

Newsletter

Vol. 6 Issue 1
January 2003

Economic Reform and Reconstruction Bosnia and Herzegovina

Contents

1. Privatization in BiH
2. Bulldozer Committee
3. VAT and Customs
4. Budget and Statistics
5. Canton 7 HIF
6. Civil Aviation
7. The Banking System of Bosnia and Herzegovina
8. Energy
9. Telecommunication
10. Transport
11. Agriculture Developments
12. Regional Offices
13. BiH Economic Update

This Newsletter is published under the authority of Lord Paddy Ashdown, High Representative.
Editor in Chief: Patrice Dreiski, Deputy High Representative and Head of the Economic Department, OHR;
Managing Editor: Almira Kulagić, Economic Department, OHR;
Design: Samir Mujković, Resources Department, ICT section, OHR.

For any further questions and explanations, please contact:
economic.newsletter@ohr.int

Privatization in BiH – Substantial Headway

General

The privatization process for the SMEs and large companies with the exception of the strategic companies is reaching its maturation phase in both Entities. Substantial headway has been achieved during 2002 and the use of vouchers/certificates through Public Offering of Shares is now completed also in the FBiH where the last phase took place in the autumn. The sale of the remaining portion of the State-owned capital in these companies has progressed steadily during 2002 to reach a final privatization of approximately 40% of all enterprises throughout BiH. The difficult conditions of the world financial markets, the dismal state of the BiH economy, the noncompetitive and over-indebted companies offered for sale were but some of the negative aspects that impacted privatization during the year. Considering the circumstances in which the privatization program is operating the results obtained in both Entities can therefore be considered as quite positive.

The long term viability of the companies sold remains one of the key criteria in judging whether privatization has been successful or not. The real survival hurdles are faced by the new owners after the signature of the company purchase agreement when restructuring is

engaged; the struggle to find new finances and open new markets becomes acute to avoid closedown. It is too early to conduct such a success "acid test". In that respect, the future political stability of the country will be a vital element in sustaining or breaking the modest momentum created.

In both Entities and contrary to all predictions, the effect of privatization on employment in strategic enterprises has not been negative. This is partly due to the strict policy enforced by the Federation Privatization Agency (FPA) and Directorate for Privatization (DfP) when examining competitive offers for company takeovers. Besides price and investment plans, employment appears very high in the hierarchy of criteria taken into account for deciding which bid is the best. Another important element is the fact that at the time of initiating privatization, the companies selected had already reduced their staff considerably and placed redundant personnel on the well-known "waiting list". By so doing they limited drastically the social burden of the future owners. A final consideration on this point is that the enterprises sold thus far are the most attractive firms to privatize, requiring the retention of virtually all their existing personnel to ensure future expansion. What will happen with the staff of the less appealing candidates remains to be seen.

New laws on bankruptcy and liquidation of companies were adopted in November by the RSNA for implementation on the 1st of Jan. 2003. This in itself is something of a small revolution of mentality in a country where during decades of communism no enterprise was ever going into insolvency and where accumulations of unpaid debts for unsuccessful businesses were the norm. The large amounts of compounded liabilities has become a real burden for the companies offered for sale and some flexibility will be brought into the process thanks to these new laws and to the new approach proposed by the Privatization Agencies/Directorates and the International Advisory Group on Privatization. The objective is to change the system by allowing the liquidation of the nonviable companies and sale of their assets separately, thus increasing the cash proceeds for the State, or by restructuring (partly or fully) some of the problematic enterprises. This can only be done with the assent of the government when restructuring includes the writing-off of liabilities (the great majority of liabilities being actually State-institutions related). In the FBiH, the bankruptcy and liquidation laws are yet to be accepted by the legislative assemblies. This should be completed during the first quarter of 2003.

