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**CORRUPTION, INFORMALITY AND
CIVIL SOCIETY: CHALLENGES TO PEACE
IN BOSNIA-HERZEGOVINA**

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CONTENTS

Introduction.....	6
CHAPTER I	
BOSNIA'S DILEMMA BETWEEN TRANSITION AND STALEMATE.....	8
1. LOST IN TRANSITION.....	9
1.1 From Yugoslavia to Dayton.....	10
1.2 Stalemate or transformation? Post-Dayton paradoxes.....	12
2. BOSNIA IN THE EUROPEAN FOREIGN POLICY.....	13
2.1 Current stalemate: shortcomings of the EU strategy and local setbacks.....	14
2.2 Importance of civil society in Bosnia's accession process.....	19
CHAPTER II	
CORRUPTION, INFORMALITY AND THEIR CRITICAL RELATION WITH NEOLIBERAL PEACEBUILDING.....	22
1. CAN INFORMALITY BE DEFINED ASCORRUPT?.....	23
1.1 Corruption in Bosnia: definitory issues.....	23
1.2 Forms and levels of corruption.....	25
1.3 Perception of informality: the other side of the coin	27

1.4 Can informality be held as completely antidevelopmental?.....	29
2. PROCESSES AND LEGACIES OF A NEOLIBERAL PEACEBUILDING.....	32
2.1 Processes of a neoliberal agenda: disabling local ownership.....	35
2.2 Lack of adaptation by the IC.....	37
2.3 “Institutionalisation of crime”: when mafia economy is the only local ownership.....	38
2.4 Foreign engagement and corruption plasmate each other	40
3. THE SUPPOSEDLY ENDEMIC NATURE OF CORRUPTION IN BOSNIA.....	42
3.1 Behind the curtain.....	44
CHAPTER III	
EXAMPLES OF A CONTROVERSIAL	
TRANSITION.....	46

1. POLITICS OF CORRUPTION.....	47
1.1 When the rule of party prevails over the rule of law.....	48
1.2 Politics and mistrust	49
1.3 Milorad Dodik-s case	51
2. FROM WARFARE TO ECONOMIC ENTREPRENEURSHIP.....	53
2.1 Black market and informal welfare: the Arizona Market dilemma.....	54
2.2 Economic transition and privatisation.....	56
3. REFLECTIONS ON CIVIL SOCIETY.....	60
3.1 Social exclusion and mistrust.....	61
3.2 Social capital: peacebuilding potential or vehicle of corruption?.....	64

CHAPTER IV**CURRENT CHALLENGES ON THE WAY TO BOSNIA'S FUTURE****RECOVERY.....69****1. ATTRACTING FOREIGN INVESTMENT: ANOTHER SUCCESSFUL FAILURE?.....70****1.1 Legal and institutional environment.....72****1.2 Bosnia's unattractiveness to domestic and foreign investors.....74****2. ANTI-CORRUPTION EFFORTS IN BOSNIA AND HERZEGOVINA.....78****2.1 Institutional environment.....79****2.2 Anti-corruption failures: Whose fault?.....85****CONCLUSIONS.....90****REFERENCES.....95**

INTRODUCTION

Bosnia-Herzegovina represents a *sui generis* case in relation to a wide set of aspects, ranging from its statehood and its ethnic composition, to the institutional ruins left by one of the most bloody conflicts experienced by Europe in decades. Today, a decade and a half after the end of the war, Bosnia is experiencing one of the worst crises faced in years of relative, slow progress: political corruption, deep economic flows, high unemployment rates, deteriorated public services, organised crimes, immanent mistrust between ethnic groups and a deep feeling of disillusionment for a government/governance which does not seem to take into account the real needs of the population.

Starting from these assumptions, this thesis is aimed at considering further compelling features of today's Bosnia. The focus will be on the relationship existing between the peacebuilding efforts carried out by the IC in this post-war and transitional country, and their reflections on its political economy. In order to do this, issues such as neoliberal peacebuilding, corruption, informality and civil society will be particularly relevant.

This thesis is substantially meant to give a response to the following question: how does international peacebuilding impact the post-war economic transition in Bosnia? International intervention and post-war assistance had a great impact on Bosnia's transitional process from warfare to the current status quo. Nevertheless, the “massive” character of international presence has enhanced disfunctionalities and weakened the Bosnian system as a whole, having a huge impact on its economic transition and favouring corruption at all levels of society. Corruption has linked the local and the international realm, having a huge impact on civil society building. Since corruption and political economy are entrenched, this work is mainly focused on the political economy of corruption, the ways in which the IC is interacts with all its different aspects and the reflections of such an interaction on civil society.

For what concerns the structure, the work is divided into four chapters: the first chapter helps in understanding the foundations of the current Bosnian state, in its continuous dilemma between transition and stalemate, and between past legacies and future EU integration prospects.

Huge part of Bosnia's previous and present instability is due to an international presence which has not been able to prevent escalation into war; one creating dependency with its massive post-war presence; one which does not clearly define the way Bosnia can compete with other potential candidate states to the EU.

The second chapter has the main purpose of addressing the phenomena of corruption and informality as a separate, despite their common role of operating as a link between the local and the international realm. It will be highlighted how certain corrupt and/or informal practices cannot be dismissed as entirely anti-developmental. From one side, they have constituted a means of survival for the civilian population; from the other side, they have come to constitute a political economy of corruption, deemed to be “endemic” by the same international institutions which got controversially involved in it.

The third chapter constitutes an empirical insight of how international peacebuilding relates with a local realm which is in post-war political and economic transition. Hence, some concrete examples will be provided about the interplay existing between troublesome local dynamics and a questionable international intervention. Each example will refer to one of the constitutive grounds of the Bosnian system: Prime Minister Milorad Dodik's activity in the political sphere, the peculiar cases of Arizona Market and Aluminij Mostar on the economic ground, and personal connections on the ground of civil society.

The fourth and last chapter continues to deal with the dysfunctional implications of international presence. This is done through considering the current challenges on the way to Bosnia's future recovery, such as business and anti-corruption efforts. Short term priorities and lack of civil society empowerment have shaped international involvement. This strategy of seeking quick fixes and preventing local empowerment has proven to be inadequate and counterproductive.

In conclusion, it is beyond the scope of this work to provide new brand solutions. Instead, pointing out problems and raising questions will certainly provide food for thought in evaluating those infra-political and infra-economic structures in which corruption, informality and peacebuilding relate in Bosnia's transition towards recovery.

CHAPTER I

BOSNIA'S DILEMMA BETWEEN TRANSITION AND STALEMATE

Today, a decade and a half after the end of the war, Bosnia is experiencing one of the worst crises faced in years of relative, slow progress: political corruption, deep economic flows, high unemployment rates, deteriorated public services, organised crimes, immanent mistrust between ethnic groups and a deep feeling of disillusionment for a government/governance which does not seem to take into account the real needs of the population.

Even if the period covered by the assessment of this work concerns Bosnia's postwar peacebuilding challenges and its recent political and economic issues, an introductory overview of the transitional legacies of the country is needed. This is important in order to better understand the challenges faced by the country in the near past, the current dynamics, and the developments expected for the near future.

Hence this first chapter constitutes a first oversight of the several controversies and paradoxes which make Bosnia a *sui generis* case, in its continuous dilemma between transition and stalemate. Thus, before concentrating on the core issues of the current challenges to Bosnia's peace, a first paragraph will examine briefly the conditions in which these challenges are rooted. Then a second paragraph will address the emersion of ultimate challenges such as those represented by the EU enlargement prospects.

Through the chapter it will be demonstrated how huge part of Bosnia's previous and present instability is due to the paradoxes caused by the prolonged international presence in the country: from one side, the IC's top-down approach and massive presence has created a dependency which has not prevented the country from lagging behind other potential candidate states to the EU. Nevertheless, without foreign assistance, Bosnia's transition would have certainly been even more unstable. As an outcome, until now, none of the international institutions have been able to give a clear-cut answer to the Bosnian deadlock. A second, conclusive issue concerns the importance of the role played by civil society in building peace and in improving the long-term stability of a country within the European framework. The Bosnian case does not follow this path, since the top-down nature of international presence and the unwillingness of local institutions have prevented meaningful partnerships with local actors.

1. LOST IN TRANSITION

As anticipated before, this first paragraph endeavours to identify and analyse some root causes of Bosnia's current challenges to peace and stability. The time-frame taken into consideration goes from the collapse of the communist regime and the Yugoslav dissolution to the enhancement of the Dayton Peace Agreement, envisaging two main transitional stages. It will be assessed how international institutions lacked the political unity to address the turbulent Yugoslav post-independence transition, and how this shortfall had huge implications for the whole Bosnian stability.

There was a time in which Bosnia-Herzegovina experienced a “golden period”, in the years preceding the devastating war occurred in the '90's (Andjelic 2003). During these decades (especially between '70s and the '80s), Bosnia was known as a model of tolerance and peaceful coexistence among its constitutive groups which, despite occasional tensions, coexisted peacefully for years¹.

At the time, Bosnia was also one of the industrial hubs of the Former Yugoslavia, with a relatively well educated and skilled labour force². Economically, the Yugoslav system was far more market-oriented than other Eastern European state-run economies; it presented a relatively developed private sector and a higher share of services in its overall economic structure (World Bank 2003).

Such an economic dynamism was mainly due to Yugoslavia's non-aligned status, which attracted vast foreign credits. Nevertheless, from the '80s onwards, after the second oil crisis and the consequent end of foreign borrowing, Bosnia's industrial economy and living standards worsened in a relevant way.

1 The Yugoslav federation reconstituted after the war in 1945 saw Bosnia as an exception in being constituted by a single national group possessing an hegemonic status. According to the 1991 census, no group in Bosnia had a numerical majority, with the Muslims (who adopted the religiously neutral term of “Bosniaks” in 1993) constituting a relative majority of 44%, the Serbs 31%, and the Croats 17%. Self-identified Yugoslavs made up 5.5% of the population, and “others” the remaining 2.5%. (Belloni 2009 b): 357)

2 At the beginning of the 1990s, Bosnia's production industry employed approximately half a million workers, largely in manufacturing industries, including textiles, armament, machines, metals and wood processing. (BBI, PGlobal Turkey 2010)

These first difficulties were a reflection of the happenings occurring in the broader perspective of the Yugoslav system, such as the collapse of the socialist legitimacy, regional devolution, élite competition, economic decline, and a generalised mass frustration. This implied a quick change of social norms and basic economic rules, as well as the development of corruption as a widespread phenomenon³.

1.1 From Yugoslavia to Dayton

Tito's death in 1980, and the collapse of the Eastern Bloc further on, opened the door for hostile inter-ethnic relations, and conflicts among regional political élites for power all over the Balkans. The political vacuum of the time was filled with the rise to dominance of nationalist discourses made by ethnic entrepreneurs.

This new emerging class found in an exasperate nationalism the most effective alternative to legitimise its political power. The solution adopted by those powerful leaders was that of ethnic-cleansing, aimed to establish “pure” regions inhabited by an “homogeneous” population; their discourses culminated soon in a nationalist war between Croats and Croatian Serbs in Croatia, and Bosnian Croats, Bosniaks, and Bosnian Serbs in Bosnia (Haynes 2008).

Those years of inter-ethnic conflict caused the death of about 200,000 people and the displacement of more than the 50% of the population⁴. Concerning Bosnia, the real process of transformation was inaugurated in 1990 with the first free elections, and with the transfer of power from the League of Communists, the Yugoslav communist party, to a coalition of nationalist parties composed by the three dominant nations (Muslims, - known as Bosniaks from 1993 onward- plus ethnic Croats and Serbs). Thus, democratic competition before and after the elections was restricted to a confrontation among the three nationalist parties (Bertelsmann 2003).

3 These first symptoms of systemic corruption grew in the delivery of public services, such as health care and utilities, and in other public functions, such as licensing, inspections, and tax and customs administration. With the emergence of the private economy, the role and importance of judicial systems changed, and corruption also increased in the courts (World Bank 2006: 2).

4 In 1991, Bosnia-Herzegovina had about 4.4 million inhabitants. During the war, 1.2 million became refugees abroad, and 1.3 million became displaced persons in Bosnia-Herzegovina itself (World Bank 2002).

The beginning of the Yugoslav dissolution represented a huge dilemma for Bosnia: the choice was between “remaining in a rump Yugoslavia dominated by Serbia, or attempting to gain independence” (Belloni 2009 b: 357). From one side, the ethnic card played by Slobodan Milosevic began to strongly influence the Serb part of the population living in the country. On the other side, Bosnian elites were convinced that a coexistence with Serbia would have been impossible.

Bosnia’s declaration of sovereignty of October 1991 was followed by a referendum on independence in February 1992. The majority of the votes were in favour of independence, but the referendum was entirely boycotted by the Serb population. These were the first steps for an escalation into a war that lasted from April 1992 to October 1995.

The international community bears a considerable responsibility for the violence and insecurity that followed the Yugoslav dissolution, and hence, Bosnia's descent into war (Klemencic 2006). Hesitation and uncoordination have been a driving force in the IC's dysfunctionality in giving a response to the Yugoslav crisis, and a driving reason for further chaos.

The problem was further complicated to a great extent by other states, which had their own strategic interests, often depending on historical sympathies, for example between Serbia and Russia, or historical animosities such as between Serbia and Germany⁵ (Klemencic 2006). The controversy whether international institutions were capable to handle the situation or not is an open question still nowadays.

5 The most striking political divisions among European allies involved Germany and the United Kingdom. The former aimed to find a comprehensive political solution to the escalation of the Yugoslav crisis, while the latter was on the side of Croatia in advocating full recognition of the country in the name of the right of self-determination and as a deterrent to Serb aggression.

1.2 Stalemate or transformation? Post-Dayton paradoxes

This last part of the paragraph is focused in a second, important transition for Bosnia: the one from the IC's post-Dayton close involvement to a more “extensive” adopted approach in the framework of European enlargement. Signed at the end of 1995, the Dayton Peace Agreement was held as a formula to end the war and a tool for conflict management, but not for a self-sustaining form of peace to emerge⁶ (Richmond & Franks 2009a).

Since then, Bosnia has faced huge morphological and political changes. Morphologically, two largely autonomous entities were created: the Muslim-Croat Federation of Bosnia and Herzegovina and the Serb-dominated Republika Srpska⁷. Besides the creation of these two geopolitical entities, the Federation was divided in 10 cantons; the self-governing district of Brčko, a city located in the middle of RS, was given the particular status of territory administered by the international community.

The political implications of such a territorial division has been the settlement of multi-layered governmental structures, dominated by nationalist ethnic leaders. This stratification of multiple governmental levels has been based on a singular divide et impera governance, and combined with a system of representative parity among the three main ethnic groups in important sectors of the political environment⁸.

6 Negotiated in Ohio, it was signed in Paris by the members of the International Community, by the Bosnian president Alija Izetbegovic, and by the presidents of the neighbouring states, Slobodan Milosevic (Jugoslavia—Serbia and Montenegro) and Franjo Tudjman (Croatia). Each group was represented by its own kin-state, exception made for the Bosniak group, whose role was played by the International Community.)

7 Art. 1,3 of the Constitution of Bosnia and Herzegovina. The Entities cover, respectively, 51% and 49% of the territory. According to Art.3 of the Constitution, both enjoy a high level of autonomy, since they have their own local governments and the opportunity to implement cantonal laws, as long as these laws do not contradict with the ones settled-out at the state level.

8 BiH Presidency is rotating, and consists of one Serb, one Bosnian and one Croat. BiH Parliamentary Assembly consists of 15 delegates in the House of Peoples (5 members for each representative group), and 42 in the House of representatives (2/3 of the members come from the Federation, and the remaining 1/3 from RS).

During the years, as argued in the following chapters, the paradigm settled by the Dayton Accords has been criticised for having institutionalised wartime ethnic divisions and having created a weak, divided state. Such a paradigm could have been, in a sense, legitimised by its longevity, but it has represented, and still represents, a considerable burden for Bosnia. This burden has essentially consisted in the creation of an “ambiguity of a dual regime of elected governments and external overseers” (Chandler 2006 c: 18).

Such an ambiguity gave birth to a paradoxical situation: the international presence, through its mission, has hampered the social, political and economic development of the country. In other words, despite the system has been closely regulated by the IC, nowadays Bosnia is lagging behind other potential candidate states to the European Union. Nevertheless, it must be pointed out that without foreign assistance, the country would have probably faced an even more troublesome transition.

In sum, the situation is controversial to the extent that not only Bosnia risks to remain isolated from the European integration process taking place around it, but the international institutions themselves are not able to give any clear-cut answer to such a deadlock.

2. BOSNIA IN THE EUROPEAN FOREIGN POLICY

Bosnia's position in Europe is currently a main topic of discussion on how to bring about a change a country which, since the end of the conflict, has been involved in a tense and often forced collaboration with the international community. The basic assumptions of such a discussion are mainly two, and their debated and controversial nature makes it difficult to find a viable solution to the issue, even in the near future.

A first assumption concerns Bosnia's integration in the European Union, a process regarded to be a main driving force for reforms all over the western Balkans. A second, related issue concerns the importance of the role played by civil society as a foundation of a stable statehood and, as a consequence, for the credibility of a country in the international and European context.

2.1 Current stalemate: shortcomings of the EU strategy and local setbacks

European integration has been almost universally recognised to be a key strategy for achieving goals such as peace and prosperity, in the broader perspective of South Eastern Europe⁹. Concerning Bosnia, the efforts deployed at all political levels for helping its integration have proved to be anything but successful. Today, Bosnia remains a potential candidate country, since has not yet formally applied for EU membership¹⁰. Even if the process for undertaking the first steps towards EU membership already started a decade ago, disagreement about the required reforms have been slowing the process to a great extent.

