

Bosnia-Herzegovina



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Annex 1

– Results Analysis

Strategy for Sweden's Development Co-operation
with Bosnia and Herzegovina

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Result Analysis Bosnia and Herzegovina

The context for development co-operation in BiH is different than in most countries where Sida is active. The conflict between forces wishing to tear the Bosnian society apart and forces aspiring for integration and the creation of a unified vision for the country remains present between and within the government institutions. Sida has seldom been able to find unified national partners striving towards the same goals and very few of the assistance programmes have had national governmental institutions as contractual partners. Even when that has been the case they have very rarely been able to formulate policies and strategies that Sida could easily act upon. OHR has instead largely set the agenda also for the development co-operation within its political mandate to implement Dayton. The emphasis for several consecutive High Representatives has been on refugee return, economic reform, creating of a single economic space and of a functioning state. The rule of law and judicial reform has been added to the agenda as the IC has experienced that a large and physically successful donated infrastructure reconstruction programme did not lead to the necessary reform changes. The reform process can so far be characterised as one driven by the IC with some partners in the Bosnian society but largely against obstructive national politicians and political institutions. Much of the obstruction is caused by wishes for maximum autonomy for the RS and the Croat controlled parts of the Federation. In the economic sectors there is a more complicated pattern of resistance to reforms from a variety of individuals, institutions and political parties with vested interests in maintaining the present situation. Corruption, such as large scale and well-organised tax and custom-fee evasion plagues BiH and diverts much needed potential budget resources.

This is an overview of the Swedish assistance programmes in Bosnia and Herzegovina so far. All projects that have been carried out are not described and analysed. The analysis looks especially at the relation to the national partner(s)

1. Integrated Area Programmes

The IAPs, based on the principles of Article 7 in the GFAP¹, account for almost half of the Swedish assistance to Bosnia and Herzegovina since 1995. Since 1995, approximately 787 MSEK have been spent on

¹ General Framework Agreement on Peace

reconstructing over 9,000 houses, and the programme has enabled some 45,000 persons to return to their homes. It is worth noting that these programmes build on self-help, and that assistance is generally given only in building material.

The projects have achieved the return objective since their start through inventive methods (integrated programmes, self-help). As long as return took place within ethnic majority areas, the relevant authorities politically supported the programmes. “Minority return” over entity borders was strongly opposed and hindered by nationalist authorities on the “receiving” side as well as other bodies. It took the joint efforts of the more politically-minded IC organisations and the combined money from many donors to break that resistance. The Swedish assistance has depended on co-ordination through the RRTF², the push for evictions from occupied property through the PLIP³ and a certain critical joint mass of funding.

Sida’s only national partners in these programmes, in a true sense of the word, have been the beneficiaries themselves and the local community level organisations representing them. At best some municipal authorities have assisted the programmes, at worst other municipal and higher level authorities have tried to hinder them. The entity and canton governments have spent very little resources on return reconstruction. It has been done to some extent in the Federation, less in the RS where often instead public (and sometimes private) land has been distributed to their own displaced. Government subventions have gone to construction of new houses for these IDPs in order to consolidate the war-created ethnic majorities. In 2001 the OHR for the first time demanded that the Entity governments set aside money for real return in their budgets. From 2001 the State Ministry for Refugees and DPs has also emerged as a positive force. As a state ministry the resources and real political influence is however limited.

The return process has now reached a critical level. If it continues, it will achieve the important stabilisation goal of having given large segments of the ethnically cleansed the justice of having reclaimed homes and settlements. Return and return assistance will have been a success largely despite obstructive government institutions. There is however today a danger that the support structures and the funding from the IC drops before this is achieved, with the wish rather than the knowledge, that national institutions will take over the process. The Swedish assistance should be maintained but the forms for it may depend on which support structures that will exist. The different government levels should be pressured to provide money for return instead of using it for relocation.

Support directed to return of BiH refugees in Sweden has been included in the IAPs⁴ and given to IOM’s RQN (Return of Qualified Nationals) and the Swedish Red Cross RN (Return of Nationals) programmes assisting returning refugees in getting jobs. Of the Swedish returnees included in the IAP’s roughly 50% of those who received reconstruction assistance have again returned to Sweden. The Red Cross programmes have ceased due to lack of interest from potential beneficiaries.

² Return and Repatriation Task Force

³ Property Law Implementation Plan

⁴ Integrated Area Programme

The Repatriation Information Centre (RIC) created by ICMPD, the International Centre for Migration Policy and Development, was supported by Sida in 1998/99 as part of attempts to encourage refugees abroad to return to BiH. It was essentially an Internet accessible database promoting return. Most important was the issuing of (BiH) Municipal Information Reports. RIC statistics showed very few users from Sweden and RIC had no relevance for refugee return from Sweden to BiH. It ceased after 1999. No donor extended its funding further.

Conclusion: The success of the IAP programme stems from inventive Sida methods (integrated programmes, self-help, and long-term implementing agreements with international partners independent of the different ethnic BiH interests). It has been possible to reach the overall goals in spite of at best weak input from the national partner institutions and at worst direct resistance from them (mainly in the RS). The programme has depended on decisive political interventions by the IC based on Dayton against nationalistic interests and quite large joint donor funding maintained over a lengthy period. Sida has concentrated resources geographically through four implementing organisations. They know their regions well and can probably continue a successful work even if the present larger IC involvement foresees reduced reconstruction.

Attempts to influence refugees in Sweden to return to BiH by offering direct support or independent information about conditions in BiH have failed due to lack of interest from refugees. Few want to return to BiH. Sweden is for now the better economic and general life option.

2. Institution Building

The role of institution building on agenda was emphasised with Sida's first three year assistance strategy formulated in the autumn of 1998 and a number of projects were launched. This was accomplished in spite of the risk of not having the political development in place regarding ownership issues, which constitutes a parallel process, when called for.

Sida supported the map-making and land survey institutions on entity and state⁵ levels in programmes carried out by Swedesurvey. A project evaluation concluded that support to land-survey is always positive, since land-survey is always needed and since the intended output regarding better technical capacity of the partner institution was reached. Sida questioned the first of these conclusions. A major objective of the project was to improve the system of property registration and give private property owners better security of ownership. This required an overhaul of the laws, which the project partners, the two entity land survey institutions turned out to be against, probably since they had a vested interest in income from registration. Sida stopped the project awaiting revision of the land-registry law in a parallel project started by GTZ upon request by the two entity Ministries of Justice. After a long struggle, the OHR only recently imposed this law on land registry, against much resistance from the land-survey institutions.

The three statistical institutions (state, two entities) received hardware and training in ICT (basic training and professional software) in a project carried out by Statistics Sweden. The project also created a

⁵ The state level institution was considered "illegal" by the directors of the entity level institutions as Dayton did not explicitly stated that it should exist, something that was and still is a question of interpretation and political will.

master sample for further surveys (used in the Living Standard Measurement Survey in the spring 2002). The assistance was originally intended to prepare a census. OHR was against this, as the minority return process had not even started when the project was planned in 1998/99. Many other donors also gave technical assistance to Statistics and the Sida programme was cut short in spite of a perceived success in what was done. A Statistics law regulating the relations between the three institutions did not exist during the project and was only passed recently. Before full implementation of the law, there will not be any real harmonisation of the work between the present entity institutions, and any project of technical assistance risks increasing the capacity of individual institutions without improving economic integration. The census will again become a political issue as the decision to have all constituent people represented in political and administrative bodies in both entities is linked to the 1991 population figures awaiting a new census. The population is still not stable with a return figures exceeding 100,000 DPs this year.

Sida has supported railway management through Swederaail. An intended large programme started with a market study and training in making business plans for the two Entity Railway companies. It was supposed to end in an organisational study bringing conclusions on how to organise the whole railway management in BiH within a philosophy of privatisation and the drafting of a railway law. The two last components are on hold since the RS Railway company refuses to sign the Memorandum of Understanding for the study. The reason is that the RS Railway suspects that the study will conclude that some of the competencies it has today should be ceded to a central level co-ordinating railway institution.

CRPC, the Commission for Real Property Claims, has received much Sida support over the years due to its importance in the Return and Stabilisation process. Sida funds have been given, like other donor funds, as general contribution to CRPC's work and to computerisation of cadastral data, which helps speed up the decision process. CRPC is one of the so-called Dayton institutions, has been created for a special task, with a limited mandate in time and with an international official in charge. It works well, has collected over 320,000 claims and issued so far decisions on 230,000 of them. CRPC needs further funding to process as many decisions as possible during next last year of its existence in its present form.

The largest Sida institution capacity building project is on Public Audit. The World Bank demanded establishment of public audit institutions as a condition for further credits and was heavily involved in an initial process of drafting audit laws and creating the institutions from 1998. All in BiH do not want public audit institutions and there was a lot of political bickering before the chief auditors were finally appointed. The decided Sida assistance had to wait for this. The Sida implementing agency SNAO, the Swedish National Audit Office, initiated training of the institutions once the three directors (each entity plus the state) and their staff, was in place only in the spring of 2000. A first project phase has had problems when SNAO's project leader in BiH had other views on methodology than SNAO HQ. It is much too early to judge whether the project will be successful or not. That will depend not so much on whether the institutions will be technically capable, as it seems now, but on whether the SAI's can be established as real politically independent institutions with high level of integrity in their work and in the public mind.

Sida has also worked on the local level. A municipal “twinning” programme aiming at transferring Swedish Municipalities’ experiences with municipal democracy and municipal administration was implemented through SALA, the Swedish Association of Local Authorities. Individual Swedish Municipalities could apply from SALA for money provided by Sida to work with BiH municipalities of their choice.

Previous good experiences with the same project approach in the Baltic region and a huge pressure from migration authorities made Sida take a calculated risk of introducing a similar approach in BiH in order to save a considerable amount of time. An evaluation after two programme years showed that very little of concrete results had been achieved. One reason was the mismatch of expectations from the respective partners. The BiH partners expected to get substantial hardware, investments in municipal services and local companies, and were less interested in the democracy software part. Lots of unrealistic ideas for municipal co-operation were raised. A factor in this may have been that most Swedish municipalities relied on one or several Bosnian refugees in Sweden for their BiH contacts and part of the projects seems to have been about securing jobs for those in Sweden or BiH.

The evaluation also criticises Sida and SALA for not explaining enough about the criteria and contents of the twinning arrangements and for having unrealistic expectations on the results of the programme. Sida closed the programme but some participating municipalities have continued reasonably successful contacts in other forms. There are e.g. a few seemingly successful adult education projects (“studiecirklar”) born out of the municipal contacts and again financed by Sida (SEKA/EO⁶).

Sida support to the ongoing OSCE-run MIFI, Municipal Infrastructure and Information programme has been much more successful. The MIFI project trains municipal administration in financial management and planning and in promoting and responding to citizens’ participation. It is a long-term project, which over the years has been expanding to more and more municipalities, and recently also to cantons, and which builds on lessons learned to become gradually more efficient. The project is considered a general success with improvements in democratic management among participating municipalities. Many more municipalities stand in line to take part in it. Continuity has been important for the result. The project is mainly an OSCE project but the Swedish complementary support is essential for success. Sida was first a direct co-financier but as OSCE raised its own budget for this project Sida now instead finances a parallel project in co-operation with OSCE. The NGO NSU⁷ provides some of the MIFI municipalities with ICT support. It is of special interest that the software is developed locally with Bosnian programmers, who in this project get an outlet for their talents.

A police training programme implemented by the Swedish National Police Board has been carried out in two stages 1999 and 2001/2. It has trained police instructors at the two entity police academies in stress management techniques. The well-organised partner institutions have appreciated the courses very much and they have now become part of the

⁶ The Division for Co-operation with NGOs

⁷ National Support Unit

regular curriculum for trainers and cadets at the academies. Police training and police work in general has been carried out under the supervision and policy interventions of the IPTF and UNMiBH. The academies in Sarajevo and Banja Luka have thus been forced to accept and train a large proportion of cadets of the minority ethnic groups.

Sida has also supported the creation of the state-wide State Border Service. This creation has gradually assumed control over Bosnia's international borders, aiming at curbing smuggling of goods and persons. The project has been rather successful, mainly due to a concentrated effort by several, concerned international actors, acting under the leadership of UNMiBH. It is estimated that the increased customs revenue resulting from stricter border control should in the long run well finance the rather high costs of the structure. Currently, however, the SBS is still under-equipped, and does not have enough staff or equipment to efficiently fulfil its mandate. In spite of this, the SBS has completed its initial phase and when UNMiBH leaves Bosnia at the end of 2002, SBS is estimated to be able to manage without external managerial support. Financial support will be needed, though.

A pre-study during 1997 on training two local chambers of commerce in BiH, Doboj and Tuzla never led to the realisation of a project. The Chamber of Commerce institution in BiH was and still is a controversial institution. Businessmen generally consider it a government control institution surviving from the socialist era where membership (fee) is still mandatory and there are doubts as to whether this institution can/will change and survive a reforming of the Business Environment. Growing new voluntarily organised business associations are competitors.

Sida has financed SILD, The Swedish Institute for Legal Development in a joint project with ABA/CEELI, American Bar Association/Central Eastern European Law Initiative. The project aimed at Establishment of a Lawyers' union in RS. It was closed upon request from the partner ABA/CEELI as they discovered that the leaders of the intended Lawyer's Union never intended to make it democratic and multi-ethnic.

Conclusions:

Success in institution building should be measured through whether the BiH partner institutions stand for good policies and goals and constitute driving forces in a progressive development of BiH, rather than just by their increased technical capacity.

Most BiH institutions are led by someone appointed by the ruling political parties and often change leadership when government changes. A new Civil Servant Law and a Civil Servant Institute, which will ensure professional skills, is not yet in function. The struggle separation – integration is ever present. The most successful projects are those that not only represent "correct" policies according to Dayton but where the forces pushing the policies are strong enough to implement them. This has often required strong IC intervention, at best supported by national reform forces. It has shown important to combine assistance programmes and IC political interventions, to concentrate and join Swedish assistance resources with others. Consistency and long-term commitment have been other keywords for success.

It is also important for the assistance to stick to the overall objectives

of a functioning state. It does not necessarily mean that only institutions with a strong state level component should be supported but that support should be conditioned by a strong harmonisation of the entity level institutions and their aims. In some areas it can be meaningful to support only one entity institution, if that but not the other, works according to good policies. In other areas, i.e. railways it is hardly meaningful to work with only one part.

In retrospect it is doubtful whether the time was ripe for some of the institutional co-operation projects when they were launched. Programmes and projects seem to have been motivated more by the existence of a Swedish capacity than by a close analysis of the potential partner. Any partner will present long list of needs. What has been lacking is a presentation and analysis of what policies the partner stands for. Swedish institutions involved have not always been able to rightly judge this. The implementing organisations in BiH must have a capacity also to understand and act upon more political questions.

3. Economic reform and Private Sector Development

Sida programmes on economic reform have been within the financial sector. The finance sector reform is one of few success stories in BiH. One important reason is that in the centre of reforms has been a national institution. The Dayton created CBBH, Central Bank of BiH has been capable to act with integrity and drive the process on strength of its Dayton mandate, a good governing law and a competent international in charge, the New Zealander Peter Nicholl. Another reason is the unified policy recommendations/pressures from the WB/IMF and OHR and large assistance of foreign experts in the process. Sida provided consultant expertise to the Bank Privatisation Units in first the RS and later also in the Federation.

Here are mentioned some of the most important financial reforms achieved. The strict CCBH currency board system has meant stable macro-economic conditions without inflation. The introduction of the KM⁸ rapidly pushed the alternative currencies (the Yugoslav dinar, the Croat kuna) out of circulation. The state payment monopoly system, “the payment bureaux” was abolished in BiH before all other Balkan countries and payment functions have been successfully transferred to commercial banks. The banking sector has been restructured. A Banking supervision agency issuing licences and controlling bank practises has been set up. Requirement on own capital has been raised gradually with the last limit of 15 million KM to be reached at the end of the year. State ownership of banks have ceased (some minor issues remain), solvent state owned banks have been sold and insolvent ones are under liquidation. As the banking market has opened up, several large foreign-owned banks have entered BiH and today have most of the market. They seem so far mostly to rely on the consumer market (savings and loans) for profit. A deposit insurance has been introduced. Banks have to qualify for membership and pay a member fee and most qualified banks are the new foreign banks. Where the banking sector some years ago was characterised by bad state banks and fraudulent practises of mushrooming the new nation-

⁸ KM – konvertibilna marka or convertible mark. Originally pegged at 1:1 with the German Deutschmark, it is now locked to the euro.

ally owned private banks; today the reforms have created a largely solvent banking sector with fewer and larger actors all the time.

The process has been uneven between the Federation and the RS as the RS tried to protect its “own” banks. For some years it insisted for instance that foreign banks have head offices in the RS. It also hesitated long before privatising state banks and in the meantime burdened them with politically steered guarantees and loans. The development of the market overran the attempts to control it and today the RS part of the total financial sector is small. The Bank supervision agencies and the Deposit Insurance funds, which so far has existed in parallel in both entities are in the process of being joined into one under Central Bank supervision; however, this is against the open policy of the RS. RS economists do understand that the very limited RS banking sector cannot sustain its own separate institutions.

The Sida support to the Bank Privatisation Units has been an essential piece of the reform process. The Sida consultants worked closely with the WB, the CBBH, and the USAID advisors to the Banking Agency etc. In RS eight out of thirteen banks with state capital have been sold or merged with other banks and one more is in the process of being sold. Two banks have been closed. In FBiH there were separate privatisations of a group of banks with a majority of state capital and a group where the Federation was a minority shareholder. State minority shares were successfully sold in ten cases, five banks have gone into liquidation and bankruptcy. Four state majority share banks were successfully privatised by the end of 2001. The rest are underway. It was especially important to be able to save three banks, which constituted a large part of the banking system in the Federation from liquidation – the Federation part of the Privredna group of banks, which suffered from burdens of pre-war debts. The Swedish consultant helped put together a deal where creditors agreed to accept lower demands and two major banks were recapitalised with investments and loans mainly from IFC and are now being restructured for coming sales. Sida provided substantial extra funds to enable this deal. Bank Privatisation has given incomes to the governments or at least released them from burden of debts. The receipts in the RS were for instance 7.4 million KM. The Bank Privatisation Units are now closed. Some of the privatised banks stand for most of the national owned banking sector today even if new foreign banks buy many of the private banks and take over more and more of the market.

