

# Bosnia and Herzegovina

<b>Status Index</b> (Democracy: 2.6 / Market Economy: 2.9)		<b>5.5</b>	<b>Management Index</b>		<b>4.0</b>
<b>System of government</b>	Presidential and Parliamentary Democracy		<b>Population</b>		4.1 Mio.
<b>Voter turnout</b>	55% (2002)		<b>GDP p. c. (\$, PPP)</b>		5.970
<b>Women in Parliament</b>	4.76% <sup>1</sup> 17.4% <sup>2</sup> 16.86% <sup>3</sup>		<b>Unemployment rate</b>		22% (2002) <sup>4</sup>
<b>Population growth</b> <sup>5</sup>	0.3%		<b>HDI</b>		0.777
<b>Largest ethnic minority</b>	-		<b>UN-Education Index</b>		0.83
			<b>Gini-Index</b>		-
<small>Figures for 2000 – if not indicated otherwise. <sup>1</sup> Figure for the House of Representatives on the national level. <sup>2</sup> Figure for the House of Representatives of the federation. <sup>3</sup> Figure for the National Assembly of the Republika Srpska. <sup>4</sup> Adjusted unemployment rate. <sup>5</sup> Annual growth between 1975 and 2001.</small>					

## 1. Introduction

The process of transformation in Bosnia and Herzegovina was inaugurated in 1990 with the first free elections. These resulted in a transfer of power from the League of Communists, the Yugoslav communist party, to a coalition of nationalist parties from the three dominant nations (Muslims, known as Bosniaks from 1993 onward, plus ethnic Croats and Serbs). The process of Yugoslavia's disintegration, Bosnian independence and the three-and-a-half-year war that began in April 1992 reversed the first steps of democratization and economic transformation. The war claimed some 200,000 lives and led to the expulsion or flight of more than half the country's population. The Dayton Peace Agreement signed between the combatants at the end of 1995 restored Bosnian sovereignty under an international military and civilian presence, at the same time creating two largely autonomous entities, the Muslim-Croat Federation and the Republika Srpska.

The period covered by this assessment largely coincides with Bosnia's postwar development. The assessment arrives at the conclusion that considerable progress has been made since 1998 in some segments. At the same time, the still precarious economy and the ongoing controversies over Bosnia's sovereignty as a state must be considered failures. Despite massive international aid and intervention, neither democracy nor a market economy has been consolidated. International intervention in the country's administration and political leadership has made Bosnia into a semi-protectorate. Separation of powers and respect for human rights has not been achieved, especially in regard to the return of refugees. Similarly, no deep-reaching

economic reforms have been carried out, nor is the privatization process complete. Creating a market economy and reinforcing state institutions are the current challenges faced by the transformation process in Bosnia.

## **2. History and characteristics of transformation**

The democratic and market-economy transformation process in Bosnia has suffered severe setbacks and very hesitant development over the past decade. Like the other republics of the former Yugoslavia, Bosnia held its first free elections in 1990, but democratic competition before and after the elections was restricted to a confrontation among the three nationalist parties, or between the newly founded parties and the League of Communists.

Although the elections resulted in a transfer of power, little real democratization was accomplished. The Muslim Party for Democratic Action (SDA), the Serbian Democratic Party (SDS) and the Croatian Democratic Union (HDZ) took all major offices in the republic, in a fragile coalition. Within the three population groups, each of the parties except the SDA had a dominant position that permitted only limited opposition. The three parties' lack of consensus about Bosnian independence and the breakup of Yugoslavia from 1991 onward prevented any economic reform and sharply restricted democratic reform. When war broke out with the armed antigovernment Serbian revolt, supported by the Republic of Yugoslavia (i.e. Serbia), Bosnia collapsed. A limited degree of democratic diversity survived only in the territories controlled by the largely Muslim government.

In the territories dominated by the Croat and Serbian groups, nationalist parties exercised a *de facto* monopoly, expelling and murdering members of other ethnicities in the population. The Dayton Peace Agreement, which stopped the war at the end of 1995, restored Bosnia's unity as a state and called for the creation of a democratic country with a market economy. At the same time it acknowledged the existence of ethnically homogeneous territories by creating two "entities", the Republika Srpska on 49 % of the territory and the highly decentralized Bosnian-Croat Federation on the remaining 51 % of the territory.