FBiH

Although the sale of <33% of the large companies' capital through Public Offering of Shares using certificates is now over, the remaining State-owned portion of these enterprises can still be acquired with certificates to a large extent. This ongoing process is expected to become more dynamic in the next few months due to various measures taken by the FPA and Cantonal Privatization Agencies (CPAs) to reduce the amounts of liabilities to be taken over by potential buyers. In the SMEs and large companies segment, about 25% (260 out of 1064) of all companies have been fully privatized. This is substantially less than in the RS (41%) and is largely due to the different systems of certificate offer chosen in the Entities. During 2003, the difference between the FBiH and the RS is likely to diminish.

Once again it is in the Small Scale Companies (SSC) category that the privatization has been the most successful. In effect, 70% of all SSCs have been sold to private interests: remarkable results considering the difficulties highlighted in the preamble. It shows also that the vouchers/certificates system (not applicable for SSCs) has effectively slowed down and complicated the process considerably for the other categories of privatizations.

The most puzzling results are, however, in the category of strategic enterprises where only 17 companies out of 56 have been sold in spite of the USAID, GTZ, EU, and World Bank (WB) experts' involvement. The reasons are numerous, and to name just a few: lack of interest by foreign buyers for investing in BiH, uncertain world markets, high accumulation of unpaid debts, outdated technology, slow reaction and inappropriate negotiating skills on the part of the Agencies, insufficient long-term and uneven involvement of certain donor agencies, excessive bureaucratic barriers and legalistic approach of business dealings by government officials. A whole set of measures have been discussed at IAGP and FPA levels to stimulate the process in 2003. The most important decision is to give more responsibility, assistance and decision powers to the Privatization Agencies (in particular to write off liabilities or reschedule debt payments, restructure or un-bundle, lower sales prices) and make them more accountable for the results obtained avoiding political interference.

In the dispute over the ownership structure of Aluminij Mostar (AM), as most of our readers know already, the parties to the case, the FBiH Government and the AM Assembly of Shareholders, have agreed upon the principle of resorting to international arbitration to settle the issue. The initiative to propose arbitration in this very politically sensitive and ethnically intricate case

was proposed by the OHR and the WB whereby the latter will play a key role in funding the process through its Privatization Technical Assistance Credit (PTAC). The next steps, during the first quarter of 2003, will be to prepare an arbitration agreement to be signed by both parties followed by the designation of international arbiters agreeable, also by both parties. No privatization of the remaining portion of State-owned capital of AM will be possible before a final award by the arbiters is reached over the ownership structure.

RS

In the RS also, with 47% (129 out of 276) of all the Small Scale Companies sold, this segment has been the most successfully privatized, although to a lesser extent than in the FBiH. On the other hand, the privatization of large scale companies has shown better results in the RS than in the Federation with 41% (271 out of 648) having been fully sold. The maturation of the privatization process referred to in the preamble is certainly perceptible in these two sectors and by the end of 2003 more than 60% of all SMEs and large companies should have been privatized. The attitude of the future new government towards privatization remains in conjectures at this stage and its impact on the process will obviously be decisive.

Considering the strategic companies, the picture is totally different with only 4 prominent companies sold (after disregarding 10 veterinary stations included in the list by the RS Government but that do not fully correspond to the strategic criteria). This result is below expectations and a series of measures have been discussed at the IAGP to accelerate the process in 2003. These measures are very similar to those mentioned for the FBiH, i.e., to basically increase the decision powers of the DfP and create flexibility in writing off liabilities and conducting pre-privatization restructuring. One important additional element to make company sales more transparent and prevent political interference is to remove from the RS Law on Privatization the recent amendments giving "special decision powers" to the Government and subordinating certain privatizations to a prior approval by the RSNA. A concerted action of the OHR and the EU to secure an amendment to the law is under way. The initiative of the RS Government proposing the establishment of a "stock fund" to manage the still State-owned portion of companies' capital is also under scrutiny by the IC because of the extra bureaucratic elements involved and the possible political interference. Since the same functions could well be taken on by the existing DfP, the OHR and the EU are pushing for an amendment of the law.

