Peacebuilding and Corruption

Case study Bosnia and Herzegovina

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General state of the Balkans

- Public sector non-transparent, ‘state capture’ and no confidence in public institutions
- Institutions in transition – administrative and ‘grand corruption’
- State borders – mechanism of national wealth exchange (85% GDP crosses borders and internal boundaries)
- Geographic location – old trade routes
- Smuggling of excise and illegal goods
- Regional co-operation / proliferation of organised crime, incl. smuggling routes
- Links between the formal authorities and the mafia

Costs of regional crime

- Non-liberal movement of people and goods regionally with tedious and expensive administrative procedures
- Border control – illegal privatisation of the service by the narrow elite
- Institutionalised corruption = embedded networks
- Systemic corruption in the Balkans = *de facto* privatisation of the cross-border transactions (through bribes and control of administration) = 2/3 GDP of every Balkan economy
- Resulting grey economy – 30-50% GDP

State capture leader

- BiH has the highest level of “state capture” in all of ECA

TI CPI 2006. – Ranking the region

Rank	Country	Score (1-10)	Score 2005	Rank 2005	Surveys
28	Slovenia	6,4 ↑	(6,1)	(31)	8
69	Croatia	3,4 =	(3,4)	(70-76)	7
90-92	Serbia	3,0 ↑	(2,8)	(97-102)	7
93-98	BiH	2,9 =	(2,9)	(88-96)	6
105-110	Macedonia	2,7 =	(2,7)	(103-106)	6

CPI 2006
9.0 - 10.0
8.0 - 8.9
7.0 - 7.9
6.0 - 6.9
5.0 - 5.9
4.0 - 4.9
3.0 - 3.9
2.0 - 2.9
1.0 - 1.9
no data

93-98. position:

Argentina
Armenia
Bosnia & Herzegovina
Eritrea
Syria
Tanzania

TRANSPARENCY INTERNATIONAL
the global coalition against corruption

Corruption affects political life to a large extent

Where corrup-tion affects political life to a large extent	More than 70%	**Bosnia and Herzegovina**, Bolivia, Greece, Israel, Peru, Philippines, Taiwan
	51% - 70%	Argentina, Bulgaria, Canada, Cameroon, Chile, Colombia, Croatia, Czech Republic, Dominican Republic, Ecuador, France, Ghana, Indonesia, India, Italy, South Korea, Lithuania, Macedonia, Mexico, Nigeria, Panama, Paraguay, Poland, Portugal, South Africa, Russia, Serbia, Thailand, Turkey
	31% - 50%	Costa Rica, Ethiopia, Georgia, Germany, Guatemala, Hong Kong, Ireland, Japan, Kosovo, Kenya, Moldova, Nicaragua, Pakistan, Romania, Senegal, Singapore, Togo, UK, Ukraine, Uruguay, USA
	11% - 30%	Austria, Cambodia, Denmark, Finland, Iceland, Luxembourg, Malaysia, Netherlands, Norway, Spain, Switzerland, Venezuela

Source: Transparency International Global Corruption Barometer 2005

All government levels captured

	Municipal authorities		Entity governments		Cantonal governments		BiH State institutions	
%	2002	2004	2002	2004	2002	2004	2002	2004
Almost all	25.2	23.1	19.0	23.9	19.6	21.8	20.8	21.2
Majority	46.1	47.6	51.9	50.3	48.3	50.2	49.5	51.9
Some	22.5	24.5	20.8	22.1	19.8	22.3	15.2	22.0
Almost none	1.1	1.7	0.5	0.4	0.6	0.6	0.0	0.0
No corruption	0.3	0.1	0.3	0.0	0.2	0.0	0.0	0.0
D/K, refuse	4.9	2.9	7.5	3.3	11.5	5.1	13.4	4.9

How many officials are involved in corrupt practice?

