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**Working Paper**

## Financial and Technical Assistance in the Reconstruction and Development of Post-Conflict Bosnia and Herzegovina

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The wiiw Balkan Observatory

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*Goran Nedic*

Financial and Technical Assistance  
in the Reconstruction and Development  
of Post-Conflict Bosnia and Herzegovina





# The wiiw Balkan Observatory

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## *About*

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at [www.balkan-observatory.net](http://www.balkan-observatory.net), the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.



# The wiiw Balkan Observatory

## Global Development Network Southeast Europe

*This study has been developed in the framework of research networks initiated and monitored by wiiw under the premises of the GDN–SEE partnership.*

The Global Development Network, initiated by The World Bank, is a global network of research and policy institutes working together to address the problems of national and regional development. It promotes the generation of local knowledge in developing and transition countries and aims at building research capacities in the different regions.

The Vienna Institute for International Economic Studies is a GDN Partner Institute and acts as a hub for Southeast Europe. The GDN–wiiw partnership aims to support the enhancement of economic research capacity in Southeast Europe, to promote knowledge transfer to SEE, to facilitate networking among researchers within SEE and to assist in securing knowledge transfer from researchers to policy makers.

The GDN–SEE programme is financed by the Global Development Network, the Austrian Ministry of Finance and the Jubiläumsfonds der Oesterreichischen Nationalbank.

For additional information see [www.balkan-observatory.net](http://www.balkan-observatory.net), [www.wiiw.ac.at](http://www.wiiw.ac.at) and [www.gdnet.org](http://www.gdnet.org)

## **Financial and technical assistance in reconstruction and development period in Bosnia and Herzegovina**

Prepared by Goran Nedic  
September 2006

### **Abstract**

Ineffective aid management and coordination as well as old fashion model of aid sequencing were few of the major culprits why Bosnia and Herzegovina is still not on self sustainable path. Government representatives should eagerly embrace newest incentive related to increase in aid effectiveness-Paris Declaration.

Commitments of Official Development Assistance in Bosnia and Herzegovina exceeded \$ 7 billion from 1996 to 2004. We presented sectoral destination of aid funds and indicators of aid effectiveness. While aid driven post-conflict reconstruction has been relatively successful, insufficient structural reforms made BiH lagging behind most of the transition countries in the region.

The most important achievements took place in the peace implementation activities which were necessary for ensuring reconciliation and a fertile ground for reconstruction and recovery. International support for establishment and maintenance of security exceeded \$ 18 billion in the period 1996-2004.

Further reforms, expected in near future, would not be possible in politically essentially divided country without promised the pot of gold that was held to come with EU membership.

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## **Acronyms and Abbreviations**

AMA	Aid management agency
BiH	Bosnia and Herzegovina
CBA	Currency Board Arrangement
DAC	Development Assistance Committee
ETF	Economic Task Force
EU	European Union
GAO	United States General Accounting Office
GFAP	General Framework Agreement for Peace
GDP	Gross Domestic product
FBiH	Federation of Bosnia and Herzegovina
IDS	International Development Statistics
IFOR	Peace Implementation Forces
MOHRR	Ministry of human rights and refugees
NATO	North Atlantic Treaty Organization
ODA	Official Development Assistance
OHR	Office of the High Representative
PIC	Peace Implementation Council
RS	Republic of Serpska
SAA	Stabilization and Association Agreement
SFOR	Stabilization Force in Bosnia and Herzegovina
USAID	United States Agency for International Development
WB	World Bank

## 1. Introduction

The past 40 years have witnessed occurrence of extensive literature on the effectiveness of foreign aid. The impact of aid has been evaluated at both the micro- and macroeconomic level. Scope of research encompassed cross-country and single-country case studies, broad surveys of a qualitative and inter-disciplinary nature as well as quantitative analyses.

Hansen and Tarp identified three generations of empirical work: early Harrod-Domar models, reduced form aid-growth models and new growth theory reduced-form models (Hansen, Tarp, 2000).

Traditional literature and tools developed in order to examine the impact of conventional development aid are not appropriate for the analysis of financial and technical assistance in war torn Bosnia and Herzegovina (BiH). Demekas, McHugh and Kosma gave comprehensive explanation of differences between conventional and post-conflict aid. Those include circumstances, objectives, size, time profile and composition of aid (Demekas, McHugh and Kosma, 2002).

Most of the studies on post-conflict aid emphasized that effective reconstruction assistance can not be provided without three essential elements: a secure environment, a strategic vision for the overall effort, and strong leadership (GAO, 2003). In this paper reconstruction process in Bosnia and Herzegovina is clarified and results presented. Post-conflict reconstruction aid as a unique form of development assistance has two major goals:

- To address short-term challenges which may include humanitarian assistance and other forms of relief and emergency assistance
- To repair and create new physical and institutional infrastructure necessary to support long-term economic development.

While these goals of relief and development are not inherently incompatible, effectively distributing resources that balance these short and long-term goals is potentially the most difficult challenge for post-conflict aid.

Some recent studies emphasized another aspect of reconstruction process which traditional approach often neglected - economic governance.

What mattered first in post-conflict situations (after a political compromise has been struck) were emergency shelter, rural reconstruction, and refugee returnee programs. These are of course important, but they provide only an immediate assistance package that is not itself sufficient for improving economic governance or resolving the underlying conditions fueling conflict. Only more significant steps, to create conditions for economic recovery, employment, and growth, will put a country back on the path of development what implies that economic governance needs to be addressed from the early stages of post-conflict assistance (USAID, 2004).

Another problem with post-conflict countries occurs if they become recurrent users of international financial assistance. These countries often lack the incentive and ability to make necessary reforms what results in creation of political or/and financial dependence mentality.



Although human and financial resources are essential for reconstruction, aid management and funding have a major impact on the effectiveness with which these resources are utilized. Domestic institutions must be built that can eventually take over the reconstruction process. Since aid coordination has become a critical factor in managing post-conflict reconstruction in Section 2 we discuss ownership and aid coordination in Bosnia and Herzegovina.

Section 3 presents amounts of Official Development Assistance committed and disbursed to BiH in the period 1996-2004 and impact on the macroeconomic stability.

The latter is then broadened with sectoral analysis in Section 4. Section 5 concludes.

## **2. Ownership and aid coordination**

### **2.1 War consequences**

Tragic conflict in the Region, as the General Framework Agreement for Peace (GFAP) in BiH, defined war destruction in the period from 1992 to 1995, left the Republic devastated. The war radically altered the social fabric of life: approximately 250 thousand people were killed and 17 thousand were officially recorded as missing, while half the country's prewar domicile population of 4.5 million was displaced from their homes. Out of this number, some 1.2 million persons sought refugee protection in over 100 countries all over the world, while at the same time around million persons were displaced within BiH (MOHRR, 2005).

Most of the country's 1.3 million workers lost their jobs, many lost savings with the freezing of bank assets and more than 80 percent of the population received some form of food aid. Young people throughout Bosnia and Herzegovina lost years of schooling, and much of the population suffered physical disabilities and psychological trauma (WB, 1999). As the consequence of the war the mortality rate was increased on one hand, and natural population growth in BiH decreased on the other hand.

More than a third of housing stock was damaged or devastated and over 4% of BiH's territory was covered with mines.

By the end of 1995, output had drastically fallen and Gross Domestic Product (GDP) had collapsed to less than US\$500 per capita, about 20 percent of its prewar level. Destruction of physical capital-transport, communications and power networks – caused much of the contraction.

The war also disrupted trade channels, halted nascent economic reforms, and left pervasive rifts in government, institutions, and laws.

## 2.2 Ownership and political dependency

### 2.2.1 Ownership on the reconstruction process

Following the successful negotiation of the Dayton Peace Agreement in November 1995, a Peace Implementation Conference was held in London on December 8-9, 1995, to mobilize international support for the Agreement. The meeting resulted in the establishment of the Peace Implementation Council (PIC).

The PIC comprises 55 countries and agencies that support the peace process in many different ways - by assisting it financially, enforcing the military and security aspects of peace operations under the terms of UN Security Council Resolutions 1031- providing troops for peacekeepers, first under the North Atlantic Treaty Organization (NATO) command (IFOR, later SFOR) and since 2004 under the European Union command (EUFOR), or directly running operations in Bosnia and Herzegovina.

Since the London Conference, the PIC has come together at the ministerial level another five times to review progress and define the goals of peace implementation for the coming period: in June 1996 in Florence; in December 1996 for a second time in London; in December 1997 in Bonn; in December 1998 in Madrid, and in May 2000 in Brussels. Supreme leadership was vested in the Office of the High Representative (OHR) (WB, 2000).

According to Article V of Annex 10 (Agreement on Civilian Implementation of the Peace Settlement) to the GFAP in BiH the High Representative (HR) is the final authority in theatre regarding interpretation of the said Agreement on the Civilian Implementation of the Peace Settlement. Considering in particular Article II.1. (d) of the last said Annex, the High Representative shall "Facilitate, as the High Representative judges necessary, the resolution of any difficulties arising in connection with civilian implementation".<sup>1</sup>

The Dayton agreement was rigid where it concerned the limits to BiH self-rule but extremely flexible in relation to the powers which international actors could exercise over independent state (Chandler, 2004). The second High Representative has confirmed this in his interview to local magazine: "if you read Dayton very carefully Annex 10 even gives me the possibility to interpret my own authorities and powers" (Westendorp, 1997).

The pattern of ad hoc and arbitrary extensions of international regulatory authority was initially set by the PIC itself as it rewrote its own powers and those of the High Representative at successive PIC meetings. The most important of these was Bonn conference in December 1997.

Paragraph XI.2 of the Conclusions of the Peace Implementation Conference held in Bonn on 9 and 10 December 1997 broadened the High Representative's role and authorities. In

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<sup>1</sup> OHR website

mentioned paragraph the PIC welcomed the High Representative's intention to use his final authority in theatre regarding interpretation of the Agreement on the Civilian Implementation of the Peace Settlement in order to facilitate the resolution of any difficulties as aforesaid "by making binding decisions, as he judges necessary" on certain issues including (under sub-paragraph (c) thereof) "measures to ensure implementation of the Peace Agreement throughout Bosnia and Herzegovina and its Entities as well as the smooth running of the common institutions".<sup>2</sup>

Since December 1997 High Representatives adopted tens decisions from very broad diapason.<sup>3</sup> The second High Representative explained the situation: "You do not [have] power handed to you on a platter. You just seize it, if you use this power well no-one will contest it (Rodriguez, 1998)."

In table below we can see total number of the High representative adopted decisions.

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of adopted decisions	1	29	90	86	54	153	96	158	91

Source: OHR website

### 2.2.2 Political dependency

It would be unfair to say that the international community and the High Representative were simply dictating decisions for implementation by local institutions. However, the international community involvement in BiH was so significant that one cannot discuss the resolution of crises and the post-war reconstruction of Bosnia without mentioning its role. Unfortunately, however, with their marginalized roles, local politicians based their election strategies and day-to-day behavior on nationalistic rhetoric instead of developing serious economic and reconstruction programs. This can be easily understood, though, since there is almost no need for them to think about economic issues: the World Bank and IMF will do that for them at the macroeconomic level, and other international institutions will act at a lower, microeconomic level. Even if local politicians want to do something on their own, they have to ask these foreign institutions for approval. One example being that governments in BiH cannot increase or decrease pensions, or introduce a tax policy without the World Bank's agreement (Omanovic, 2005).

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<sup>2</sup> Ibid

<sup>3</sup> Decisions relating to State Symbols and State-Level Matters and Constitutional Issues, Decisions in the Economic Field, Decisions in the Field of Judicial Reform, Decisions relating to the Federation, Mostar and Herzegovina-Neretva Canton, Removals and Suspensions from Office, Media Restructuring Decisions by the HR, Decisions in the field of Property Laws, Return of Displaced, Persons and Refugees and Reconciliation and Decisions relating to individuals indicted for war crimes in the former Yugoslavia

Representatives of individual donor agencies also emphasized correlation between powers of OHR and domestic responsibility for the reforms. ” The extensive powers vested in OHR have limited the BiH politicians’ ownership of and accountability for the reform process. OHR’s role as reformer and its pressure for quick passage of reforms stifle the vibrant political debate that would otherwise force local leaders to forge consensus and take responsibility for the reforms” (USAID, 2006).

