

Economic Reforms for Bosnia and Herzegovina's Accession into the EU

Factors Impeding Change and Recommendations for Bosnia and Herzegovina, the EU, and the International Community

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Abstract

Since the end of the civil war in 1995, Bosnia and Herzegovina (BiH) has received billions of euros in aid from the European Union (EU) aimed at economic and democratic rebuilding with the end-goal of accession. However, there has been little real success in reforming BiH to fit the Copenhagen criteria for accession. The development of a competitive market economy is still a strong need for BiH. Reforms in the country have lagged for several reasons, including: misplaced aid, structural inefficiency of government, corruption, too wide of a scope for reform, aid donor interaction, and a lack of coherent leadership. Before reform can be successful in the region, these issues must be dealt with at a fundamental level. It is in the best interest for the EU to see success in BiH, as it has not only invested monetarily in BiH, but has also put its reputation as an arbiter of peace and prosperity on the line. This is an even more important issue now that aid has begun to decrease and BiH is being affected by the current international economic crisis. I address several reasons for failure to reform, such as a lack of unified direction by the government, corruption, lack of accountability, and other contextual factors. I also address failures in the reform process, such as too wide of a scope for reform, aid-donor complications, and a lack of leadership. I then address issues specific to reform in Eastern European countries in order to bring to light particular cultural and historical problems within the region, as well as to provide examples of successful reform in countries with similar histories. Finally, I make recommendations for BiH, the EU, and the international community, focusing on structural and contextual reform, as well reforms for aid criteria and international support.

Introduction

Since the end of the civil war in 1995, Bosnia and Herzegovina (BiH) has received billions of euros in aid from the European Union (EU) in efforts to rebuild and reconstruct the country, with the main goal of preparing the country to qualify for accession into the EU. Although efforts have been made in building democracy and improving economic conditions for the country, the gains have still not been strong enough to merit accession into the EU. Even though there is great pressure on

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BiH and the EU to expedite the process of accession, and some strides have been made towards this end, there has still been a great lag in reform, preventing the process from completion. This is an even more important issue now because international aid is decreasing, and BiH will need to become more independent and self-reliant in the near future. The country is additionally being affected by the current global economic crisis, making the development of a strong and stable economy, one of the main requirements for accession, more difficult.

This policy brief will examine the EU's involvement in BiH, including its past efforts at reform and the history of economic development since the end of the civil war in 1995. I will then discuss reasons for failure to reform in general, and more specifically why BiH in particular is struggling with reform. In this section, I will focus specifically on the contextual reasons why reform has failed; mainly, the lack of a strong and coherent central government structure, the ever-present struggles with ethnic diversity, lack of motivation and incentive, widespread corruption, misdirection and misallocation of funds from the EU and international community, and finally a look at leadership issues in BiH's reform process. Next, I look at failures in the reform process. These include failure to develop a focused scope for reform and aid donor interaction and direction of resources and policy. Finally, I will make recommendations on how to expedite the reform process, including recommendations about constitutional and structural reform for BiH. I will then make various recommendations for the European Commission Delegation to BiH, EU, World Bank, and the international community regarding proper policy on BiH.

I. Why The EU Should Care About Success in BiH

Since the end of the civil war in 1995, the EU has spent billions of euros and has undertaken countless rebuilding efforts through EUFOR, the peacekeeping organization in BiH (Valasek, 2009). The EU has a huge stake in the successful accession of BiH to the EU. Not only have they financially committed billions to rebuilding efforts, but they have put their reputation as an international arbiter of peace and democracy on the line. The United States and the EU have long been at odds, and if the EU cannot prove its usefulness and effectiveness in BiH, it will

further spur the United States' disapproval and discredit its work throughout the rest of Europe (Bassuener, 2009). The EU needs to prove that they are a strong and effective force in building democracy throughout Europe to justify their efforts thus far.

