

Speech by Principal Deputy High Representative Raffi Gregorian at the Circle 99



Ladies and Gentlemen,

First of all, thank you for inviting me to take part in this dialogue about whether there will be a new division of Bosnia and Herzegovina. I would like to address this question, but then go on to discuss a key motive behind such political threats, and then propose a reform that would contribute to eliminating this motive from this country's political scene.

First of all, with regard to the question posed:

The Peace Implementation Council Steering Board has repeatedly made clear that the sovereignty and territorial integrity of Bosnia and Herzegovina is founded in International Law, and guaranteed by the United Nations and the International Community. It follows therefore that:

Bosnia and Herzegovina cannot be divided, and anyone who tries to do so will face serious consequences.

Nevertheless, I can certainly understand why this question is being posed. For more than two years, while Haris Silajdzic has been treating the RS as the enemy of BiH, Milorad Dodik and his associates have been threatening to take the RS out of BiH if their frequently shifting and nebulous demands are not met.

Earlier this week, the RS National Assembly held a special session ostensibly to discuss recent public addresses by President Silajdzic. The RSNA adopted a Resolution as well as "information" from RS President Kuzmanovic, which together

compile a litany of real and imagined complaints by RS politicians. The two documents together contain direct and indirect references to RS "sovereignty" and the purported right to secede.

While most Serb parties in the RSNA voted for the Resolution, neither the SDS nor PDP voted for Kuzmanovic's "information." But more notable was the fact that both Bosniak and Croat members of the RSNA were, once again, "outvoted," which is a routine occurrence in the RSNA. So, in a series of speeches and documents in which RS politicians complained about being outvoted in the BiH House of Representatives, according to parliamentary rules of procedure which *they* insisted on, and by which RS delegates can only be outvoted if they fail to attend...Serbs outvoted the other two constituent peoples represented in the assembly of what—by law and constitution—is supposed to be the multiethnic Republika Srpska.

Even a casual reading of the Resolution and Information reveals other ironies and bald-faced hypocrisies, which the short time available to us today does not allow me to go into. I don't think any of us would be concerned if we thought this was only hot air. But it has been accompanied by a persistent campaign intended to delegitimize the authorities and functions of the international community as well as the State of BiH. It's even resulted in Dodik's public fantasies about confronting NATO armoured vehicles, forming a resistance government, and declaring independence.

But the executive and legislative actions of Dodik's government are worrying: refusal to cooperate with State authorities; threats to shut down State government; non-application of State laws; passage of laws that go outside the scope of existing State laws or even international treaties; threats to "take back Brcko District" for the RS and so on...

Direct personal and public appeals to Dodik to publicly renounce independence as an option have been met with only

further talk about it. Yet his friends and political associates try to assure us that “he doesn’t really mean it.” So, either he does mean it, and his colleagues are lying to us, or he doesn’t mean it, in which case he is lying to the public.

While it is absolutely clear to me that objectively there are no threats to the existence of the RS—and the very brave and constructive Sulejman Tihic said as much in his address to the RSNA—the fact is that Dodik has found his muse in Haris Silajdzic.

This is not to excuse Dodik’s actions—far from it—but rather to point out that politically irresponsible behaviour knows no boundaries in BiH. As both a member of the presidency and as a president of a party, Silajdzic swore in a legally binding way to uphold the Dayton Accords and the Constitution of Bosnia and Herzegovina. Instead he travels the world publicly criticizing the internal structure of his own state and demanding international help for his agenda of vengeance. His support to last year’s movement for secession of Srebrenica from the RS can hardly be considered consistent with his constitutional responsibilities.

Given such displays by both Dodik and Silajdzic, you can imagine why the rest of the world shakes its head in astonishment. Neither leader offers a way out or a way forward. And while they enable each other to behave as they do, the important work; fulfilling SAA requirements, fixing the Federation, creating jobs, all go unattended.

Why do they act this way? Is it because, as some suggest, Dayton itself is to blame?

While all recognize that some aspects of the Dayton constitution must be adjusted in line with requirements of the European Convention on Human Rights, these in and of themselves have little impact on whether the BiH Council of

Ministers and Parliamentary Assembly are able to deal with difficult issues. You may recall the so-called "April Package" would have fixed these problems and increased the strength of both institutions to better equip them for the onslaught of tasks required by SAA and both EU and NATO accession.

But just look at the previous government's accomplishments: tax reform, judicial reform, intelligence reform, defence reform, SAA negotiations, Partnership for Peace... all done under the current Dayton arrangements, all of which led to substantial growth in gross domestic product and foreign direct investment. If *they* could do it, why can't *this* government?

No, Dayton is not the problem. Neither is OHR.

