

NEOLIBERAL RECIPIES TO THE  
POST-CONFLICT BOSNIA-HERZEGOVINA:  
THE CASE OF PRIVATIZATIONS

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## **ABSTRACT**

### **NEOLIBERAL RECIPIES TO THE POST-CONFLICT BOSNIA-HERZEGOVINA: THE CASE OF PRIVATIZATIONS**

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The thesis analyzes the effects of post-war reconstruction on Bosnian politics, economy and society by focusing on the privatization process. To this end, the strategies followed by local and international actors are examined critically within the context of the globally dominant neoliberal paradigm. This thesis argues that the privatization process has made the realization of the Dayton vision for Bosnian peace- and state-building difficult by strengthening nationalist-extremist local elites, contributing to the creation of pseudo-feudal structures at the local level, and helping accelerate ethnic homogenization on territorial basis. For the international actors, these have been considered to be acceptable risks as long as privatization of strategic sectors is kept insulated and the non-interrupted implementation of the neoliberal programme is ensured.

Keywords: Bosnia, post-war reconstruction, privatization, neoliberal restructuring

## ÖZ

### ÇATIŞMA SONRASI BOSNA-HERSEK'E NEOLİBERAL REÇETELER: ÖZELLEŞTİRME ÖRNEĞİ

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Bu tez, savaş sonrası yeniden imar faaliyetlerinin Bosna-Hersek siyaseti, ekonomisi ve toplumu üzerindeki etkilerini özelleştirme örneğine odaklanarak incelemektedir. Bu amaçla, yerel ve uluslararası aktörlerin izledikleri stratejiler, küresel düzeyde hakim neoliberal paradigma bağlamında eleştirel olarak incelenmektedir. Tezin temel savı, özelleştirme sürecinin aşırı-milliyetçi yerel elitleri güçlendirerek ve yerel düzeyde feodal-benzeri yapıların kurulmasına ve toprak bazında etnik homojenizasyonun hızlanmasına katkıda bulunarak Dayton'da Bosna için öngörülen barış- ve devlet-kurma vizyonunun gerçekleşmesini zorlaştırmış olduğudur. Uluslararası aktörler, stratejik sektörlerdeki özelleştirmelere dokunulmadığı ve neoliberal programın sorunsuzca uygulanması garanti altına alındığı sürece bunları, kabul edilebilir riskler olarak görmüşlerdir.

Anahtar Sözcükler: Bosna, savaş sonrası yeniden imar, özelleştirme, neoliberal yeniden yapılandırma

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## **ABBREVIATIONS**

|      |   |
|------|---|
| DFID | : United Kingdom Department for International Development   |
| EBRD | : European Bank for Reconstruction and Development  |
| EC   | : European Commission of the EU   |
| EU   | : European Union  |
| FBiH | : Federation of Bosnia-Herzegovina  |
| FPA  | : Federation Privatization Agency   |
| GTZ  | : Deutsche Gesellschaft für Internationale Zusammenarbeit, German International Cooperation for Development |
| HDZ  | : Croat Democratic Union  |
| IAGP | : International Advisory Group on Privatization   |
| ICG  | : International Crisis Group  |
| IFIs | : International Financial Institutions  |
| IMF  | : International Monetary Fund   |
| OHR  | : Office of High Representative   |
| OSCE | : Organization for Security and Cooperation in Europe   |
| PIFs | : Privatization Investment Funds  |
| POS  | : Public Offering Shares  |
| RS   | : Republika Srpska  |
| SDA  | : Bosniak Party for Democratic Action   |
| SDS  | : Serbian Democratic Party  |



SOAs : Socially Owned Assets

SOEs : Socially Owned Enterprises

USAID : United States Aid for International Development

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# CHAPTER 1

## INTRODUCTION

Despite the 15-year long military, political and economic involvement of the international community and huge volume of aid amounting to billions of dollars within the context of post-conflict reconstruction and transition programme, Bosnia-Herzegovina (BiH) is still a country challenged with political instabilities, economic fluctuations, social unrests and ethnic rivalry. The Dayton vision put forward by the international community which foresees liberal democracy and peaceful co-existence based on market economy in BiH has not been achieved yet. BiH is facing several challenges ranging from secessionist tendencies and unemployment to return of displaced persons and ethnic divisions. It is hardly surprising to encounter news or reports in the international media about how fragile BiH is. Many scholars and diplomats interested in the region constantly warn that BiH is a time-bomb ready to explode with devastating effects for international politics and economy at the heart of Europe. It is often stated that unless the negative peace- namely lack of overtly military conflict- transformed into positive peace -namely ethnic harmony and liberal democracy based on market economy-, BiH continues to pose risk and threats against the world order.

Among the reasons to be taken into account to explain the existing state-of-affairs in BiH, the efforts for post-conflict reconstruction and transition in BiH in order to materialize the agreed Dayton vision of international community are of special importance. For it was the most important international tool after military measures in the peace-building and state-building strategy. It was designed by the main actors of the international community as a complementary element of the Dayton-based *status quo*. One can easily argue that the programme has had profound

impact and played remarkable role in the current situation in BiH due to its comprehensive scope and the amount of funds allocated.

In this regard, the thesis intends to question how the internationally-led post-conflict and transition programme has affected the social, economic and political conditions in post-Dayton Bosnia. While doing so, the privatization process, which was one of the essential and integral parts of the programme, was selected as a case study. Thus, the thesis will specifically analyse the implications of the privatization programme in the making of post-Dayton Bosnia. For it is believed that studying privatization in BiH will make it possible to unveil the core elements of the international community's neoliberal approach and give an idea about their genuine interests.

To this end, it is necessary to investigate whether or not the privatization programme was similar to the programmes previously implemented in other transition countries. Then, it is also asked whether it was appropriate to apply the similar programme in this particular case since BiH was not only a post-socialist country but also an ethnically-divided war-torn country. It is also discussed why the international community prioritized privatizations in the programme while there were many urgent needs to be met.

To this end, the thesis examines the international and local actors' stances towards the privatization programme and specific factors that shape their approaches. Historical background of the influential local actors will also be explored. As to the international actors, the thesis seeks to identify which arguments and justifications international actors put forward while introducing the privatization programme. In addition, the interaction between the international and local actors in the context of privatization process will be inquired.

This thesis mainly argues that the privatization process as an integral part of the reconstruction and transition programme has affected Bosnian peace-building and state-building process negatively since the main goals of the international "intervention", namely achieving liberal democracy and peaceful co-existence in post-War Bosnia, remained rhetorically. Rather, the main motivation of the

international community in the reconstruction and transition programme was the implementation of neoliberal policies that have aimed to ensure better accumulation conditions for capital on a global scale. From this perspective, though the privatization programme had a significant share in the failures of the peace-building and state-building process, it was an important phase in the context of Bosnian neoliberal restructuring.

In this respect, the thesis aims to reveal why the international actors unnecessarily insist on such a privatization programme although the results of similar implementations in other transition countries were not promising either. The thesis associates the insistence of international community on such a privatization programme with the globally dominant neoliberal paradigm prevailing in the period.

It is also argued that the international and local actors have reached an implicit compromise during the privatization process and attained -to some extent- a division of labor in the privatization of different sectors. Thus, a partnership has been formed between the international actors and nationalist local elites in the introduction of transition programme thanks to the adjustment of the overlapping priorities of international and local actors.

The thesis identifies the international actors and local elites as those who have been responsible for the adverse implications of the privatization process and, gradually, of the reconstruction and transition programme. International actors have been responsible because they prioritized the implementation of the neoliberal agenda instead of paying attention to local priorities and proposed a programme in a one-size-fits-all fashion. Local elites have also been responsible of the current situation in BiH because they have exploited and manipulated the whole privatization process for their own ends instead of meeting popular demands.

The thesis also suggests that the reconstruction and transition programme in general, and privatizations in particular, combined with the Dayton Peace Accords contributed to the creation of pseudo-feudal structures at the local level and an informal trusteeship over BiH at the international level.

As to other arguments, firstly, privatization helped nationalist-extremist local elites to firmly consolidate power in their hands. Local elites achieved to entrench their power both in politics and economy by taking advantage of the loopholes inherent in the privatization programme. At the end of the day, the local elites manipulated the privatization process for their own ends and seized the great majority of the privatized socially-owned assets.

Secondly, privatizations accelerated ethnic homogenization on territorial basis. Privatization of apartments was the root cause of this. The mass privatization method and distribution of vouchers arbitrarily to the constituencies from “right” ethnicity by local elites precluded the people from settling in regions in which their ethnic groups were in minority. This maneuver also helped local elites to gain popular support in the elections.

Thirdly, Bosnian privatization process has led to further ethnic division and hostilities, since ethnic discrimination has been widespread in the privatization of enterprises and apartments.

Fourthly, corruption and favoritism have become common since the whole privatization process has been manipulated by local elites and insiders to be able to seize the socially-owned assets. For the process has reinforced the existing clientelistic and patrimonial relations between the local elites and their constituencies, given the difficult conditions and living standards of BiH in the immediate wake of the War.

Lastly, the process has aggravated economic dependency of BiH because expected results from privatization have not been attained. Projected FDI inflows, fresh capital injection in the economy and, technological progress have not been achieved, since BiH is not attractive to investors, be it local or foreign.

As to the socio-political implications, privatizations have legitimized the wealth of the emergent local elites such as nationalist leaders, organized paramilitary groups, tycoons and old socialist *nomenklatura*. These groups were already powerful due to their illegitimate utilization of post-conflict environment. The privatizations have helped them acquire a legitimate and formal ground.

In order to provide general introduction to the historical developments in BiH, the following *second chapter* of the thesis briefly examines the post-conflict context taking into consideration the implications of the Dayton Peace Accords and reconstruction and transition programme on the privatization process. It is suggested that an aid-dependent and fragmented BiH was created by the international intervention. This intervention has resulted in the formation of both pseudo-feudal structures at the local level and “informal trusteeship” of international community over new BiH at the international level. It is also argued that this structure paved the way for the empowerment of local actors due to decentralization.

The second chapter also questions why international actors designed a neoliberal programme without reference to BiH’s *sui generis* situation that BiH was not only a post-socialist country but also a post-conflict country. The chapter concludes that the real motivation of the international intervention was the neoliberal restructuring of BiH.

The *third chapter* aims to analyze the historical background of the local elites involved in the privatization process in order to comprehend their specific stance during the process. The chapter elaborates how “new” local elites of Yugoslavia were transformed into warring parties by touching upon the international economic conjuncture, its implications for Yugoslavia/Bosnia and constitutional changes in the pre-war period.

In this regard, the “self-management” concept in the Yugoslav political-economy and the evolution of “social property” to “group property” are analyzed within reference to the tendencies towards “economic nationalism” and “peripheral autonomy” among the republics of Yugoslavia chronologically. The third chapter argues that local elites started to form some kind of dominance over their respective ethnic groups and organized themselves around the discourse of “economic nationalism” and the promise of independence as a reaction against the political instabilities, economic inequalities and social imbalances experienced since the 1970s.



The third chapter also points out how the local actors of the pre-war period have reproduced and transformed themselves in the post-war period of BiH. It is suggested that they have benefitted from the dilemmas of the post-Dayton context to consolidate their power. On the one hand, they have exploited the nationalist sentiments of their constituencies thanks to the leadership capacity and influence they have in the society. On the other hand, they have succeeded to show themselves as the main executive partners in the eyes of the international actors for the introduction of privatizations.

The *fourth chapter* starts with the arguments and justifications advocated by the international actors such as the World Bank, the International Monetary Fund (IMF), the United States Aid for International Development (USAID) and the European Union (EU) on privatizations. These actors' views towards the privatization process are examined and classified under topics such as "Goals", "Performance", "Market Discipline", "Political Influence", "Integration" and "Quality of Life".

The chapter underlines that the dominant understanding at the international level suggests that privatization would boost economic performance in a sustainable manner, provide market discipline thanks to the self-regulating market, and help BiH integrating with the EU and international political system due to the elimination of resistant politicians from politics due to the usage of economic assets conveniently in line with economic goals rather than political ones.

The fourth chapter also includes assessments and criticisms about the privatization process made by international actors. In these evaluations, the international actors point out the importance of coordination among themselves and the necessity of supplementary reforms which complement the privatization process. On the other hand, the international actors complain about the failures of the privatization process which arguably emanated from the slowness and resistance of the local elites.

The *fifth chapter* of the thesis seeks to explore the underlying motives for the implicit partnership between local elites and international actors during the

privatization process. It is suggested that this partnership was made possible thanks to the mutual dependence of international and local actors on one another. International community has needed executive partners to introduce its agenda of neoliberal restructuring in BiH without serious resistance. Therefore, they have sought to benefit from the leadership capacity and influence of local actors in the society. On the other hand, local elites have needed international recognition in terms of legitimacy and flow of international aid funds and loans to consolidate and entrench their power in the society.

The fifth chapter ends with the analysis of the implications of the implicit compromise between the international actors and local elites within the privatization process. It is argued that international community did not intervene directly in the privatization implementations as long as the moves of local elites did not pose a serious threat to their interests. Hence, local elites acted freely in the privatization of apartments and small and medium sized enterprises (SMEs) whereas the international actors intervened directly in the high-profile bank privatizations. It is also pointed out that there has been now a stalemate about the fate of the privatization of strategic assets.

The *final chapter* overviews the analyses made in the above-mentioned chapters, and presents the main conclusions of the thesis.

## CHAPTER 2

### POLITICAL AND ECONOMIC RECONSTRUCTION OF BOSNIA-HERZEGOVINA AFTER THE BOSNIAN WAR

#### 2.1. Introduction

The 44-month war among three ethnic groups of BiH resulted in huge devastation. The fierce conflict among the three ethnic groups of BiH led to massive loss of life and loss of material “resources” as well as the deterioration of BiH’s societal structure and tissue.

As to humanitarian consequences of the ethnic war, more than half of the population was internally displaced, killed or wounded. Some 200.000 Bosnians lost their lives, nearly 2 million Bosnians left their homes either internally or externally in the neighboring countries.<sup>1</sup> Furthermore, the loss in terms human resources was aggravated more with the immigration of qualified labor to Western countries and Croatia and Serbia in the aftermath of conflict.<sup>2</sup>

The destruction of infrastructure, industrial complexes, housing stocks and production capacity of BiH led to the impoverishment of huge masses under the poverty line and froze the economy. Industrial production decreased to % 5 of the pre-war level, GDP per capita dropped to % 20 of the pre-war levels and unemployment rate rose to % 80.<sup>3</sup>

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<sup>1</sup> Florian Bieber, **Post-War Bosnia: Ethnicity, Inequality and Public Sector Governance**, New York, Palgrave Macmillan Publications, 2006, p. 36-38.