Although assistance efforts were provided in volatile and highly politicized environment where local parties have competing interests and differing degrees of support for the peace process, international community should not have allowed creation of political dependency in BiH.

Local politicians’ political dependency and unwillingness to accept responsibility is pervading whole system because they are aware that the international community will make all important political and economic decisions for them if they fail to do so for any reason. Political parties use this as a tool with voters. While local politicians complain that the international community is not allowing them to do the job they were elected to do, when it comes to making difficult decisions, they try to avoid any responsibility by stalling until the international community steps in to make a final decision. If a decision is viewed positively afterwards, local political parties will try to take a credit for it, but if it is poorly received, they can blame the international community (Omanovic, 2005).

The fact that overall guidance of the reconstruction process rested, at the apex, on PIC and the OHR, which had final authority over all civilian aspects of the agreement, made them accountable for results of the reconstruction process in Bosnia and Herzegovina.

### 1.3 Aid coordination and management

Concerning the overall aid program in BiH, the leadership was shared between the World Bank and the EU, which cooperated with the Bank in organizing and co-chairing the donor conferences. The governments of BiH, at what ever level, have not been actively involved in aid coordination (OED, 2004).

The First Donor Conference for Bosnia was held in December 20-21—barely five weeks after the end of the conflict.

The mobilization of assistance for BiH reconstruction was successful, but donor cooperation much less so, despite lip service and generally good personal relationships. A particular source of tension was that OHR and the EU had political mandates in BiH, whereas the World Bank only an economic mandate. Thus, the OHR sometimes wanted to condition aid on political steps, or design sector programs to achieve political objectives that were beyond Bank’s mandate. ” The Council (PIC) reminds the authorities in Bosnia and Herzegovina that economic assistance by the international community remains strictly conditional upon compliance with the Peace Agreement and subsequent obligations. The Council reconfirms its determination to apply conditionality

to international reconstruction assistance, both by excluding non-compliant municipalities from reconstruction as well as by applying positive measures.’’<sup>4</sup>

As explained later, in light of the diversity of donor interests and procedures, an attempt was made by the Bank to improve the coherence of assistance by designing a full set of sectoral interventions (projects), consistent with an overall blueprint for reconstruction, to serve as receptacles for donor resources.

Each sectoral project was managed by a Project Implementation Unit (PIU) working with the relevant counterpart BiH agency. Some donors did channel their assistance through the PIUs, but many did not.

The overall coordination for each sector was to be provided by 11 sector task forces, with each task force chaired by a different lead donor. Because the World Bank chaired only the economic policy task force (co chaired by the IMF), it was unable to exercise the same facilitating and coordinating role at sector level that it had exercised in organizing donor conferences and mobilizing funds. The 11 sectoral task forces were instead supposed to be coordinated by the Economic Task Force (ETF), chaired by OHR. The role of the ETF in aid coordination, however, remained loose and ambiguous, and so did the relationship between the timing of the political agenda and that of the reconstruction program.

ETF, which included all aid agencies, met infrequently, and was too large to be effective (OED, 2004).

The Bank intentionally chaired only one task force in order to avoid appearing heavy-handed. However, its representatives on the task forces were active and, in some cases, the de facto shadow chair. Still, these complicated arrangements were not conducive to clear responsibility and accountability, and gave bilateral donors neither a positive nor a negative incentive to act in concert. Moreover, some of the sector lead donors proved unwilling or unable to exercise a robust coordinating role. Not surprisingly, several donors opted to act independently—in project selection, choice of local interlocutor, and procurement and fiduciary procedures.

As often the case, the fragmentation of donor efforts mirrored the fragmentation in the recipient government. World Bank staff and country management did try to persuade donors to contribute to a common fund, but convinced only three small bilaterals.

The main factor for this reluctance was, in all probability, the fact that over the past decade, the mandate of aid has been extended significantly (Uvin, 2003).

In BiH case, the unusual weight of political and security elements in most donors’ agendas impeded coordination between donors. For example, some observers argued that Germany's objective to repatriate Bosnian refugees and reduce the budgetary burden of asylum seekers frequently collided with what other donors thought was a prior need for adequate preparation in housing and other areas (Campo, 2003).

In report from International Crisis Group five main problems associated with international community presence in BiH were emphasized: lack of a shared strategic vision; uncoordinated leadership; duplication and lack of communication; personality clashes and cross-cutting institutional interests; and ineffectual management of economic reform (ICG, 2001).

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<sup>4</sup> OHR website, report from 1998

Another important shortage from the outset of reconstruction process was non existence of the aid management agency (AMA).

The AMA of the recipient government is the bridge from donors to government. The fundamental strategic challenge of post-conflict reconstruction is the reconciliation between immediate urgencies and longer-term sustainability.

In most cases, the government is extremely weak during the immediate post-conflict period. Thus, the agency must not only interface with donors and regulate aid traffic, as in steady-state situations, but also help formulate the reconstruction program, serve as proto-government, and implement directly a number of activities.

Given the logic of BiH political architecture, strong aid management from the center was out of the question. Indeed, there were essentially three parallel aid administration and implementation systems, one for each nationality, going through three *de facto* separate budget systems, and three separate debt and cash management systems and accounts (Campo, 2003).

When UNDP launched project with the goal of aid management in 2002, signal was sent that problems with coordination of development resources existed long after beginning of the reconstruction process.

''The Project's overall objective is to establish the capacity at the various levels of Government and put in place a suitable framework and mechanism within the government structures, to undertake the management and coordination of development resources for their efficient and effective use in order to achieve the development objectives of the country as they become clearer in the national and sectoral development strategies, such as the PRSP (UNDP, 2004).''

Creation of the Board of the Principals in 2002 confirmed the existing notion that coordination between various members of international community was not on desired level. ''Following an extensive study carried out by the Office of the High Representative at the request of the Peace Implementation Council the coordinating structure of the International Community in Bosnia and Herzegovina was "streamlined" in 2002 so as to eliminate overlapping effort and responsibilities and increase effectiveness. As part of this process a Board of Principals was established, under the chairmanship of the High Representative, to serve as the main coordinating body of International Community activity in BiH. The Board of Principals meets once a week in Sarajevo. Its permanent members are OHR, EUFOR, NATO HQ Sarajevo, OSCE, UNHCR, EUPM and the European Commission. International financial institutions such as the World Bank, the IMF and the UNDP are also regular participants at the Board of Principals.''<sup>5</sup>

Knowing that coordination and management of development resources by governments of the receiving countries is central to the success of development cooperation (WB 1998), BiH was in unfavorable situation from the beginning of reconstruction period.

Currently the mechanism for coordination and management of development resources consists of four units.

According to the Law on Ministries and other State Institutions, coordination of development assistance is shared between the Ministry of Foreign Trade and Economic

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<sup>5</sup> OHR website

Relations (MoFTER) and the Directorate for European Integration (DEI). MoFTER has responsibility for the coordination of all external assistance except that of the European Union, which is coordinated by the DEI. Each Entity has a Development Coordination Unit (DCU): in the RS it was established in the Ministry of Economic Relations and Coordination-MoERC in April 2002, and in the FBiH in the Ministry of Finance-MoF, since February 2003 (UNDP, 2004).

Although government representatives should eagerly embrace any incentive related to increase in aid effectiveness, BiH still has not signed the Paris Declaration. The Paris Declaration, endorsed on 2 March 2005, is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organizations to continue and increase efforts in harmonization, alignment and managing aid for results with a set of monitorable actions and indicators (DAC, 2005).

### **3. Official Development Assistance in Bosnia and Herzegovina**

#### **3.1 General notes**

After explanation of system through which aid funds were disbursed and identification of key actors and owners of reconstruction process we can start explication of sectoral distribution of aid funds and effects they have caused. In the situation where high quality analyses on this topic from Bosnian researchers are scarce, we have to predominantly rely on World Bank studies. The World Bank's research is widely disseminated and respected among many important audiences. A survey of 271 high-level policymakers (mainly senior civil servants) in 36 developing and transition countries found that 84 percent of respondents used Bank analytical reports; respondents rated the Bank their most important information source out of a list of 17 domestic and international organizations; and the majority of respondents considered the Bank's work "technically sound, relevant and objective" (WB, 2000a). Although there are concerns about the conflicts of interest underlying the Bank's role as analyst and lender (Wade, 2002), significant dose of objectivity was presented in World Bank studies related to reconstruction period in BiH.

Figures for aid funds used in this paper are obtained from The International Development Statistics online database (IDS/o) which includes the Development Assistance Committee online (DAC/o) and the Creditor Reporting System online (CRS/o). The reason for using this database for analysis of donor activity in BiH is explained in Appendix 1.

Term aid, often used in this paper, relates to Official Development Assistance (ODA) which is defined as grants or loans to countries and territories which are:

- (a) undertaken by the official sector;
- (b) with promotion of economic development and welfare as the main objective;

(c) at concessional financial terms [if a loan, having a grant element of at least 25% (calculated at a rate of discount of 10 per cent) ]<sup>6</sup> (DAC, 2000)

Grants, loans and credits for military purposes are excluded from ODA and will be discussed additionally in this paper. Data on the amounts disbursed<sup>7</sup> each year are available at the activity level for some, but not all, donors. Consequently, most analyses have to be undertaken on a commitment basis<sup>8</sup>, what we will do for sectoral analysis in this paper.

### 3.2 How much?

Overall war damage has been estimated at 50-70 billion dollars, illustrating what a huge task of reconstruction awaited.

“Three- to Four-Year Priority Reconstruction and Recovery Program” (WB, 1995) was endorsed by international donors as a means of rebuilding the country and cementing peace. Setting out an external financing requirement of \$5.1 billion, the program had 4 challenging goals:

- Reconstruction of war damaged physical assets
- Jump-starting economic recovery
- Attracting home the millions of refugees and displaced
- Building a framework for sustainable growth.

While modifications were made as the program evolved, these goals have remained consistent throughout.

In Tables 1 and 2 we can see that international donors committed over \$ 4.2 billion and disbursed over \$ 3.6 billion of Official Development Assistance through 1996-1999 period.

Total commitments of Official Development Assistance (ODA) exceeded \$ 7.25 billion and disbursement exceeded \$ 6.8 billion from 1996 to 2004 (Table 1, 2).

The biggest donors were European Commission, United States and World Bank with credit lines under IDA terms. They committed \$ 3.9 billion from 1996 to 2004, more than all other donors did together. In Appendix 2 you can find committed funds by single donors and each year from 1996 to 2004.

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<sup>6</sup> The grant element in the ODA definition is a mathematical assessment of the financial terms of a transaction or set of transactions<sup>4</sup>. It is the difference between the face value of a loan and the present value (calculated at a rate of discount of 10 per cent) of the service payments the borrower will make over the lifetime of the loan, expressed as a percentage of the face value

<sup>7</sup> A disbursement is the placement of resources at the disposal of a recipient country or agency, or in the case of internal development-related expenditures, the outlay of funds by the official sector.

<sup>8</sup> A commitment is a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency. Members unable to comply with this definition should explain the definition that they use. Commitments are considered to be made at the date a loan or grant agreement is signed or the obligation is otherwise made known to the recipient



It is important to note that over 18.6% of all committed (1.35 billion) and 17.3% (1.175 billion) of all disbursed funds were in the form of technical cooperation. Taking into account that technical co-operation is the provision of know-how in the form of personnel, training, research and associated costs we can conclude that almost one fifth of the recorded ODA never reached BiH frontier.

