



Stop Funding BiH Politicians' Irresponsibility

Elections are rapidly approaching in BiH. And as usual, incumbents are desperately looking for ways to buy votes - or at least not to lose them by failing to pay salaries and pensions between now and October. So they are seeking every revenue infusion they can imagine

By Kurt Bassuener

In the Federation, the publicly owned firms that could be put up for sale include BH Telecom and the Sarajevo Tobacco Factory. The fact that the discussion is happening now gives the impression that this will be a fire sale to meet payrolls rather than any serious attempt to get maximum benefit for the public treasury.

The entities are also seeking new loan money from the IMF, to the tune of 300m KM. International donors have been bizarrely indulgent of governmental malfeasance and the political elite's long-term and repeatedly demonstrated unwillingness to reform. While some EU members - the Netherlands, Britain, Sweden, and even Mediterranean countries such as Spain - had advocated increasing financial conditionality in terms of an EU macrofinancial assistance loan of €50m (actually, the second tranche of a €100m loan), they were rebuffed by others, most notably Germany. Germany is also resistant to applying conditionality to IMF loans, despite these same countries wishing it to do so. Supposedly, the IMF doesn't do "political conditionality." Really? Ask the Greeks. The IMF is part of the "troika" with the European Commission and the European Central Bank demanding a raft of deep cuts and administrative reforms there. There is no question that this is political - and it surely has had a political impact.

Fomenting Constructive Instability

So why the 180° difference between the German positions toward the Eurozone and BiH? The argument given off-the-record is one of stability. The fear is that if salaries and pensions are not paid, the resulting

social unrest will be destabilizing - and could spark violence. Absent a full spectrum of policies to deter violence, that is indeed a legitimate fear. However, there seems to be no creative thinking going on as to how to get out of that dead-end. So instead of demanding policies that would plug the hole in the bucket of public finances, Germany and the rest of the international donor community keeps topping it up. We are literally bankrolling political irresponsibility and the attendant institutionalized corruption in BiH. This is a very illusory sort of stability. It is unsustainable.

It seems to have been conveniently forgotten that we international actors already hold the responsibility to maintain a "safe and secure environment" in BiH. We've just let the essential support structure - a credible EUFOR capable of both deterring and reacting in real time to security challenges and a credible international High Representative to ensure adherence to the Dayton Peace Agreement and the Annex 4 constitution - fall into disrepair. Oddly, a few of the countries which are now frustrated by continuing to pay the bills led the charge to gut those very institutions. Swedish Foreign Minister Carl Bildt comes to mind. Absent a reinforcement of those tools, turning off the money taps would indeed pose a security threat. Fortunately, it is a risk that we can and should control for if we want to move toward a solution.

Instead of being merely reactive, remaining inert in hope that something will change (a policy some European capitals have termed "strategic patience"), international actors should make the panic of BiH political elites - and the accumulated wreckage of their ill-

governance of this country - work for us and, most importantly, for BiH citizens.

There are a number of interrelated elements to this new approach. Bodo Weber and I at DPC have long advocated that German Chancellor Angela Merkel lead the rest of the EU out of its self-inflicted policy failure in BiH. Without belaboring either point (on which we have written extensively and as can be seen in our May 2013 policy paper at democratizationpolicy.org), the essence of the declaration that needs to be made to change the dynamic is that until there is a new and more accountable political order to replace Dayton, the international community will enforce that order - if necessary in perpetuity. That would require a new, ideally American, High Representative committed to using his (or her) powers - and allowing a logical division of labor with the EU, which prefers to eschew hard power. It would also require a strengthened EUFOR with adequate forces in country to respond to threats.

The second element would follow the first: Western taxpayers should no longer be asked to pay for the failures of BiH politicians to develop and implement policies which serve the long-term interests of their citizens. So, until that changes, there should be no more multi-lateral or bilateral funding to BiH governments. This would generate pain for the BiH electorate and doubtless spark demonstrations and unrest. But with the structures in place to prevent the deflection of that anger into nationalistic directions or to permit communal violence, such anger would be focused directly where it belongs: on the country's political class. This kind of creative instability

in BiH is long overdue.

German Chancellor Angela Merkel is advocating "reform contracts" for economically uncompetitive EU member states, compelling them to pursue structural reforms in return for financial incentives. A similar approach should be pursued in BiH. Bosnia's international donors and creditors should offer its politicians a poisoned chalice: financial infusions conditioned upon implemented reforms.