The general perception on Bosnia's accession to the EU is double-folded, and the existing perspectives are far from being clear. From one side, a generalised association of the EU with economic prosperity and the rule of law have the effect of enhancing the strong support nurtured by some for Bosnia's membership.

This is demonstrated by surveys according to which nine out of ten Bosnians want their country to become a member state¹¹. From another side, Bosnia's integration perspective raises skepticism and concern, mainly among those local political leaders reluctant to loose the respective political power. Here below are listed some of the most relevant steps undertaken by Bosnia's progressive approach towards the EU.

9 As identified by the European Commission, the prospect of EU membership as “the ultimate conflict prevention strategy” in the area of the Western Balkans.

10 Its status of “potential candidate country” has been settled in the Feira Summit held in 2000, and then further confirmed by the June 2003 EU-Western Balkans Summit endorsement of the “Thessaloniki Agenda for the Western Balkans” (ICG 2011).

11 The support for EU membership has been registered to be strongest in Bosnia's Muslim community with 97% in favour, followed by the 85% of Bosnian Croats and a 78% percent of Bosnian Serbs. (Eubusiness 2011).

A first important step has been the Road Map presented by the EU for Bosnia in March 2000, in the frame of the Stabilisation and Association Process¹². The SAP has been a main policy tool in the EU tool for dealing with the Western Balkans. It holds out eventual membership as the goal toward which the states should work by establishing and maintaining democracy and the rule of law, ensuring respect for minorities and human rights and reviving economic activity (ICG 2007: 20).

The Road Map document established 18 conditions to be fulfilled in order to qualify for a Feasibility Study for a Stabilisation and Association Agreement¹³. At the EU Thessalonica summit, held in June 2003, further steps were undertaken in order to enhance EU regulation. The most important initiative was the development of a new European Partnership, established to enrich and intensify the SAP, setting out Bosnia's political, economic and other priorities (European Council Regulation No 533/2004).

Even if the SAP enlargement policy in Bosnia was launched in 2005, no agreement was reached for at least three years. The Stabilisation and Association Agreement was signed only in 2008, since disagreement over systemic reforms in line with the EU requirements slowed the process.

Since the SAA agreement has been ratified in 2010, Bosnia is a beneficiary of the Instrument for Pre-Accession Assistance (IPA) funds¹⁴. Nevertheless, the agreement has not yet entered into force: its implementation, which requires the incorporation of over 100,000 pages of EU legislation into the Bosnian legal framework, is expected to take at least a decade (Belloni 2009 a: 32).

12 The Stabilisation and Association Process was launched in 1999 in response to the war in Kosovo.

13 This implied starting the basis for policy reforms concerning the civil service, state institutions, border services, the judiciary, trade regulations, foreign direct investment, property laws and public forecasting (Chandler 2006 c).

14 Bosnia and Herzegovina receives financial assistance under the Instrument for Pre-accession Assistance (IPA). The EU Delegation to Bosnia and Herzegovina is responsible for the implementation of financial assistance in the country. Little progress has been made by the country's authorities towards establishing the necessary structure for decentralised management of EU funds. The legal basis for the operating structure, appointment of the necessary programme officers and adoption of the roadmap towards a decentralised implementation system are still not agreed (EC 2011: 6).

One of the main issues which is considered to have been a cause of Bosnia's delay in submitting an application to date is its failure in meeting the conditions for the closure of the Office of the High Representative: substantially, there has never been enough political will on the part of any of the actors to bring about the closure of the Office¹⁵.

The latest, perhaps the most controversial step for Bosnia's approach towards the European Union has been the debate over a constitutional reform. Negotiations on the issue have been carried out since 2006 between BiH political leaders and the representatives of the international community, becoming one of the most “contentious and protracted post-war debates” (Sebastian 2011: 5).

In broad terms, the constitutional debate emerged in order to discuss and revise the Dayton Agreement, in the scope of framing a more functional, streamlined constitutional structure, able to prepare the country for EU accession and thus for acquiring more credibility in the international realm¹⁶.

The attempts to enhance the constitutional reform have been three, and none of them has succeeded: the first and the most comprehensive one has been the 2006 April Package, promoted by the US and sustained by the EU. It failed because “not all of the interested parties had a similar commitment throughout the process”¹⁷.

15 The closure had been originally planned by June 2008, and after postponed without a new date being fixed. Although the EU has stated that Bosnia cannot submit an application for membership until the closure of the Office, some member states oppose the closure themselves. (Further and recent information on the issue available in ICG 2011.)

16 In specific terms, two were the main reasons: redressing a previously failed police reform, and making the constitution comply with the European Convention on Human Rights.

17 From an interview with professor Bruce Hitchner, chair of the Dayton Peace Accords Project. Bosnia-the challenges of constitutional reform, November 2010. (Entire interview available at Transconflict 2010)

The second attempt, the 2008 Prud Process, was instigated at the local level by the leaders of the three main ethnic-based parties (SSNSD Milorad Dodik; HDZ Dragan Covic; SDA Sulejman Tihic), and was greeted by the EU. The main scope of this process was that of complying with the above-mentioned closure of the OHR. The failure of the process was due not only for having been developed outside of the public domain (hence few stakeholders got involved), but also for having served the short-term political interests of the three political leaders involved. Thus, the process ended in reciprocal accusations.

The last effort carried out for addressing a constitutional change, prior to the general elections held in October 2010, has been the 2009 Butmir Process. Even if presented jointly by the US and EU, the typical international "take it or leave it" approach and unrealistic time constraints frustrated any further attempt.

To date, the international community's attempts to urge constitutional reform on the country are continually undermined by resistance among the political elites, especially following the October 2010 elections, which have dealt a severe blow to the integration process, with ethnic blocs sidelining the EU agenda (Rupnik 2011: 11).

The failure of each of these attempts to amend the Constitution is an emblematic example of how the latest stage of the Bosnian transition has been shaped by scarce international coordination, as well as by local political manoeuvring. The common element to all these failures is twofold: one is the international "ill-prepared approach, suggesting quick fix solutions to the parties" (Bieber 2010). Another one lays in the "comfortable" position of the Bosnian political leadership in having been "able to play clever political games with the EU, and still gain a vote or two from unsuspecting and ill-informed citizens".

Bosnian citizens have indeed demonstrated to be not properly informed about the prospects settled by the EU, nor by their local politicians themselves (Memisevic 2009). The impact of such a widespread misinformation among the civil society is an issue which is further developed in the following paragraph.

Conclusions

A large part of the responsibility for the current impasse in Bosnia's EU prospect not only lays within Bosnia's political leaders, but also within the members of the European Union themselves. For what concerns the local realm, different perceptions exist among local decision-makers about European integration, as well as about the steps they must take to reach it.

From one side, local political forces tend to impede any engagement in the EU accession process, and fiercely defend the status quo and their territorial and political autonomy (Sebastian 2011: 3). This has been the typical approach of the Serb and Croat parties, who tried to keep the state level institutions as weak as possible¹⁸. Conversely, the Bosniak and multi-ethnic parties have supported a stronger reintegration the country, and a concentration of competencies at the state level (Gromes 2007: 9).

From another side, ultimately party leaders have used constitutional reform to improve the attractiveness of their own political agendas, thus presenting themselves as the genuine guardians of their respective ethnicities. Nevertheless, such a tendency seems to be, relatively, the lesser of evils. The international community has demonstrated to act as blind in front of such political manoeuvring, and namely, to the fact that Bosnia's leaders will make choices only if they see advantages (ICG 2009: 26).

For what concerns the EU institutions, their approach has been characterised by inability to give a clear-cut answer to the Bosnian deadlock, and ambivalence in settling the concrete standards that should be adopted by the Bosnian government in complying with those conditions which are necessary for EU membership¹⁹.

18 It has been argued that the “European future of the Bosnians is linked to that of the Republika Srpska, whose political leaders have shown reluctance to bring war criminals to justice” (Memisevic 2009: 6).

19 To make an example, during a visit to Bosnia in February 2006, European Commission President Barroso stated that, even if there was a link between the two processes, constitutional reform was not a necessary condition for EU membership. Instead, some months before, the EU Enlargement Commissioner Rehn had stated that “constitutional evolution” was extremely important for Bosnia’s progress on the road to joining the EU (Turkish Review 2011).

In conclusion, a prolonged stalemate on this ground would jeopardise Bosnia's already unclear future in an integrated Europe: a refusal to comply with the Association and Stabilisation Agreement and a failure to comply with the European Convention of Human Rights -which is a priority of the constitutional reform- could result in Bosnia's expulsion from the Council of Europe (Sebastian 2011).

2.2 Importance of civil society in Bosnia's accession process

The second and last issue addressed in this chapter deals with the importance of the role played by civil society for a stable statehood and international credibility. As a matter of fact, public institutions perform best when they are under strong pressure from a watchful public. “When citizens expect little from government, when nobody knows who is responsible for what, when nobody investigates to see whether politicians are delivering on their promises, then government inevitably becomes remote and unresponsive” (ESI 2004: 4).

Bosnia, in its progressive commitment towards the European Community, should have benefited of civil society development assistance and local ownership building, aspects which are both intimately connected to other policies carried out by the EU. Nevertheless, the international and local level institutions have not deployed sufficient resources in empowering this sector of the Bosnian system. As it will be assessed in the following chapters, civil society capacity building aimed at encouraging local ownership has been very weak in the EU's policies towards BiH²⁰.

²⁰ A reflection of such a weakness is that those “popular pressures which a democratic system relies upon to generate continual improvement in public sector performance are weak, or missing entirely” (Knaus & Cox 2004: 58).

Still nowadays, a large part of civil society remains outside of the political realm, and hidden in a grey-zone made of informal networks. Such informal networks result mostly controlled by informal centres of power, and are often involved in organised crime or connected with past war atrocities. This is how, in Paris' words, a “bad civil society” ends acting as a barrier to outside opportunities, and develops the tendency to protect from outsiders, instead of cooperating with them. This brings to blindness and to missing the potential gains of being engaged in wider, international perspectives.

In the context of the European integration and pre-accession process, civil society can have the extraordinary effect of fostering more effective public institutions and providing assistance in ways that develop rather than supplant domestic capacity, hence making Bosnia depart from “its continuing dependence on the strategic intervention of the international community” (Knaus & Cox 2004: 64). In other words, a greater accent on civil society could prepare the ground for the required reforms and push through the difficult but necessary to join European institutions.

As will be demonstrated further on, in the following chapters, a sort of interdependence occurs between local and international shortfalls. What the Bosnian people is still experiencing nowadays is a high degree of dissatisfaction with the way the government works: the lower expectations they have on the government, the less they agitate for change.

Such a dissatisfaction towards local institutions is mostly due to a generalised disillusionment towards the IC's failures in two fronts: first for how the violent process of Yugoslav dissolution has been addressed; second, for the difficulties faced by post-conflict international peacebuilding in bringing to democracy and stability (Belloni 2009 a).

If it is true that Bosnia is facing a constant transformation, and if it is true that efforts are deployed in order to break its stalemate, it is time to address the question of how to organise decision-making at the local level. This task is only possible when local government structures are designed in a way in which they have “trust and respect of the citizens and encourage their active engagement in the community” (Fischer 2006: 23).

The above-mentioned lack of agreement on any substantial issue on what concerns Bosnia's advancing towards EU membership, and immanent destructive inter-ethnic politics have prevented any meaningful progress for the state without international supervision. This means that today, more than ever, there is a huge need to politically engage Bosnian citizens in the post-conflict process of transition.

At this point, a last, conclusive observation is necessary: despite a potential overall reduction of the international presence in Bosnia, outside support and tracking of the transformation process will remain indispensable for the medium term. The prospect of a closer EU association and integration has created, indeed, a lot of illusion.

Peace missions search for an exit strategy, and in Bosnia an entry into the EU shall probably open the exit. The risk is that of dreaming the European Union without being aware of what Bosnia is (or is not). What should be taken into account is how difficult would be for Bosnia to become a state able to survive on its own, with a self-supporting transformation process.

CHAPTER II

CORRUPTION, INFORMALITY AND THEIR CRITICAL RELATION WITH NEOLIBERAL PEACEBUILDING

The core issues of this work are mainly two: one concerns the significance corruption and informality assume in both Bosnia's peacebuilding and transitional processes. A second fundamental issue is an insight of the role played by the IC's liberal intervention.

The main purpose of this chapter is laid in the first part. It is considered the possibility of dealing with corruption and informality as separate phenomena, even if both act as link between the local and the international realm. Then a critical insight will examine the praxis generated by corrupt activities all over the country. This will directly bring to the issue of informal practices, and their categorisation in the frame of the political economy of corruption.

The second part of the chapter continues to follow a critical path, and is more focused on international political issues. Bosnia is the place which in the last decade has experienced one of the most ambitious and challenging peace operations ever been attempted²¹. International intervention and post-war assistance had a great impact on Bosnia's transitional process from warfare to the current status quo.

This huge and proactive international presence has revealed to be problematic from the very beginning: scarce coordination and overlap between international agendas caused tensions and lowered the effectiveness of assistance programs, in a situation of deep political and institutional vacuum. Such a vacuum fostered opportunities for corruption among political hardliners, and local and international actors got controversially involved. The third and last part of the chapter will stress how corrupt and informal practices have become systemic, but are not properly endemic of the Bosnian environment.

²¹ The post-war humanitarian relief effort has been a massive one, carried out by more than 100,000 international actors, at least a dozen UN agencies, and over than 200 NGOs (Andreas 2009: 33).

Nevertheless, they represent the risk of bringing to very perverse outcomes in the near future: it is important not to miss the criminalised dimension of most of these practices. Rooted in a non-effective economic and political system, they end in being regulated by the same perverse channels to which they are substantially meant to give a response.

1. CAN INFORMALITY BE DEFINED AS CORRUPT?

This paragraph addresses two main questions: can informality be defined as corrupt? And then: can it really be assumed as anti-developmental? In order to give an answer to both questions the two phenomena of corruption and informality need to be compared. They are commonly assumed to be respectively in a genus-species relationship, but such an assumption does not fit the complexity of the Bosnian case. This is the reason why some definitory issues must be explored: the starting point is trying to frame corruption and the specific forms it takes at different levels of society.

1.1 Corruption in Bosnia: definitory issues

Most part of the existing literature focused on peacebuilding considers corruption among one of the main challenges facing peacebuilding efforts. The scope in this analysis is that of considering two different, but related forces: not only the impact corrupt trends have on peacebuilding, but also the reverse, far from assuming this phenomenon to be exclusively of a local nature.

Before entering into definitory issues, it is the case to introduce a brief statistic assessment of the perception the general Bosnian public has of corruption. This is a useful element in order to understand the size of the phenomenon at issue. According to a survey conducted by the World Bank in 2000, 60% of those interviewed among the general public regard corruption as “widespread” (World Bank 2000: 6). Again, according to more recent surveys, such as those conducted by Transparency International, Bosnian citizens are pessimistic about the future, with 66% of the respondents believing that corruption will increase in the next years (TI 2007).

Now it is the case to focus on definitory issues. Despite the efforts made by researchers and the variety of responses given in order to frame the concept, corruption is very difficult to be captured in a single and objective definition. It is not in the scope of this work to reconceptualise corruption in a way which is necessarily in line to the Bosnian environment; nevertheless, some tools must be addressed for better understanding the nature of the relation existing between corruption and peacebuilding.

Framing the definition at issue does not necessarily require an objective core of reference; therefore its understanding depends on an accurate balance between the several understandings of corruption and a genuine understanding of those norms and rules belonging to the context taken into consideration (Philp 2008). Practices considered corrupt can in fact constitute a substantial part of certain social and political environments.

In the specificity of the Bosnian case, the outcome of such a balance is very difficult to capture, since the set of norms shaped by external intervention and local perceptions often clash. “Where there are competing norms, alternative conceptions of public office, and radically different views of what could be viable, the standards by which we judge an act to be corrupt become either increasingly partisan or increasingly abstract” (Philp 2008: 316).

Defining corruption *strictu sensu* is also complicated. A classic definition which is broad enough to encompass most forms of corruption is that provided by the World Bank: “abuse of public power for private gain” (World Bank 1997). Also Transparency International has adopted another popular definition: “misuse of entrusted power for private gain” (TI 2004).

Both definitions refer to “private gain” as a common core, whereby this expression may refer to personal, partisan or family interests. When dealing with such definitions, it is important not to consider “private gain” as a necessary key element; what is rather needed is a cautious approach which can lead to a more nuanced comprehension. Even if able to capture a wide range of corrupt practices, the connotation of these two definitions is perhaps too broad to fit Bosnia's peculiar dilemma between transition and international intervention, which is proper of the scope of this paragraph.

What is not in the scope of this paragraph is instead, as argued before, reconceptualising corruption. Nevertheless, distance is taken from those approaches referring to corruption as that kind of activity bringing to a “subversion” or to a “distortion” of the economic and political process²².

It must be paid a certain degree of attention when referring to “subversion of norms and rules”. The Bosnian case has *de facto* experienced such a clash between the international and the local, that referring to a certain, specific set of established rules may not be appropriate. This is something which is at the foundations of the problems concerning Bosnia's stateness, together with its complex and articulated system made of infra-political and infra-economic structures in which the dilemma transition-international intervention takes place.

1.2 Forms and levels of corruption

At this point it is important to consider the several forms or ways through which corruption manifests itself all over the country. A very exhaustive list of corrupt activities is provided by the UNODCCP, which includes: fraud, illegal political bargains, bribery, embezzlement, extortion, favouritism/nepotism, abuse of discretion and conflicts of interests (UNODCCP 2002).

Certain types of corruption differ depending on the level at which they take place. Here is the case of another common trend in literature, which distinguishes among two main levels of corruption, respectively labeled “grand” or “high level” and “petty” or “grassroot”. The first involves actors such as high ranking politicians, “who are vested with public authority and who bear the responsibility of representing the public interest” (Karklins 2005: 10).