Table 1: ODA Commitments

Amount (\$ Million)		Years								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Type	Grants	806.28	839.74	780.07	1087.23	645.79	469.82	402.82	477.18	442.33
	of which – AF Interest Subsidies	-	-	-	-	-	10.65	-	-	-
	Loans and Other Long Term Capital	205.6	86.65	54.64	16.18	55.14	126.94	109.33	52.73	238.59
	<b>Total ODA (OA) Commitments</b>	<b>1023.34</b>	<b>948.23</b>	<b>967.46</b>	<b>1276.32</b>	<b>702.38</b>	<b>612.33</b>	<b>512.37</b>	<b>531.18</b>	<b>681.56</b>
	of which – Technical Co-operation	194.58	50.06	286.78	243.84	48.86	122.12	103	142.9	157.33

Source: IDS/o

Table 2: ODA Disbursement

Amount (\$ Million)		Years								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Type	<b>ODA (OA) Total Net</b>	<b>844.75</b>	<b>861.91</b>	<b>905.2</b>	<b>1040.33</b>	<b>737.08</b>	<b>639.18</b>	<b>563.47</b>	<b>540.3</b>	<b>683.54</b>
	ODA (OA) Grants, Total	729.13	787.1	741.46	926.84	673.58	554.05	447.7	468.21	435.42
	Debt Forgiveness Grants	8.31	20.58	-	176.19	124.9	4.25	3.59	24.02	3.59
	AF Interest Subsidies	3.44	-	-	-	-	10.65	-	-	-
	ODA (OA) Loans Extended	115.62	74.81	163.74	113.49	66.01	88.09	121.14	76.07	252.36
	Reorganized debt	-	-	-	13.87	-	0.33	-	-	-
	ODA (OA) Loans Received	-	-	-	-	-2.51	-2.96	-5.36	-3.98	-4.24
	ODA (OA) Loans Total Net	115.62	74.81	163.74	113.49	63.5	85.13	115.77	72.09	248.12
	Equity investment	-	1.04	0.13	-	0.18	0.22	-	0.2	1.77
	Technical Cooperation	93.46	86.3	242.94	105.15	103.29	123.09	122.72	151.69	146.64
	Development Food Aid	7.61	22.54	25.8	8.35	22.21	30.49	7.43	6.22	8.52
	Emergency Aid	300.65	354.52	171.93	175	48.92	81.1	30.43	18.56	38.62
	Interest received	-	-0.9	1.27	-8.59	-3.74	-5.56	-4.19	-5.18	-9.15
	ODA (OA) Imputed Multilateral	118.08	110.79	145.29	106.91	198.67	188.05	204.64	178.3	268.5

Source: IDS/o

Grants<sup>9</sup> were dominant form of ODA commitments in BiH, with 82% (\$5.95 billion) of total aid from 1996 to 2004.

During emergency period<sup>10</sup> share of ODA in Gross National Income (GNI) was persistently above 20 percent (Table 3). Although this share has dropped largely since then, ODA still constitutes significant part of GNI.

ODA per capita for emergency period was the highest in modern history of post-conflict reconstruction efforts (Table 4).

Table 3: ODA and GNI

Amount (\$ Million, \$, % )	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>ODA/OA per Capita (\$)</b>	231.76	230.58	247.8	279.28	194.94	168.29	147.2	141	178.19
<b>ODA/OA as % GNI (Recipient)</b>	33.535	26.126	19.568	20.953	15.439	12.14	9.637	7.397	8.041

Source: IDS/o

Table 4: Average Annual per Capita ODA (disbursement) for Post - Conflict Countries

Country name and years	Total cumulative amount, US\$ million	Average population million	Per capita annual average, US\$
Bosnia and Herzegovina (1996–99)	3,652	3.7	246.3
West Bank and Gaza (1994–97)	2,112	2.5	214.5
Rwanda (1994–97)	2,115	5.9	89.0
Eritrea (1994–97)	589	3.6	40.6
Cambodia (1992–95)	1,394	10.2	34.1

Source: IDS/o

### 3.3 ODA impact on macroeconomic situation

Have those significant funds disbursed to BiH created macroeconomic stability and self-sustaining growth?

<sup>9</sup> Grants are transfers in cash or in kind for which no legal debt is incurred by the recipient.

<sup>10</sup> Period 1996-1999

According to World Bank reports the answer for the first question is positive while for the second rather negative (WB, 2005).

The very important thing that should be kept in mind when considering BiH economic indicators is that the statistical data on those indicators are still not reliable. As a result of the application of the different methodologies on data collection and processing in BiH entities, the system was not capable producing any country-wide data for a prolonged period.

A State-level Agency for Statistics (BHAS) was established in 1998, with the strong support of the international community, and with the coordination of statistical activities as its primary mandate. Because of the lack of any enforcement powers, the BHAS failed until recently to reform the system, let alone to produce reliable consolidated statistics. Following intense pressure from the international community, a State-level Law on Statistics was adopted in early 2003, and the existing Entity-level Laws have been harmonized with it. The Law provides for mandatory data reporting, cooperation and methodological harmonization requirements for the Entities.

During the emergency period, BiH experienced exceptionally high rates of economic growth (Table 5). A simple analysis, without consideration of starting base, would include this economy into the fastest growing ones in the world. In keeping with that, London's The Economist ranked BiH the first in its 2005 report according to the criterion of real GDP growth in last decade. However, the initial economic growth was primarily the result of large ODA funds disbursed for reconstruction in BiH and low starting base, more than investment activity within the country.

Currently, BiH gross domestic product is still rather low compared to its value before the war, as well as to the economy capacities. Despite the generally positive growth trend, the living standard of around 19,5% of the population of BiH is estimated to be below the general poverty line, while another third is vulnerable to fall into poverty in case of an income shock (WB, 2002).

Decisive role in slowing consumer price inflation to single digits and below one percent during 2002-2004 had strict adherence to the currency board arrangement (CBA) introduced in 1997. The choice of the CBA as an exchange and monetary regime has been well justified in the quest for institutional and financial stability in BH's post-conflict environment. An almost exclusively rules-based regime was also best tailored for BH's peculiar political and administrative set-up where decision-making remains the outcome of complex interactions and compromises (WB, 2005). Although domestic credit as a ratio to GDP is still lagging behind other transitional countries, trends shown in Table 5 signal that the CBA has not been a constraint to credit growth in BH to date. Outstanding growth in the first phase after the end of the war was accompanied by large fiscal deficits. Huge ODA and recovery in domestic revenue collection triggered parallel increases in recurrent spending, especially in public sector wages. As shown in Table 5, fiscal stabilization efforts led to the elimination of the fiscal deficit. Significant decrease in total spending, from close to 70 percent of GDP in 1999 to 50 percent in 2004, occurred primarily due to a decline in externally-financed public investment and a shift from arrear accumulation to repayment.

Table 5: Key economic indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004
(annual percentage change)									
Real GDP growth	62.6	29.9	17.6	9.5	5.4	4.3	5.3	4.4	6.2
CPI Inflation	- 11.5	5.6	- 0.4	3.0	5.1	3.2	0.3	0.6	0.3
Growth of industrial production			23	14	11	-5	12	3	12.4
(in percent of GDP unless otherwise noted)									
General Government revenues				59.9	55.4	53.8	49.7	49.6	48.9
General Government spending				67.7	64.5	58.8	53.4	51.0	50.0
Balance(accruals,incl. grants)				-7.8	-9.0	-4.9	-3.7	-1.3	-1.1
Current account balance	n/a	n/a	- 8.4	- 9.1	- 17.5	- 20.0	- 26.5	- 22.4	- 24.4
Gross Investment	21.0	20.1	20.0	21.0	20.6	18.8	20.4	19.9	20.3
National Savings	-18	-5	1	12.8	8.1	2.2	-1.3	2.2	3.0
Foreign exchange reserves (In months of imports)	1.1	0.4	0.7	1.9	2.1	5.1	4.5	5.3	6.1
External debt				65.5	41.6	39.8	37.7	33.3	31.1
External debt service (In percent of exports of goods and services)	53	16	17	10.1	7.5	6.1	9.2	8.2	6.5
Broad Money (M2)				24,1	24,6	42,6	43,5	44,7	52,6
Credit to Non-Government Sector				30,5	29,7	30,2	36,2	41,3	45,3
(million US\$)									
Exports of goods	336	595	697	649	809	851	952	1,271	1611
Imports of goods	1,941	2,400	2,781	2,568	2,533	2,708	3,233	3,890	4578
Trade Balance in goods	-1,605	-1,805	-2,084	-1,919	-1,724	-1,857	-2,281	-2,619	-3033
Gross Official Reserves				472	482	1.234	1.187	1.604	2.195
FDI			67	177	146	119	265	381	497

Source: BH authorities; IMF (World Economic Outlook database, Fourth SBA review, February, 2004; Article IV Staff report, January, 2004); World Bank staff estimates

BH is currently classified as a moderately indebted middle-income country. Prudent external borrowing policies and successive rescheduling agreements, as well as the regularization and cancellation of old debts denominated in non-convertible currencies accompanied with moderate GDP growth enabled reduction in external debt from 66 percent of GDP in 1999 to 35 percent by the end of 2004.<sup>11</sup>

Predictably, post-conflict growth was accompanied in the initial phase by large external deficits. Large imports fueled by reconstruction were only partially offset by exports, which, although growing quite rapidly, started from a very low base. While exports have grown faster than merchandise imports in euro terms since 2002, they still account for only 10 percent of GDP. The composition of merchandise imports, equivalent to one-third of GDP, has more recently shifted towards non-reconstruction goods, largely consumer goods and oil products. Domestic demand has been bolstered by sizeable increases in credit to households as well as by continued high levels of workers' remittances and other private transfers (WB, 2005).

There are, however, many other worrying trends besides external imbalances, such as continued high unemployment<sup>12</sup>, growing informal sector<sup>13</sup>, low domestic savings and investment and declining rate of growth of industrial production (Table 5). While there appears to have been an upswing in private foreign investment inflows in the past two years, the level is still far below that needed to substantially increase the growth rate.

In the 2003 Feasibility Study on Bosnia and Herzegovina's preparedness to negotiate a SAA with the EU, the Commission concluded that:

*"In general, Bosnia and Herzegovina has developed **sound macroeconomic policies** and made some progress with structural reform. Nevertheless, risks to macroeconomic stability remain. Against the background of declining foreign assistance, high current account deficits and a persistent lack of self-sustaining domestic growth (hampered by weak corporate governance and labour market rigidities) could endanger currency stability with potential effects on inflation and the sustainability of debt servicing. On the*

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<sup>11</sup> After normalizing its relations with the IFIs in the immediate aftermath of the war, BH renegotiated its debt with official bilateral creditors, reaching an agreement with the Paris Club in October 1998. The debt renegotiated included the entire "allocated debt" (debts owed or guaranteed by entities located in BH's territory) and 13.2 percent of the SFRY unallocated debt. The Paris Club agreed to reduce this debt by 67 percent in net present value (NPV) terms and to reschedule the remaining obligations over 30 years with a six-year grace period on principal repayment for commercial type credits, and over 33 years with no grace period for Official Development Assistance (ODA). Similarly, in December 1998, BH finalized an agreement with the London Club which became effective the following January. The London Club forgave some 73 percent of the debt on a present discounted value basis while the remaining \$400 million was to be divided into two components: a "basic amount" of some \$147.8 million and a "performance amount" for the rest. The basic amount was rescheduled over 20 years with a seven-year grace period. The performance amount would fall due once and if BH GDP per capita reaches US\$2,800 (measured at 1997 prices) for two consecutive years before 2018 (WB, 2005).

<sup>12</sup> Official unemployment rate is one of the highest in the world, persistently averaging around 40%. According to World Bank analysis unemployment rate is significantly lower but still dangerously high-around 20% (WB, 2005b).