II. EU Economic Development Efforts Thus Far

Specifically, the EU has contributed extensively to the development of a market economy in BiH, most notably dealing with trade, corporate governance and restructuring, single economic space, fiscal policy, internal market, regional economic development, transportation infrastructure, and energy infrastructure (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

In 1997, “the EU made its first contribution to the European Fund for Bosnia and Herzegovina (EFBH), which enabled local banks to extend long-term credits to entrepreneurs.” It has also provided over €120 million in grants and loans. Additionally, the EU has invested more than €3 million to develop trade in order to expand economic growth and create export councils and capacities for both the public and private sector (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

The EU has also supported efforts to improve corporate governance and restructuring. In essence, they are focusing on structuring “processes, customs, policies, laws and institutions which affect the way a corporation is directed or administered.” The main goal is to establish legal and structured business practices to allow companies to grow and provide a better economic environment for the entire community. To this end, the EU has contributed €2.5 million towards corporate restructuring (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

BiH is required by the European Partnership “to establish a National Fiscal Council and to strengthen the procedures for budget preparation, execution and accountability.” This is important because it will signify to investors that the country

is capable of sound economic policy (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

Regarding regional development, the EU has supported economic development projects and allocated millions of dollars in funds to regions in order to support regional initiatives and to create jobs (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

Finally, transportation is related to economic development as it makes markets more accessible by moving people and goods towards each other. Over €100 million has been contributed by the EU to develop and revive transportation infrastructure. An additional €4.5 million has been allocated to reviving energy infrastructure (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

Summary of key information:

Economic criteria for accession:

- Functioning market economy
- Ability to function competitively in the Union

Priorities of SAA:

- The establishment of democracy based on the rule of law
- Development of a market economy
- Combating organized crime

Mechanisms to achieve these priorities:

- Trade
- Financial assistance
- Contractual relations

Source: (Delegation of the European Commission to Bosnia and Herzegovina, n.d.).

Given the series of reform efforts and sheer amount of funds the EU has invested in BiH, it is to their advantage to see successful reform and to prevent a structurally weak country from dissolving under its watch.

III. Criteria for Accession, Bosnia and Herzegovina's Case

In order for a country to be acceptable for accession into the EU, they must meet certain criteria known as the Copenhagen criteria. The economic criteria state that the country must have “a functioning market economy and the capacity to cope with competition and market forces in the EU (Delegation of the European Commission to Bosnia and Herzegovina, n.d.). In May of 1999, the EC implemented the Stabilisation and Association Process (SAP), which delineates three main priorities for countries to further efforts towards accession. These include the establishment of democracy based on the rule of law, development of a market economy, and combating organized crime. Three main mechanisms are then utilized to foster relations with the EU: trade, financial assistance, and contractual relations. Large focus, then, is placed on economic prosperity and growth in the region. BiH has most notably benefited from EU autonomous trade since 2000. Exports from BiH are now more accessible and are given preference. Additionally, in 2008, the EU and BiH signed the Stabilisation and Association Agreement (SAA), which sets out common values and goals underlining the relationships between the countries of the EU. These include promoting the free movement of goods, creating efficient institutions, developing a market economy, reducing crime and corruption, promoting higher education reform, developing democracy, human rights, and an independent media, and improving the region's transport infrastructure (Delegation of the European Commission to Bosnia and Herzegovina, n.d.). The importance placed on economic development for accession underlines the fact that the EU should focus on specific economic reform problems and how to improve conditions for reform.

The following is a timeline of key interactions between the EU and BiH in their efforts towards accession. I have categorized these advancements into two categories. Law and Declarations involves all efforts where decisions or advancements were made that involved no real action or implementation. Observed Action involves the key actions actually taken towards accession. The table clearly demonstrates that although EU involvement began in 1995, there were no real observed actions until 2004, and there are far fewer real actions being taken than law or declarations.