²² Mark Philp defines corruption as “subversion of public or political office” (Philp 2008 : 312).

Conversely, the second involves citizens in their everyday interaction with other citizens or with officials and institutions²³.

The key element here is not the corrupt activity itself, but the level at which it takes place. Those kind of activities which occur at the grassroots are substantially different, and have a double nature: first, they are an indirect consequence of practices enhanced at a “higher level”; second, the way in which they take place cannot be considered equally bad. This statement is evidenced by the fact that petty corruption is a rational response to situations in which people must cope with daily means of survival.

Depending on the context and on the definition adopted, certain forms could be placed in a borderline position between what can be defined corruption *strictu sensu* and other types of behaviours, such as informal practices. Corruption *strictu sensu* tends to be perceived as a pathological distortion in society, to the extent in which perpetrators are aware that their actions are illicit and could trigger legal or other negative consequences (Karklinis 2005). Other types of “mis-behaviour” are not to be necessarily referred to as a core problem, but as an incidental outcome of a superior dynamic. This will be matter of analysis in the next section.

In general, “some forms of corruption are accepted more easily than others” (Karklinis 2005) but, as a matter of fact, most of them are often coexisting. Part of these forms are an heritage of the post-war period, other forms of corruption are still persisting nowadays²⁴. Having been fostered and enhanced in the years following the conflict, they have come to characterise the so-called political economy of post-war Bosnia.

²³ Karklinis provides a functional list of high level corruption when categorising the typologies of Post-Communist Corruption, which depend on the institutional level in which those activities take place: bribery of public officials; deliberate over-regulation; using licensing and inspection powers for extortion; mismanagement and profiteering from public resources; profiteering from privatization; nepotism, clientelism, and “selling” of jobs; forming collusive networks to limit political competition; diversion of information and manipulation of the media (Karklinis 2002).

²⁴ Clandestine exports to fund combatants, reselling of looted goods into the black market, smuggling weapons and other supplies are forms of corruption inherited from the post-war period (Andreas 2009). Among the forms of corruption still persisting nowadays: cross-border smuggling of goods, sex trafficking, theft of reconstruction aid, non-transparent privatization and construction contracts, migrant smuggling, movement of contraband goods across minimally policed borders (Andreas 2009).

1.3 Perceptions of informality: the other side of the coin

When considering the most salient issues raised by corruption, it is unavoidable to perceive its different nuances. Each nuance gives birth to different outcomes which are, at the same time, very difficult to frame as separated from each other. Amongst those outcomes, informality holds a sort of privileged position, to the extent in which most sources of literature characterise it as “the lesser of evils” (Philp 2008: 318), in a collocation that seems to refer to those practices which are mostly attributed to “grassroots” corruption.

Those forms take place almost spontaneously, as a systemic response to a superior dynamic, which is a corrupt system itself. In the scope of this analysis, informality is captured in the frame of those every day shadow deals, taking place among citizens at infra-political and infra-economic levels of society. Informality shapes a variety of economies which are often labeled ‘grey’ or ‘shadow’, such as contraband, unrecorded and untaxed goods, underreporting, employment of unregistered workers, firms under false names.

Informal economies are generally seen to be holding back transition processes (Pugh & Divjak 2008: 99). Statistical data helps in giving an idea of how extensive and institutionalised informality is in Bosnia: informal connections and contacts are used to a greater or lesser extent by more than 50% of measured GDP, and this percentage was previously even higher (UNDP 2010: 36). This indicates how widespread and important informality is in the country’s economy²⁵.

25 In response to the following survey question “Please estimate how much you use various informal connections and contacts such as family, friends, colleagues, etc., in your day-to-day business”, the responses have been: very much for 15% of the people surveyed, somewhat for 37%, not much for 25%, not at all for 13%, and 9% of the surveyed people was not able to give an answer (UNDP 2010).

It is now the case of trying to give an answer to the first question raised at the beginning of the paragraph: can informality be defined as corrupt? Even if often used as synonyms, corruption and informality must not be confused. By definition, informality refers to activities which are unregistered or hindered by state control. They can be legal and unrecorded, or illegal, and it is the dimension in which the term is associated with “corruption”.

Their patterns, even if of a different nature, have some common features which makes their borders blurred: both are at the top of an iceberg in which legitimacy, legality, market and non-market variables are involved in a complex relationship; both can be catalyst factors for organised crime; both are part of the “fabric of social and political relationships” (Le Billon 2003: 414).

Nevertheless, My personal approach to the issue is that corruption and informality are not necessarily symbiotic, and that the informal sector must not be a priori confused with organised crime, even if, at the roots, it is mostly fostered by it. It could be said that “informal welfare” is generated directly by informality and, in a way, indirectly by corruption, which is mostly rooted in organised crime.

These channels are fuelled from the top by the politico-criminal elite emerged from war entrepreneurship, and constitute a continuous gain and source of political influence among the population²⁶. In a sense, they end in feeding one another. This answer leads to the second question raised before, which makes clear that one thing is considering corruption *and* informal sector, another thing is considering corruption *in* the informal sector. Nonetheless, applying such a distinction in practice is a very challenging task.

²⁶ These words seem to best define such a dynamic: “It is sometimes argued that bribery can have positive effects under certain circumstances by giving firms and individuals a means of avoiding burdensome regulations and ineffective legal systems. But in corrupt societies many politicians and bureaucrats exercise enormous discretion to help fuel the growth of excessive and discretionary regulations on entrepreneurs” (World Bank 1998).

1.4 Can informality be held as completely anti-developmental?

This is the point when the coin must be reversed and an other side of these double-edged phenomena must be discovered: the consequences generated by corruption are not uniformly negative, and in fact can be essential to state survival. Eluding state control has proved effective in guaranteeing higher revenues, and in giving easier access to a range of activities, beyond the massive impediments of state bureaucracy. Certain activities labeled “informal” are de facto one of the few forms of local ownership existing in Bosnia.

After the conflict, opportunities for both high-level patronage and grassroots informal channels have settled grounds in which warring factions have interacted, avoided violence, created and strengthened ties. The informal sector became a key survival strategy for many people, generating a type of “welfare” which could have not been otherwise achieved, and which has overcome the scarce results of international humanitarian intervention²⁷.

To make an example, illicit business has proved to be essential for the daily survival of the civilian population, providing a parallel, often crucial way to supplement non-adequate international humanitarian aid (Andreas 2009). Those alternative supply lines provided the only possibility of goods acquisition and transcended ethnic or religious boundaries (Keller & Neumann 2006: 7). A paramount example of this can be seen in the controversial case of Arizona Market, whose details will be examined in the next chapter.

²⁷ Welfare here is referred to in terms of benefits to impoverished persons which enable them to maintain a minimum standard of well being, even if in this case these benefits are not provided by the government.

Conclusions

The outcomes of corruption and informality are various, different, and not all necessarily harmful. From one side, international connivance to higher forms of corruption may have been a price to pay in order to contain and minimise violence. From the other side, through creating a fertile ground for informality, a rational response has been given to situations in which people had (and still have) to cope with daily means of survival. This is why informality has been depicted by most part of the literature as being the lesser of evils out of a range of various practices.

“That something is worse does not make the other thing good, but it does rise the question of what is to be targeted first, what can be tolerated, and for how long. Thus, in many cases, (...) “corrupt” transactions may be the lesser of evils” (Philp 2008: 318).

Pointing an accusing finger at illicit business tends to deflect attention from the deeper political roots of Bosnia's current political, economic and social status quo. Being the lesser of evils or not, the way in which informality is influenced by higher levels of corruption and crime organisation may have perverse outcomes for the whole system.

In general, market distortion, malfunction of political institutions and challenge to peacebuilding are claimed to be main risks, but the considerations made in this paragraph focus on these issues only in a marginal way. The real future risks are those affecting society at a grassroots level, and here are expressed in terms of dependency. This sort of dependency has a twofold nature. One is dependency on local criminal oligarchies which, perpetuating an unjust distribution of public resources, enjoy their benefits through exploiting state resources in order to defend their patronage networks.

Such a process deepens inequalities and gives rise to new grievances and sources of conflict between and within groups (Le Billon); people's perceptions of the state get affected as well, so that expectations of corruption and bribery are created not only at the highest levels of government.

This brings to a strong social tolerance for inequalities in the whole society, and to further slowing down the economic recovery of the country, with harmful social effects. In other words, everyone gets disproportionately affected: the weak gets weaker, and the poor even poorer. As a logical consequence, the quality of the political leadership declines even more.

This latter aspect is very much related with a second, paradoxical, type of dependency: that one towards the international community. The paradox lays in the fact that those informal practices which prove to foster stability are counteracted by the IC, the same which enhanced corruption by operating in a very unstable environment.

Such a dependency could lead to a chain reaction: “donors do not directly support recipient governments because of their presumed corruption, in turn, recipient governments rely even more heavily on corruption to supplement government incomes” (Le Billon 2008: 345).

Maybe those risks could be defined intangible and long-term in nature, but are issues at the foundations of society. More tangible costs such as the viability of a government and diversion of foreign business seem more salient because of an imminent and concrete nature. Beyond any doubt, the risk -and a natural consequence- of pursuing welfare through informal channels is to get involved in high level criminalised networks, in a direct or an indirect way.

2. PROCESSES AND LEGACIES OF A NEOLIBERAL PEACEBUILDING

Still nowadays, international actors play a pivotal role in almost every sector of the country; factors of huge impact are the patterns they dictate for an economic transformation which is following the global convergence towards market liberalisation²⁸.

This first paragraph explores the destabilising changes caused by the neoliberal peacebuilding agenda in Bosnian politics, economy and civil society. Those changes have been destabilising to the extent in which deep dysfunctionalities have been created, fuelling a vicious circle which has favoured corruption in almost all sectors of society.

The following sections will analyse three main dysfunctionalities. The first focuses on the coercive process carried out by international intervention in shaping and overriding Bosnia's choices; this led the IC to impose its political agenda and disable local ownership. A second dysfunctionality concerns the lack of cultural sensitiveness and dynamism which has characterised the IC in carrying out a set of agendas with different, but interrelated implications. A third and last dysfunctionality can be defined "institutionalisation of crime": it is the consequence of the exclusive empowerment of capacity in the hands of international experts who, rather than enhancing local capacity, legitimised the questionable war-time politics of the indigenous civil servants.

Before concentrating on each dysfunctionality, a brief examination of the main institutional underpinnings is needed. Post-war international intervention in Bosnia was initiated by early 1996, within the aims set forth in the Framework of the Dayton Peace Agreement.

²⁸ The world economy tendency to market liberalisation shapes the external-led impact on Bosnia's economy of transition, focusing on efforts such as facilitating the movement of private capital, removing trade barriers, and fostering the privatisation of government-owned enterprises and resources.

At the early stages, Dayton seemed to be structured essentially as an emergency measure, but soon resulted in the establishment of a semi-protectorate. The post-conflict reconstruction phase was carried out under the coordination of the Peace Implementation Council²⁹. A series of IOs and embassies of the larger donor countries were also involved in the process³⁰.

The High Representative is the key institution of Bosnia's post-war international engineering. Created within the Dayton framework as an ad hoc institution responsible for the implementation of the civilian aspects of the accord, his role has been progressively enhanced, coming to play de facto executive and legislative functions³¹.

Right after the signature of the Dayton Accords, the Office of the High Representative had no real authoritative powers: its role was that of guaranteeing the fulfilment of the accords, filling the "role of a senior, foreign politician-diplomat with enough moral weight to help settle disputes. He had no command over any military or police forces either" (Knaus & Martin 2003: 63).

29 Established in December 1995, the Peace Implementation Council was charged for the implementation of the Dayton Peace Agreement. Today its membership comprises 55 countries, and agencies supporting the peace process by assisting it financially.

30 The most important IOs operating in Bosnia after the war have been the OHR, the OSCE, the UN Mission in Bosnia (UNMiB), the UN High Commissioner for Refugees (UNCHR), the International Stabilisation Force (SFOR), NATO, EU Police Monitors, the European Commission, the World Bank, the IMF and embassies of the larger donor countries. There is also a fluctuating number of observers and a Steering Board, which provides guidance to the High Representative. The list is not exhaustive (Haynes 2008: 10).

31 The OHR announced a departure from Bosnia in the summer 2007, but it did not occur. Then the title of European Representative was added to the title of High Representative, fulfilling the expectation that the OHR would morph into an office to assist BiH with its EU accession bid.

Lately, policy changes were made possible through the attribution of the so-called Bonn Powers, which enabled the High Representative to remove those public officials impeding the implementation of the Dayton accord and to impose legislation in case of failure of the local legislative bodies in achieving viable solutions³².

The exercise of this sort of power has been defined in several ways, from “noble experiment” to “enlightened authoritarianism” and “neo-colonialism” (Chandler 1999). “Of course, there are obvious differences between Bosnia and the imperial colonies of the nineteenth century (...) Nevertheless, the similarities of style and substance are astonishing. Vast ambitions, the fervent belief in progress, the assumption that outsiders can best interpret the true interest of a subject people—all these are hallmarks that the international administration in Bosnia shares with the British East India Company and the Utilitarian philosophers who staffed it in the early nineteenth century” (Knaus & Martin 2003: 62).

In the next sections, when dealing with the dysfunctionalities of international intervention, it will be assessed how the role held by the High Representative has been emblematic of an institutional intrusiveness aimed at making peacebuilding and state-building work together. Despite these efforts, no real workable solutions have been provided; the role of the High Representative has been held as a violation of the very principles which he is seeking to promote, and setting a bad example for local authorities (Dimitrovà 2005).

32 This new authority was granted by the PIC at a meeting in Bonn, Germany in 1997, recognising the need for an international body to directly impose legislation, enact interim measures in the case Bosnian parties are unable to reach agreement, veto candidates for ministerial positions, undertake measures to ensure the cooperation between the Bosnian institutions in the implementation of the DPA, and take measures in case of non-compliance with what set forth by the international community.

2.1 Processes of a neoliberal agenda: disabling local ownership

In these last decades neoliberalism has been assumed as the ideological pattern of international intervention and peacebuilding in war-torn societies, focused on the pursuit of democracy, rule of law, institutionalism, freedom, law and free markets. Bosnia has not been an exception to the post-conflict neoliberal agenda of the '90s³³. Nevertheless, merging goals such as political transformation, economic reconstruction and civil society building within the frame of peacebuilding strategies has proved to be everything but liberal. The transformation promoted in Bosnia by liberal peace has been one seeking the “reduction of the role of the state and the squeezing of collective and public space (...)” (Pugh 2005: 25).

A first dysfunctionality can be envisaged in the international reluctance in getting involved with local dynamics. This has often ended in a pathologisation of the local dimension, bringing to a complete lack of empowerment by the local political ownership. As argued above, at the early stages the international agenda was not playing a real governmental and executive role: the Office of the High Representative was merely responsible for monitoring the implementation and coordinating the activities settled by the Framework. Then the powers of the OHR have gradually become extensive, and the outgoing peacebuilding efforts have been carried out as an “external process driven by external resources” (Richmond 2011: 72).

This proactive international presence has disabled local skills, and no material empowerment for citizens has been provided³⁴. A limbo has been created in which foreign legitimacy has fostered an insane compenetration among international and local institutions, in which the former not only shape, but totally obscure the latter.

33 “Democratic principles, the rule of law and free and democratic elections, human rights and the promotion of general welfare, economic growth...and the promotion of market economy”.
(Annex 4 General Framework Agreement)

34 The number of decisions imposed by the High Representative tripled between 1997 and the early 2000s (Dimitrovà 2005: 60).

Such an insane compenetration is the outcome of a top-down approach, in which the IC has shifted from initial promotion and coordination to a hyper-interventionism of imposition, supervision and monopoly. What can be envisaged is the settlement of a quasi-protectorate of a post-colonial nature, where the local is misidentified and indigenous capacity building is -in Fukuyama's words- “sucked out” by external mechanisms of regulation.

A big paradox lays in the fact that the marginalisation of the local political process has undermined the very democratic agenda that the IC itself sought to implement. “The effective, if not official, protectorate has been an unsuitable way of “teaching” Bosnians what democracy is” (Dimitrovà 2005: 44). This has presented huge negative effects for local ownership. The concept of local ownership has become central to the post-conflict peacebuilding agenda, in the analysis of how domestic actors should be empowered in the control of both the design and the implementation of the political process in post-conflict contexts (Donais 2009).

The Bosnian one is a very complex case: in absence of an effective accountability upon domestic actors, it is often an open question which set of actors can better represent the interests of the Bosnian society. Political forces, as well as several sources of literature, have lately focused on the enhancement of local ownership as a solution to Bosnia's stateness.

Nevertheless, acknowledgments have not been translated into practice³⁵. Local perspectives are viewed as obstacles to be avoided, instead of sources which could empower the IC in engaging with a context which is felt so distant from the typical assumptions of Western countries. Such a generalised tendency to overrule and by-pass local perceptions has released local parties from their responsibilities in conducting local affairs, bringing to a stalemate in which political cynicism prevails over any hope for a political change.

35 Wolfgang Petritsch, High Representative for Bosnia from 1999 to 2002, played an important role in promoting the idea of local ownership, in order to counteract the Bosnian “dependence syndrome”, but promotion was not transformed into practice. During his mandate dozens of officials were dismissed, many of whom were elevated to office in elections organised by the international community (Donais 2002: 4).

Hence, *laissez-fairism* led to the enhancement of alternatives already existing on an infra-political ground, and in which corruption and peacebuilding got controversially involved. This will be matter of analysis in the next sections.

2.2 Lack of adaptation by the IC

Economic and market reforms could have been a major international challenge for a lasting peace, but it is clear that those reforms have been conducted in a way in which, instead of improving state-society relations, have exacerbated divisions. What is important to stress is that the nature of such divisions has evolved in time and today it is not exclusively focused on ethnicity³⁶. Conversely, today, matters of greater concern are disparities of a socio-economic nature, involving other grounds, such as rich and poor, urban and rural. This last point demonstrates how perceptions have changed in a complex, war-torn society like Bosnia.