<sup>13</sup> According to World Bank 42% of labour force was employed in informal sector in 2004

*fiscal front, public expenditure still concentrates on current rather than investment spending. Also, external public debt is on a downward trend, but domestic public debt, which includes arrears, war damages and frozen currency deposits, has not yet been fully quantified.”(EC, 2003)*

## 4. Sectoral analysis

### 4.1. Sectors

Problems with donor coordination explained earlier also made difficult precise and complete sectoral analysis of ODA. Coverage ratio is an indicator presenting percentage of all ODA for which final destination, sector is known. That indicator is 80% for period 1996-2004 in BiH, what means that we do not know where 20% or \$1.34 billion of committed funds went. Coverage ratios are particularly low for years immediately after the conflict (Table 6). This fact also proves our stance that AMA, which would record all funds coming to the country, is indispensable institution in reconstruction period in war torn economies.

Table 6: Coverage ratios

	Years								
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Coverage Ratio	49	75	78	90	99	92	94	91	88

Source: IDS/o

DAC guidelines defined 9 broad sectors in which every donor activity can be recorded. Sectors that received the greatest portion of committed funds in BiH were Emergency assistance and reconstruction with \$1.184 billion, Economic infrastructure with \$1.033 billion and Social infrastructure and services with \$1.934 billion (Table 7). Around 90% of technical assistance went to Economic infrastructure and Social infrastructure and services sectors (Table 8).

Table 7: ODA commitments by sector

Amount in millions of USD											
		1996-2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
S E C T O R	TOTAL	5.907.511	499.916	707.227	753.672	1137.03 1	693.455	558.356	477.264	483.198	597.392
	EMERGENCY ASSISTANCE AND RECONSTRUCTION	1.184.896	165.892	368.037	132.428	230.909	90.035	81.892	66.09	69.215	46.488
	SOCIAL INFRASTRUCTURE & SERVICES	1.934.774	130.688	113.075	193.08	196.167	195.163	220.339	190.144	275.707	420.411
	ECONOMIC INFRASTRUCTURE	1.033.337	58.124	151.89	287.297	251.644	84.192	109.899	114.987	38.746	88.488
	PRODUCTION SECTORS	205.410	13.298	24.904	41.25	23.644	13.367	17.364	30.689	23.63	17.264
	MULTISECTOR	564.901	106.298	0.79	70.921	148.204	64.214	92.231	64.634	9.993	8.406
	COMMODITY AID / GENERAL PROG. ASS.	217.592	8.541	15.626	25.69	86.262	15.37	32.838	4.92	40.106	8.524
	ACTION RELATING TO DEBT	457.837	-	20.581	-	190.06	226.563	0.334	-	20.633	-
	ADMINISTRATIVE COSTS OF DONORS	4.220	-	0.127	2.294	0.755	3.32	0.268	0.746	0.971	1.922
	SUPPORT TO NGO'S	11.017	0	-	0.02	-	0.04	3.127	3.545	1.669	2.676
	UNALLOCATED/UNSPECIFIED	47.101	17.075	12.198	0.693	9.388	1.191	0.064	1.508	2.528	3.213

Source: IDS/o

Table 8: Technical assistance by sector

Amount in millions of USD											
		1996-2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
S E C T O R	TOTAL	1.070.101	88.550	28.323	37.487	247.352	120.715	108.476	94.993	143.652	200.553
	SOCIAL INFRASTRUCTURE & SERVICES	682.654	51.308	26.770	24.643	66.021	55.204	98.582	70.636	108.638	180.852
	ECONOMIC INFRASTRUCTURE	298.370	4.326	0.663	8.855	167.791	59.753	3.140	17.299	25.241	11.965
	PRODUCTION SECTORS	14.395	0.414	0.234	1.340	2.547	2.012	0.673	1.094	4.350	3.052
	MULTISECTOR	44.984	15.496	0.104	2.187	10.299	0.547	3.530	5.174	4.004	4.294
	COMMODITY AID / GENERAL PROG. ASS.	1.489	1.489	-	-	-	-	-	-	-	-
	EMERGENCY ASSISTANCE AND RECONSTRUCTION	5.402	-	0.411	-	0.529	2.917	2.485	-	0.675	0.152
	UNALLOCATED/UNSPECIFIED	15.517	15.517	0.141	0.462	0.165	0.282	0.064	0.79	0.745	0.240

Source: IDS/o

## 4.2 Emergency assistance

Period from 1996 to 1999 can be named reconstruction period primarily because extraordinary high share of ODA was directed in Emergency assistance and reconstruction sector (Table 9). Striking decrease in ODA in 2000 represented the end of post-conflict reconstruction and start of new, development, EU oriented era.

ODA committed to this sector was primarily directed toward refugees and displaced persons. Sub-sector ‘‘Other Emergency and Distress Relief’’ can be, in BiH case, renamed Aid for return while Reconstruction relief is representing ODA committed for reconstruction of refugees/displaced persons housing units.

Table 9: EMERGENCY ASSISTANCE AND RECONSTRUCTION

Amount in millions of USD										
	1996-2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>EMERGENCY ASSISTANCE AND RECONSTRUCTION</b>	1.184.896	165.89	368.03	132.42	230.90	90.035	81.892	66.09	69.215	46.488
<b>1 Emergency Food Aid</b>	15.162	0.54	2.064	0.982	0.041	-	5.004	6.964	1.130	-
<b>2 Other Emergency and Distress Relief</b>	773.489	138.31	258.72	100.60	152.77	29.952	43.975	19.487	14.742	14.901
<b>3 Reconstruction relief</b>	430.297	27.029	81.246	26.369	78.089	60.083	32.913	39.638	53.343	31.587
<b>Housing for non-displaced persons</b>	295.160	7.713	29.107	7.513	31.643	39.595	48.599	47.251	14.445	36.744

Source: IDS/o

During the war about 250.000 persons got killed and about 17.000 were reported missing. Besides, since the beginning of the war until the GFAP was signed some 2,2 million people had fled from their pre-war homes in Bosnia and Herzegovina, which makes more than 50% of the prewar domicile population. Out of that number 1.2 million people asked for refugee protection in more then 100 countries all over the world, while at the same time more than million persons were displaced within the country.

Donors committed over \$770 million for direct support of return process with overwhelming majority of ODA committed in 1996-1999 period when 645.000 persons (350.000 refugees and 295.000 displaced) returned to their prewar homes which makes around 65% of the total number of returns to Bosnia and Herzegovina since the Dayton Peace Agreement (Table10).

Results for minority returns<sup>14</sup> were not that successful in the years immediately following conflict but somewhat improved later (Table 10a).

Today almost half a million persons who had left Bosnia and Herzegovina in the period from 1992 to 1995 and who were recorded as refugees from BiH, are still residing in some 40 countries all over the world.

<sup>14</sup> Minority returns is a purely technical term referring to persons who have returned to their pre-conflict municipalities, currently dominated by (an)other constituent people(s) of BiH.



Data obtained from Ministry of human rights and refugees shows us following:  
Numerical indicators on migration of refugees from BiH:

- Repatriated in BiH 480.000(40%)
- Resettled in third countries 220.000(18%)
- Residing abroad 500.000(42%) of which
  1. Integrated in host countries 400.000(80%)
  2. In need of durable solution 100.000(20%)

Table 10: Total number of returns to Bosnia and Herzegovina

	TOTAL BOSNIA AND HERZEGOVINA									
	REFUGEES					DPs				
	BOS	CRO	SER	OTH	TOTAL	BOS	CRO	SER	OTH	TOTAL
1996	76,385	3,144	8,477	33	88,039	101,402	505	62,792	42	164,741
1997	74,756	33,568	11,136	820	120,280	39,447	10,191	8,452	205	58,295
1998	78,589	23,187	6,765	1,459	110,000	15,806	4,325	9,139	300	29,570
1999	18,440	6,299	6,332	579	31,650	24,907	6,760	11,315	403	43,385
2000	7,633	4,834	5,303	837	18,607	36,944	7,779	14,175	449	59,347
2001	4,642	4,244	9,155	652	18,693	48,042	5,960	25,734	436	80,172
2002	12,592	5,933	18,220	389	37,134	41,511	5,319	23,215	730	70,775
2003	5,257	2,852	5,482	421	14,012	21,861	2,267	16,023	152	40,303
2004	976	450	942	74	2,442	12,976	1,028	3,888	56	17,948
2005	805	151	314	3	1,273	3,540	437	1,177	10	5,164
TOTAL	280,075	84,662	72,126	5,267	442,130	346,436	44,571	175,910	2,783	569,700

Source: UNHCR; IOM; Ministries for Refugees; Deportation movements; Municipal Authorities; OHR Brcko District; DPs Associations and NGOs.

Table 10a: Total minority returns

Year	Federation of BiH	Republika Srpska	Brcko District	Total BiH
1996 - 1997	44,398	1,125		45,523
1998	32,605	8,586		41,191
1999	27,987	13,020		41,007
2000	34,377	27,558	5,510	67,445
2001	46,848	40,253	4,960	92,061
2002	51,814	41,345	8,952	102,111
2003	25,130	18,051	1,687	44,868
2004	5,881	8,045	273	14,199
2005	2,807	3,008		5,815
Total :	271,847	160,991	21,382	454,22

Source: UNHCR

Quite a small number of them are still in need for durable solutions, which means granted citizenship, permanent residence, asylum, working permission or other legal permission to stay in host countries.

The real number of displaced persons was unknown for a prolonged period. The first, comprehensive, official registration of displaced persons in BiH was made by the end of 2000, when 556.214 displaced persons were registered (183.355 families) (MOHRR, 2005).

Although many displaced persons have found permanent solutions after being registered, in the first place through return but other ways as well, the systematic de-registration of such persons have not been performed.

After it was found necessary to determine the real number of displaced persons in BiH, as one of the most important assumptions for successful continuation of activities in terms of implementation of the Annex VII of the GFAP, in 2004 the Ministry for Human Rights and Refugees, the Ministry for Refugees and Displaced Persons of RS, the FBiH Ministry for Displaced Persons and Refugees and Government of District Brčko of BiH, in co-operation with the UNHCR have signed joint "Protocol on Implementation of the Process of Revision of Numerical Situation and Status of Displaced Persons in BiH".

According to Ministry of human rights and refugees report from 2005 there were over 180.000 displaced persons in BiH in 2005 (MOHRR, 2005).

In addition to ODA \$430 million for reconstruction of refugees/displaced persons housing units' donors committed \$295 million for reconstruction of "non-displaced" persons housing units (Table 9).<sup>15</sup>

Housing stock of Bosnia and Herzegovina in 1991 consisted of more than a million housing units in 6.823 settlements (Table 11).

In addition to demographic destructions the war also radically changed the housing sector situation in Bosnia and Herzegovina.

In the period from 1992 to 1995 some 452.000 housing units were partially or completely destroyed which makes almost 40% the pre-war housing stock. Out of this number, around 80% of housing units were either destroyed or heavily damaged (Table 11).

Table 11: Housing stock situation in 1995

Housing Stock Situation in 1995 – per Entities in BiH							
Entity	F BiH	%	RS	%	Brčko District	%	BiH
No of HUs in 1991	786.693	60,71%	484.171	37,37%	24.920	1,92%	1.295.784
up to 20%	88.158	88,80%	9.960	10,03%	1.163	1,17%	99.281
20 - 70%	156.688	57,91%	101.753	37,61%	12.109	4,48%	270.550
above 70%	56.028	68,27%	23.948	29,18%	2.094	2,55%	82.070
Total	300.874	38,25%	135.661	28,02%	15.366	3,40%	451.901
%	66,58%		30,02%		3,40%		100,00%

SOURCE: IMG (International Management Group), 1995 Census

<sup>15</sup> Other social infrastructure Non technical assistance activities from IDS database

Statistics generated on the basis of data verification in the central base by municipalities in Bosnia and Herzegovina indicate that the level of reconstruction of the housing fund reached almost 60% with some 260.000 reconstructed units up to the present, out of which more than two thirds were reconstructed from donations.

The highest level of reconstruction of the housing fund is in the FBiH (66,70%), then in Brčko District of BiH (46,30%), and the lowest level is in the RS with around 40%(Table12).

