

Corruption in post-conflict reconstruction Bosnia and Herzegovina case study

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Among many political and economic theories of the Yugoslav break-up, one has recently become rather popular among the international relations scholars. The fact that the national borders within the former Yugoslavia represent the largest redistributing mechanism of national wealth may have triggered the desire for a greater control of these boundaries. Due to the small capacity of regional economies, the value of goods transported to and from the Balkan countries in some cases reached up to 85% of GDP². Therefore, those politicians who sought a tight command of such a large GDP proportion, first had to establish firm borders and then control the customs and border police with an aim to grip the proceeds from new duties and levies as well as massive bribes. Immediately with the break-up of Yugoslavia, the post of the Head of Customs became more important than any ministerial position. This may explain the political goal of separation from the criminal viewpoint. In fact, while the national leaders promoted the policy of threat and domination of other ethnic groups thus calling for self-determination and separation, what they had in mind was the territorial division that renders a significant illegal yield. Likewise, their persistence to maintain such a strict division of the ex-Yugoslav republics and territories with endless administrative barriers and customs procedures, they maintain their corrupt source of income, while claiming that the division is good. This is true only for the ruling elites, as they practically monopolise the intra-regional trade hence sustaining some control over the 85% of their country's GDP.

Bosnia and Herzegovina (BiH) itself came into being in 1992, facing an immediate inter-ethnic war threat, which the separation was expected to trigger. Almost four years of the conflict ended with a peace agreement signed in Paris by the end of 1995 that left the country administratively divided in two constituent Entities: the Federation of BiH and the Republika Srpska. The wartime parties were able to fund their political and military activities by controlling the movement of arms, fuel, tobacco, alcohol and foodstuff³. Intelligence investigations show that between 1992 and 1995 up to US\$ 800 million worth of weapons was smuggled into BiH⁴ channelled through foreign-based firms, managed by the local politicians. Such businesses represent a breeding ground for corruption, making their managers, thoroughly selected members of the elite, the richest people in the region. In many ways, the war created and solidified networks premised on trust and loyalty and created alliances between politics and crime, very often crossing the frontline too. Many members of the nationalist parties became and are still linked to these political-criminal networks whose structure is difficult to dismantle. For most part, these alliances remained even after the peace agreement was signed.

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² Center for Study in Democracy Analyses and Reports: Smuggling in Southeast Europe, Sofia, 2002, p. 6

³ Chandler, D: Bosnia: Faking Democracy After Dayton, 2nd Edition, London, Pluto Press, 2000.

⁴ Center for Study in Democracy: Anti-Corruption In Southeast Europe – First Steps And Policies, Sofia, 2002, p. 13

The nationalist parties that led the conflict remained in power for years after the civil war with an effective control over the bureaucratic mechanisms and the public revenues system. The international protectorate was comparatively weak in the early reconstruction years and its powers vested in the High Representative⁵ grew over years and reached its peak in the latest period 2002-2003. However, the disbursement of the international post-war assistance started as early as December 1995 and was largely lacked a monitoring scrutiny for most of the intensive reconstruction period.

The total amount the donor community pledged and committed in the country up to 2000 exceeded US\$ 5.1 billion⁶, which sets the per capita recipient figure to US\$ 255⁷. Five donor conferences were organised to accommodate the needs of the devastated country, but what these conferences failed to arrange were the aid co-ordination and disbursement and control mechanisms. This not only resulted in the mismanagement of the donor funds, but also this generous international assistance to become a subsidy for the misused fiscal revenues.

Recent reports have indicated that pilfered funds have been diverted into private pockets or party coffers. In more than one cases, the money that was embezzled was the international aid. In fact, according to Chris Hedges' seminal New York Times article, the OHR Anti Fraud Unit only in 1999 was examining 220 cases of embezzled cash intended to help rebuild roads, buildings and schools and to provide municipal services across the country. For example, in the town of Sanski Most, which was heavily damaged during the war, municipal funds were being used to build a horseracing track. The town's Mayor was charged with 358 counts of corruption. One charge included the theft of \$450,000 in relief aid from Saudi Arabia, which was supposed to buy feed and farm equipment, but instead was allegedly given to the Mayor's brother to start a bank⁸. Other examples are numerous and include the misuse of both the bilateral and multilateral donor funds.

The apparatus of orderly government is too often hijacked by political elites who siphon the national treasury and transform government bureaucracies into bribe-collection agencies, which impede business. Moreover, corruption in BiH creates an atmosphere of ambiguity that stymies businesses from investing and initiating operations. Certainty premised on the rule of law is a prerequisite for investment. Pervasive corruption in BiH has long-term consequences on the country's economic development. Corruption has also played a pivotal role in driving away foreign investment, because most foreign companies have refused to set up operations after demands by officials to pay bribes and

⁵ The High Representative's post was created by the Framework Peace Agreement, enabling decision-making in the implementation of the civilian aspect of the treaty possible where the national parties could not reach an agreement. However, over time the Office of the High Representative (OHR) became the most powerful institution in BiH, practically running day-to-day affairs of the country.