International commitment, hesitating on its monolithic path and careless of the different stages of development and transition, has been caught unprepared for this. The main trend has been that of continuing the implementation of the neoliberal agenda codified in the DPA, without realising the need to revise and update its provisions step by step. Such a gap is a substantial effect of the short-termism which has characterised most of the actions undertaken by the IC: probably the fractured nature of the Bosnian war itself created an environment that discouraged longer-term strategies (Keller & Neumann 2006).

The attainment of immediate results could have been a compelling solution at the beginning of the peacebuilding process; nonetheless, nowadays it is not a sustainable task anymore. Maximising visible progress and demonstrating immediate gains, in a long-term frame, brings to lack of structural changes and long-term insecurities.

Short-termism has two main negative consequences: first of all, the risk of creating rootless institutions without any link to the Bosnian culture. International intervention keeps crystallised in its traditional top-down approach, and prevents the creation of any project combining the local and the international in a mutual relation.

³⁶ According to an opinion poll recorded by the World Bank, only 13% of Bosnian citizens consider “national interests” among their top two concerns (World Bank 2002).

Second, the IC could feel suddenly less involved in its commitment and loose interest, once its action is too costly and generally felt as politically unpopular. Then, due to the lack of improvement in indigenous capacity, Bosnia could risk to revert to its former situation. “If International agencies create parallel labor markets and microeconomies that collapse when they depart, they have clearly contributed nothing to building the institutional foundations for peace consolidation”. (Prendergast & Plumb 2002: 332) To demand fast results and withdraw from responsibility, if these results are not achieved, is a risk that could be avoided working on what already exists, rather than to tear it down and construct something new (Wulf 2005).

Probably the biggest structural change should be undertaken at the same international level, instead of making wartorn societies rely on a blind universal template. Perhaps it is a simplistic assertion, but a viable and concrete point of departure could be a gradual transfer of decision-making and governance powers to the local political institutions; nevertheless, a real and complex long-term commitment is needed for this.

2.3“Institutionalisation of crime”: when mafia economy is the only local ownership

International peacebuilding has not been a complete failure in all fronts. As pointed out by Bose, the Dayton agreement was, right after the conflict, “the most feasible and most democratic form of government for Bosnia's precarious existence as a multi-national state”(Bose 2005: 323). It must be stressed how first interventionism succeeded in ceasing the atrocities perpetrated during the war: since then there has been registered almost no communal violence³⁷. Nonetheless, on the other side, the peace accord seemed to act for a cessation of hostilities at all costs, not only freezing and institutionalising ethnic divisions, but also favouring linkages between the reformist impulse and the local clientelistic patronage³⁸.

37 “Military analysts believe that even if the foreign security presence were withdrawn, the country would not descend into violence” (Haynes 2008: 55).

38 Interesting on this issue is Keller's and Neumann's criticism towards the “cessation of hostilities at all costs”-approach operated under the Dayton Accords (Keller & Neumann 2006).

One of the major criticism to such a policy of “peace at any price” concerns the short time frame occurred between the cessation of hostilities and the immediate settlement of the the first post-war elections by the IC: it is likely that such a rush for elections led war criminals to get formally entrenched with democratically elected offices (Haynes 2008), and more urgent needs such as the protection of human rights were left aside.

As an outcome, such an “institutionalisation of crime” still holds in elected offices the same leaders who were responsible for the conflict, managing ethno-political patronage systems, nourishing systematic corruption, fuelling ethnic separation, and opposing public policies for ethnic cooperation (Obershall 2007).

The real metastasis started when liberal internationalism allocated a wide range of resources among war elites, giving them opportunities of enrichment. Such an unregulated capitalism lead to the establishment of a “false economy”, false to the extent in which the IC tried to transform the economic realm without engaging with a proper political transformation.

The outcome has been the development of a nationalist nomenklatura-like system, in which party elites keep deepening divisions in the country, even if cooperating at a high level, in order to sustain themselves and rule their people (Andreas 2004). These forms of “inter-ethnic” cooperation are most of the times managed through criminal networks.

Merging the considerations made before on local ownership, and those made in this section about institutionalisation of crime, it could be argued that the only real local ownership seems to have been enhanced in a context of mafia economy, which has fuelled from “the top” those informal activities in which those “at the bottom” are involved in their everyday life³⁹.

39 “The more transition benchmarks laid down by neoliberal reformers have been met-including labour market liberalisation- the higher the rate of unemployment, the more resilient the informal economies, and the more that young people want to leave the country” (Pugh & Divjak 2008: 109).

As pointed out in the previous paragraph, international intervention in Bosnia, even if designed to inhibit conflict and foster peace, has actually generated enormous incentives for corrupt activities taking place at the highest governmental levels. Profits and economic structures have been created for those best connected in the world of covert commerce, namely, criminal actors fuelling cross-boarders black market networks, and encouraging closer ties between political leaders and organised crime (Andreas 2009).

Trying to summarise the main points argued in this section, a twofold dynamic can be considered: from the one side, those democratic structures provided by the IC have been abused by local political hardliners; nevertheless, from the other side, the IC itself acted without considering the specificity and the peculiarities of the ground in which was laying the foundations for a new democracy.

Pure criticism does not help in the analysis of such a controversial situation, and at the same time it is necessary to leave aside utopian considerations: a real viable peace process can be obtained only by mobilising both insiders' and outsiders' resources towards a specific end. Assuming this, it comes out the need of considering a viable starting point in a “negotiated hybridity” between local actors, grassroots civil society and the broader international community (Donais 2009).

Reconciling international norms with domestic political culture and domestic political realities should be a basic priority for external peacebuilders: coping with such a challenging trade-off is -beyond any doubt- a task achievable only through a long-term commitment by both sides.

2.4 Foreign engagement and corruption plasmate each other

As pointed out before, corruption is held to be a major concern for international peacebuilding efforts. Nevertheless, the paradox of the Bosnian case consists in dealing with a situation in which the foreign and the local post-war efforts have come to undermine each other, bringing to perverse and often unintended outcomes. Any attempt to set aside the two dynamics proves to be most of the times impossible.

Such outcomes have shaped a contradictory relation between liberal peacebuilding and political corruption, to the extent in which the IC, even if having the tools for curtailing certain corrupt practices, has *de facto* enhanced new opportunities for high level patronage. As a consequence, foreign engagement and local political corruption have become, in a sense, symbiotic, ending to plasmate each other.

Since peacebuilding actors are in general highly dependent on the cooperation of local actors, the IC, giving priority to the private ownership over the public one, has further enhanced the position of local corrupt elites. In other words, corruption has been “institutionalised within peacebuilding and reconstruction activities” (Le Billon 2008: 345).

Transition to externally imposed national reconciliation has included questionable practices, upon which the IC has often turned a blind eye for the sake of a first systemic stability. An example of this is how delayed has been international attention in considering corruption as a reform priority: one of the earliest reports on the issue has been in fact released only in 1999, several years after Dayton⁴⁰.

Conclusions

Far from pointing the accusing finger towards a single set of actors, it is the case to analyse the dimension in which peacebuilding, corruption, informality, local and national efforts relate, as well as the impact they have on the society as a whole. “When the IC charges that organized crime and corruption are impeding postwar reforms, and applies pressures on local leaders to crack down on criminal networks, rarely is there any acknowledgement of having contributed to creating such an enormous crime problem in the first place” (Andreas 2004: 49).

40 The report was issued by the Council of Europe as a conclusion to a conference hold in December of the same year: "...the large scale smuggling of cigarettes or petrol, the production and sale of pirate audio CDs and software, the trafficking in human beings or in stolen vehicles could be explained by organised crime. Participants suggested that these phenomena may be linked to war profiteers and the control of the economy by political parties" (OHR 2000).

The "enormous crime problem" to which Andreas refers is the existence of a dangerous grey-zone between two extremely polarised grounds: international paternalism and crime-related chauvinism. Domestic and international actors coincide and build networks in this grey platform, often ending in profiting from public goods and in fostering their own opportunities to the detriment of social ownership. Such a practice has become systemic, and certain practices have been absorbed by civil society, in the widespread belief that, in order to get along, the "game must be played".

What is the choice for a citizen, between local everyday clientelism and international protectorate, in an environment where the borders between domestic and international have actually been erased? (Chandler 2006 b) Given such a difficult trade-off, it is likely that society will tend to acquiescence towards ethnic politics and patron-client relationships.

3. THE SUPPOSEDLY ENDEMIC NATURE OF CORRUPTION IN BOSNIA

This paragraph is not aimed at introducing new elements of discussion, but is meant to be a conclusion to the several issues analysed over the chapter. Essentially, it is food for thought. This last argument recalls one of the main dysfunctions of the liberal peacebuilding approach, and focuses on the supposedly endemic nature of corruption in Bosnia.

The idea that corruption and more or less related forms of informal activities are endemic is an outcome of the pathologisation and lack of cultural sensitiveness typical of the IC's interventionist path: Bosnia has come to be identified as a merely "ethnically organized culture adverse to democratization" (Dimitrovà 2005: 58).

In this interventionist path, war-torn states are in general framed as ill, traumatized, dysfunctional, irrational, or immature, and legitimised to a shift towards "therapeutic governance" (Donais 2009: 8). In the Bosnian case, the supposedly endemic nature of corruption has been often referred to as "...a "Balkan mentality", outcome of the supposedly combined effects of socialism and war, instead of dubious international choices" (Belloni 2007: 179).

Taking distance from those mainstream discourses according to which political economies in Southeastern Europe tend to be commonly perceived as “criminal”, it must be borne in mind that, even if no society is free from corruption and informal activity, the contradictory relationships liberal peacebuilding has with political corruption have further enhanced and deepened certain dynamics which were pre-existing the conflict, but were not endemic per se’⁴¹.

Indeed, corrupt practices taking place at the highest levels of society and lack of accountability of the political leaders have been attributed to those environments resistant to western-led economic modernisation and integration within the world economy. It is -substantially- a game of roles, in which peacebuilding agencies play the role of the “good” versus the bad “role” played by corrupt political leaders and regional traffickers.

The following section contains some few steps to understand how deep have become the roots of high-level corruption in Bosnia. The assumption is always that, as far as deep these roots can be, certain dynamics are not as endemic as they are claimed to be.

41 “The term 'criminal' as a legal concept means any behaviour which is adverse contrary to legislative control and beyond the rule of law; economically refers to the avoidance of audited revenue payments that would be otherwise available to local authority and government distribution; politically, it is portrayed as a threat to sustainable democracy; while as a social concept, indicates moral debasement” (Pugh 2005 a: 456).

3.1 Behind the curtain

In order to measure the size of the roots of our debated phenomenon, we must go back in time to the war years. The fact that the “Yugoslavian disintegration created a fertile ground for profitable arms trade” is beyond any doubt (Hajdinjak 2002: 10).

During and after the war, state companies' activities ceased because of the lack of basic services, a typical outcome of any conflict. The emergence of an ethnically divided elite took advantage of such a vacuum, creating close ties with political leaders and military formations. This was the first switch to trading in arms and engagement in black market activity. At the same time, after the war, between 70 and 80% of the population was unemployed, and some found employment within international organisations. Reliance on IC for employment created an extremely polarized economy, falsely supported and driven by the international presence (Haynes 2010).

Most of the locals working for the internationals, although formally engaged in post-war humanitarian efforts, took advantage of their condition, and got involved in smuggling goods. In some of the cases this was an understandable means of sustenance; in other cases, these channels enhanced the emergence of a new class, composed of mafia-style business people with close links to the political realm.

An interesting practical example of how peace operations can foster illicit business in conflict zones is the so-called Sarajevo Tunnel, where the UN peacekeepers turned a blind eye during the digging of a 800 meter long tunnel between the city and the airport, which was a supposedly neutral area controlled by the UN. Such a device proved to be essential for moving black market goods, and controversial for its outcomes: from one side, it was a lifeline for the besieged city; from the other side, it was an opportunity of enrichment for smugglers⁴².

Since then, the majority of the international efforts towards a real political transformation have been modest or badly organised, in an intended or unintended way. As a consequence, today, a departure of economy from the vicious circle of the mafia-type dependency proves to be almost impossible.

42 The tunnel was at first a major way for providing the city defenders with weaponry, so by-passing the international arms embargo. In a second moment it was used to bring in food and other goods.

Conclusions

At this point, what must be considered is that corruption and informality in Bosnia are not necessarily endemic, but the risk of getting endemic in a very short time frame is a real one. Currently, if one element is to be considered endemic, that is “opportunism”, which is an element settled in every society.

As argued in the previous paragraph -even if in different terms- opportunism is a response to certain standards enforced by the few over the most, and often those standards are -especially in the case of BiH- an outcome of the patterns dictated by international peacebuilding⁴³. “People's attitudes and expectations (...) are fragile and easily succumb to opportunism” (Philp 2008: 323).

For what concerns informal activity, actually shadow markets are the ones who still may help many people to stay above the poverty line; besides, the establishment of a genuine formal economy has been prevented because of the lack of a real political transition, one which is free from neo-colonial or mafia-style constrains. Such constrains have been cementified by the overlap of economies which has been taking place between intervention economy, subsistence economy and mafia economy.

The enhancement of a formal market is generally thought to be as the only solution in order to bring to a change; nevertheless, a self-sustaining circle has been fostered, and it is very hard to break, unless the real problems are addressed in a proper way through the cooperation of both local and international actors.

⁴³ “Peacebuilding may inevitably generate corrupt activity by setting standards of conduct that have few adherents in the community and lack adequate enforcement so that most people respond to those standards entirely opportunistically” (Philp 2008: 316).

CHAPTER III

EXAMPLES OF A CONTROVERSIAL TRANSITION

After having focused on theoretical issues, it is necessary to clarify how certain dynamics happen in concrete. This chapter provides an empirical insight of how international peacebuilding relates with the local realm in Bosnia's post-war political and economic transition. A further element on analysis concerns the outcomes of this interaction at different stages of the system.

In the scope of this work, these outcomes are meant to be those corrupt and informal activities occurring on a daily basis, in the interplay between troublesome local dynamics and a questionable international intervention. The stages at which these outcomes display their effects are economy, politics and society. These three share the ground in which peacebuilding efforts take place, and together constitute an unicum made of different variables.

For the sake of simplicity, each aspect will be considered separately. Nevertheless, the examples provided in each section will demonstrate how intimate their variables are, and how their outcomes are entrenched in such a way that providing a sectional examination results a very challenging task.

The organisation of the chapter is as following: a first examination concerns the political stalemate of a system in which the rule of party has come to prevail over the rule of law. A second element which is matter of analysis is Bosnia's controversial economic transition, between the potential benefits and risks represented by grey economy and corruption in the privatisation process. Finally, some civil society issues such as social exclusion and social capital will be examined, in order to provide an example of what lays at the basis of the current status quo. All the assessments will be carried out by starting from the bottom of the local system, and then considering the transversal impact of international intervention on each aspect.

1. POLITICS OF CORRUPTION

Analysing the impact of peacebuilding efforts in Bosnia requires an assessment of its political status quo. Recalling what argued in the previous chapter, Bosnia's public power orbits around a massive patronage system, whose reins are held by political parties who came in control of most of the aspects of governmental life. In such a rush for control, public power has been misused to such an extent that some analysts refer to this situation with the term “state capture”.

State capture is related to that municipal and state-level patronage involved in governmental, state and even private business (Global Integrity Report 2009). It occurs when political actors profit from the existing environment in order to change the regulations and the institutions in a way to favour the interests of their corrupt activities. Bosnia's state capture is a combination of two related practices, which end in a vicious circle: accumulation and power preservation. Accumulation occurs when politicians abuse of their position of power in order to extract resources from government revenues and the private sector.

As a consequence, through power preservation, political elites use the resources at their disposal to maintain and extend their own power. In practice, this happens through several channels, such as giving preferences to private companies and getting party and campaign funds; stopping investigations and audits paying governmental institutions; buying votes in order to secure re-election (Amundsen 2006: 4). In all this, IC's efforts to curb this patronage system have been largely irrelevant.

This paragraph outlines two main negative impacts of state capture on civil society: the first concerns those private citizens who are not connected with a local ruling party, and do not have alternative ways but using bribery to access the system. A second, related consequence is the high level of mistrust perceived towards politics, which is leading the average citizen to alienation and blindness; a main risk is that of exacerbating a culture of impunity which may drift the average citizen further apart from public life.

1.1 When the rule of party prevails over the rule of law

Bosnia's extremely decentralised system, weak at a state level and strong at the peripheral level, has proved to be not only highly dysfunctional, but also a fertile ground for political corruption. Corruption has penetrated the highest governmental levels, getting involved the same old political elites which survived the change of regimes, in a struggle for power which has moved from war to politics. These leaders, who were largely -or partly- responsible for the conflict, are now in elected offices and “manage ethno-political patronage systems, nourishing systematic corruption, fuelling ethnic separation, and opposing public policies for ethnic cooperation” (Obershall 2007: 2).

Such a perpetuation made state capture become systemic: trying to enhance private gains through non-transparent, illegal channels, the Bosnian elite has protracted a political clientelism which is typical of the post-communist era, and the criminal capital accumulated during the conflict has been converted into a political one. This is how the rule of party has prevailed over the rule of law.

The boundaries between the political and private spheres, even if blurred, have been bypassed, and this is how the choice of representation to which the average citizen is entitled has been deeply undermined. A system in which policymakers are guaranteed power by their “party machines” does not need any effective participation from grass-roots voters. This is how political clientelism is fostered and basic political rights are prevented by hierarchies and their sub-elites.