<sup>2</sup> Elizabeth M. Cousens and Charles K. Cater, **Toward Peace in Bosnia: Implementing the Dayton Accords**, Boulder, Colo., Lynne Rienner, 2001, p. 87.

<sup>3</sup> Fikret Causevic, “*Employment and Privatization*”, in International Support Policies to SEE Countries – Lessons (Not) Learned in Bosnia and Herzegovina, ed. Zarko Papic, Sarajevo, Open Society Fund BiH, p. 71.

The most important long-term consequence of the war however was the concentration and homogenization of ethnic groups in separate territories. Highly intermixed structure of pre-war Bosnian society was transformed into a strictly segregated three different nations. Division of the country along the homogenized ethnic territories also caused unfair distribution of lands in terms of economic activities. For example, whereas the Croats settled in the more industrialized and more developed parts of the country, the Serbs settled in the less developed parts.<sup>4</sup>

It was against this background of huge humanitarian and economic loss and occurrence of the mono-ethnicized territorial divisions that the international community arguably embarked upon making BiH a multi-ethnic country based on liberal democracy and market economy. International community applied various elements with the alleged intention to compensate the damages of the war and to recover the country in line with liberal democracy and market economy. In this regard, the Dayton Peace Accord and the reconstruction and transition programme can be discerned as the two most important means that have shaped BiH in the post-conflict period.<sup>5</sup>

As they have had several implications for the privatization process as well, this chapter aims to overview the main considerations of the Dayton Peace accords and the Reconstruction Programme as two important means for international intervention in BiH. The chapter tries to reveal the underlying motives upon which the Dayton Peace Accords and Reconstruction Programme were based. It will also be investigated whether or not the *status quo* which was established by the Dayton Peace Accords and Reconstruction Programme has really aimed for the creation of a multi-ethnic country based on liberal democracy and market economy. As such, this chapter raises the following questions:

- Could the international community bring a self-sustaining peace through the Dayton Agreement and Reconstruction Programme?

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<sup>4</sup> Bieber, p. 29.

<sup>5</sup> Dragoljub Stojanov, “*Supply-side Industrial Strategy: The Case of Bosnia and Herzegovina*”, *Cooperation South*, No.2, 2000, p.67.

- What kind of administrative and institutional elements were foreseen in Dayton?
- To what extent have the international bodies been influential in the new *status quo*?
- Which strategy was adopted by the international community for the reconstruction and transition?
- What was the underlying rationale of the reconstruction and transition programme?
- Was there an alternative to the neoliberal vision of the reconstruction and transition process?
- What were the implications of the Dayton Agreement and Reconstruction Programme for privatizations in BiH?

## **2.2. Dayton Peace Accords and Its Repercussions**

The General Framework for Peace in Bosnia and Herzegovina, known as Dayton Peace Accords, was put into practice in 1995. The Accords also included the constitution of BiH. The signatories of the Accords were the presidents of Croatia, BiH and then the Federal Republic of Yugoslavia. However, according to many, the signature of this “peace” agreement under the auspices of international community symbolized only a halt to the war among the intransigent warring parties rather than bringing about a multi-ethnic peace. That’s why despite its ambitious aims such as regenerating multi-ethnicity in BiH, democratizing society in line with liberal ideals, consolidating Bosnian state, and establishing market economy, the Accords were far from providing proper means to these ends. They just included complex political and economic provisions to convince the parties, namely Bosniaks, Croats and Serbs, to sign the agreement.

First, the agreement recognized territorial division on ethnic basis in line with the *de facto status quo* established during the war. This is reflected in the creation of BiH as a federation by the international community. Bosnia has so far suffered from

futile efforts and lost time for the maintenance of this delicate balance set by the agreement for the sake of survival of the state with the three ethnic groups and preventing the outbreak of conflict again among them.

The constitutional vision of the agreement was also shaped in accordance with ethnic lines. The new power-sharing arrangements among these three ethnic groups reflected an equal representation and participation in the decision-making process.<sup>6</sup> The representation of three ethnic groups in the public institutions in line with the formula “one Bosniac, one Croat and one Serb” led to a competition among ethnic groups for gaining patronage over the funds and governmental portfolios and jurisdictions with big budgets which, in turn, resulted in delays in the functioning of state-mechanisms.<sup>7</sup> Despite their constructive implications for multi-ethnicity, the new power-sharing arrangements led to a slow down and stalemate in the execution. Such ethnic competition has also had implications for the privatization process.

There has been another complexity inherent in the agreement which was related to the administrative structure. The apparatus of Bosnian polity has been comprised of several units at different levels. In this regard, BiH has a weak central state authority, two entities- the Federation of Bosnia-Herzegovina (the Federation-FBiH) and the Republika Srpska (RS), and an autonomous Brcko District. At the entity level, the entities have also had sub-level political units such as ten cantons for the Federation and five administrative areas and municipalities for the RS.<sup>8</sup> The central state authority has been made responsible for customs policy, monetary policy, international financial obligation and inter-entity infrastructure such as transport, communications and energy. On the other hand, the entities have had

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<sup>6</sup> Susan L. Woodward, “*Bosnia After Dayton: Transforming a Compromise into a State*”, in After the Peace: Resistance and Reconciliation, ed. Robert L. Rothstein, Boulder, Colo, Lynne Rienner Publishers, 1999, p. 142-144.

<sup>7</sup> Ibid., p. 145.

<sup>8</sup> Patrick J. O’halloran, “*Post-Conflict Reconstruction: Constitutional and Transitional Power-sharing Arrangements in Bosnia and Kosovo*”, in From Power Sharing to Democracy: Post-Conflict Institutions in Ethnically Divided Societies ed. Sid Noel, Montreal, McGill-Queen’s University Press, 2005, p. 108-113.

authority over all the remaining fields, including the collection of tax and customs revenues. This has deprived the central state of independent sources of revenue.<sup>9</sup>

All in all, this complex web of administrative structure could not prevent decentralization and acceleration of ethnic homogenization on territorial basis.<sup>10</sup> For it has not had the capacity to consolidate central authority. On the contrary, it has fed decentralization and secessionist tendencies.

On the other side of the coin, this loose “federal” structure with a weak central authority was further paralyzed by the involvement of international actors and bodies in various fields. The OSCE was made, for example, responsible for the holding of elections, European Court of Human Rights nominated three members of Bosnian Constitutional Court, the IMF appointed the governor of the Central Bank, and 8 out of 14 members for the Human Rights Chamber of BiH was required to be chosen by the Council of Europe.<sup>11</sup> There has been another international body settled in BiH called as the Office of High Representative (OHR). The chief of this body, namely High Representative, has been appointed by the United Nations Security Council to coordinate the activities of international actors. Its powers were enlarged in 1998 and from then on, it has been allowed to remove public officials who violate legal commitments and the Dayton Peace Agreement from office, and to impose laws over BiH’s internal legislative bodies.<sup>12</sup> The High Representative has also acted as the EU’s Special Representative since 2008.<sup>13</sup>

Whereas Dayton provisions on the political structure of BiH presumed some sort of fragmentation, its economic vision preferred and aimed at an integrated

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<sup>9</sup> Cousens, p. 87.

<sup>10</sup> Bieber, p. 62.

<sup>11</sup> Şadan İnan Rüma, **The Role of International Community in the Democratisation in Bosnia-Herzegovina**, Phd. Dissertation, METU, 2008, p.114.

<sup>12</sup> O’halloran, p. 110-113. and also in *Official Website of the High Commissioner*, accessed on 13.10.2010. [http://www.ohr.int/dpa/default.asp?content\\_id=368](http://www.ohr.int/dpa/default.asp?content_id=368)

<sup>13</sup> *Official Website of the EU Special Representative in BiH*, accessed on 13.10.2010, <http://www.eusrbih.org/gen-info/?cid=1012,1,1>.

economy. Such guarantees as free movement of goods, services, capital and people, a single currency and monetary policy, balance of payments system and foreign trade policy could be deemed as the signs to this end.<sup>14</sup> However, it has been impossible to accomplish an integrated economy because of the inconsistencies inherent in the agreement let alone problems that have occurred during its implementation. One inconsistency of the agreement was the handing over of macro-economic policy-making to international markets via the chairman of the Central Bank appointed by the IMF which limited the possibility of the local needs to be taken into consideration in the management of economic policies. Another inconsistency that resulted from the agreement was the bureaucratic impediments arising from multiple layers of the administrative units. In this regard, the autonomy given to the two entities to set their own budgets and development priorities and to collect revenue has rendered it impossible to speak of an integrated economy.<sup>15</sup> Thus, Bosnian economy has turned out to be as fragmented as its political structure.

This economic and political fragmentation has been further aggravated by the geographical spread of BiH's economic assets. The following passage well explains the situation:

“Lead, zinc and three quarters of the coal deposits are located in the territory belonging to the Federation, but almost all deposits of fuel necessary to operate the power plants are in the Republika Srpska sits on two thirds of all the iron deposits, but the entire iron-production industrial plant is situated in the region owned by the Federation. Three quarters of the bauxite deposits are in the mines of Republika Srpska, but the centre of the industrial processing is in Mostar, Banja Luka, the self-proclaimed capital of Republika Srsпка, is potentially a strong industrial, cultural and educational centre but is completely cut off from the sources of electrical energy, which are under the control of Croats. The forests, finally, are divided

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<sup>14</sup> Roberto Belloni, **State Building and International Intervention in Bosnia**, London, Routledge, 2007, p. 98.

<sup>15</sup> Boris Dvijak and Michael Pugh, “*The Political economy of Corruption in Bosnia and Herzegovina*”, International Peacekeeping, Vol. 15, No.3., June 2008, pp. 373-386, p. 374.



roughly fifty-fifty. Most of the lumber industries, however, are in the Federation.”<sup>16</sup>

As opposed to the expectations, the abovementioned spread of productive assets did not establish interdependence among the entities and ethnic groups. Interestingly, it resulted in the enhancement of economic relations and cooperation not among ethnic groups themselves but between ethnic groups of BiH and neighboring countries such as Croatia, Serbia and Austria.<sup>17</sup> Under these conditions, Dayton created one of the most fragmented and decentralized economy in which the central government has had very restricted role in the introduction of state-wide economic policies.<sup>18</sup>

It can be argued that this was largely because the international community accepted the demands of local actors and fortified their power in Dayton rather than strengthening the central authority, paving the way for the political and economic fragmentation of BiH. It is important to remember that these local actors were the very same corrupt and enriched warring parties of a few years back. The repercussions of the strengthening of local elites in Dayton were also severely felt in the privatization process. In time, empowered local actors naturally rose to be the executive partners of the international community.<sup>19</sup>

Thus, BiH re-created in 1995 with the Dayton agreement was a decentralized and fragmented country both economically and politically. On the other hand, BiH was also a country under the strict tutelage of the international community and its institutions, especially the EU, IMF, World Bank and the NATO. Thus, it can be suggested that new BiH's central authority has become open to pressures from both below and above, namely from local elites and international actors.

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<sup>16</sup> Belloni, p. 98.

<sup>17</sup> Tamas Magel, “*The Banking Sector of Bosnia and Herzegovina: The Dominant Role of Austrian Banks*”, *Focus 2/05*, ( also available at [www.ceec.oenb.at](http://www.ceec.oenb.at), accessed on 13.10.2010) , p. 135.

<sup>18</sup> Timothy Donais, **The Political Economy of Peacebuilding in Post-Dayton Bosnia**, New York, Routledge, 2005, p. 91.

<sup>19</sup> *Ibid.*, p. 91.

In sum, the provisions and implementation of Dayton have two major consequences for BiH in general and the privatization process in particular. Firstly, Dayton strengthened the local authorities' power by transferring main responsibilities to local units, paving the way for the emergence of "neo-feudalism" as identified by some scholars.<sup>20</sup> The second consequence was the formation of "informal trusteeship" under international community's tutelage executed practically by various Western powers and institutions.<sup>21</sup>

### **2.3. Reconstruction and Transition Programme**

The other external factor that shaped the post-conflict period of BiH has been the reconstruction and transition programme, designed by international community including 50 countries and 27 international organizations. The international community believed that the self-sustainability of peace and political stability in BiH was heavily dependent upon the reinvigoration of the economy, return of refugees and displaced persons, and employment generation.<sup>22</sup> Unless there was economic development and growth and a functioning market economy in line with the neo-liberal principles, it would be impossible to reach a long-lasting peace and stability in BiH. Moreover, it would not be possible to make refugees and displaced persons return to their home of origin without sufficient housing conditions and job creation. In this regard, the architects of the reconstruction and transition programme, namely the World Bank, the IMF, the US and the EU, prepared a multi-sector strategy which aimed at physical reconstruction, economic recovery and revitalization, return of

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<sup>20</sup> Paul Stubbs, "Social Sector' Or The Diminution of Social Policy? Regulating Welfare Regimes in Contemporary Bosnia-Herzegovina", in Policies of International Support to South Eastern European Countries: lessons (not) learnt from BiH, ed. Žarko Papic, Sarajevo: Open Society Fund BiH., 2001, p.101.

<sup>21</sup> David Chandler, "State-Building in Bosnia: The Limits of 'Informal Trusteeship'", International Journal of Peace Studies, Volume 11, Number 1, Spring/Summer 2006, p. 18-19.

<sup>22</sup> Woodward, p. 148-149.

displaced persons, institutional restructuring and transition.<sup>23</sup> The main goals of this strategy were “firstly, facilitating transition from a war economy to a peace economy and, secondly, completing the transition from a socialist economy to a market economy”.<sup>24</sup> However, the reconstruction and transition programme led by international community has not so far achieved concrete results especially in employment generation, sustainable socio-economic development, institutional restructuring, transition and viable market economy, though there has been tangible progress in terms of physical reconstruction and rebuilding.

In addition, many critics and commentaries suggested that this failed programme had also several negative consequences for the post-conflict context. First one was related to the complex and paradoxical relation forged between local and international actors, as mentioned above partially. The flow of aid to BiH through the local elites had strengthened local elites due to their capacity and influence to mobilize local capabilities for the sake of the successful introduction of the neoliberal programme. Thus, it helped to consolidate and entrench the predominance of the local elites that emerged from the war.<sup>25</sup> As Marcus Cox described, this situation “enabled the local warlords to benefit from the reconstruction programme- both materially, through the control of construction companies, and politically, by being able to nominate the beneficiaries of aid.”<sup>26</sup>

From the international perspective, the most important thing was to prevent the resurfacing of conflict and ensure the sustainability of stability provided by the Dayton process. Having managed the successful implementation of Dayton, international actors did not care much about how funds were consumed at the local

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<sup>23</sup> Donais, p.91.

<sup>24</sup> Cousens, p. 88.

<sup>25</sup> Belloni, p. 100.