Table 12: Housing stock situation 2005

Comparative Indicators on BiH Housing Stock Situation in 2005 – per Entities									
Description/Entity		F BiH	%	RS	%	Brčko	%	TOTAL BiH	%
Reconstructed Housing Units (1996 -2005)		210.901	80,99%	41.779	16,04%	7.708	2,96%	260.388	
Reconstruction Rate (Total of reconstructed housing units in relation to total damaged and destroyed)		66,70%		39,18%		46,39%		57,94%	
Number of remaining damaged and destroyed housing units (per damage level)	I (5%-20%)	14.362	79,95%	3.215	17,90%	386	2,15%	17.963	9,59%
	II (25%-40%)	12.496	50,09%	8.969	35,96%	3.480	13,95%	24.945	13,32%
	III (45%-65%)	16.129	54,94%	10.650	36,28%	2.576	8,78%	29.355	15,67%
	IV (75%-100%)	43.104	52,43%	37.319	45,39%	1.796	2,18%	82.219	43,90%
	n/p	13.605	41,49%	19.186	58,51%	0	0,00%	32.791	17,51%
	TOTAL	99.696	53,24%	79.339	42,37%	8.238	4,40%	187.273	
Housing stock damage rate (Total of remaining unrepaired housing units in relation to total damaged and destroyed)		33,30%		60,82%		53,61%		42,06%	

Source: Ministry for Human Rights and Refugees, Report on (re)-registration of Displaced Persons in BiH, December 2005

### 4.3 Economic infrastructure

BiH's prewar economic infrastructure was well-developed, and oriented to the needs of a socially-owned economy based largely on heavy industry. Many infrastructure facilities – such as bridges and telecommunications installations - became strategic targets during the war and were badly damaged by direct shelling. Years of lack of maintenance compounded this damage (WB, 1999). Resources mobilized by donors in period 1996-2004 in firm commitments of \$1.2 billion (Table 13) – augmented by company own resources and private investment have brought significant progress in transport, electric power and telecommunications sector. Nevertheless, the pattern of degrading infrastructure owing to inadequate provision for maintenance is prevalent to some extent

in all infrastructure and energy sectors. The problem stems from inadequate cost recovery through tariffs. However, the sheer scale of the investment backlog that can not be addressed by merely raising tariffs. These problems need to be addressed quickly to prevent what could eventually become serious service shortcomings that impact job-creation and the overall attractiveness of BiH as an investment destination (WB, 2004).

Table 13: ECONOMIC INFRASTRUCTURE

Amount in millions of USD										
	1996-2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>ECONOMIC INFRASTRUCTURE</b>	1.185.267	58.124	151.890	287.297	251.644	84.192	109.899	114.987	38.746	88.488
<b>Transport &amp; Storage</b>	242.094	1.432	94.279	31.871	7.569	0.591	18.352	33.675	5.107	49.809
<b>Communications</b>	26.760	4.564	1.033	12.578	4.229	0.466	0.091	2.344	2.012	0.849
<b>Energy</b>	209.225	51.222	54.75	93.756	9.859	9.478	36.893	0.343	1.442	6.575
<b>Banking &amp; Financial Services</b>	179.922	0.203	1.221	123.857	1.970	3.956	31.867	6.231	5.610	5.210
<b>Business &amp; Other Services</b>	468.662	0.702	0.607	25.236	228.017	69.700	22.696	72.393	24.575	26.045

Source: IDS/o

#### 4.3.1 Transport

Transport sector, designed around the needs of heavy industry suffered large-scale war damage. BiH's well-developed road and bridge network and railway system were oriented to transporting the production output of metallurgy and other industries to neighboring republics and abroad. Urban transport services were not well developed. During the war more than 2,000 kilometers (km) of the main road network and 70 bridges (including all those connecting Bosnia and Herzegovina to Croatia) were destroyed, all railways lines were rendered inoperable, and the Sarajevo airport was closed to traffic. Compounding direct damage, little maintenance was done during the war (WB, 1999) Since the end of hostilities, the condition of the transport infrastructure has significantly improved, mainly through implementation of the Emergency Transport Reconstruction Project (ETRP) and Second Emergency Transport Reconstruction Project (SETRP), and Implementation Force/Stabilization Force activities to restore strategic infrastructure. Under these projects 2.200 km of roads and 58 bridges were reconstructed. In recent past there was widespread dissatisfaction amongst the population about the quality of local (i.e. municipal and regional) roads. Complaints about the low quality of roads top the list among all public services (WB, 2002a) – complaints being almost twice as high as the next priority/problem which includes concerns about security, public transport, water supply and sanitation. The priority would be local road upgrading and development – in some sense shifting from the current predominant focus on motorways and main roads.

Relevant entity Ministries are now carrying out project through the World Bank Loan ("Road Management and Safety Project") supposed to be finished in the end of the year 2007, which comprised further reconstruction of cca 550 km of main roads in both of the Entities.

Urgent repairs are needed on 10% of the main road network which accounts for 20% of the total road network in Bosnia – and where much of the reconstruction effort was focused. The condition of regional and local roads, which account for the remaining 80% of the total network in BiH is far worse.

The road network in Bosnia has seen a 25% increase in the number of vehicles compared to the pre-conflict period in 1990, a more than doubling of freight and a 50% increase in passenger traffic since 1996. The increase in traffic has been accommodated on a network that has not been expanded. Traffic bottlenecks are emerging in some regions and upgrades in the network are required (WB, 2004).

#### 4.3.2 Communications

As a strategic target during the war, the telecommunications infrastructure in Bosnia and Herzegovina was crushed. Transmission and switching equipment, buildings, towers, and overhead cables were destroyed (WB, 1999). As of 1996, there were 472,000 main local telephone lines and 400 international lines, many in poor condition. This compared to about 676,000 local lines and 4,000 international lines before the war.<sup>16</sup> Most of the backbone transmission network, which was largely reliant on microwave facilities located on hilltops, was also completely destroyed. Poor service was compounded by lack of replacement parts, an exodus of skilled technicians, the loss or destruction of equipment documentation, and frequent power interruptions. In some areas, call completion rates dropped to 1-2% during busy periods, as compared to 35-38% prior to the war.

The GFAP made the reconnection of the inter-Entity telecommunications network a basic requirement for the peace process in Annex 9. Formerly the core of the telecommunications network in Bosnia and Herzegovina was run by the PTT Company, established as a business system consisting of a general directorate with 13 regional PTT companies and employing 11,750 staff. The state-owned enterprise has since been divided into three companies with headquarters in Sarajevo, Mostar and Banja Luka. The European Bank for Reconstruction and Development (EBRD), which lead the Telecommunications Task Force in Bosnia and Herzegovina, has developed a master plan for this sector. Since 1996, the donor community has committed about ODA \$27 million to reconstruct the telecommunications sector (Table 13).<sup>17</sup> In addition to donor financial assistance, operating surpluses of the telecom operators provided overwhelming majority of the investments in this sub-sector.

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<sup>16</sup> Sources: IMG Telecommunications Unit

<sup>17</sup> Significant EBRD loans are not included in ODA because they are provided with market interest rates

Number of subscribers has increased rapidly after the war. (Table 14)  
Service quality has improved significantly. Switching and transmission capacity that was heavily damaged during the war has been replaced with modern equipment.

Table 14: Telecommunication sector

		1992	1996	1998	2005
Total BiH	Nmb of fixed lines	695.962	472.188	636.658	1,026.855
	Nmb of mobile subscribers	-	-	50.000	1.618.565
PTT BH Telecom	Nmb of fixed lines	352.760	239.381	326.358	549.021
	Nmb of mobile subscribers	-	-	50.000	776.783
Telekom RS	Nmb of fixed lines	242.916	186.192	225.625	347.834
	Nmb of mobile subscribers	-	-	-	571.782
HT Mostar	Nmb of fixed lines	100.286	46.615	84.675	130.000
	Nmb of mobile subscribers	-	-	-	270.000

Source: BH operators

#### 4.3.2 Energy

Bosnia and Herzegovina's energy sector played a key role in the prewar economy, producing eight percent of the GDP. Twenty-five power plants (13 hydro and 12 thermal) generated 13,090 gigawatthours (GWh) of electricity (Table 15). The sector was oriented to meeting the demands of energy-intensive heavy industry located primarily in FBiH. Domestic coal production (80 percent of which was destined for the thermal plants) employed 26,000 workers, but coal was of poor quality and produced uneconomically. By war's end, direct damage and inadequate maintenance had reduced electric power generation to less than half the prewar level and coal production had plummeted. From one state-owned power enterprise three companies had emerged – based in Sarajevo (Elektroprivreda BiH(EP BiH)), Mostar (Elektroprivreda Herceg Bosne(EP HB)) and Banja Luka(Elektroprivreda RS( EP RS)) – complicating efficient sharing of power supply (WB, 1999).

With ODA over \$209 million committed to this sub-sector production increased remarkably in post-war years, reaching its pre-war levels in 2004. (Table 15)

Although production growth was outstanding many negative features characterized work of the power enterprises. Reports of the Special Auditor appointed by the decision of the High Representative in Bosnia and Herzegovina (Ralph 2003) revealed rather abnormal business practices. A good benchmark for the quality of business practices of the

respective companies was the share of distribution losses in 2002: 10.4, 24.4, and 30.6 percent respectively for EP BiH, EP HB and EP RS.

Table 15 Production of electric energy in MWh

		1996	1997	1998	1999	2000	2001	2002	2003	2004
Total BiH		7.733	8.766	9.586	10.500	10.406	11.430	10.791	11.678	13.486
EP BiH		<b>2.298</b>	<b>3.511</b>	<b>4.045</b>	<b>4.100</b>	<b>4.695</b>	<b>5.115</b>	<b>5.540</b>	<b>5.362</b>	<b>6.112</b>
EP RS		3969	4080	4316	5004	4394	4676	4076		
EP HB		<i>1 466</i>	<i>1 175</i>	<i>1 225</i>	<i>1 396</i>	<i>1 317</i>	<i>1 639</i>			

Source: Agency for Statistics of Bosnia and Herzegovina, EPBIH, EPHZHB, ERS.

#### 4.3.3 Banking & Financial Services

Lack of confidence in the banking system, frozen foreign exchange deposits, and depressed income levels contributed to a very low post-war domestic savings rate and a weak banking system. The domestic banking sector has been virtually unable to intermediate credit.

Given the importance of a well functioning banking system as a mobilizer of savings and intermediary of funds, the international community focused on four areas in order to bolster confidence in the banks with strengthening banking supervision and liquidating insolvent banks, instituting a deposit insurance scheme and privatizing solvent majority state owned banks and providing medium-and long- term funding for commercial banks on market criteria(WB, 1999).

Measures have been taken to create a framework for banking supervision in line with international standards. A law on commercial banking was passed by the entities parliaments in 1998 covering licensing, supervision, liquidation of banks, and prescribed banking standards follow. The law helped eradicate the past abuses in the banking system that aroused from lending to insiders and to connected parties. With considerable international technical assistance entity banking agencies were formed in 1998 and currently there is incentive to transfer supervision on Central Bank. While strengthened licensing and supervision standards helped restoring public confidence in banks, a system of insuring deposits was essential for rapid and forceful recovery in confidence.

In 1998, donors provided support for the development of a sound deposit insurance law. A scheme to insure deposits was introduced and directed at protecting small depositors from loss in the event of bank failure, discouraging runs on banks, and providing an efficient mechanism for disposing of insolvent banks. In late 1998, the FBiH and RS

governments established their respective Bank Privatization Agency responsible for assuring that bank privatization deadlines are met and insolvent banks are liquidated. From approximately 50 in 1998, number of the banks decreased to 33 in 2004 (Table 16). Further consolidation is expected.

Table 16: Number of banks in BiH

	1999	2000	2001	2002	2003	2004
Number of banks in BiH	61	55	48	42	37	33

Source: CBBH

According to EBRD, banking sector transition indicator<sup>18</sup> was 2.67 in 2004 (EBRD, 2004), which is interpreted as being a typical value for this region. Non-bank financial institutions in BiH are in their infancy. The leasing and insurance sectors in particular require development and improved regulatory frameworks.