Radmanovic, Dodik and Radojicic all say the OHR has finished its work and should leave. The problem is *THEY* have not finished *their* work. If they really want OHR to transition to an EU-led mission, then they should complete those few requirements set for them by the Peace Implementation Council: state and defence property, Brcko District, and a strategy for dealing with war crimes cases in BiH.

Reasonable solutions for all of these issues have been at hand—or even agreed to—for months if not years.

While they divert peoples attention from this fact, the International Community continues to look for opportunities for the parties to reach agreement on the requirements they must fulfil.

Still, it does make me think that if the politicians of this country put even half as much energy into fulfilling SAA and NATO requirements as they do in beating each other and the international community over the head, they would be half way to their objectives now. The opportunities lost because of such behaviour are enormous and can be measured in terms of

lower gross domestic product, less foreign direct investment, and tens of thousand fewer jobs.

So why do politicians persist in pushing agendas that lead at best to a dead-end, at worst to more misery and possibly even conflict?

Revanchism, chauvinism, and irredentism are clearly present, but while they are viscerally appealing to some people, and may, to some degree, actually motivate some politicians, they are in my estimation tools used cynically to maintain or enhance the power of those espousing them. But to what end?

The clues lie in the “visions” that political leaders have put forward about constitutional reform. For Serbs, it is an independent RS. For Croats, it is a third entity. For Bosniaks, it is a centralized state.

Notice none of these visions actually talk about government competencies, efficiency, or even relevance. They are about *territory*. More specifically, territory that will be controlled by specific national political parties, because with control of territory comes economic control.

And this brings me to the reform element of my speech.

In the current *political* system—as different from the *constitutional* system—political parties extract wealth from the economy by two principal means (in addition to their salaries and budget funds given to parties).

The first is by placing their cronies on the steering and management boards of public companies.

The second is by maintaining control over both construction land and agricultural land. Why? Because they are more interested in dividing wealth among themselves than in creating wealth for the people. The entire political system is structured this way. Why would politicians want to change

the system that is designed to benefit only them?

This explains the dispute over state and defence property. It explains why Milorad Dodik does not want to cooperate with a state investigation into possible wrongdoing in large projects in the RS. It explains why Silajdzic insists only on his plan for electric energy. It explains why the Dodik – Silajdzic police reform proposal of 28 September last year had police territorially divided and under political control. It explains why BH Telecom has not been privatized and why politicians want to maintain a controlling share. It explains why, 13 years after the war, *Marijn Dvor* still lies in ruins. It explains why work on Corridor Vc has not begun. It explains why there are two banking supervision agencies in BiH when there should be one. It explains why even once construction right is bought a government will block issuance of construction permits. It explains why Dodik wants his own electric transmission company. It explains why BiH imports food because farms are too small and inefficient to compete despite the fertility of the land and the ability of the farmers here.

Governments—municipal, cantonal, District, Entity—are the single largest landlords in the country. Why should governments be renting agricultural land? Are they better managers of land than a farmer? Why should government sell only *construction* rights to a business? Are they better at business than businessmen? Do the people of BiH benefit from this control in *any way*? No, they most certainly do not. Only politicians do. And BiH being rated lowest in the region in terms of competitiveness and highest in terms of corruption reflect this.

Depressing? Certainly. Inevitable? No! But discerning the underlying problem should give us hope that this part of the system can be changed. If politicians are no longer motivated by personal greed, they have nothing else to do but, well... *govern!*

Besides quickly and legally completing the privatization process, what else should be done?

As you know, in addition to serving as Principal Deputy High Representative I am also the Supervisor of Brcko District. In my efforts to root out corruption in Brcko, I came to understand the nature of political control of the sources of economic wealth. That is why more than a year ago my staff and I began analyzing how this system works, and what might be done to break the link between politicians and control of the economy. Our goal is to create a system that fosters ownership of construction and agricultural land, creates a real land and mortgage market sector, lowers the cost of doing business, and promotes increased job growth and personal wealth.

At the end of January, after the Brcko Assembly has approved a new government and passed the budget for 2009, I will present it with a draft law on property ownership that will end politicians' extractive control of the economy and wealth.

Given the stakes, you can imagine the political resistance this will face in Brcko and elsewhere.

You can bet politicians in the cantons and entities will fiercely resist such a reform, because it directly affects their pockets. But land reform is unavoidable and already done in most of the countries of the former Yugoslavia. If BiH is to exist as anything other than a charity state and get into the EU, this reform will have to take place. Once it does, it will mean greater realization of BiH's economic potential and a higher standard of living for all.

I am sure this all sounds a bit theoretical; so let me put it in terms of the specific situation in Brcko District, with which I am most familiar.

The District, which encompasses about 1% of BiH territory, and has a population of about 106,000, has about 500 million BAM

worth of real estate under public ownership.

It disposes of this property in several ways. First, and most fittingly, the government uses properties for its own functions. Second, it sells construction rights to businesses. Third, it rents out buildings and agricultural land to entrepreneurs and farmers.

