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INTERNATIONAL FINANCE CORPORATION

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Statement by the Hon. **HASAN MURATOVIC**,
Governor of the Bank for **BOSNIA AND HERZEGOVINA**,
at the Joint Annual Discussion

**STATEMENT OF DR HASAN MURATOVIC, GOVERNOR OF BOSNIA AND HERZEGOVINA
AT THE WORLD BANK ANNUAL ASSEMBLY
(HONG KONG, 23-25 September 1997)**

Please allow me to greet all of you on behalf of the Council of Ministers of Bosnia and Herzegovina and to thank you for all you have done and for all that you are doing through the various forms of assistance, which the international community, many of your governments and many of you, personally, provide to Bosnia and Herzegovina.

The Government of Bosnia and Herzegovina closely follows the development of the new initiatives within the World Bank and the International Monetary Fund. We especially support the efforts of the President, Mr. Wolfenhson, to further the reforms underway in the World Bank. We are pleased with the first reports on the successful realisation. We consider that, for the borrowing member countries, it is of great importance to continue intensively working on further decentralisation of the World Bank, aiming to speed up the implementation of different projects.

Please allow me to inform you on several aspects of the future reconstruction and development of Bosnia and Herzegovina, which is the country with tragic war aftermath and the country which uses different sources for the reconstruction. We can not imagine that the reconstruction could be possible without the international assistance.

Bosnia and Herzegovina is among those countries which, during two past years, have realised a number of the World Bank projects. That realisation, thanks to the engagement of the World Bank experts, was extremely well organised, efficient and effective.

It is my pleasure to inform you that just ten days ago we had the first post war local elections in Bosnia and Herzegovina held.

Since the general elections which were held last year, the most important task for us has been to create the institutions on the State level and now on the local level as well. Establishment and work of the common institutions during this year has not been in line with the needs and expectations. However, with the assistance and friendly pressure of the international community, a number of institutions which have become more and more the foundations of BH, have been established. The Parliament, Presidency, Council of Ministers, Joint Military Commission, Constitutional Court and the Central Bank of BH have been established. The Parliament of BH has adopted a package of laws which make the framework of the economic system of the country: Law on the Central Bank, Law on Customs Policy, Customs Tariffs, Foreign Trade and Law on External Debt. New domestic currency, Convertible Mark (Konvertibilna Marka) has been introduced and this currency is being used for the non-cash transactions in payments system.

In spite of political problems, we have achieved good results in the area of the reconstruction of the country. About 15 000 new jobs have been created. The program of housing has helped 95 000 people so far. A number of bridges and 320 km of the roads have been repaired. All important railway communications have been put into function, the electricity production can meet the needs of the country, about 400 schools have been reconstructed, there is a regular water supply in more than 40 cities, Sarajevo airport has been opened for international flights, and we expect three new airports to be opened very soon. As a result, the economic growth of the country in 1996, according to the World Bank data, is 50%, which is by 15% more than expected.

We are pleased with the basic elements of the recently adopted Country Assistance Strategy on the World Bank Board, with increased IDA funds, which is the result of the previous successful realisation of the

projects. This strategy presents the continuity of the technical-expert assistance of the World Bank in consolidation and transition of the economy.

During this year, some of the first IFC projects are about to be realised in BH, and we have been preparing the realisation of the Project of Guarantees with MIGA.

Finally, we have successfully concluded the negotiations with the London Club regarding the rescheduling of our debts.

All these achievements have been made in close co-operation with the World Bank, IMF, EU, and OHR and with the enormous assistance by the US Treasury. We would like to express our gratitude for their assistance. We owe our gratitude to the representatives of these organisations and bilateral donors on the field. I would like to use this opportunity to express our special gratitude to Mr. Wolfenshon for his personal engagement and support given for reconstruction of BH.

There is no doubt that the World Bank has played the biggest role regarding the concept and implementation of the economic reconstruction.

Different from the Federation of BH, RS, due to well known reasons, has received a smaller portion of the assistance. The latest analysis shows that at the beginning of this year there was an increased interest of the donors to invest in RS, so, the last-year amount of the received assistance has been immensely multiplied. A number of projects, the realisation of which is jeopardised by the present political crisis is in the process of preparation.