According to the regulations in place in the RS, when a privatization has failed after the first tender, the further sales efforts can be done through offering the company's shares on the stock exchange. Per se, this procedure could be accelerating the privatization activities. The DfP, however, is objecting to this procedure claiming that it is taking away their controlling role by opening too soon the capital of companies before having exhausted all other privatization possibilities mentioned in the law. A definitive RS Government opinion is expected in the next few weeks on the subject.

BULLDOZER COMMITTEE

The High Representative launched an initiative on November 12th 2002 to dismantle barriers to business growth and job creation. He called this a "bulldozer" effort, as the intention is to help businesses knock down as many roadblocks and cut as much red tape as possible to free up the economy for growth. The committee is coordinated by the OHR and is composed of USAID, World Bank, the European Commission, IMF and OHR. Guest members include FIPA, FBiH and RS Employer's Confederation, PRSP Commission, Business Women Confederation, Foreign Investors Association and many regional or local business associations.

The committee's approach is to trigger a bottom-up process of identifying, solving and legislating reforms that will have an immediate impact on business growth. The committee is engaged in extensive consultations with a wide range of local stakeholders, and serves as a facilitator and delivery mechanism rather than a driver. In this way the initiative aims not only to introduce important reforms, but also to empower and train local groups in advocating for change, and to establish sustainable democratic mechanisms for civic participation in government.

Commenting on the launch of this initiative, the High Representative said: "BiH does not only need better laws – it needs fewer laws. The expansion of small businesses and foreign investment are the future of this country's economy. But too few entrepreneurs and investors are setting up businesses and creating jobs. One of the main reasons is clear: the absurdly complex business regulation in our country. That must change and will change. It will be up to the Bulldozer Committee to propose ways of doing this".

The Bulldozer Committee has committed itself to identify and deliver 50 economic roadblocks along with

their respective legal solutions. As this is a bottom-up effort which heavily relies on local partners, a methodology has been specially devised to process the input of local businessmen and women. A "Bulldozer Roadblock Submission Form" has been made available to businesses through all the organizations taking part into the Bulldozer Committee. Through this form, businesses can point to a specific problem and indicate the potential improvement with specific legislative changes.

Those proposed changes are to be presented to the relevant authorities (State Council of Ministers, FBiH Government and RS Government) during the first quarter of 2003. Businesses or business associations that submitted the requests will have a chance to testify before the parliamentary assemblies' committees and advocate for reform, which will reinforce their role as major contributors to economic policy through the lobbying process. Local Implementation Committees coordinated by local business associations will then be set up in order to insure proper reform implementation and follow-up.

VAT and Customs

On 9 October 2002, in his speech at the Joint Institutions Building in Sarajevo, the High Representative set out six tests for work to begin on over the first six months following the October 2002 elections. One of these tests was, "Reform the revenue system by beginning the process of establishing VAT at the State level and reforming customs".

Since then numerous events have taken place that promote a single customs service for BiH and a single / State Level VAT.

Single Customs is essential to crack down on corruption and crime and to prevent the Entities and the Brcko District from competing to obtain Customs revenue by offering favourable "valuations" or lenient interpretation of applicable customs' rates.

One VAT is simply the only alternative if a VAT is to be adopted in BiH. A multi-VAT system as proposed by some in the RS would work against the creation of a single economic space. Such a VAT model would require business to make the most complicated VAT returns in Europe (and possibly the world) and would effectively place responsibility for the allocation of VAT revenues on business.

The current sales tax systems in BiH need replacing. They are open to fraud and abuse and have become a playground for criminals.

As many will have noted from media reporting, several presentations were made to senior politicians, technical consultations were undertaken and public presentations and debates took place concerning VAT and Customs issues. This is ongoing and will continue with additional intensity over 2003 to ensure that agreement in principle is reached on necessary BiH reforms and a timetable for reforms is adopted.

