Speech by PDHR Donald Hays at a Regional Investment Forum on the Economic Infrastructure of the Western Balkans

Clarifying the Investment Environment – Removing Obstacles to Privatisation

Ladies and Gentlemen

Conferences such as this can be tremendously useful, but only if we speak frankly and realistically.

Cross Roads

Lets not kid ourselves serious reforms are difficult and can not be done over night. It is true that haste can make waste, but it is equally true that failure to take bold steps can lead to the loss of the valuable opportunities.

So let me begin with some facts.

There are two scenarios. BiH is struggling to gather enough political will and enough capacity to undertake the necessary steps to promote actively its own interests with regard to infrastructure development. I am the first one to tell you that it is not rapid enough nor is it bold enough – but it is at odds with those who are locked into a rearview mirror view of this country and its prospects. But at the same time, modern European legislation and institutions are being put in place. But what is missing is more comprehensive broad based strategy laying out a BiH investment plan.

Let me highlight a few areas.

Civil Aviation

Good news first. In December of last year BiH began the process of taking back its own air space and its own airports, and it has done so with admirable professionalism. However, at the same time, in June this year the BiH Council of Ministers approved the restructuring of the Directorate of Civil Aviation, but then failed to appoint a Director General until October.

The new draft Law on Civil Aviation was approved by the Council of Ministers on 29 July 2003. This law will bring BiH into compliance with International Civil Aviation Organisation regulations, open the way for BiH to regularise the supervision of its own air space, and fulfil a requirement for this country's membership of the Joint Aviation Authority, the main international air-space regulator.

But it needs to be passed by parliament.

Road Transport

With regard to road transportation, a great deal has been said about Corridor Vc and which investor should be selected. The fact of the matter is that the process is clear. A country that wants to belong to the EU and the WTO has a clear course of action. In order to sort out decision-making authorities and proceed, BiH needs a proper State-level Road Law to complete the process begun by the passage of the Concession Law. It must also establish Concession Commissions.

Another administrative chore – less glamorous than debating the merits of billion-dollar projects but every bit as important – concerns the TIR Carnet system. After more than seven years, this system has still to be implemented. When it *is* implemented, BiH trucks will be able to cross borders and clear customs without stopping at each border crossing –

currently they have to stop, which means that as a result of bureaucratic and political failure, it takes longer than necessary – and is more expensive than necessary – to get BiH goods to foreign markets.

And an issue that is rarely discussed is the fact that BiH already has a comprehensive transport masterplan, developed by the Japanese International Cooperation Agency and presented to the BiH authorities in March 2001. This document lays out in incredible detail the steps that need to be taken to furnish BiH with a road-transport system that can be integrated regionally and linked with Western Europe.

Hard to overestimate the importance of this – it is a basic building block of reviving this country's internal and external trade and getting its economy onto the starting blocks for complete recovery.

Railways

The rail link between Sarajevo and Budapest, which opened in March 2003, is a heart lifting beginning, but much, much more must be done. If the new Railway Law bringing BiH into line with its neighbours and EU directives is not passed, all of the current positive developments will come to a halt.

With regard to the railways we see some progress – as we should, because the European Bank for Reconstruction and Development is now entering the second year of a three-year project to kick-start the redevelopment of BiH's railway system. Although the EBRD has provided a 61-million Euro loan for this project, only a limited portion of these funds has been disbursed due to delays in implementation, planning and tendering.

More energy needs to be put into this project to implement the programmes and to tender the projects – but – and this should be emphasised – we *know* what has to be done.

Public Utilities

As you know, the Special Auditor appointed by the High Representative has in recent months delivered devastating reports on the management – and in many cases I am obliged to say the *mis*management – of the public utility companies. We are now working with the governments to address this issue and I believe that the steps now being taken will produce significant, systemic and sustained improvements in the running of these companies, increasing their ability to serve citizens and the economy and increasing their market value when, several years from now, they are ready for privatisation.

There is no State-level legislation and there are no State-level regulations to deal with business planning issues and commercial operations. BiH's public utilities operate independently of one another. This is bizarre, and it is a gigantic obstacle on the road to development. There are no regular planning and coordination meetings by the State and Entity Ministers of Transport and Energy.

Privatisation

A joint Working Group is now addressing the need to accelerate and at the same time improve both the process and result of privatization, serving the interests of the country, the citizens and potential future investors in BiH.

There is a need for BiH institutions to mature and to acquire their own vision. The framework is being put in place and now the governments need to put capacity in place so that these tools can be used for the benefit of this country.

At Mrakovica this summer the governments demonstrated that they are serious about kick-starting privatisation and improving the investment environment. They drew up a practical near-term action plan, and they will soon issue their implementation report. The governments *must* get more involved

in implementing change. They have to change their attitude – from one which appears to be waiting for a DHL package called reform to arrive, to a taking the process forward decisively and ensuring that the reforms are truly their own.

There are signs that this is already happening.

The BiH parliament is considering legislation on the Indirect Tax Authority that will administer customs throughout the country and, from the beginning of 2006, Value Added Tax. Establishing the ITA will represent a quantum leap for BiH towards modern fiscal normality.

The World Bank-led Power III project, aimed at overhauling and modernising the Southeast European electricity industry now has full political backing in BiH and is moving forward following a productive meeting in Brussels recently.

Regional Coordination

On this note, I might point out that BiH's coordination problems reflect a similarly unsatisfactory situation with regard to Southeast Europe as a whole. Plans for the Trans European Network System, as well as the Regional Balkans Infrastructure Study in the transport sector and Power III, can only be implemented effectively if regional transport ministries step up consultations and if Transport Ministers meet regularly.

Indeed, it may be time to consider establishing a regional organisation along the lines of the European Council of Ministers of Transport – a body where Southeast European projects could be conceptualized and planned with a view to coordinating infrastructure, operational, safety and environmental issues.

Transport and other utility infrastructure depend upon economies of scale. Infrastructure for transport, electricity and telecommunications are simply too expensive for countries

to build without regional coordination.

Conclusion

In conclusion, there is every reason to believe that this country is ready to make rapid progress. In the past two years it has been in an aggressive preparatory stage. I think in the very near future it will be ready for substantial commercial investment in infrastructure, due to the steps we have taken.

We have reached a point where investors and governments throughout the region can benefit from BiH's success in upgrading its infrastructure and therefore have an interest in working with the BiH authorities and with private contractors here to contribute to that success.

We have reached a point where significant improvements in the fiscal system, and in key economic sectors, and in the prospects for overall economic recovery are highlighting the absolute necessity for politicians to keep their promises on economic reform – and we are seeing signs that they understand this and are starting to follow through.

Thank you