<sup>26</sup> Marcus Cox, **State-Building and Post-Conflict Reconstruction: Lessons From Bosnia**, *The Rehabilitation of War-Torn Societies*, A Project co-ordinated by the Centre for Applied Studies in International Negotiations (CASIN), Geneva, 2001, p. 11.

level. They only imposed political conditionalities on the disbursement of aid funds such as full compliance with the Dayton's provisions, human rights and principles of market economy.<sup>27</sup> It can be argued that international actors and local elites implicitly agreed upon the continuation of the *status quo* and ignored the consolidation of nationalist local elites who were mainly against the multi-ethnic society.

Secondly, the flow of humanitarian and development aid organizations in the aftermath of the post-conflict period led to some distortions in the socio-economic development of BiH. The presence of these international agencies replaced the public sector responsibility in the fields of social regulation and redistribution. It also distorted local labour markets and skills<sup>28</sup> because the donors generally recruited the well-educated though employing them in the secondary positions rather than as decision-makers, especially in the service sectors such as translators, drivers and etc. Most of the new jobs created in reconstruction programme were short-term employment and linked to reconstruction activities.<sup>29</sup> This also had implications for privatization process.

Thirdly, in line with the transition strategy from a command economy to liberal market economy, imposing structural adjustment programs and fiscal austerity along with stabilization, liberalization, privatization and deregulation policies had complicated the reconstruction period and hindered the improvement of the provision of public goods and services. As a consequence of this strategy, high unemployment rates could not be reduced to acceptable levels and many Bosnians engaged in

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<sup>27</sup> James K. Boyce and Manuel Pastor, "Aid for Peace" *World Policy Journal*, Summer 1998, 42.; see also Daniel Ehrenfeld, Shira Yael Kogut and Hilary Hove, "Aid Conditionality and the Peace Process: An Analysis of Its Implementation", *International Journal On World Peace*, Vol 20., No.4, December 2003, 61. and James K. Boyce "Relief and Reconstruction. Aid Conditionality as a Tool for Peacebuilding: Opportunities and Constraints", *Development and Change* Volume 33 Issue 5, 2002, p. 1045.

<sup>28</sup> Belloni, p. 109-110.

<sup>29</sup> Vladimir Gligorov, Mary Kaldor and Loukas Tsoukalis, **Balkan Reconstruction and European Integration**, London, LSE, 1999, p. 19-23.

informal economic activities.<sup>30</sup> The neoliberal nature of the reconstruction and transition programme was also an impediment for the return of displaced persons and rehabilitation/reintegration of disadvantaged groups in the society such as orphans, disabled, widows and ex-combatants because of the reductions and curtailments of the social expenditures in the budgets.

Another consequence of the programme was the flourishing of NGOs due to the aid disbursement process which could be driven in line with the needs of international donors instead of local needs.<sup>31</sup>

Consequently, the reconstruction and transition programme implemented in BiH has resulted in the creation of an aid-dependent and donor-driven economy.<sup>32</sup> Combined with the Dayton agreement, the reconstruction and transition programme aggravated fragmentation and decentralization of BiH in which local elites consolidated their economic and political grip in an aid-dependent economy.

In this regard, it is necessary to examine the underlying factors which were influential in the adoption of Dayton-style peace agreement and neoliberal reconstruction and transition programme that shaped the post-conflict Bosnia. It would be proper to ask and search for what motivation and rationale there were behind the international actors' mind that pushed them to adopt such a failed strategy for the post-conflict Bosnia.

#### **2.4. Neoliberal Rationale of International Actors**

Though there has not been an overt violence and hostility for 15 years after the war, the existence of a multi-ethnic society within the context of “peaceful co-

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<sup>30</sup> Stef Jansen, “*The Privatization of Home and Hope: Return, Reforms and the Foreign Intervention in Bosnia Herzegovina*”, *Dialectical Anthropology*, Vol. 30, No. 3-4, 2007, p. 190.

<sup>31</sup> Bronwyn Evans-Kent and Roland Bleiker, “*Peace Beyond the State? NGOs in Bosnia and Herzegovina*”, *International Peacekeeping: Mitigating Conflict The Rold of NGOs*, Vol. 10, p. 103-104., Belloni, Roberto, “*Civil Society And Peacebuilding in Bosnia And Herzegovina*”, *Journal of Peace Research*, Vol. 38, No. 2, 2001, 170.

<sup>32</sup> Sanjay Kathura, **Western Balkans and the EU: an Agenda for Trade and Growth**, World Bank Publications, 2008, p. 3. See also Cousens, p. 94-95.

existence” and harmony based on liberal democracy and market economy in BiH has not occurred. International community led by capitalist countries and institutions of the West has created an aid-dependent, donor-driven, fragmented economy and decentralized political structure in which local units gained -to some extent- autonomy at the expense of central authority under the “informal trusteeship” of international community. There has been a stalemate in all aspects of life for many years in BiH. One of the reasons for this outcome is the false and improper approaches approved by the international actors for the restructuring of the country.

Despite the fact that international actors were consistent in themselves in the introduction of the Dayton Agreement and the reconstruction and transition strategy which were inspired by neo-liberalism, the main reason for the failure of the envisaged transition has rested indeed in the neoliberal programme itself.

In the minds of international actors such as the US, EU, World Bank and the IMF that were highly influential in BiH, there has been a belief in that peace and stability can only be possible through sustainable economic growth and development.<sup>33</sup> Therefore, they insisted that sustainable growth should be achieved at all costs. However, international community has not had many alternatives on how sustainable growth would be achieved in the wake of the collapse of the Eastern bloc. The only solution in their toolkit was the prescriptions of the “Washington Consensus” in its “Shock Therapy” version. In this regard, the main pillars of the strategy adopted by both the Dayton and the reconstruction and transition programme were based on stabilization, liberalization and privatization. It was thought that achieving these three pillars rapidly might have paved the way for a liberal democracy, multi-ethnic society and reintegration with the world.<sup>34</sup> Self-regulating market forces could have eliminated all the problems that hinder liberal democracy and multi-ethnic society.

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<sup>33</sup> Donais, p. 17.

<sup>34</sup> Mustafa Türkeş, “*The Double Process: Transition and Integration and Its Impact on the Balkans*” in *Towards Non-violence and Dialogue Culture in Southeast Europe*, ed. Petar-Emil Mitev and James Riordan, Sofia, Iztok-Zapad Publishing House, p. 19.

However, even though many countries which have undergone similar transformation processes and implemented neoliberal recipes, including Eastern European countries in the 1990s, have not succeeded to reach sustainable economic growth and “sound democracy” in politics, the international actors have been determined to introduce a similar programme in BiH once more. In this regard, international community has sought to insert, on all occasions, the main prescriptions of “Washington Consensus” both in the Dayton agreement and reconstruction programme. They failed to take into consideration BiH’s *sui generis* situation that BiH was not only a post-socialist country but also a post-conflict country.

One can question why the international actors adopted such a doomed-to-fail strategy in BiH which was supposed to lead to liberal democracy and market economy. It must also be asked why there was not any other alternative, though the experiences and conditions of other post-socialist countries have proved the risks of this strategy.

One possible explanation would be neo-liberal globalization and the requirements of global capital accumulation. Neoliberalism was a response to the 1970s crisis of world capitalism, and has been put into effect worldwide through the structural adjustment programs of international financial institutions (IFIs) which have comprised financial and trade liberalizations, deregulation and privatizations.

Three waves can be identified in the dissemination of neoliberal policies around the world within the context of neoliberal globalization. The first wave was in the early 1970s in the advanced capitalist countries of the West, while the second wave was in the late 1970s and in the early 1980s targeting the countries in the periphery such as Turkey, Mexico and Yugoslavia. The last wave was the introduction of “Washington Consensus” after the end of the Cold War in the post-socialist countries under the banner of “Shock Therapy”.

Many scholars have suggested that the dissolution of Yugoslavia, the Dayton agreement, and the reconstruction and transition process in BiH must be addressed through the third wave of the neoliberal globalization. Hence, the Bosnian case, despite its peculiarities, did not emerge as an exception. According to Chossudovsky,

the reconstruction and transition programme within the Dayton Agreement framework has to be seen as the continuation of policies dictated by the IFIs in the 1980s toward the economic crisis of the federal Yugoslavia. He suggested that the structural adjustment program imposed by the IFIs in this period as well as in the early 1990s brought the Yugoslav economy to its knees leading to dismantling of the ex-Yugoslavia and the reintegration of individual republican economies with the world markets in the aftermath of the dissolution. With the international intervention in the post-conflict Bosnia, he suggested, the West has put into force the same “destructive model” of neoliberalism, which fully strips BiH of its economic and political sovereignty. BiH has become a colonial administration of the West via the Dayton Accords politically, and subject to the neoliberal attacks of the donors such as the Bretton Woods institutions and London-based European Bank for Reconstruction and Development (EBRD). Chossudovsky has also underlined the necessity for the collaboration of international and local elites in this process which ultimately led to the latter’s appropriation of socially-owned economic assets.<sup>35</sup>

Similarly, Fotopoulos has addressed the Bosnian issue within the context of the New World Order identified by neoliberal globalization. In Bosnia, international community of “advanced market economies” has embarked upon military, political and economic intervention and coercive measures to secure the stability of the New World Order and its transnational elites after the Cold War.<sup>36</sup> According to Fotopoulos, the economic dimension of this order was the insertion of the self-regulating market mechanisms, namely stabilization, liberalization, deregulation and privatization. Like Chossudovsky, he also pointed out the potential and possibility that the nationalist elites in ex-Yugoslav republics might be an important ally in the introduction of the self-regulating market mechanisms.<sup>37</sup>

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<sup>35</sup> Michel Chossudovsky, “*Dismantling Former Yugoslavia, Recolonising Bosnia*”, Development in Practice, Vol. 7, No. 4, November 1997, p.378-380.

<sup>36</sup> Fotopoulos, “*New World Order and NATO’s war against Yugoslavia*”, New Political Science, Vol. 24, No.1, 2002, p. 73-74.

<sup>37</sup> *Ibid.*, p. 81.



In the same vein, Türkeş has touched upon the role of the EU in the neoliberal restructuring of Western Balkans. He suggested that the EU, as an agent of the transnational elite, has developed a hegemonic project to restructure Western Balkans, including BiH, in line with the necessities of neoliberalism. Doing so, the EU has aimed at stability in its periphery based on liberal democracy and market economy. In this regard, the EU has allocated huge volume of funds to BiH in line with the neoliberal hegemonic project during its post-conflict reconstruction.<sup>38</sup> To achieve this hegemonic project, it was necessary to constitute a historic bloc in Bosnian society by gaining the consent of its major components. This was achieved by the co-optation of local elites which have leadership capacity in the Bosnian society. In this regard, international actors wielded funds allocated for the reconstruction and transition of BiH as a carrot in return for the full compliance with the Dayton system and the neoliberal agenda.<sup>39</sup> Türkeş, like Fotopoulos, has also touched upon the process of the “transnationalization of elites” following the close association of international and local actors during the post-conflict period. According to them, occurrence of symbiotic relations were reasonable because local elites have not only had an influence and leadership capacity in the society, but also trouble making capacity that could delay the formation of a historic bloc to introduce hegemonic project of international community.

In conclusion, it can be argued that the international community’s insistence in the adoption of the Dayton agreement, and the reconstruction and transition programme that was based on a doomed-to-fail strategy of “Washington Consensus” and “Shock Therapy” could not be understood without neoliberal globalization and

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<sup>38</sup> Mustafa Türkeş, “*The European Union’s Strategy towards the Western Balkans: Exclusion or Integration?*”, *East European Politics & Societies*, November 2006, Vol. 20, No.4, p. 685-690. see also: Mustafa Türkeş, “*The Double Process: Transition and Integration and Its Impact on the Balkans*”, in *Towards Non-violence and Dialogue Culture in Southeast Europe*, ed. Petar Emil Mitev and James Riordan, Iztok-Zapad Publishing House, Sofia, p.13-28.

<sup>39</sup> *Ibid.*, p. 689-690.

New World Order. The Dayton system and its reconstruction and transition strategy were consistent with the requirements of neoliberal globalization.

These approaches also help explain how “nationalism without conflict” and resilience in the stances of nationalist parties in BiH<sup>40</sup> could be achieved, and give an idea about in which direction the relations between international actors and local actors evolve. International actors’ need for the consent of local elites and their assistance in the neoliberal hegemonic project have also had implications for the privatization process.

## **2.5. Conclusion**

Dayton Peace Agreement and the internationally-designed “Reconstruction and Recovery Programme” which aimed, at least in rhetoric, to transform a war-damaged country from command economy to market economy, from socialist regime to liberal democracy, and from ethnic conflict to ethnic harmony were the core elements in the shaping of post-war state-of-affairs in BiH. While the creation of the multi-ethnic country based on liberal democracy and market economy remained as rhetoric, this same cannot be claimed for the neoliberal restructuring for BiH. As a result, an aid-dependent and fragmented BiH, described also as a neo-feudal state, was created.

The whole process has strengthened local actors rather than the central authority due to the political and economic fragmentation caused by international intervention. The first and foremost result of the empowered local actors was that they have become executive partners of the international community in the implementation of the privatization process.

Dayton Peace Accords and the Reconstruction Programme did not result in the creation of multi-ethnic country based on liberal democracy. International actors insisted on the one-size-fits-all neoliberal formula and they did not take into consideration the country’s specific conditions emanating from its history,

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<sup>40</sup> Donais, p. 73.

geography, sociology and etc. The underlying reason of international actors' insistence in the restructuring and transition of the BiH in such a manner was that they have had no option in their toolkit other than Washington Consensus prescriptions.

At this juncture, it is necessary to examine the strategies followed by the local social forces that have been influential in the post-conflict Bosnia in order to have a wider understanding of their role in the privatization process.

## CHAPTER 3

### LOCAL FORCES IN BOSNIA-HERZEGOVINA IN THE PROCESS OF RECONSTRUCTION

#### 3.1. Introduction

The second chapter evaluated the post-Dayton *status quo* which was shaped by international intervention. It was put forward that the post-Dayton *status quo* created an aid-dependent and fragmented political and economic structure in BiH without any measure to alleviate the existing hatred among the three ethnic groups. It was also underlined that local elites had consolidated their power in the post-War context in collaboration with international community and by utilizing the opportunities availed by the implementation of the reconstruction and transition programme. The third chapter now aims to examine how specific local actors had acquired power historically in BiH, and encountered in the post-War period with the international actors.

To this end, the chapter will try to understand the local actors' rationale towards post-Dayton Bosnia and international intervention. For this purpose, firstly, the pre-war Bosnia -by then a part of Yugoslavia- is examined to reveal the factors that helped the formation of dominant local actors of the society in post-war period. Secondly, it is asked how the local actors have adapted themselves to the conditions of post-Dayton *status quo*. Lastly, the differences in the local actors' stance in pre-war and post-war periods are compared. The questions to be raised in this chapter are as follows:

- What aspects of the Yugoslav political economy were decisive in the formation of dominant local actors?