EU Interaction and Advancements Towards BiH's Accession

EFFORTS AND ADVANCEMENTS	LAW AND DECLARATIONS	OBSERVED ACTION
1995: The Dayton/Paris Peace Agreement brings the war to an end and establishes the Federation of BiH and the Republika Srpska.	X	
1998: EU declaration establishes the EU/BiH Consultative Task Force (CTF), a joint vehicle for technical and expert advice in the field of administration, the regulatory framework and policies.	X	
2000: The EU roadmap sets out 18 essential steps to be undertaken by BiH before work on a feasibility study for the opening of negotiations on an SAA can be begun.	X	
2000: Feira European Council states that all the countries covered by the SAP are potential candidates for EU membership.	X	
2004: In June, the EU decides on a European partnership for BiH	X	
2004: In December, EUFOR replaces SFOR ('Althea' operation).		X
Oct. 2005: Commission recommends to Council to open talks on a SAA.	X	
Nov. 2005: Council gives green light to opening SAA talks with BiH.	X	
Jan. 2006: SAA talks formally open.		X
March 2007: Commission warns that it will not conclude SAA talks unless the country makes progress on reforming its police and cooperates with the UN War Crimes Tribunal.	X	
Dec. 2007: EU initials talks on a SAA, considered a key accord towards future EU accession.		X
16 April 2008: Bosnian parliament approves police reform plan, a key EU demand before signing SAA.		X

16 June 2008: The bloc's foreign ministers sign SAA.		X
31 July 2008: BiH and European Commission sign financing agreement for instrument for pre-accession assistance's (IPA) national programme for 2007.		X

Source: "EU-Western Balkans relations." EurActiv. 2009. <http://www.euractiv.com/en/enlargement/eu-western-balkans-relations/article-129607>

IV. Additional Necessary Economic Reforms

Although some efforts have been made at economic reform, reforms essential in the development of a functioning democracy and market economy are still a necessity in BiH. The World Bank, which has contributed millions of dollars towards economic development in the region, notes the following necessary reforms and improvements to the reform process:

- Faster reforms for integration into the global market: this is necessary for BiH to be able to compete with other transitional economies (The World Bank, 2009).
- Further efforts towards privatization (The World Bank, 2009).
- Combat unemployment: while GDP has been rising for BiH, wavering a bit due to the current economic crisis, unemployment has remained a serious problem. Funds for economic development and employment efforts have also been misallocated, and thus not reaching their end-goal (The World Bank, 2009).
- Public spending should be reformed to improve efficiency and effectiveness (The World Bank, 2009).
- Economic reform should be hastened in order to attract foreign investment and help alleviate debt (The World Bank, 2009).

Some additional necessary reforms mentioned in recent reports on the economic status in BiH note that there is still a great need for the development of a

functioning market economy that is strong enough to operate in the competitive market of the EU, uninhibited by excessive government intrusion (Commission of the European Communities, 2009). In order to meet these criteria for accession, BiH has drastic economic reforms ahead of them and must completely reorganize its efforts to successfully implement necessary reforms.

V. *Reasons for Failure to Reform*

A. *Contextual Factors*

Preexisting contextual factors can play a large part in whether reform will be successful. International influence can produce positive outcomes in promoting reform if there is much emphasis placed on government ownership and motivation to reform (Nunberg, 1999). BiH's government is still in a disjointed state of transformation, and thus is even more susceptible to reform failure due to lack of direction and misguided efforts from aid donors. Therefore, it is important to recognize the cultural and structural issues currently preventing successful reform in BiH.

In order for reform to take place it must "permeate the government apparatus more broadly, straining government capacity for coordination and sequencing" (Nunberg, 1999). Key high-level officials must support reform (Nunberg, 1999). In BiH's case, the government is not structured in a central and coherent manner. The Dayton Peace Accords, which put an end to the civil war in BiH, formally established the Federation of Bosnia and Herzegovina and the Bosnian Serb Republic (Republika Srpska). The country has since been at odds, both geographically and culturally. Republika Srpska is ethnically mainly made up of Serbs, while the Federation of Bosnia and Herzegovina is mainly made up of Bosnian Croats and Bosniaks. There is no strong central government regulating these two states; instead, power is mainly consolidated in local government. While the citizens do agree that accession into the EU would most likely benefit BiH, they also are in the midst of cultural uncertainty and generally support their local leaders over the needs and directions of the government as a whole (Valasek, 2009). Because cultural

diversity is an issue in BiH, it is more difficult to implement any reform effectively and efficiently.