Sida has recently joined with the WB in giving some technical support via FIAS to the government working groups tasked with realising the conditions for the BAC, Business Environment Adjustment Credit and in giving some support to the national secretariat for development of a Poverty Reduction Strategy Plan. In both cases there is involvement also from other bilateral donors.

Sida co-finances a large GTZ programme to draft and implement essential economic laws in partnership with the two Entity Ministries of Justice. German experts work with local working groups. The process takes time (the RS tends to want to involve also experts from Serbia) and there has been resistance to some of the laws. The important Law on Land and Property Registry had to be imposed by the HR as the two

entity land-survey institutions tried to hinder it from being accepted in the entity Parliaments. The Law reduces some of the powers of the Land survey institutions in favour of court-based registry offices.

Together with other bilateral donors and the IFC, Sida is a large financier of SEED, Southeast Europe Enterprise Development, which works to create conditions for private sector development. SEED works in three ways:

1. Direct assistance to SMEs, matching SMEs with potential investors and financiers, training to improve business performance so companies become eligible for bank credits.

2. Capacity building to Business Development Service Providers. SEED tries to build a breadth and quality of services offered by local providers. Training of consultants and creation of business associations.

3. Business Enabling Environment. Here SEED mostly partners with others to reach a broad programme effect. It has for instance helped some municipalities create their strategies for development of entrepreneurship and did a feasibility study for establishing a national Credit Guarantee Institution presented to a large group of interested parties.

It is difficult to judge the success of SEED, as the activities are quite diverse. The most tangible results are when businesses recommended by SEED for financing or investments are successful. A number of such companies do exist. Other activities place SEED in a co-ordinating role. It requires long-term experience and a broad contact area to be successful in this. There are many initiatives supporting SMEs from both donors and national institutions. As time passes, SEED is becoming more and more visible as a co-ordinating force.

Direct support to job-creation and private sector development has been given in agriculture projects supplementing the IAPs (see below), in giving large funds to micro-credit providers and in the support given to Swedish SME companies through the Start East programme. Micro-credit lending is a general success in BiH with very low default rates. Micro-credit lending has through all organisations involved created an estimated 50,000 new jobs, with another 100,000 jobs sustained. The Sida supported institution EKI (created by WV) has grown to be one of the largest ones with at present 8,119 loan-clients. Sida has expanded its financing also to include micro-credit (co-operative) based housing loans with some promising initial experiences. The interest for the Start East programme from Swedish companies has been limited but it has still yielded some interesting results where the BiH partner companies have created new economic activities. On a case by case basis Sida has given loans to two BiH companies due to their importance for other Sida assistance programmes; concrete tiles linked to the IAPs and food-processing linked to the agriculture programmes.

Conclusions: The successes of Sida financed projects in e.g. bank privatisation are a result of good experts but also of the success in general in reform of the finance sector. Sida is not by itself large enough to be a major actor in economic reforms but can follow what the bigger financial institutions do and complement those or join forces with others. The last BiH state government created some good economic policy papers under the influence of the WB/OHR and more is in process in the PRSP. Finance sector reform has been a relative success with a strong Central

Bank as an important national actor. There might be possibilities to work closer to the state institutions in the future.

The direct Sida support to job-creation and the private sector has been limited with the exception of the micro-credits and the agricultural programmes. Other donors have been the main providers in BiH of loan funds and expertise for the privatisation of enterprises. OHR and the EU has launched ideas of support to partnership between public institutions and funds and private capital in regional economic development above and beyond the administrative limitations of the entity and canton divisions. It would be a logical continuation of the geographically concentrated Sida support to IAPs and linked activities to work more with local and regional development in former “Sida areas” but it would need more forms for the assistance. Sida needs to find more instruments for giving more direct support to the creation of sustainable businesses and consequent jobs.

4. Human Rights and Democracy

This sector remains of vital importance for the development of a democratic state. Sida’s support to this sector has primarily concentrated on strengthening the civil society with informal education regarding human rights and democracy as well as support to independent media. Support has been given to both print and electronic media, and Sweden was instrumental in starting up the OBN network.

This was an attempt in the first years after Dayton to create a politically independent private alternative to the then three nationalist controlled “state” television channels (controlled by each respective ethnic party, SDS, HDZ and SDA). In spite of considerable donor input OBN did not reach anything close to financial sustainability and donors became increasingly hesitant to continue its financing. OHR took instead the initiative to wring the state television channels from the hands of the nationalist parties and create a Public Service Television financed through licences (and advertising). New media laws imposed by the HR guarantee independence and a balanced programme content. Some large donors, e.g. the EU and DfID (BBC) shifted its financial support to this initiative. Part of the initiative was the creation of an Independent Media Commission, which then became a Communications Regulatory Agency, controlling the contents of and issuing licences to electronic media.

Sweden, USA and partly the Netherlands have continued to support some of the best private channels, now organised in a new network and also lobbied for their interests when new media law was implemented. The Swedish support has been mainly to a TV station in Banja Luka, ATV, which in the early years after Dayton was the only non-nationalist TV alternative there. The Swedish Helsinki Committee, Sida’s main partner for media projects in the region, is actually a shareholder in the station in a somewhat unusual arrangement. ATV has recently also got support also from Japan/UNDP but is still not financially sustainable.

Over the last few years, trafficking in human beings has emerged as an important field. Sida has primarily engaged in return, repatriation and rehabilitation of trafficked women and children, but is also, through its framework partners, directly involved with local women’s organisations

working with this issue. It is estimated that Sida has enabled the safe return of 144 women to their native countries since 2000⁹. Apart from this, women's and gender issues have been high on Sida's agenda, and over 10 MSEK yearly are given for such programmes. Gender issues should be mainstreamed into all Sida projects.

Conclusions: The support to the Civil Society has been very varied and covered many areas. A certain expertise in above all media, gender (including human trafficking), youth and democracy issues has developed with the Swedish counterparts as well as within Sida. Since Sweden cannot continue with a "blanket support" of the entire sector, Sida should concentrate on these areas, where there is a solid knowledge base and reliable partners. The time for general budget support to media or large seminars or conferences is over. Projects should be aiming at transfer of knowledge and long-term sustainability. Youth issues should be expanded to cover also children and the concern shown by Sida when addressing trafficking in human beings, particularly women, should be extended also to other gender-based violence.

5. Agriculture

The Sida financed agriculture programmes originate from the IAPs. Programmes, which in the beginning consisted in providing the returnees with the first means of cultivation or animal breeding, have grown into programmes that help people become commercial farmers. Sida recently evaluated the largest programme through LWF, which has reached 4,000 families since 1997. In total projects have reached around 6,000 people. The evaluation shows that people can live off agriculture and earn some money once they are assisted with training, market contacts and market advice. It also shows that the beneficiaries to a large extent depend on what they can earn from agriculture. At the moment Sida has three programmes running covering different areas of the country. Two follow returns in the IAPs and concern mainly vegetable production. One is active in the municipality of Maglaj and is mainly about milk production. All actively link farmers to food-processing companies and give extensive training and advise to producers. They try with more or less success to draw on some of the resources that exist in an otherwise weak institutional support structure (municipal agriculture advisors, veterinarians). Two of the programmes give donations turned into revolving funds over three years of service to the beneficiary. One programme in Maglaj is based on credits. It has shown for instance that anybody who can sell milk can also afford to pay the credit.

The organic food and herb sector is considered a niche and an opportunity for BiH where much land has been idle and the use of chemicals is not common for economic reasons. Sida supports a project of creating capacity and a national institution for organic certification. The project is based on a concrete interest among food processors and farmers/collectors. A fair amount of organic produce is sold for export.

Sida has also supported the establishment of a secondary level agricultural school, Sanus Futurum in Sanski Most through links with a

⁹ IOM report to Sida, October 2002

similar Swedish school and a regional Swedish agriculture development institution (NRF, NaturResursForum Halland), much because of the importance for agriculture in the return process. The county of Halland has added to the Sida support in offering scholarships to Sanus Futurum students. The school has with the extra resources the co-operation has brought become a model school in BiH. The results, the curriculum development and the school's role as a regional farming resource centre etc are good. It has for instance, although it is "only" a secondary school, become a place where the Federation Agriculture Faculty sends students for practical training.

Conclusion: The support to the agricultural sector means much for the basic living conditions of the beneficiaries. It has also, in the projects where farmers are encouraged to become more commercially oriented in links to existing food producers and other markets, shown to be one of few programmes capable of helping to create local economy reasonably fast. So far the organic angle also seems promising.

Since the programmes grew out of the IAPs and the political context of return, the implementers were from the beginning international NGOs and not national government institutions. The recent evaluation had the task to reflect on this and came to the conclusion that assistance should continue to be given through the successful implementers as the national institutions remain weak and divided.

The success of these programmes has led to Sida joining the agricultural projects with the micro-credit schemes to a "new" sector of Local Economic Development.

Wherever possible, the implementers can work with the national institutions and show the latter what kind of extension services it might be meaningful to develop. The Sanus Futurum School project does show considerable ownership from the BiH partner. It is however doubtful whether the example can be repeated in a larger scale in the BiH education system without the extra external resources that the school has enjoyed thanks to the Swedish support.

6. The Social Sectors/Health

Sida has been active in the health and social service sectors since 1997. A large programme in support of a mental health reform fostering community based mental health services has been implemented by a Swedish expert support group, SWEBiH, created within the framework of the East European Committee of the Swedish Health Care Community. SweBiH has within a framework agreement with Sida been able to define and support projects fairly independently. Most activities have been in training of health and social workers carried out by Swedish expertise and Swedish institutions. The trained are supposed to work in and out of Community Mental Health Centres (CMHC) established through a World Bank Credit and in the normal Centres for Social Work. A difficulty in the programme has been the partner's commitment and capacity for participating in the reform and committing the resources needed. Therefore, all of the CMHCs are not yet in full function. The reform development is uneven between the entities since very few Community Mental Health Centres exist in the RS. The reason is that the RS did not want to participate in all-BiH delegations when the WB Credit was negotiated.

Sida evaluated the programme in 2001. The evaluation was generally positive as to the achieved results, with some criticism of activity management. In the beginning of the programme, training was mainly a result of proposals from the Swedish side but as the programme proceeded it increasingly became a result of joint efforts. However, Sida is discontinuing this programme, partly because it has reached much of its training aims, partly because of other considerations about continued financing of social sector activities (see conclusion). Another question is whether the CMHCs really function. An internal evaluation seems to indicate the opposite. This would indicate that people have been trained but that they at the end are not able to realise their newly-acquired capacity. The required genuine reform of the health sector must materialise before the project will have any real impact. There is little to be gained from continued training.

Since 2001 Sida also has a framework agreement with the University for Social Studies in Stockholm regarding support to the University for Social Studies in Banja Luka and in Sarajevo. Much support has gone to establishing a new higher education institution for social work in Banja Luka. The primary goals of this programme are creating regional higher education networks and modernising the education of social workers. As to the first Sida Sarajevo has some doubts about how the Banja Luka institution develops. Most teachers seem to come from Belgrade. However, the social sector is very important for the Bosnian society, and well-trained social workers crucial to the development of a modern state. Therefore, the work should continue, with certain adjustments to the actual implementation.

Conclusions: Support in training of health and social workers has been relevant to the process of reform towards a community based mental health and social services. The good end result has depended on having a long-term programme (from 1997) where a dialogue between Swedish and other international and Bosnian partners gradually has defined more relevant training needs and courses. The main problem for support to the social and education sectors is within the structure of the BiH society. The fragmented and divided system, with e.g. different health security systems between the entities (and partly within them) means that the whole system is highly inefficient and also arbitrary as to whom it actually serves. Access to services is subject to petty corruption. In comparison with other similar countries BiH has similar levels of financing of the services but much lower output. Training of the Swedish kind has limited effect as long as the health and social service support system as a whole does not undergo a major reform overhaul, and the limited resources are spread equally and used first for those most in need. The social sectors have not, as the economic and some other sectors, had strong and joint IC peers and advocates for reform. OSCE has recently taken on that role in the Education sector.

7. Culture

The Sida support to the culture sector is the largest of its kind among donors in BiH.

Most money has gone to the restoration of important war-damaged Cultural Heritage Buildings through the Swedish organisation CHwB, Cultural Heritage without Borders. CHwB also gives support to museum management training at the former "National Museum", Zemaljski

Muzej. CHwB has tried to base the activities in BiH institutions mainly in the Sarajevo based Federation Institute for Preservation of the Cultural Patrimony. They do however also include institutions in Banja Luka and Mostar (East and West) and train people in those institutions. The success in this has been limited. The institutions have shown to be very weak in staff knowledge and lack backing in different national budgets. The Sarajevo institution survives mainly on the money it earns as a “projecting consultant” to CHwB. The Zemaljski Muzej approaches the Swedish Embassy each winter and asks it to intervene with relevant ministries so that it gets heating as it does not have a budget for this. The basic problem is that the status of some of the former republican¹⁰ BiH institutions now on “state level”, like the Muzej, was not decided in Dayton. Entities and Cantons can establish their own and do so for political purposes (the Serbs have their own, as do the Croats etc) but do not provide budgets for the institutions.

This notwithstanding, the Swedish restoration support has a value in itself and has introduced proper restoration methods and practises, in contrast to many professionally bad restoration examples financed by others, in a number of buildings. Hopefully they will serve as examples for new generations of Bosnian architects and conservators. It is a highly visible programme and the last Swedish Project Leader was appointed by the BiH Presidency as one of two international experts in the Dayton created State Commission for Preservation of the Cultural Patrimony.

Sida also finances a co-operation programme between the Music Academy in Sarajevo and the Royal Music Academy in Stockholm. The Sarajevo partner got a lot of instruments and other equipment within this co-operation which otherwise has meant exchange of students and teachers and of musical performances in the respective countries. Music has a large place in BiH. Concert performances financed through the programme have extended over the region in co-operation with other institutions within BiH and with the surrounding countries.

Conclusions: It is very difficult to find real national partnership in the culture sector in the form of tangible financial contributions. It is however possible to find individuals with an interest and sometimes with enthusiasm and competence. Sida is fairly alone as a larger actor in the sector but should anyway allow itself the “luxury” of such programmes due to the high symbolic value of cultural manifestations. The reasons for maintaining the building restoration programme are largely the same as for the IAPs: to defeat the purpose and effects of the ethnic cleansing.

8. Infrastructure

Sida has been giving extensive support to the infrastructure sector in Bosnia and Herzegovina during the first years of physical reconstruction of war-damage mainly in reconstruction of Railways and Telecommunications. A donation of equipment and spare parts helped re-established the signal system on the Zenica- Doboj line in 1998. 25 second hand

¹⁰ The Republic of Bosnia and Herzegovina, originally (in 1992) representing the entire country, later came to represent only the Bosniac-controlled part of the country (under the Sarajevo government) and in February 1994 (through the Washington Agreement) joined with the “Croatian Community Herzeg-Bosna” to form the Federation Bosnia and Herzegovina. When the Dayton Agreement outlined the framework for the new state, with the Federation and the RS as entities, the state was called “Bosnia and Herzegovina”, without any “Republic” preceding the name.

freight coaches and 10 passenger coaches were donated by SJ¹¹ at a small Sida cost for minor repairs and conversions. There has later been an ongoing co-operation, currently brought to a standstill (see the chapter on institution building), which aims at improving the administration of the railways.

Sida has also given large donations and credits for reconstruction of the telecommunication sector. In 1996, a grant was given for a new telephone exchange in Sarajevo, which made it possible to reconnect the citizens of Sarajevo with each other and the surrounding world. Later, another grant for a radio link connection between Sanski Most and Prijedor for the first time re-established the inter-entity telecommunications traffic. Switchboards in the fixed telecom backbone system, otherwise repaired with EU funds, were financed through an advantageous credit of 34.5 million SEK in 1998 for the same purpose. Repayment of this credit started in 2001. Only one third of the credit is repaid to Sida, the rest goes as repayments from the RS telecommunication company in equal parts into the RS and the State budget.

Conclusions: Today's general conclusion regarding the large IC donations towards reconstruction of large-scale infrastructure is that a reform agenda should have been introduced earlier. Early large reconstruction donations consolidated division rather than integration. Telecommunication companies, power and electric distribution companies, railway companies etc are still largely organised along ethnic lines. In some areas it is possible and even economically profitable to control one part of the supply and consumption chain but hardly economically sound. In other areas like railways it means that they operate only on a very basic and unprofitable level in the respective parts of the country with limited services extending over entity borders.

Liberalisation of services and an opening-up for privatisation has only started in the last few years. The perception that some of these utility providers earn good money means that national politicians in power are not always in favour of privatisation. This means that there today is no reason for donors to finance further developments of the sectors through donations other than in connection with the creation of the regulatory institutions that need to govern liberalisation and privatisation reforms. Credits and credit support can be provided for new investments as the sectors are organised to become commercially viable.

9. General conclusions

Some conclusions to consider for the future strategy and programmes are presented here.

Sida should increasingly demand ownership from the national government institutions. Assistance should be conditioned in such a way that the expressed policies are expressed through corresponding budgetary allocations. Sida should for instance not enter into institution capacity building programmes where those institutions do not have sufficient basic financing also from state, entity, cantonal, and/or municipal budgets.

Some areas are still of such political importance that Sida can and should support them in spite of a lack of national governmental own-

¹¹ Statens Järnvägar – the Swedish State Railways

ership. Such areas are for instance Return and Repatriation and development of Human Rights and Democracy. Here Sida can work directly with the beneficiaries and their civil society grassroots organisations against obstructive government institutions in a largely hostile environment. Popular participation has grown with consistent support, as has the capacity of the civil society. This capacity must now somehow be transferred into the official sector and the administration.

