

Remarks by Principal Deputy HR Larry Butler at the 15th Annual World Business Congress: “BiH is Open for Business”

*Organised by Sarajevo Graduate School of Business
and the International Management Development Association*

Professor Pendergast, Ladies and Gentlemen,

I always particularly enjoy participating at events like this because the themes under discussion – competitiveness, business environment, trade facilitation, investment – are central to the challenges and opportunities of the global economy.

This is exactly the kind of discussion that Bosnia and Herzegovina needs to have as it re-enters international marketplace. That re-entry is now well underway. The very fact that the International Management Development Association is holding its conference here in Sarajevo is an indication of the progress that BiH has made towards full reintegration in the world economy.

Those of us who work here are well aware that BiH is open for business, and we welcome every opportunity to pass along this message to those who may be less familiar with the positive developments that have taken place – and are taking place – in this country’s business environment.

My colleagues from the International Financial Institutions

will be commenting on the nuts and bolts of the economy, the progress that is being made, the difficulties being encountered, the possibilities yet to be realized. I would like to focus my remarks this morning on the country's *political* evolution.

Though, as we all know, a country's political and economic fortunes are inextricably bound up. Neither exists in a vacuum.

In the current situation, the economy offers a generally positive backdrop for political developments.

Annual growth has been a steady 5 percent or above for the last five years, and there has been as a result a steady reduction in the poverty rate. The successful introduction of VAT at the beginning of this year has stabilized public finances, boosted the level of resources that can be allocated to social welfare and scaled back the size of the grey economy by regularizing the position of thousands of small and medium sized companies. The Convertible Mark remains one of the most stable currencies in the region.

Last month, Moody's Investor Service upgraded Bosnia and Herzegovina's credit rating from B3 to B2, noting when it did so that successful reforms such as the introduction of VAT will encourage investment and growth. Moody's also noted that the process of negotiating a Stabilisation and Association Agreement with the European Union, which began at the end of last year and which we hope will be successfully concluded by the end of this year, will encourage further political and economic consolidation.

One notable sign that the BiH economy is beginning to attract the right sort of attention was the announcement in late February by Microsoft Corporation that it will open a branch office here. Previously Microsoft handled its BiH operations through its office in Zagreb.

The fact is that we are witnessing the positive results of a marked improvement in the BiH business environment.

It is also the case that the business environment could improve even more – and this will be achieved very quickly if the governments can secure parliamentary approval for a swathe of reforms that enjoy broad support but have not yet been enacted and implemented.

Among key economic reforms we expect to see enacted before the end of 2006 are the Law on National Fiscal Council, the Law on Obligations and the Salary law. These will, respectively, rationalize the management of public finance, introduce legal certainty across the entire spectrum of commercial contracts, and put the remuneration of civil servants and parliamentarians on a realistic and financially sustainable footing.

We also have political agreement on the centralization of banking supervision at the State level and the relevant authorities are currently looking into the modalities of that. (The banking sector, by the way, has been one of the notable success stories of BiH's economic recovery; the number of banks has fallen from more than 70 three years ago to 34 banks today as weak institutions have merged or been taken over. Interest rates have also fallen, from the high teens three years ago to around 8 percent today, and banks are at last beginning to offer competitive commercial financing for the expansion of the SME sector.)

The question now is whether political progress can match the advances that have been made on the economic front.

The last decade has seen a remarkable process of postwar recovery. Improvements are never fast enough and they are never sufficient. No one has the right to be complacent. But at the same time, the degree of recovery that has been achieved – from the social trauma and political dysfunction of

a decade ago – is nothing short of astonishing.

In the years since the end of the war, the police and judiciary have been overhauled and brought into line with standards elsewhere in Europe; the armed forces have been vastly reduced in size and brought under full democratic control (and BiH is now preparing to join NATO's Partnership for Peace), and more than a million people have returned to their homes.

This has been achieved through a coordinated international effort to implement the provisions of the Dayton Peace Agreement. Even the agreement's greatest critics will today acknowledge that it has kept the peace longer, and provided for a greater degree of refugee return and democratic expression than most people imagined was possible in the grim aftermath of three and a half years of fighting.

But Dayton , while it has kept the peace, has not of itself been enough to build a modern European state. That task is now being addressed through the process of Euro-Atlantic integration, and that process will require changes to the Dayton constitution.

EU accession is the aspiration of just about every citizen of BiH – the unanimity of purpose which the accession process (and we shouldn't forget that BiH is at the very *beginning* of this process) has generated has brought a healthy dose of realism and optimism to political discourse.

EU accession has also placed difficult reforms in a positive long-term context; it has focused the minds of politicians – indeed the European Union has commended the BiH authorities for their business-like approach to the negotiations that are now underway.

This is a country that has embraced the accession process and which is using the prospect of accession to leverage its way through an ambitious reform programme.

There is, I think, no political party leader who is *against* reforms, just as there are no political party leaders who are against investment or job creation.

The devil is in the detail, though, and what we have seen – and are now seeing – is a debilitating willingness on the part of some leading politicians to subordinate individual reforms (which will deliver tangible benefits to their own constituents) to considerations of party advantage.

The High Representative has, therefore, drawn the attention of the BiH public to the range of positive developments that could be secured before the general election, and invited voters to consider how much has been done (or how *little* has been done) when they enter the polling booth on 1 October.

This election will mark a watershed. Those who are elected will govern for the next four years – and they will not be able to fall back on the Office of the High Representative when difficult political choices have to be made, since the OHR is on schedule to be phased out by the middle of next year.

This realignment of the International Community's engagement in BiH is a reflection of the progress that has been made and the confidence that the International Community now has in BiH's capacity to make its own way forward. This will be predicated on the country's ability to compete effectively in the global marketplace, which is why I believe the subject of discussion at this conference is particularly apposite and timely.

Thank you