This is further hampered by the fact that there is little drive from the international community to speed up the process of accession for BiH. Few EU states have a policy on BiH or a stake in BiH's well-being, with many states having little knowledge of or concern with the success of the country's accession (Bassuener, 2009). Some feel that there is no need for any additional nations joining the EU, and others are concerned about the ethnic division and instability of the country. They note BiH's own lack of direction in government as a serious concern (Tanner, 2008). The existence and pervasiveness of the Office of the High Representative (OHR) also poses a concern. This office carries the responsibility of creating legislation. However, despite how widespread and beneficial this legislation may seem, if there is no political support from BiH, these laws will not be properly implemented. The existence of the OHR, then, essentially takes responsibility and ownership away from the government (Woodward, 2007).

Another consequence of a disjointed central government is that it is less flexible to changes in reform and is therefore less able to reorganize as reforms progress and change (Nunberg, 1999). This is especially important because BiH will encounter significant environmental and cultural changes and will need to adapt their government to fit their new needs. In order to combat the lack of centralized leadership, it has been shown to be helpful to create a central agency or task force to undertake the implementation of reform and coordinate across governmental departments. However, before this is possible, there must be strong direction and support from top political leaders to prevent ineffectiveness and dissolution. Motivation and ownership must be spread throughout all levels of government. One way to boost motivation and ownership is the formation of formal recognition and awards or a certification system to create incentive for reform among the mid- and lower-level government officials. The requirements for recognition or certification would also serve as directives for proper implementation, thus eliminating much mishandling of aid money and misguided efforts (Polidano, 2001).

Additionally, much of the money that has been allocated to promote economic development has instead gone into government spending. Many of the

problems that were initially targeted for aid are not being addressed. This could be either due to corrupt government officials or to a lack of incentive on the part of these officials to allocate the aid to specific reforms. Widespread corruption in business prevents investor interest in BiH. Corrupt business practices destroy trust as little validity is given to business contracts. This in turn creates an unstable economic environment and delays business transactions (Commission of the European Communities, 2009). Finally, reforms sponsored by organizations such as the World Bank are usually short-term and not focused enough on longer-term, organizational and performance goals. Like in the case of Poland's vast administrative reforms, the creation of a civil service can help develop a more professional, merit-based organization, thus decreasing the likelihood of corruption and allowing the government to act unbiased and in the concern of the status quo (Nunberg, 1999). Civil service reform can also be a powerful tool in increasing professionalization, motivation, and ownership.

B. The Reform Process and International Influence

Many reforms do not fail because of their content, but because the reform process is flawed, creating problems with implementation (Polidano, 2001). The reliance on international aid to produce reform adds even more complexity to ensuring the effectiveness and efficiency of reform.

One of the major dilemmas of reform, especially in cases like BiH where the need for reform is so widespread throughout the government, is whether reform should be widely and more generally implemented or whether it should be taken on incrementally and more specifically. While there is some argument for vast, simultaneous reform, it frequently causes problems with implementation as governments get too bogged down by projects and lack the capacity to carry through with all reforms properly (Polidano, 2001). Much reform in BiH has been too wide in scope without specific guidelines for implementation, and therefore has increased the likelihood of corruption and misplaced aid. In addition, the specificity of reform to the country's individual needs becomes a major issue. The main focus should be on what the particular and immediate needs of the country are and what resources they have to combat them. Foreign aid is a big factor in the push for comprehensive

rather than incremental reform. This is largely because more funding is made available if the end result is loftier. However, in many cases, the resources and administrative capacity are not present to achieve such lofty goals (Polidano, 2001). This poses a specific problem for BiH, as much of their reform is aid-driven.

Another problem with this is that aid is policy-based rather than focused on specific economic problems. A conditionality of much international aid is that it be implemented in a timely fashion. For this reason, the aid does not reach deep enough and is not specific enough to BiH. In BiH's case, the aid is less country-specific and attempts to affect widespread, simultaneous change, thus leading to an overwhelming number of large projects with little administrative capacity and direction. In addition, with aid donors essentially deciding what reform is pertinent for the country and what direction they should take, ownership is taken away from the government. The government has little motivation or notion of accountability in implementing these projects. This is further hampered by the fact that there are several organizations working within BiH, each with their own goals.