As demonstrated further on, several corruption scandals have weakened Bosnia's yet fragile political environment, involving political leaders and undermining citizens' perceptions about state and public institutions. Nevertheless, once again, it must be pointed out how the role played by the IC has not been effective in coping with the Bosnian political patronage system, despite international intervention was displayed in almost every sector of society, even in local politics.

After the conflict some reforms were enacted in order to renew state structures, such as a reduction of the oversized police force and the opposition and intimidation to gangs or militias that had previously served the ruling parties⁴⁴.

However, the real problem was not properly addressed: the economic power which was at the base of the ethno-nationalist parties remained the same, since local elites knew connections and more expanded networks much better than international peacebuilders.

The situation worsens when considering the IC's tendency to short-term commitment, which has led to the impunity of most local hardliners, who abused the opportunities provided by the constitutional power-sharing in order to obstruct the reform processes in many different ways⁴⁵. As a conclusion, it can be argued that state capture in Bosnia is not only attributable to local dynamics.

1.2 Politics and mistrust

It is a matter of fact that Bosnian laws and procedures “cannot possibly meet the expectations people have of political or public office” (Philp 2008: 312). The key to the maintenance of any viable state is the level of credibility towards its political establishment. The high level of distrust and widespread disillusionment towards politics in Bosnia are a consequence of state capture. Non-transparent institutions, poor commitment to the public interest, obscurantism of media, illicit financing of parties, systematic corruption: that is how power oligarchies still prevent Bosnian citizens from exercising their fundamental political rights in a transparent environment, in which real interests are represented and genuine decisions can be taken.

44 Peacebuilders dissolved the system of payment bureaus through which the ethno-nationalist parties controlled money flows and supported their parallel structures. Moreover, a State Border Service was established in order to reduce smuggling channels (Ibidem).

45 The fact that many peacebuilders signed contracts for a six months period or even less worsened the problem (Gromes 2006: 13).

Statistical data demonstrates how politics are perceived as the most corrupt sector in Bosnia (TI 2007), and how low is the confidence felt by the average Bosnian citizen towards politics and institutions. According to a survey conducted in 2004 by Transparency International, the majority of the Bosnian people perceives political corruption as pervasive and, as a consequence, does not trust the government (Oberschall 2007). Again, according to Transparency International surveys, the political institutions perceived as the most corrupt are political parties, followed by the parliament, public officials and the police (TI 2010: 37).

Nevertheless, widespread is the awareness that opposition brings to social exclusion, so that the most pave the way to acquiescence, and avoid contestation. In general, the average citizen tends to remain largely outside of the political life, with a deep feeling of helplessness and lack of potential to affect change through the election process (Jelusic 2007: 129).

A survey conducted in 2006 by the Prism polling organization (for the NHDR) revealed that only 8.3% of the surveyed people were members of political organizations, and that more than 90% had never participated in any meetings organized by a political organization (Woodward 2009: 30).

The high level of abstention registered in the last elections is a trend reflecting such a generalised political alienation, mostly among young people and among the less politically aligned ones⁴⁶. Silence is -indeed- the most indicative expression of a frustrated political system. This is a cause for great concern, since “the less trust people have in the broader political process, the more likely it is that parochial and local links will come to the forefront” (Chandler 2006 a: 93); in other words, political apathy is likely to bring to a dangerous chain reaction, ending in an uncritical acceptance of a perverse and corrupt system.

46 Final election results are available at

<http://www.izbori.ba/Finalni2010/Finalni/PredsjednistvoBiH/Default.aspx>

Lately, anyway, there has been a reverse trend, registering a higher optimism among citizens, in terms of their perception about the political direction taken by the country. According to surveys conducted by the UNDP Early Warning System (UNDP 2010), even if the number of those who believe the political situation is deteriorating remains high (at a rate of 52%), a jump of 21% has been recorded in the perception of the general improvement of the country, in comparison to the previous year⁴⁷.

1.3 Milorad Dodik's case

In the last decade modest have been the achievements made by the public, the media and the judicial system in fighting corruption, both in the Federation and in the RS. In order to better understand the political behaviour of most of the Bosnian political leaders, and the relative response given by the local community, this section will introduce a recent mainstream example of high level corruption.

The case at issue concerns the RS Prime Minister and president of the Alliance of Independent Social Democrats Milorad Dodik, recently involved in a corruption scandal. During his entire political career Dodik has questioned Bosnia's viability, favouring the obstruction of state institutions and claiming secession from BiH. From 2009 on he faced several allegations for being involved in corruption, fraud and misuse of funds.

In 2009 the case attracted the attention of the international community. In March of the same year the BiH State Information and Protection Agency (SIPA) filed a criminal prosecution against him and against 15 RS politicians and businessman accused of fraud, for having spent 145 million BAM in financing a building complex in Banja Luka (Including the new Government building, and the RS Radio and Television buildings), and the new E661 Gradiška-Banja Luka highway⁴⁸.

47 38 % of respondents believe that the situation in the country is improving (UNDP 2010: 16).

48 Independent administrative organization established in 2002 within the Ministry of Security of BiH, committed to the prevention, detection, and investigation of criminal offences falling within jurisdiction of the Court of BiH. (<http://www.sipa.gov.ba>)

Milorad Dodik got involved in an other scandal as well, concerning the TRANSCO case, and the unilateral steps undertaken by his party in trying to break apart the state-run electricity transmission company, in order to create a RS-independent electricity⁴⁹. Not surprisingly, this was in line with Dodik's previous attempts to dismantle other state-run institutions.

Lack of sufficient involvement from the international community and state atrophy led Dodik to successfully issue bonds for holders of frozen foreign assets. TRANSCO at the time was considered the cornerstone of the Bosnian economic reform, in BiH's advancement towards its European Partnership Agreement and its Stabilization and Association Agreement with the EU.

Conclusions

Dodik's example is one of the many cases involving Bosnian political leaders in emotionally powered, wartime rhetoric aimed at highlighting ethnic issues, in order to distort public attention from their commitment to private interests and personal gain.

As in other cases, the international community has demonstrated to be not strong enough, or not sufficiently committed in coping with the issue. In the words used before, Milorad Dodik is an example of how the rule of party has prevailed over the rule of law. The next paragraph will provide another emblematic example of state capture and political manipulation, even if framed in a purely economic context.

49 *Elektroprijenos BiH*, State Electricity Transmission Company of Bosnia and Herzegovina.

2. FROM WARFARE TO ECONOMIC ENTREPRENEURSHIP

Bosnia's economic sector is one in which the interplay between corrupt practices and informal activities shape situations which are very difficult to assess and categorise. After the conflict the whole Bosnian economy has faced an enormous change: the shift has been from a communist, state-owned system, designed to meet the governments' needs for a centralised economy to a very fragmented one, pretending to follow the dictates of a free market approach.

Nevertheless, such a shift has been characterised by ambiguous peace operations involving clandestine weapon commerce, injection of hard currency, and embargoes. It is under these circumstances that warlords, strongly tied to ethno-nationalist parties, gave birth to a vertical control of enterprises and services, such as hotels, casinos, restaurants, banks, tobacco, telecommunications, energy, water; all these activities were carried out under the blind eyes of the international community.

This is at the roots of a process in which those informal activities developed right after the Communist collapse entered the field of post-war criminalised networks. Nevertheless, as pointed out in the previous chapter, what must be borne in mind is that informal economy cannot be conceived as totally separate from the formal sector.

The next sections of this paragraph will focus on two controversial examples of Bosnia's economic environment: Arizona Market and Aluminij Mostar. The former is the case of a double-edged environment of social inclusion and crime-related activity; the latter is an example of how privatisation has become another excuse for political elites in order to get benefits through corrupt activities.

The last part of the chapter will focus on the failures and the peacebuilding potential of the economic private sector; some considerations on Bosnia's future economic perspectives will be provided as well.

2.1 Black market and informal welfare: the Arizona Market dilemma

The boundaries between legal and illegal business are very unclear and the collusion between political and economic life is extensive in the field of shadow economy and informality. The narrative existing on Arizona Market is a very conflicting one. A branch of literature underlines its remarkable peacebuilding potential; others look at Arizona as the dark outcome of the democratisation and market liberalisation efforts carried out in Bosnia by the international community.

As a matter of fact, Arizona Market is the greatest symbol of black market entrepreneurship in Bosnia and Herzegovina (Skulrak 2000). The roots of Bosnian black market entrepreneurship can be traced in 1994, when the Federal Republic of Yugoslavia joined other nations in imposing UN-mandated sanctions on RS, including an embargo on external trade, and freeze on assets and accounts (International Alert 2006: 247). Since that time RS began to experience a lower inflow of donor funds, and economic development worked much slower than in the Federation.

Despite the mixed feelings of fear and mistrust in crossing the inter-entity boundaries, most of the goods sold in the Federation came from markets based in RS, where price levels were relatively lower. By 1996 economic needs overcame those fears, and several markets emerged, such as Loncari-Arizona, Ivanjska-Gornji Rakani and Jezero markets.

Most of these markets were closed at the beginning of 2000, due to the high costs of registration imposed by local authorities, but not Arizona Market was not one of them. Located near the Brčko District, Arizona was officially enhanced in 1996 by the international community, in the Zone of Separation monitored by NATO⁵⁰.

Since the end of the conflict, it began to be referred to as an exceptional example of post-conflict reconstruction engineering, where inter-ethnic harmony could be achieved and where goods necessary for daily survival could be sold and purchased, when there were none to be found elsewhere in decimated postwar Bosnia (Haynes 2010).

50 Arizona took its name from the code name given by the US military to the checkpoint located near the Tuzla-Orašje highway.

International actors such as NATO and OHR looked at the settlement of the market as being within the scope of the Constitution, to the extent in which Bosnia was committed to be a multicultural state, pursuing the benefits given by a neoliberal economy⁵¹. The initial enthusiasm of the public opinion was soon pushed back by troublesome news about alleged human trafficking, involving mostly immigrants and women forced into the sex industry.

The international community and the local government took over two years to handle that situation and start taking some action in order to regulate the market. Not surprisingly, the involvement in prostitution and women slavery by some members of the international community itself was not a secret; again, not surprisingly, international immunity led to complete impunity⁵².

One of the last steps towards “formalisation” and regulation in Arizona Market has been undertaken in 2002, when the market has been allocated to a coalition of anonymous italian investors, Italproject, aimed at improving the land of Arizona Market building, operating and maintaining the infrastructure as well as commercial facilities, and returning them to the Brčko District in 20 years (OHR 2002).

Such a manoeuvre has not been popular among traders, whose concerns have been felt exploited and disregarded. For most of them trade in Arizona is a means of survival, a source of income for many families, and not just a rational project of reconciliation between severed entities. Arizona is, indeed, a continuation of inter-ethnic relations that were both “accessible and socially validated even throughout the war” (Jasarevic 2007: 284).

Still nowadays it is not easy to assess the criminalised dimension of the Arizona phenomenon. When examining the case at issue -or other similar cases- it is fundamental to keep divided the informal from the criminal ground, at least in a theoretical frame, in order to have clear how to work on the first feature and how to redress the second one.

51 As highlighted in the text of the Preamble to the Constitution provided by Dayton Peace Agreement.

52 Very interesting on this issue is Kathryn Bolkovac's case. US employee in DynCorp Technical Services, served in Bosnia with the International Police Task Force (IPTF). In 2002 won a case of unfair dismissal against a US State Department sub-contractor, after being sacked for reporting an alleged prostitution racket involving other serving officers.

2.2 Economic transition and Privatisation

Remaining in the field of Bosnia's economic transition, in the last decade the international donor community has posed an accent on privatisation as a new, main “motor of reconstruction and economic development of the country” (Keller & Neumann 2006: 10). Nevertheless, even in the privatisation process, Bosnia has experienced a concentration of economic power in the hands of nationalist politicians linked to criminal networks.

As a result, the hoped economic shift has not occurred, and privatisation is one of the latest causes for concern. Post-conflict international intervention has been the driving force of the process, posing an accent on the importance of pursuing a viable “mechanism for freeing the productive assets of a transition society from the “dead hand” of socialism” (Donais 2002: 2).

Nevertheless, transition has been one from “the dead hand of socialism” to the dead hand of corruption, in which the ruling nationalist parties sold public enterprises to themselves, through non-transparent privatisation deals. Diversion of state-owned sources led personal benefits to become a priority over economic transformation, in a “corrupt, ethnicised, and protracted struggle for power” (Donais 2002: 2).

All the potential benefits of privatisation envisaged by the IC were well founded: the enhancement of the domestic private sector would have been an extraordinary occasion for peacebuilding, if such an effort would have been addressed with the purpose of de-politicising economic life, and starting-up a real economic growth. Conversely, the ties between political parties and economy have been improved instead of being cut, and the international community has underestimated the complexity of the Bosnian system.

Bosnia's privatisation program started in 1997, under the guidance of the the IC. At the time a deep institutional vacuum was occurring, which the IC itself tried to constrain with the structures framed by Dayton⁵³. The institutional impact Dayton had on such a political emptiness precluded efficiency and stimulated ethnicity, leading to perverse consequences which do not differ from the ones analysed earlier in other paragraphs.

In 1998 the US Agency for International Development structured an entity-based set of agencies, supposed to provide logistical and financial support to international experts⁵⁴. Such a territorial partition of competences proved to be highly dysfunctional, due to confusion, overlap and collision among mandates; this led privatisation agencies to political interference and involvement in political rather than in technical action.

All this settlement had an enormous potential for corruption: since adaptation to peace was made by the same networks that took the country into war, appropriation of public resources was carried on by the same networks. To make an example, telecommunications (including broadcasting) and energy (electricity and gas) were divided along ethno-party lines to provide major sources of revenue for the nationalist parties and their parallel structures (Pugh 2005 a: 451).

At the same time, international donors withdraw support from public enterprises, and nationalist powerful elites started to undervalue enterprises for sale. Soon it started a process in which bankruptcies were accelerated and the resell of enterprises was decelerated, in order to avoid further losses and protect new elites.

53 The programme was conducted under the guidance of the US Agency for International Development (USAID). The programme was separate from the economic reform process overseen by the OHR. (Donais 2005: 4).

54 At a federal level: Agency for privatisation FbiH; 10 Cantonal Privatisation Agencies; Privatisation Management Boards. In the RS Government: Directorate for Privatisation; RS Steering Committee for privatisation. In both entities there was a Securities Commission and a Securities Register.

Local politicians justified the delay in reselling public enterprises claiming the necessity to improve conditions which were supposedly “essential” for starting a privatisation process⁵⁵. The legislation aimed at setting forth a proper process for selling public enterprises and avoiding money laundering did not provide sufficient guarantees for workers; this not only facilitated strikes, but also higher unemployment rates, since thousands of workers lost their job. Bosnia was in the middle of two processes: an international one, squeezing the public economic space in the name of neoliberalism, and a national one capturing the remaining public space for personal profit.

Aluminij Mostar, one of the biggest aluminium smelters in Bosnia-Herzegovina, is an emblematic example of how privatisation helped cementing politics based on ethnic division and social exclusion. Prior to the war, Aluminij employed a multi-ethnic staff of almost 5.000 mostarians (ICG 2000: 55). During and after the conflict the firm acted in line with mainstream ideas of ethnic division: not only it served as one of the financial mainstays of the Croat-nationalist HDZ party parastate in Herzegovina⁵⁶, but most of non-Croats employees were dismissed from the workforce (ICG 2001: 25).

In the aftermath Mijo Braikovic, leader of the ruling HDZ party and director of Aluminij Mostar, engineered a co-capitalisation of the firm with TLM Sibenik, a light metal factory from neighbouring Croatia. TLM started to invest heavily in Croat-controlled areas of Bosnia, in order to shift and assign majority ownership from the Bosnian state to Croat companies.

55 In January 2005, the Federation Prime Minister Ahmet Hadzipasic, announced that the time for privatising key companies (Agrocomerc, Energoinvest, Energopetrol, KTK, the Mostar Tobacco Factory, Visoko, etc) was not the right one, since capacities had to be restructured and modernised.

56 *Hrvatska demokratska zajednica Bosne i Hercegovine*, Croatian Democratic Union of Bosnia and Herzegovina.

After the firm was reopened in 1997, representatives of the international community and members of KCD (Coalition for a Unified and Democratic Bosnia) criticised the whole activity of Aluminij, concentrating their claims on two fronts: not only part of the funds for the reconstruction of Croatia was redirected to assist the rehabilitation of the firm, but even HDZ leadership was using international financial support to follow the wartime ethnic cleansing of the company⁵⁷.

In 1998 the Federation parliament passed the State Framework Law On Privatization of Enterprises and Banks in Bosnia and Herzegovina, requiring each enterprise to distribute privatisation vouchers to its pre-war employees⁵⁸. The law was ignored by the management of the firm, and non-Croat pre-war employees were denied to receive any share. After one year of intense pressure from the Bosniaks and the Americans, in spring 2000 U.S. Envoy Richard Sklar started an international audit commissioned by OHR, in order to determine both the value and ownership of the firm. HDZ allied Bosnian leaders and local media refused to recognize the audit, claiming that the privatisation of the company was legal: the transaction was indeed made possible by a sudden decrease in the company's value, from 1.4 billion to 190 million BAMs (Kebo 2001).

The auditors, even acknowledging the illegal nature of the activities carried out by the company, vaguely recommended to keep “undisturbed” the ownership structure “for political and practical reasons”⁵⁹, assuming that most part of the spontaneous privatisations in the country had been accepted as “*fait accompli* by the international community” (Donais 2002: 8).

The Aluminij Mostar case demonstrates how deep has been the IC involvement in the Bosnian economic process, and how scarcely has acted in trying to handle the problems representing a big obstacle to progress.

57 KCD was a multiparty coalition composed by members of the SDA (*Stranka Demokratske Akcije* or Party of Democratic Action), SDS (*Srpska Demokratska Stranka* or Serbian Democratic Party), and the liberal conservative Party for Bosnia and Herzegovina (*Stranka za Bosnu i Hercegovinu*).