Sida should concentrate on sectors where also other donors are active and especially those sectors where the more politically-minded bodies (and those concerned with economic policy) of the international community focus their reform efforts. For reforms to succeed in the divided and fragmented BiH society it is important to join international resources and create a strong pressure on national political and government structures, thus giving space for BiH reform forces.

Annex 2

– Country Analysis

Strategy for Sweden's Development Co-operation with Bosnia and Herzegovina

By Per Byman

Country Analysis, Bosnia and Herzegovina

Sida has decided not to conduct a separate Country Analysis of Bosnia and Herzegovina when elaborating the Country Strategy. Instead, we are drawing on the analysis done by the EU when preparing the EU Country Strategy 2002–2006. This annex should be seen as a complement to this analysis and contains material that is important for the assessments in the Strategy but too elaborated to be included in the Strategy itself.

1. The Socio-economic Situation

When it comes to estimates of the poverty situation in Bosnia and Herzegovina, the figures differ. UNDP claims in its Early Warning System that 24.6% of the population in Bosnia and Herzegovina had incomes below 300 KM/month by the end of 2001.¹ 38% of the population in the FBiH and 50% in the RS could at the same time not afford the standard consumer basket for four.² The average salary in the FBiH was 458 KM and in the RS 332, and the average pensions 170 and 110 KM, respectively.³ 21.3% of the population in the FBiH and 29.6% in the RS were by the end of last year considered to live in extreme poverty⁴ and 9.4% and 21.8% respectively claimed they cannot afford food.⁵

The Living Standards Measurement Survey, carried out jointly by the World Bank, UNDP, DfID and the entity statistics offices, presents a slightly different picture. The LSMS defines extreme poverty as the inability to provide the minimum food required for survival (set by the LSMS to 747 KM per person and year, or 2.05 KM per day). This is equivalent to an income of 249 KM per month for a family of four. According to the LSMS, no one in BiH is living in absolute poverty, but 19.1% do live below a general poverty line of 606 KM/month and family. However, the LSMS figures for absolute poverty are not relevant for a European context, since they do not take into consideration the costs for

¹ Early Warning System Bosnia & Herzegovina 2001, Maurer et al., UNDP Sarajevo 2002, p. 11.

² Ibid.

³ Ibid., p. 30–31.

⁴ UNDP considers a level of 1 USD per day for individual consumption as extreme poverty and 4 USD as poverty. It is often claimed that the level for extreme poverty should be higher in Europe than in Africa or Asia, due to extra costs for heating and protective housing. Taking this into consideration, the above figure for extreme poverty should probably be even higher.

⁵ Early Warning System Bosnia & Herzegovina 2001, p. 32.

shelter (due to the cold climate) but take a pure nutritional perspective (and not necessarily based on survival factors in general).

There is almost no social assistance due to limited capacity to provide social welfare payments and services. Domestically financed programmes is limited to pensions, support to war veterans and soldiers' widows and limited poverty alleviation and the largest and most regular form of assistance is that provided by relatives or friends abroad.⁶ Only 2% of the population receives social assistance from the government and 4% a children allowance.

The education system in BiH is also an obstacle to economic development and minority return. The discussion of reform of the educational system remains a top political priority. Efforts to produce a new common curriculum, modernise teaching and to secure the necessary finances for quality education have so far been undermined by nationalist interests. For the moment being, the country has three educational systems. Until now the International Community has not prioritised support to this sector, and the sector is in need of extensive reform before the IC should intervene.⁷

GDP per capita is estimated at USD 1,255 in 2001.⁸ UNDP expects a rapid growth in GDP after 2004, when privatisation and restructuring should be finished, leading to a transfer of the working force from inefficient state-owned companies to small and medium-sized businesses (SME's).⁹ However, this analysis does not take into account the fact, that many SME's are not producing anything but are merely reselling (imported) merchandise. Thus, their contribution towards increased production maybe smaller than expected. Also, much of the commercial turnover in Bosnia today is generated by the huge presence of foreign staff members of international organisations.¹⁰ If these numbers were to be cut, this would mean a drastic decrease in consumption and a major blow to the currently burgeoning business, aimed at private consumption. This, coupled with the many question marks surrounding the privatisation process, does not inspire confidence in large-scale economic growth.

2. Completing the Transitional Phase

Whereas most of the former communist economies in Eastern Europe embarked on the road to transition already in the beginning of the nineties, Bosnia's transition was nipped in the bud by the outbreak of war in 1992. Former state-owned industries, such as the arms industry

⁶ I-PRSP, p. 6.

⁷ Cf. Robert Beecroft, Head of Mission of the OSCE in Bosnia and Herzegovina, during his briefing on OSCE efforts in the education sector on 8 November, 2002. Ambassador Beecroft claimed that Bosnia and Herzegovina spends almost twice the per capita amount on education than other transitional countries. This is a result of having three separate, ethnically based educational systems. There are eight university administrations – two in Mostar only. Parallel teaching in physically partitioned schools also increases the costs. All these issues must be addressed before the IC would finance any educational projects. What the IC needs is not a Strategy for Education, but an Entry Strategy.

⁸ Human Development Report 2002 – Bosnia and Herzegovina, Hrelja, Čaušević et al, UNDP Sarajevo 2002, p. 20.

⁹ Ibid., p. 22.

¹⁰ There are approximately 15,000 members of the International Community in Sarajevo alone. These spend 60 million KM monthly on their living costs, including office rent and employment of local staff, or 150 KM per inhabitant of Sarajevo – 42% of the average monthly wage. ICG Report Why Will No One Invest in Bosnia and Herzegovina, ICG Balkans Report No 64, 21 April 1999, p. 5.

in Pucarevo/Novi Travnik or the steel works in Zenica, were never able to start long overdue reform processes, but were crippled and all but completely erased by the war. Thus, when the war was over, Bosnia faced the double challenge of physically rebuilding its industry after a long period of neglect, followed by war, and adapting the country's industry to a modern, market-oriented economy, i.e. the transitional phase.

The World Bank recently offered a definition of the end of transition. Transition means placing the old socialist companies on a level playing field with new market entrants. When the former no longer enjoy special benefits in the form of public subsidies or soft-budget constraints, and when differences in productivity can no longer be attributed to history, the transition is complete.¹¹ This definition also highlights the fact, that there is no causal connection between transition and economic growth. Thus, creating a level playing field for all actors and eliminating the remnants of the former planning system might create the prerequisites for economic growth and poverty reduction, but it is not enough. In reality, economic transition is the future that has already happened.¹² Out of 66 large companies (with over 400 employees) that entered the privatisation process in the RS, only 5 have been sold to serious investors. The reason is that there is not enough substance in the companies to make them attractive to serious investors. For most of the region's industrial companies, the only way forward is bankruptcy.¹³ This will at least free up the assets for the private sector.

Therefore, it cannot be assumed that completing the transitional phase will automatically create increased economic growth. Foreign assistance must be given in order to create the necessary legal framework for foreign investments, but also for the necessary infrastructure.

3. The Political Framework

The entities are the bodies with the widest powers. However, whereas the RS is highly centralised, divided into municipalities but with a strong central government in Banja Luka, the FBiH is divided into 10 Cantons. All responsibilities not expressly assigned to the FBiH belong to the cantons.¹⁴ Finally, Bosnia and Herzegovina has a third region, the Brčko District, created in 1999 through the arbitration decided upon in the GFAP, and which does not belong to either of the entities.

Originally, the each entity was closely identified with its majority people (or in FBiH, peoples). In summer 2000, the Constitutional Court ruled these constitutional provisions of the entities unconstitutional, and confirmed the equality of Bosniacs, Serbs and Croats throughout the territory. This decision will have far-reaching implications for the constitutional order of BiH, but has not been fully implemented yet.

The BiH Executive consists of the *Council of Ministers* (CoM), with a rotating 8-month chairmanship. Each member of the CoM represents a

¹¹ World Bank, *Transition – the first ten years*, 2002, p. xix

¹² European Stability Initiative, *Western Balkans 2004 – Assistance, cohesion and the new boundaries of Europe*, 3 November 2002, p. 8.

¹³ Ibid.

¹⁴ Such as defence, economic policy, customs, finance and energy policies.

different ethnic group.¹⁵ For the election period 2000 – 2002, the CoM has consisted of representatives of the non-nationalistic Alliance for Changes; however the Ministers are still often perceived as generally promoting the interests of their particular ethnic group. All functions, not explicitly covered by the members of the CoM are the responsibility of the entity governments or, in the FBiH, the cantonal governments.

The entities each have their *presidents*. In addition to this, the State has a directly elected presidential troika, the *Presidency*. The Presidency consists of one Bosniac, one Croat and one Serb and appoints its own Chair on an eight-month rotating basis. As in parliament, a dissenting member of the Presidency can declare a decision destructive of the vital interests of his Entity.

BiH has four major assemblies with legislative authority – the State-level Parliamentary Assembly, the bicameral FBiH Parliament, the unicameral RS National Assembly and the Brčko District Assembly. In addition, the FBiH cantonal parliaments also have legislative authority in their areas of competence. The BiH State Parliament consists of two chambers: the House of Peoples and the House of Representatives. All legislation requires approval by both houses, but a proposed decision may be declared “destructive of a vital interest of the Bosniac, Croat or Serb people” by a majority of either Bosniac, Serb or Croat deputies and therefore blocked.

4. Results of the War

The results of three and a half years of war are the main reasons for Bosnia and Herzegovina’s precarious situation today. Based on per capita GDP, the country is today 65% poorer than it was before the war and it is close to the bottom of all the regional rankings.¹⁶ However, the devastation of the economy that followed in the wake of the war is not only due to physical destruction. The previous economic system was already on the verge of collapsing and the former Socialist Federative Republic of Yugoslavia (SFRJ) was already taking its first, stumbling steps towards transition. Now, economic transition in Bosnia and Herzegovina coincided with the war.

Much of the industry was laid still, because it could no longer produce (either due to lack of inputs and markets or due to physical destruction), people were laid off and large-scale migration, within the country and to other countries, was a fact. In addition, the fighting caused huge destruction, both in terms of human lives and physical assets. All able men were pulled out of the economy into the war machines, and production all but stopped completely.

Much of the economic decline would have come with transition anyway, but the war aggravated the situation and shattered the social cohesion necessary for a consensual approach to national development.¹⁷ Furthermore, the war later became a practical scapegoat when trying to

¹⁵ This is nothing new in Bosnian politics. According to pre-war policies, all top political positions were carefully split between Muslims (Bosniacs), Serbs and Croats in order to preserve a fragile equilibrium. After Croat complaints about the underrepresentation of Croats in the administration, following the Croatian Spring in 1971, a cumbersome quota system of proportional or “one-of-each” appointments to public jobs was developed. Cf. Bosnia – a Short History, Noel Malcolm, New York University Press 1994, p. 204.

¹⁶ Human Development Report, p. 47.

¹⁷ Ibid., p. 48.

avoid the issue of necessary transitional reform. Thus, there has been little local-driven movement towards serious economic reform.¹⁸

In addition to this, the original goals of the war have provided Bosnia and Herzegovina with a very difficult legacy. The ethnic cleansing and wilful destruction of private property as well as cultural and religious objects of identification has made reconciliation and return extremely difficult. There can be no doubt, that these war tactics were applied with the specific goal of making return and co-existence impossible. The result is a fragmentation of the Bosnian society, where especially the countryside, but also the urban environment, is sharply divided according to (perceived) ethnic and religious belonging.

After the war, ethnic politicking has resulted in a failure to focus on revitalisation of the economy and employment.¹⁹ All major political parties have been mainly focused on protecting the interests of “their” ethnic group, which more often than not coincide with the goals pursued during the war. Attempts at creating multi-ethnic, non-nationalist governments have not been overly successful. War-time policies of geographical separation of the different ethnic groups are still being adhered to in some parts of particularly the RS, and internal return so far amounts to only 368,898 persons or 30%, out of which 79.28% pertains to the FBiH and 19.83% to the RS.²⁰ Return from other countries are estimated at 372,200, out of which 92.12% returned to the FBiH.²¹

Between Dayton and 31 March 2001, there were 210,759 registered minority returns, which is 28.4% of the total returns to and within Bosnia and Herzegovina. 71% of the minority returns were to the FBiH.²²

Some estimates claim that 269,000 people died or disappeared during the war and up to 27,000 may still be missing²³. At the end of the war there were 1.2 million refugees from Bosnia outside the country, and today 712,555 of these are expected to have found permanent refuge outside of Bosnia.²⁴ There are currently 555,700 IDP's in Bosnia – 283,900 in the FBiH, 248,300 in the RS and 23,500 in the District of Brčko²⁵. 50% of the pre-war population have changed their domicile as a result of the war. Total war damages are estimated at around € 100 billion.²⁶

¹⁸ It is interesting to note that, during World War II, the relative material damage and loss of human lives were more extensive than during the recent conflict. After WW II, it took less than five years to reach the GNP level of the year before the war broke out. This was accomplished without international assistance. Of course, the economy was different, and the methods used by the post-war Communists can and should certainly not be replicated. However, this is an interesting piece of information, which confirms the thesis that the economy has suffered more from years of neglect and the necessity of economic transition than from physical destruction only. It can of course also be discussed how efficient the international assistance to BiH has been in the post-war period. Vidi: Povratak izbjeglica i raseljenih lica kao uslov opstanka Bosne i Hercegovine in Demografske promjene u Bosni i Hercegovini 1991–1998., Bošnjović (not published) as quoted in Međunarodne politike podrške zemljama jugoistočne Evrope – Lekcije (ne)naučene u BiH, Papić et al, Müller Sarajevo, 2001, p. 28.

¹⁹ Ibid.

²⁰ Ibid., p. 73.

²¹ Ibid.

²² Ibid., p. 74.

²³ Povratak izbjeglica i raseljenih lica kao uslov opstanka Bosne i Hercegovine in Demografske promjene u Bosni i Hercegovini 1991–1998., Bošnjović (not published) as quoted in Međunarodne politike podrške zemljama jugoistočne Evrope – Lekcije (ne)naučene u BiH, Papić et al, Müller Sarajevo, 2001, p. 17.

²⁴ Ibid. The Ministry for Human Rights and Refugees claims that 328,900 persons have permanently solved their status in their respective host countries and that 284,800 are still in need of a permanent solution, i.e. a total of 613,700 “refugees”.

²⁵ Human Development Report 2002, p. 73.

²⁶ Bosnia and Herzegovina – Interim Poverty Reduction Strategy Paper (I-PRSP), Ministry of Foreign Trade and Economic Relations, Sarajevo, updated version, February 2002, p. 3

Both the war itself and the following transition have influenced the women's situation in a very negative way. The severe economic situation has had detrimental influence on the possibilities for women to earn their living. As a result of war casualties, there has been an increase in single-parent households, where the breadwinner usually is a woman. The orientation towards stricter religious traditions has increased the pressure on women both from the society and within the (extended) family. Additionally, there is evidence that domestic violence is becoming an increasingly serious problem.

A newer and very serious problem in BiH is trafficking in human beings, especially women. BiH is primarily a country of destination but also a transit country. Accurate figures are difficult to get but regarding BiH's role as a transit country it is estimated that in 2001 10,000 women passed through BiH²⁷. The United Nations Mission in Bosnia and Herzegovina estimates that between 750 and 1,000 trafficked women remain in brothels throughout the country; representatives of the NGO sector place the figure at 2,000 or higher.²⁸

5. The Present Political Situation²⁹

For the first time since the end of the war, the elected government will serve a four-year term.³⁰ The final results for the BiH Parliament gave SDA 10 mandates, SzBiH 6, the coalition between HDZ and the Christian Democrats 5, SDS 5, SDP 4 and a number of smaller parties shared the remaining 12 mandates.³¹ In the Federation House of Representatives, SDA is the dominating party with 32 mandates of 98. SzBiH and SDP both have 15 seats and the HDZ/Christian Democrat coalition 16.³²

This makes a government of "nationalist" parties unavoidable – any other combination would be too weak to ensure a stable government. Thus, the warring factions of the 1992–95 war, SDS, HDZ and SDA will find themselves in a position where they will have to co-operate under the auspices of the OHR. Previously, the High Representative and the IC have exerted pressure on the local political bodies and even removed obstructive politicians in order to create a governing ambience without nationalistic overtones. Interestingly enough, HR Ashdown's latest interventions have been accepted by the nationalist parties without much protest, whereas those once dubbed "moderate", SDP and PDP, have offered the strongest resistance.³³

The OHR's leading role will leave the political parties with little space for manoeuvring – the dire state of Bosnia's economy and the require-

²⁷ *Le Monde Diplomatique*, "Europe and Sexual Abuse", no. 009, November 2001, pp.20–21

²⁸ Testimony on Trafficking of Women and Girls to Bosnia and Herzegovina for Forced Prostitution, Martina E. Vandenberg, Human Rights Watch April 2002, p. 1.

²⁹ It is obviously awkward to describe the current political situation and to ascribe a certain importance to it when the strategy is expected to be in place for another three years. However, since the elections of October 2002 create the political surroundings for the next four years, we have decided to briefly describe the change in conditions.

³⁰ As of 1 January 2001, Bosnia and Herzegovina did not have a permanent election law. Officials elected in 2000 were elected to two-year terms on the presumption that a permanent law would be in place before 2002. The new election law, finally specifying four-year terms, was adopted in August 2001.

³¹ http://www.izbori.ba/Rezultati%20Final/prezentacija/KonacniRezultati19102002_files/frame.htm, slide 9, visited on 26 November 2002.

³² *Ibid.*, slide 28.

³³ Cf. Bosnia's British Bulldozer, by Janež Kovač in IWPR's Balkan Crisis Report # 383, 18 November 2002.

ments of international bodies such as the EU, the World Bank and others will set the agenda, and the elected politicians will have to choose between complying or being removed. The alternative is bankruptcy for the Bosnian State and the Entities.

The swing towards nationalist voting should not be interpreted as a major change in the Bosnian electorate. In fact, in absolute numbers the “nationalist” parties received less votes now than two or four years ago. However, the sharp decline in election participation, caused by major disappointment in the lack of real reform over the last few years, created a situation where the “moderates” lost more than the “nationalists”.

