

Speech by the High Representative, Wolfgang Petritsch to the “Club of Three”

BOSNIA ON THE ROAD TO RECOVERY?

Ladies and Gentlemen,

I was in Brussels just a month ago and the occasion was the ministerial meeting of the Peace Implementation Council – the supreme body to oversee the implementation of the Dayton Accord. The Declaration adopted on May 24 by the Council was not just another dry communiqué. It marked a turning point for the International Community's approach in Bosnia, defining a new stage in bringing peace, stability and hopefully prosperity to this shattered country.

Let us first look back on the road we have travelled so far.

Immediately after the Dayton Peace Agreement was signed, the overarching priority was to separate the three armies and ensure the basic survival of the state and its people. This included the establishment of key state institutions following the first post-war elections in September 1996. Major reconstruction proceeded in parallel. The road so far has been longer than anticipated and difficult.

What then of the coming period? A period which will almost certainly decide whether Bosnia loses its hard won, nascent stability. Or makes decisive steps to its rightful place in the European family.

Very clearly Bosnia and Herzegovina must not only accelerate and finalise outstanding peace implementation issues. It must

now meet the challenges of fundamental transition. These are:

- **Economic**: Moving from a command economy which is still in many ways to a genuine market economy
- **Political**: Switching from a closed political system to a democracy based on strong institutions with an independent judiciary, rule of law, free and fair elections and a free media
- **Social**: cultural change is needed to secure an open and tolerant society

None of this will be easy. The last decade has shown that in all the former Communist countries of Eastern and Central Europe, transition is far more complex than we imagined when the wall came down in Berlin.

In the war-ravaged republics of the former Yugoslavia the challenge is particularly stark. Bosnia and Herzegovina, where I serve as the International Community's High Representative responsible for implementing the peace accords, experienced the worst destruction. The human toll was appalling.

It is this recognition – that Bosnia is only now starting out on real reform, a decade after most of its neighbours in the wider region – that shaped the Brussels Declaration adopted last month. Its three-part strategy pushes **economic reform, the consolidation of state institutions and refugee return**.

Economic reform is the engine of overall reform. Without it a fundamental breakthrough is well nigh impossible.

Over the last 5 years, Bosnia has received more assistance per capita than any other country in the region – a cool \$5.1 billion. But most of this aid was spent on reconstruction rather than economic development. Now, this assistance is declining rapidly. Bosnia must address long-term and self-sustaining growth quickly.

This will require a first and foremost single economic space.

To increase efficiency and economies of scale, Bosnia needs a harmonised approach across both entities in a number of areas, including tax, financial services, standards and regulations. A **single economic space**, creating wealth, livelihoods, will do far more than any peacekeeping force to heal the scars of division left after Dayton and end the nationalism's and ethnically masked power structures that impoverish the country.

Steps are required to create a real **business environment**. Over-regulation and remnants of cumbersome Communist bureaucracy must be removed rapidly and the basic legal structures of a modern market economy put in place. Military structures (basically 3 armies) – which the country simply can't afford – and an unsustainable bureaucracy must be reduced.

Communist structures and mentalities – I should add – remain one of the toughest obstacles to economic reform.

One particularly damaging example of Communist bureaucracy are the **"payment bureaux"**, through which all commercial and public bank transfers must pass. As well as demanding exorbitant fees for transactions, these bureaux are non-transparent cash cows for the nationalist parties. I am determined that the payment bureaux will be abolished in the course of this year.

The void will need to be filled by a reliable **banking system**. A revitalised banking sector should encourage the participation of foreign banks and a badly needed injection of capital. As a start, Turkey's Ziraat bank is already present – Austria's Volksbank will open its doors next month.

Privatisation: a substantial number of publicly owned enterprises must be privatised expeditiously – the process of privatisation must be seen to be free of political intrusion and in the interest of Bosnia's citizens. The International Community is seeking greater emphasis on tender privatisation

which should encourage new management and capital. Privatisation is one of many areas where I hope Bosnia can learn from other countries in transition.

Anti-Fraud: It is a truism by now, that economic policies are easily undermined by corruption and cronyism which remain rampant throughout of the region. **Transparency in all sectors is the ultimate aim.**

In Bosnia, the International Community is addressing this problem with a more co-ordinated approach. Last October I established an anti-corruption group which brings together donors, international financial institutions, OSCE, UN, and SFOR to discuss strategies to depoliticise public administration and push forward with criminal code reform. The Anti-Fraud Unit within my Office oversees the implementation of an Anti-corruption Strategy which both assists local authorities in pursuing individual cases and presses for systemic change, grounded in law.

Having Bodo Hombach at my side – I should mention: The Stability Pact is playing an important role in this area; recently, Stability Pact representatives met with Bosnian authorities to work on how to make good their commitment to fighting corruption.