The issue of privatization is now often raised by external actors as something that needs to be done. The rationale is simple: taking assets out of the hands of government officials would limit both their patronage and other abuses. Privatization, however, has earned a very negative reputation among the citizens of this country, who often rightly see it as having enriched the well-connected to the detriment of the general public. As economist Fikret Causevic has written, "Privatization to date in Bosnia and Herzegovina has been largely used for the formation of economic 'elites' within the three dominant ethnic groups."

Furthermore, the proceeds of privatization have been commonly used to secure support for incumbents in the run-up to elections.

A constructive and creative example of privatization that could be adapted for BiH's purposes comes from Germany's reintegration of the former DDR: the Treuhandanstalt. Public enterprises were taken into public receivership by this purpose-built body, where they could be assessed, sometimes broken up, and sold in public and transparent tenders. The receipts from this process went into development of the eastern regions of a united Germany. The proceeds were not available to politicians to dispense at their whim.

In BiH's case, given the demonstrated malfeasance of successive governments - and there is no cause to hope that post-October 2014 governments will be any better - such a body should be formed by a group of BiH's main creditors: call it the BiH privatization agency. It should be led by a respected international actor, someone like Poland's Leszek Balcerowicz. It should be staffed by local experts hired for their expertise and independence from politics.

Not only privatization of the remaining public enterprises throughout BiH should be dealt with in such a manner. Since state and defense property remain perpetual political footballs, the whole complement of state property identified in the inventory conducted by OHR should be taken into receivership. Proceeds from sales should go into a BiH development fund to invest

in long-overdue infrastructure improvements, such as highways, railways, and cleaner power generation.

Institutional Cowardice

Furthermore, the leverage afforded by the fiscal imbalances accrued by BiH's entities should also be applied to force a fundamental reform of the social welfare system into a needs-based system that serves citizens of BiH on an equal basis, wherever they live in the country. At present, there are massive disparities in social service provision: citizens in the RS and in the FBiH's poorer can-



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tions suffer inferior services as a result. There should be unified state pension, health, and unemployment funds - and veterans' funds as well. Conversion to such a system would be costly, especially if the civilian pensions were leveled up rather than down. But this is a reform that international creditors should be able to support.

Finally, despite years of happy talk by BiH politicians (and foreigners) about attracting foreign direct investment, the country still doesn't have a single economic space. The RS under the leadership of Milorad Dodik stopped all forward movement in this direction years ago. But this policy has not helped those who live in the RS, who persistently remain in an inferior economic position to those living in the FBiH (whose position is bad enough). Any future infusions of international budget support should be predicated on removing all the remaining institutional and policy impediments to a unified and single market throughout BiH. The EU ought to push this aggressively, given that a country with a "membership perspective" should be prepared to integrate with the Union as a whole. But as with many other issues which ought to be at the top of the EU's agenda for BiH - remember when the EC last called for a state-level ministry of agriculture? - this has been dropped since it is seen as anathema in Banja Luka. Such institutional cowardice is self-defeating for EU taxpayers.

While all these demands might seem a tall order, Western creditor nations and institutions have the necessary leverage to deliver them. BiH has no inherent right to foreign public funds. There certainly is no significant reform to reward, whether in the economic or any other sphere. Quite the opposite.

International actors in BiH have begun to recognize the failure of their collective policy approach. But they have yet to move from diagnosis to prescription: to decide to develop a coherent strategy with a chance for success. The elements discussed in this article are certainly not the sum-total of a new approach. But they ought to be included.

Some - and not just BiH politicians, unfortunately - will surely say that delivering such demands, once developed by experts in these matters, would amount to "blackmail." Fair enough. You call it blackmail; I'd call it conditionality.

Those who advocate continuing to pay the tab for BiH politicians as elections approach are often the same who blame "the Bosnians" collectively for the lack of reform - including those empty boxes on their institutional checklists on which their own performances will be graded. International policymakers maintain a political life-support system for those they regularly chide for their irresponsibility.

They also do their taxpayers back home a disservice. As Irish Labor parliamentarian Patrick Nulty wrote nearly a year ago during his country's EU presidency, "Ireland can no longer afford, financially or morally, to go along with the EU's current hopeless policy in Bosnia." While some EU members can afford to continue paying without asking for something valuable in return, none should.

Time to Demand Value for Money

It's high time that Western governments begin to demand value for their taxpayers' money in BiH. To do so, the Western PIC Steering Board members represented on the IMF Governing Board, along with other major creditors like Norway and Switzerland, should defer any discussion of BiH in their session at the end of the month unless and until they can adopt a unified set of the conditions they demand to be met in exchange for any future loan tranches. Those demands should be bold and aim to create conditions of greater transparency, growth and systemic reform in BiH. Failure to do so would demonstrate that they would rather stay on bureaucratic autopilot until they - and Bosnia and Herzegovina - crash.