C. The EU and Eastern Europe

The EU has had varying success with Eastern Europe since the collapse of the Soviet Union and other communist countries, such as Yugoslavia, in the 1990s. The EU is based on European ideals and democratic structure, including democracy and market economies. Therefore, it is inherently at odds with the vast cultural and political history of Eastern Europe. Some have criticized the ability, as well as the benefit, of post-communist countries to quickly take on drastic reforms and complete government and economic structures in hopes of accession. The EU should pay special attention to maintaining good relationships with influential Eastern European countries, such as Russia, in order to not derail any positive steps taken in BiH toward reform. Russia has proven in the past, most notably with police reform in 2007-2008, to negatively impact reform and delay development (Valasek, 2009). However, given these setbacks and cultural differences, the EU has managed to successfully reform and admit other Eastern European countries into the Union. To this end, several Eastern European countries have undergone extensive civil service

reform. The development of a civil service is said to improve the following factors in government: “rule of law, technical and managerial competence, reliability, predictability, accountability, transparency, and citizen’s participation (Lalazarian, et al., 2001).”

These reforms could be an important factor in developing professionalization and accountability in BiH’s government. For example, developing guidelines for job duties and responsibilities will specifically improve accountability and ownership, thereby creating motivation and incentive to improve work conditions and government efficiency. Improving citizens’ participation will also aid in increasing ownership and motivation. This could be key in creating clear chains of command for reform implementation and defining important leadership roles. Additionally, by creating guidelines for rewards and wage bargaining, as well as tenure, government corruption could be abated, thereby decreasing the chance that useful resources and international aid will be misallocated. The factors improved by the creation of a functioning civil service are those inherently important in a democracy, and therefore important in BiH’s qualification for accession.

VI. Actions and Recommendations for Reform in BiH

A. Constitutional Reform

- Create a Civil Service Law: The creation of a civil service will promote an administration that is unbiased and based on credentials, and therefore has the incentive to serve the best interest of society as a whole. This is important, because there is then a greater motivation and ownership of reform on the part of the administration, and therefore there is more of an incentive to see specific reforms through to successful implementation. Additionally, the civil service should be created incrementally in order to ensure that those serving are the most qualified individuals for the job.

Examples of Civil Service reform to be undertaken include:

- Define jobs and responsibilities
- Delimit tenure and security
- Set out disciplinary arrangements

- Determine methods for setting rewards and wage-bargaining
 - Determine national civil servants (health, education, and police employees) (Lalazarian, et al., 2001).
- Combat corruption of public and private administrators: Cases of corruption should be swiftly and effectively dealt with in the court of law in order to prevent corruption from getting in the way of good business practices (Commission of the European Communities, 2009). Measures to protect the validity of contracts should also be enacted to support better business dealings.

B. Structural Reform

- Stronger central government: As with the case in Poland, with a stronger central leader, the government can become more flexible and more focused on the needs of the country (Nunberg, 1999). Currently, BiH is highly influenced by local government officials who are more concerned with their own interests, leaving power and direction highly fragmented (Valasek, 2009). In order for reform to be successful, BiH needs a stronger central government that can streamline goals and push reform through from the top.
- Create a task force with the specific goal of reform leading towards accession: This task force should be made up of representatives from all pertinent branches and departments of government, and should have vested interest in the betterment of society as a whole. Consideration should be given to meet frequently and mediate appropriately between all political and ethnic groups so as to not create inequality or hostility. The creation of a task force will create more ownership and coordination among government and civil servant officials with the goal of better implementation of a variety of widespread reforms (to be undertaken incrementally). Before this can be attempted, however, there needs to be a strong central government and

political backing for both the task force and reform, otherwise the task force risks not being taken seriously and dissolving into a mere formality.