- Was there any reflection of the Yugoslav property regime in the post-conflict political and social developments? If there were any, what were they?
- What were the ramifications of interaction between international system and Yugoslav system in the pre-war period?
- Was there any privatization experience in the Yugoslav history?
- How did local actors react toward privatizations in the pre-war period?
- How did the local actors organize themselves in the post-war period?
- What kind of relationship was established between the local actors and their constituencies?
- What were the main challenges facing the local actors to maintain their dominance under the new conditions of post-war period?
- How could they overcome these challenges?

The answers to abovementioned questions will facilitate to grasp the historical developments and factors that had empowered current local elites in BiH. Besides, understanding the specific strategies the Bosnian elites have pursued for the reproduction of their central roles in Bosnian political economy would help understand the shortcomings and mistakes made by international actors during the post-war reconstruction process in general, and privatizations in particular. It has to be underlined that the chapter does not aim to propose a thorough analysis of Yugoslavia's dismemberment though the discussion made inevitably produces some clues on the reasons of this.

### **3.2. Historical Background**

In order to understand the social bases of power of contemporary Bosnian elites, one needs to overview the transformation of property relations in the country by going back to the Yugoslav period.

The property regime exercised in Yugoslavia from the World War II to the early 1990s can be identified with reference to two interconnected concepts, namely self-management and social property. This property regime was a composition of many factors which may seem to be irrelevant to one another. The factors influential in the occurrence of the property regime were ranging from international politics, international economy, ethno-cultural structure of the Yugoslav geography to interethnic relations among the southern Slavs.

The property regime in the Yugoslav economic system had been defined as a self-managed, participatory, labor-managed or socialist market economy. The characteristics of this system evolved during the Cold War period according to the changing needs of the system. As such, the year 1948 was an important milestone in this process. In that year, the Yugoslav Communist Party, due to the failure in the completion of the First Five-Year Plan, was accused of revisionism and expelled from the COMINFORM after a series of discussions between Stalin and Tito on the development strategy.<sup>41</sup> Until that time, Yugoslavia's economic organization had been modeled on the Soviet pattern which was a centralized command economy that all basic economic problems such as valuation, income distribution, savings and investment had been decided by the central authority.<sup>42</sup>

After this exclusion, Yugoslav politicians and scholars, led by Yugoslav ideologue Edvard Kardelj, approved a new type of development strategy that replaced the "rigidly planned and centralized economy" of the Soviet bloc. They introduced new reforms on the basis of "democratic socialism". One of the first actions, in this regard, was downsizing the number of staff employed in the central administration from about 40.000 to 10.000.<sup>43</sup> Another major step was the

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<sup>41</sup> Gojko Vuckovic, "Failure of Socialist Self-Management to Create a Viable Nation-State and Disintegration of the Yugoslav Administrative State and State Institutions", East European Quarterly, Vol. XXXII, No. 3 Fall, 1998, p. 362.

<sup>42</sup> Jozse Mencinger, "Uneasy Symbiosis of a Market Economy and Democratic Centralism: Emergence and Disappearance of Market Socialism and Yugoslavia", in Equality, Participation, Transition, ed. Milica Uvalic and Vojmir Franicevic, New York, Saint Martins's Press, 2000, p. 119.

<sup>43</sup> Vuckovic, p. 362.

introduction of the “*Law on Management of Government Business Enterprises and Higher Economic Associations by Workers’ Collectives*” in the early 1950s.<sup>44</sup> The introduction of this law meant transferring of economic enterprises’ management to “Worker’s Collectives” from the state organs. Put it differently and in the official discourse of lawmakers, the new law stipulated the renouncement of some property rights of state in favor of society. Under the new conditions, “no one and everyone had property rights over enterprises’ assets, which belonged to society as a whole”.<sup>45</sup> However, workers’ will, via elected workers’ councils and management boards, was allowed to take part directly in the determination of enterprise planning, accounting, some regulations about the management and –last but not least- distribution of profits. This reform gave room for more enterprise independence, broader worker rights and allowed market practices.<sup>46</sup> The introduction of this first step for the establishment of worker self-management system was followed by a serial of different legal arrangements and constitutional amendments between the years 1950-1989. Through these legal reforms, foreign trade was liberalized, wage control was abolished, banking system was restructured and banks could be established and managed by groups of enterprises, tax and price systems were also restructured. At the end of the day, thanks to the introduction of the above-mentioned reforms, concepts such as social property, socially owned assets and self-management became part of the Yugoslav property regime, thereby new economic system was created.

According to Yugoslav scholars and politicians, the differences between the new and old systems and development strategies can be summarized as follows:

- new system stipulated social ownership of the means of production while old system approved state ownership;

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<sup>44</sup> Mencinger, p. 120.

<sup>45</sup> Uvalic, p. 2.

<sup>46</sup> Peter H. Lioatta, “*Paradigm Lost: Yugoslav Self-Management and the Economics of Disaster*”, *Balkanologie*, Vol. V, No. 1-2, December 2001, p. 130.

- in the new system, allocation of goods and services was provided by market mechanism unlike administrative allocation mechanism of the old one;
- with the new system, fixed wages were replaced with free distribution of available income by worker's councils,
- the new system allowed the use of financial instruments contrary to old one;
- the new system allowed decentralized and functional budgeting which was forbidden in the old system;
- the new system recognized independent farmers instead of compulsory collectivization.<sup>47</sup>

With the differences mentioned above, the introduction of the new system or Yugoslav-style socialism had an important implication for the Yugoslav political economy. This was more autonomy for periphery. With the economic decentralization and these reforms, "six constituent republics were given their own budgets" that led to increased economic autarky. Regionalization of banking made nation-wide monetary policy unattainable and blocked the possibility of inter-regional economic possibility. These developments started constructing invisible economic walls among republics.<sup>48</sup>

The Yugoslav-style socialism also gave impetus to the centrifugal forces and had profound effects in the change of Yugoslav system in the long run. In Vuckovic's words, the reform toward workers' self-management- together with unfavorable international challenges- was the "original sin" in the decentralization and destruction of Yugoslavia.<sup>49</sup> McFarlan suggested that decentralization was an important by-product of the new system which gave enlarged autonomy for local

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<sup>47</sup> Mencinger, p. 120.

<sup>48</sup> Beverly Crawford, "*Mediating Globalization and Social Integration in Post-Communist Societies: A Comparison of Yugoslavia and Bulgaria*", in Responding to Globalization, ed. Aseem Prakash and Jeffrey A. Hart, New York, Routledge, 2000, p. 247.

<sup>49</sup> Vuckovic, p. 359.



authorities. Given greater autonomy, local authorities recognized the importance of “local industries in the generation of income for local communities”, thereby igniting a competition and uneven development among the six Yugoslav Republics.<sup>50</sup> Autarky was begun to be perceived as the most important goal in the eyes of local authorities. As a result, the inequality gap among individuals and regions widened and this gap escalated the ethnic, social and political tensions.

The autonomy provided by the new system also played an important role in the formation of opposition in the post-war reconstruction process which paved the way for the creation of a new “class” consisted of managerial elite and technocrats in opposition to the central Communist Party bureaucracy in Yugoslavia.<sup>51</sup> On the other hand, Liotta points out that efficiency of nation-wide trade unionism was also eroded gradually under the self-management system. Union leaders started to lose their say on some issues such as representing workers’ interests, distribution of income, settlement of disputes and conduct of strikes that resulted in the re-organization of trade unions at local levels.<sup>52</sup> This led to the rise of local level “economic nationalism” and finally the dissolution of Yugoslavia.<sup>53</sup>

International political and economic developments were also influential in the change of the Yugoslav development strategy, Yugoslav political economy and in the “new” society. In particular, the intensification of interaction with the international system had profound impact on the evolution of the Yugoslav system from a centrally-command economy to a “socialist market economy”.

In the initial years of the self-management and of the drifting away from Soviet-type development strategy, Western powers approached Yugoslavia –as a country at the center of Europe- very warmly. The reason for the Western interest in

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<sup>50</sup> Vuckovic, p. 362.

<sup>51</sup> Mencigener, p. 142.

<sup>52</sup> Liotta, p. 133.

<sup>53</sup> Susan L. Woodward, **Balkan Tragedy – Chaos and Dissolution After the Cold War**, Washington, DC: The Brookings Institution., 1995, p. 264-265.

Yugoslavia stemmed from Cold War's bipolar international structure. In the context of the Cold War rationale, the two major blocs competed with each other to limit the competitor's area of influence. That is why Yugoslavia's challenge against the Soviet Union was so important for Western bloc. It was vital for the West in the race against the East to detach Yugoslavia from the Eastern bloc permanently. Therefore, the West sought to forge good relations with Yugoslavia and support economically the Yugoslav-style socialism by opening its markets and extending financial and military aid to Yugoslavia.<sup>54</sup> Thus, the coincidence of Yugoslav challenge against Soviet Union and bi-polar competition between the West and East must be taken into consideration as one of the factors that encouraged Yugoslavia for the introduction of a Yugoslav-style socialist system different from the Soviet-type development strategy. For Yugoslavia, it was the golden age of its economy, rivaling Japan as the fastest growing economy, in the period between 1952-1965<sup>55</sup> thanks to the exports to western markets and direct and/or indirect foreign investment and aid from the West. Then, the conjuncture in the 1950s and 1960s helped the Yugoslav politicians and ideologues to implement the new Yugoslav model which was based on the self-management and social property unlike the Soviet model.

The positive interaction between Yugoslavia and the world economy reversed from the very beginning of the economic contraction in the world markets in the early years of the 1970s and Yugoslav economy started to worsen. The dramatic increase in the price of oil and the jump of interest rates due to the neoliberal monetarist policies affected Yugoslav economy. After this point, Yugoslav economy started to stagnate along with serious problems, represented by efficiency decrease, rising unemployment, inflation and increased inter-regional disparities.<sup>56</sup> As a result of this recession, the need for the service of external debt obtained in previous years

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<sup>54</sup> Crawford, p. 248.

<sup>55</sup> Liotta, p. 131.

<sup>56</sup> Mencinger, p. 135.

and the significant contraction of volume of exports made Yugoslavia dependent on foreign lenders for the sake of the survival of Yugoslavia's new economic system.<sup>57</sup>

From the very beginning of the 1980's, foreign creditors, including the World Bank and the IMF, imposed the usual adjustment program which proposed wage freezes, reductions in the welfare spending and privatization of "socially-owned enterprises" (SOEs).<sup>58</sup> Furthermore, foreign creditors also asked Yugoslavia to halt channeling state revenues from Belgrade/centre to the republics/periphery to be able to service the external debt.<sup>59</sup>

**Table 1: The main performance indicators of the Yugoslav economy, 1946-88**

| Period               | 46-53  | 52-62   | 63-73   | 74-80   | 80-88   |
|----------------------|--|---------|---------|---------|---------|
|                      | (average annual rates of growth, in percent) |         |         |         |         |
| GNP                  | % 2.3  | % 8.2   | % 6.5   | % 3.3   | % 0.6   |
| Industry             | % 12.9                                       | % 12.2  | % 8.6   | % 5.0   | % 2.4   |
| Agriculture          | % - 3.1                                      | % 9.2   | % 3.1   | % 2.1   | % 0.0   |
| Employment           | % 8.3  | % 6.8   | % 2.4   | % 3.4   | % 2.2   |
| Exports in US \$     | % - 3.1                                      | % 12.0  | % 14.0  | % 11.3  | % 8.0   |
| Imports in US \$     | % 3.6  | % 10.1  | % 16.6  | % 11.3  | % - 0.8 |
| Investments          |  | % 11.5  | % 5.3   | % 0.7   | % - 8.0 |
| Consumption          |  | % 6.5   | % 6.4   | % 2.2   | % - 1.0 |
| Prices               |  | % 3.6   | % 13.0  | % 42.3  | % 80.3  |
|                      | (ratios, in per cent, except rows 3 and 4)   |         |         |         |         |
| Unemployment rate    |  | % 5.01  | % 7.58  | % 13.29 | % 14.24 |
| Export/import ratio  |  | % 64.44 | % 69.44 | % 67.96 | % 87.81 |
| Labor/output ratio   |  | % 3.87  | % 2.42  | % 1.87  | % 1.90  |
| Capital/output ratio |  | % 2.28  | % 2.23  | % 2.68  | % 2.97  |
| Investment/GDP rate  |  | % 41.99 | % 38.87 | % 35.21 | % 28.60 |

Source: Mencinger, 130.

<sup>57</sup> Takis Fotopoulos, "Milosevic and the Distortion of the History of Yugoslavia's Dismembering", The International Journal of Inclusive Democracy (translation of an article which was first published in the fortnightly column of Takis Fotopoulos in the mass circulation Athens daily *Eleftherotypia* on 18/3/2006.), Vol. 2, No. 4, November 2006, p.2.

<sup>58</sup> Michel Chossudovsky, "Dismantling Former Yugoslavia, Recolonising Bosnia", Development in Practice, Vol. 7, No. 4, November 1997, p.378-380.

<sup>59</sup> Fotopoulos, p. 3.

In this regard, Ante Markovic, the last prime minister of Yugoslavia, introduced an IMF-led structural adjustment program, also known as “Markovic Law” in 1989. The program began with the premise that social ownership of the means of production was the root cause of the country’s economic problems and stressed that the so-called non-property concept of social property—whereby everyone and no one was the owner of property—was to be abandoned. According to the program, the existing relationship between management and labor was replaced by the recognition that those who provide capital were entitled to management and profit sharing rights.<sup>60</sup>

Accordingly, the SOEs were allowed to be privatized “at a 30% discount to present and former employees, other citizens and pension funds, on the basis of the book value of assets, but employees (present and former) were given a further 1% discount for each year of employment, up to a maximum of 70% of the nominal value of the shares, to be paid within a period of 10 years”. Though several limits on share issues at a discount had to be respected, the law in practice offered extremely favorable conditions primarily to insiders who were *de facto* local elites and influential workers.<sup>61</sup> The Social Capital Act, another legal arrangement related to the Markovic Law, gave workers’ councils the right to sell their enterprises to private owners.<sup>62</sup> At the end of the day, the program enabled the establishment companies as legal entities fully responsible for their own business operations and introduced four types of ownership: social, cooperative, mixed, and private.<sup>63</sup>

Markovic’s reform program paved the way for Yugoslavia’s first privatizations by proposing an employee buyout scheme of privatization that favored

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<sup>60</sup> Joze Mencinger, “*The Slovenian Transition Model*”, Montenegrin Journal of Economics, Vol.1, No.1, July 2005, p. 28.

<sup>61</sup> Uvalic, p. 2.

<sup>62</sup> Mencinger, “*The Slovenian Transition Model*”, p. 28.