Source: TI BiH, Corruption Perception Study 2004

Leading corruption – political parties

Source: Global Corruption Barometer, Transparency International, 2005

Barriers to doing business

Sample:
-- 350 enterprise managers countrywide

PROBLEM	%-age
Monopolies	33.2
Conflict of interest	31.5
Availability of financing	30.4
Tax rates	29.8
Administration/bureaucracy	27.5
Judiciary	26.0
Shortage of qualified labour	25.1
Inflation	24.7
Unfair tender competition	20.2
Tax regulation	20.1

Source: WB Diagnostic Survey of Corruption, Sarajevo/Washington, Jun-Sep 2000

Perceptions of reconstruction and development priorities

1. Physical reconstruction (military, political stability, institution building, property, refugee return)

2. Social infrastructure (assistance to vulnerable, reintegration of combatants, elections, health, education, judiciary, law enforcement)

3. Economic regeneration (private sector development, privatisation, employment generation, removing barriers to doing business)

Privatisation process misused

- Illegal proceeds mostly feeding state-owned enterprise management -> party accounts
- Party-triangle: SoEs-privatisation agencies-relevant ministries
- Covering up corruption by closing the 'triangle'

Who benefited privatisation most? (Source: TI BiH, 2002)

Selecting the ‘leaders’

Statebuilding vs. corruption

Capacity building – where to start?

- Executive
- Legislature
- Political Parties
- Electoral Commission
- Supreme Audit Institution
- Judiciary
- Civil Service/Public Sector Agencies
- Law Enforcement Agencies
- Public Contracting System
- Ombudsman
- Government Anti-corruption Agencies
- Media
- Civil Society
- Business Sector
- Regional and Local Government
- International Institutions

Capacity building – success stories!

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- Legislature
- Political Parties
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Recommendations – aid co-ordination and harmonisation

- An effective aid co-ordination mechanism should be set up from the very outset, with sufficient monitoring capacities that bring together the international donors and the national government representatives.
- Ideally, this would be accompanied by a degree of donor harmonisation to aid programming, delivery, co-ordination and implementation.
- Development aid must be structured and conditioned in a way not to become an indirect subsidy for revenues lost to corruption, or directly mismanaged by the corrupt recipient governments.

Recommendations – role playing and ownership

- Where government is not fully in control of its legislative and executive functions and where these responsibilities partly rest with the appointed international authorities, there must be a clear division of responsibilities, governed by the subsidiarity principle: what the international community does differs from the activities of the national and sub-national authorities and only one can be held accountable for specific reforms, undertakings, legislative drafting etc.
- Ideally, the international partners consult, train and monitor the national institutions, but do not supplement or reverse their decisions once made.
- This must be accompanied by a definite and very detailed exit strategy that spells out the full transfer of responsibilities to the national institutions (in reality – the schedule of institutional capacity building).
- Evidence also demonstrates that relying on ‘benevolent dictators’ who display corrupt behaviour but may serve the temporary international agenda is profoundly inappropriate and the price is fully borne by the citizens of the country.

Recommendations – Effective anti-corruption campaign

- The anti-corruption agenda must take a holistic approach – it is to be centrally located in the executive that overseas the implementation of an anti-corruption strategy.
- The ownership must be local with analytical inputs, good international practice, standards and tools provided by the donor community.
- It is most effective when independently monitored with progress verified by reputable watchdogs and/or NGOs.

Recommendation – sustainable development building confidence

- There can be no sequential institutional development. Several sectors must be addressed, i.e. reconstructed and developed simultaneously.
- This involves removal of administrative barriers to doing business nationally (and regionally too, ideally) often in parallel with a decisive privatisation of state-owned economy that effectively demonopolises the ruling elites, enhances growth and builds confidence among the divided communities.
- Therefore, physical reconstruction must be supplemented by social and commercial/business infrastructure reforms.

Leading anti-corruption

Which institution should lead the anti-corruption efforts?

Source: TI BiH, 2004

Thank you!

More information at:

www.ti-bih.org
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