Under the peace accord, 60,000 soldiers from the international peacekeeping force IFOR (called SFOR since 1996) were stationed in Bosnia under NATO command. A High Representative of the international community of nations, appointed to implement the peace agreement by an international council, monitors the civil implementation of the Dayton Accord. In the first years after the war, Bosnian institutions were scarcely able to act. The two entities had most of the power. Free

elections between 1996 and 2000 largely reconfirmed the dominance of the three nationalist parties. Because of the sluggish implementation of the peace agreement, the High Representative's powers were amplified in 1997 enabling him to make laws autonomously and dismiss Bosnian politicians and officials at all levels.

The 2000 elections were won by a group of moderate parties surrounding the Social Democratic Party and the mostly-Bosnian Party for Bosnia-Herzegovina, which formed a coalition government from 2001 to 2002. In this phase, state institutions were strengthened. Economic reforms and privatization were also carried out at the end of the 1990s, but produced no extensive change in the economic situation. Former state enterprises were controlled by the "entities," while most privatizations were carried out to the advantage of Bosnian businessmen and managers with close ties to political parties. Despite the precarious economic situation, high unemployment and the absence of substantial foreign investment, market-economy reforms remained subordinate to the conflicts among Bosnia's three nationalities. The 2002 elections, when candidates ran for four-year terms for the first time since the end of the war, led to a victory by the three nationalist parties, who thus have held on to all important offices in both entities and at the federal level.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Since the end of communist rule, a multiparty system has become firmly established in Bosnia, not least of all because of ethnic conflicts. At the same time, the political system suffers from a lack of consensus among Bosnia's three nations, and is kept stable only by massive external intervention. Despite considerable progress in the past few years, a complete withdrawal of international forces from Bosnia would threaten the survival of the system and the state.

##### **3.1.1 Political regime**

*(1) Stateness:* State identity is one of Bosnia's basic problems. First, there is no state monopoly of force. The Bosnian federal government controls only the border police, which was established in recent years. The police and the army are both under the sole control of the entities. In the Federation, the army and police are fragmented still further into ethnic Croat and Bosniak parts. Currently the international community of nations is attempting to create a centralized state ministry of defense in Bosnia, to coordinate the activities of the two armies.

Splitting up the monopolies of force creates problems because the various police forces and armies are antagonistic to one another and resist cooperation. Paramilitary bands were disarmed at the end of the war, but the possession of weapons can still be assumed as widespread in Bosnia. The international military presence, SFOR, was the most important factor in safeguarding peace in the country.

Since the beginning of 1992, when the state was founded by a declaration of independence, large segments of the ethnic Croat and Serb populations have rejected Bosnia as their own state. Since the end of the war, a majority of the Serbs and many Croats continue to advocate either annexation to their motherlands (Serbia and Croatia) or at least the secession of their territory from Bosnia. Despite the name, Bosniaks are not the only ethnic group in the state. As a state of Bosniaks, Serbs and Croats, the country scarcely has room to develop a civic citizenry. Although no major population groups are excluded from citizenship, many political posts are closed to members of groups other than the three titular nations.

Both the presidency and the upper house of parliament are constitutionally open only to ethnic Croats, Serbs and Bosniaks. Under a Constitutional Court decision of 2000 and a constitutional amendment of 2002, imposed by the High Representative, all three nations and “others” (minorities and citizens who claim no “national” affiliation) have been recognized in both entities, and the institutional structure of the entities has been modified.

National affiliation defines political and social life. Since the most important distinction among the members of the state’s three “nations” is religion, religion plays a more important role than in most other post-Communist states. The federal government, with its limited authority, is secular. However the Republika Srpska and the authorities of the Federation maintain close ties to their respective religious communities. Religious instruction is compulsory in the schools, and representatives of the Catholic Church, Serbian Orthodox Church and the Islamic community participate in political debates.

Religious groups are characterized by internal cleavages between moderates and those with more radical tendencies. The social influence of religion has risen sharply in the past decade. However, large segments of the population still do not participate in religious life, and only a few citizens can be considered strict adherents of any particular religion. Financing from states in the Middle East, especially Saudi Arabia, has enabled Islamic groups among the Bosnian population to extend their influence, especially among young men.