<sup>63</sup> Uvalic, p. 18-19.

local authorities and “new” managerial class as a natural result.<sup>64</sup> However, privatization was not the only element of the Markovic program. Privatizations were introduced simultaneously together with some additional measures and new bankruptcy law as well. In this regard, the Markovic program led to the freezing of credit to enterprises, the opening up of the economy to foreign imports, the contraction of consumption due to falling wages and cuts to government expenditures. As to the bankruptcy law, the introduction of new law on bankruptcy required that enterprises would pay creditors within a month or face bankruptcy due to the provision that creditors were allowed to convert all debts owed to them into controlling equity interests, or, if no agreement was reached, to force all insolvent enterprises into bankruptcy proceedings. The outcome was a massive collapse of enterprises and dismissal of workers- over 600,000 thousand in 1989 and the first nine months of 1990-while a further 1.3 million more workers faced with the same fate in firms which were considered insolvent.<sup>65</sup>

Though the privatization of socially-owned assets seems to be in the interests of local elites, new owners, and gradually the republics of Yugoslavia, the other elements of the “Ante Markovic Program” were not echoed positively in the periphery. The economic austerity program of Markovic - including deregulation, liberalization and stabilization - caused adverse social-political results. The effects of the Program on the Yugoslav state and on regional cohesion were devastating<sup>66</sup>. Devaluation, wage freeze, drastic cuts to government expenditures and privatization of social enterprises resulted in an economic crisis that produced "escalating inflation, falling real incomes, consumer goods shortages and unemployment..."

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<sup>64</sup> Milic Milovanovic, “*Property Rights, Liberty and Corruption in Serbia*”, The Independent Review, Vol. XII, No. 2, Fall 2007, p. 218.

<sup>65</sup> Paul Phillips, “*Why Were We Bombing Yugoslavia*”, Studies in Political Economy, Vol. 60 Autumn, 1999, p. 92.

<sup>66</sup> Carl-Ulrik Schierup, “*Nationalist Resurrection and Its Global Contingencies*”, in The Violent Dissolution of Yugoslavia: Causes, Dynamics and Effects, ed. Miroslav Hadzic, Belgrade, Centre for Civil-Military Relations, 2004, p. 116.

which only served to intensify secessionist tendencies based on ethnic and social fractures.<sup>67</sup> The internationally-led economic program of Markovic, above all, caused a counter-reform sentiment<sup>68</sup> among the local elites of the periphery who easily exploited this sentiment as an excuse to resist against the central government. According to Obradovic, Markovic program and privatizations in particular were particularly effective in the dissolution of Yugoslavia in 1991 since Yugoslavia did not succeed to constitute the cohesion of society and a stable political economy context among different ethnic groups during the “communist” period.<sup>69</sup>

To sum up, while the privatization element of the Markovic program reinforced the concept of “group property” at the expense of social property and gradually an economic nationalism at the localities, the other elements of the Markovic program, namely devaluation, wage freeze, import liberalization, budget cuts and etc, affected local constituencies adversely. As a result, local nationalist elites sought to benefit from this situation against the central government for the sake of their vested interests.

The above-mentioned international factors and interaction with international system helped create a false impression about the Yugoslav-style economic system. The assumption until the 1970s economic crisis was that Yugoslavia, having diverged from the Soviet-type development model, succeeded in the sustainable industrialization and development. However, good performance of self-management and social property at the beginning was viable only thanks to the ample resources supplied by the West and fertile international conditions. This performance was made possible through Yugoslavia and the West benefitting from one another in the context Cold War setting. When the world economic crisis made Yugoslavia

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<sup>67</sup> Phillips, p. 90.

<sup>68</sup> Joze Mencinger, “*Uneasy Symbiosis of a Market Economy and Democratic Centralism: Emergence and Disappearance of Market Socialism and Yugoslavia*”, in *Equality, Participation, Transition*, ed. Milica Uvalic and Vojmir Franicevic, New York, Saint Martins’s Press, 2000, p. 139.

<sup>69</sup> Marija Obradovic, “*Privatisation and the Break-up of Yugoslavia*”, *South-East Europe Review*, Vol. 2, 2007, p. 49.

dependent upon the foreign creditors, it was figured out that self-management and social property alone were not sufficient for the economic development, but favorable international conditions were also needed.<sup>70</sup>

After 1970s, due to the world economic crisis, the Yugoslav economic system started to stumble. This crisis unleashed the problems inherent in the system to surface such as uneven development and ethnic concentration and reinforced secessionist tendencies championed by the new class in the periphery that consisted of managers of enterprises, local politicians, local trade unions and new owners of enterprises. Consequently, secessionist movements advocated by the newly emerging class were manifested in terms of counter-reform economic discourse. The newly emerged class of the Yugoslav periphery used internationally-led economic program as an excuse for resistance and provocations against the central government.

At the same time, the international community, especially European Community led by Germany, and the US, did everything possible to enhance the autonomous role of the periphery at the expense of the center. A US law in 1991 provided aid only to the separate republics, while the European Community organized a conference in Yugoslavia in that same year calling for “sovereign and independent republics”.<sup>71</sup>

### **3.3. Local Power Struggles after the War**

It would be impossible to understand the political economy of the privatization process in the post-conflict Bosnia without analyzing the local actors’ influence in the country. This next section elaborates on how local actors consolidate and entrench their power in the society and how they reproduce themselves both politically and economically in the post-Dayton period. Then, this section will examine how local actors interact with international actors.

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<sup>70</sup> Milovanovic, p. 217.

<sup>71</sup> Fotopoulos, “*Milosevic and the Distortion of the History of Yugoslavia’s Dismembering*”, p. 3-4.

As addressed in the previous section, the communists of Yugoslav republics had started to adopt more nationalist and secessionist discourses in their rhetoric since the 1970s. Combined with economic recession, the local political elites in republics had launched a resistance movement against the League of Communists and provoked nationalist sentiments. They had employed all possibilities of autonomy in politics and economy that had emanated from self-management mechanisms and constantly underlined the deepened uneven development and economic disparities among the republics in their nationalist propaganda. In the elections held on the immediate eve of the war, they had also succeeded to gain popular support and upper hand against the League of Communists of central authority in ex-Yugoslavia. Eventually, they had replaced the Communist elites from power.<sup>72</sup>

During the war, local elites consolidated their positions in the society taking the advantage of extra-ordinary conditions of the war and the institutional vacuum.<sup>73</sup> The cadres who commanded the war put socially-owned economic assets, companies, public services and resources under state and bureaucratic control. The new cadres got also involved in the criminal activities and grey economy through looting, smuggling, weapon trading. Thus, they owned both political and economic power.<sup>74</sup> In this regard, a complex web of alliances was built between political elites, organized paramilitary groups, tycoons and old socialist *nomenklatura* for the sake of the war.<sup>75</sup> Finally, these wartime links between nationalist political elites, criminalized warlords and old socialist *nomenklatura* resulted in the emergence of a

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<sup>72</sup> Stubbs, p. 7.

<sup>73</sup> Andreas Pickel and Timothy Donais, “*The International Engineering of a Multiethnic State in Bosnia: Bound to Fail, Yet Likely to Persist*”, presentation at the CPSA Annual Conference, Halifax, N.S., June 1, 2003, p. 14.

<sup>74</sup> Bieber, p. 35.

<sup>75</sup> Jansen, p. 190.



new societal fraction influential in the post-conflict Bosnia, though the political figures remained largely the same.<sup>76</sup>

In the aftermath of the war, these newly emerged fractions, which were also important social forces influential in the war, sought to preserve and maintain their monopolistic-like power positions through political parties. They attempted to realize their interests within nationalist political parties and joined the parties to which their ethnic origins belonged.<sup>77</sup>

This attempt of organizing masses around the nationalist parties in order to secure interests of these new fractions had two important repercussions. First, each ethnic group started supporting their own political parties, and three main nationalist political parties representing different ethnic groups of BiH gained upper hand over the non-nationalist moderate parties on the political scene of the post-conflict Bosnia. Second, political parties were organized vertically rather than horizontally and employed nationalistic motivations rather than class interests.<sup>78</sup> Therefore, main political parties of BiH that were organized in terms of ethnic lines have had very heterogeneous member structures reflecting these war-time alliances. For example, in the case of the Bosniak party, there have been devoted and Islamist-leaning politicians such as late Alija Izetbegovic, old communists and new businessmen such as Fikret Abdic, and secular émigré such as Adil Zulkifparsic. This heterogeneity has also been valid for the other two political parties of the Croats and Serbs.<sup>79</sup> The only common denominator has been ethnicity in these parties.

Since then, Bosnian politics has been overwhelmed by the three political parties organized in line with ethnic groups. The Bosniak Party for Democratic

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<sup>76</sup> Pickel, p. 15.

<sup>77</sup> Marc Weller and Stefan Wolf, “*Bosnia and Herzegovina Ten Years After Dayton: Lessons for Internationalized State Building*”, in International State-Building After Violent Conflict: Bosnia Ten Years After Dayton, ed. Marc Weller and Stefan Wolff, New York, Routledge, 2008, p. 1.

<sup>78</sup> Bieber, p. 34.

<sup>79</sup> Bieber, p. 20.

Action (SDA) has represented the Bosniaks, the Croat Democratic Union (HDZ) the Croats, and the Serbian Democratic Party (SDS) has represented Serbs in BiH. Each party has had also armed groups in reserve.<sup>80</sup> However, the influences of the political parties have been limited to the mono-ethnicized regions. They have been influential only in regions which they have had majority. They have had no country-wide support. On this account, the nationalist parties, which shared BiH on the basis of ethnic divides, have had to resort to all possible ways to remain dominant in the regions which they had ethnic majority.

In this regard, from the viewpoint of these newly emerged fractions of the Bosnian society which consisted of the leaders of war-time nationalists, criminal figures involved in the black market and the old socialist *nomenklatura*, the first priority was the preservation of the political and economic gains they had obtained during the war. The cover employed by the local elites to legitimize this priority was that it was the only way to continue to fight for the rights of their constituent people.<sup>81</sup> Thus, local elites sought to accomplish the consolidation of power in the society via their abovementioned nationalist parties.

Since economic power was also political power, they aimed at the fusion of political and economic power in their hands within the ethnically-exclusive areas of their own. Economically, these newly emerged nationalist fractions succeeded in gaining the control of almost all socially owned assets through their political parties by the late 1990s. In addition, they accomplished to appropriate the telecommunication (including broadcasting) and energy (electricity and gas) sectors by dividing along ethno-party lines which provided major sources of revenue for the nationalist parties and their supplementary structures such as militia forces. Politically, they incited constantly ethnic confrontations to justify the necessity for

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<sup>80</sup> Cousens, p. 101.

<sup>81</sup> Pickel, p. 16.

the existence of local nationalist elites and their popular support.<sup>82</sup> Furthermore, the nationalist parties also declared an amnesty for economic crimes and misuse of humanitarian aid between early 1991 and the end of 1995<sup>83</sup> which was clearly applicable to themselves.

In his “Postwar Political Economy in Bosnia-Herzegovina: The Spoils of Peace”, Pugh illustrates the corrupt connections between the black market and Bosnian politics. He gives a number of examples on how the newly emerged fractions adapted to the post-conflict Bosnia quickly and easily by enjoying the privileges of being influential in and close to the nationalist parties.<sup>84</sup> Consequently, the local elites succeeded to form a social cohesion in terms of clientelistic loyalties and patrimonial relations based on ethnic nationalism in the society thanks to the economic and political levers.<sup>85</sup> Thus, all had been done to exploit people’s sentiments and to link them to the clientelistic relations and patronage of nationalist local elites. As Marcus Cox puts it;

“...power structures were represented by three nationalist parties –(SDA), (HDZ) and (SDS). Together with their patrons in Serbia and Croatia, these parties were the main interlocutors in the Dayton peace negotiations, where they insisted on substantial regional autonomy. The three parties filled the power vacuum left by the collapse of the former League of Communists, inheriting a political tradition of direct party control over executive bodies, the military, and the management of the command economy. A key element of their power was control over public-sector appointments, allowing them to create elaborate patronage networks which gave them tight control over public institutions. These patronage systems functioned as a feudal hierarchy, in which the highest political leaders retained the loyalty of the *nomenklatura* by granting them status and opportunities for personal enrichment at lower levels.”<sup>86</sup>

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<sup>82</sup> Michael Pugh, “*Rubbing Salt into War Wounds : Shadow Economies and Peacebuilding in Bosnia and Kosovo*”, Problems of Post-Communism, Volume 51, Number 3 / May-June 2004, p. 56.

<sup>83</sup> Michael Pugh, “*Transformation in the Political Economy of Bosnia Since Dayton*”, International Peacekeeping, Volume 12, Issue 3, October 2005, p. 451.

<sup>84</sup> *Ibid.*, p. 470-473.

<sup>85</sup> Divjak, p. 373-374.

<sup>86</sup> Cox, p. 7.

However, the consolidation of authority and entrenchment of local elites was not an easy task as it appeared because the local elites were under double pressure from both international community and Bosnian constituencies at the same time. On the one hand, the local elites were exposed to the pressure of international actors who dictated their own agenda from above, namely full compliance with Dayton in the context of neoliberalism. The local elites had to introduce new reforms recommended by the international actors if they wanted to benefit from large amounts of funds that were vital for the survival of BiH.<sup>87</sup> On the other hand, Bosnian constituencies urged local elites from bottom to provide jobs, housing and subsistence.<sup>88</sup> Responding to both neoliberal and popular demands simultaneously was a challenge to overcome by the local actors. Therefore, the local elites had to set a delicate balance between these two contending pressures while seeking to consolidate their authority.<sup>89</sup>

Furthermore, the issue of “external patrons” created an additional difficulty that aggravated the setting of a new balance between these two contending pressures emanating from the shallow interests of external powers to manipulate the conditions in favor of their strategies. The external patrons for Bosnian Muslims were a number of Islamic states in Middle East and Asia, including Iran, Malaysia, Saudi Arabia, Pakistan and Turkey as well as the US (to limit Iran’s influence); for Bosnian Croats Croatia, and for Bosnian Serbs Serbia were crucial supporters.<sup>90</sup> The Bosnian Serb and Bosnian Croat communities were not even direct parties to the Dayton Agreement, which was instead signed by the leaders of the then Federal Republic of Yugoslavia and Croatia in their stead.<sup>91</sup> These external powers constantly involved

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<sup>87</sup> Weller and Wolf, p. 10-17.

<sup>88</sup> Woodward, “*Bosnia After Dayton: Transforming a Compromise into a State*”, p. 157.

<sup>89</sup> Marius Soberg, “*Empowering Local Elites in Bosnia and Herzegovina: The Dayton Decade*”, *Problems of Post-Communism*, Volume 53, Number 3 / May-June 2006, p. 57.

