

# Remarks by Principal Deputy HR Donald Hays at the Kana Textile Company

Ladies and Gentlemen,

This country must take urgent steps now to ensure job growth and economic expansion. It can't be done by the government alone, everyone—the International Community, mayors and citizens themselves – must do their part. But it is clear to me that it can be done, because there are already pockets of economic prosperity developing around this country, where the people, their government representatives and businessmen are working together successfully. That is why I chose to speak to you here at this factory because Kana is the kind of enterprise that can help lift this country out of economic stagnation.

- Founded on the strength of basic skills
- with a small sum of privately borrowed money
- this company identified and captured a market niche in BiH and abroad
- it started modestly with five employees. Today it has 21 employees
- There are plans to expand and create more jobs

The company has had a positive working relationship with Ilidza Municipality. There are other municipalities around the country that are equally responsive to business growth and the development of SMEs

Recently I visited Gradacac:

- There have been annual investments worth 15,000,000 KM;
- A new drinking water system has been installed;

- 50 km of asphalt roads built in the municipality;
- new street lights;
- Business Incubator in destroyed high school since 1999 – 20 enterprises using the space; success stories include “Thema” shoe factory, which came to the Incubator with only 4 employees and recently moved to its own premises with 175 employees.
- This is a result not of massive international intervention, but a great deal of local self initiative.

What do municipalities like Ilidza and Gradacac offer us? What does the experience of companies like Kana and Thema tell us?

It is simple: when authorities work productively with start-up companies, these companies can and will create jobs.

This is what economic reform is all about, government is no longer in the role of creating jobs. Instead, it must support the private sector in creating the right environment for job growth.

Real jobs must be created in the competitive business environment not in government.

Serious economic reform means a real and positive partnership between the community, the authorities and the businesspeople of this country much as some forward-looking municipalities are already doing.

But we are not starting from scratch. We are all agreed on what must be done. The Jobs and Justice agenda endorsed by all of the political parties in this country lists medium-term legislative priorities that have to be implemented if you are to tackle the core problems of corruption, lawlessness and unemployment.

The BiH authorities last year produced the Mrakovica Action Plan – which they promised to implement by the end of March – and they have also agreed on a Development Strategy, a medium-

term blueprint for economic growth.

And in addition to these overarching economic strategies the citizens of this country have embraced the Bulldozer Initiative. This works on a simple premise. If you want to fix the economy, ask the people who run companies, who meet payrolls, who spend their working lives keeping customers satisfied – people like Narcisa Kavazovic and Esad Hamzic, the Kana directors sitting here with me now.

Businesspeople responded to Bulldozer Phase I and II with applied energy, and they have created a successful dialogue with ministers and legislators. That is a process that must continue and grow.

The priorities I am here to talk about this morning are not solely generated by the International Community, but rather they have emerged from a reform process already up and running in this country. It's a process that will pick up steam if the authorities and the citizens embrace it, and which will certainly fail if they do not.

I wish I could tell you that I know for sure these changes will take place, but I can't, it is up to you to make them happen – this is in your hands. But I can tell you that failure can not be a tolerable option. These measures must be implemented, these laws must be enacted, because your future depends upon it.

If the authorities in this country are to show they are serious about creating the conditions for new jobs and rising prosperity, they will need to tackle the difficult structural reforms that other transition countries have faced. In concrete and immediate terms, that means:

**1) Implement indirect tax reforms:**

This means gazetting the ITA Law immediately – I understand it is due to be sent to the Official Gazette today – perhaps some

of you would like to check up and make sure that this is done. As soon as the law is gazetted the government can get down to the real work of merging the Customs Agencies and introducing VAT – two developments that will make it easier and fairer to do business in BiH. Only then can they use the tax system properly to stimulate business growth.

## **2) Create a single business registration system:**

Registering a business in BiH is expensive, bureaucratic and time-consuming. When someone comes along and wants to start a company, create jobs, breathe life into the local community – do we make it easier? No, we don't; we make it more difficult. This is inexplicable. But at the same time the growth of fictitious companies continues unchecked. Who is to blame for this?