Although the basic infrastructure of the Bosnian state is present throughout the territory, its ability to assert itself against the two entities is sharply restricted, as is the Federation's authority over the cantons within it whose control is divided between ethnic Croats and Bosniaks.

(2) *Political participation*: Universal suffrage and the right to campaign for office are guaranteed in Bosnia. The Organization for Security and Cooperation in Europe (OSCE) has organized and monitored a total of six elections since the end of the war. The last elections, in 2002, were organized successfully for the first time by Bosnian authorities, under international supervision. In the past it has been especially difficult to ensure suffrage for refugees at their prewar places of residence. The elected representatives' power to govern is severely restricted by the intervention of the High Representative. Since 1997, the High Representative has issued new laws and dismissed politicians and officials from their positions in more than 100 cases. Even though he usually exercises his lawmaking authority only when the elected representatives cannot reach a decision, his power to govern is severely limited. All three nations still have extensive vetoing rights over almost every level of decision. These are intended to keep any group in the population from being disadvantaged, but they often lead to stalemates in the political decision-making process.

In civil society, there is freedom of association and freedom of assembly. However, the return of refugees is frequently accompanied by violence against which the police of the entities intervenes only inadequately. Thus, in individual cases there are *de facto* restrictions. Freedom of the press is guaranteed by law, but political parties and criminal groups exert informal pressure on the media.

(3) *The rule of law*: Because of the Communist legacy and the merging of nationalist parties with state-like institutions as a consequence of the war, the lack of separation of powers remains a key problem for Bosnia in the postwar period. International intervention has created structures for the separation of powers at most levels of the state. The direct election of the Bosnian president and the president of the Republika Srpska results in a clear separation of powers between the parliament and the executive branch. On the other hand, the judiciary is subject to heavy political influence. Not until after 2000 did the High Representative take specific steps to suppress political influence over the courts.

Corruption, underfunding and an absence of desire among the judicial authorities of the various entities and cantons to cooperate severely limit the courts' independence and ability to fulfil their duties. Not until the adoption of the 2001 Election Act was there careful monitoring of elected officials. Although some cases of corruption led to a perpetrator's dismissal by the High Representative, there are no indigenous

institutions to punish abuses of office. Holding multiple offices and combining private jobs with public office are still common. Only very recently has the state begun combating these practices.

Citizens' freedoms are formally protected at the highest level. However, there are blatant shortcomings, especially in the Republika Srpska, with regard to the safe return of refugees and the ban on discrimination based on national affiliation. Moreover, almost all levels of Bosnia's judicial system have shown themselves unwilling to investigate war crimes and human rights violations. The Republika Srpska still offers only limited cooperation with the International Criminal Tribunal for the Former Yugoslavia in The Hague.

### **3.1.2 Political patterns of behavior and attitudes**

(1) *Institutional stability*: Some democratic institutions are stable and able to act. The antagonistic politics of the nationalist and moderate parties have restricted the functionality of numerous parliaments and governments in the cantons, at the level of the entities, and of the state as a whole. The constitutionally based veto rights of elected officials of the three nations, and the lack of consensus about the strength and authority of the entities and the federal government, present obstacles for multinational institutions' ability to act at all levels.

(2) *Political and social integration*: Bosnia's party system is characterized by ethnic nationalist conflicts. Hardly any political party has a broad base in more than one of the three nations. The party systems of the Federation and the Republika Srpska are almost entirely separate. The parties' platforms are severely underdeveloped, and the parties are typified by a focus on single individuals and by the claim to represent a nation. Except for the three nationalist parties and the Social Democratic Party (the successor to the League of Communists), no party has a substantial membership base. The party system's organization according to national affiliation impedes coalition-building and the establishment of a successful opposition. Since national affiliation and electoral behavior go hand in hand, only slight shifts between parties have occurred in any election since 1990. The dominant nationalist parties' ability to cooperate is severely restricted by their antagonistic policies. The nationalist parties have access to financial resources provided by the Diaspora or by relations with organized crime.