Recent High Representative Decisions –

BiH Statistics Law

The BiH Law on Statistics was in Parliamentary procedure for two years, before being voted down. It was imposed by the High Representative as a part of the package of economic laws that were imposed to clear the decks for the incoming Governments. The Statistics Law is of crucial importance for BiH producing reliable statistics data, which is necessary for any investor making a decision about working in BiH market.

FBiH Treasury Law

The Federation Law on Treasury was imposed in order to provide a legal basis to the Treasury System that was already operating in the Federation, and to provide a framework for introduction of the Treasury system in all ten Cantons.

The Draft Treasury Law was adopted in first reading by the Parliament but the elections process stopped it from progressing further, and due to its high importance it was introduced in the package of economic laws.

The Single Treasury Account concept is designed to introduce transparency and accountability in the work of the Federation and Cantonal Governments. It furthermore introduces the concepts of serious budget planning by the budget users and will allow for better budgetary discipline in the work of these Governments.

Letters to Cantons and Municipalities on budgets for 2003

Together with agencies working directly with Cantonal and Municipal Governments, OHR drafted a guideline letter for budgets adoption in 2003. The letter focused

on some guidelines for more cautious budget setting for 2003, including such measures as no new employment, and balanced budget targets. The second part of the letter centered on priorities for 2003, the first among which is the return of refugees, and support that is needed from Cantons and municipalities in this regard.

FBiH 2003 budget imposition & IMF requirements for the Stand By second tranche / agreement continuation

The adoption of the BiH Common Institutions and Entities budgets were IMF conditionalities for the payment of the second tranche of Stand By arrangement, and the continuation of the arrangement between Bosnia and Herzegovina and the IMF. The budgets were the so-called no policy change budgets, agreed with IMF, that were proposed to Parliaments by technical Governments.

Republika Srpska adopted the 2003 budget on time, while the State obtained an extension until early January for adoption, with written commitment by all main political parties that they will support the 2003 budget in House of Peoples after its establishment.

The Federation budget was also required to be adopted. However, due to the House of Peoples not yet being constituted, the House of Representatives adopted a conclusion asking the High Representative to impose the 2003 draft budget and the Law on budget execution. These were both imposed on the 16th of December 2002, in time to meet the IMF requirements.

The establishment of Canton 7 Health Insurance Fund

The long-awaited implementation of the FBiH Law on Health Insurance (from 1998) has finally gained momentum in Canton 7. Namely, Canton 7 has been lagging behind all other Cantons in the implementation of the Law on Health Insurance. While other Cantons in accordance with this law established their Health Insurance Funds, Canton 7 has operated a divided health insurance system, with separate funds in Bosniak and Croat majority areas.

The process of unification of the two parallel Health Insurance Funds was restarted in December last year, following an explicit unification plan prepared by the OHR. Many attempts to unify the health insurance system in Canton 7 have failed as the Croat side insisted on the creation of a single Health Insurance Fund for Cantons 7 & 8, while the Bosniaks rejected

that idea. Finally, at a meeting held with Canton 7 health officials in Mostar, Principal Deputy High Representative Donald Hays promised that OHR would prepare a concrete plan for the unification of the health insurance in that Canton. This was prepared by OHR's experts, specifying the tasks that would lead to the full unification of the health insurance and setting strict implementation deadlines.

The implementation of this plan started immediately. The Canton 7 government appointed the final member of the Health Insurance Fund's Management Board, enabling the Board to adopt the Fund's Statute, the financial report for 2002, and issue orders to grant access to all of the Canton's health facilities for the entire insured population of Canton 7.

The two sides have yet to reach agreement on the Rulebook on Internal Organization but it is hoped this dispute will be resolved soon, thus putting in place the leadership and staffing structure for the new Health Insurance Fund. Since the most contentious issues related to the creation of this Fund have been overcome, it is anticipated that the remainder of the process will be completed within the next few months.