<sup>90</sup> Woodward, “*Bosnia After Dayton: Transforming a Compromise into a State*”, p. 161.

<sup>91</sup> Weller and Wolf, p. 1.

and intervened in the Bosnian politics for the sake of their own plans. Thus, the local elites were faced with triple challenges, namely the dictates of IFIs and neoliberal globalization, external patrons' political demands, and the needs of the Bosnian people, in their task to consolidate and entrench their status.

To this end, the local actors had to exploit all dilemmas of the decentralized and aid-dependent BiH which was created through the Dayton system<sup>92</sup> and reconstruction/transition programme, and benefitted from ethnic tensions among the three constituent groups. It can be suggested that the one and only common point on which all ethnic parties agreed was the maintenance and consolidation of power in the face of local and international demands. Thus, the privatization process was one of the most important essentials in their consolidation of power.

### **3.4. Conclusion**

The interaction between the self-management and social property in the Yugoslav system and the international conditions explained above created autonomy for the periphery of Yugoslavia. At the outset, the decentralized system was fruitful in terms of macroeconomic indicators, and all elements of Yugoslavia benefitted from it. However, competition caused by this system among the republics for obtaining revenues and income generation led to uneven development among different regions of Yugoslavia. In this context, the peripheral autonomy, when it was combined with the world economic crisis of 1970s, started to degenerate the property regime and self-management system. Many workers and local politicians began to feel that they were the real owners of their enterprise and interpret the "social property" as "group property".<sup>93</sup> The movement of nation-wide trade unionism also started to be re-aligned and re-organized with local/nationalistic motives.<sup>94</sup> Consequently, the "group property" perception along with local trade

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<sup>92</sup> Donais, p. 59.

<sup>93</sup> Uvalic, p. 2.

<sup>94</sup> Liotta, p. 133.

union movement aggravated the ethnic competition, thereby leading ethnic concentration among the republics<sup>95</sup> and “economic nationalism” at local level.

Peripheral autonomy for local authorities, uneven development, and ethnic concentration fuelled “economic nationalism” championed by a new class consisted of local politicians, managers of worker’s councils, and local trade unionists. On the other hand, during the 1980s, foreign creditors continued to incite for more decentralized Yugoslavia through their economic means and adjustment programs carried out by the IMF. With the “Ante Markovic Program”, Yugoslav government initiated a new adjustment program including privatization of “socially-owned companies” by means of selling enterprises to employees, which in practice meant their being sold to their managers. After the transfer of the ownership of the enterprises to the employees, the employees joined the “movement of economic nationalism” as the new owners.

In the immediate aftermath of the war, the newly emerged fracture of class which included the war-profiteers, bureaucrats, political figures, old socialist *nomenklatura* and managers of the socially-owned enterprises started to play crucial role in Bosnian political economy. Though the roots of this new fracture of ruling class dated back to the pre-war years, they became dominant during the war. Benefitting from the flaws caused by Dayton and the reconstruction programme, the newly emerged class consolidated its power. They got organized as three political parties, one for each ethnic group, in line with the nationalist motivations, and succeeded in exploiting nationalist sentiments and the hostilities among these three ethnic groups. They also controlled all productive assets which were necessary for the survival of the population thereby establishing clientelistic and patrimonial relations. Doing so, they also gained influence to be able to lead the masses. They improved their leadership capacities in the society. However, as time passed, it became clear that the real motivation of these newly emerged fractions of class was

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<sup>95</sup> Obradovic, p. 42.

the consolidation of power and reinforcement of their positions instead of “nationalist” ideals as it was the case for international actors.

On the other hand, international community was determined to implement the same “recipe”, which was employed in Yugoslavia, in BiH this time in the post-war reconstruction process with almost the same arguments. However, this time, the geographical scope of the proposed economic recovery and development strategy covered BiH which was divided among the Serbs, Croats and Bosniaks in the aftermath of the international community’s intervention to stop the fierce war among them.

It was supposed that Bosnia’s “new” class would have been against other rival ethnic groups as well as the IMF, World Bank, the European Community and the US in the post-Dayton period. It was also supposed that the “new” class organized the resistance and provoked counter-reform sentiments against the international community’s “recommendations” given their earlier stance towards the Markovic programme in the pre-war period. Since they resisted the Markovic programme and perceived it as a threat against themselves and their property, one would have supposed that the local actors tried to resist the reforms and privatization projects put forward by the international community. The next chapters will question whether this was the case.

The privatization process must be seen in the light of the abovementioned post-war configuration and analyzed accordingly. Without taking into account the context of the post-conflict period, immediate needs of Bosnian people, demands of international community and the interplay between the local and international actors in terms of neoliberal globalization, it is not possible to grasp the whole picture about the privatization process in BiH.

## CHAPTER 4

### NEOLIBERAL DISCOURSE OF INTERNATIONAL ACTORS IN THE BOSNIAN PRIVATIZATION PROCESS

#### 4.1. Introduction

In the aftermath of the war in Bosnia-Herzegovina, international community coordinated by the World Bank and the European Commission (EC) held a series of conferences to recover the war-damaged country and declared a 5.1bn \$ reconstruction package called Priority Recovery and Reconstruction Program. The Program prioritized three areas, namely economic reconstruction, social rehabilitation, and political restoration to compensate BiH's losses and integrate the country with the world as well as Europe.<sup>96</sup>

In the implementation of the reconstruction program, once the emergency response for the immediate needs of the country was met, transition to a smoothly functioning market economy within the context of neo-liberal restructuring was brought to the fore as one of the primary goals of the Program and its aftermath. In this regard, international organizations and bilateral donors launched different programs and projects to achieve the Bosnian transition. And as in other transition countries, privatization of the state-owned assets (or socially owned enterprises, SOAs/SOEs) and transfer of these assets from public into private hands became the main theme of these programs and projects. Banks, SOEs and houses were to be privatized to realize sound market economy in BiH.

This chapter will analyze the approach of the World Bank, IMF, USAID and the European Union on the privatization process in BiH. Official reports and

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<sup>96</sup> **Bosnia-Herzegovina: Towards Economic Recovery**, Washington, World Bank Report, 1996, p. 9-15.



publications of the aforementioned institutions from 1995 to 2008 will be examined in order to answer the following questions:

- What were the main arguments and justifications of international donors that involve in the reconstruction and transition process of BiH for promoting privatization?
- What were the similarities and differences between the privatization strategies in BiH and other transition countries?
- What were the main challenges and obstacles encountered by the donor institutions during the implementation of privatization programs in BiH?

After the examination of the arguments and justifications put forward by the donor institutions for privatization, privatization strategy in BiH will be addressed. Then the challenges and obstacles faced during the privatization process will be examined. The chapter will finally evaluate the success of the donors' program.

#### **4.2. Arguments of the World Bank**

The World Bank, together with the European Commission, was the leading and coordinator agency for the reconstruction of BiH after the war. With a budget exceeding \$1 billion, the World Bank has so far conducted projects to support all sectors of the economy, to establish viable macroeconomic framework, and to ensure transition from socialist economy to a market economy primarily through privatizations.<sup>97</sup>

In this context, the first pro-privatization argument of the World Bank was to underline the differences between SOEs and private enterprises in terms of "Goals". World Bank argued that privatization was necessary since state-owned enterprises would not function in terms of economic motives. Rather, the SOEs were instruments to meet the demands of politicians and they pursued primarily and

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<sup>97</sup> **Country Assistance Strategy Paper**, Washington, World Bank Report, 2009, p. 15.

inevitably political goals instead of economic ones. As explained in the World Bank report titled *Building Market Institutions in South Eastern Europe*, “venerable industrial firm in BiH, established in the 1930s, provides an illustration of the difficulties posed by continued state ownership of a firm better suited for private ownership. Appointments to management board are reported to be politically motivated-all appointees are members of political parties- and the firm consequently must pursue the goals of politicians rather than maximizing profits.”<sup>98</sup>

Another point on this “Goals” issue is that, in one of the World Bank reports, it was claimed that employees in the SOEs, be it managers or workers, had no incentives to achieve maximum profit and/or to preserve financial structure of the SOE. According to the report, the underlying cause of this “irresponsibility” was that the SOEs would benefit from easily obtained public subsidies, guarantees and credits. In this regard, public intervention in the economy would lead to the spread of inefficiency and misuse of resources.<sup>99</sup> For the World Bank, inefficient and politically-oriented SOEs were the main obstacles in the way of economic growth and development since the SOEs distorted the functioning of market mechanisms. Once the problem was identified as such, transferring of state assets into private sector from public in BiH was deemed by the World Bank as the obvious and appropriate solution on the basis of the Bank’s presumption that the private sector, unlike the SOEs, moved in line with self-regulating market.

The second argument the World Bank developed on privatization in BiH was “Performance”. The World Bank experts believed that the performance of the economy after privatizations would improve in the mid and long- term since privatization laid the foundations of private sector development which was perceived by the World Bank as the engine of sustainable growth. The World Bank argued that privatization would improve the economic indicators, in particular FDI inflow, job

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<sup>98</sup> Harry G. Broadman, Anderson, James et. al., **Building Market Institutions in South Eastern Europe**, Washington, World Bank Publications, 2004, p. 224.

<sup>99</sup> **Privatization Technical Assistance Credit: Implementation Completion and Results Report**, Washington, World Bank Publications, 2007, p. 7.

generation, export volumes as well as the enterprise efficiency, technological and managerial performance which in turn fed sustainable growth.<sup>100</sup>

In this context, the more private sector developed according to the World Bank, the better economic performance be reached in BiH. “Idle and outmoded production patterns” of the SOEs could have been utilized in a more efficient and active way by the private sector, had it been created. By way of introducing new managerial skills and productive capacities, private enterprises would have replaced “dysfunctional” public sector and thus would be able to stand on their own feet in world markets.<sup>101</sup> Consequently, economic expansion could have been achieved and private sector-led economic growth might have brought about more jobs, more export volumes and competitiveness in the international markets, whereby attracting more inflow of FDI.<sup>102</sup> Therefore, according to the World Bank, BiH authorities should have established rapid and simple privatization mechanisms, which were also conducive to the inflow of FDI. Moreover, a World Bank report<sup>103</sup> suggested that “there is evidence that foreign privatization is associated with increased employment and wages in a sample of countries such as Hungary, Romania, Russia, and Ukraine”. On the basis of the emphasis the World Bank put on foreign privatization and correlation between FDI inflow, employment and wages, one can argue that World Bank, where it was possible, preferred and recommended foreign investors to buy state assets.

The third argument of the World Bank for privatization in BiH was that privatization would help introduce “Market Discipline”, macro economic stability and sustainable economy. The Bank argued that the continuing operations of

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<sup>100</sup> Daniel Müller-Jentsch, “**Deeper Integration and Trade in Services in the Western Balkans**”, World Bank-European Commission Office for South East Europe, Brussels, 2007, p. 9.

<sup>101</sup> **Country Assistance Strategy Paper**, Washington, World Bank Report, 2000, p. 10.

<sup>102</sup> **Country Assistance Strategy Paper**, Washington, World Bank Report, 2004, p.14.

<sup>103</sup> Erwin R. Tiongson and Yemtson, Ruslan, “**Bosnia-Herzegovina 2001-2004: Enterprise Restructuring, Labor Market Transitions and Poverty**”, Policy Research Working Paper, World Bank, 2008, p. 22.

insolvent SOEs hampered development of private sector activity by absorbing scarce financial resources or added to domestic debts that would inevitably become the responsibility of government.”<sup>104</sup> Thus, the privatization of the SOEs would pave the way for private sector operations and reduce their fiscal burden in the state budget. On the other hand, curtailing of fiscal burdens of SOEs would also provide budget discipline and gradually lead to sustainable growth. With the retreat of the public intervention in the economy, opening of markets to private sector actors would constitute an important basis for self-regulating market which could be regarded as one of the building blocks of growth.

Taking into consideration large trade and current account deficits of BiH economy and declining levels of donor funds year by year, disposal of the SOEs together with their debts would contribute to disseminate the risks of economic fluctuations among the private actors. Thus, privatization implementations -with the removal of “distorting effect” of public assets from the economy- would contribute to strict budget policy practices, economic stability and market discipline due to private “rational” market players and invisible hand of market economy. Privatization was also in the interest of consumers since with the introduction of private sector, service quality and competitiveness would be enhanced.<sup>105</sup>

Another point suggested in the World Bank reports was the privileged market positions of state assets due to the political support.<sup>106</sup> This issue was specifically underlined in the reports as it inevitably affected smooth functioning of the market.

The fourth argument the World Bank resorted to for the privatization process in BiH was “Political Influence”. The Bank argued that state assets, particularly SOEs, were units that were always exposed to political exploitation due to various reasons. Almost all publicly owned utilities and enterprises in BiH were managed by

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<sup>104</sup> **Bosnia and Herzegovina: Post-Conflict Reconstruction and Transition to a Market Economy**, Washington, World Bank Report, 2004, p. 23.

<sup>105</sup> **Country Assistance Strategy Paper**, World Bank Report, 2000, p. 3-12.

<sup>106</sup> *Ibid.*, p. 22.

figures, who had close ties with one of the three ethnically based parties.<sup>107</sup> As such, revenues from public assets were used to subsidize political parties and intelligence services which had interest in the continuation of ethnic rivalry. Political figures were also involved in black market and organized crime by using the revenues obtained from SOEs assets during the ethnic conflict.<sup>108</sup> The political influence certain political figures enjoyed through access to the benefits of the SOEs in turn stood as one of the major obstacles in the way of privatization efforts of the World Bank in the BiH. The Bank argued that “political patronage over state-owned enterprises and siphoning off funds from state-owned assets to finance political campaigns and personal enrichment”<sup>109</sup> were the main reasons for resistance against privatization process which would also reduce the value of SOEs and render them less attractive for foreign investors.

It was also advocated in some reports that eradication of political influence was crucial for reaching a peaceful BiH, as enshrined in the Dayton Accords. The World Bank claimed that the politicization of the SOEs would affect negatively the peace process due to the probable discrimination along the ethnic lines in terms of employment.<sup>110</sup> This situation was reflected in the reports of the World Bank as follows:

“Deepening the separation between politicians and firms involves policy measures ranging from further privatization in countries where significant portions of the productive economy remain partially or fully state owned, to establishing clear governance mechanisms that moderate conflicts of interest”<sup>111</sup>

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<sup>107</sup> Harry G. Broadman, Anderson, James et. al., “**Building Market Institutions in South Eastern Europe**”, Washington, World Bank Publications, 2004, p. 63.

<sup>108</sup> John Bray, “**MIGA’s Experience in Conflict-Affected Countries: The Case of Bosnia and Herzegovina**”, Washington, World Bank Publications, 2004, p. 11.

<sup>109</sup> Ibid., p. 23.

<sup>110</sup> **The Road to Stability and Prosperity in South Eastern Europe**, Washington, World Bank Report, 2000, p. 40.