Lord Ashdown claims that the almost 50% who did not vote did so because they were not satisfied with the pace of reform. Thus, he insists, he has a clear mandate from the Bosnian people to push even harder for the necessary reforms. If Bosnia and Herzegovina wants to join the European Union and other international bodies, the road the country will have to take is predefined anyway, and the HR will use his “abstainee mandate” to drive Bosnia towards Europe.

Annex 3

– Conflict Analysis

Strategy for Sweden's Development Co-operation
with Bosnia and Herzegovina

By Roland Kostic, Uppsala University



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Summary

- I. In November this year it was the seventh anniversary of the signing of the Dayton Peace Accords, which brought an end to the violent conflict that engulfed Bosnia and Herzegovina in 1992. Since the signing, implementation of the agreement has been steady, particularly in its military part, while the implementation of civilian aspects of the agreement frequently has to be pushed through by the Office of High Representative. The main characteristics of the Bosnia and Herzegovina state are a decrepit economy and weak institutional capacity. The further reforms of the institutions and economy will depend on the overall stability in the country. The immediate insecurity of the post-war period is assuaged. With this in mind, considering the continuous international military presence in the country, it is hard to anticipate a new conflagration of violent conflict, although the use of limited violence for political ends by peripheral groups of extreme elements remains a possibility. The security complications pertaining to the *Hercegovačka Banka* 'auditing', the celebration of the foundation stone for the mosques in Banjaluka and Trebinje, and the Algiers group extradition, warrant caution and need for a continuous military presence in the country.
- II. Most of the Dayton Agreement's core tasks have been implemented or will be implemented in the next two years. Reconstruction of war damage has been far-reaching, and the immediate risk of humanitarian crisis has been greatly reduced. The human rights situation has also made a gradual improvement. The array of issues such as violence against minority returns, illegal detentions, freedom of movement and the most blatant forms of ethnic discrimination in public institutions have been greatly reduced by monitoring and political interventions. Property law implementation and overseeing of the minority returns in its entirety remain the key priorities for the period ahead. It is estimated that with the substantial international financial and logistic support, these could be concluded within the next two years. The first democratic elections, which were entirely organised and run by the Bosnia and Herzegovina authorities proved to be a

success, with only smaller organisational glitches. One of the key issues on the political agenda in the next period will be the practical implementation of the July 2000 Constitutional Court ruling. The ruling declared that all nationalities were equally constituent and enjoyed the same rights throughout the country, not only in their respective entities. Yet, the risk is that the implementation may turn into a political quagmire and as such would threaten to divert the attention and effort from other more urgent matters in the country.

- III. The poor state of the country's economy warrants a call for urgency to local and international actors alike. An uncertain macro economic future including continuing trade deficits, excessive public spending mainly through massive public administration, inability to efficiently collect taxes, slow and fudged privatisation, near total collapse of industry and rising unemployment are alarming causes for concern. The situation is further exacerbated by a widespread corruption throughout the system. This is coupled by rising poverty rates, an already weak and still shrinking social safety net, and the presence of particularly aggravated social groups such as war veterans, widows, and invalids of war. The economic downturn is taking place amid the backdrop of donor fatigue and cuts in donor aid, which is predicted to continue in the forthcoming period. Furthermore, even most optimistic projections do not anticipate for Bosnia and Herzegovina to qualify for the first commercial credits before 2006. Additionally, it is estimated that the foreign debt-servicing will climb from \$75 million in 2000 to \$110 million in 2003. This kind of bleak economic prospect is likely to create new socially charged situations around the country and could also prove to be a fertile ground for a heightened ethnic polarisation among various groups within the next few years.
- IV. The current economic situation sanctions the need for urgent institutional reforms if the recently commenced economic reform is to eventually start paying dividends. The reforms in the judiciary, economic regulation, revenue collection, civil service, and state institutions are a necessity. However, the results will greatly depend on the manner in which the reforms are conducted. Without explicit clarity about which powers and resources should shift to the state, what the long-term role of entities, cantons, and municipalities will be, and as long as the system of distribution and responsibility is ambiguous, Serbs and Croats, politicians and their constituencies alike, may continue perceiving functional integration and functioning fiscal federalism as a threat, an attempt to introduce a centralised state controlled by the largest group through the back doors. The risk is that the imposition of *ad hoc* changes without prior fiscal and institutional delineation will not create an incentive for various levels of the government to work together, thus having a detrimental effect on the reform. At each step, the reform is likely to become a source of protracted political and ethnically coloured debate on one hand, and if and when

imposed by the OHR, a source of protracted political implementation, followed by the OHR intervention and again ensuing political dramas on the other. The substantial risk is that most of the energy will once again be spent on political crisis management while the effort to create a single economic space and functioning economy will lose inertia.

- V. The possibility of increased International community intervention to micro-manage the political and social life of Bosnia and Herzegovina within the next few years is realistic. The temptation to continue 'taming' ethnically oriented parties can prove to be overwhelming for the international community. The risks associated with this are the loss of coordination and cohesion among international actors, which are crucial for the economic and institutional reform to supervene. On the other hand, the recent negative experience does not explicate how the micro-intervention in politics including the brokering of political coalitions is likely to weaken or eliminate the ethnic parties from the politics. The wide scope of intervention, if it persists, is likely to further sap the democratic and constitutional process of its essential dynamics, keep the ethnic mobilisation and ethnic politicking steady, while failing to match these with economic and social stability.
- VI. The neighbouring countries, Croatia and Serbia, at various stages of the process had an influential role and often directly commanded the political preferences and choices of the political actors in Bosnia and Herzegovina. The death of President Tudjman, and subsequent electoral defeat of his regime in Croatia in early 2000, and the October "revolutionary" demise of Milošević in Serbia created a positive political situation in the region. External support for the respective nationalist leaders within Bosnia and Herzegovina has been dramatically reduced, while both countries have embarked on the road to Europe. However, the prospect of "soft nationalist" leadership in Serbia create some reason for disquiet. The presidential election in December 2002 will in all likelihood result in the victory of Vojislav Koštunica. Judging from his recent media statements, it is probable that the Serbian government will attempt to link the resolution of Kosovo's status with the status of the Republika Srpska. On the other side, the central-left coalition in Croatia is facing uncertain times ahead. The growing support for the nationalist parties in Croatia exacerbated by the Croatia –the ICTY disputes, economic stagnation, and wrangles within the coalition, open the prospects for new elections in the near future, possible already in the first half of 2003. In a possible outcome, a new Croatian government could be formed by a coalition of the centre-right parties, with a more pronounced nationalist agenda. The regional developments are likely to create a perception of a liquid and open-ended political situation and perhaps adversely influence choices of political actors in Bosnia and Herzegovina. The main consequence of this could result in a political slowdown and stalling of the institutional and economic reforms in the country.

Political situation in the recent historical context

- VII. Bosnia and Herzegovina was one of the five independent states emerging after the disintegration of the Socialist Federative Republic of Yugoslavia. The same underlying process of ethno-communal mobilisation, nation-state creation and overall political incompatibility that caused the implosion of the SFRY also violently shattered the multiethnic fibre of Bosnia and Herzegovina in 1992. As the political options for a peaceful solution were explored and negotiations between three constituent communities' political leaderships turned intractably deadlocked¹, the majority of all three constituent peoples, Serbs at first, then Croats, and later on Bosniaks as well, engaged in a violent scramble for territories defined by their leaders as their groups' areas. In the process, tens of thousands of civilians belonging to the other group were murdered and expelled from their homes. The neighbouring states, Serbia and Croatia interfered in various stages of the conflict by lending political, economic and military support for their respective communities in Bosnia and Herzegovina. Bosniaks received the bulk of economic aid from Islamic countries, while depending politically on support from Western countries. The *de facto* division of the country on three ethno-territorially homogeneous, politically and militarily opposed entities was a background setting to the third party power mediation in Dayton, in 1995.
- VIII. The Dayton Peace Accords established a complex political agreement, which reflected the interests of national leaders representing various groups in the conflict, as well as the will of international power mediators and the overall balance of power establishing the region at the time². In its basics, the framework on one hand has reaffirmed the existence of the three constituent communities in the country and to various degrees accommodated for their identity-related political demands, none entirely though. On the other hand, the DPA has also secured the international presence of Bosnia and Herzegovina as a single territorial and political unit and has outlined the framework within which both the political interaction between actors and the institutional and societal reconstruction would take place. Given the historic experience and the nature of the Bosnia and Herzegovina as a multiethnic society as well as the recent experience of war, the implementation of peace in Bosnia and Herzegovina can be viewed and analysed as a dichotomous process. On one hand, there has been an ongoing process of 'identity formation' where

¹ On the major issue of the future of Bosnia and Herzegovina in the aftermath of the SFRY's disintegration, the Serb leaders of SDS diametrically opposed both the Bosniaks of the SDA and the Croats of the HDZ. The SDS was ready to support unified Bosnia and Herzegovina only within a framework of a Yugoslav state. The HDZ unyieldingly rejected participation in a new Yugoslav arrangement as a *sin qua non* for the Republic's future. While supporting the external independence of the country, the HDZ favoured its internal decentralisation on regions based on ethnic, economic, and cultural principles. The SDA unconditionally supported the sovereign Bosnia and Herzegovina with a strong centralised state apparatus. See Bourgel, Xavier, "In the eye of the storm" in Dyker, D. & Vejvoda, I. (eds), *Yugoslavia and After*, London, 1996, and Donia, Robert J., "Parties, patronages and constitutional changes in Bosnia and Herzegovina: A brief story", December 2000, European Security Initiative, <http://www.esiweb.org/>

² For more see Holbrooke, Richard, "To end a war", Random House Inc., 1999.

each ethnic group strives to protect its ethnic identity and tries to define its place and position vis-à-vis a wider state identity in formation. This part of the process is influenced by networks of local interlocutors including ethnic parties, religious institutions, cultural associations. In all three ethnic communities, there exists an almost identical structure of the described social networks. On the other hand, the other part of the process deals primarily with the building of the functioning state and state institutions. The creation of a new state identity is a tacit part of the institution building dynamics. This part of the process has been primarily supervised and guided by the international guardians of the peace process. The state identity until now remains inexplicably defined, disputed and still relatively weak³.

- IX. Under Dayton, the Bosniak- Croat Federation and the *Republika Srpska* entites are assigned a high degree of self-governance. At the same time, the role of the central state institutions is limited to the bare minimum requirement that classifies Bosnia and Herzegovina as a sovereign state. The entities have their own administrative structures, which greatly differ from one other. While the Republika Srpska is highly administratively centralised at the entity and municipality level, the Federation administratively operates at the level of entity, canton and municipality. There is also the District of Brčko with its own separate administrative structure⁴. Altogether there are 13 governments and some 200 ministries at different administrative levels. Under provisions of the Dayton Peace Agreement, the bulk of administrative power in the federation has been placed at the canton level⁵. Given that out of ten federal cantons, three have a majority Croat population, five of them a Bosniak majority, while the remaining two are with 'mixed' population. Therefore, it is easy to see how the identity interests of the three ethnic groups were in fact institutionalised by the DPA. The Serb community and its leaders have their group interest vested and protected at the entity level. However, in the Federation the other two groups attempted to protect their interests at the canton level of power instead, where each has the majority. In the case of the mixed cantons, the politicians in many aspects of institutional life introduced parallel administrative responsibilities in the system. In the Federation, the attempt to protect the given cantonal situation is particularly evident in the Croat majority cantons, which have developed their own informal network for cooperation and assistance, and have persistently withstood substantial devo-

³ In a recent survey conducted in September 2002 by the Partner agency 51.7% of the Republika Srpska's citizens answered that they do not consider Bosnia and Herzegovina as their state. At the same time, 94.1% of the Federation's inhabitants see Bosnia and Herzegovina as their state. FENA, "Građani RS ne smatraju BiH svojom državom", Oslobođenje, Sarajevo, Četvrtak, 21. Novembar, 2002, p. 3.

⁴ The strategic town of Brčko was a particular bone of contention between the sides during the DPA. The District of Brčko was created in 1999 as a result of international arbitration enacted under the General Dayton Peace Agreement framework. The District exists as a self-governed entity with its own statute, multiethnic police force, a single multiethnic Government, the District's Assembly, and its own international supervisor.

⁵ The responsibilities at the Federal level include defence, economic policy, customs, finance, and energy policy. All other responsibilities, if not expressly assigned to the Federal authorities, rest otherwise with the cantonal governments.

lution of the cantonal power given to them by the DPA to the federal institutions and authorities⁶.

- X. One of the characteristics of the recent conflict in Bosnia and Herzegovina was an irregular and frequently violent transfer of assets, from state to private and private-to-private ownership. In the process, the ethnic elites that commanded the process in their constituencies were in a position to amass capital, wealth, and power and protect it through their constituencies. The Dayton agreement, particularly a hastily introduction of democratic process in 1996, provided the local political elites with an opportunity to channel some of the acquired financial resources to secure democratic legitimacy in their constituencies, and afterwards to use their political influence to further anchor their financial positions. The single ethnic-group patronage networks hence became the common feature of Bosnia and Herzegovina politics⁷. With these power structures still in place, institutions were kept tributary to the political parties through a *nomenklatura* system of public appointments, a practice carried over from the socialist era. Moreover, the political structures through the networks continued with the privatisation of the remaining state enterprises, often through an existing system of vouchers with little fresh capital entering the financial system⁸. Frequently, this kind of political-economic patronage edifices have been job creators in various parts of the otherwise poverty stricken country. In the situation where the communal grievance has overlapped with the greed at the elite level, it has at times become hard and highly politically loaded to entangle one from another. In the given set up, the head-on attempts of the international community to curtail the corrupt practices and induce transparency into the system at the expense of the interests of local elites became perceived in some cases as an overall assault on ethnic groups' identity and status⁹. Notwithstanding the recent moves made by the OHR to induce more transparency into the system, the strong linkage between politicians and small strata of recently emerged entrepreneurs remains one of the dominant characteristics of the political system in Bosnia and Herzegovina.

⁶ The Federal cantons were the fruit of the Washington Agreement of February 1994, which both settled the Bosniak- Croat war and was supposed to be a blueprint for further accession by Serb-dominated units. In autumn 1995, the existing Federal arrangement was incorporated into the General Framework Agreement for Peace negotiated in Dayton, U.S.

⁷ Donia, Robert J., "Parties, patronages and constitutional changes in Bosnia and Herzegovina: A brief story", December 2000, European Security Initiative, <http://www.esiweb.org>.

⁸ Out of 66 large firms in the Republika Srpska, each employing 400 or more workers, not more than five were sold to serious investors, whether domestic or international. The rest have proved either impossible to sell, or were privatised through the system of vouchers attracting neither new management nor fresh investment. Many of such firms became so utterly illiquid they are no longer able to sustain the production. For more see European Security Initiative, "Western Balkans 2004; Assistance, cohesion and the new boundaries in Europe: A call for policy reform", Berlin- Brussels- Sarajevo, 3 November 2002, http://www.esiweb.org/pages/rep/rep_latest.html.

⁹ The most prolific case was the SFOR's storming of the offices of the mainly-Croat Hercegovačka Banka. The intervention caused riots in Mostar and Posušje and complicated the security situation in that part of the country. More importantly, it contributed to heightened ethnic polarisation among the Herzegovina's Croats and subsequently increased the HDZ's support. For an in-depth analysis see the British Helsinki Human Rights Group report, "Bosnia and Herzegovina 2001: The International Community versus the Bosnian Croats", http://bhhr.org/bosnia%202001/bosnia_herzegovina_2001.html. The site was visited on April 7, 2001.

- XI. The position of the Office of High Representative and the role of the international community were decisive for the implementation of the core Dayton tasks. This pertains particularly to the issues of return of the displaced and refugees, steady reduction in violence against minority returnees, elimination of restrictions on the freedom of movement, reduction in browbeating of the media, elimination of the most blatant ethnic discriminations, delimitation of the Inter- Entity Boundary line, resolving the status of Brčko, and integrating divided municipalities. Additionally, the international community and the OHR have been essential in providing the strategic directions in the use of aid delivered to Bosnia and Herzegovina. In the overall process, the High Representative has relied upon the powers vested to him to by the PIC (the Peace Implementation Council) to ensure the continued implementation of the agreement notwithstanding the local political obstructions. However, as time went by and the implementation of the peace agreement progressed, the OHR number and nature of interventions expanded. Together with other international actors in the country, it went as far as brokering new governments at the Federal and the State level¹⁰. The continuing trend of the OHR interventions has increasingly generated the concern around the issues of the local “ownership” of the process, the question of international exit strategy in Bosnia and Herzegovina, and the overall consequence for the future developments of the democratic process in the country.
- VI. The work of international organisations has been a subject of some close scrutiny by international and domestic analysts¹¹. The striking analyses highlight problems pertaining to lack of leadership and co-ordination of aid effort, duplication of responsibility and non-cooperation among international actors, to personality and turf wars among international staff, particularly at the higher level of management¹². In the six years following the conflagration of violent conflict, financial assistance surpassed \$ 5 billion in multilateral pledges alone. However, tracking the implementation of pledges has proven difficult due to “the existence of three official, contradictory databases; incomplete reporting and deliberate donor efforts to conceal the gaps”¹³. The difference in these sources in terms of estimates of actual delivery and

¹⁰ It is not entirely clear what was the specific role of the OHR in the creation of the Alliance for changes, widely acknowledged as a brainchild of the U.S. and U.K. diplomacy in Bosnia and Herzegovina. For more see, European Stability Initiative, “Reshaping international priorities in Bosnia and Herzegovina: Part Three”, 22 March 2001, p. 4; ICG Report No 121., “Bosnia: Reshaping the international machinery”, Sarajevo/ Brussels, 29 November 2001, p.5; the British Helsinki Human Rights Group report, “Bosnia and Herzegovina 2001: The International Community versus the Bosnian Croats”, p. 6.