#### 4.3.4 Business & Other Services

Initial reforms aimed to create friendly business environment were launched successfully in BH shortly after the end of the war. As we can see in Table 17, the EBRD indexes for BiH indicate major progress in “first-generation” reforms since 1996, most notably the near completion of price, foreign exchange and trade liberalization as well as of small scale privatization.

However, progress in “second-generation” institutional reforms has been substantially weaker. International experience as well as empirical research on the trade and integration of transition economies demonstrates that price and domestic market liberalization alone are not sufficient to improve the economic performance and international integration of these countries (EBRD, 2003).

Establishing a favorable investment climate is central to output expansion and building a basis for sustainable growth. With almost half billion dollars of ODA committed to development of business<sup>19</sup>, BiH is not yet firmly on the path of self-sustaining growth (EC, 2004).

<sup>18</sup> EBRD has developed a transition indicator for banking sector reform as an important international source of assessment. This indicator ranges from 1 to 4+, with 1 defined as little progress in financial sector reform and 4+ representing full convergence of banking laws and regulations with BIS standards and a full set of banking services.

<sup>19</sup> Majority of ODA for this sub-sector was in the form of technical assistance-\$280 million



Table 17: EBRD indicators

Reform progress indicator	1996	2000	2004
Initial reforms			
Price liberalization	2.0	3.0	4.0
Foreign exchange and trade liberalization	1.0	3.0	3.7
Small-scale privatization	2.0	2.3	3.0
Second-generation reforms			
Large-scale privatization	1.0	2.0	2.3
Enterprise reform	1.0	1.7	2.0
Competition policy	1.0	1.0	1.0
Infrastructure reform	1.3	2.0	2.3
Banking sector reform	1.0	2.3	2.7
Non-banking financial institutions	1.0	1.0	1.7
Legal extensiveness (company law) <sup>a</sup>	na	3.0	na

Source: EBRD

This is primarily because institutional framework for enterprise development and SME support in BiH remains weak and underdeveloped, when compared both with international best practices and with the institutional frameworks developed by other countries in South East Europe (OECD, 2005). The country's weak institutional framework deters local and foreign investors, and consequently diminishes the opportunities for enterprise development and economic growth. Entrepreneurs are reluctant to open or expand businesses where there is policy uncertainty, room for discretionary behavior and lack of transparency. Corruption and transactional difficulties in day-to-day business operations are also important deterrents.

The persistence of soft budget constraints among privatized and state owned firms (as reflected in weak financial discipline, the accumulation of arrears, and the continued provision of subsidies) reflects the poor corporate governance structures that have emerged from the privatization program as well as continued dispersed ownership. The lack of a credible threat to exit also keeps loss-making firms on the market. As a result, many loss-making firms languish at low levels of activity and tie up assets that could otherwise be put to productive use while new private initiative struggles to emerge (WB,

2005). Although business climate has improved since 1996, the business environment in BH is still perceived as investor-unfriendly.

#### 4.4 Social infrastructure and services

This sector received the greatest portion of ODA from 1996 to 2004 (\$1.934 billion) with aid flows reaching almost billion dollars in sub-sector Government and Civil Society (Table 18).

Table 18: SOCIAL INFRASTRUCTURE & SERVICES

Amount in millions of USD											
		1996-2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
S E C T O R	<b>SOCIAL INFRASTRUCTURE &amp; SERVICES</b>	1.934.77	130.69	113.08	193.08	196.17	195.16	220.34	190.14	275.71	420.41
	<b>Of which technical cooperation</b>	682.65	51.31	26.77	24.64	66.02	55.20	98.58	70.64	108.64	180.85
	<b>Education, Total</b>	234.468	44.686	18.618	9.215	16.458	24.176	26.442	30.034	25.894	38.945
	<b>a) Education, Level Unspecified</b>	49.474	1.333	11.311	1.152	2.360	11.975	12.625	3.183	3.699	1.836
	<b>b) Basic Education</b>	17.713	0.159	0.166	0.131	0.923	2.027	2.217	11.469	0.413	2.000
	<b>c) Secondary Education</b>	13.192	0.236	0.809	0.113	0.160	0.065	0.230	0.802	1.426	11.766
	<b>d) Post-Secondary Education</b>	149.884	42.957	6.333	7.820	13.015	10.110	11.370	14.580	20.356	23.343
	<b>Health, Total</b>	127.777	5.297	33.178	7.501	32.278	8.564	8.281	7.913	1.822	22.943
	<b>a) Health, General</b>	51.122	2.291	20.677	5.143	6.794	3.307	1.518	2.084	0.407	9.308
	<b>b) Basic Health</b>	72.430	3.006	12.501	2.358	25.484	5.257	2.945	5.829	1.415	13.635
	<b>Population Programmes</b>	2.154	-	-	0.023	-	0.578	0.177	1.031	1.123	-
	<b>Water Supply &amp; Sanitation</b>	181.788	3.000	38.057	13.524	10.577	13.517	18.571	26.896	16.043	41.603
	<b>Government &amp; Civil Society</b>	998.694	47.280	14.220	130.65 5	83.864	98.365	118.30 6	106.92 2	179.11 6	219.96 6
	<b>a) Government and civil society – general</b>	614.240	37.998	6.652	110.95	39.642	60.805	83.058	82.726	136.88 2	166.47 7
	<b>b) Conflict, Peace and Security</b>	235.944	9.282	7.568	19.705	44.222	37.56	35.249	24.195	42.234	53.489
	<b>Other Social Infrastructure &amp; Services</b>	389.112	30.425	9.002	32.162	52.989	49.963	48.562	17.348	51.708	96.953

Source: IDS/o

#### 4.4.1 Education

The war caused the disruption of education at all levels. Approximately 60 percent of all school buildings were damaged, destroyed, or requisitioned for military use; the teaching force was decimated and formal educational funding virtually ceased for three years. Despite these difficulties, the extraordinary efforts of parents, local governments, and aid agencies ensured that most children continued their education during the war (WB, 1999). Following the end of hostilities, the education system has gradually been rebuilt. Most of the physical infrastructure was rebuilt in period 1996-1998 when about 840 primary school buildings have been replaced or rehabilitated with external funding (about 690 of 1,300 in the FBiH and 150 of 550 in RS), and about 130 kindergarten buildings (110 in the FBiH and 20 in RS). Donors also committed funds for the reconstruction of about 80 secondary schools (65 of 145 in the FBiH and 15 of 88 in RS) and for rehabilitation of major universities in Sarajevo, Mostar, Tuzla, and Banja Luka. Although initial operations focused on reconstruction, they also supported analytical work and included pilot components that prepared the ground for basic reforms to improve quality and accessibility of public education. Net primary and secondary school enrollment stood at 93% and 73% respectively in 2001 (WB, 2001) - close to other EU accession countries (Table 19).

Table 19: Education indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Primary school enrollment</b>	378.819	390.399	396.103	402.912	391.533	369.079	357.563	363.072	373.002
<b>Secondary school enrollment</b>	126.830	138.158	144.536	155.166	160.178	160.942	165.237	169.497	164.983
<b>Primary school teachers</b>	16.907	18.709	19.342	20.085	20.385	20.363	20.683	20.874	
<b>Secondary school teachers</b>	8.327	8.794	9.211	9.671	10.017	10.579	10.431	10.792	
<b>Graduated students</b>			3.133	3.038	3.673	4.444	4.319		

Source: BHAS

World Bank initiated in 2000 Education Development Project (EDP) sought to improve management in the sector by establishing institutions and tools such as the Standards and Assessment Agency, the Education Management Information System (EMIS), and the Council of Higher Education, which operate across Entities. These structures are important for improved performance of the education system. One of the priorities for the government in the near future will be adoption of state law on higher education which they failed to pass several times in recent past. Although majority of ODA was directed in it, tertiary education level is lagging significantly behind primary and secondary with 24% enrollment rate.

#### 4.4.2 Health

Health status in Bosnia and Herzegovina deteriorated severely during the war, and health care infrastructure suffered significant damage throughout the country. In addition, the unified pre-war health financing system was divided into three parts at the beginning of the war, further jeopardizing financial sustainability. Population displacements resulted in overpopulation in some areas. The resulting inadequacy of health services, plus overcrowding and unsanitary conditions for the internally displaced, resulted in increased incidence of communicable diseases (WB, 1999).

In early post war period efforts focused primarily on preventing further deterioration of the overall health situation by providing emergency assistance (mainly the direct provision of essential goods and services) and additional assistance was provided to initiate the physical and functional rehabilitation of the health care delivery system (Table 21). Later emphasis shifted toward formulation of sector policies and strategies for development in the medium term.

The World Bank developed and introduced a new model of primary health care delivery through the Basic Health Project (BHP) initiated in 1999. This approach, developed in close partnership with the Ministries of Health of the Entities and pilot cantons, CIDA and Queens University, Canada, supported the staffing, training and operation of Family Medicine teams in pilot cantons in the FBH and pilot regions in the RS, to deliver more effective and higher quality primary health care services that are better focused on the health needs of the population.

This operation is highly relevant for BiH's needs and appears to be achieving good results (WB, 2004a).

Since the end of the conflict, the broad indicators of the health status of Bosnia's population have improved substantially, to levels close to or better than pre-war, and well within the range of comparator countries. The infant mortality rate (IMR) has fallen steadily from 14.2 per 1000 in 1996 to 7 per 1000 in 2004 (Table 20). Life expectancy for men and women has risen to 71 and 75 years, respectively, slightly above pre-conflict levels, and also within the range of comparator countries (WB, 2001)

Table 20: Demographic indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Live births per 1000 inhabitants	12.8	12.9	12.3	11.4	10.5	9.9	9.3	9.2	9.1
Deaths per 1000 inhabitants	6.9	7.5	7.9	7.7	8.1	8.0	7.9	8.3	8.5
Natural increase	5.9	5.5	4.5	3.7	2.4	1.9	1.4	0.9	0.7
Infant deaths per 1000 live births	14.0	12.4	11.0	10.1	9.7	7.6	9.4	7.6	7.2
Fertility rate	31.2	32.4	30.1	23.7	19.7	18.8	18.2	18.0	17.9

Source: BHAS

Table 21

Indicators	1991	1998	1999	2000	2001	2002	2003	2004
Number of hospitals	86	37	39	39	34	36	34	35
Number of primary health care units	1463	1488	1193	...	1169	1194	1183	1216
Total number of hospital beds	1978	13977	14221	12211	12098	11799	11981	11603
Number of physicians, physical persons (PP)	7027	5215	5388	5368	5443	5482	5576	5458
Number of dentists (PP)	1346	694	735	725	679	686	690	630
Number of pharmacists (PP)	811	403	359	380	350	372	363	370
Number of nurses (PP)	20375	16506	14881	16943	16708	16995	17170	16899

Source: WHO on-line database

#### 4.4.3 Water Supply & Sanitation

Municipal water supply and sewerage networks, which served 75 percent of the urban population before the war, were damaged by neglect. By 1996 half of the population no longer had 24-hour water supply and clogged sewer and drainage systems left areas flooded for extensive periods. Countrywide water leakage losses reached 50 percent. The quality of solid waste services was also severely impaired, with collection equipment sustaining extensive damage and access to landfills limited by landmines (WB, 1999). With ODA over \$180 million committed the situation in the water supply sector has improved with over 90% of urban and over 65 % of rural population with water connections (WB, 2001). However, one should interpret the rural figure with caution since rural households who are not connected to running water may still have an acceptable water source.

Important shortfalls still exist-the unaccounted for water is in excess of 55% on average. A reasonable benchmark for unaccounted for water in Western Europe and also other (post)-transition countries like Poland and Chile is about 15-30%. In Albania unaccounted for water is 45%. Normal periodic maintenance is not done and the aging system is degrading rapidly. Owing to the high water loss, most cities are not able to provide regular supply with the existing storage and pumping systems. In a sample of 17 municipal water utilities less than 50% had reliable 24-hour service (EC, 2004).