<sup>111</sup> Harry G. Broadman, Anderson, James et. al., “**Building Market Institutions in South Eastern Europe**”, Washington, World Bank, 2004, p. 252.

“One much-quoted, and still controversial, example is the Aluminij Mostar company which was one of the most successful companies in pre-war Yugoslavia. The factory is still profitable, albeit much smaller, and is understood to be controlled by the HDZ party. Before the war, its workforce came from a variety of ethnic backgrounds but now all are Croats.”<sup>112</sup>

Furthermore, another aspect -in the World Bank reports- which was closely connected to “political influence” issue was the debate on corruption, accountability and transparency. World Bank argued in these reports that the main reason for corruption was the politicization of the firms.<sup>113</sup> Reports stressed that achieving non-corrupt, more accountable and transparent economic structures and market was only possible through the privatization of state assets. As a matter of fact, the World Bank proposes privatization as the first and foremost way to eliminate corruption in countries like BiH.

As a fifth argument, the Bank believed that privatization of certain sectors in BiH would help the “integration” process of the country with its neighbors as it would allow room for cooperation among BiH and its neighbours. Such privatization efforts would also help BiH’s integration to the European Union. One such area of privatization would be the infrastructural utilities. In this context the Bank gave the example of liberalization of railways in South Eastern Europe (SEE) and stated that “in the process of European integration, closer cooperation among the SEE railways and rationalization of investment in locomotive and rolling stock workshops, management information systems and route structure could help them improve cost efficiency due to their smaller size and scale. SEE governments could facilitate the revitalization of their railways and stop or possibly reverse their decline by

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<sup>112</sup> Bray, p. 11.

<sup>113</sup> Broadman et. al., p. 252.

introducing liberal conditions for their mergers across national frontiers and even for privatization of certain rail businesses.”<sup>114</sup>

The final argument put forward by the World Bank in favour of privatization in BiH was the improvement of “quality of life”. According to the Bank, privatization of media would come along with free press and media plurality leading to the evolvement of democracy in BiH. On the other hand, privatization of outdated firms and utilities would also reduce the level of environmental pollution in BiH.<sup>115</sup>

### **4.3. Arguments of the IMF**

From the very outset, the IMF has also been involved in the transformation of BiH’s economy toward a more liberal and integrated one. In this regard, the IMF has provided budget support, technical assistance and some grants within the context of the SAPs. The total volume of “aid” extended by the IMF to BiH was over \$300 million from 1995 to 2008.<sup>116</sup>

As one of the leading actors of the global economy, IMF has also been very keen on privatization in BiH. For this purpose, IMF, as World Bank did, continuously underlined the importance of privatizations in BiH’s reconstruction and transition process. Additionally, the IMF proposed privatizations as an indispensable component of poverty reduction strategy, transition, and European integration on all occasions. Main arguments of the IMF for privatization in BiH were as follows.

The first argument the IMF put forward was the “Performance” of the economy. Generally, the IMF believed that performance of the economy would improve through the implementation of its privatization programs. According to the

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<sup>114</sup> **The Road to Stability and Prosperity in South Eastern Europe**, Washington, World Bank Report, 2000, p. 125.

<sup>115</sup> Ibid., p. 99.

<sup>116</sup> *Official web site of the IMF*, accessed on 29.10.2010.  
<http://www.imf.org/external/np/fin/tad/extcred1.aspx>.

IMF, the primary instrument to achieve competitiveness was private sector development which could only be achieved through the privatization of state assets.

From the IMF perspective, 60% state owned economy was the biggest impediment in the way of the development and growth of economy that public sector dominated BiH economy would not provide fertile ground for better corporate governance. Better corporate governance was perceived by the IMF as an integral part of achieving competitiveness. Innovations in corporate governance structures were needed to achieve competitiveness which had not been possible to date in BiH with “humble” public enterprises. The IMF suggested that privatization would be an impetus for innovations in corporate governance because new firms would introduce new managerial skills and productive capacities. Thus, thanks to these innovations and improvements in terms of corporate governance, BiH competitiveness would be strengthened. As the economy would become competitive, the trust of investors in the economy of BiH would increase and the economy would start to grow steadily day by day. Otherwise, BiH would have an outdated and risky economy in which public sector often intervened.<sup>117</sup> Therefore, privatization was considered as an opportunity for the introduction of better corporate governance structures in the economy and as a step toward economic growth.

In the context of economic performance, the IMF also believed that “it (privatization) is necessary to facilitate export and insure bigger inflow of foreign investments”. As known, the IMF saw creating an export-oriented economy as an insurance and stabilizing factor against trade and current account deficits. As such, privatization was encouraged because private sector would concentrate on exporting to new markets in search of profit maximization. Furthermore, the IMF believed that there was a relation between efficiency of privatization and foreign investment. According to the IMF, slow and inefficient privatization experienced in BiH so far was one of the factors for the inflow of small amounts of foreign investment because

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<sup>117</sup> **Bosnia and Herzegovina: Poverty Reduction Strategy Paper-Joint Staff Assessment**, Washington, IMF Report, 2005, p. 14.



among other transition countries, BiH was at the bottom of privatization index in terms of efficiency.

The IMF also defended privatization in its reports, and suggested that privatization alone could not be blamed for unemployment rates as demobilized soldiers, family members of killed soldiers, people with disabilities due to the conflict were the other factors that increased the unemployment figures.<sup>118</sup> Moreover, in a report, IMF championed privatization implementations since it would increase employment in the mid- and long- terms as follows:

“...a recent survey by the World Bank and domestic experts, based on a sample of 100 newly privatized companies, indicates the emergence of a different trend. Industrial production over the last three years has been constantly on the rise, especially export-oriented production. On the other hand, employment in these companies has remained relatively at the same level with only a slight increase. Although most of these companies still operate with losses, their results are significantly better than of the remaining state-owned companies. These are grounds to state that the newly privatized companies will continue to operate successfully and have a positive effect on the overall economic development of the country. The experience of other transition countries was that it took roughly three years for the effects of reforms to start being felt.”<sup>119</sup>

Consequently, IMF addressed privatization as a crucial factor for employment generation, higher efficiency, increasing export, introduction new governance structures and new investments as well as “broader and better quality at lower prices” in consumption.

The second argument of the IMF was “Market Discipline”. According to the IMF, privatization was necessary for BiH due to the fact that privatization would help create a proper atmosphere for macroeconomic stability, provision of market discipline, and economic credibility – as opposed to the outcomes of public sector dominance in the economy. The IMF assumed that profitability and productivity of SOEs were always lower than the private sector’s efficiency because private sector

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<sup>118</sup> **Bosnia and Herzegovina: Poverty Reduction Strategy Paper**, Washington, IMF Report, 2004, p. 25.

<sup>119</sup> *Ibid.*, p. 66.

acted rationally. Thus, private sector development and private sector-led economy should be encouraged through privatizations.<sup>120</sup>

The IMF also underlined the positive effect of privatization of state assets on the budgetary discipline. The IMF suggested in a report that privatization would also help enhance the sound budget structures due to reductions in the amount of money transferred to SOEs to compensate their “losses”. This way, debt reduction would accelerate since the need for borrowing decreases with privatization revenues/receipts. As a result, market discipline and stability would be achieved in the economy through privatization.

In the context of the “Market Discipline”, the IMF argued that privatization of the SOEs would pave the way to re-regulate the –allegedly- higher wages resulting from the well-organized labor class in the public sector which had gains inherited from the socialist period, including collective bargaining and right to strike. Relatively higher wages in BiH had ramifications on competitiveness of the economy causing the higher production costs. In this regard, the IMF proposed privatization of the SOEs to de-organize labor class and to re-regulate the wages in line with the new market conditions.

The third argument identified in the IMF reports was “Political Influence”. The IMF argued that political influence would lead to corruption and it was one of the obstacles in the achievement of sustainable economy. The IMF perceived political influence as the root-cause of corruption in BiH as well as in other transition countries. As such, the IMF argued that political influence and corruption should be considered together and it was necessary to push BiH toward approving more accountable and transparent structures in all spheres and at all levels of economic life. Privatization of state assets was therefore put forward by the IMF as a remedy to corruption, eradicating the *raison d’être* of corruption.<sup>121</sup>

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<sup>120</sup> Ibid., p. 37.

<sup>121</sup> Ibid., p. 63.

Lastly, the IMF stressed the role of privatization in the efforts of BiH to integrate with international markets<sup>122</sup> and the European Union.<sup>123</sup> As to the integration with the EU, an IMF report stated that in the light of the requirements of the Stability and Association Agreement (between the EU and BiH), the success of privatization would lead to the creation of a functioning market economy, which meant the fulfillment of the Second Copenhagen Criterion.<sup>124</sup>

#### **4.4. Arguments of USAID**

USAID has been another active donor in the reconstruction process of BiH. The USAID has stressed that its main objectives in BiH are striving for a stable post-conflict country, provision of smoothly functioning and dynamic market economy and building a democratic society and modern state. In this regard, USAID funded various projects and programs which amounted to 1,2 bn \$.<sup>125</sup>

USAID was assigned by the OHR as the leading agency responsible for privatizations during the reconstruction and recovery process of BiH on behalf of the international community. In this regard, USAID drafted the privatization legislation to establish privatization institutions and to raise the public awareness on privatization toward more “pro-privatization” inclinations.<sup>126</sup> Therefore, it is of utmost importance to analyze the USAID report and documents.

As Bretton Woods institutions did, USAID, too, published some reports, documents, evaluations and assessments related to privatizations in BiH. In these

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<sup>122</sup> Ibid., p. 40.

<sup>123</sup> Ibid., p. 40.

<sup>124</sup> Ibid., p. 40.

<sup>125</sup> *Official website of the USAID*, accessed on 29.10.2010. [www.usaid.ba](http://www.usaid.ba).

<sup>126</sup> Sandra L. Libby, Rendon Jr., John W et. al., “**Public Education Services for Privatization and Economic Restructuring Efforts in Bosnia**”, Washington, The Rendon Group Publications, 1997, p. 3-5.

papers, there were similar, familiar and usual justifications and arguments why privatization was necessary in BiH to recover and reconstruct the economy, to achieve transition and to eradicate poverty.

First of all, as to the “Performance” issue, USAID suggested that with the acceleration of privatization, BiH economy would have evolved to secure export-oriented nature of economy.<sup>127</sup> Export volumes would have increased due to the enhancement of efficiency and competitiveness. Efficiency and competitiveness of private firms in world markets would have risen since well-managed private firms which have stronger corporate governance structures could have functioned more efficiently than poorly administered state-owned firms. From the USAID perspective, private sector was also better than public sector in creating jobs and serving consumers since private sector would have grown in a more sustainable manner.

On the website [www.privatization.ba](http://www.privatization.ba) set up by USAID to raise public awareness on privatization, USAID officials expressed their expectations from privatization in the “frequently asked questions” section. They claimed that privatized companies would have been restructured in line with the necessities of market conditions and thus, they would have become more efficient, competitive, and profitable. Then, economy would have grown through the improvements and technologies introduced by these privatized firms, whereby creating new jobs. In the website, they also argued that the number of jobs created by privatized firms might be ahead of the number of job losses due to privatization in a very short period of time.<sup>128</sup>

The claim that privatization led to foreign investment together with its new productive and managerial capacities was another argument to which USAID resorted in its reports. Since foreign investors hesitated to invest in companies run by

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<sup>127</sup> USAID/Bosnia and Herzegovina Strategy Paper 2006, Washington, USAID Report, 2005, p. 38.

<sup>128</sup> Libby et. al., “Public Education Services for Privatization and Economic Restructuring Efforts in Bosnia”, p. 362.

the state, privatization of state assets would have increased the credibility of business environment in BiH. Thus, foreign investors would have brought the advantages such as investment capital, new technology, new production methods, management skills, access to foreign markets and access to distribution channels.<sup>129</sup> Seemingly, the USAID also preferred foreign investors, like other donors did, instead of local ones in the privatization.

As other donors did, USAID, too, enjoyed the argument that privatization would have provided the “Market Discipline” for BiH economy. Privatization would have enhanced the competition in the market economy in which companies pushed to work harder for survival. All firms would have started embarking on decreasing costs and improving the quality of their products for survival. Only this way, firms would have competed with each other in the free market to obtain bigger shares. Thus, firms that were managed better and realized productions with lower costs would have established a sound economy from which the state also benefited. At the end, market discipline and macro economic stability would have been accomplished without any public intervention, only better firms would have survived in the market, customers would have owned better products with lower prices.<sup>130</sup> However, all of these positive developments, from the USAID perspective, could have only been reached through the low wages for labor. To lower the wages, the state should have retreated from economy via privatization implementations, diminishing the impact of well-organized labor class.

On the “Political Influence and Corruption” issue, USAID approved to eliminate pre-war financial control structures and state assets through privatization. According to USAID, main reason for corruption was the assets owned by the state and control of these assets by politicians. Immediate privatizations would have provided more accountable and transparent economy free from corruption, because firms would have been audited transparently with new corporate structures and

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<sup>129</sup> Ibid., p. 370.

<sup>130</sup> Ibid., p. 371.

subjected to effective control and supervision of agencies that regulate market economy.<sup>131</sup>

USAID also underscored the impact of privatization in creating plurality and democracy. With the privatization of media, free press would have ensured a “checks and balances system” and monitor the actions of politicians, political parties and local groups for the sake of Bosnians. USAID said that efforts on the privatization of media was not an economic move, but should have been regarded as a step toward the building of democracy in BiH. Accordingly, the USAID also put forward civil/liberty concerns as well as economic ones in the privatization process.

As for other major arguments in the reports, USAID hoped that privatization would have also encouraged people to return to their homes due to creation of new opportunities through privatization in the BiH economy. On the other hand, USAID also acknowledged and stressed that the success of privatization would have depended upon the defending of human and property rights for all enterprises and all citizens evenhandedly by the state apparatus. Then, in BiH, the State, entities and local authorities must have implemented the provisions of legislation related human and property rights without any discrimination among rival ethnic groups in their purview. Thus, according to the USAID, it was the state apparatus to be designated as responsible for any failure in the returning process, not the privatization program advocated by the donors from the very outset of the reconstruction period.<sup>132</sup>

USAID also claimed that peace and harmony would have prevailed on the society thanks to privatization. According to USAID, interaction and cooperation which could have been ensured through free initiatives in the private sector, privatization helped diminish separation among three ethnic groups.<sup>133</sup> Since people who had a stake in the success of economy would not have been inclined to conflict.

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<sup>131</sup> **Crime and Corruption Threaten Successful Implementation of the Dayton Peace Agreement**, General Accounting Office, Washington, GAO Publications, 2000, p. 6.

<sup>132</sup> Libby et. al., “**Public Education Services for Privatization and Economic Restructuring Efforts in Bosnia**”, p. 358-359.