¹¹ See ICG Balkan Reports No. 121, “Bosnia: Reshaping the international machinery”, Sarajevo/Brussels, 29 November 2001; Hurić, Zlatko & Šapčanin, Amela & Susan L. Woodward, “Bosnia and Herzegovina” in Forman & Patrick “Good Intentions: Pledges of Aid for Postconflict Recovery”, Lynne Rienner Publisher, Inc, 2000; Papić, Žarko (eds), “Međunarodna politika podrške zemljama jugoistočne Evrope: Lekcije (ne) naučene u BiH”, Muller, Sarajevo, August 2001.

¹² See Pećanin, Senad, “Thomas Miller vs. Wolfgang Petrisch: Sukob istih interesa”, BH Dani, No. 186, 22 December 2000, Jazvić, Dejan, “Visoki predstavnik završava svoj mandat- Amerikanci traže Petrischev odlazak”, Večernji List, 14 June 2001.

¹³ Hurić, Zlatko & Šapčanin, Amela & Susan L. Woodward, “Bosnia and Herzegovina” in Forman & Patrick “Good Intentions: Pledges of Aid for Postconflict Recovery”, Lynne Rienner Publisher, Inc, 2000, p. 315.

implementation of aid differ by more than \$ 1 billion¹⁴. Although the slow improvement of the institutional reforms and economic reform can be to a large extent accounted by the obstructions and lack of political consent locally, lack of transparency, accountability and coordination in the IC set-up, certainly played a significant role in the process as well.

Current political developments

- VII. Following the November 2000 elections, the international community representatives in Bosnia and Herzegovina have invested considerable effort and reputation in putting together the 'Alliance for Changes'. The Alliance represented a loose coalition of parties, which openly supported the policies of the international community in Bosnia and Herzegovina. The pivotal role in the Alliance was at the time assigned to the Bosnian Social Democratic Party, who on the Federal level went into coalition with the parties such as the Party for BiH (SBiH), New Croatian Initiative (NHI), while on the state level relied on the support of the parties from Republika Srpska, namely the Party of Democratic Prosperity (PDP) and the Party of Independent Social Democrats (SNSD). Ironically, it was the PDP which at the same time was in an informal coalition with the SDS at the Republika Srpska level of government. Altogether, the alliance consisted of more than a dozen parties from left and right of the political spectrum combined into different constellations across the regions and levels of governments. Due to lack of a concrete pre-election programme of its own, the Alliance adopted the Brussels PIC objectives as their platform¹⁵. Many international observers heralded the emergence of Alliance as an end to the ethnic parties political paradigm and the beginning of a new more constructive era in Bosnia and Herzegovina politics, frequently overseeing the fact that the Alliance was not so much the result of voting pattern change as it was the result of international intervention in the process.
- VIII. The Alliance had one and a half years to deliver, not only on the fronts of economic and social development, but also to commence with the implementation of the 18 steps of Road Map within a Stabilisation and Association process, state institutions upgrade, introduction of the Civil Servants Law and establishing control over state borders. Given the overtly ambitious tasks and only a year and a half for its implementation, the quick and constructive political response was of an utmost importance. However, the Alliance was shaken by a set of negative political developments that diverted the attention from the pressing core agenda. A number of legal cases attained a high political

¹⁴ Ibid.

¹⁵ In summary, the Brussels PIC Declaration calls for development of self funding for state institutions, donor assistance to be channelled through the BiH state institutions, a professional state civil service to be established, development of state-level regulatory bodies in telecommunications, energy, transport and media, support of the creation of a single economic space, direct international involvement in restructuring and privatisation of strategic industries. For more see European Stability Initiative, "The Brussels PIC Declaration and a state-building agenda for Bosnia and Herzegovina", 7 June 2000, http://www.esiweb.org/pages/rep/rep_bos9.html.

profile in the public eye¹⁶. All of these, besides being highly political, were also very ethnically tainted cases. The fact that the ruling coalition began to disintegrate along its ethnic components became evident during the negotiations around the implementation of the July 2000 Constitutional Court ruling. The ruling declared all nationalities constituent peoples with full rights throughout country and not only in their respective entities. Most parties created different ethnic caucuses promoting their groups' interests and made statements to appeal to respective ethnic constituencies, many leaders keeping in the back of their minds the approaching elections. At the Federal level, the 'reformed nationalists' parties SBiH and NHI, in many senses representing the Bosniak and Croat interests in the Alliance, clashed in a number of public cases involving allegations of corruption and mismanagement. The OHR directly intervened in some of the cases¹⁷. As the elections approached and the fierce infighting between ideologically opposed SBiH and SDP ensued, the Alliance increasingly turned from an asset into a liability. Notwithstanding the perceptions of the emerging 'new' Bosnian politics, the Alliance, although keeping the 'nationalist' HDZ, SDA and SDS (partially) out of the government, failed to keep ethnic politicking and the ethnic allegiances from playing a paramount role in Bosnia and Herzegovina.

- IX. The October 2002 elections were significant as they were the first post-war elections organised without the assistance of the international community. They were marked by apathy and relatively low overall voter turnout of 53.94% (the RS 51.3% and the F BiH 55.48%). According to the estimates, each vote cast in 2002 weighed a full quarter more than in the elections 2000¹⁸. The final results confirmed that the three ethnically defined parties, the SDA, the SDS, and the HDZ secured a large portion of the vote. Additionally, the candidates of the three parties to the Bosnia and Herzegovina presidency won the electoral approval. However, it is clear that all parties except the SDA and SNSD¹⁹ fared worse than in the previous elections²⁰. The biggest loser of the recent elections has been the SDP whose support halved in comparison to the last elections. The array of factors contributed to the strong performance of the ethnically oriented parties. Firstly, the inability of the Alliance to

¹⁶ Some of the most prolific cases have involved establishing responsibility for disturbances of peace at the foundation stones ceremonies at the mosques in Trebinje and Banjaluka, illegal arms dealing to Kosovo, the unresolved Leutar case, the extradition to the USA of the suspected Islamic terrorists (the Algiers Group case), the large hidden store of rocket and mortars found in Eastern Mostar, attack on returnees in the RS, the sales of decommissioned arms to buyers abroad, and the Grabovac case.

¹⁷ The High Representative removed the NHI candidate, Mr. Grabovac, from the office of the Federal Minister of finances for alleged corruption in the AM Sped case. The post has remained void until the Alliance's end of mandate, while a deputy minister Mrs. Hafizović from SBiH assumed most of responsibilities for running the ministry.

¹⁸ UNDP Early Warning System, Bosnia and Herzegovina 2002: Elections Special, p. 8.

¹⁹ Milorad Dodik's Party of Independent Social Democrats coming from the RS.

²⁰ For the spread of vote and difference from previous elections see the UNDP Early Warning System, Bosnia and Herzegovina 2002: Elections Special.

successfully tackle social and economic decay made the pledges of the reforms merely an empty rhetoric. The previously declared reformist parties within the Alliance in a difficult election campaign tried to appeal to their ethnic constituencies blurring the difference between the 'reformist' and nationalist agendas. The series of controversial events with political, ethnic and religious connotation further incited the noxious ethnic trepidations among poverty stricken communities in Bosnia and Herzegovina. At the same time, the ethnic parties forwarded the reformed attitudes and agendas while still championing the interest of their groups, albeit within the constitutional framework of the country. They benefited from their size of the party membership and from a generally highly mobilised voting body. The election results, however, represent a new stage towards a pluralistic development of the Bosnia and Herzegovina politics. Despite their relative victory, the SDA, the SDS and the HDZ will have to enter into broader coalitions when they begin forming government at various levels of power. Additionally, there is no doubt that in the next stage the IC, the opposition parties and the public will all have a considerable influence on the exercise of government²¹. However, it is important for the IC to accept that the ethnic parties are the reality of Bosnian and Herzegovina's political life for the foreseeable future. It would be beneficial to the further developments of democratic process if they are not judged and politically excluded on the account of their history²². Instead, as some analyses elaborate, it would be more propitious to judge them on the account of their compliance with the DPA and their current conduct²³.

- X. One of the issues that affected the voters' mood and choice at the recent elections was the perception that the international representatives in Bosnia and Herzegovina were attempting to influence the public opinion and the electoral process and subsequently its outcome²⁴. The probable causes for this kind of public suspicion can be traced back to the landmark changes of the elections laws by Robert Barry, the head of OSCE mission, in

²¹ Ibid.

²² The US ambassador Clifford Bond expressed his government's unwillingness to work with the ethnic parties, while at the same time he purportedly attempted to broker a new 'reformist' parties' coalition. Bećirević, Edina, "Clifford Bond; Stav moje zemlje je jasan: sa nacionalistima nema reformi!", *Slobodna Bosna*, Broj 312, Sarajevo, 7.11. 2002, p. 9.

²³ European Stability Initiative, "Reshaping international priorities in Bosnia and Herzegovina; Part Three: The end of nationalist regimes and the future of the Bosnian state", March 2001, <http://www.esiweb.org>.

²⁴ UNDP Early Warning System, *Bosnia and Herzegovina 2002: Elections Special*, p. 5.

2000²⁵, and the involvement of the U.S. and UK ambassadors in tailoring the Alliance for changes in the aftermath of the elections. These kinds of interventions in the democratic process undermine the overall confidence of the electorate. Furthermore, they tend to generate the results contrary to the intended effects. The suspicion can be also taken to be an indicator of growing division between the international and local communities. According to the Danish Centre for Human Rights analysis, the IC in Bosnia and Herzegovina became an introvert culture for itself with numerous subcultures. All have in common the projection of Bosnian peoples as incompetents and dubious²⁶. On the other hand, the peoples of Bosnia and Herzegovina in general feel like an experimental zone, their destiny closely depending on the empirical experience of the international powerbrokers²⁷. The international community should strive to streamline its tasks and efforts from micro-managing almost every sphere of life in the country to dealing with urgencies of economic integration. This does not entail the imposition of laws per se as much as providing the greater clarity about which powers and resources should shift to the state, and what is the long-term role of entities, cantons and municipalities. For as long as the system of distribution and functions are undefined and ambiguous, Serbs and Croats, politicians and their constituencies alike, may continue perceiving functional integration and functioning fiscal federalism as a threat, an attempt to introduce a centralised state through the small doors. A clearly defined system of institutional duties and responsibilities represents a way to alter the rules of game, making the system work by creating the incentive for closer economic cooperation between institutions and communities that could finally start paying dividends.

²⁵ The OSCE decision came only three weeks before the 2000 general elections. The decision was perceived as bias against the Croats, the smaller partner in the Federation. Furthermore, the decision was made after a hastily international consultation, but without a consultation of and among the Bosnia and Herzegovina political players. The Croat HDZ used the decision to mobilise the support behind the party. Additionally, on the day of elections it organised a 'referendum' on the political autonomy of Bosnian Croats. At the elections, the HDZ won 80% of the Croat vote. The HDZ was penalised for its conduct by removal of 10 of its candidates from cantonal assemblies. In the escalation of the politics of brinkmanship, the HDZ declared a "temporary Croat self-government" made up of intra-cantonal and municipal councils on 3 May 2001, while pending the reversal of the House of Peoples decision. In retaliation, the HR dismissed the HDZ representative from the Presidency and three HDZ deputy leaders, reaffirming that all issues should be settled through constitutional means and procedure. However, when the HDZ consulted the Bosnia and Herzegovina constitutional court, the court response was that it had no jurisdiction in the matter referred. In so many words, the international decision was made unilaterally outside the constitutional framework and could not be challenged by constitutional means. This outcome created a concern generally present among Bosnian Croats that their constitutional status could be altered by unilateral decision of the international community. The conflict also reflected regionally, stirring nationalist sentiments in Croatia which cajoled the reformist government of Croatia to also get involved in the matter. For a good overview of the event read European Stability Initiative, "Reshaping international priorities in Bosnia and Herzegovina. Part Three: The end of nationalist regimes and the future of the Bosnian state", 22 March 2001; British Helsinki Human Rights Group report, "Bosnia and Herzegovina 2001: The International Community overview the Bosnian Croats", http://bhhr.org/bosnia%202001/bosnia_herzegovina_2001.html

²⁶ As quoted in Ahmetašević, Nidzara, "Stranci misle da su Bosanci primitivni, a Bosanci vjeruju a su stranci surovi kriminalci", *Slobodna Bosna*, Broj 314, Sarajevo, 21 Novembar 2002, p. 36.

²⁷ Papić, Žarko et al., "Međunarodna politika podrške zemljama jugoistočne Evrope: Lekcije (ne) naučene u BiH", Muller, Sarajevo, August 2001, p. 229.

Economic and social overview

XI. In the early 1990s Bosnia and Herzegovina, together with other republics of the Socialist Federative Republic of Yugoslavia, was embarking on a long and uncertain path of transition, encompassing both the imploding political and economic system. The transition was interrupted in its early stage by an outbreak of war in the country. The current precarious economic situation is a reflection of both legacies; lack of transition on one hand and the destruction of economic potentials during the war on the other. Much of industry ceased with the production at the outbreak of war. The loss of markets, illiquid firms, destruction of infrastructure, fragmentation of internal economic space, the brain drain, and the loss of workforce have all contributed to the asphyxiation of the potential for immediate economic development. On the basis of per capita GDP comparison, the country is 65% poorer than it was before the war and it is close to the bottom of all regional rankings²⁸. Total war damages are estimated at around US\$ 100 billion²⁹. Thanks to generous donor support in post war years³⁰, Bosnia and Herzegovina achieved high economic growth, its GDP per capita climbing from US\$ 456 in late 1995 to US\$ 1,093 by the end of 2000³¹. However, it is acknowledged that the economic growth rate has declined from 10.5% in 1999 to 5% in 2000³². The predicted economic growth rate is 6.5% for 2001³³, although conservative projections stand at 3.5%. Nevertheless, the production level will not exceed 50% of the pre-war level, while the unemployment rate remains around a staggering 38%^{34,35}. At the same time, the public spending was reduced from 65% of GDP in 1998 to 48% of GDP in 2000³⁶. Most of it was spent towards the costs of vast administrative structure, defence, and social programme. Reports estimate that the flourishing grey economy may account for as much as 60% of GDP³⁷. If one takes into account

²⁸ Čausević, Hrelja et al, "Human Development Report 2002- Bosnia and Herzegovina", UNDP, Sarajevo 2002, p. 47.

²⁹ Ministry for Foreign Trade and Economic Relations, "Bosnia and Herzegovina: Interim Poverty Reduction Strategy Paper (I-PRSP)", Sarajevo, December 2001, p. 3.

³⁰ The international community pledged US\$ 5.1 billion, of which 80% reportedly either was implemented or is currently under implementation. Ministry for Foreign Trade and Economic Relations, "Bosnia and Herzegovina: Interim Poverty Reduction Strategy Paper (I-PRSP)", Sarajevo, December 2001, pp. 3. However, local economic expert purports that even in the best cases maximum 60% of the initial donor aid made it to the recipients. Intervju Dana, "Žarko Papić: Tek polovina donacija dođe krajnjim korisnicima", BiH Dani, broj 242, Sarajevo, 1. February 2002.

³¹ Ministry for Foreign Trade and Economic Relations, "Bosnia and Herzegovina: Interim Poverty Reduction Strategy Paper (I-PRSP)", Sarajevo, December 2001, p. 10.

³² Ibid.

³³ Ibid.

³⁴ Ibid.

³⁵ This figure however does not include the waiting-listed people otherwise known as 'na čekanju'. This is a category of labour force who do not actually work, but receive a minimum wage and are paid social contributions. Despite lack of work, they do not count as unemployed. 7% of the Federation's labour force and 12% of the RS labour force are officially on the waiting list. See I-PRSP, p. 6.

³⁶ Čausević, Hrelja et al, "Human Development Report 2002- Bosnia and Herzegovina", UNDP, Sarajevo 2002, p. 11.

³⁷ Wright, Robert, "Survey- Bosnia and Herzegovina: Progress being made at only modest pace: The country's problem is no longer one of violence but one of political and economic paralysis", The Financial Times, December 20, 2001.

the very low employment of the labour force, huge foreign-trade deficit, poor creditworthiness for borrowing, high public debt, as well as foreign indebtedness, the present macroeconomic developments leave little scope for optimism.

- XII. In the six years since Dayton, Bosnia and Herzegovina's economic growth has been directly linked to the amount of foreign aid received and hence is likely to decrease considerably as the donor aid effort subsides³⁸. On one hand, the estimated reduction of the EU CARDS programme in Bosnia and Herzegovina from 105 million euros in 2001 to 44 million euros in 2004³⁹ is likely to further undermine already inadequate macroeconomic performance. On the other, according to the World Bank, even under the most optimistic economic projections and with continued foreign aid, Bosnia and Herzegovina will not gain access to commercial credits before 2006⁴⁰. At the same time, the foreign debt servicing is estimated to climb from 75 million euro in 2000 to nearly 120 million euro in 2003^{41,42}. Moreover, the negative employment trends are predicted to continue in the foreseeable future. The transformation of the languishing state-owned companies is estimated to produce at least 50,000 additionally unemployed by 2005. More conservative predictions keep the number at 76, 000⁴³. One is left with little for imagination when it comes to consequences of new unemployment on an already almost invisible social welfare system in Bosnia and Herzegovina.
- XIII. The calculated average annual trade deficit data for 1998–2001 remains at 50% of GDP⁴⁴. While the financing for working capital and investment to the business sector are drying up, the consumption rate has grown through personal loans⁴⁵. However, the relative confidence of the banking sector does not translate into business activity. Bankers in the country expressed their inability to use deposits within Bosnia and Herzegovina proper because they cannot find trustworthy and reliable companies⁴⁶. Lack of trust is frequently a result of undeveloped management structures, as well as of a particularly ambiguous situation in which

³⁸ World Bank, "Bosnia and Herzegovina: Creditworthiness Review", 5 September 2001, p. 5.

³⁹ Estimates are made by the ESI based on the interviews with officials working in Kosovo and Bosnia and Herzegovina. For more see European Stability Initiative, "Imposing constitutional reform? The case for ownership: A discussion paper", 20 March 2002, Berlin – Sarajevo, pp. 9, <http://www.esiweb.org>.

⁴⁰ World Bank, "Bosnia and Herzegovina: Creditworthiness Review", 5 September 2001, p. 31.