The non-nationalist parties' weakness is further accentuated by the weakness of players from civil society. Despite massive international financial aid for nongovernmental organizations, the network of these organizations has only shallow

foundations in society, though their number is large. Only in the country's urban centers (Sarajevo, Tuzla, Banja Luka) are there successful civil-society actors. In addition to these, there are influential religious and national organizations that are often closely allied with the nationalist parties and have large networks. Although some of these organizations pursue only humanitarian goals, the goals of others are extremist and antidemocratic. Almost all interest groups, including the unions, are splintered into three nationalist groups, and thus weakened.

Support for democracy is at a medium level. But dissatisfaction with the current political system is strong, as signaled by the low voter turnout of only 55 % in the 2002 elections. Although democracy *per se* is accepted, protests often explicitly question the constitutional framework, and the parties also do so implicitly.

Because of homogenization into "nations" defined by ethnicity, and the concomitant territorial consolidation of the three nations, one cannot really speak of Bosnian society in general. In that sense there is no base on which to build social capital. Within the three nations, there is a lack of confidence in the political parties and actors from civil society.

### **3.2. Market economy**

The transformation of the economy from the Yugoslav system of workers' self-government into a functional market economy began with a 10-year delay, and remains only in its initial phase.

#### **3.2.1 Level of socioeconomic development**

The economic indicators show an ongoing crisis in the Bosnian economy. The country's low level of development severely restricts most citizens' freedom of choice. Social exclusion on the basis of poverty, national affiliation and gender occurs to varying extents in Bosnia. In general, social disparities are not sharp. The economic situation improved only slightly over the period under review.

### **3.2.2 Market structures and competition**

The foundations of market economy-based competition are hardly assured at all. Quite aside from the highly developed informal sector, a large portion of enterprises is owned by the state. Close ties with political parties and their economic interests have further prevented the privatization process from opening up competition. The Bosnian market remains split between the two entities. There are numerous restraints on trade between the entities.

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. In June 2002, the High Representative demanded the passage of laws to create a unified economic zone, a development that had repeatedly been hindered by the entities and at the federal level. These laws will be especially important in generating impetus for foreign trade, which suffers from low export ratios and a lack of foreign investment. Advances have been achieved in signing free-trade agreements with the Federal Republic of Yugoslavia and Macedonia. Accession to the WTO is planned for 2003.

The privatization of the banking sector is almost complete. In April 2002, the largest bank in the Republika Srpska was sold to Austria's Hypo Alpe Adria Banka, for the symbolic price of one euro. Despite declining interest rates on corporate loans, the loan business with private businesses still remains at low levels.

### **3.2.3 Stability of currency and prices**

Stability of currency and prices was ensured during the period under study by a strong, independent central bank. The currency is pegged to the euro, as it had been to the deutschmark. Thus inflation has remained low and prices have been stable. The central bank's currency reserves were also built up substantially during the period under review. The currency board and monitoring by international financial organizations have induced Bosnia's various governments to pursue conservative fiscal policies, largely avoiding budget deficits. But the high cost of administration and social expenditures has kept the budgets of the state and the entities dependent on international aid.

### **3.2.4 Private property**

In general, private property and the acquisition of ownership are safeguarded. But confiscations and expulsions during the war have left many questions of ownership unresolved. Extensive privatization did not begin until 2000 when citizens received purchase options (vouchers) for most enterprises at no charge. However, these new owners have neither capital nor other resources to make the businesses profitable. Some large enterprises were also sold through international bidding processes. Because foreign interest is low and bureaucratic obstacles are high, the privatization process has not been completed.

The compulsory requirement to retain all employees for another three years has made it difficult to restructure companies following some privatizations. There are no formal obstacles to establishing new private companies, but high administrative expenses and the fragmentation of the Bosnian market have hindered the development of new companies. Moreover, political control over the economy and war damage to the infrastructure continues to impede the growth of private business.