Integrating BiH into European Civil Aviation

On 1 January 2003, the Air Traffic Control responsibilities for Sarajevo International Airport (SIA) were returned to BiH by SFOR. For more than ten years, commencing at the beginning of the war, the French Air Force within the framework of UNPROFOR,



IFOR and finally SFOR, provided ATC services to both civil and military users. The Federation Civil Aviation Department, under monitoring of the BH Department of Civil Aviation, has now taken over the Airdrome and Approach Control responsibilities. BiH air traffic controllers received specific training over the last two years in Prague (Czech Training Institute) and Luxembourg (EUROCONTROL Training Institute)

The existing French Air Force Terminal Approach Radar will remain in location under the AIRCO contract, pending installation within the first half of 2003 of a new and efficient approach radar to be provided by French THALES company. The return to BiH of Air Traffic Control at SIA represents a major step in the process of normalization in civil aviation. In 2002, BiH became a member of the European Civil Aviation Conference (ECAC), and it is expected that the membership of EUROCONTROL will be finalized early in 2003. Each of these actions will move BiH closer to the goal of full European integration in the field of civil aviation.

The Banking System of Bosnia and Herzegovina – Yearend Wrapup

- **T**he consolidation and restructuring process continues. The progressive strengthening of the legal framework and bank supervision, and the elimination of the weakest and most non-compliant banks has helped build confidence that the system is changing and improving. The entry of well-known foreign banks has also helped citizens gain confidence in banking and provided access to additional banking services and loans. Foreign owned banks now dominate the market. The Law on Banks in both Entities was recently revised and strengthened and the two banking agencies are working jointly to revise the regulations implementing the changes in law.
- The new minimum capital requirements of KM 15 million at yearend 2002 and the requirement to qualify for deposit insurance by August 2003 are forcing additional consolidation or liquidation of small, weak banks. Additionally, increasing competition is becoming a factor in consolidation.
- Deposit insurance was consolidated at the State-level with its headquarters in Banka Luka. Ten banks now participate in the deposit insurance program. The combination of the entity agencies provides additional safety and sustainability, particularly in view

of the fact that the market is not adequate to support separate insurance programs.

- Continuing a positive trend, the Central Bank's Currency Board operation has maintained a stable Konvertible Marka that continues to gain confidence and usage. Inflation remains low.
- Recently, a strong emphasis for the banking agencies has been on developing an effective Anti-Money Laundering campaign in reaction to an increased awareness of tax evasion activities.

FEDERATION Banking System

The number of banks declined to 27 at yearend 2002, down from 55 banks in 1998, while substantial growth occurred in deposits and loans. A significant factor in the increase in banking activity was the conversion of the Deutsche Mark and other hard currencies to Euros at yearend 2001. This brought hoarded money out, much of which went into deposits as citizens displayed increasing confidence in a few banks (mostly large foreign owned). Much of the deposit growth came through citizens' savings with 66% of those funds now concentrated in five banks and 85% in eight banks.

- The sharp increase in deposits in late 2001 was followed by a sharp increase in loans in 2002. Loans increased at a 60% annualized rate during the first 9 months of 2002. Several banks emphasized consumer loans for autos, home improvement, etc. The new loan programs and lower interest rates were well received by citizens. Loans to small-medium size private enterprises have also increased, albeit at a slower rate.
- Six banks have not been privatized, but efforts are reportedly underway on each.

The changes and growth are shown by a comparison of key financial data.

Selected Data from the Federation banking system:
KM millions

	YE-1998	YE-1999	YE-2000	YE-2001	9-30-02
Number of Banks	55	44	38	34	30
Total Deposits	1,154	1,562	1,763	2,900	3,377
Citizens Deposits	332	388	462	1,326	1,382
Total Loans	1,214	1,160	1,308	1,727	2,481

REPUBLIKA SRPSKA Banking System

The number of banks declined to 10 at yearend 2002, down from 18 in 1998. The RS banking system was in limbo for an extended time due to the domination by state banks that were awaiting privatization. There are no sizable private banks to provide support for growth or to attract foreign investors. All banks have been privatized, but most need time to restructure, re-capitalize and become competitive. Liquidity remains a problem for many RS banks. The conversion to the Euro had only limited impact as citizens have not shown strong confidence in the RS banks.