There are several major problems with selling construction rights rather than the land itself. First, the cost for the construction right is about the same as the market value of the land itself. Despite it costing the same as buying the land, because the business person doesn't own the land, there is less collateral for the banks to lend against. Since that entails higher risk for the banks, they lend money at higher interest rates. That means higher cost to the business, which means they can't borrow as much as they need. The result? Business expansion is retarded, and jobs go uncreated.

Rentals are equally problematic. Because the government does not invest in the stock of buildings available for rent, what little that is rented is rented at submarket rates. Privately owned land is therefore more expensive. Because the government doesn't pay real estate tax on its own properties, large sums are lost because of unoccupied premises and lost tax revenue. Analysis shows that the revenue from rental fees is about the same as costs to the government of maintaining its large holdings, meaning that there is no benefit to District residents from this system. The only people who profit are those who arrange for rentals of attractive properties at sub-market rates.

In many cases, tenants, including farmers and small businesses, could afford – and would prefer – to buy the property, but they are unable to do so because of the current legislative framework. A major and damaging consequence of the existing antiquated land-holding system is that there are almost no incentives – for tenants or for the authorities – to

upgrade property. As a result farms are far smaller and less competitive than in neighbouring Croatia, and Bimal cooking oil factory has to import oil seeds because local farmers don't grow them.

And of course, lurking behind all this is a politically influenced bureaucracy that determines who can rent and who can buy construction rights. What the government *giveth*, the government can *taketh* away – something the banks know and reflect in higher lending rates.

But more troubling is that the system, as in the rest of BiH, is highly susceptible to corruption. Last year I discovered substantial corruption in the permitting and other processes associated with sale of construction right. I removed five people from government service and reprimanded several more. The prosecutor is still investigating the matter and I cannot exclude more action on my part. The new public property office, public attorney's office, and audit office are bringing some oversight to this process, but the system itself is rotten.

What to do? Change the system by getting the government out of the business of being landlords by selling ownership rights to the land the government doesn't need for its own functions or for the public interest

What are the benefits of a sell-off?

First, the authorities stand to raise a huge sum of money that can be immediately ploughed back into infrastructure and public services. This alone will create jobs, but improved infrastructure will also attract additional private investment.

Second, by selling the land the District will secure a new long-term revenue stream through real estate taxes, revenue that would belong solely to the District.

Third, a true market in real estate can be established, including a mortgage market.

Fourth – and most important of all – those who acquire property will acquire a vastly enhanced credit status, since they will be in possession of collateral for loans. Businesses can expand further than before, and thus more jobs can be created.

We believe this legislation can open the floodgates for economic expansion in Brcko. It is time to get rid of the toxic *mélange* of Ottoman, Austro-Hungarian, and Socialist land regulations and move to a modern system.

I would stress that land privatisation in Bosnia and Herzegovina as a whole is not an initiative that has to drag on for decades – it can be executed with relative speed – and it will deliver immediate and lasting benefits to citizens. An affordable and fair law on restitution is urgently needed too, but that is no reason to delay a debate about or otherwise act on land reform. Some of the proceeds from divestiture can be placed in escrow to pay for restitution when actual restitution or in-kind replacement is not feasible.

Throughout the post-war period, state ownership of property has acted as a major drag on economic development and has provided the political class with an additional – and highly damaging – means of patronage. I believe it is time for the authorities in Bosnia and Herzegovina to get out of the business of being landlords, and instead start focusing on building a business environment that will encourage entrepreneurs to create wealth and jobs.

I challenge the politicians who control this country's wealth to take up the issue of land reform.

My aim here was to stimulate a forward-looking BiH wide debate on what people in BiH want from their future.

Consider this. Bosnia and Herzegovina could move from rags to riches in the space of a single generation. Ireland and Singapore made this transition over a period of just two decades – they have similar sized populations to this country, by the way, and they both had to find ways of accommodating different communal aspirations.

They did this by focusing on a clear vision of the future in which the development of common wealth was the driving force. If you get politicians out of the business of business, they might be able to do the same.

The politicians here are good at saying what is wrong with the status quo, scaring people with crazy talk, and throwing dust in their eyes to divert attention while they steal what's left of this country's wealth. They have even given themselves big raises for *not* doing their jobs! What they have proven incapable of doing is offering a vision of the future. So, we—you, me, the citizens—need to get politicians out of business and into governing.

This is not a Dayton issue, it is not one of the objectives or conditions that must be met to transition from OHR to EUSR. It is just plain common sense.

I hope we can now move into our discussion and focus not just on whether Bosnia and Herzegovina is going to be divided, but also on what a democratic and prosperous Bosnia and Herzegovina is going to look like 20 years from now.

Thank you.