### **3.2.5 Welfare regime**

Formally, Bosnia still retains the expensive welfare regime of the Communist era. Because of the weakness of state institutions and the lack of financial resources, this regime is unable to offer a safety net. Both pensions and unemployment compensation are below the cost of living. The health care system is generally free, and is thus open to the entire population. However, the poor condition of the government health care system and the inadequate payment of staff mean that adequate medical care entails costs, either in the form of bribes or through visits to private practitioners. Large segments of the population who work for state enterprises have been on unpaid leave for years, or receive only low salaries. Unemployment in both entities is officially approximately 40 %. While this figure cannot be considered accurate because of the large informal sector, unemployment is a great problem for Bosnia. Taxes are paid inadequately, and the significant informal sector goes untaxed. Thus, the state lacks the income to finance a welfare system.

A social network exists in Bosnia mostly on the formal level, while poverty and impoverishment of the prewar middle class is a widespread problem. The Communist-era equality of opportunity between the sexes has been reduced by war and the predominance of nationalist beliefs hostile to women. The shortage of available jobs has particularly affected minorities and women.

### **3.2.6 Strength of the economy**

After years of rapid growth, an artifact created artificially by massive external aid and the low baseline level at the end of the war, annual growth has declined since 1999 to generally less than 10 %. While inflation has now been brought under control, unemployment has generally continued to be high. Although restrictions on the reestablishment of a unified economic zone have been lifted, various economic data indicate that the economic zone remains split. This split has hindered the performance of the economy in both entities.

The low performance of the Bosnian economy is a fundamental problem for the transformation process. Most companies are either obsolete or were destroyed in the war. Only a few new companies have arisen that might help ensure the long-term performance of the Bosnian economy, and these are primarily the consequence of massive international aid for reconstruction. Since the economy was almost entirely devastated in the war, growth began at a relatively low level. By mid-2001, industrial production had returned to only one-third of the prewar figure. Sluggish development means the gap in economic growth against neighboring countries and the regional environment has widened.

### **3.2.7 Sustainability**

The society has almost no environmental awareness. The suffering of the war and its aftermath has made ecologically compatible growth an absolutely subsidiary issue. The educational system, which was greatly expanded but also heavily ideologized under Communist rule, was severely damaged in the war. Today the entire educational system is strictly divided by nationality. With few exceptions, it is financed with public funds. There have been few reforms in the educational sector, so that it remains characterized by nationalism and by hierarchical, outmoded teaching models. The absence of reforms in research and the split-up of the university system have also largely left universities and research facilities in poor condition.

## **4. Trend**

(1) *Democracy*: At the start of the period under review, Bosnia had completed the first phase of postwar reconstruction. Over the past five years, progress had certainly been made in democratizing the country. However, this progress started from a very low level, so that more than seven years after the war ended, the status of democratization is still anything but satisfactory. A different light is cast on any

successes by the fact that all major reforms and measures to strengthen state identity and Bosnian democracy have come from the international community, and especially the High Representative. Although the institutions of the state were strengthened and the human rights situation has improved, the institutional framework of the Bosnian state remains very complex and cumbersome. Nearly half of all refugees have still not returned home.

The disappointment that broad segments of the population feel with Bosnia's political system has been evident in low voter turnout and dramatic brain drain. The periods when the national parties held power, from 1990 to 2000 and again from the end of 2002 onward, have been characterized by stagnation and an inability to achieve reforms. During the brief term of office of the coalition of moderate parties, institutions were indeed strengthened, but no fundamental reforms were attempted. The political parties still have hard-to-bridge differences of opinion on the structure of the state, the powers of the central government and the role of the entities.

(2) *Market economy*: Developmental indicators show a slight improvement in the low level of development that survived the war. The institutional framework has improved through the beginning of privatization, reforms in the banking sector, and the introduction of the convertible mark ("*konvertibilna marka*") as the country's sole currency. Nevertheless there is a lack of dynamism for reform, since almost all reforms have been carried out under pressure from outside actors.

## **5. Transformation management**

### **5.1 Level of difficulty**

The transformation process in Bosnia is characterized by the country's profound ethnic cleavages, the considerable devastation left by the war, the complex system of government and the absence of consensus about the state. Except for the slow repair of war damage, no change in structural obstacles is foreseeable, so that the transformation process will also remain difficult to maintain. The lack of a basic consensus about the state, together with the distribution of power, means that the transformation process will continue to depend on international intervention. The scope of external intervention over the past seven years has further reinforced Bosnia's economic and political dependence, so that it will be difficult for Bosnia to become a state able to survive on its own, with a self-supporting transformation process. Although democracy has been reinforced—not least of all by the democratization of nearby Serbia and Croatia—undemocratic practices are still

common, and the democratic system is not deeply enough anchored in civil society to be considered stable.