⁴¹ In 2001, Bosnia and Herzegovina's foreign debt stood at KM 4.3 billion (about 2.1 billion euros at a fixed rate 1 euro = 1.95 KM) or about 45% of annual GDP. Čausević, Hrelja et al, "Human Development Report 2002- Bosnia and Herzegovina", UNDP, Sarajevo 2002, p. 19.

⁴² European Stability Initiative, "Western Balkans: Assistance, cohesion and the new boundaries of Europe- a call for policy reform", 3 November 2002, Berlin- Brussels- Sarajevo, <http://www.esiweb.org>.

⁴³ European Stability Initiative, "Imposing constitutional reform? The case for ownership: A discussion paper", 20 March 2002, Berlin – Sarajevo, p. 9.

⁴⁴ Čausević, Hrelja et al, "Human Development Report 2002- Bosnia and Herzegovina", UNDP, Sarajevo 2002, p. 18.

⁴⁵ *Ibid.*, p. 21.

⁴⁶ Wright, Robert, "Survey- Bosnia and Herzegovina: Progress being made at only modest pace: The country's problem is no longer one of violence but one of political and economic paralysis", *The Financial Times*, December 20, 2001

enterprises find themselves within the process of privatisation⁴⁷. Domestic inability to meet the demands for even basic food and clothing is reflected by the large trade deficit. The analysis of the situation in Bosnia and Herzegovina's textile industry concludes that given the relatively high-cost environment, only the companies who sustain investments in both factories and innovative products will be able to compete for a share of international market with the low-cost industries from South East Asia⁴⁸. One large impediment to the development of export oriented business lies in the current lack of legislative and coordination structures to take care of accreditation, standardisation, measurements, certification, and testing of the products in the country. As a result, there is an EU ban on meat and animal products from Bosnia and Herzegovina. It is similar with the exports of vegetables and seeds⁴⁹. In the industrial sector, the firms from Bosnia and Herzegovina who wish to export to the EU have to initiate and pay for the whole standardisation procedure themselves⁵⁰. The predicament is further exacerbated by the fact that Bosnia and Herzegovina has signed a free trade agreement with Croatia, Slovenia, Yugoslavia, Macedonia and Turkey, which is restricted by the adherence to the technical barriers treaty (TBT) of the WTO⁵¹. Given that Bosnia and Herzegovina currently lacks the ability to comply with the TBT stipulation, the implementation of the free trade agreement could have a dire consequence for the economic prospects of Bosnia and Herzegovina, affecting the development of domestic industrial activity and exacerbating the trade deficit.

- XIV. Corruption has become an unwritten rule for post-communist countries in transition. In the case of Bosnia and Herzegovina, the situation is further exasperated by the existence of ethnic and party patronage networks. According to some reports, Bosnia and Herzegovina tops the European list of corrupt countries⁵². The findings of a UNDP research on corruption conducted in April 2001 have shown that 98% of respondents believe that corruption

⁴⁷ In most of cases, privatisation has been reduced to mere transfer of papers through the system of vouchers, often under ambiguous circumstance, while very little fresh capital was injected into firms. Many of these firms due to lack of real capital investment are anticipated to go bankrupt and many workers made unemployed in the next six months. At the end of the "privatisation" out of planned 1031 firms 765 firms were "sold". In the last two years 55,000 citizens of the FBiH acquired shares of various firms, while some 400,000 bought the shares in the privatisation funds. Every second firm is sold to citizens and investment funds who lack the money to restart the production. Otherwise, the vouchers are frequently sold in the black market, usually for three percent of their nominal value. Hina, "Slabi rezultati privatizacije i BiH", 12.11.2002. see <http://www.iskon.hr/vijesti/page/>, visited on 12.11.2002.

⁴⁸ FIPA, "Bosnia and Herzegovina Textile and Clothing Industries- Profile Report", as quoted in the European Security Initiative, "Western Balkans 2004; Assistance, cohesion and the new boundaries in Europe: A call for policy reform", Berlin- Brussels- Sarajevo, 3 November 2002, pp. 7, <http://www.esiweb.org>. Sarajevo, 8. Juna 2002.

⁴⁹ When it comes to the industrial production, a firm has to employ consultant to conduct the whole process and then to contact and pay to the certifying body in the EU before exports can take place. Hungary, who centralised the process at the state level exported 10.4 billion euro worth of industrial products certified CE in 2001. At the same time, Bosnia and Herzegovina exported few million euros of the same type of products. See Marinković, Radomir, "Predavanje u Centru za strateške studije Forum Bosna", transkript predavanja, Sarajevo, 8. Juna 2002.

⁵¹ Adherence to the TBT is paramount when it comes to technical rules for products and standards. Marinković, Radomir, "Implementacija ugovora o slobodnoj trgovini koje je Bosna i Hercegovina potpisala sa pet zemalja jugoistočne Europe- Sadašnja pozicija Bosne i Hercegovine", nacrt dokumenta, 09.07.2002

⁵² The report cites the Freedom House ranking in its analysis. See Zornija, Alenko, "BiH po korumpiranosti na vrhu europske ljestvice", Vijesnik, Zagreb, 3. Sječnja 2002.

is present to some degree in politics, while no institution is free of this taint⁵³. The corruption is also believed to exist in international organisations working in Bosnia and Herzegovina. 57% of respondents believe that corruption is somewhat, moderately or very present in OSCE, 56.1% in UNMIBH and 55% in OHR⁵⁴. The accusation of the mismanagement and unfair trade practices including the fixing of the tenders on the behalf of international community clearly influenced the perception of the local population⁵⁵. When it comes to the local politicians, the affairs and accusations are almost a weekly occurrence^{56,57}. However, if one reads the local press often representing different political options in the country, it is evident that some of the accusations are tenuous and without doubt used to impair the political opponents. Nonetheless, the combination of corruption and ineffective judiciary has a hugely discouraging effect on the potential foreign investment in the country.

- XV. In the adverse economic situation the most hard hit and vulnerable are: refugees and the displaced, the elderly, the unemployed and their families, traditional social welfare beneficiaries, war veterans and soldiers' widows. There is very limited social assistance due to nearly inexistent capacity to deliver social welfare payments and services. UNDP forwards in its Early Warning System that 24.6% of the population in Bosnia and Herzegovina had less than 300 KM a month in income by the end of 2001⁵⁸. At the same time, 38% of the population in the BiH and 50% in the RS could not afford the standard consumer basket for four⁵⁹. The average salary in the Federation was 458 KM and in the RS 332 KM, while the average pensions were 170 and 110 KM, respectively⁶⁰. 21.3% of the population in the Federation and 29.6% in the RS were by the end of last year considered to live in extreme poverty, while 9.4% and 21.8% respectively claimed they could not afford food⁶¹. A further 39.7% in the FBiH and

⁵³ The UNDP Early Warning System report from April 2001 as quoted in Hrelja, Kemal, "Human Development Report 2002- Bosnia and Herzegovina", UNDP, p. 26.

⁵⁴ The UNDP Early Warning System report from April 2001 as quoted in Hrelja, Kemal, "Human Development Report 2002- Bosnia and Herzegovina", UNDP, p. 27.

⁵⁵ The international community was accused on neo-colonialism and unfair trade practices in the case of Siemens and a tender for printing of common I.D. cards worth KM 42 million, the tender for sale of the third GSM operator, and recently during the tender for a new radar system at the Sarajevo airport. See Marušić, Marko, "Namješta li se Siemensu posao za tiskanje isprava u BiH?", *Vjesnik*, Zagreb, Utorak, 24. Srpnja 2001; Žuža, Zoran, "Igra isturenih igrača", *Reporter*, Banjaluka, broj 166, <http://www.reportermagazin.com>, visited on 3 July 2001; Slatina, Senad, "Yves Lambert uz pomoć OHR-a bosanskim parama kupuje skromni francuski radar!", *Slobodna Bosna*, broj 313, Sarajevo, 14. 11. 2002, p. 32.

⁵⁶ In the recent issue, the weekly *Slobodna Bosna* provides a list of tainted local politicians. Mijatović, Suzana & Andelić, Suzana & Avdić, Senad, "Da nisu predsjednici države, Čović i Šarović bili bi u zatvoru!", *Slobodna Bosna*, broj 314, Sarajevo, 21. 11. 2002.

⁵⁷ Indicatively, in a most recent case the Office of veterinary of Bosnia and Herzegovina asked from the Council of Ministers to ban the import of Slovenian milk due to discovery of dangerous substances in the produce. However, the Minister for external trade and economic relations rejected the proposed ban, purportedly because of her party's (SBiH) and her personal connections with the Slovenian economic lobby in Bosnia and Herzegovina. Živak, V, "Uvoz slovenačkoga mlijeka u BiH trebalo je zabraniti", *Oslobodjenje*, Petak, 22. 11. 2002, pp. 6 and A.M, "Ministrica Azra ima puno povjerenje u slovenske krave!", *Slobodna Bosna*, broj 314, Sarajevo, 21. 11. 2002, p. 15.

⁵⁸ Early Warning System, "Bosnia and Herzegovina 2001", Maurer et al., UNDP Sarajevo, p. 11.

⁵⁹ *Ibid.*

⁶⁰ *Ibid.*, p. 30-31.

⁶¹ *Ibid.*, p. 32.

49.1% in the RS said they had enough to eat but could not cover clothing needs, while 40.8% in the FBiH and 25.9% in the RS could afford food and clothes and even save a bit⁶². Assistance provided from government institutions is not significant by comparison: only 2% of the population receives social assistance, and 4% an allowance for children. The elderly receive the major part of social assistance (57%) and humanitarian aid (44%)⁶³. Estimates show that the largest and probably the most regular form of assistance are the financial transfers from the relatives living abroad⁶⁴. The income sent by family members who have been living abroad for decades may be one of the explanatory factors for the economic well-being of the populations of West Herzegovina and north western Bosnia⁶⁵. The situation is complicated by the fact that social division seems to overlap not only with the regional but also with the ethnic belonging. According to the World Bank data, Croats are less likely of all to be at risk of falling into poverty. On the other hand, the risk of falling into poverty is greatest for the Serb population in the RS. The RS is poorer than the Federation, while within the Federation the Croat inhabited cantons, as well as the Sarajevo canton, have the lowest poverty rates⁶⁶. Needless to say, this kind of ethno-regional economic stratification has potential to further complicate the political discussion between different communities of Bosnia and Herzegovina.

- XVI. One of the notorious legacies of the recent war was the murder and expulsion of civilians from their homes. The process of return has been gradually increasing, although until recently relatively low. Internal returns so far amount to 368,898 persons or 30% of the 2.2 million forcibly expelled during the war⁶⁷. Out of that, 79.28% pertains to the FBiH and 19.83% to the RS⁶⁸. Around 372,200 refugees have returned to BiH since the signing of the DPA⁶⁹. However, there are still 613,700 refugees accommodated outside BiH⁷⁰. 92.12% returned to the FBiH while 7.88% returned to the RS⁷¹. Of those returning to the Federation, 73.18% were Bosniaks, 20.30% Croats, 5.53% Serbs and 0.99% were ‘others’⁷². In the RS, out of all returnees, 84% were Serbs, 19.94 Bosniaks, 7.74 Croats and 1.49 were ‘others’⁷³. Between Dayton and 21 March 2001, there were 210,759 registered minority returns, which is 28.4% of the total returns to and within Bosnia and Herzegovina. 71% of them were to the FBiH⁷⁴. There are currently 555,700 Internally Displaced People

⁶² Ibid.

⁶³ I-PRS P, p. 6.

⁶⁴ For a more detailed analysis, see Hrelja, Kemal et al., “Human Development Report 2002- Bosnia and Herzegovina”, UNDP, p. 22.

⁶⁵ Ibid., p. 53.

⁶⁶ World Bank, “Poverty and Inequality in BiH: The Legacy of the War”, December 1999.

⁶⁷ Hrelja, Kemal et al., “Human Development Report 2002- Bosnia and Herzegovina”, UNDP, p. 73.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid., p. 74.

(IDPs) in Bosnia and Herzegovina. Of that number, 283,900 are in the FBiH, 248,300 in the RS and 23,500 are in the District of Brčko⁷⁵. It is maintained that it was those with secondary and higher education who succeeded in fleeing the country and were most suited to the labour needs of recipient countries⁷⁶. The brain drain continued after the hostilities had ceased, except this time the young people are in search of prospects for a better future. Between January 1996 and the end of March 2001, 92,000 young people left Bosnia and Herzegovina⁷⁷. Although the war ended six years ago, many people are still on the move, this time in search of economic opportunity elsewhere as the old industrial centres of the country remain void of economic activity⁷⁸. However, this type of post-industrial migrations within Bosnia and Herzegovina as well as within a wider regional context call for more analytical attention before any further conclusions are drawn.

XVII. The original entities' constitutional provisions had placed all of the three peoples in the discriminating position if they live in an entity where they were not the constitutional group. This discrimination is still strongly reflected in the present educational systems in the country. The federation's cantons are *de facto* formed on the basis of ethnicity. Five of them have a Bosniak majority, three are Croat dominated, and two are with Bosniak-Croat mixed cantons. In the Bosniak-majority cantons, with the exception of the Sarajevo canton⁷⁹, a Federal curriculum is in use⁸⁰. The Croat-majority cantons use a Croat curriculum, while in the mixed cantons a parallel educational system is in existence⁸¹. In a few instances of the Croat-majority municipalities in the Bosniak-majority cantons, the Croat curriculum has been applied on the municipality level only. In the Republika Srpska the educational competence has been centralised at the entity level and exercised by a single Ministry of Education. Unlike the Federation, there are no parallel sub-units of government to share the jurisdiction with the head ministry. Given the current structure, it follows that the Bosnian educational landscape consists of three educational systems with at least eleven variations on the level of implementation.

⁷⁵ Ibid., p. 73.

⁷⁶ Ibid.

⁷⁷ Ibid., p. 42.

⁷⁸ European Security Initiative, "Western Balkans 2004; Assistance, cohesion and the new boundaries in Europe: A call for policy reform", Berlin- Brussels- Sarajevo, 3 November 2002, <http://www.esiweb.org>.

⁷⁹ See the report by the Federalno ministarstvo obrazovanja, nauke, kulture i sports/sports "Osnove za obrazovnu politiku i strateški razvoj obrazovanja u Federaciji Bosne i Hercegovine", Sarajevo, Septembar 2001, p. 12.

⁸⁰ As of September 1999, the Bosniak cantons are using new "Federal core curricula" that emerged from a Federal Ministry of Education, Culture, Science and Sports initiative in 1998. In this arrangement 70% of the curriculum consist the "common core", while the remaining 30% is developed by the cantons. The representatives from the Croat majority cantons abstained from the participation in the effort, casting a doubt over the extent to which the new "Federal core curricula" implemented only in the half of Federal cantons is really a "federal one".

⁸¹ Two cantons usually characterised as "mixed" are the Srednje-Bosanski and Hercegovačko-Neretvanski cantons. Their cantonal administrations, including the schools as well as higher education are divided by dominant curricula and cultural orientation, with minimal coordination between the systems.

However, the primary dissemblance between the existing systems can be narrowed down to the content divergence in curricula and textbooks in the social subjects, the arts, and the humanities. In addition to this, there is also an issue of linguistic exclusivity in education. In these areas ‘in addition to transmitting knowledge, textbooks also seek to anchor the political and social norms of a society’⁸². First, there is a crucial issue of the language. The linguistic differentiation in the country occurred during the recent war. Although the peoples of Bosnia have no problems understanding each other, the linguistic difference between standards have been clearly politicised and transformed into ethnic markers of the respective groups⁸³. Since the end of the war the establishment and insistence on the difference between the three linguistic standards continued, particularly in the schools. Additionally, while the canon of subjects taught has not changed, the content in the “national subjects” such as history, literature and social science varies between the Federal cantons and the Republika Srpska depending on the population served. Hence, in the Republika Srpska the ‘national subjects’ are studied from a Serb and world perspective, where the Bosniak and Bosnian Croat population of the country are mainly omitted and otherwise not mentioned. Similarly, the Croat curriculum is constructed from a Croatian perspective and tends to ignore the other groups in Bosnia and Herzegovina. The Bosniak curriculum tends to develop a somewhat broader perspective, mentioning the other groups in the country, however, often in a negative stereotypical context when touching upon the last war. Whilst the books printed outside the country were to go out of use in June 2002 and most of the inflammatory language was to be deleted out of the textbooks, the reality of incompatible curricula remains. The existence of three curricula and stereotypes within them can be observed as a part of the processes of nation-building within the three groups, where the groups through curricula maintain their formed identities and warrant the distance towards the others⁸⁴. The international community in Bosnia and Herzegovina is currently working on the reform of the educational system in Bosnia and Herzegovina. The goal of ECATER programme is envisaged to create

⁸² Schissler, Hana in Pingler, Falk “Unesco Guidebook on Textbook Research and Textbook Revision”, 1999, p. 7.

⁸³ Some experts present an opinion that on the linguistic- communicational level of analysis, the minimal difference between the languages points out that the three peoples in Bosnia and Herzegovina use one language. However, on the political- symbolic and social-psychological level of analysis one notes the existence of three languages. For more see Interview with professor Ranko Bugarski in Dedić, Mirha, “Sa strucnoga lingvisticckoga stanovista Srpski, bosanski i hrvatski su jedan isti jezik”, *Slobodna Bosna*, No. 310, Sarajevo, 24 October 2002, p. 47.

⁸⁴ The current structure in many senses is an accommodation of a tumultuous process of communal identity building, involving disaggregation and ethno-territorial competition between different groups. The end result is a multiethnic state which in the given local settings provides primarily for identity needs of majority ethnic group by instilling in the child the essential similarities that collective life demands in a conceived local social setting. Pavković introduces a term “segregated multiethnicism” and defines it as existence of separate cultures that do not allow the interaction between them preventing the emergence of new mixed cultures. Separation is seen as the preventive action against the domination of larger cultures and the assimilation of the minority ones. See Pavković, Aleksandar, “Multiculturalism as a prelude to the state fragmentation: the case of Yugoslavia”, *Journal of Southern Europe and the Balkans*, Volume 3, Number 2, 2001.

a uniform and modern educational system countrywide⁸⁵. The reform envisages introducing the advanced and EU compatible academic methods, structures, curriculum and textbooks into Bosnia and Herzegovina's schools. However, the issues at the heart of each groups' identity, the languages, history and particularly the interpretation of the recent war events, may be hard to mitigate even with the current education reform and will instead depend on a wider political and communal consensus⁸⁶.