Selected Data from the Republika Srpska banking system: KM millions

	YE-1999	YE-2000	YE-2001	9-30-02
Number of Banks	17	15	15	13
Total Deposits	269	331	423	632
Citizens Deposits	30	54	107	132
Total Loans	295	344	377	437

ENERGY

Electricity

In November 2002, Bosnia and Herzegovina signed a Memorandum of Understanding on the Regional Electricity market in Southeast Europe and its Integration into the EU International Electricity Market. The Memorandum was signed under the auspices of the Stability Pact with a goal to establish an integrated regional electricity market in SEE by 2005 and ensure its integration into the EU Internal Electricity Market. The SEE Regional Market will be based on the principles set out in the Electricity Directive and other legislation related to the operation of the EU Market.

The focus of the Power III Project is on implementation of the institutional arrangements with continuation of activities aimed at establishing the State Electricity Regulatory Commission, Electricity Transmission Company and Independent System Operator.

Gas

The Research and Development Center for Gas Technique, Sarajevo (IGT) organized a three-day gathering on the *Project on Harmonization of Legal and Technical Framework in the Gas Sector in the*

Countries of Southeastern Europe with representatives from BiH, Croatia, Macedonia and FRY in attendance.

The objective of this project is the harmonization of legislation and technical regulation with European Directives and Standards. The project will be accomplished by teams composed of experts from participating countries as well as experts from the German Technical and Scientific Association of Gas and Water (DVGW) acting as consultants. A period of three years has been envisaged for the realization of the project. (For additional information, please contact IGT, Ms. Aida Buco Smajic, ltr.abs@igt.com.ba).

Telecommunications and postal issues

Following more than two years' drafting efforts the legal framework in the telecommunications sector has been finally established.

As part of the economic package, the *Communications Law* was imposed by the High Representative on 21 October. The Law ensures the establishment of a single economic space in the telecommunications sector and reinforces the already functioning and independent Communications Regulatory Agency (CRA). It follows EU legislation in this sector and provides the basis for future lower tariffs and better quality of services. At the same time, many parts of the RS Law on Telecommunications from 1996 were repealed in order to be in line with the Communications Law.

The new legal framework has created high expectations among users and the main focus is now being put on its rapid implementation.

Regarding the telecom operators, Telekom Srpske has been incorporated as a legal entity in December. This was a precondition for the Euro 30 million pre-privatization loan from the EBRD. According to this loan agreement Telekom Srpske is supposed to be privatized within the next 2 years. The RS Government and the EBRD have separately agreed on a MoU ensuring the political commitment for privatization.

Following international practice HPT Mostar has been split into two different companies as of 1 January 2003, namely HT Mostar providing telecom services and HP Mostar providing postal services. This will enable the companies to attract strategic investors.

At the time of this writing, Eronet, the regional mobile operator, has requested the issuance of the third mobile licence after it has become a state owned operator. The process of issuing the license is currently being conducted by the CRA pursuant to the Telecom Sector Policy that was adopted by the Council of Ministers last March.

Transport

Road Transport

The Minister of Traffic and Communications of Republika Srpska signed a contract on development of the road Banja Luka-Gradiska with the company "Engineering" from Laktasi.

A refurbished customs terminal was opened at the Category 1 Brcko border crossing between Bosnia-Herzegovina and Croatia.

Rail Transport

After over a decade, the passenger service between Brcko and Tuzla was resumed. The train will operate two times per day along with the possibility of an extension to Vinkovici in Croatia.

Water Transport

The signing of the Framework Agreement on the Sava Basin took place at a ceremony in Kranjska Gora, Slovenia on 3 December. This agreement, along with the Protocol on Navigation, represent a step closer to establishing normal navigation on the Sava and through the Port of Brcko, as well as closer cooperation between neighbouring countries with respect to other aspects of the Sava basin. Unfortunately, the location of the seat of the Sava River Commission still remains undecided.