## **5.2 Reliable pursuit of goals**

The elections held every two years since 1996 and the associated frequent changes of government have meant that no government has been able to plan for the long term and set priorities accordingly. Since the governments' multinational structure has usually produced fragile coalitions, it is difficult to formulate policy coherently. The three nationalist parties that have been back in office since the beginning of 2003 did not distinguish themselves for their willingness to make reforms between 1996 and 2000. Although the parties offer lip service to reform, both internally and at the coalition level they have no strategy and show no signs of concrete measures for reform. The nationalist parties work to portray themselves as representatives of the particular interests of their own ethnic group and show little willingness to develop reform strategies in the context of the state as a whole. Most parties, especially the parties currently at the helm, show an unwillingness to bring about reforms in both the political and economic sphere.

## **5.3 Effective use of resources**

The resources available to the governments are used hardly at all, or at best inadequately. Bosnia's administrative structure is highly fragmented and inefficient. In addition to the two entities, an independent district was created around the city of Brcko by an arbitration proceeding. The Federation also includes ten cantons with their own constitutions, able to pass laws within their own areas of authority and run by their own governments. Additionally, some powers within ethnically mixed cantons in the Federation are delegated to the municipal level. The unclear delineation of power, the ethnic basis of this fragmentation and the inflated administration at the various levels of authority all make administrative structures inefficient, clumsy and expensive.

The administrative costs exceed the country's financial abilities. High administrative expenses and economic obstacles caused by the entity structure (double taxation, etc.) led during the period under review to a vast squandering of scarce resources and severely restricted the availability of new resources, for example through foreign investment. The public administration is characterized by extensive political influence and the allocation of positions according to national affiliation. The administration did not begin to be professionalized until the beginning of 2003 with

the establishment of authorities to modernize administration at the state and entity levels. The entities' budgets are severely burdened by the cost of administration and expenses for the army and veterans' organizations and, thus, offer little room for stimulating the economy. A substantial portion of the budget continues to be financed by international support, while taxes represent only an insignificant portion of state revenues. Delays in the privatization of state enterprises represent a further inefficient use of resources.

The government carries out only a portion of reforms it announces and cannot adhere to its own plans. The main driving force for reform is the High Representative, along with other international organizations in Bosnia. These organizations suffer from a lack of legitimation, and because of their time-limited presence they are mostly in no position to develop and support long-term strategies for political and economic reform. The public services provided by the government do enable progress toward transformation, but they are inadequate and of low quality.

Not least of all, corruption also causes serious losses. The international community has treated fighting corruption as a priority since 1999, but corruption still dominates everyday life at every level of administration. Mono-ethnic parallel structures and financial assistance from neighboring states and from the diaspora have been especially strong factors in creating numerous opportunities for corruption.

The prospect for integration with the European Union, an important resource in mobilizing public support for democratic reforms, and potentially the sole political project able to unify the three nations, goes almost entirely unused. Political elites usually limit Bosnia's interest in integration to empty platitudes. The country's cultural heritage is interpreted almost exclusively from the viewpoint of each individual ethnicity and currently offers scant possibility for mobilizing reforms. The nationalist political parties manipulate memories of the injustices perpetrated during the war for their own advantage.

#### **5.4 Governance capability**

Reform-oriented changes in policy take place only in response to external pressure, and are mostly limited to rhetoric. Since the dominant nationalist parties resist reforms out of self-interest, their support for the reform process is limited to the necessary minimum in order to avoid sanctions by the High Representative. Because the High Representative intervenes in important decisions, the political elite can adopt an uncompromising attitude without having to answer for the resulting disadvantages in elections. This unwillingness and the lack of incentives for political

elites to pursue reform policies through compromise make any change of policy difficult. The High Representative's interventions, in turn, are often implemented only inadequately. This is in part because of the opposition to his measures from one or all nationalist parties. The decisions also suffer from lack of local ownership—meaning Bosnian elites who identify with a given project and thus ensure it is carried out.

