



More Ethnic Politics and Virtual Partition Will Not Help

A US Congress-founded commission on security and cooperation in Europe, also known as the Helsinki Commission, had a hearing last week to examine American and international efforts aimed at combating corruption in Bosnia. Valery Perry, Sarajevo-based independent researcher and senior associate at the Democratization Policy Council, told the hearing that corruption in Bosnia is not a technical problem; it is a political problem

We've heard a number of vivid descriptions of the problem of corruption - and the politics of corruption - in Bosnia and Herzegovina today. The politics of corruption makes meritocracy impossible, weakening institutions and promoting brain drain of the country's best and brightest. The politics of corruption results in a system in which floods can devastate one third of the country and no leaders or officials are held accountable for their failure to prevent, prepare, or respond to such a disaster. The politics of corruption weaken the notion of civil society, shared purpose and joint vision, instead strengthening informal practices, patronage networks and exclusionary practices that are particularly damaging to a society barely a generation removed from the most violent conflict in Europe since World War II.

What Should Be Done

No political system anywhere is immune from corruption. Systems, structures and incentives either encourage or impede corruption. Societies ideally organize themselves in a way that minimizes potential for corruption and maximizes the public good. This can be hit or miss; no governmental design is ever perfect.

Bosnia's political economy was shaped by the war and the Dayton Peace Agreement that ended it in 1995. Dayton was, and remains, a "Made in America" product. For this reason it is important that we are having this discussion today.

The problem of corruption in Bosnia is not a technical problem; it is a political problem. In the absence of fixing the core political problems that both prevent accountability and allow impunity, all of the projects, capacity building, technical support and money in the world will not overcome the fundamental weaknesses and democratic contradictions at the core of Bosnia's unaccountable political system.

In fact, after two decades and literally thousands of well-intended projects, it is time to consider not only the diminishing returns of such approaches, but the broader negative impact of such efforts actually maintaining the illusion that a system that has failed for 20 years can in fact somehow be made to work. Continuing to prop up a system proven to be ineffective is akin to hoping that updating the software on your 15-year old computer will help its performance. At some point you have to recognize that the problem isn't the software, but the hardware, and that

no patches or workaround will improve its performance.

So what should be done? I will focus on three specific recommendations today. First, a package of legislative reforms aimed at reducing the possibilities for official corruption, abuse of office and collusion should be developed and supported. This would include laws related to conflict of interest, political party financing, and freedom of information, among others. Laws, by-laws and statutes regulating public enterprises also need to be urgently overhauled in line with available guidelines and good practice. Many existing USAID and other US-funded programs - ranging from support for investigative journalism to critical justice sector reform - could be better coordinated and recalibrated to support a holistic approach. There will be political and in turn institutional resistance to such reform, and every effort will be made to evade proper implementation; we have seen this happen for years. However, there would be overwhelming public support. Further, such an initiative would be very much in line with the European Union's own Reform Agenda, and in fact, the notion that the country's business environment could be improved without these reforms reflects a fundamental

misunderstanding of the political economy in post-Dayton Bosnia.

Second, the lessons of unsuccessful past privatizations in BiH must be studied, learned and applied by domestic and international actors alike, to understand both their role in further strengthening an oligarchical class of political and party leaders, and to understand why part of the country that has privatized most of its public assets (the Republika Srpska) has failed to enjoy any broad and durable economic or social benefits from these transactions. Future privatization should be put on hold until reforms to the broader ecosystem have been implemented; otherwise the country risks seeing a further enriched and emboldened political elite, accompanied by questionable foreign investment in enterprises which is often more about real estate and asset stripping than about building a robust economy for Bosnia and its people.

Substantial Election Reform Needed

Third, it is critical to understand how the election system in Bosnia contributes to the lack of accountability and makes it not only possible but natural for politicians to be elected and re-elected without delivering anything to their voters other than limited and targeted patronage. Much has been written on this topic. Current election law reforms under consideration will in fact make it harder for new or small parties or independent candidates to participate in and influence political life. This will further entrench the dominant party machines that have held control for a generation, further eroding the checks and balances needed to resist and deter corrupt practices.

Substantial election reform is needed so citizens know who really represents them at every level of governance and can vote them in and out of office; so constituent service offices operate in communities and serve as a link between representatives and the citizens they represent; and to ensure that citizens have the chance to be represented in government at every level. Representation should not be based on ethno-national affiliation - whether a voter is a Bosniak, Croat or Serb, or the consistently marginalized "Others" - but simply whether a voter is a citizen.

These reforms could effect substantial change, and do not require a "Dayton 2". In fact any elite-driven, foreign-sponsored effort to engineer reforms would very likely create a system even worse than the one we see today. Instead, reforms need to be citizen-focused,

combining coordinated top-down support and bottom-up pressure to create momentum among a population that is ready for such change, but uncertain how to disempower the system that has so effectively captured the country for so long.

Why Does BiH Matter?

Bosnia and Herzegovina is a small country of less than 4 million people. It is fair to ask why the U.S. should continue to spend time on it, considering the many other foreign policy priorities and humanitarian crises facing the world today.

The answer is simple: if the US and its partners cannot support the development of a functional and accountable system in Bosnia, how can it hope to support positive and peaceful political outcomes in other parts of the world?

If the US and its partners do not learn the lessons of failed post-war power-sharing arrangements in Bosnia, there is the potential that similar foundational weaknesses will be introduced into other peace deals, creating an illusion of peace and stability while corruption and spoilers flourish, social discontent is manipulated and society becomes entrenched in a state of frozen conflict. Finally, the same systemic failures and factors that allow corruption and unaccountable governance to thrive in frozen conflicts foster civic marginalization, alienation, and in the worst cases enable the rise of extremist groups and radicalized individuals seeking extra-institutional remedies to political and social maladies.

In closing, corrupt politics and the pain of an economic transition which has delivered little benefit to the majority of the population in Bosnia have not only reinforced public frustration with the post-war situation, but has revealed increasing dissatisfaction with the very idea of democracy and competitive markets - promotion of which have been core US foreign policy goals for more than two decades. It is not too late to reverse recent negative trends, though the clock is ticking as social divisions have reified and hardened in the "divide and rule" politics of the past generation. More ethnic politics and virtual partition will not help. Laws, strategies and initiatives that seek to hardwire accountability into the system, backed up by meaningful conditionality and enforcement mechanisms, can.

I'm hopeful that this hearing will put this discussion back into the spotlight, and generate momentum for the change that is so desperately needed if the promise of Dayton Bosnia is to be fulfilled.

Bosnia's Banking Sector Stable: Kozaric

The biggest problem in BiH banking sector are non-performing loans, which are currently on the level of 15 percent



Kemal Kozaric

BiH banking sector is completely stable despite the current developments with some banks. These are not systemically important banks, which does not mean that it will not pose a systemic problem if it continues to happen in the future, said a member of the Steering Board of the Central Bank of BiH Kemal Kozaric on Friday.

As one of the speakers at an international symposium in Neum dedicated to the country's reform agenda and EU integration process, Kozaric spoke about the situation in the BiH banking sector and risk management on the banking market in the perspective of rapprochement with the EU market.

He said that the biggest problem in the sector are non-performing loans, which are currently on the level of 15 percent, and banks are therefore more cautious when it comes to favorable credit conditions for the real economy, but stressed it does not mean that a bank cannot or does not need loans.

"That's their main job and they should be freer, but a prerequisite for that is political stability in the country. If BiH obtains EU candidate status and if the situation stabilizes, the banking sector should be much more active," said Kozaric.