of administrative and political resources but it has delivered real dividends, by turning, for example, conditionality of economic aid into an effective tool to secure a sustained political commitment to reform.

A Blueprint for Change

You can't get far if you don't know where you are going. In

the early years of peace implementation BiH knew where it was coming *from*. It was trying to put a distance between itself and its recent painful past. The blueprint for doing this was Dayton.

But Dayton is largely political. The allusions to economic development are mostly included only inasmuch as the state of the economy is judged to be important to making the political settlement stick.

This has been of limited value in mapping out where BiH, in economic terms, wants to *go*.

In addition, economic reform was undertaken against a backdrop of systematic political obstructionism – (many leaders were actively working *against* BiH's economic success, because they saw this as undermining their own not particularly well hidden agenda of economic and political separation).

Despite this, there were some successes.

The introduction of the Convertible Mark, pegged to the Euro and administered by a Currency Board, in January 1998, provided BiH with one of the most stable currencies in the region. Inflation, as a result, has been kept below one percent per annum ever since. At the start of 2001 the payment bureaus, which sat like an enormous paperweight on the very idea of commercial vibrancy and allowed political parties a baleful influence over the flow of capital, were dismantled to be replaced by a banking system that was initially ramshackle but has since gone from strength to strength.

But the pace and scale of economic reform were really only transformed by the onset of the EU pre-accession process. Just take a look at the Feasibility Study steps laid out by the European Commission.

In the economic sphere, these include reforming the indirect tax system, creating a single business registration system for

the whole country, adopting a BiH trade policy, introducing EC certification procedures to boost exports, and enacting a Statistics Law and a Budget Law.

This is a transition to-do list.

The Feasibility Study requirements also include reforming the intelligence and police services so as to tackle organised crime, getting the State Court up and running and consolidating the marathon process of overhauling the judicial system by making the BiH High Judicial and Prosecutorial Council fully operational.

Judicial reform and tackling organized crime came late in the reconstruction process – and the grizzly consequences of this, in terms of endemic corruption and widespread public cynicism, testify to the fact that you have to deal with *all* the elements in the package. One won't work without all the others.

Political, economic and social progress are all predicated on popular confidence that institutions such as the police and the judiciary are being credibly cleaned up, and that the rich and the powerful are not above the law.

Crime, like economic renewal, is regional. As regional efforts, supported by the European Union, to tackle crime have got underway, so too has the application of the multiple bilateral Free Trade Agreements negotiated by the Southeast European countries among themselves under the auspices of the Stability Pact. These agreements are delivering patchy but promising results. In BiH's case the patchiness has been the result of a failure on the part of the authorities to make sufficient progress in, for example, setting in place a system of agricultural and product certification that would allow domestic producers to compete with their regional counterparts, and the failure by the authorities to coordinate agricultural and trade policy effectively—two areas that are

now being addressed.

Results Become Visible

As the strands have been brought together, the results have begun to become visible. Inward investment was five times higher last year than at the end of the nineties. Interest rates have halved since 2000, and the banks are now starting to provide liquidity for the Small and Medium Enterprise sector that promises to be the bedrock of sustained job creation. After hitting rock bottom in 2001, industrial production has maintained an upward trajectory. GDP growth of around five percent has been maintained for the last four years.

The former Entity customs administrations no longer exist and have been merged into the Indirect Taxation Authority, which is preparing to introduce VAT late this year. The electricity and telecommunications sectors are now regulated in a way that meets international standards (average telecom tariffs dropped by 20 percent over the last two years as a result of this, though prices remain too high). Audits of publicly owned companies have exposed a management culture of corruption and incompetence that is in the process of reform through legislation recently enacted by the State and Entity parliaments; Official unemployment is around 40 percent, but the real rate, taking into account the grey economy, is around half that;

Those are among the salient plusses. At the top of the negatives we are obliged to place a flawed and disappointing privatisation process.

Till now we haven't seen in BiH the kind of industrial regeneration through an influx of capital and skills that privatisation has brought to other transition economies. A key problem has been the failure to establish a mechanism that would deal effectively with companies' liabilities –

prospective investors are scared away by the cost of settling huge social welfare payments, for example. The enactment of Bankruptcy legislation last year will help to address this, but we are far from finding a complete solution.

I do not believe I have painted an overly rosy picture of Bosnia and Herzegovina 's postwar economic reconstruction. Compared to where we were, we have come a very long way. Compared to where we want to go, there is clearly a huge amount still to do. The pre-accession process has galvanized the reform effort. Today, this process has been stalled because of political problems related to police reform and the establishment of a single Public Broadcasting System. As soon as we have resolved these political obstacles – and there is a consensus among the relevant stakeholders to do this by the tenth anniversary of Dayton, backed by near universal public support for getting the accession process back on track – we can focus again on implementing economic reforms that will deliver benefits to citizens so that citizens even before the tangible milestones of European integration have been passed.

Reconstruction is difficult and time-consuming, but the rewards far outweigh the demands. Because of an initially uncoordinated aid effort – and obstructionism by recalcitrant politicians – the long-suffering citizens of Bosnia and Herzegovina have had to wait a long time to savour the benefits of reform. But those benefits are becoming visible, a fact that should encourage all of us to redouble our efforts and complete the process.

Thank you