Regardless the good results achieved so far, the needs of the country for the reconstruction are still very high. At the moment, unemployment in the country is about 50 % , while 60 % of the population is dependant on humanitarian aid. For the housing sector, 85% of the accommodation capacity has to be reconstructed. Only 10% of the industrial capacities are in function and a number of companies cannot renew their production due to the shortage of working capital. Two years after the cessation of war activities, Sarajevo does not have the heating issue solved, and water supply is restricted to only four hours per day. Regardless the fact that the repatriation is our priority, only 7% of refugees has managed to repatriate. In front of us there are a lot of things to be done, but the first priority is still housing and employment.

It is encouraging that in July of this year, although with a big delay, the Third Donors Conference for the Reconstruction of BH was held, the results of which are satisfactory. It is important for the donors and creditors to speed up the realisation of their commitments. We believe that an important progress in the implementation can be achieved by

co-financing the World Bank projects, using already established and extremely efficient organisations. Being aware of the difficult economic situation in RS, we understand the existing interest of the donors to economically support this part of BH to a larger extent than it was the case during the last year. We support the attitude of the WB, despite the fact that it is not a political institution, to take into account the level of co-operation of the certain area in the implementation of the Dayton Peace Agreement, while selecting the locations of realisation of projects in BH. In that way the WB escapes the danger of ruining the efforts of the rest of the international community in its implementation.

All the levels of BH authorities express their readiness for the future economic reforms. In both of the Entities, the preparations to start the process of privatisation and the banking system reform are underway. Although the needs to invest into physical and social infrastructure are still very high, we welcome the intention of the WB to increase, to certain extent, the investments in projects, aimed to provide support to the economic reforms during this year.

Unfortunately, although the major part of the future Stand-by arrangement has been agreed with the IMF, this arrangement has not been signed yet. Commitments made during the Conference which was held last year have not been fulfilled. We have counted on the promised Arrangement and strong IFC support. Due to delays of the IMF Arrangement we are not able to start our negotiations with the Paris Club and BH arrears constantly accumulate. A number of other activities are conditioned by the arrangement with

the IMF. We find the damages of further conditioning enormous and much bigger than the expected benefits from these conditions, so, we propose that the IMF Arrangements for BH be realised without any further delays. We can assure you that we will work on the realisation of the set conditions to the best of our ability.

We would urge the IMF to show more flexibility in order to have the Stand-by-Arrangement and ESAF as soon as possible. Otherwise, all the positive results that the international community has achieved for the economic reconstruction of BH could be jeopardised.

In future, it is necessary to provide the assistance for repayment of foreign debts of BH. Regarding the total debts of which a certain amount goes to the interest which accumulated during the war, we have been considering the new possibilities for the debt reduction within the World Bank. We need new support in order to realise this aim.

We have been closely following the efforts of the World Bank and the IMF, aimed at securing a wide platform for fighting against corruption which is a global problem, common to the undeveloped as well as to the developed countries. We give strong support to these efforts. We find the Instructions for fighting against corruption, recently adopted by the World Bank Board, very useful. Last year, in our wish to ensure the transparency in the realisation of the foreign assistance, we established, in co-operation with the World Bank, the Agency for the Control of Supplies and Monitoring (PMAU). For the time being, this Agency is operational only on the territory of the Federation of BH, and we think that it is an imperative to establish this Agency in RS as well. We are proud that this Agency, which consists of domestic and foreign consultants, has not found any misuse during its work. On this plan, we will continue our co-operation with the World Bank, to which we express our gratitude for the assistance in this field. Generally considering the problem of corruption in the world, some doubts and accusations for the corruption in all the world are, very often, the result of the political manipulations which almost always follow the election campaigns. Political motives for accusations have to be eliminated. Financial institutions and beneficiaries have to protect their reputation against frequent malicious accusations.

Allow me to propose that the World Bank and the IMF, together with the credit beneficiaries, create a Fund for each project, on obligatory basis, the role of which will be monitoring and control of the realisation of the project. This will ensure that the credits will be used on purpose and the reputation of creditors and beneficiaries will be protected.

At the end, please allow me to express the wishes of the Council of Ministers and all citizens from BH to rely, as soon as possible, on their own resources in the economic development, and to less extent on the international assistance. We are fully aware that, aiming towards that goal, we have to carry the major part of this burden. As far as we are concerned, we are ready to realise the programs of economic reforms for which we still need significant international assistance and substantial reduction of all debts.

Before I come to an end of my statement, allow me to express my congratulations to Cambodia and Turkmenistan for their membership in IFC, and to Panama and Dominican Republic for their membership in MIGA and to wish them the most successful co-operation with these financial institutions.