Eventually, I hope domestic forces will fully take over as watchdogs from the International Community. A major conference on fighting corruption took place in Sarajevo in February. I am confident that Berlin-based Transparency International will soon provide know-how to a local TI chapter.

Fighting corruption is core to State Building. The experience of other transition countries has consistently shown that the key to success lies in the development of strong institutions. Because the Dayton Agreement created a highly decentralised political model for the state institutions which straddle the two Entities need the very active support of the International

Community. The need to shore up Bosnia's weak centre cannot be over emphasised if it is to survive as a real country.

Financial incentives, not just political pressure, are needed to push this. International donors have been asked to channel their financial assistance through state institutions. Thus far and still ongoing spending at Entity, or sub-state, levels simply enabled ethnic structures to maintain their autonomy and undermine state-building efforts. The work of the State needs to be expanded into independent, state-level regulatory agencies and the creation – finally! – of a State Treasury.

The establishment of a professional, non-partisan **civil service**, first at state level, is vital to strengthen institutions and ensure they serve citizens rather than political elites. A new Law on Civil Service has been drafted by my Office with the OSCE and is under discussion with local institutions.

Human Rights: One of the legacies of communism is the emphasis on the collective at the expense of the individual. Central to our efforts is the protection and empowerment of the individual, the citizen. On Wednesday, I presented a draft Freedom of Information law to put Bosnians' rights on a firm legal footing.

A fully independent **judiciary** is key to the enforcement of the rule of law, which serves to protect human rights. It must also protect the investor. In the last six weeks, I imposed entity-level laws and amendments to existing laws to protect the independence of judges and prosecutors. The creation of a State Court is under way.

Imposing laws probably smack of the colonial to you. I am deeply aware of the need for Bosnians to make and implement decisions themselves, that they own this process and must face up to the demands of ownership. The powers I have must be used sensitively, with what I like to call **constructive impatience**.

Nowhere is this more important than **refugee return** (return of displaced persons), the very heart of Dayton. It has been the greatest challenge both for Bosnia and the International Community. In Kosovo, where the exodus took place with horrifying speed, the vast majority of refugees returned within months. Almost ten years since the beginning of the conflict, Bosnia is only now experiencing its first significant breakthroughs with returns.

Why now, finally?

- Overall security situation, people feel safer
- Grow justifiably more impatient, want to rebuild their lives
- Above all – we changed the pertinent laws:

Last November, I introduced a legislative programme for return based on the rule of law and the individual right to property. I am pleased to say that, so far this year, there have been more than three times as many returns as in the same period in 1999 – I expect the overall figure for this year to double that of 1999. Here, ordinary Bosnians slowly hesitantly are starting to own the process. It is Bosnian Serb police and housing officials in hard-line areas of the RS like Bijeljina and Foca who are making the evictions necessary to return homes to their rightful, owners – the same is happening on the Federation side.

Return is, of course, one of the areas dependent on a regional approach, and where again the Stability Pact is playing an important role. The greater willingness of the new Croatian government will, I hope – I am glad to see FM Picula here – facilitate the return of Croatian Serbs currently in Bosnia, creating a virtuous circle where houses are returned to their displaced Bosnian owners. I hope that similar co-operation will one day be possible with the vital last piece of the jigsaw, the Federal Republic of Yugoslavia.

With so much work to be done, and both domestic and international resources so limited, it is imperative that our efforts are concentrated to maximum effect.

Before closing, I would like to underline the importance of Bosnia's **citizens** in achieving a successful transition. The "brain drain" is an acute problem in Bosnia. Apart from basic economic reasons, the poisoned atmosphere of ethnic politics – old politics – pushes many of the brightest and best to leave. Nurturing a civil society is the cornerstone of our and NGOs efforts but much depends on Bosnians – each and every one of them; they must realise that it is possible to be a good Serb, Croat or Bosniac and at the same time be a citizen of the state of BiH.

To conclude, what we have discovered in Bosnia is that success requires not only healing the scars of war. It also requires:

- the decisive dismantling of 50-year-old structures in order to separate party, state and economic power
- lean but strong institutions and enforcement of the rule of law
- working closely with other countries in the region to share lessons learned. The Stability Pact can play an important role here
- finally the International Community must stop talk of an "exit strategy" and focus on an "entry strategy" instead for the countries of Southeast Europe – full participation in European integration processes and eventually entry into this continent's institutions and organisations

Bosnia is certainly on the road to recovery (April-elections strong indicator). We can think of it as a car travelling uphill. It still needs to be pushed by the International Community to maintain momentum. But the hill is less steep than it was, with less distance to travel.