58 Art 3,4 of the State Framework Law On Privatization of Enterprises and Banks in Bosnia and Herzegovina.

59 Words from a declaration made by UK ambassador Graham Hand in 2001 (Pugh 2002).

Conclusions

A greater recognition of needs such as supporting the goals of promoting ethnic reintegration and marginalising extreme nationalism might have produced a different approach to privatisation. If political leaders would have been diverted from playing the ethnic card, the process would have been transformed from a “site of ongoing ethnic struggle to an engine of sustainable economic growth” (Donais 2002: 14).

Things would probably have been different if the international community would have, from one side, focused on a better technical organisation, for example creating a single, multi-ethnic privatisation agency instead of a chaotic structure of party-controlled agencies; and from the other side, substituted party-nominated managers with teams of international and domestic experts.

In the end, the struggle is self-perpetuating, and the actors involved are the same: a disfunctional international hyper-interventionism versus an evanescent local ownership exploited by sectarian political interests. Things are not likely to change while peacebuilding strategies keep referring to political transformation and economic development as separate stages.

3. REFLECTIONS ON CIVIL SOCIETY

Civil society acts like a mirror, in absorbing politico-economic variables and reflecting a set of situations which constitute the status quo of a country. What is provided here is an overall assessment of the main social weaknesses undermining Bosnia's turbulent way to transition.

Today's Bosnia is still facing those challenges which were posed by wartime ethnic cleansing. Ethnic diversification has been a leading challenge staying at the roots of a process which led to the erosion of social inclusion and trust, two constitutive elements of any viable civil society. Even if inter-ethnic hatred is not the only reason at the roots of social exclusion, it has been, beyond any doubt, the driving force of the many challenges facing Bosnia's stateness.

Considered in the specific perspective of peacebuilding, civil society emerges as a peculiar factor, whose dark and bright outcomes are both sources and consequences of the impact had by the peacebuilding efforts carried out in the country. The double-faced nature of civil society shows how difficult is to hold a unique and objective perception on Bosnia's foundations.

The purpose of this section is that of assessing both sides of the coin, the darkest and the brightest, showing their ties with other features discussed earlier in the chapter. The darkest side of the coin is overwhelmed by social exclusion, which is the cause of other “social diseases” like a turbulent employment system, and a widespread mistrust among people.

“Social exclusion is a process whereby certain individuals are pushed to the edge of society and prevented from participating fully by virtue of their poverty, or lack of basic competencies and lifelong learning opportunities, or as a result of discrimination.(...) They have little access to power and decision-making bodies and thus often feeling powerless and unable to take control over the decisions that affect their day-to-day lives” (EC 2004).

Hopefully, there is a brighter side as well, constituted by social capital and certain forms of spontaneous civil society building. Nevertheless, their benefit is more potential than effective, and much work remains to be done.

3.1 Social exclusion and mistrust

As argued before, social exclusion and mistrust have been enormous challenges to cope with, both in post-war and in today's transitional Bosnia. The leading cause of Bosnia's social integrity collapse lies in a wartime ethnic-fashioned demagogy, typical of political elites pursuing personal gain, through the enhancement of cross-ethnic criminal and informal economic networks. After the conflict social divide deepened, preventing the average citizen from holding previous social ties and from fully participating in the social, economic and political life of the several communities.

Social exclusion became pervasive throughout all sections of society; statistical evidence helps in giving an idea of this: according to data recorded in the UNDP National Human Development Report for Bosnia, more than 50% of people surveyed consider to be “socially excluded in some way”; 22% feels to face “extreme exclusion”; and 47% perceives to be “at risk of long-term exclusion” (UNDP 2009: 17).

A first symptom of social exclusion is economic inequality, upon which statistical data presents discouraging results as well. Again, according to the National Human Development Report, only 12.5% of people surveyed feels comfortable with their income, while 44% faces difficulties. Social exclusion is just a starting point of a chain reaction which often ends in the patronage and corrupt hands of the few. In order to show how deeply entrenched are civil society issues with the perverse outcomes of political economy, it is the case to consider unemployment. Unemployment is not only an outcome of the conflict itself, but also a consequence of the neoliberal economic patterns dictated by Dayton, focused on a restrictive monetary policy which, prioritising macroeconomic stability, caused a low inflation rate and high unemployment.

Unemployment can provide two interesting examples in the purpose of this analysis: the first one concerns the tendency to get involved in the informal, or unregulated labour market; the second one is relative to practices which can have corrupt outcomes in the field of employment.

Firstly, unemployment is very difficult to assess; percentages are conflicting, ranging from statistics recording unemployment rates of 40% (which probably take into account even informal employment) to rates of more than 25% (ILO, World Bank 2010). That 20% of unemployed people which is not considered in the last rate may comprehend those who are likely to find other means of sustenance through clandestine and non-regulated channels.

Informal sector employment is an issue of great concern: it becomes unavoidable when people need jobs, access is difficult and wages are highly taxed⁶⁰. According to a survey conducted by Prism Research and commissioned by The Center for Investigative Reporting in Sarajevo (CIN) 241,740 out of BiH's 810,792 workers are unofficial, which amounts to almost one third of total employment⁶¹.

A second important issue concerns the strong, mutual links existing between unemployment and social exclusion. A social phenomenon which is representative of the close relation existing between employment and personal connections is the so-called "*Štela*", and is widespread in all layers of society.

The word *Štela* refers to those personal connections and family ties which play a very important role beyond formal and institutional access to services. To make an example, always according to surveys provided by the 2009 UNDP Report on Bosnia, for 95% of survey respondents *Štela* represents a useful device for getting access to basic social services; for 85.7% of them personal connections represent the only way to get a job⁶².

Family favouritism in Bosnia generally provides benefits and services in a better or faster way, or when it would be otherwise impossible. Most of the times those benefits do not require any form of payment, beyond demonstrating a high degree of loyalty to the family itself. Other times the boundaries between familiarism, clientelism and nepotism are not very clear; it is matter of debate if exchange of money and gifts in close family ties can be conceived as a form of corruption⁶³.

60 Informal sector employment is comprised of three groups: (a) unpaid supporting family members, farmers on own farm, and workers engaged in other activity, such as sale of agricultural products; (b) workers not employed by public enterprises (or state sector) for which pension contributions are not paid; (c) workers declaring any other out-of-employment activity, but reporting earnings or hours of work (World Bank 2009: 5).

61 Always according to the same survey, in response to the question: Have you ever worked unregistered? one of five respondents between 18 and 35 in the CIN/Prism survey said yes.

62 " In your opinion, how useful is it to have *štela* for getting a job, getting better healthcare, getting access to education, getting access to authorities (such as police and the judiciary) and for getting a visa?" (UNDP 2009: 75)

63 Those expressions tend to be used more widely, but in this context they apply to a situation in which a person uses his or her public power to obtain a favour – very often a job – for a member of his or her family.

Some understand *Štela* as a personal matter, others feel frustrated and not able to separate personal connections from corrupt practices. It is not an easy task to give *Štela* a proper collocation between customary rule and corrupt trend, but its impact on the Bosnian network poverty is doubtless, as well as its deleterious outcomes for the degree of confidence among people. With all its relative benefits and high risks, *Štela* is mainly perceived as unavoidable, and entrenched within a weak and inaccessible institutional structure⁶⁴.

Widespread and low levels of social trust are unavoidable consequences of network poverty and social exclusion. Trust is the driving force of any viable civil society, the crucial component that binds people in their interaction with one another. Evidence suggests that over the past few years trust levels have been worsening to a great extent. Data collected from surveys conducted in 2004 by the Balkans Analysis Group reveals that 84.2% of respondents agree that most people cannot be trusted (Håkansson & Hargreaves 2004: 22).

When assessing the levels of social cohesion and trust, variables such as age, education, ethnic homogeneity and financial status must be considered. On the average, the lowest levels of trust have been registered among people aged between 36 and 50 years, with a lower financial status, and living in a less homogeneous region or canton (Håkansson & Hargreaves 2004: 31). This last, brief focus on trust brings to the following examination: social trust is the core element of social capital, and one of the most controversial issues of Bosnia's transition.

3.2 Social capital: peacebuilding potential or vehicle of corruption?

Beyond these forms of social disease, there is some reason to depart from one sided, black perspectives over Bosnian society. The emergence of local networks occurred in the last decade highlights how social capital can play a key role in society building, to the extent in which people can cooperate to get mutual benefits, in a transparent environment.

⁶⁴ "I think that it is part of our life, people are so accustomed to it...to do whatever it takes...and it will never change" (Female, employed, Banja Luka) (UNDP 2009: 78).

Bosnia-Herzegovina is, in such a context, a laboratory for bridging social capital, whereby social capital is meant that set of “norms of reciprocity, interpersonal networks, and social trust that are generated through all social interaction, including not only civil society, but also family and business” (Sterland 2003: 10).

The establishment of cooperatives, professional associations, cultural and sporting clubs, and religious associations demonstrates a generalised will to overcome some of the more significant social cleavages which have undermined the country for years. Recently, the need to develop multi-ethnic networks based on reciprocity has been translated into reality, through the creation and enhancement of NGOs, civil society organisations and voluntary associations. Most of them are generally committed to multi-ethnic agendas, and directly involved in efforts aimed at reconciling local ethnic groups (World Bank 2002: 95).

Despite such a positive trend, the peacebuilding potential of social capital is limited by a set of dynamics which are still entrenched in war-torn Bosnia, and -paradoxically- further enhanced by international commitment. Other organisations are -indeed- representing sectorial interests, and are detached from a proper peacebuilding approach.

For a better understanding of the issue, and for the sake of simplicity, it can be useful to analyse briefly two common organisational forms of civil society: non-governmental organisations and civil society organisations. Despite some common operative features, they present differences both at a technical and at a substantial level.

Non-governmental organisations are considered to be the contemporary expression of values entrenched in justice, equity, and pluralist democracy (Belloni 2001: 169). Evaluating the activity of all the NGOs currently registered in Bosnia is controversial, and a considerable confusion exists about their activity in relation to the state level and the governmental level. There are no effective country strategies for government–civil society cooperation at either the state or entity level, nor mechanisms aimed at defining and mediating relations, roles and responsibilities which are transparent or accountable (Sterland 2006).

Among the hundreds of NGOs operating throughout the country, the most important ones are funded by donor states, and the most capable ones represent a relatively small and professionalised elite, located in the larger urban centres⁶⁵. Those NGOs which are characterised by a “higher” profile, heavily depending on foreign resources, are most of the times committed to externally driven agendas; this leads to implementing donors' priorities instead of addressing the needs of the local communities. Western donors' operative short termism influences the whole NGO community agenda, projecting and disorientating it from the very scope of their creation, and shaping a “mix of disillusionment and dependence” (Richmond & Franks 2009 b: 32).

In addition to NGOs, there is a growing but uncertain number of informal community based groups, called civil society organisations (CBOs), which undertake a variety of activities, such as the delivery social services. From 1998 their development has been encouraged at a grassroots level, in the hope of enhancing -to some extent- the level of social ownership⁶⁶. Nevertheless, those expectations have not been fulfilled: the grassroots still lack of any real political impact (Fischer 2006).

CSO's limit lays substantially in the nature of their activity itself, which remains merely entrenched at local level: from the one side, the risk is that of being still affected by ideas of ethnic divide; from the other side the risk is that of missing those resources which necessary in order to mobilise public support and action for a change. Besides, only a small number of CBOs have received international project funding or benefited from inclusion in NGO capacity building programmes (Sterland 2006: 22).

65 NGOs in Bosnia receive between 70% and 100% of all revenues from foreign sources.

(Barnes 2004: 31)

66 According to survey results, membership in traditional citizens' associations such as CBOs or voluntary associations is more common than membership in new NGOs. (World Bank 2002)

Conclusions

This last point shows how NGOs, CSOs and other voluntary organisations are not to be considered a *panacea* for rebuilding war-torn societies. Even if capable to make a positive contribution to peacebuilding, some of them have a corrupt orientation and unequal mechanisms of distribution across the country⁶⁷. This leads people at the grassroots to a generalised sense of distrust and under-representation by externally driven networks, in their pursuit of empowering social cohesion.

External-led civil society building has been carried out in a way which has been preventing the creation of groups pursuing genuine interests and needs⁶⁸. A major mistake has been that of working in the wrong assumption according to which civil society can emerge simply by promoting the NGO sector in general. Recalling the dysfunctionalities set forth in the second chapter, what can be envisaged is both a disablement of local ownership and a certain lack of cultural sensitiveness.

As long as the IC states which parties represent the public interest and which policies are to be implemented, there will be lack of political contestation and scarce public involvement. The international community is, in fact, calling for a “Bosnian political class which is apolitical”, and does not reflect the particular concerns of the population, and is therefore “disconnected from Bosnian society” (Chandler 2006 a: 97).

67 An example of how politically sided NGOs can get is the the law which allows NGOs to register freely at the Ministry of Civil Affairs and Communications and therefore to operate anywhere in the country; nevertheless, some NGOs experienced bureaucratic difficulties and long delays. Frustration led those NGOs to register not at a statal level, but at the entity level in one or both entities. This may have several implications on the impartiality of the several agendas. (Human Rights Report 2008)

68 “Civil society, although presumed to be an indigenous socio-political organism, is paradoxically driven by the international community, who provides the political and social agendas derived from their own liberal perspectives, and more importantly, the finances.” (Richmond & Franks, 2009 b: 31)

From one side, the government is still not fully receptive to policy advocacy by interest groups, unless they come from the leading business and religious circles. (Jelusic 2007: 131) From the other side, such a disconnection brings the average Bosnian citizen to feel under-represented by local networks as well: a random survey of public opinion conducted in 2006 by the Prism polling organization revealed that only 8.3% of the surveyed people were members of political organizations and only 9.3% belonged to non-governmental organizations, cultural associations, or sports clubs (Woodward 2009: 30). These kind of trends need to take a long time in order to be reversed.

CHAPTER IV

CURRENT CHALLENGES ON THE WAY TO BOSNIA'S FUTURE RECOVERY

Within the scope of identifying the challenges constituting Bosnia's current political, social and economic stalemate, this last part is focused on two last major challenges for the country, in its progressive involvement in the European and international affairs in general. The challenges at issue are business and foreign investment from one side, and anti-corruption efforts on the other side. The former represents another example of those outcomes generated by the interaction between international neoliberal approach and local level institutions.

Foreign direct investment is generally held to be a milestone for the immediate economic recovery and long-term sustainability of any country. The following paragraph will assess how the multifaced effects of local corruption and international imposition negatively impact Bosnia's attractiveness on foreign investors, raising concern over the present and the immediate economic future of the country.

The second challenge is examined in the last part of the chapter. The case at issue deals with the anti-corruption efforts carried out in Bosnia until the present time, both at the local and at the international level. Those efforts have been developed over a relatively recent period of time, under the input given by the IC. It will be demonstrated how the IC's delayed intervention, local institutions' unaccountability and scarce coordination between the two set of actors has prevented anti-corruption policies from being successful, despite the multitude of instruments introduced during these last years.

The scope of this chapter is that of demonstrating how, despite conceived with presumably good intentions, the enhancement of certain tools and instruments can do more harm than good. It will be assessed how a stalemate in business and setbacks in the adopted anti-corruption policies have been further deepened by a delayed and disorganised action, as well as an excessive technical approach on the side of the international community.

This has implied considerable reflections on civil society as well. Both the issues have the instrumental character to address a last problematic aspect of IC intervention: its typical tendency to short-termism and blind delegation of instruments to the local realm. Most of the times these instruments have been legal frameworks which have come to collide with the infertile local ground in which has been tried to be implemented.

A last consideration concerns, as in the previous chapters, civil society. Even in the context of a potential future recovery through improving the business system and through workable anti-corruption efforts, the role held by civil society, is evanescent and not considered to a meaningful extent. This is due to a chain reaction: substantially, anti-corruption or investment campaigns without an epilogue can have a negative impact on society, since they undermine trust among the general public and, as a consequence, disable any potential impact of civil society efforts.

1. ATTRACTING FOREIGN INVESTMENT: ANOTHER SUCCESSFUL FAILURE?

This paragraph provides an overall assessment of the current situation and the latest steps undertaken in Bosnia's business environment. The aim here is not that of criticising in depth the neoliberal conception according to which FDI constitutes the “absolute good” for Bosnia's long-term sustainability. Nevertheless, it is stressed the importance to cope with “major diseases” before pretending to address a valuable economic reform, in order to strengthen the international economic relationships of the country. As argued before, attracting foreign investment is held to be an important milestone in Bosnia's way towards European integration. Nonetheless, establishing a business in Bosnia has proved to be an extremely burdensome and time-consuming process for investors.

During the last decade, especially from 2002 to 2005, the country made considerable efforts in facilitating the business environment through opening its economy to more foreign investment. This was made possible thanks to the adoption of laws and policies such as a Liberal Foreign Investment Policy Law, a renewed taxation system, and a harmonized trade and customs policy. Nonetheless, since 2006 -and further on with the global crises in 2009- FDI has returned to its lower levels⁶⁹. This happened because more substantial policy reforms and a better enforcement of the existing ones should have been addressed.

A list of factors undermine both local and international business in Bosnia. Besides the already known government and policy difficulties putting at stake Bosnia's systemic stability, the investment environment in general is negatively affected by an awkward and scarcely defined regulatory framework. Such a framework results in overlapping legislation both at state and at entity level.

Vague and overlapping legislation leads to regulatory violations and encourages corruption in the field, providing abundant opportunities to corrupt public officials for extorting bribes to potential foreign investors. As a consequence, “insider privatization, low foreign investment and the lack of strong small and medium size business have mostly reinforced the monopolies that developed during the war” (Bertelsmann 2003 : 8).