Institutional framework in the political context of BiH

XVIII. With the signing of the DPA, the Bosniak-Croat Federation and the *Republika Srpska* entities have been assigned a high degree of self-governance, while the role and powers of the central state institutions remain limited and specific. The entities internal administrative structures substantially diverge from one other. On one hand, the RS is highly administratively centralised at the entity and municipality level. On the other, the Federation administratively operates at the level of entity, canton and municipality. The District of Brčko has its own distinct administrative structure. Summarised, there are 13 governments and some 200 ministries at different administrative levels. The bulk of administrative powers in the federation have been placed at the canton level. Until recently, the Bosniaks and Croats were rendered constitutional peoples in the FBiH, while the same applied to Serbs in the RS. The summer 2000 Constitutional Court ruling on the changes of the entities' existing constitutions legally restores equal constitutional right for Bosniaks, Serbs and Croats throughout the territory of Bosnia and Herzegovina. In practice, the decision *de facto* entails an imposition of ethnic quotas according to the census from 1991 in various administration levels in both entities. The implementation of the decision in reality has started recently with the creation of new post-election governments. Yet, it is hard to predict how long before the decision will be fully implemented throughout the country.

The Bosnia and Herzegovina executive consist of the Council of Ministers⁸⁷. All functions not expressly assigned to the CoM are otherwise the responsibility of the entity government or cantons in the Federal case. The State also has the Presidency, consisting of a troika representing three ethnic groups⁸⁸. In Bosnia and Herzegovina, there are four major assemblies: the State-level Parliamentary Assembly, the unicameral RS assembly, the bicameral FBiH assembly, and the Brčko District Assembly. In the

⁸⁵ European Commission assistance for the education technological reform is sponsored by the World Bank and the European Commission and is to be completed by the end of 2006. Istrazivacki tim, "Model za cijelu BiH tek za cetiri godine", *Nezavisne Novine*, Banjaluka, 17. Septembar, 2002.

⁸⁶ For an in-depth analysis of the education predicament in Bosnia and Herzegovina see Kostić, Roland, "Education movements, Power and Identity in Bosnia and Herzegovina", in Swain, Ashok et. al., "Knowledge, Identity and Power: Education as an agenda of Social action", UNRISD, forthcoming publication, Spring 2003.

⁸⁷ Note that each member of the CoM represents a different ethnic group with a 8-month rotating chairmanship.

⁸⁸ Similar to the CoM, the troika appoints its own Chair on a 8-month rotating basis. Each member of the Presidency has a right of veto on a decision rendered destructive to interest of its community.

FBiH there are also ten cantonal assemblies, with the legislative authority in their respective areas of competence. The represented structure is a labyrinth of legislature and an embodiment of a fragmented state, in which various fragments often act in a discord and against each other, thus leaving little space for constructive developments overall.

- XIX. Weak state institution, and otherwise vast bureaucratic structures with an equally vast and inefficient judiciary have facilitated a fertile ground for corruptive tax evasion, smuggling, and criminal activities. Media disclosures of illicit businesses with cigarettes and petrol are nothing out of the ordinary⁸⁹. Sometimes, Bosnia and Herzegovina's enterprises reportedly used the existing loopholes in the legislation to evade tax duties⁹¹. Moreover, the cases of misused donations, often intended for the most impoverished parts of the population have also been reported in the media⁹². Often small and medium-sized companies, especially in the private sector are tempted to tamper with the balance sheets to evade sales and profit tax. In an interview given in July 2001, the former HR, Wolfgang Petritsch, cited an assessment that more than KM 500 million is lost annually to the budget at various levels because of tax evasion⁹³. The state of the business sector and the overall economic predicament warrant a call for a swift reform to combat corruption, start collecting taxes, trim the vast bureaucratic system and revamp the judiciary system, which is still particularly weak⁹⁴. The reforms in the judiciary, economic regulation, revenue collection, civil service, and state institutions are a necessity. However, the results will greatly depend on the manner in which the reforms are conducted. Firstly, the OHR should set an example by dealing with the growing international created bureaucracy, which increasingly draws from the state

⁸⁹ One example is the smuggling of cigarettes, which are reportedly purchased in Rovinj, Croatia, by a firm registered in Cyprus, and then via Montenegro smuggled into Bosnia and Herzegovina. Since the Customs in BiH became more vigorous in the past year, the legal imports of cigarettes have increased. Despite this, most of the tax revenue remains uncollected by the state. As is often the case, the local 'entrepreneurs' have succeeded through sets of fictitious (briefcase-firms) to evade the taxation and escape the meek hand of the law. Read Omeragić, Adijana & Kalamujić, Azhar, "Milioni nestaju u duhanskim kofer-firmama", Oslobođenje, Sarajevo, 07.02.2002.

⁹⁰ At the beginning of the year, the tax investigators of the FBiH established that ten petrol importers had sold their petrol worth KM 92,5 million to fictitious firms, depriving the state of 34,4 million in tax revenue and 29, 5 in road tax. Adžović, R., "Utajeno 34,3 miliona maraka", Nezavisne Novine, Banjaluka, 18. 02. 2002.

⁹¹ The most recent accusation by the custom investigators states that even the success case of the country's entrepreneurship, the Lijanović firm, evaded KM 47 milion in the state tax on imports. An argument has been circulated that the Lijanović firm did not break the law but merely used the existing loopholes and ambiguity in the current law on customs, and are thus innocent. The case is still under investigation. Landeka, Miroslav, "Lijanovići se švercali kroz rupe u zakonu", Slobodna Dalmacija, Split, 31. 10. 2002.

⁹² In the case of reported \$5 millions of Turkish aid for the disabled, an expert team of the Association of the War Invalids (RVI) charged KM 50,000 for their services, while the money frequently ended up in the fictitious firms and private hands. Hadžiarapović, Adi, "Kako se sve krčmila turska donacija namjenjena invalidima?", Dnevni Avaz, Sarajevo, 20. 12. 2001.

⁹³ Hrelja, Kemal et al., "Human Development Report 2002- Bosnia and Herzegovina", UNDP, p. 22.

⁹⁴ The pile of unresolved or waiting to be (maybe) processed politically loaded cases involve among others the Leutar case, the Pogorelica case, the Orao case, the East Mostar hidden weapons storage case, the Kosovo weapons sale case and many other less prolific ones.

budget⁹⁵. Secondly, without explicit clarity about which powers and resources should shift to the state, what the long-term role of entities, cantons, and municipalities will be, and as long as the system of distribution and responsibility is ambiguous, Serbs and Croats, politicians and their constituencies alike, may continue perceiving functional integration and functioning fiscal federalism as a threat⁹⁶. The risk remains that the imposition of *ad hoc* changes without prior fiscal and institutional delineation will not create an incentive for various levels of the government to work together. At each step, the reform is likely to become a source of protracted political and ethnically coloured⁹⁷ debate on one hand, and if and when imposed by the OHR, a source of protracted political implementation, followed by the OHR intervention and again ensuing political dramas on the other. The substantial risk is that most of the energy will once again be spent on political crisis management while the effort to create a single economic space and functioning economy will lose inertia.

Overview of the security situation

XX. In November this year it was the seventh anniversary of the signing of the Dayton Peace Accords, which brought an end to the violent conflict that raged in Bosnia and Herzegovina since 1992. Since the signing, implementation of the military part of the agreement was steady. The main characteristics of the Bosnia and Herzegovina state are a frail economy and weak institutional capacity. The further reforms of the institutions and economy will depend on the overall stability in the country. The risk is that instabilities could particularly discourage foreign investors. However, the immediate insecurity of the post-war period is by and large alleviated. With this in mind, as well as considering the continuous international military presence in the country, it is hard to anticipate a new conflagration of violent conflict, although the use of limited violence for political ends by peripheral groups of extreme elements remains a possibility. The security

⁹⁵ Reportedly, the Council of Ministers had passed a decision declining to increase the already chunky wage package to the employees of the Communication Regulation Agency, which is paid from the state budget. However, the same week the CoM reversed the previous decision allegedly due to pressure coming from the OHR. The OHR appoints and maintains contacts with the executive board of the CRA who otherwise answer to him. For more read Metjević, Asim, "OHR traži da portir u CRA zarađuje kao članovi Predsjedništva BiH", Slobodna Bosna, broj 312, Sarajevo, 07.11.2002, p. 17.

⁹⁶ Indicatively, the political parties and the OHR face disagreement regarding the introduction and implementation of the VAT. While many political parties, particularly from the RS, prefer VAT at entity level, the OHR is pushing for its introduction at the state level. Also, in the RS the issue of the single state custom has been treated as a political issue. See Nezavisne Novine, "PDV podijelio stranke", Banjaluka, 23. 10. 2002 & Nezavisne Novine "Dejan Šamara, pomoćnik direktora Republičke uprave carine: Jedinствена carina, političko pitanje", Banjaluka, 15. 11. 2002.

⁹⁷ Interestingly enough, the number of people in Croat and Serb majority areas who would crease the OHR powers is very small (3.6% and 6.7% respectively), while the number in favour of reducing them is very high (Croats-63.4%; Serbs-66.4%). On the other hand, nearly 40% from Bosniak majority areas would like to see the powers increased. UNDP, "Bosnia and Herzegovina Early Warning System", Quarterly report, April-June 2002.

complications pertaining to the *Hercegovačka Banka* 'auditing'⁹⁸, the celebration of the foundation stone for the mosques in Banjaluka and Trebinje⁹⁹, and the Algiers group extradition¹⁰⁰, warrant caution. The alleged links and listings of Bosnian Islamic aid organisation(s), on the long list of Al-Qaida's financial branches and the arrest of a suspected terrorist near the U.S. base, while affecting the image of the country and causing some political locomotion, should not have direct repercussions on the country's security^{101 102}.

Bosnia and Herzegovina in a regional context

XXI. The neighbouring countries, Croatia and Serbia, at various stages of the process had an influential role and often directly commanded the political preferences and choices of the political actors in Bosnia and Herzegovina. The death of President Tudjman, and the subsequent electoral defeat of his regime in Croatia in early 2000, and the October "revolutionary" demise of Milošević in Serbia created a new political situation in the region. Open support for the respective ethnic leaders and parties within Bosnia and Herzegovina has been somewhat reduced, while both countries have embarked on the road to Europe. However, the prospect of "soft nationalist" leadership in Serbia creates some reason for disquiet. The presidential election in December 2002 will in all likelihood result in the victory of Vojislav Koštunica. Judging from his recent electoral statement where he again¹⁰³ referred to the RS as "part of a family we hold very dear, very close to us and only temporarily detached from us, but always ours and

⁹⁸ The bank was reportedly used by the elements close to the Herzegovina's HDZ to launder money as well as to sponsor some of the parallel Croat institutions in Bosnia and Herzegovina. The OHR ordered the SFOR to take over the bank and its branches in order to conduct its own auditing and gain access to the hard evidence against the 'rebellious' HDZ leadership. Reportedly, an unprofessionally conducted action by SFOR exacerbated an already heated situation resulting in street riots, with several international workers assaulted and taken hostage, and SFOR vehicles turned over and damaged. See Šćepanović, Ivo & Sivrić, Marija & Karamartić, Antonia & Bogut, Vlado, "Gradani prevrtali SFOR-ova vozila, u Mostaru pretučeni djelatnici OHR-a", *Slobodna Dalmacija*, Split, 7. travnja 2001.

⁹⁹ The attempts to set in place the foundation stones for the rebuilding of the destroyed mosques in Trebinje and Banjaluka resulted in riots. On 7 May 2001, in Banjaluka, an estimated 5000 Serb rioters stoned Bosniaks, as well as international and local dignitaries who came to witness the event. One person subsequently died due to severe injuries inflicted by the stoning. R.I., "Četničko divljanje u Banjaluci i Trebinju uzdrmalo vladajuću koaliciju: Policija spriječila sukob Bošnjaka i Srba", *Večernji List*, Zagreb, 10. svibanj 2001; N.N., "Kamenje na Kleina i Lagumdžiju, autobusi u plamenu", *Vjesnik*, Zagreb, 8. svibnja 2001.

¹⁰⁰ According to the reports, five Algerians and one Yemeni person, all naturalised Bosnian citizens were arrested by the FBiH police in October 2001. They were under suspicion of working closely with the Al-Qaeda network on preparing an attack on the U.S. interests in Bosnia and Herzegovina. They were kept in the Federal penitentiary until 18 January 2002, when the Federal Supreme Court released them due to lack of evidence. Despite the ruling, under pressure from the U.S. government Bosnian authorities extradited the six suspects. On the night of extradition, riots broke out between the Federal police force and an angry mob who surrounded the Central penitentiary in Sarajevo in order to prevent the hand over. B. Jovanović, "Poslije odluke Vrhovnog suda FBiH o puštanju 'alžirske grupe' na slobodu Alžirci deportovani na Kubu", *Nezavisne Novine*, Banjaluka, ponedjeljak, 21.01. 2002.

¹⁰¹ Hina, "Bosnanska udruga na popisu pomagača terorizma", *Vjesnik*, Zagreb, 21. studenoga 2002.

¹⁰² Sabahudin Fiuljanin was arrested on 26 October 2002 on suspicion of spying on the U.S.-run SFOR facility near Tuzla. Allegedly, he admitted spying on the U.S. SFOR claimed that they found a hand-held rocket launcher in his residence. A.P., "Novi podaci produžili pritvor Fiuljanin", *Oslobodenje*, Sarajevom Srijeda, 20. 11. 2002.

¹⁰³ In his reply to Goran Gavrić from Canada on the DSS website, Koštunica explained that "we must yearn and aspire with all means to achieve our national goal of uniting the two Serb states on both side of the river Drina...Our policy is one of separating the Republika Srpska and bringing it closer to and uniting it with Serbia. We cannot abandon this policy", 10 December 1996, <http://www.dss.org.yu/arhiv/intervju96>.

always in our heart”¹⁰⁴, it is likely that the Serbian government will attempt to link the resolution of Kosovo’s status with the status of the Republika Srpska in any future negotiations. On the other side, the central-left coalition in Croatia is facing uncertain times ahead. The growing support for the nationalist parties in Croatia exacerbated by the Croatia–the ICTY disputes, social pressures as a result of the economic mismanagement legacy of Tudjman’s era and the painful transition at present, and wrangles within the coalition, opens the prospect for new elections in the near future, possibly as soon as early 2003. In a possible outcome, a new Croatian government could be formed by a coalition of the centre-right parties, who are more inclined to support the aspiration of their political kin among Bosnian Croats. Furthermore, even in the case that a centre-left coalition prevails, they will be compelled to intervene in a case of increasing international and/or local pressures on Bosnian Croats¹⁰⁵. Polarised political spectrum in Croatia, the strong and easily mobilised national sentiment and the presence of a powerful and well-connected Herzegovina’s Croat financial and political elites in Zagreb further buttresses this conclusion. The regional developments are likely to create a perception of a liquid and open-ended political situation and adversely influence the choices of political actors in Bosnia and Herzegovina. The main consequence of this kind of outcome could be a political slowdown and stalling of the institutional and economic reforms in the country. In summary, the Bosnia and Herzegovina problem occurred in a wider regional context of nation and state formation, and a comprehensive solution to identity and then economic problems of the country will occur in a wider regional setting. Reaching to an eventual solution rests with the international actors who currently keep the situation in the region stable but open-ended. As a result, the impression is that tensions continue to simmer in various hotbeds in the Balkans. The pressure is on the European Union and its US partner to end the diplomatic procrastination, discard the worn out rhetoric, and start offering solutions to bring a closure to various national questions in the region. Otherwise, a rule of thumb tells us that we are likely to see more political and economic instability in the region for the foreseeable future, Bosnia and Herzegovina not being an exception to the rule.

¹⁰⁴ Balkan Times, “BiH, EU Condemn Koštunica Statement”, 12. 09. 2002, <http://www.balkantimes.com>.

¹⁰⁵ Apparently, in his recent statement Zdravko Tomac, a senior member of the Croatian SDP and also the president of the foreign affairs committee of the Croatian Parliament, stated that the idea of the third entity should not be entirely discarded while the overall cantonisation is probably the best solution for Bosnia and Herzegovina. In addition, he reportedly told that in Croatian there is lack of awareness regarding the difficult position of the Bosnian Croats, which is according to him currently the most important national question for Croats. Fena- Hina, “Zdravko Tomac: Ne treba odbaciti ideju trećega entiteta u BiH”, Oslobođenje, Ponedjeljak, 2.12.2002, p. 8.

Scenarios

Scenario 1.

The initiated reforms in the judiciary, economic regulation, revenue collection, civil service, and state institutions will commence with its application. However, due to increasing imposition from the OHR and lack of consensus on the policy, the local actors, especially the Republika Srpska's main parties, are likely to impede the process. Stalling in the implementation of the OHR rulings could also be adopted as a strategy by the Croat parties. The ruling Bosniak parties are more likely to support further OHR increased powers. No ethnic party will go alone into a direct confrontation against the OHR, although they will seek a way to stall the process. The obstructions are likely to be initiated on the local level either by the 'reformist' parties or by the informal alliance of all parties representing a particular ethnic group. This strategy would strive to deprive the OHR of its legitimacy in the process, as well as preventing the IC to scapegoat only the ethnic parties. At the same time, while coming across as increasingly biased against certain ethnic groups, the OHR may find it difficult to eliminate all parties of an ethnic caucus from the politics. The partial and asymmetric implementation of the OHR imposed laws on the entity and canton level could be a result.