Agriculture Developments

In responding to the need to address phytosanitary issues, parallel to the State Veterinary Office there is an urgent need to regulate the plant sector on the state level. OHR is assisting the Ministry of Foreign Trade and Economic Relations (MOFTER) in putting into place a State Plant Office, addressing both organizational and legislative preconditions.

In the initial stage, MOFTER and the Ministries of Agriculture, Forestry and Water Management will nominate qualified experts within their ministries to establish a working group which will be tasked with formulating the following laws:

- *Law on Plant Health* - This law will enable easier exports, as other markets inside and outside the EC require state level certificates that guarantee export products free of harmful organisms. This is required by the International Plant Protection Convention to enable issuing phytosanitary certificates for exports; the BiH Presidency recently adopted this convention. The IPPC also requires a single state authority as well as WTO / SPS Agreement (Sanitary and Phytosanitary Agreement) and the EU. The law will enable control of harmful (quarantine) organisms in the territory of BiH .
- *Law on Plant Protection Products* - This law will regulate and harmonise the import and use of pesticides and other agrochemicals in BiH, and indirectly will result in a more controlled application of agrochemicals.
- *Law on Seed and Seedlings* - By establishing a unified list of varieties for seeds and seedlings, this law will improve the import of seeds and seedlings into BiH, a necessary feature for the Single Economic Space. It will also establish responsible authorities to issue internationally recognised seed certificates (ISTA / International Seed Testing Association), thus facilitating the export of seeds to ISTA member countries.
- *Law on Plant Variety Rights* - This is an obligation under the UPOV Convention (International Union for the Protection of New Varieties of Plants), but which has not yet been signed. It guarantees ownership rights to seed companies, thus facilitating the introduction and use of modern seeds and seedlings.

At a later stage, a slim State Phytosanitary Office is envisaged, primarily using existing resources drawn from the relevant ministries.

Regional Offices

OHR Banja Luka / Fiscal Developments

The RSNA adopted the revised budget 2002 and the budget 2003 in early December, just in time to fulfill the RS's obligations for releasing the second tranche of the Stand-by-Arrangement with the International Monetary Fund (equaling a credit volume of 12 million Special Drawing Rights for BiH). The RS achieved this despite the recent election campaign period and vital national interest claims that Bosniaks and Croats had lodged against the revised budget for 2002. A budget revision became necessary due to significantly higher collected domestic revenues than planned (more than 20% up to October 2002). This is significant in that it is the first time the RS Government has managed to exceed the planned domestic revenues. The budget proposal for 2003 foresees further increases in domestic revenue collection and the plans for the total revenue reaches for the first time approximately 1 billion KM.

OHR Tuzla / Tuzla Developments

POLIHEM Tuzla

Even though the bankruptcy procedure in the "*Polihem*" stockholding was initiated on March 4, 2002, it has not yet been completed and the outcome is still undetermined. Workers are still preventing the Bankruptcy Advisor from entering the premises even though, on November 26, 2002, the FBiH Supreme Court rejected their Appeal against the ruling of the Tuzla Cantonal Court that requested his removal. The Tuzla Canton Police Commissioner, Mr. Ivica Divkovic, although reluctant to enforce the law on "*Polihem*" workers, finally scheduled a police intervention for December 30, 2002. So far the date of the intervention has been postponed twice. The Bankruptcy Advisor has now requested a meeting involving EUPM, OHR, and the Tuzla Canton Police Commissioner to overcome this situation.

FRUTEKS Celic

The Fruits and Vegetables processing Factory "Fruteks" was blocked by the workers and cooperative farmers who prevented the bankruptcy advisors from accessing the factories, accusing them of malfeasance of office. Workers at one point confronted a group of police which resulted in injured demonstrators, one heavily. As a follow up to a series of meetings previously held with the individuals involved in the "Fruteks" situation, OHR-Tuzla Region's

Head of Economics Michael Montgomery and Political Head Mike Austin met with the Celic Mayor, in which they emphasized the impropriety of municipal officials' involvement (if any) in the demonstrations. The Mayor, while denying allegations about his involvement or his personal interest in the "Fruteks" affair, stated that the sole reason for his involvement in this issue was to preserve the state-owned share of the "Fruteks's" assets.