Such a receptive environment for state capture and administrative corruption has scared away foreign investment, both from the EU and from other international markets⁷⁰. Substantially, foreign investors' confidence has been undermined by lack of essential coordination and accountability among the government offices, endless inspections, lengthy investigations and abuse of the judicial system. All these factors imply -indeed- high transaction costs for business.

69 A lower demand was registered from the European Union for BiH exports and a fall in remittances from workers abroad (PGlobal Global Advisory and Training Services Ltd: 25).

70 The only investment Bosnia has attracted in the last decade has involved sectors which produce for internal markets and consumption, such as telecommunications, electricity, refineries, petrol stations, breweries, tobacco and construction material (Fischer 2006).

The paragraph is structured as follows: after having examined the most important steps undertaken after Dayton, some critical challenges will be considered, and some potentially viable solutions will be addressed as well. As a conclusion to the paragraph, it will be reminded the mantra of the vital importance held by civil society, even in economic decisions.

1.1 Legal and institutional environment

The fact that today's Bosnia is not a fertile ground for local and international business does not come as a surprise. The World Bank rates the country 116 out of 183 countries in ease of doing business (World Bank 2010). It is likely that such a low record is a reflection of the general constraining effects high level corruption has on economy.

This section is not intended to provide a complete assessment of those business “losses” due to corruption; nevertheless, it is important to consider how burdensome such losses are for the long-term sustainability of the Bosnian economic system.

Bosnia' efforts in attracting foreign investors have been several, such as passing a liberal foreign investment law mandating the use of international standards; uniforming trade between the entities and Brčko District; introducing corporate tax and customs policies in line with international norms (BiH TrustLaw). However, those efforts have not been sufficiently addressed, and standards “have not yet been internalized throughout the country” (Embassy of Sarajevo 2010). This is mainly due to a number of difficulties which are substantially rooted in the systemic weaknesses examined in the previous chapters.

Before assessing the main disfuncionalities hampering the Bosnian business environment, it is important to consider some major steps undertaken for improving the economic sector of the country. The first post-Dayton instrument has been the Law on Foreign Trade Policy. Came into force for the state and the entities in October 1997, the law regulates basic elements of the foreign trade regime for the import-export of goods and services, and gives foreign investors significant legal guidelines for the flow of goods⁷¹.

The instrument which is probably the most important at state level is the Law on the policy of Foreign Direct Investment. Adopted by the state government in March 1998, it provides a generic framework for foreign investment. The law accords the same rights for foreign and domestic investors, prohibiting expropriation and nationalisation of assets, unless under exceptional circumstances. No restrictions are posed on investment, and the only exception concerns the defence industry and the media sector, where foreign control is limited to 49%. Investors are also protected from changes in laws regarding foreign investment⁷².

In 2004, the Parliamentary Assembly of Bosnia and Herzegovina adopted the Law on Foreign Investment Promotion Agency, which established the homonymous agency. FIPA is an independent administrative organisation aimed at attracting and maximizing the flow of foreign direct investment into the country, encouraging existing foreign investors to enhance their business through information and assistance, facilitating the linkages between public and private sectors and increasing cooperation with other international institutions⁷³.

71 Article III(1)(b) of the BiH Constitution provides that the state has the authority to preside over foreign trade policy. In accordance with the law at issue, and the Bosnia and Herzegovina Constitution, both entities must apply the same principles and rules as set forth in the law (FIAS & World Bank, 2001: 28).

72 "Should the government make changes, the investor may choose the most favourable set of rules to apply" (Embassy of Sarajevo 2010).

73 Information available at FIPA's homepage. (<http://www.fipa.gov.ba>)

In 2006, the Council of Ministers adopted the “Investment Promotion Strategy”, with the purpose of helping FIPA through developing image building, investment generation and corporate development support programs (BBI & PGlobal Turkey 2010: 16). Despite the improvement recorded by FIPA, a further consolidation of its activities as well as a simplification of its bureaucratic procedures is needed.

Even if some improvement has been achieved over the years, these instruments constitute a web of regulations which, paradoxically, constrain entrepreneurship and investment. As stressed further on, the current framework is still fragmented, and needs to be strengthened, in order to include sufficient elements to create an investor-friendly business environment. Actually, the problem is not represented by those instrument themselves: the real challenging factor is the ground on which they have been tried to be implemented.

1.2 Bosnia's unattractiveness to domestic and foreign investors

Such a widespread sense of concern among potential investors is due to a set of factors which render Bosnia's economy unattractive to investment. Among these, the biggest obstacles are a burdensome bureaucracy, high financial costs, cheap labour and cheap exports. Besides, Bosnia's regulatory environment is particularly corrupt in relation to licensing, taxation and business registration, which all are fundamental components in order to start up a business. As an outcome, for example, not all potential investors agree to bribe in order to expedite the application process⁷⁴.

What follows is an assessment of some of the main challenges and impediments currently undermining Bosnia's business environment. A first huge challenge is represented by the uncoordinated and complex regulatory frameworks existing between the entities. In the light of their duplicative and often contradictory nature, cross-entity business gets deeply undermined and difficult to be managed by companies, which find uneasy to cope with several changing regulatory regimes⁷⁵.

74 Nonetheless, most investors agree to pay bribes, assuming that the cost of delays would be much more expensive than the bribe itself (BBI & PGlobal Turkey 2010: 62).

75 To make an example, a potential investor has to deal with 5 layers of bureaucracy in order to register a business: state, entity, canton, city and municipality (ICG 2001).

It is almost impossible to have a complete and clear “knowledge of all the laws or rules that might apply to certain business activities, given overlapping jurisdictions and the lack of any central source of information” (Embassy of Sarajevo 2010). This is one of the main reasons why even the very first steps for starting a business prove to be severely undermined⁷⁶.

An emblematic example of this is the procedure required for the registration of ownership titles. It consists in a very complex and time-consuming process, made of 12 administrative steps, an average of 60 days and costs 30.8% of GNI per capita (BiH TrustLaw, World Bank & IFC Doing Business 2009). Since entity-level registration requirements are not harmonized, companies are required to register in each entity in which they wish to conduct operations: at a federal level, for example, each of the 10 cantons has different business regulations and administrative procedures (BBI & PGlobal Turkey 2010).

Even tasks as wanting to expand or change the location of a business, or the amendment of the original registration document, creates huge difficulties for entrepreneurs⁷⁷. In such an environment, ownership structures get very unclear, and the control powerful state actors exercise over substantial parts of the economy becomes even more pervasive.

Another emblematic example of this widespread lack of harmonisation is represented by the existing burdensome and opaque tax regime. Taxes are imposed on a too small and diversified base: at the federal level, personal income tax is levied on a cantonal basis, whereas in RS it is regulated at entity level. Such a double system of taxation tends to penalise those businesses operating in different entities⁷⁸.

76 Detailed information on the procedures for establishing a business in Bosnia is available at: FIAS & World Bank 2001: 40-67

77 For example, in case of amendments of the original registration document, the entire registration process must be repeated. This rigmarole actually discourages enterprises from expanding or changing the location of their operations (ICG 2001: 10).

78 In FBiH personal income tax is dealt with at cantonal level, whereas in RS it is regulated at entity level. On the other hand, Brčko district has its own legislation for PIT. In order to restore investor confidence and to create single economic space, state policies are highly needed (BBI & PGlobal Turkey 2010 : 42).

A second element undermining the start-up rules of a business is the myriad of standards and inspections which entrepreneurs must comply with, some of whom are replicated at each level of government. Inspections often reveal to be clamorous opportunities for corruption, since “unscrupulous businessman or political foes can take advantage of government's hunger for fees and fines, inspectors' turpitude and their own connections to punish their competitors or enemies by reporting alleged violations to the authorities”(ICG 2001: 11).

Even when inspections are carried in a transparent environment, the several existing barriers are a deterrent factor for businessmen, who are -most of the times- even prevented from getting even basic information. This combination of authoritative power and lack of information creates opportunities for extortion.

A last, important element to consider is how the Bosnian inadequate, partisan and ineffective judicial system represents a huge barrier to domestic and foreign investment. No effective judicial means exist for a quick resolution of commercial disputes, nor for solving disputes between inspectors and businesses. As a consequence, businessmen often must pay up or see their activity damaged or suspended for lengthy periods of time.

Besides, the judicial system is also subject to abuse by those seeking either a payoff from investors in Bosnian firms or protection from the competition such investors might offer. The most diffused abuse is that of making anonymous allegations of wrongdoing in a company marked to receive a substantial investment (ICG 2001: 14).

A positive development registered in the field has been the establishment of a Competition Council in 2004, an independent public institution aimed at enforcing anti-trust laws, preventing monopolies, and enhancing private sector competition. Nevertheless, much work remains to be done in order to improve the judicial system, especially in the commercial sector.

Conclusions

The development of a business sector is viewed as a key source for the future sustainability of the Bosnian state. FDI is considered to initiate technology spillovers, assist human capital formation, contribute to international trade integration, help to establish a more competitive business environment and enhance entrepreneurship (BBI, PGlobal Turkey 2010: 17). Substantially, creating a competitive business environment can be not only a key component of an effective anti-corruption strategy, but also a potential for Bosnia's future sustainability⁷⁹.

Nevertheless, before expecting to address a valuable economic reform for strengthening Bosnia's international economic relationships, its long-term sustainability requires efforts aimed at coping with “major diseases”, such as local power concentration and international discretionary and coercive power. In order to work for a less distorted business environment, one which is really a potential for long-term stability, international and local efforts must cooperate for the achievement of some basic goals.

A first effective tool consists in simplifying the regulatory and administrative framework. Simplification is essential for improving the investment climate: for example, a centralised registration system could be established for the entire country, or double taxation could be avoided, in order to favour companies willing to operate in different entities, following the scope of their nation-wide activities.

Second, the problem of mis-communication between investors and government offices should be immediately addressed. FIPA, for example, could improve its role in establishing better communication channels for information flows between the two set of actors⁸⁰.

79 De-concentration, competitive restructuring, and reducing barriers to entry are essential measures against state capture (World Bank 2000: 36)

80 If FIPA could establish further closer linkages between foreign investors and local firms, it will help facilitate domestic companies' access to global markets (BBI, PGlobal Turkey 2010: 26).

A third tool could be addressed for improving the judicial system: a well-established arbitration mechanism would positively influence investment decisions. Investors' confidence could be enhanced by enabling the firms to appeal international courts in order to settle disputes (BBI & PGlobal Turkey 2010: 22).

In considering what remains to be done and what should be redressed for improving Bosnia's legal, political and economic stability, the need to enhance public ownership emerges as a priority even in the field of business and investment. The IC could have stressed the importance of such a goal in its agenda; nonetheless, despite the decisive steps undertaken by the OHR to improve the economic framework, in reality international attention has been inadequate in strengthening Bosnia's capacity to stimulate the field of business and investment.

Bosnia's business will continue to be misconceived until a real social contract will be established between state and society. For this, strong institutions of public authority are needed, as well as an inclusive economic and political environment; only then the country will be able to address proper efforts to strengthen its domestic and foreign investment.

2 ANTI-CORRUPTION EFFORTS IN BOSNIA AND HERZEGOVINA

During the last decade anti-corruption and good governance issues have come to constitute a crucial focus on Bosnia's international peacebuilding agenda. The existing anti-corruption efforts have been developed over a relatively recent period of time, under the umbrella of the IC.

In its fight against corruption, the country has assumed a quite relevant list of obligations: a number of international conventions have been signed, both at the level of the Council of Europe and at the level of the United Nations⁸¹. Nonetheless, a limited success has been recorded on the reduction of the impact crime, corruption, and political influence have in the whole Bosnian system.

81 At the level of the Council of Europe: Criminal Law Convention on Corruption, Civil Law Convention on Corruption, Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. At the level of the United Nations: Convention against Transnational Organized Crime and the famous Convention against Corruption (TI 2009: 19).

The reasons for such a poor success are double folded: from one side, the IC's delayed intervention and strictly technical approach; on the other side, not sufficient local commitment and scarce coordination between the two set of actors. As an outcome, the IC has assumed executive and legislative powers in an artificial institutional settlement, which has prevented the development of public trust towards any institutional commitment to transparency or accountability.

This paragraph is not aimed at obscuring Bosnia's improvement in the implementation of anti-corruption activities. A number of results have been achieved, but their *raison d'être* is currently constrained by two factors: formally, by lack of coordination among institutions; substantially, by a missing gap between external imposition and lack of local adaptation to the legal and institutional framework.

The organisational structure of the paragraph consists of a first part concerning the existing institutional environment and developments achieved in the field of anti-corruption, both at the local and at the IC level. The second part addresses some evaluations and critiques, with the scope of framing the current situation, considering the most urgent needs and proposing some possible solutions to the issue.

2.1 Institutional environment

Evaluating the most important institutions of Bosnia's anti-corruption environment helps to better understand how the several steps undertaken in the field have not properly led to a considerable change, and how, even if a certain evolution has occurred in scopes, a real device for tackling the problem is still missing.

In the light of the “bottom-up” approach adopted in this work, the examination starts from local institutions, despite the fact that, as argued before, Bosnia's legal and institutional measures to curb corruption have been primarily developed through external input.

At a local level, anti-corruption tasks are divided among police agencies, ministries and the Prosecutor's Office (BiH TrustLaw). The main local body in the area of corruption is the Council of Ministers' Economic Policy and Planning Unit, and oversees the implementation of the Mid-Term Economic Development Strategy which, among its goals, includes coping with strategies for combating crime and corruption⁸².

A second relevant body is the State Agency for Investigation and Protection of Bosnia and Herzegovina (SIPA), operational since 2004. Part of the Ministry of Security, it is the official state police agency, and works against organised crime at the state level⁸³. SIPA provides whistleblower mechanisms for the anonymous reporting of episodes of organised crime and corruption, and it has been committed in raising awareness about those issues.

A third important state level institution is the Office of the Prosecutor, established in 2003. It is committed to the investigation of serious crimes, such as terrorism, money laundering, trafficking and corruption. Several Prosecutor's departments deal with economic crimes both at state and at entity level, and with corruption of public officials only at state level (Business Anti-corruption portal).

Supreme Audit Institutions (SAI) carry out external audits, and operate both at state and entity levels. The audits are aimed at reporting suspicions of corruption to enforcement authorities. However, according to Global Integrity 2009, the Supreme Audit Institutions face numerous problems, such as weak implementation of their own recommendations and constant political interference (Global Integrity Report 2009).

Finally, some words must be spent on the role the Bosnian judicial system plays in coping with anti-corruption. Both law enforcement and the judiciary are institutionally inadequate and slow in investigating or prosecuting cases of corrupt practices.

Despite the existence of two Centres for Judicial and Prosecutorial Training, designed to train judges and officials in the light of requirements such as competence and impartiality, the judiciary itself is perceived to be as one of the most corrupt institutions in Bosnia (TI 2009: 5).

82 Medium Term Development Strategy, Chapter III, paragraph V.

83 Information available at SIPA's website. (<http://www.sipa.gov.ba/en/onama.php>)

After having examined local institutions, it is the case to analyse the institutional evolution carried out by the IC in the field of anti-corruption. Several instruments have been addressed in order to foster mechanisms of good governance, such as increasing government transparency, strengthening the action of government institutions and fostering public awareness of corruption as a major political issue. Although their work is supposed to be collegial, efforts have been mostly carried out in a fragmented and uncoordinated way.

The first real institution to cope with post-conflict corruption has been the so-called Anti-Fraud Unit (AFU). Officially established in April 1998, it was settled as a component of the Economics Department of the OHR in Sarajevo⁸⁴. The UN, the European Commission, the World Bank and the US Treasury got closely involved in the activity carried out by the Unit, aimed at obtaining more knowledge about fraud, corruption and economic crimes occurring in the country.

Its professional staff-members and experts were supposed to co-ordinate the international community's efforts, but political pressures and weaknesses at a judicial level posed very challenging operational dilemmas and limits. A main operational dilemma was between providing a mere advice service or engaging in a long-term process. Systemic difficulties such as weak state level institutions, lack of economic reform and lack of political and economic reconstruction deepened AFU's challenges.

In June of the same year the Luxembourg PIC Steering Board proposed the OHR to enact a Comprehensive Anti-Corruption Strategy for the Anti-Fraud Department, in order to: "provide the framework necessary to identify, develop and implement changes in the structure and procedures of government, to significantly reduce corrupt activities and to establish a public awareness program"⁸⁵ (PIC 2008).

84 In 2002 HR Lord Paddy Ashdown, in reforming the internal OHR and IC structures, renamed the Anti Fraud Unit as Anti Crime and Corruption Unit.

85 "The High Representative will take the lead in co-ordinating International Community efforts aimed at eliminating opportunities for corruption, tax evasion; ensuring transparency; strengthening the legal system and the judiciary; implementing penalties to ensure compliance. A key component will be to develop a public awareness campaign to educate citizens about the deleterious effects of corruption on their lives and on society" (PIC 1998).

Its plan of action was focused on four main pillars: eliminating opportunities for corruption; transparency and reporting in public institutions; strengthening control and penalties; enhancing public awareness through education and campaigning (ACN 2005: 25). These tasks were part of a broader agenda committed in tackling with systemic political corruption, investigation and prosecution of major criminal cases, as well as the individual ones.

The work was organised as follows: an individual case approach was aimed at providing assistance to the investigation and prosecution of major criminal cases. Then a twofold approach sought to deal with systemic political corruption: one track dealt with public attitudes, the other was aimed at constraining the influence of those nationalist parties monitoring parliamentary commissions, audit institutions and transparency offices. This last task was substantially a mechanism of external oversight to safeguard public institutions from party-political influence. Nevertheless, those efforts have not been addressed in an effective way, and none of them has proved to be successful in fighting major crime.