The BiH authorities need to pass a framework law on business registration. The law will be sent to the Council of Ministers soon. They need to review it without delay, and send it to parliament for enactment. When this law is passed it will be easier and quicker for foreign and BiH investors to set up companies and create new jobs – is there any justifiable reason your politicians should hold this legislation up?

## **3) Draw up coherent, comprehensive trade policy that promotes exports and put it into practice**

In addition to indirect tax reform, the authorities must move ahead with judicial reforms, and liberalize the telecom and power sectors – notice, I say “liberalize” rather than “privatize”. We are talking here about creating telephone services and electricity services that are competitively priced – so as to give BiH consumers a fair deal and so as to show international investors that BiH is a country with a transparent and efficient business environment. Any decision regarding privatisation is still several years away and

ultimately up to your representatives in government to decide.

EC certification procedures have to be established to help companies get the CE marking that lets them export their goods to the EU. The EC is already working on a pilot project of 10 to 15 companies in BiH. We expect the government to follow up on this project aggressively and help more BiH companies acquire the CE marking.

#### **4) Create and improve the Institutions and Services that are Needed to Support Business and Promote Exports:**

The authorities have to set up an efficient and responsible, single statistics service. Investors, businesses, bankers and your government need this – basic statistical data about a country is indispensable in deciding whether or not to put money into that country and create jobs there. It is a starting point for attracting foreign investment.

Government spending has to allow for reasonable allocation of funds to institutions that promote exports – FIPA, the State Veterinary Office, the Institute for Standardisation, Metrology, Measurements and Intellectual Property. These institutions must in turn start providing services to the business sector that can help BiH companies compete in the global export market.

The authorities must also set up a BiH Investment Guarantee Agency to provide exporters with the credit, insurance, and technical assistance that they need in order to steer their way to lucrative overseas markets. It's the government's job to provide that assistance. It's what governments do, what ministers are paid money to do.

#### **5) Implement domestic debt package**

The State, Entity and Brcko authorities have agreed on a debt plan; now they have to draft and implement legislation by June, verify all claims and make arrangements for repayments

and the issue of bonds

**6) Get the Privatization Working Group to propose specific solutions that speed up the privatization process by May:**

This will make it easier to tender and privatize strategic enterprises. Measures should include making the Entity privatization agencies stronger, more efficient and more transparent. Unfortunately, there is still too much politics as usual behind the scenes in the privatization process. We must make this process independent from politics of any sort – it must be about economic realities and the citizens' interests – all of them.

Experts have told me that this country will have to endure more pain before we start to see results from these reforms. But I want to assure you that this is totally up to you – the speed with which these reforms are taken is up to you and your representatives in government and parliament. The sooner they are taken the sooner the benefits will materialize. If they act forcefully now; if they implement these measures – as they have publicly promised to do – then BiH will move forward towards economic recovery.

If they don't act; if they break their promises – as a result of a lack of commitment or party-political manoeuvres – then future benefits are put off and your future is at stake. You can't afford delay and you must speak up now and demand change NOW! Delay only serves those that benefit from the present chaos and corruption. Those that don't act now must be seen as benefiting from this situation. I urge all of you, each of you to speak up and ensure you are heard. Reform is not just an International Community issue, not just a government issue, it is your issue.

One last thing, I hear all too often that there is a shortage of good business people in BiH – what they are really saying is that there is a shortage of political-party members with

good managerial skills. It should not be up to political parties to run the economy. Regional economic realities and the citizens of this country should set the parameters for job growth, and the private sector should set the economic course – and governments should focus on providing companies with the right kind of business environment and then stay out of the way. When that happens, these companies will flourish, because there is absolutely no shortage of commercial ambition and skill.

The governments must do their part so that entrepreneurs like those here today can get on with their work, creating jobs and making economic recovery a reality. But they won't do it if you – the citizens of this country stay on the sidelines, and fail to raise your voice. It is your future we are talking about.

Thank you.