Bulldozer Activity

In cooperation with the Tuzla Regional Development Association, Tuzla Canton Guild, TALDI, EG, and many other entrepreneurs, OHR Tuzla succeeded in obtaining excellent initial information about barriers impeding economical growth. As a follow up to these activities, OHR and these partners organized a Bulldozer presentation for entrepreneurs in the Tuzla Canton. The event, which took place on January 16, 2003, was designed to provide entrepreneurs with a better understanding about the process for setting goals and strategies surrounding Bulldozer activities. Benjamin Herzberg of OHR-Sarajevo made the presentation, after which the entrepreneurs were given the opportunity to discuss their concerns and offer potential solutions to business barriers.

Tuzla One-Stop Shop

The Mayor of Tuzla, Mr. Jasmin Imamovic, has asked for OHR-Tuzla Region's assistance in launching a business-enabling "One-Stop-Shop". The Mayor is enthusiastic about implementing his vision of creating a business-friendly environment in Tuzla. During his initial meeting with OHR-Tuzla Region's head of economics, Michael Montgomery, Mayor Imamovic outlined a concept from which the One-Stop-Shop will become one of the centerpieces of the municipal government's economic development program. Using the successful program in Brcko as a model, Mayor Imamovic stated that he "wants investors to know that when they prepare to open a business in Tuzla, the local government will do everything possible to reduce the amount of time needed to launch their enterprise". Initial work will involve conducting a "process mapping" exercise of the government's current permit process. Thereafter, the government will assess each point at which they can reduce time and concentrate efforts into a single point---all with a view toward assisting entrepreneurs to get their businesses up and running in the shortest amount of time possible.

BiH Economic Update

Source: FBiH and RS Statistical Offices
BiH Economic Data January 2001 – December 2002

Indicator	Federation of BiH	Republika Srpska	BiH (OHR estimate)
GDP nominal 2001	7,224 billion KM	2,463 billion KM	9,161 billion KM
GDP nominal 2000	6,698 billion KM	2,180 billion KM	8,321 billion KM
Nominal increase 2000-2001	+ 7,8%	+ 13,0%	+10,0%
Real increase 2000-2001 (minus 1.7% inflation)	+6,7%	-0,6%	+5,5%
Index of Industrial Production			
12/02 compared to 2001 (RS 11/02 compared to 2001 ¹)	+20,4%	1,8 %	N/A
12/02 compared to 12/01 (RS 11/02 compared to 11/01)	+13,9%	10%	N/A
Retail Price Index			
12/02 compared to 2001	-0,2%	+4,4%	N/A
12/02 compared to 12/01	-0,7%	+2,4%	N/A
Average Net Salary 11/02	505,38 KM	347 KM	426,2 KM
11/02 compared to 2001 (averages)	+14,0%	+7,2%	+10,6%
Number of Employed 11/02 (RS 3/02)	391.161 persons	232.722 persons	623.883
Number of Registered Unemployed 11/02 (RS 12/02)	290.822 persons	144.790 persons	435.612
Number of pensioners in 08/02 (RS 12/02)	286.567 persons	183.349 persons	469.916 persons
Average pension in 12/02	190 KM	120 KM	155 KM
Imports Jan-Nov 02	5,204 billion KM	1,968 billion KM	7,169 billion KM
Exports Jan-Nov 02	1,380 billion KM	0,517 billion KM	1,894 billion KM
Trade deficit Jan-Nov 02	3,824 billion KM	1,451 billion KM	5,275 billion KM
Import/Export coverage	26,5%	26,3%	26,4%

¹ January –November 2002 compared to the same period of 2001 -4,5%.