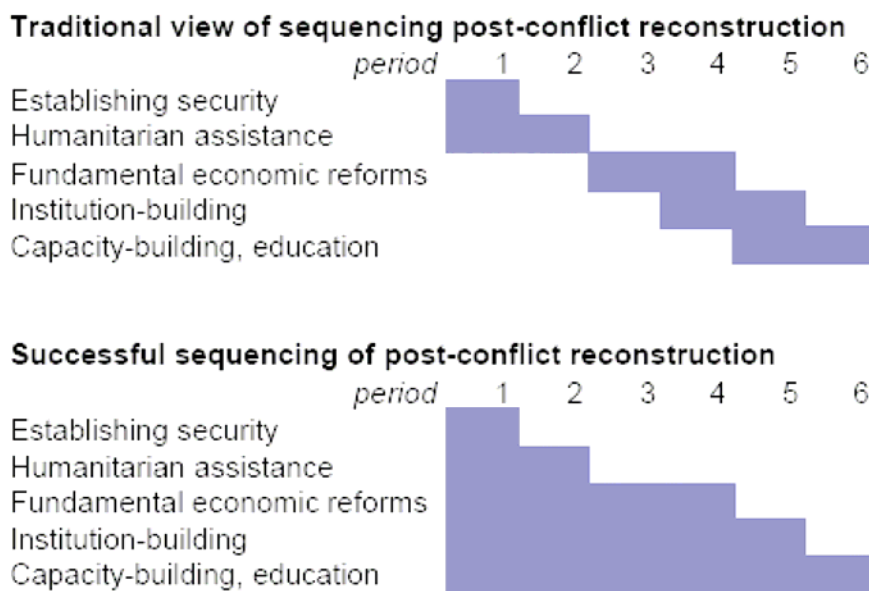
#### 4.4.4 Government and Civil Society

With ODA \$ 1 billion committed to this sub-sector one should expect the greatest achievements in economic governance in BiH. In the 2004 Report, the Commission stated that:

“Despite some success in macro-economic stabilization, Bosnia and Herzegovina is not yet firmly on the path of self-sustaining growth. As pointed out in the Feasibility

Study, productive capacity and thus exports remain weak; FDI, though improving, is insufficient to compensate for large current account imbalances. Private sector development needs to be encouraged through an improved business environment, better corporate governance, reduced labour rigidities, revived privatization and the creation of an environment which facilitates market exit and entry. Even if / when Bosnia and Herzegovina addresses the limited short-term priorities identified in the Feasibility Study, it will still have a challenging medium-term agenda to address. This underlines the need for coherent, but urgent action'' (EC, 2004). The reason for this poor record, especially in economic governance lies in the fact that in BiH international community (PIC for 1996-2000 period) used traditional, old fashion model of reforms sequencing (Table 22).

Table 22: Sequencing post-conflict reconstruction



Source: (USAID, 2004)

The traditional view of sequencing has been to put activities such as establishing security and providing humanitarian assistance first, followed by economic reforms in a later period, with institution building and capacity building in the last stages of development. ODA committed to this sub-sector in last three years equals amounts for all previous post-conflict years what proves our stance that economic governance was not top priority in initial reconstruction period.

The problems with this traditional view are that, first, many economic reforms are necessary immediately to create conditions for growth and to deprive instigators of the conflict of their economic power base, and, second, activities such as institution building and capacity building take many years, so should be started earlier rather than later. The period at the very start of reconstruction, while difficult and often chaotic, is also an important window of opportunity to undertake politically difficult reforms and

institutional changes—an opportunity that, if lost, might not reappear during the reconstruction process.

In BiH case the important structural reforms were delayed partly due to lack of strategic vision in early post-conflict years.

A more successful model of sequencing, therefore, would be to start a wider range of activities early in the reconstruction effort, finishing quickly short-term activities such as security and humanitarian assistance, and continuing longer-term activities such as economic reforms and institution building and capacity building for a number of years. In this way, the reconstruction effort is integrated into longer-term development (USAID, 2004).

International community learned by doing in BiH and realized that important structural reforms will be less politically feasible at a later stage. The only possible solution to expand necessary reforms was to promise EU membership if BiH fulfills required tasks. Since 2000 the country is gradually shifting from the “push” of OHR to the “pull” of the European Union (EBRD, 2005).

Even prior to 2000, the EU had been closely involved in the work of the OHR, for example, at its June 1998 Council meeting declaring the establishment of an EU/BiH Task Force, with the aim of increasing cooperation and assisting in policy-making in the crucial areas of judicial reform, education, media, good governance and economic reform. However, despite an increasingly direct EU input into policy-making, the EU played a subordinate and supporting role within the PIC Dayton framework rather than dictating its own terms. The PIC Declaration from the December 1998 Madrid meeting, for example, stated that Dayton implementation was the priority and that it was the BiH 'performance in implementing its Dayton obligations' that would dictate 'the pace of integration into European structures' (PIC, 1998).

From 2000 onwards this relationship was to be reversed. The flexibility of the Dayton framework was to be fully revealed as the mechanisms of regulation shifted informally from the PIC to the EU.

In March 2000 the European Union announced a Road Map as a first step for BiH in the SAP. This document established 18 key conditions which BiH had to fulfill in order to start the preparation of a Feasibility Study which would then form the basis of negotiations for a Stabilization and Association Agreement (SAA). These conditions covered far reaching policy reforms concerning elections, the civil service, state institutions, border services, the judiciary, trade regulations, foreign direct investment, property laws and public broadcasting.

Recognition of the progress BiH has made in the implementation of the Feasibility Study reforms was in October 2005 when the European Commission has recommended to the Council opening of negotiations with Bosnia and Herzegovina on SAA. Further reforms, expected in near future, would not be possible in politically essentially divided country without promised the pot of gold that was held to come with EU membership

#### 4.4.5 Production sector

Less than 3% of ODA was committed to production sector (Table 22). Even if it is a hard to imagine that reconstruction effort like the Marshall Plan could be possible in the state like BiH we want to emphasize some aspects of the most successive reconstruction effort in the history.

The most significant aspects of the Marshall Plan were economic reconstruction and European integration. Under the Marshall Plan, for example, resources were allocated to restarting production in each country. Means for effective budget execution were created, including local country decision-making in procurements funded by donor money. Programs carried-out under the Marshall Plan emphasized production and integration of countries into a continent-wide economy (USAID, 2004). Completely opposite to shamefully low ODA committed to production sector in BiH.

Table 23: PRODUCTION SECTORS

Amount in millions of USD	Years									
	1996-2004	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>PRODUCTION SECTORS</b>	205.410	13.298	24.904	41.25	23.644	13.367	17.364	30.689	23.63	17.264
<b>Agriculture - Forestry - Fishing, Total</b>	131.346	10.913	23.763	35.559	8.287	11.949	16.083	4.190	10.509	10.093
<b>a) Agriculture</b>	116.744	10.913	23.763	28.095	8.282	9.050	15.892	3.939	6.759	10.051
<b>b) Forestry</b>	13.092	-	-	7.464	0.005	1.878	0.017	0.25	3.750	0.019
<b>c) Fishing</b>	1.021	-	-	-	-	1.021	0.175	-	-	0.022
<b>Industry - Mining - Construction, Total</b>	55.871	0.298	1.023	5.691	3.151	1.046	1.265	26.488	13.093	4.114
<b>a) Industry</b>	55.144	0.277	1.023	5.662	2.578	1.046	1.224	26.485	13.037	4.089
<b>b) Mining</b>	0	-	-	-	0.573	-	-	0.003	0.056	0.025
<b>c) Construction</b>	0	0.021	-	0.029	-	-	0.041	-	-	-
<b>Trade &amp; Tourism</b>	17.349	2.087	0.117	-	12.205	0.373	0.015	0.011	0.028	3.057
<b>a) Trade Policy and Regulations</b>	14.292	2.087	0.117	-	12.205	0.373	0.015	0.011	0.028	0.444
<b>b) Tourism</b>	2.614	-	-	-	-	-	-	-	-	2.614

Source: IDS/o

#### 4.5 Military aid (Aid for security)

Military aid is aid which is used to assist an ally in its defense efforts or to assist a poor country in maintaining control over its own territory and is not recorded as ODA.

From 1996 to 2002, the U.S. under Train and Equip program has financed training at a fighting simulation center using U.S. software, courses at a professional development



center and training in telecommunications, artillery and flight. The complete assistance was provided for FBiH military forces because of RS poor record on turning over war crimes suspects to the U.N. tribunal in The Hague. The Train and Equip program (\$500 million) helped to create stability in the region and made the Federation's military more NATO-compatible, said a U.S. government official, speaking on background (Kampschror, 2002).

Another important form of "donation" to BiH, not recorded as ODA, was international military and police presence as a support to establishment and maintenance of security. Security is essential for reconstruction and for economic development.

Economic growth requires security. Without security, either economic activity can not take place at all, or the added costs of security to private firms and individuals increase their costs, reduce their profitability, and reduce their competitiveness. Security is a public good that the government (with international support) mostly needs to provide. Without security at present and expectations of future security, investors are unwilling to invest. (USAID, 2004).

On 14 December 1995 the GFAP was signed in Paris, after it had been negotiated in Dayton, Ohio. On 16 December the Alliance's North Atlantic Council launched the largest military operation ever undertaken by the Alliance, Operation Joint Endeavour.

Based on UN Security Council Resolution 1031, NATO was given the mandate to implement the military aspects of the Peace Agreement. A NATO-led multinational force, called the Implementation Force (IFOR), started its mission on 20 December 1995. IFOR, with over 60.000 soldiers, was given a one-year mandate.

Its primary mission was to implement ANEX 1A (Military Aspects) of the GFAP. It accomplished its principal military tasks by causing and maintaining the cessation of hostilities; separating the armed forces of the FBiH and the RS by mid-January 1996; transferring areas between the two Entities by mid March; and, finally, moving the Parties' forces and heavy weapons into approved sites, which was realized by the end of June. For the remainder of the year IFOR continued to patrol along the 1,400 km long de-militarized Inter-Entity Boundary Line (IEBL) and regularly inspected over 800 sites containing heavy weapons and other equipment. Due to IFOR's early success, a secure environment was established.<sup>20</sup>

In November and December 1996, a two-year consolidation plan was established in Paris and elaborated in London under the auspices of the Peace Implementation Conference. On the basis of this plan and the Alliance's own study of security options, NATO Foreign and Defence Ministers concluded that a reduced military presence (32.000) was needed to provide the stability necessary for consolidating the peace. They agreed that NATO should organize a Stabilization Force (SFOR), which was subsequently activated on 20 December 1996, the date the IFOR mandate expired.

Under UN Security Council Resolution 1088, of 12 December 1996, SFOR was authorized to implement the military aspects of the Peace Agreement as the legal successor to IFOR. Like IFOR, SFOR operated under Chapter VII of the UN Charter

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<sup>20</sup> SFOR website

(peace enforcement). SFOR had the same robust rules of engagement for the use of force, should it has been necessary to accomplish its mission and to protect itself.

The primary mission of SFOR was to contribute to the safe and secure environment necessary for the consolidation of peace. Its specific tasks were:

- To deter or prevent a resumption of hostilities or new threats to peace.
- To promote a climate in which the peace process can continue to move forward.
- To provide selective support to civilian organizations within its capabilities.<sup>21</sup>

In the light of the improved security situation in both Bosnia and Herzegovina and the wider region, the Alliance brought SFOR to a conclusion in December 2004. As continuation of international presence the European Union deployed its own mission, EUFOR, to take on key security tasks in the country. EUFOR derived its mandate from a new UN Security Council resolution and had an initial strength of 7,000 that is equal in size to SFOR. The EUFOR mission is supported by NATO under the so-called 'Berlin Plus' arrangements that provide the framework for NATO-EU cooperation. The role of IFOR (Operation Joint Endeavour) was to implement the peace. The role of SFOR (Operation Joint Guard / Operation Joint Forge) and the European Union's follow-on mission EUFOR was/is to stabilize the peace.<sup>22</sup>

Now, we will try to quantify this military assistance. Costs of assignment of military personnel are borne by the contributing countries.