In January 2002 BiH joined the Council of Europe, and joined the Group of States Against Corruption (GRECO), a monitoring instrument established in 1999 by the Council of Europe, aimed at supporting peer monitoring of anti-corruption initiatives among member countries. Since then, during its three evaluation rounds, GRECO has addressed several recommendations to Bosnia. Until now, only few of them have been effectively accomplished⁸⁶.

In February 2002 the European Commission set up a working group, charged to follow the implementation of AFU's anti-corruption strategy through a comprehensive Action Plan for Combating Corruption. It was aimed at seeking to settle priorities such as establishing proper offices to combat corruption and organised crime, improving courts and prosecution offices for coping with economic crime, taking anti-money laundering measures, and raising public awareness⁸⁷.

86 BiH had presently fulfilled four of 16 GRECO recommendations (UNDP 2010: 77).

87 The Plan set out the timetable for the adoption of new laws, such as: the Federal BiH Law on Anti Fraud Administration; Anti Money Laundering Laws; Budgets of courts and prosecution authorities; Entity laws on Data Protection for Individual and administrative proceedings and disputes; laws to regulate Conflict of Interests, etc.

Here below are listed and briefly analysed its key building blocks, which basically constitute the current operational field of Bosnia's anti-corruption efforts:

1) Transparency and accountability in the public sector: in order to constrain large-scale corruption, and mainly money laundering, the focus has been on the establishment of efficient institutions of financial management for controlling diversion of funds and other abuses, and on a commitment to report large or suspicious transactions to government authorities. For an increased accessibility of governmental decision-making to the public, in an environment of transparency between politicians and economic interests, it has been designed the creation of independent audit institutions and a de-politicised public administration, open to public monitoring against state capture and administrative corruption.

2) Political Accountability: this block comprehends those efforts aimed at placing constraints on the behaviour of public officials and applying sanctions on them. A number of measures have been considered effective in order to foster political accountability: opening sessions of the parliament, government, and the courts to the public; registering lobbying activities; publishing the voting records of parliamentarians, annual reports of government bodies, trial records, and the decisions of judges.

3) Favour political competition and establish credible political parties: this block has been based on the assumption that political competition can foster accountability and exacerbate politicians' dependency on powerful firms and financial interest. In order to do so, it has been considered fundamental the institution of mass-based political parties and interest groups, able to express their collective demands to political leaders.

4) Transparency in party financing: this task concerns the establishment of an effective system of party funding that will not be open to abuse. For this goal to be effective reliable judges are required, as well as an active investigative press. The scope of this block is related to the following one.

5) Greater competition in the private sector: such a task implies the enhancement of economic policy reforms; the establishment of collective business associations; de-concentration and competitiveness against state capture.

6) Promotion of civil society participation: this last block has been envisaged as another effective channel for enhancing political access and for increasing the accountability of political leaders. The founding idea is that by voting, joining a political party, or forming civil society groups, civil society itself can become a vital partner in developing and strengthening ethical practices in the public sector (USAID 1999: 14).

In March 2006, the Council of Ministers of BiH, under the umbrella of the country's Mid-Term Development Strategy, adopted the 2006-2009 Strategy for the Fight against Organized Crime and Corruption. The Strategy prescribed the establishment of an educational, institutional and legal framework for fighting specified acts of corruption, through a comprehensive framework of tasks, such as good governance, enhancement of investigation and prosecution, and empowering law enforcement agencies as well as the judiciary. The strategy was complemented by an Anti-Corruption Action Plan and the creation of entity and state auditing institutions.

As in the previous cases, legislation and measures frequently lacked of coordination between the entities. Insufficient implementation of the legal framework still constitutes the main obstacle to battling corruption.

In 2009, BiH adopted the 2006-2014 Strategy for the Fight against Organized Crime and Corruption, focusing on: capacity-building; generic preventive measures for more simple and accountable administrative and procedural rules; law enforcement and co-ordination and international co-operation. An Agency for prevention of corruption and coordination in combating corruption was established as well, in order to favour a more effective overview of the situation with regard to corruption in the country. This body is also meant to coordinate national anti-corruption policies among institutions at the state, entities and cantonal level.

Finally, a fundamental tool at the forefront to combat corruption has been Transparency International, international NGO with a key- focus on the promotion of transparency and accountability. Release of surveys and studies on corruption have been the most important activities carried out in BiH. Its whistleblower mechanism on its website has been an important tool for citizens in order to report corruption anonymously⁸⁸.

In July 2008 Transparency International had to suspend its activities for a month, as a security measure in the face of allegations made by the Government of RS on the supposed engagement of TI staff members in racketeering and organised crime⁸⁹.

2.2 Anti-corruption failures: Whose fault?

According to recent findings, Bosnia has achieved only limited progress in its fight against corruption, both in public and private sectors (UNDP 2010: 77). As argued in the previous chapters, a wide set of constraints prevent the country to overcome its complex administrative structure and improve its legal and institutional framework.

The generalised tendency is that of attributing the failure of international efforts to lack of commitment from local institutions, lack of co-operation between the principal agencies and the lack of political will to combat corruption (Pugh & Divjak 2008: 376). Nevertheless, the main obstacles to a successful approach are not only attributable to insufficient local commitment, but also to the disappointing outcomes of international efforts themselves.

At this point it is necessary to introduce a brief examination of the IC's delayed action in addressing the first tools towards widespread political corruption. The first discussions on anti-corruption were about issues concerning tax, customs evasion and misappropriation of domestic public funds. The only reforms which took place right after the conflict were strictly focused on reconstruction, statebuilding, macroeconomic issues and price and trade liberalization.

⁸⁸ Transparency International's website is available at: <http://ti-bih.org/>

⁸⁹ In May 2010, RS Prime Minister Dodik, brought to the public another series of offensive charges against Transparency International . (TI BiH 2010)

At the time, it was not considered a priority to enhance institutional reforms focused on ensuring the effectiveness and the accountability of the public sector. It was only in a second moment that the focus moved to issues such as good governance, increasing institutional transparency, and raising public awareness.

It was in 1997 that international attention was raised for the first time. A first step was made by Britain's Foreign Secretary Cook, who blamed nationalist politicians for having failed in coping with black market issues⁹⁰. In the meanwhile, a number of reports were released by the European Commission's Customs and Fiscal Office (CAFAO) program, exposing problems such as fraud and diversion of public funds in BiH. During the same years, as a consequence of the several reports made at the PIC summit, the PIC itself identified corruption as a matter to be addressed in the near future.

Despite those first acknowledgements and reports, the first real alarms were launched only in 1999, by the OHR Anti-Fraud Unit, reporting that one out of the 5.1\$ billion US dollars given to Bosnia and Herzegovina since the end of the war had gone missing. Even the New York Times published an alarming article on the issue⁹¹. Other cases of corruption involving high governmental officials were issued by the IC as well⁹².

90 In Cook's words, black market was "political manipulation designed to undermine the ordinary people of Bosnia's right to accountability" (Binyon 1997).

91 The article, titled "*Leaders in Bosnia Are Said to Steel Up to 1\$ Billion*", alleged that: 'As much as a billion dollars has disappeared from public funds or been stolen from international aid projects through fraud carried out by Muslim, Croat and Serbian leaders who keep Bosnia rigidly partitioned into three ethnic enclaves (Singer P. W, 2000: 31-37).

92 In 2000, some representatives of the International Monetary Fund cited that around 230\$ million had been lost annually, due merely to the black-marketing of cigarettes and that the BiH's governments little interest in regulating the marketplace (SELDI 2001: 25).

Such a delay worsened the factual situation, by giving local officials new opportunities for corruption. It was at this time that international attention in combating Bosnia's corruption assumed a deeply technical approach, a trend which lasted until the present time. While the majority of the reform policies have been carried out under international supervision, implementation has been left to inadequate domestic institutions. This is the reason why implementation has failed, even if framed by an exemplary legislation and multiple institutions.

In this process a gap has been left, to the extent in which the international trend to bypass local institutions has prevented the creation of new regulatory mechanisms which include a genuine Bosnian representation⁹³. *De facto*, such a trend has been materialised in a process of external imposition of certain policies on political representatives, through economic sanctions or the dismissal of 'non-cooperative' elected leaders. This has precluded any possibility for the public interest to emerge and has further undermined a situation in which the public are alienated from the political process.

The example which is probably the most emblematic in this case is the dismissal of power exercised by the former HR Lord Paddy Ashdown. In June 2004, under his mandate, 59 elected and appointed officials in the Republika Srpska were removed: not only the desired anti-corruption effects were hardly yielded, but, above all, basic democratic institutions such as free elections were deeply undermined.

The authoritative character of the removal prevented the 59 officials any right to justify their position *vis-à-vis* the alleged accusations. As a consequence, not only a basic human right of defence against the charges was prevented, but the general public could not have any opportunity to get that set of information which could have been provided through a proper trial for crimes. Just ahead of the end of his mandate, Mr. Ashdown "freed" some of the removed officials, which were brought back to public life, without any further public explanation.

93 A valid example of this is the so-called Anti-Corruption and Transparency Group (ACT) formed by the OHR, with the objective of strengthening international efforts. The membership comprises about a dozen international organizations, as well as the US government's newly formed Anti-Corruption Task Force. ACT does not, however, include any participation by Bosnian officials or independent experts (Chandler 2002: 113).

What can be argued in this case is that pressing criminal charges and presenting a clear case would have done more for the national integrity system of the country and would have painted a powerful image of the 59 individuals and their party (TI 2004: 24). This last example brings to the consideration of another element which further exacerbates the current situation: the lack of public interest towards government institutions. From one side, the politicisation of corruption carried out by the IC has done little to strengthen trust in public institutions or the rule of law.

As a logical consequence, from the other side, high is the mistrust felt by citizens towards government's commitment in tackling with corruption: according to TI's 2009 Corruption Barometer, more than the 66% of respondents perceive ineffective all the governmental efforts made to fight corruption. Given the dependency most Bosnians feel towards the current system, they are not yet ready to demand reforms, transparency and accountability (Bennett & Knaus, 1999), and are not prone to engage in anti-corruption activities.

Conclusions

In Chandler's words: "anti-corruption campaigns in Bosnia have promoted political cynicism rather than a hope for political change, and have backfired on the international community" (Chandler 2006 a: 93). From a local perspective, the Bosnian leaders from all three ethnic groups have not made a concerted effort to curb corruption and have often acted to obstruct any reform process in general. Governmental efforts have primarily fostered the creation of committees and commissions which have failed to become operational or measurably reduce crime and corruption (GAO 2000: 2). Agencies have been designed to be independent watchdogs within the government, but de facto they are not.

Basically, it can be argued that that these instruments have been implemented largely to create the appearance that the country has reduced corruption in order to accomplish its commitment towards the international donor community.

The fact that international intervention has been the driving force in Bosnia's anti-corruption and that both international organizations and NGOs have devoted extensive resources is beyond any doubt.

Nevertheless, certain tools should have been addressed immediately after the conflict, and corruption and organised crime should not have been considered only from a purely economic reconstruction perspective. Conversely, coordinated efforts should have been addressed among institutions, civil society, media and an engaged public, in order to foster an environment favouring public awareness.

The process of imposing decisions that the international community feels to be in the sphere of the public interest has strengthened external mechanisms of international governance, but has undermined the local institutional ownership, by weakening political institutions and discouraging public participation in the political sphere.

The importance of creating partnerships needs to be acknowledged both by the government and civil society constituencies, which have an important role as intermediaries between competing interests and the government itself: they constitute a fundamental means for a first systemic approach in preventing abuses and increasing long-term possibilities for eradicating corruption. Unless the public does not awake from apathy, no long-term results are achievable.

CONCLUSIONS

It is not easy to make, at the same time, an overall and exhaustive discourse on the challenges currently faced by Bosnia. This last part of the work provides some conclusive considerations, and raises some questions which can, in a sense, sound “rhetorical”. Past issues from the wartime still affect Bosnia's troublesome transitional process, which is paving the way towards an eventual future membership in the EU. After more than 15 years, the country is still dominated by a political leadership which is centred on instrumentalised war issues, and stimulates bitterly competing nationalisms.

Here goes the first question: Whose fault is it? Large part of the responsibility for Bosnia's most compelling challenges not only lays within local political leaders, but also within the members of the international community themselves. Political and economic impasse, as well as the recent deadlock on the EU accession prospect have been, indeed, managed in an ambivalent way by international institutions. In almost two decades of international presence and pressure, there has been no clear-cut answer to systemic crises, nor to those dilemmas raised over time by the IC itself.

A related, latest example of this is a generalised ambiguity in settling the concrete standards to be adopted in the frame of the conditions required for EU accession. The situation gets even more blurred if one considers the different perceptions existing among local decision-makers about European integration. This ambivalence is certainly rooted in Dayton's extreme flexible nature, which has enabled international actors to shape and reshape the agenda of post-war transition and peacebuilding.

Peace has been the guiding principle of international intervention, but did not match the Bosnian reality. It is evident that Dayton has been a formula for ending a war, but not for building a state. The paradigm settled by the Dayton Accords has been criticised for having institutionalised wartime ethnic divisions and having created a weak, divided state. Such a paradigm has been probably legitimised by its longevity, but has represented, and still represents, a considerable burden for Bosnia.

Such a burden is best represented by the fact that Bosnia's stateness continues to be an immanent trouble still nowadays. Bosnia's international benefactors have certainly put an end to violence, but any aspiration to a viable state-building has failed. It has been a failure to the extent in which the top-down, social engineering tools adopted by the international community have created domestic dependency and prevented meaningful partnerships with local actors.

This international trend to bypass Bosnia's political institutions has enhanced a generalised sense of alienation among the public towards any form of political participation. Such a capacity "sucking-out" enacted by the IC to the damage of the local realm stresses the need to rethink the viability of the existing peacebuilding strategy.

Peacebuilding has its biggest impact on the ground of civil society, which constitutes a very peculiar factor. *De facto*, civil society acts like a mirror: it absorbs politico-economic variables and reflects a set of situations which constitute the status quo of a country. Hence, local ownership does not simply constitute the sum of the institutions that underpin society, but also the glue that holds them together, and makes society more than a collection of individuals. Lack of public interest towards government institutions mixed to a sense of dependency makes most of the Bosnians feel unready to demand reforms, transparency and accountability to the current system.

A limbo has been created in which foreign legitimacy has fostered an insane compenetration among international and local institutions, where the former not only shape, but totally obscure the latter. As a consequence, such a generalised tendency to overrule and by-pass local perceptions has released local parties from their responsibilities in conducting local affairs, bringing to a stalemate in which political cynicism prevails over any hope for a political change.

It can be argued that the only form of local ownership in Bosnia has developed in an environment of mafia economy, where non-transparent institutions, obscurantism of media, illicit financing of parties, systematic corruption have fuelled from "the top" those informal activities in which those "at the bottom" are involved in their everyday lives.

A real metastasis started when liberal internationalism allocated a wide range of resources among war elites, giving them opportunities of enrichment. Such an unregulated capitalism led to the establishment of a “false economy”, false to the extent in which the IC tried to transform the economic realm without engaging with a proper political transformation. This is how power oligarchies still prevent Bosnian citizens from exercising their fundamental political rights in a transparent environment, in which real interests are represented and genuine decisions can be taken.

Is the Bosnian one a transition of paradoxes? Through these chapters it has been stressed how many paradoxes have paved the way of international peacebuilding in Bosnia. Indeed, foreign and local post-war efforts have come to undermine each other, bringing to perverse and often unintended outcomes. Some of them are listed here below:

- adaptation to peace was made by the same networks that took the country into war;
- marginalisation of the local political process has undermined the very democratic agenda that the IC itself sought to implement;
- issues such as corruption and informality have ended in being regulated by the same perverse channels to which they are substantially meant to give a response;
- while some areas result over-regulated (such as the business environment), procedural complications and lengthiness have opened a space for corruption;
- international presence, through its mission, has hampered the social, political and economic development of the country. Nevertheless, without foreign assistance, the country would have probably faced an even more troublesome transition.

What comes out in this framework of paradoxes is -substantially- a game of roles, in which peacebuilding agencies play the role of the “good” versus the bad “role” played by corrupt political leaders and regional traffickers. It is difficult to provide definitive evidence that the negative effects of international presence have been unintended, and several have been the attempts to obscure international shortfalls. One of these attempts has been a demonisation of the corrupt and informal activities existing in all layers of society, claimed to be not only endemic, but constraining the positive effects on international assistance itself.

The balance emerging from such a perverse game of roles is very difficult to capture, since the set of norms shaped by external intervention and local perceptions often clash. The two last conclusive questions are related one another: is that Bosnia has been governed “too much”? Through the chapters it has been demonstrated how those efforts carried out for state formation have ended in state deformation. In other words, still today Bosnia seems to be, formally and substantially, an *unfinished* or maybe, an *unfinishable* state. Probably, a sober international commitment to state-building would have prevented a chaotic system from being even more prone to widespread corruption, political and economic deadlocks.

Is that Bosnia has been governed “too fast”? International short-termism is a last issue to evaluate. To demand fast results and withdraw from responsibility probably constitutes the biggest structural problem of international intervention in general. Prompt responses would have certainly been well-accepted, both during Bosnia's progressive descent into war, and in the post-war takeover exercised by questionable political entrepreneurs. Certain tools, such as anti-corruption policies, should have been addressed immediately after the conflict.

Pure criticism does not help in addressing any of such controversies; as long as the actors involved do not change in a meaningful way, the struggle will be a self-perpetuating one: disfunctional international hyper-interventionism versus evanescent local ownership, exploited by sectarian political interests. Needless to say, these kind of trends usually take a long time in order to be reversed.

What is needed, conversely, is to free our mind from utopian considerations, and considering compromise: a real viable peace process can be obtained only by mobilising both insiders' and outsiders' resources towards a specific end. Assuming this, what comes out at the end is the awareness that perhaps the only viable starting point for bringing about a change is a sort of “negotiated hybridity” between local actors, grassroots civil society and the broader international community.

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