There was room to shape policy actively only between 2001 and 2002, after a labile coalition of reform-oriented parties came to power. However, internal political differences and the large number of participating parties prevented any coherent reform policy from being implemented. Since regular elections were held again less than two years after this “Alliance for Change” took office, the election campaigns left the coalition unable to pursue much in the way of active policy just a year after coming to power, and internal differences caused the Alliance to collapse before the elections were held. Even this intermezzo was characterized by tensions between the Alliance and the High Representative. Their relations, however, differed from the tense relations between the nationalist parties and the international community.

The relationship between the three parties and the High Representative has always been one of mutual mistrust. Although Paddy Ashdown, the High Representative since May 2002, has announced his willingness to cooperate with the nationalist parties, political tensions between the parties and the international community continue. Given the tensions between the nationalist parties and the High Representative, among the parties themselves and between the moderate opposition and the nationalist parties, there is very little room or will to achieve organizational capability in the country's policies for reform.

## **5.5 Consensus-building**

The lack of consensus-building to implement reform-oriented policies is the greatest obstacle to consolidating the process of democratization in Bosnia. Although there is at least a formal, rhetorical consensus on democratization and on carrying out market-economy reforms, it is hampered by the lack of consensus about the powers of the entities and the central government. The lack of agreement about the distribution of power in the country is founded on a mostly unspoken conflict about the continued survival of Bosnia as a state—a conflict that is no longer mentioned by political parties, but is very much on the minds of their voters.

Since the institutional structure of Bosnia can survive only with the consensus of all important actors, it is vulnerable to vetoes by opponents of reform. Actual or

threatened vetoes have often prevented reforms in the past few years. Although the vetoes in the Bosnian system exist to protect the three nations, they have also been used to hinder democratic and economic reforms. The most important political actors, the three nationalist parties, agree in their reluctance to accept political and economic reforms. A political debate dominated almost exclusively by nationalist considerations can delay reform projects and justify stalemating them on nationalist grounds. In the Republika Srpska there is little interest in strengthening the power of the central state. The entities' interests in keeping the structures of the state weak usually results in a delay of reforms.

The lack of intra-Bosnian willingness to cooperate is also a product of the unassimilated recent past. While a majority of the Bosnian population views the Republika Srpska as an injustice founded on genocide, in the Republika Srpska the creation of this entity is viewed as self-defense, and the war is interpreted as a civil war in which the blame is at most shared equally by all parties. Hitherto there has been no attempt by the political elite or state institutions to promote reconciliation. Historic acts of injustice are used as tools in the political argument. Civil-society initiatives have gone without state support, and thus have had no influence on the population. Although schoolbooks and curricula have now been coordinated to eliminate the grossest stereotypes, propaganda in various parts of the country still promulgates fundamentally different attitudes toward the recent past.

## **5.6 International cooperation**

As a semi-protectorate, Bosnia is not an equal partner in international cooperation. Most political actors recognize the need for a continuing international presence, and cooperate with international organizations. The High Representative's power to remove elected and appointed office holders from their positions and to prohibit parties places great pressure on political actors to cooperate with international authorities. In democratization, the office of the High Representative and the OSCE play the most important roles by controlling and monitoring political institutions from the level of the municipality to the state as a whole. At the economic level, the World Bank plays a key role, together with the EU and bilateral developmental aid (USAID, Germany's GTZ).

In addition to the World Bank, the IMF has considerable influence in Bosnia. For example, the IMF appoints the president of the central bank. As in the central bank, internationally appointed members are also included in other Bosnian institutions, including the Constitutional Court, the communications authority and the ombudsman. Until the 2002 elections, all election procedures were organized and

monitored by the OSCE. Finally, security is guaranteed by the ongoing presence of more than 10,000 SFOR soldiers, while in 2002 the EU took over the UN mission to monitor the police forces.

Because international actors assume the tasks of state sovereignty, Bosnia is only conditionally independent. Even with its limited sovereignty, substantial cooperation between local political elites and the international community did not begin until 1997, when the High Representative was granted additional powers. The associated endeavors of the international community not just to secure the peace but to build a functional state have initiated a tense and often forced collaboration.