From 1996 to 2004 NATO committed around 235.000 soldiers to BiH (Table 24).

Table 24: Number of NATO soldiers in Bosnia and Herzegovina

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of NATO soldiers	60.000	32.000	33.000	33.000	21.000	21.000	16.000	12.000	7.000	7.000

Source: SFOR website

Estimates of cost per soldier vary from 2-2.5 times the per capita GDP per year (Donnelly, 2001) to the Stimson Centre's estimate that cost on average per year for each American soldier in Bosnia was \$219,737. Knowing that around 20.000 American soldiers were in BiH<sup>23</sup> in 1996 and that military costs for US Government in BiH in that year exceeded \$2.5 billion (GAO, 2000) we can calculate cost per US soldier for that year. It is around \$125.000 per each soldier. Some experts state that the average wealthy European country spends about \$80,000 per soldier per year, the US spends \$200,000, and the British spend \$155,000 dollars.

If we multiply \$80,000<sup>24</sup> with 235.000 we obtain figure (18.8 billion) which drastically surpasses ODA.

As we said economic growth requires security.

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<sup>21</sup> Ibid

<sup>22</sup> EUFOR website

<sup>23</sup> SFOR website

<sup>24</sup> Our average estimate of cost per year for one soldier

However, security and economic growth are mutually reinforcing. Only with economic development will come new job expansion, creating opportunities for the population other than in violence and thuggery. So it is wrong to think that security must precede economic development—both must come together, iteratively, and lack of progress with one will hinder the other (USAID, 2004). Security costs of around \$18.8 billion almost tripled ODA and left us space to think on another motive of international presence in BiH.

## 5. Conclusion

Since the First Donor Conference for Bosnia and Herzegovina (December 20-21, 1995) to the end of 2004 total commitments and disbursements of Official Development Assistance to BiH exceeded \$7.25 billion and \$ 6.8 billion respectively. The biggest donors were European Commission, United States and World Bank with credit lines under IDA terms. They committed \$ 3.9 billion from 1996 to 2004, more than all other donors did together.

Overall guidance of the reconstruction process rested, at the apex, on PIC and the OHR, which had final authority over all civilian aspects of the agreement.

Coordination for each sector was provided by 11 sector task forces, with each task force chaired by a different lead donor and Economic Task Force, chaired by OHR, as a supreme coordinator. The governments of BiH, at what ever level, have not been actively involved in aid coordination. The mobilization of assistance for BiH reconstruction was successful, but donor cooperation much less so. A particular source of tension was that OHR and the EU had political mandates in BiH, whereas the World Bank only an economic mandate. Thus, the OHR sometimes wanted to condition aid on political steps, or design sector programs to achieve political objectives that were beyond to the Bank's mandate.

Coordination and aid management in BiH are still not on a satisfactory level and government representatives should eagerly embrace newest incentive related to increase in aid effectiveness-Paris Declaration.

The most important achievements took place in the peace implementation activities which were necessary for ensuring reconciliation and a fertile ground for reconstruction and recovery. International support for establishment and maintenance of security exceeded \$ 18 billion in the period 1996-2004 in BiH.

However, more than decade after the end of the war, BiH still suffers from the legacy of a conflict that ruined country's physical productive capacity, wore out human resources and fractured institutions and social capital.

While aid driven post-conflict reconstruction has been relatively successful, insufficient structural reforms made BiH lagging behind most of the transition countries in the region. In period from 1996 to 1999 which we named Reconstruction period, primarily because extraordinary high share of ODA was directed in Emergency assistance and reconstruction sector, the basic infrastructure-transportation, communication and power networks-have been rehabilitated and 645.000 persons (350.000 refugees and 295.000

displaced) returned to their prewar homes which makes around 65% of the total number of returns to Bosnia and Herzegovina since the Dayton Peace Agreement. Unlike Marshall Plan where resources were allocated to restarting production in each country, donors committed less than 3% of ODA to production sector in BiH. Additionally, institutional framework for enterprise development and SME support in BiH remains weak and underdeveloped and urgent changes in business climate are needed in order to sustain economic expansion amid declining official aid.

The reason for this poor record, especially in economic governance, lies in the fact that in BiH was used traditional, old fashion model of reforms sequencing, where economic reforms with institution and capacity building were left for later stages of development.

The period at the very start of reconstruction, while difficult and often chaotic, is also an important window of opportunity to undertake politically difficult reforms and institutional changes—an opportunity that, if lost, might not reappear during the reconstruction process.

In BiH the important structural reforms were delayed due to lack of strategic vision in early post-conflict years. From 2000 Road Map and the prospect of signing a SAA to EU are compelling BiH politicians to undertake necessary reforms which would not be possible, in politically essentially divided country, without promised the pot of gold that was held to come with EU membership.

## Appendix 1

As external financing constitute a significant portion of the available resources to Bosnia and Herzegovina, accurate information on allocation and availability of these funds is critical for the Bosnian authorities to track their development program, help improve coordination among donors, and integrate external financing into the budget.

There were/are three sets of databases to track donor assistance flows in BiH:

- Bottom-up government database
- Top-down WB/EC database
- Top-down the International Development Statistics databases (IDS) including the Development Assistance Committee (DAC) and the Creditor Reporting System online (CRS)

### Bottom-up government database

The first aid database in BiH was compiled by the International Monitoring Group (IMG), an NGO. It had tracked donor funding for large parts of the reconstruction phase, covering both Entities. IMG stopped inputting new data when its project funding ended in 2000, handing over the respective databases to the two Entities. In RS, these data (which had originally been put in MS Access by IMG) were ported to a FoxPro database, and MoERC continued updating it on this new platform. In FBiH, the database was essentially left dormant with more ad hoc registering of new information.

The UNDP launch project in 2002<sup>25</sup> aiming to program a new database, also in MS Access, because the original IMG programming was not flexible enough to provide the kind of reporting that was seen as desirable. The old IMG data, the updated RS data in FoxPro, the data that had been compiled by FBiH, and the new Public Investment Program data have all been fed into this consolidated database (UNDP, 2004a).

There are some serious holes in the database. The first issue is that the database uses the information provided by the local authorities. For a number of reasons, considerable funds have not been captured in this way, including the considerable funds channeled through many of the NGOs during the reconstruction period (the authorities had limited if any records of this funding). There are major problems classifying some of the projects, and some activities that took place both in RS and the FBiH may have been registered differently in the two, and there may both have been some double counting and at the same time some lack of recording because original information was unclear, etc.

Additionally, this Aid Database is struggling with coding the projects correctly. Sector coding has turned out to be particularly difficult to sort out because each Entity has used a different coding approach.

Many of the completed projects contained in the IMG database are virtually impossible to classify correctly due to lack of complete information and because one project could

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<sup>25</sup> **UNDP Programme Support to Bosnia and Herzegovina in the Management and Coordination of Development Resources**

cover so many different regions or activities. This means that it is difficult to get the correct picture of the resource flows into the different sectors and regions. That is, not only do RS and FBiH use different codes for the same sector – which is easy to address – but they break down sectors differently. What are four sectors in RS is only one in FBiH, while similar opposite cases also exist. In order to break down the FBiH projects into the more detailed RS structure in this first case, each project has to be reviewed to see what the most appropriate code is (UNDP, 2004a). But the most important thing characterizing this database is that we can not conclude exact year of commitment or disbursement for more than half of the recorded projects. All above mentioned characteristics of this database made it inappropriate for our analysis.

#### Top-down WB/EC database

Although used as reference for initial reconstruction period, in recent World Bank publications data on ODA is taken from IDS database.<sup>26</sup>

#### Top-down the International Development Statistics databases

The IDS database contains information on financial flows for Official Development Assistance. It provides a set of basic data that can be used to analyze where aid goes, what purposes it serves and what policies it supports. Data can be found at the level of individual projects or in the form of summary statistics. Comparability is of the essence and the data are reported on the same basis by all donor countries. Data from 1973 onwards are available on-line ([www.oecd.org/dac/stats/dac](http://www.oecd.org/dac/stats/dac)). The comprehensiveness of the database is assessed each year to verify the extent to which the data can be exploited in analytical work and compared across countries. "These characteristics make it a unique tool for monitoring development co-operation by sector, donor and recipient."<sup>27</sup> We think that the best analysis of ODA in BiH can be made using IDS databases.

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<sup>26</sup> See for example Bosnia and Herzegovina Post-Conflict Reconstruction and the Transition to a Market Economy, An OED Evaluation of World Bank Support, 2004

<sup>27</sup> OECD/Development Assistance Committee website

## Appendix 2

Amount (\$ Million)		1996	1997	1998	1999	2000	2001	2002	2003	2004
Donor	ALL Donors, Total	1023.34	948.23	967.46	1276.32	702.38	612.33	512.37	531.18	681.56
	Multilateral, Total	391.57	363.89	308.84	370.11	181.2	266.84	235.65	154.87	315.83
	Australia	-	-	-	-	-	0.01	-	-	-
	Austria	95.29	42.51	39.73	26.87	122.25	9.93	7.67	11.83	16.16
	Belgium	2.6	4.32	3.99	5.73	1.28	6.04	1.88	0.66	1.04
	Canada	-	8.16	19.86	16.95	10.37	14.65	4.31	0.12	26.94
	Denmark	-	-	-	-	-	-	-	0.07	0.02
	Finland	12.15	10.07	5.24	5.6	3.05	7.42	4.79	6.75	6.39
	France	4.92	4.53	8.42	114.33	18.39	2.03	1.89	14.31	3.14
	Germany	48.97	34.38	47.47	131.29	25.21	27.25	26.1	24.63	53.43
	Greece	7.22	10.39	22.17	1.98	6.3	8.82	5.73	5.31	7.08
	Ireland	5.91	2.29	0.18	0.24	2.18	1.54	1.55	1.05	0.74
	Italy	70.55	6.89	8.3	7.06	33.87	4.85	8.85	6.4	10.04
	Japan	25.06	106.9	52.21	20.62	13.62	19.2	15.69	25.16	24.33
	Luxembourg	0.91	1.07	1.35	2.05	0.89	0.58	0.34	0.65	0.35
	Netherlands	44.18	74.67	68.25	76.82	63.78	42.95	32.86	105.13	21.89
	New Zealand	0.03	-	-	-	-	-	-	-	-
	Norway	-	26.02	45.76	32.69	14.81	12.68	17.9	18.8	15.24
	Portugal	-	-	0.99	0.92	1.05	0.89	2.18	1.12	7.37
	Spain	-	6.1	31.5	30.27	34.78	25.16	27.8	30.67	24.73
	Sweden	-	-	39.39	13.31	25.6	27.82	32.35	29.41	45.53
	Switzerland	30.73	7.1	10.05	113.58	21.91	11.65	9.07	7.05	18.15
	United Kingdom	0.56	1.76	3.37	6.86	7.08	6.13	7.28	12.62	10.98
	United States	251.52	234.5	247.28	294.95	104.85	115.09	68.46	73.64	52.18
	EBRD	5.14	7.84	2.75	6.38	0.97	3.32	0.22	1.05	0.64
	EC	180.31	252.44	170.66	192.97	137.63	127.17	128.43	105.63	106.64
	IDA	175.6	82	127	163	37.6	124.35	102	48.19	208.55
	IFAD	6.32	14	-	-	-	12	-	-	-
	Arab Agencies	-	-	-	-	5	-	5	-	-
	Czech Republic	-	-	0.76	0.23	0.47	0.24	-	-	-
	Korea	-	0.72	0.01	0.56	0.43	0.35	0.02	0.05	20
	Poland	-	-	2.23	-	-	-	-	-	-
	Slovak Republic	-	-	-	-	-	-	-	0.18	-
	Turkey	-	-	-	-	-	0.2	-	0.66	-
	Arab Countries	31.17	1.96	-	3.3	9	-	-	-	-
	Other Bilateral Donors	-	-	0.11	-	0.01	0.01	-	0.04	-

Source: IDS/o

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