

Speech by Principal Deputy High Representative Donald Hays On the Role of the International Community in BiH's Economic Agenda at the BiH Business and Investment Summit

Ladies and Gentlemen,

In Brussels last week the political directors of the Peace Implementation Council noted with approval that the BiH Development Strategy, approved by all three prime ministers in early December, has been drawn up through a process of exhaustive consultation with citizens.

This is a Made-in-BiH document; it encompasses the main elements of the near-term Mrakovica Action Plan (scheduled to be implemented by the end of March) and it is consistent with the priority reforms identified by the European Commission as conditions for BiH to begin Stabilisation and Association negotiations this summer.

The Commission made it very clear during the Brussels PIC that the decision it will make in June on whether or not to go ahead with SAA negotiations is absolutely not a foregone conclusion. The conditions must be met, otherwise the Commission may decline to begin talks. If that were to happen, this country's long-term economic development strategy would receive a serious, self-inflicted blow.

In terms of the economic agenda the Commission is calling on the BiH authorities to implement the indirect tax reforms currently before Parliament – so as to get the Indirect Tax Authority up and running, with a Director in place, collecting customs and preparing for the timely introduction of VAT. The authorities must also create a single business registration system, and a coherent BiH trade policy, inaugurate EC certification procedures to boost exports to the EC, and enact a Statistics Law and a Budget law and adopt proper budget practices.

There is not a single businessperson in BiH who would object to any of this. In fact this is exactly the kind of programme that BiH businesspeople and prospective foreign investors have been lobbying for for a long time. The IC and the BiH authorities have, in essence, the same objective – to speed up BiH's integration in the global economy.

None of the reforms listed above are being undertaken in isolation. They are connected with one another and they are taking place against a background of slow but steady and in many cases fundamental economic improvement.

As BiH commercial law is upgraded, the means by which that law is dispensed are being improved, for example through the setting up of commercial departments within the judiciary.

BiH already has the most stable currency in the Balkans and enjoys near zero inflation. The diaspora, which began during the sixties and seventies and intensified in the war years and immediately afterwards, followed by a wave of returns from overseas, has produced an unusually polyglot and worldly-wise workforce. BiH is geographically well positioned. It is next door to the EU and at the heart of the Southeast European free-trade area, which has a domestic market of 55 million consumers.

This bedrock of economic opportunity means that the reforms

that have been instituted with the aim of integrating BiH in the global economy have a better than average chance of success. BiH isn't going to be welcomed in the global marketplace as an act of generosity; it's going to earn its place by virtue of its capacity to compete and its natural – by which I mean human and structural – resources. These resources are not inconsiderable.

When we talk about upgrading the BiH economy, we are not talking about starting from scratch. Domestic investment is well over a billion KM per year. It needs to be higher, but since the statistics only record the initial investment in a company, the overall figures are significantly lower than the reality. Consumer credit is on the rise, and bank loans are growing.

The IC's role in developing BiH's economic agenda arises from the demands of the global market as much as the demands of Dayton. Meeting those demands is what all of the major BiH political parties signed up to ahead of the October 2002 elections, when they endorsed the Justice and Jobs agenda.

So the question before us today is how the International Community and the BiH authorities can work effectively to translate an agreed action plan into action, and turn election promises into real reforms that will make people's lives better.

The Mrakovica Action Plan, the BiH Development Strategy, and the EU accession process, taken together, represent a viable development model. What has to be done is largely decided. The question now is *how* it can be done and *how quickly* it can be done.

The fact that BiH *has* a plan is a definite plus. Making the plan a reality is, of course the hard part.

Not only is it hard; it is urgent.

This cannot be emphasized enough. BiH has to move forward decisively – not in the next six years but in the next six months.

BiH can make a quantum leap – both in terms of the economic stimulus which these reforms will bring and in terms of the psychological stimulus which the opening of SAA negotiations would bring – not to mention the huge material benefits that will derive over a period of years from deeper European integration.

This legislative agenda is not the only area where BiH is being plugged into the global market.

Two weeks ago I joined the Entity prime ministers at a forum where they were presented with corporate governance legislation that had been prepared by international and BiH experts. The prime ministers had asked for new laws in the wake of the Special Auditor's reports into the management methods routinely applied in BiH public companies. Those methods are out of date, out of touch and out of the ballpark as far as acceptable European norms are concerned.

The new legislation, which the prime ministers have committed themselves to steering through the parliamentary process in the coming months, will do two things. It will make BiH corporate governance practice compatible with that of the rest of Europe, and it will give BiH companies the tools they need to compete effectively.

This is not compatibility for its own sake. It is compatibility for the sake of greater competitiveness – and that greater competitiveness will translate in the long run into more jobs for BiH citizens.

The new laws require the setting up of internal controls and strict approval processes for procurement, distribution of profits and adherence to business plans. Companies will be obliged to compile financial statements to international

bookkeeping standards, and those executives who break the rules they will be liable to a fine, or imprisonment in serious cases.

This could signal a fundamental change in the way business is done in BiH. European-standard regulations at the level of public companies, we believe, will help change the management culture as a whole.

In all of these areas, the International Community has a role to play – supporting legislative reform through the conditionality built into the Stabilisation and Association process, making expertise available for upgrading commercial law, and through direct investment – a very successful example of which we have seen in the revived and now buoyant banking sector.

In each of these examples the International Community's role complements the BiH aspiration to secure a competitive and prosperous niche in the global marketplace.

Thank you