⁶ Divjak, B: Discussion paper: Aid Co-ordination successes and failures - Bosnia and Herzegovina Case Study, Oslo, 16 February 2000, p. 7

⁷ IMF's 2003 estimate of BiH population used for per capita national accounts – 4 million citizens.

⁸ Hedges, C: Leaders in Bosnia Are Said to Steal Up to \$1 Billion, The New York Times, 18 August 1999

do business exclusively with local party officials⁹. Administrative barriers are far too numerous and the country runs the highest per capita costs for setting up a business and among the highest social and fiscal contributions in the region. These are extremely discouraging for investors, aimed at financing the excessive bureaucracy and kleptocracy and are keeping the unemployment rate at approximately 40% while encouraging the grey economy estimated at 50% of the country's GDP¹⁰. The country remains aid dependent at the times when there are very little international sources willing to continuously fund its development, with no growth strategy of its own and sustainable structures to take BiH into the family of the European states.

The international community has set up several watchdogs to monitor corruption. Those that had a greater degree of integrity were its own institutions, such as the Office of the High Representative's Anti Fraud Unit (later the Anti-Crime and Corruption Unit – ACCU). Insufficient resources were invested in setting up and training the local institutions with the anti-corruption mandate, particularly judiciary, prosecution, supreme audit and police. Even where the ACCU was investigating crime, in co-operation with the Special Auditor also acting under the OHR's auspices, there were few attempts to investigate jointly with the domestic authorities. This hardly assisted the country's long-term self-sustainability.

Meanwhile, the citizens were running out of options. When the 'democratic change' came with the general elections of 1998 and 2000, replacing the nationalist parties with the 'moderates', it became clear that given the institutional environment, all parties will resort to corruption the moment they grab the executive power. By 2004, every significant political party held the public office in BiH and all of them proved to be equally corrupt. The TI BiH's perception monitoring demonstrates that the level of corruption in fact reached its peak with the 'moderates' rule of that period, maintaining the record high since.¹¹ The citizens continuously place corruption immediately behind unemployment on the list of the biggest BiH's contemporary problems. The message that never comes across to its politicians. This has prompted several national good governance and anti-corruption initiatives of the civil society, led by TI BiH and financed by the donors present in the country and the region of SEE. Such synergies have resulted in the initiatives such as the toll free anti-corruption phone line that is currently networking prosecution, police, judiciary and the civil sector in building the capacities for a swift processing of crime. However, all such attempts remain relatively low key.

Several international analyses and media reports also criticised the donors' own transparency and disbursement or procurement procedures. This has more recently improved their performance, setting higher benchmarks to themselves as well as the national authorities. However, it is more important that the international aid, while targeting the most disadvantaged, enabled the ruling elites to abuse the scarce regular

⁹ Skulrak R.: Crime, Corruption and Endangerment of Bosnia's Statehood, University of Pittsburgh, http://www.ksg.harvard.edu/kokkalis/GSW3/Robin_Skulrak.pdf, p. 10

¹⁰ Central Bank of BiH figures from Transparency International BiH: Corruption Perception Study, Banja Luka/Sarajevo, 2002

¹¹ TI BiH, *ibid* and TI BiH: Corruption Perception Study 2004, Banja Luka/Sarajevo, 2004

revenues and indebt the country internationally to fund the basic reconstruction and transition. The cost of international borrowing is high as well. As the country matures from the poorest nations and the equivalent lending terms, its crediting is ever more expensive to the authorities and the existing credit rating prohibits any larger borrowing. Such assistance is often linked to large consultancy operations aimed to build domestic capacities, which given the lack of national strategy has little impact and meaning. Therefore, the funds are being wasted several fold and the per capita debt expands. With no clear national objectives, the overall climate in BiH is that of the youth leaving the country while the others struggle to survive.

The international agencies failed to ensure the rule of law and increased transparency prior to disbursing either grants or development loans. To the contrary, the corrupt 'moderates' were often encouraged through a more intensive delivery of aid, in order to depress popular support for the nationalist parties, at the further expense of the country's institutions and sustainable development.

The current institutional capacity building which did not go in parallel with the earlier physical reconstruction and establishment of the social infrastructure comes at the time when the donor attention turned to the countries and regions other than BiH and SEE. International patience with the local authorities is said to have run out, but the truth of the matter is that in a protectorate conditions, they cannot be blamed alone. Except for a few sectors (banking and finance to some extent), the others cannot claim to be success stories. In the meantime, poverty continues to strike BiH and organised crime keeps running business from this infamous critical hub in the Balkans.