Although all major parties claim allegiance to European-Atlantic integration, Bosnia's political elites are not prepared to subordinate the particular interests of their nations to the integration process. For example, the Republika Srpska continues to resist the creation of a joint general staff for the two entities' armies, such as might make it possible for the country to be included in NATO's Partnership for Peace.

## **6. Overall evaluation**

Given the difficult originating conditions and the country's limited success in evolving since then, this assessment arrives at the following final evaluations:

*(1) Originating conditions:* The originating conditions for transformation were extremely difficult. The first steps toward postwar normality began prior to the period under review. During the review period, economic output remained far behind prewar levels. Democratization, which was not stable even before the war and was only a preliminary phase to the war itself, emerged in critical condition afterwards. Bosnia was divided into three homogeneous single-party systems. Despite relatively free elections after the war, until 1998 no democratic opposition was able to act effectively in Bosnia, either in content or organization, outside of a few regions, especially Tuzla. At the beginning of the observation period, international policy makers recognized that intervention in Bosnia cannot be a short-term project.

*(2) Current status and evolution:* Democratic transformation in Bosnia is at the same time the process of creating a Bosnian state. Despite successfully run elections and the transfer of power at all levels after elections, democracy remains unconsolidated in Bosnia. The dominant parties subordinate democratization to nationalist interests. Nor can any major progress be reported in the interweaving of society with the political system, so that the international community remains the driving force behind democratic transformation. Although this community acts in Bosnia itself with the

broad consent of civil-society actors and some of the political elite, it lacks the democratic legitimacy to bring about a consolidation of democracy.

The progress in transformation toward a market economy was even smaller. The emphasis in economic development during the period under study continued to be focused on rebuilding the infrastructure and repairing other war damage. The transition from a state-run economy to a market economy did not begin until the second half of the observation period and is not yet complete. Structures were created for economic reforms, such as the introduction of a stable currency throughout Bosnia, the beginning of privatization and the elimination of state controls over payment traffic. Macroeconomic data continue to show a low level of development for the regional environment in terms of unemployment and GDP. Bosnia also lags far behind other states of southeastern Europe in attracting foreign investment.

(3) *Management:* The verdict on the actors' management performance is negative. Together with the results of the war, the principal obstacle for the transformation process was the absence of consensus among the political elite and most actors' inadequate allegiance to fundamental transformations. Corruption and the maintenance and expansion of inefficient administrative structures are closely linked to the ruling political elites. Despite a change of generations in the party leadership since the war's end, no fundamental change in policy has taken place among the nationalist parties. No attempts have been made to communicate the processes of economic transformation or European integration to the population. Reforms have mostly been initiated by external actors.

## **7. Outlook**

The predominantly negative picture of transformation indicates that, though a large portion of the material war damage has been repaired, more than seven years after the Dayton Peace Agreement the social and political damage remains. The need for external intervention and the resulting dependence on it point to the continuing importance of the presence of an international civil administration in Bosnia. It will be difficult to transfer power from international organizations to Bosnian institutions because of the inadequate performance of Bosnian actors. The key task in the near future will be to organize state institutions more efficiently and more transparently. The administrations in the entities and cantons must especially be made leaner and more professional. A unified Bosnian economic zone, one of the priorities of the international community in Bosnia, is essential if the process of economic transformation is to continue successfully. Although the international community is

currently sidestepping the issue of inter-ethnic relations, in the medium term a dialogue will have to be established to ensure the state's ability to survive.

Here it will be especially important to reduce the importance of national affiliation in favor of the professional conduct of administrative and juridical activities. The expansion of the powers of state institutions will also be indispensable in the long term if the country is to take part in the process of European integration. Legal equality for the three official nations and other citizens is a further priority in the entities in order to prevent discrimination and continue the return of refugees. For this process the international community needs Bosnian partners, since the process of transformation cannot be induced from the outside and must rely on supporters within Bosnia itself. Consequently the representation of the interests of Bosnia's three nations must be brought into harmony with the need for democratic transformation and the project of European integration. For this purpose, a long-term reform of the party landscape is needed. As the neighboring states and the entire region grow closer to the European Union over the next few years, they will provide a key factor in triggering these necessary developments. Despite the overall reduction of the international presence in Bosnia, outside support and tracking of the transformation process will remain indispensable for the medium term.