- Implement more specific and incremental reforms: If the goals for the allocation of resources are more specifically laid out and the reform is more incrementally implemented, it is possible to track the money more easily and to ensure that it is being used most effectively.
- Create a system of checking in and a means of recognizing successful implementation: Because reform needs to be supported by the top-level politicians and essentially carried out by mid- and lower-level politicians, it is important that there is ownership and motivation at all levels of the process. This will help create more accountability and motivation on the part of those actually implementing reform to follow through with their projects (Polidano, 2001).

VII. Recommendations for the EU Commission, World Bank, and International Community

- Tailor reform more specifically to the region: Post-communist countries need to go through important structural and administrative changes before other reforms will be successful. Aid donors need to realize that the reform process in these countries will be different than in others, and widespread, general aid will typically not fare well.
- Create grants and loans that have incremental timelines for implementation: While widespread reform is sometimes successful, in these cases there is usually strong motivation for reform from the government. As we have seen, currently there is little motivation by BiH officials to implement widespread change. Therefore, it is in the interest of the lender that the requirements of the resources and actions for reform be more specific and incremental, as it will help the efficiency and effectiveness of reform by allocating the resources

more appropriately to needed areas. This will also allow for aid to take on a role more specific to the region, thus effecting long-term change, instead of quick fixes that only work in the short-run.

- Eliminate or drastically modify the responsibilities of the Office of the High Representative: Ownership on the part of BiH is extremely important for the effective and long-term implementation of any reform. Therefore, the responsibility for enacting legislation should lie within BiH's government. If the OHR is to remain in existence, it is best for it to serve a consultative purpose, rather than to be an actor of legislation.
- Give more ownership to the BiH government: One way to increase budgetary accountability would be to give aid in general to support the budget and let the government be responsible for allocating money where it needs to be. This way, they will have more ownership and responsibility in their actions (Nunberg, 1999). Awards and certifications may be useful in providing incentive to appropriately allocate resources.
- Support from current member-states and culturally similar states: Support need not only be in the form of monetary aid, but can also include seminars and training sessions on accountability, fiscal responsibility, crime and corruption, and other important factors to create strong market economies. Seminars can additionally focus on cultural aspects such as mediation between ethnic groups and the role and responsibility of the state within the EU (Polidano, 2001).

Summary and Conclusion

In this brief, I have provided a general background on the EU's involvement in the economic development and reform process in BiH, taking into consideration past efforts and future necessary reforms for accession into the EU. I have argued that due to the amount of money and resources the EU has spent in efforts to rebuild

BiH so far, they have a vested interest in seeing successful economic transformations and BiH's accession into the Union. In addition to this, there is also outside pressure from the United States and the international community for the EU to prove that they are a successful development and peacekeeping organization.

Although efforts have been made toward this end, recent developments have been lagging and motivation on the part of BiH politicians is seemingly absent. BiH is wrought with ethnic and political fragmentation, and therefore must undergo serious restructuring before any reform will be successful. Once a stronger central government is established, reform can be adequately reinforced down the line of management and successfully implemented. BiH would benefit from the creation of a civil service. This will help create professionalization and increase motivation and ownership by providing guidelines and setting out job descriptions, as well as providing job security for civil servants. It will also help in the unification of the government by setting out a clear chain of command.

Additionally, the EU and the international community need to give more ownership to the BiH government. This means allowing the government to budget resources appropriately and implementing some sort of certification or awards system to increase motivation and set standards and guidelines for successful implementation of a program. The international community and World Bank's approach towards BiH should also be reviewed and reworked to fit the culture and specific problems of BiH. More support from member states of the Union is also needed, not only in the form of grants, but also in the form of training programs.

BiH and the EU both have vested interest in BiH's accession to the Union. I have provided several recommendations to improve the contextual factors now preventing successful reform, as well as to improve the reform process. If taken into consideration, resources and aid now available will be more likely to be appropriately allocated and reform is more likely to be successfully implemented. Especially with the current economic crisis, it is important for all involved to maximize their efficiency in order to reach their end-goal and effect long-term change.

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