

# Second session of the Civic Forum devoted to BiH's Economy

The second session of the Civic Forum was held yesterday at the High Representative, Wolfgang Petritsch's, home in Sarajevo. The topic was Bosnia and Herzegovina's economy. During a discussion that lasted well over three hours, all the participants expressed dissatisfaction with the state of the economy in BiH, and discussed ways of creating a climate conducive to doing business in the country.

The debate evolved around the role of the state of BiH in fostering economic activity, the tax system and tax collection, the single economic space, problems in the privatisation process, the need for regional economic integration and integration in Europe, the lack of access to financing from which many companies suffer, and the grey economy.

Although the participants held different views on how some of the existing problems should best be solved, they all agreed that not enough is being done to improve overall economic conditions. They also agreed that economic recovery is the single most important issue which must be resolved in order to create political stability in the country. "Most people here suffer from the disease of nationalism," said one participant. "The only cure for that is economic recovery. Unfortunately, we don't seem to grasp that."

The invited guests included the following businesspeople and economic experts: Nihad Imamovic, General Manager of ASA Holding Sarajevo, Jerko Ivankovic, Lijanovici Siroki Brijeg,

Dr. Radomir Marinkovic, expert on EU-related issues with the EU's Single Economic Space Project, Dr. Zarko Papic, Director of the NGO "Independent Humanitarian Bureau", Jasenka Perovic, Managing Director of "Knitting Together Nations" in Sarajevo, Fuad Strik, Director of Coca Cola BiH, Alma Smailbegovic, Director of Univerzal Banka Sarajevo, and Dr. Dragoljub Stojanov, professor at the Faculty of Economics in Sarajevo.

Also present were Joseph Ingram, the Director of the World Bank Country Office in BiH, Bruno de Schaetzen, the Resident Representative of the International Monetary Fund (IMF), the Principal Deputy High Representative Donald Hays, the Head of OHR's Economics Department Daniel Besson and other OHR staff.

Welcoming his guests, the High Representative at the beginning explained the purpose of the Civic Forum, which is to improve communication between civic society in BiH and the international community. At the first Civic Forum session held on October 11, the participants agreed that one of the burning issues is the state of the economy in BiH, which is why he decided to devote the second session to this topic. The High Representative said that the International Community, in the spirit of developing partnership, is keen on learning from domestic economic experts and businesspeople with hands-on experience what problems they see in the economic sphere.

During the ensuing debate, all the participants criticised the framework within which economic activity takes place in BiH. They cited the high tax rates, the complexity and incomprehensibility of the tax system and the fact that taxes and customs are not enforced even-handedly, which distorts market conditions. One of the participants singled out as an unfathomable tax, the 0.18% tax on gross income, which goes to the tourist association. "I am always happy to pay the contributions for health and pension insurance," he said. "But I am wondering what tourism we are supporting with this tax?"

The participants agreed that the grey economy, which accounts for approximately 60% of the Gross Domestic Product (GDP), is a result of overblown fiscal demands on companies and a huge obstacle to legal activity and foreign investment in the country. They said the authorities must lower the demands they make on companies in terms of taxes, customs and other contributions, and even-handedly enforce new demands. "At the moment, there are still favourite companies that don't need to pay, and others that do have to pay," said one participant.

The guests also complained that many decisions made by the governments and parliaments were out of touch with reality or did not translate on the ground. "In theory, we have a single economic space," said one participant. "But in reality, the taxes, customs, excises and contributions even depend on the municipality in which you do business."

Discussing the privatisation process, the participants expressed the need for more sensible valuation. They said many companies that have potential do not find buyers because of their sky-rocketing debts, usually incurred during the war. They agreed that bad finances and the lack of collateral for loans prevent companies from having access to the capital they need for restructuring. However, they also noted that the lack of access to financing is a problem that badly affects start-up companies.

The participants at the Civic Forum also repeatedly cited a functioning judiciary and the elimination of corruption as indispensable elements in a framework which will foster a business-friendly environment.

Concluding the discussion, the High Representative's guests agreed that the role of the state is to establish a framework in the context of which business activity can take place, but

that governments themselves must not be involved directly in business activity as they would always pursue their own interests. Instead, independent State-level regulatory bodies should be created. "What we need is a strong state, but not a command economy," said one participant. "The state has to stimulate investment and provide the framework a functioning economy requires."

At the end of the gathering, the High Representative said it had been very useful in terms of clarifying the role of the state in the transition process. He said most of the problems mentioned are being tackled, but that the authorities have to invest more effort since the pace of economic reform is far too slow. On a more positive note, he emphasised that there are successful companies in BiH, small and big, and that this shows that individual determination and initiative can overcome problems, and that it is possible to do business in BiH.

The High Representative has created the Civic Forum as an informal yet institutionalised form of dialogue between the International Community and intellectuals and representatives of civic society in Bosnia and Herzegovina. He plans to follow up on some of the proposals made at the meetings with policy initiatives. The next Civic Forum session will take place next month in Banja Luka.