The trade deficit will in all probability abide at the same level, although much of the stability will come from the internationally imposed stringency on consumption to avoid total bankruptcy of the country. Excessive public spending will be reduced mainly through the trimming of the public administration via the reforms in the government institutions and judiciary. The revenue collection by the "state" is likely to improve to a degree, although the improvements are still likely to be insufficient. The pressure on the welfare system is likely to increase as the 'voucher' privatisation breed new unemployed. Despite the predictions of donor fatigue and cuts in donor aid, the EU's financial support is likely to remain steady, albeit through an initiated creation of a structural fund, mainly to help small and medium-size businesses of the country. Through the international financial support, particularly of the World Bank, a 'quick fix' solution has been already offered and negotiated with the entities' Ministries for social affairs in order to mitigate some of socially charged situations around the country, which continue to cause heightened ethnic polarisation. The ethno-regional disparities within the country could become even more relevant in the process. Brain drain will continue unabated as more young people seek a perspective in their life. The main question, the one dealing with the need to find an appropriate economic strategy given the economic structural and institutional constraints of Bosnia and Herzegovina remains unanswered.

The security situation is anticipated to stay relatively stable. The efficiency and cooperation between police forces, the FBiH and the RS is likely to increase steadily under the EU's leadership, particularly in respect to the coordinated struggle against cross-border smuggling. The two armies (de facto three considering physical separation of the Croat and Bosniak components of the Federal army) will continue discussing

the joint command proposal. However, they are likely to remain separate, due to different legacies, notwithstanding the urges from the NATO. New arms-sales affairs are not excluded as the cash striped armies attempt to raise money through the sales of decommissioned weapons. Additionally, the increased attacks on the minority returnees and the alleged presence of Islamic fundamentalist groups in the country is likely to keep the tension simmering. Continuing inability of the SFOR to arrest Karadžić and Mladić as well as the extremist's outbursts of threatening behaviour could manifold the tensions.

Most of the DPA's core tasks will be implemented within the next two years. In addition, with the substantial international financial and logistic support, the prioritised property law implementation and overseeing of the minority returns are likely to be completed. The implementation of the Constitutional Court ruling will be implemented at the higher level of government. However, it is likely to slow down the formation of governments at lower administrative levels. This is however likely to cause some political friction during the implementation.

The neighbouring countries, Croatia and Serbia are likely to have an effect on the developments in Bosnia and Herzegovina. In all likeliness, the Serbian government will increasingly use the status of the Republika Srpska in the negotiation over the Kosovo's status. They will continue supporting the stalling by the RS parties in Bosnia and Herzegovina for as long as the EU does not define its position regarding the status of Kosovo, which is legally still part of Serbia although under an international protectorate. A new Croatian government with a more pronounced nationalist agenda is likely to press for a wider recognition of the Croatian identity and right to be equal with the rights of other constituent peoples in Bosnia and Herzegovina. They are likely to again bring up a question of a new internal arrangement of Bosnia and Herzegovina. In their opinion, the solution for the country will still be around the creation of a symmetric system of state organisation substantiated in a federation of three entities or federation of cantons. The main consequence of these interventions could be a political fudging and protracted stalling of the institutional and economic reforms in the country.

Scenario 2.

The OHR ordained reforms in the judiciary, economic regulation, revenue collection, civil service, and state institutions have begun with implementation but would soon stall. The OHR pressure and urgency will probably cause substantial ethnic fragmentation in the government led by the ethnic parties coalition but consisting of other parties as well. The resistance will primarily come from the parties with the power base in the RS. However, the moment the OHR touches into the cantonal levels authorities, the HDZ and other Croat parties are likely to begin resisting changes as well. The ruling SDA in a partnership with the SBiH is more likely to support the OHR's increasing powers and proposed integration of the state system. Eventually, the breakdown of governing coalitions could become a reality. The ensuing options would include new elections. However, the outcome of the new elections would probably see the same parties assuming the power, perhaps with an even stronger voter support, thus leading to a new stalemate. Facing such prospects, the international

community could increasingly warm up to an idea that elections in the country were a mistake and that a full-blown protectorate over Bosnia and Herzegovina is a possible solution to the current instability. However, it remains highly doubtful how this kind of sweeping under the carpet measure would effect the short term stability and long term prospects for a solution in the country.

In the meantime, the OHR could try to push forward with the economic reform, albeit the legitimacy of the whole project may be in jeopardy, especially since the use of economic instruments would be primarily as a means to achieve the political and security goals. In the light of it all, the trade deficit will in all likelihood increase. Excessive public spending will remain at the same level or even increase, given the build up of the social pressures. At the same time, the tax revenue collection is likely to remain problematic. The pressure on the welfare system is likely to increase as the 'voucher' privatisation breeds new unemployed. Furthermore, shrinking of the international presence will drastically reduce the grey economy, but will add to the increase in unemployment. International financial institutions, which for years waited for privatisation in order to invest in the Bosnia and Herzegovina's faltering enterprises, will instead prioritise their short term interests by pouring money into the state-run social provision in order to mitigate the explosive social situation. Given the implementation of the regional free trade agreement, a strong currency and lack of capital investments, the development of the industrial production is likely to remain at rudimentary levels. The postulates of the internationally implemented tenets of neo-liberal economic development will continue to be questioned locally, this further coupled with demands to develop a strategy that accounts closer for the country's circumstances. However, the policy makers at IMF and the World Bank, true to their 'no-mistake' attitude, will in all likelihood remain insistent about their policy in the country.

The neighbouring countries, Croatia and Serbia are likely to have an effect on the developments in Bosnia and Herzegovina. On one hand, they will try to make the best of their economic presence in Bosnia and Herzegovina through implementation of the free trade agreement. At the same time, it is feasible that both Serbian and Croatian governments will call for the constitutional rights of their respective groups in the country to be respected, this followed by various proposals for comprehensive solutions to the Bosnian and Herzegovina institutional conundrum. The main consequence of this could be a political disarray and a near total economic collapse of the country.

The minority returns could register a decrease in their intensity. This would be affected primarily by the heightened political tensions and the feeling of an uncertain future within the various parts of the country. Given the tumultuous political situation, the implementation of the Constitutional Court ruling could become complicated at the lower administrative levels.

In this scenario, the security situation is anticipated to stay relatively stable, but possible deteriorations are not excluded. The instances of citizens disobedience and protests could be part of the wider picture, also increasing the capacity for riots and outbursts of violence. The armies of the country will continue discussing the joint command

proposal, however they are likely to remain separate, due to different legacies and current political complication, notwithstanding the urges from NATO. Additionally, the alleged Islamic groups presence in the country is likely to keep the tension simmering. Continuing inability to arrest Karadžić and Mladić is likely to exacerbate the existing political discords between various communities, further increasing the tension in the system.

Scenario 3.

In terms of the political changes, new pro-ethnic parties coalition at the entity government and the state government level is likely to adopt an increasingly constructive role when working with the International community. The reason for the improved attitude could be found in the mutual compromise between the local and international actors. The OHR has given the firm guarantees that it is not to undermine the position of entities. Instead, it opted for a fiscal delineation through the discussion with relevant local actors. At the same time, after the successful reform of the council of ministers the parties in the government further soften the parties' stance in relation to the introduction of VAT and customs at the state level, as a key prerogative for steady economic growth. The negotiations will continue regarding the budgetary commitments and provisions at various levels of government. Another result of the common effort is expected to be a formation of an *Agency for Research, Development, Technology and Humane Resources* at the state level. The agency will emerge as a result of the pooling of the entities interests and human resources. While the financing is likely to come mainly from the state budgeted, the administrative and technical support in the initial stages would be provided by the EU agencies.

The existence of an *Agency for Research, Development, Technology and Humane Resources* will facilitate the fulfilment of the standards and criteria from the regional free trade agreement. This will allow few remaining small and medium- size Bosnian enterprises, supported by international capital investments and technology, to wrestle back some of the regional marketers. The foreign trade deficit is likely to slightly improve, while the unemployment rate increase, albeit the unemployment increase will be lower than anticipated. In an additional development, the OHR accepts the advice of local economic experts to abandon the economic rigidity of the 'market fundamentalism', thus discarding an option of a frontal assault on the grey economy. Instead, it opts to approve a development and implementation of a gradual conversion of the grey into mainstream economy. The public spending remains steady at 48% of GDP. Although the CARDS aid decreases, new structural fund to help small and medium-size firms, is likely to be in place instead.

The property law implementation and the return of remaining displaced waiting and willing to return to their homes will be completed in the next period. Reconstruction of the infrastructure will continue, albeit at a much slower pace. Successful implementation of the Constitutional court ruling in most of levels of government further encouraged the returns.

Through the implementation of single market and the Stability Pact for Southeast Europe Croatia, Bosnia and Herzegovina and Yugoslavia develop closer economic cooperation. Albeit, the Serbian government is likely to continue to develop a close relation with the Republika Srpska and will still hang on the issue of the status of Kosovo. On the other hand, the Croatian government decides to further improve transparency of its financial support for the Bosnian Croat community by channelling all of it through the central state institutions.

Security situation is anticipated to stay stable and improve further. The efficiency and cooperation between police forces the FBiH and the RS is likely to increase steadily, particularly in respect to the coordinated struggle against cross-border smuggling. Two armies will agree on the existence of a joint command, while the single command could prove beyond the reach in the next period.

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Annex 5

– List of Donors

Donors and international organisations

By Per Iwansson and Per Byman

1. Multilateral donors

1.1. The European Union

The EU support to Bosnia and Herzegovina, and the rest of the Western Balkans, is channelled through CARDS, Community Assistance for Reconstruction, Development, and Stabilisation, which is one of EU's instruments within the framework of the Stabilisation and Association Process, SAP. CARDS is explicitly aimed at underpinning institutional and economic reforms within SAP. Administrative support and support for the adaptation of regulations to EU standards is thus of central importance.

Hitherto, the most comprehensive efforts have been aimed at reconstruction and facilitating the return of refugees. Concurrently with the progress made in these areas, the support is now gradually being redirected towards institution building, economic reform and rule of law.

The influence of the EU member states over the EU Commission is exerted through a committee in which each member state is represented. The indicative financial frame is € 4,65 billion to the whole Western Balkans for the years 2001 through 2006.

1.2. The United Nations

Since the end of the war UNMiBH and IPTF have contributed towards improving police standards by training and monitoring activities. From 1 January 2003, the responsibility for this area will be taken over by EU and the EUPM (European Police Mission).

The UNDP support to Bosnia-Herzegovina concentrates on five major areas:

- Governance: Policy and institutional support to key national government capacities;
- Support to Mine Action Co-ordination in BiH;
- Information and Communications technology;
- Area Based Development: Assisting sustainable return;
- Environment: As the national GEF (Global Environment Facility) partner.

Youth and Gender are incorporated in all the above-mentioned interest areas. In the period 2001 – 2003, UNDP expects to finance projects totalling 18 million USD. In addition to this support, the UNDP has launched a special initiative in 2002 to support for Srebrenica, aiming at return and reconstruction and economic-related support to this area.¹

UNICEF is promoting the right of the child and the children's perspective in different fields in Bosnian society, beside that UNICEF has taken a leading role in HIV/AIDS prevention in BiH.

UNHCR has extensive experience of working for refugees/IDP and returnees in BiH. UNHCR is involved in the development and implementation of the PLIP and it is in that capacity that Sida has contact with the organisation during the implementation of the Integrated Area Programmes. Recently the role of the UNHCR as an important actor in BiH has been put into question due to lack of willingness on the part of the IC to finance the organisations' activities in the country.

The UN High Commissioner for Human Rights focuses on discrimination in respect of gender and diversity, protection of minorities and the rule of law with an emphasis on social and economic rights. UNHCHR works with the human rights office of UNMIBH in relation to the police mandate and advises on human rights aspects of its work. In BiH the UNHCHR has taken an active interest in the problems related to the trafficking in women and children.

1.3. The World Bank and the European Bank for Reconstruction and Development

There are currently 20 active and 23 implemented and closed projects financed in BiH by the World Bank at a total cost of USD 940 million. These loans have been disbursed under standard IDA terms, repayable in 35 years, including a 10-year grace period, without interest, and with a one per cent servicing fee.

The World Bank's priorities are: strengthening governance and public sector management, fostering private sector led growth and completing reconstruction.

Reflecting Bosnia and Herzegovina's transition towards a market economy, the European Bank for Reconstruction and Development is focusing its activities on large-scale privatisation, reinforcement of the financial sector and creation of state-wide operational or regulatory institutions in infrastructure. The EBRD maintains an active policy dialogue with the state and entity governments in Bosnia and Herzegovina and with the international community. Through these discussions the Bank hopes to encourage economic and commercial incentives for greater integration between the entities, and among the countries in the region.

1.4. The Office of the High Representative

The Office of the High Representative is responsible for the civilian implementation of the GFAP, and is thus the final authority in theatre regarding its interpretation. The HR is authorised to impose legislation and dismiss obstructive officials, and is tasked with co-ordinating the activities

¹ Sida is actively co-ordinating and working with UNDP in the sectors of demining and support to the media (ATV)

of other international civilian organisations. The current (and last?) HR, Lord Paddy Ashdown, has taken a very proactive, attitude to his work, already passing some eighty laws in less than six months in office.

The Return and Reconstruction Task Force (RRTF) will be discontinued as a result of OHR's concentrating mainly on Rule of Law and economic reform. This will increase the responsibility of the separate donors with regard to co-ordination of efforts.

Swedish development co-operation with Bosnia and Herzegovina should be implemented in close contact with the OHR.

1.5. The Organisation for Security and Co-operation in Europe

The BiH mission of the Organisation for Security and Co-operation in Europe was established in December 1995 under the GFAP. The mandate includes promoting democratic values, monitoring and furthering the development of human rights, and organising and supervising elections, as well as implementing arms control and security building measures.

The OSCE supports capacity building activities in the area of trafficking in women, building financial management systems for the BiH municipalities (the MIFI project), the establishment and co-ordination of support to the Entity Ombudsman institutions, demobilisation of soldiers and in the Rule of Law sector.

1.6. IOM

The International Organisation for Migration has a mandate to work with migration issues. Much of its efforts have concentrated on counter-trafficking programmes, but IOM also works with demobilised soldiers, voluntary return of elderly, return of judges and prosecutors to minority areas and HIV/AIDS projects.

1.7. The Stability Pact for South-Eastern Europe

The Stability Pact remains an important forum for programmes, labelled "regional". Even though it is not the main goal of the SP to act as a donor, the Task Forces of the Stability Pact are important for co-ordination, drawing attention to important initiatives and for connecting programmes with donors. Thus, the SP highly supplements the SA process.

In practical terms, most of the concrete work of the Stability Pact is done in the meetings of the Task Forces. Sweden has been particularly active in the Trafficking, Media and Regional Return Task Forces, all of which are directly involved with Bosnia and Herzegovina. This involvement should continue throughout the strategy period.

2. Bilateral donors

The largest bilateral donor, in spite of a strong reduction from 2001 to 2002 is USAID. Much support goes to the economic reform and privatisation of both the finance sector and the private enterprise sector. USAID has previously had a large credit programme for enterprises of all sizes and is maintaining a large programme for municipal infrastructure in support of returnees (interventions are often co-ordinated with the Swedish IAPs). Since USAID cannot do house repairs for returnees, this was instead achieved on a large scale for a number of years through the

BPRM office in the US Embassy. However, this programme has now been reduced. Human Rights and Democracy including media are other important USAID programmes.

Over the years, the Netherlands has been the second largest bilateral donor with a programme approximately twice the size of Sweden's. The focus has been, and still is, on the return of refugees. However, large contributions have also been made to public financing of economic reform through co-financing World Bank programmes and to the SBS (State Border Service). Other support has been given for the reconstruction of the Old Bridge in Mostar and to PBS. The Dutch government also has programmes additional to the funds handled by the Embassy. There is, for instance, a programme similar to Sweden's Start-East, supporting joint ventures between Dutch and Bosnian companies.

Japan is another large donor working to a large extent through UN organisations. Japan finances UNHCR and UNDP for refugee return programmes. Another Japanese sector has been transport, where a detailed national transport master plan was designed and implemented. Most public buses in Sarajevo are Japanese donations.

Until a few years ago, Norway used to be a large actor in the refugee return sector and related programmes, when the contributions were still labelled humanitarian assistance. Norwegian assistance has since decreased and is not very extensive today. However, from next year, NO-RAD will draw up a long-term development co-operation programme. Other recent and current sectors of Norwegian assistance include water, support to the private sector and democracy.

Switzerland has spent € 130 million in Bosnia and Herzegovina between 1996 and 1999. The budget for 2000–2003 is € 32.5 million and the focus is on the private sector (especially agriculture related), water and infrastructure (hydropower), health and social networks, and good governance.

British DfID has a coherent programme based on a strategy that dates from 2000. Although, in terms of finance, it only amounts to approximately half of the Swedish programme, it is quite visible. Sectors for the British assistance include: the private sector and investment environment, government institutions (effectiveness, accountability/responsibility to the public), social policies and health care, rule of law, media.

Germany is a large actor in economic reform, especially privatisation of enterprises. The individual federal States ("Bundesländer") also spend a great deal of money on return-related issues.

Italy has substantial programmes. Spain is big enough to have its own development co-operation office and has funded a large programme on electrical distribution that benefits, among others, Swedish IAP clients. There are also several Islamic countries among the major donor countries, but the scope of the programmes remains unclear to some extent. An Arab world conference recently promised further joint financing in the shape of a common fund for BiH. Much money is probably spent on ideologically motivated construction projects and direct contributions to individual beneficiaries. Saudi Arabia's large assistance is most visible in the many large mosques in Bosniak dominated areas, but it has also financed fairly large reconstruction programmes in, for example, Sanski Most.

Malaysia has a coherent and visible return reconstruction programme in, for example, Srebrenica. Malaysian private capital is also responsible for the largest speculative construction project at present in Sarajevo. A large high-rise building complex is being built for the sale of housing and office space.

The largest foreign direct investment in BiH is the Kuwait Government investment in the Zenica steelworks. Part of this investment has been used to set up a separate company with a Kuwaiti director, BiH Steel. Donated money from the Arab world has also been used to set up loan funds for enterprises through a local Sarajevo bank. In the NGO world the Egyptian Igasa and the London-based Islamic Relief have been serious actors with funding from various sources.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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