<sup>133</sup> Ibid., p. 359.

All had an interest in maintaining stability and prosperity. Subsequently, sustainable peace might have been reached among the ethnic groups.

#### **4.5. Arguments of the EU**

Though the EU was not involved in the reconstruction of BiH directly, it has implemented a number of projects via its bodies such as the EC, EBRD and closely monitored the activities in BiH both through EU Special Representative in BiH and EU's policy of "Stability and Association Process" toward South Eastern Europe. EU has so far transferred approximately € 1,2 billion for the recovery of BiH. The EU has seen the creation of market economy in BiH and integration of the BiH's economy with international markets is an area in which EU has also stake. In this regard, EU's stance on privatization process in BiH and how the EU approached the issue needs to be identified by examining the official reports.

The first argument to be dwelled upon by the EU is "Performance". The EU stated in the 2008 Progress Report that "slow privatization" was hampering the efficient allocation of resources by market mechanisms.<sup>134</sup> In another report, the EU highlighted that the reason for slow pace of privatization was persistence of local authorities due to the massive losses generated by mismanagement, theft, neglect and exploitation of public assets for private gains.<sup>135</sup> The EU considered the public sector as an inapt and corrupt structure which precluded BiH from efficient market mechanisms.

In 2007 Progress Report of the EU, the establishment of Investment-Development Bank of Republika Srpska for managing the remaining state assets, completion of privatization and investing revenues from privatization process was appreciated. However, in the same report, it was also noted that the activities of the

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<sup>134</sup> **Bosnia and Herzegovina 2008 Progress Report**, Brussels, European Commission Report, 2008, p. 30.

<sup>135</sup> **Bosnia and Herzegovina Stabilisation and Association Report**, Brussels, European Commission Report, 2003, p. 27.

mentioned body might have posed the risk of crowd-out private sector. The EU encouraged liberalization and deregulation in the economy through privatizations.<sup>136</sup> Accordingly, the EU addressed the privatization in BiH from the perspective of harmonization with the EU institutions.

In the context of corruption, the EU addressed privatization as an important factor in the alleviation of the problem. According to the EU, party-controlled economic structures and links existed between companies and state might have led to widespread corrupt activities in BiH. In this regard, the fact that the economic and political structures interlocked in BiH might have affected the privatization process negatively. Therefore, The EU suggested that privatization should have been accelerated in order to bring down potential resistance of the BiH opposition.<sup>137</sup>

#### **4.6. General Strategy of the Donors on Privatizations**

As the discussion above indicates, the main donors in BiH emphasized the necessity of the privatization of state assets for the reconstruction of Bosnia as a free market and “democratic society”.

Firstly, all actors involved in privatization in BiH approved the rapid implementation of privatization practices. According to them, rapid privatization was essential for the prevention of the erosions in the value of state capital, for increasing the volume of foreign investment and for integration with the international markets, for acceleration of the economic growth and for making it sustainable. In this sense, the conventional privatization strategy within the context of “shock therapy” -namely “splitting off useful parts of state assets and selling them through simple and rapid privatization mechanisms”<sup>138</sup>- has been implemented in BiH, exactly the same as in

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<sup>136</sup> **Bosnia and Herzegovina 2007 Progress Report**, Brussels, European Commission Report, 2007, p. 25.

<sup>137</sup> **On the preparedness of Bosnia and Herzegovina to negotiate a Stabilisation and Association Agreement with the European Union**, Brussels, European Commission Report, 2003, p. 16.

<sup>138</sup> **Bosnia-Herzegovina: Towards Economic Recovery**, Washington, World Bank Report, 1996, p. 9.



the other transition countries. It can be argued donors have not taken into consideration the priorities of BiH which had undergone a fierce armed conflict unlike the other transition countries.

The privatization strategy for BiH developed by the donors has also included “conditionality”. For example, for the EU macrofinancial assistance, in the form of loans or grants, was made conditional on the implementation by the countries concerned of economic programmes supported by the IFIs and of specific structural reforms of interest for the EU. Amongst such structural reforms were the improvement proposed in the functioning of public finances, restructuring and privatisation of large state enterprises, reforms in the energy and telecommunications sectors, reform of the banking system, etc.”<sup>139</sup>

On the “conditionality” issue, from the very outset, USAID defended the same stance pursued by other international actors in BiH. In this regard, it declared, in May 1997, to halt financial aid to the SOEs in case of lack of progress in privatization efforts. Eventually, within the context of conditionality, in December 1999, the US suspended to fund some of its privatization programs implemented because BiH officials had not provided required documents for the privatization program.<sup>140</sup>

IMF and World Bank also agreed on conditionality. According to them, debt write-offs and rescheduling of debts must have been made conditional on restructuring and management change in the state owned firms which were in the privatization process.<sup>141</sup>

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<sup>139</sup> **Annual Report 2003 on the European Community’s Development Policy and Implementation of External Assistance in 2002**, Brussels, European Commission Report, 2003, p. 102.

<sup>140</sup> **USAID/Bosnia and Herzegovina: Bosnian Reconstruction Program 1998**, Washington, USAID Report, 1998, p. 9.

<sup>141</sup> **Bosnia and Herzegovina: Selected Economic Issues 2005**, Washington, IMF Report, 2005, p. 45-46.

Main international actors mentioned above also approved to categorize state owned assets before privatization. This way, donors have attempted to determine proper methods for each category to accomplish an effective privatization program. In this regard, they categorized state assets as follows:

- Financial Sector
- State Owned Enterprises
  - Small and Medium Enterprises
  - Public Utilities, Infrastructure Companies and Strategic Enterprises
- Houses

Mass privatization, tender sale and different variations and mixtures of these two methods were the main methods enjoyed in BiH's privatization process, as enjoyed in all other transition countries.

For ensuring common donor strategy in the implementation of privatization program of BiH, international actors also established a coordination platform which is called International Advisory Group on Privatization (IAGP). USAID led IAGP, was composed of World Bank, IMF, DFID, GTZ and EU. During the implementation of privatization program, as it was in other transitional countries, donors also benefitted from international private consulting firms such as Price Waterhouse Coopers, Deloitte Touche Tohmatsu, the Barents Group, and International Business and Technical Consultants Incorporated.<sup>142</sup>

All reports suggested that privatization was not adequate on its own for the success of privatization program. Together with privatization practices, all international donors have asked BiH authorities to introduce additional and supplementary reforms to improve private sector development. According to them, unless BiH put into practice these reforms, privatization would have failed. Since probable failures experienced in privatization process would have had adverse effects on private sector development which was perceived as the engine of economy, the

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<sup>142</sup> USAID/Bosnia and Herzegovina 2003 Results Review and Resource Request, USAID, 2001, p. 16- 19.

World Bank, IMF, USAID and the EU proposed some complementary reforms for the complete accomplishment of transition to free market economy. For example, World Bank asked to introduce new laws to establish competition and bankruptcy framework in BiH. As such, World Bank said, it would have been an additional incentive for the investors, especially for external ones, interested in the privatization process.<sup>143</sup> On the other hand, IMF recommended to devise social programs “within the limits of fiscal resources” to mitigate the resistance of people against privatization implementations.<sup>144</sup> IMF also recommended to introduce labor market reform which would have stipulated easier hiring and firing provisions at the same time with implementation of privatization program, whereby increasing the attractiveness of foreign investors to privatization.

#### **4.7. Challenges and Critiques**

In this section, main challenges and obstacles against privatizations as identified by the donors will be evaluated. There was a compromise among the donors about the sources of impediments which might have led to failures and delays in the privatization process. All donors examined in this chapter put forward very similar arguments about the problems in the way of privatization process.

As for the challenges identified by the World Bank against the privatization process in BiH, institutional hurdles were underlined. The World Bank saw the existence of 12 privatization agencies- 2 for both entities and 10 for each canton- as the biggest impediment to privatizations since 12 bodies related to privatization in a small country like BiH would have led to conflict of powers and some overlapping among them. Another institutional hurdle put forward by World Bank was the

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<sup>143</sup> **Country Assistance Strategy**, IMF, 2004, p. 17-18.

<sup>144</sup> **Bosnia and Herzegovina: Selected Economic Issues 2005**, IMF, 2005, p. 49.

allowance of entity governments to distribute vouchers arbitrarily which led to some discrimination.<sup>145</sup>

Socio-political aspects were also influential in the failure of the process, according to the World Bank. Incumbent nationalist political parties were not eager enough to cooperate with donors. There were various reasons for this unwillingness ranging from ideological pretexts and populist approaches, to vested interests of influential figures in BiH politics. On the other hand, there were concerns among Bosnian people about the fate of workers and local community. In this regard, the World Bank officials said that though transition to a free market was approved by the BiH officials, these social and political impediments turned out to be important factors that caused shortcomings in the privatization process.<sup>146</sup>

IMF also underlined deficiencies in the institutional framework of the privatization process. Insufficient transparency in the process, disharmonized legal and regulatory framework, and decentralized institutional structure were the main challenges in the way privatization. Secondly, heavy debt burden was another factor in the poor results of the privatization. IMF designated primarily politicians, managers, management boards and workers responsible for the inefficient privatization practices due to aspiration to protect privileges embedded in the SOEs. Global economic downturn, lack of adequate public awareness about the process and lack of political commitment to privatization as well as delays in structural reforms were other items touched upon in the IMF reports for the failures in the privatization process in BiH.<sup>147</sup>

USAID and the EU were the other actors involved in the process and they also diagnosed, like Bretton Woods institutions did, the main challenges as complex

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<sup>145</sup> Harry G. Broadman, Anderson, James et. al., “**Building Market Institutions in South Eastern Europe**”, Washington, World Bank, 2004, p. 62.

<sup>146</sup> **Bosnia and Herzegovina: Post-Conflict Reconstruction and Transition to a Market Economy**, Washington, World Bank Report, 2004, p. 23.

<sup>147</sup> **Bosnia and Herzegovina: Poverty Reduction Strategy Paper-Joint Staff Assessment**, Washington, IMF Report, 2005, p. 13-14.

institutional and legal structure resulted from Dayton Peace Agreement, lack of political will and opposition from different fractures of society such as managers, trade unions and politicians.<sup>148</sup>

Donors, in their reports, also criticized the methods enjoyed in the implementation of privatization. One of the World Bank reports stressed that voucher privatization, which was the primary technique of privatization implemented in BiH and other transition countries, could have empowered the population equally and quickly transfer the ownership. However the results were proved to be contrary. Donors blamed the BiH for the diffusion in ownership structure, favoring domestic investors over foreign investors, prevalence of ethnic considerations that dominated the privatization process. Furthermore, donors also underlined that fresh capital and new managerial skills could not have been provided, ineffective intermediary instruments such as Privatization Investment Funds (PIFs) were created within the limitations of legal regulations due to the voucher-based privatization.<sup>149</sup> Voucher privatization was also criticized because of its nature which paved the way to create the opportunity for collecting the vouchers from the citizens by the rich, whereby legitimizing political factions, ethnic divides and war profiteers who had enough resources to purchase vouchers. There were also some concerns, on the World Bank side, about privatization process itself. According to one Bank survey, public opinion believed that those who benefited the most from the privatization process were directors of state-owned enterprises (%31,2), officials in the agency/directorate of privatization (%26,7) and officials in entity governments (%20,9).<sup>150</sup>

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<sup>148</sup> **Bosnia and Herzegovina 2006 Progress Report**, Brussels, European Commission Report, 2006, p. 24.

<sup>149</sup> **Bosnia and Herzegovina: Poverty Reduction Strategy Paper**, Washington, IMF Report, 2004, p. 57.

<sup>150</sup> John Bray, “**MIGA’s Experience in Conflict-Affected Countries: The Case of Bosnia and Herzegovina**”, Washington, World Bank, 2004, p. 17.

#### **4.8. Conclusion**

In this chapter, the arguments of international donors, their strategies, the challenges they encountered, and their criticisms in relation to the Bosnian privatization process were examined. Here are some of the findings:

As to the arguments, almost all actors' reports studied suggested similar justifications for convincing Bosnian authorities to implement privatizations. Main argument was about the performance. According to the international donors, private sector would have worked more efficiently and dynamically than the public sector. It was supposed that private sector had to make profit and thus would have acted rationally by laying the foundations for competition, modern corporate structures and fresh capital. Thus, it was claimed that new jobs would have been generated, volume of export increased, inflow of foreign investment accelerated and, gradually, economic growth would have been made sustainable. Another point was that with the retreat of public sector from economic sphere, corruption would have been prevented through more transparent mechanisms. Last but not least, privatization would have also contributed to the formation of market discipline and macro economic stability in BiH. At the end of the day, it was argued, in a nutshell, that transition to a smoothly functioning free market economy would have been completed to a large extent through privatizations and notions of free market rationale would have prevailed over all sections of society.

However, the above mentioned expectations from privatizations were not realized. Macro economic indicators, performance of firms, in particular and performance of whole economy, in general, disproved the main arguments of international community. Firstly, unemployment rates could not be decreased. During the 2000s, unemployment figures were approximately % 30-40. Acceleration of inflow of foreign investment did not happen. Although there was a slight increase, the inflow of foreign capital was very low when compared to other SEE countries' share in terms of foreign investment. According to the OECD statistics, BiH together with Macedonia ranks the worst among SEE countries in terms of inward foreign

investment.<sup>151</sup> Moreover, while corruption could not be fully prevented in the process of privatization, complex legal-institutional structure in the privatization implementations gave additional impetus to corrupt developments.

To implement privatizations, international donors established a provisional informal group called “International Advisory Group on Privatization-IAGP” for provision of coordination, coherence and consistency in privatization practices. In this regard, privatization has turned out to be one of the few areas in which donors cooperated in the reconstruction of BiH. Though it was said that main reason for the failure of reconstruction and recovery process was lack of harmony and coordination in donor activities in post-war BiH, it must be underlined that donors managed to collaborate on the issue of privatization under the umbrella of USAID led IAGP, which may in turn reveal the underlying motivations of international community’s involvement in the reconstruction of BiH.

Content of this strategy is also noteworthy. The main strategy decided to be implemented in BiH has not been different from strategies implemented in other transition countries. In this regard, the conventional privatization strategy within the context of shock therapy -namely “splitting off useful parts of state assets and selling them through simple and rapid privatization mechanisms”- has been implemented in BiH in the same manner without a change.

Furthermore, the donors did not refrain from resorting to conditionality to push BiH authorities toward meeting international expectations in the realization of privatization without differentiating it from transition countries. One can question to what extent they took into consideration that BiH was a country that had undergone fierce conflict while they were pushing privatization. It can be suggested that donors should have been more sensitive on the conditionality issue in privatizations and should not have treated BiH as just another transition country.

Unlike other areas of reconstruction and transition in BiH, the donors accomplished to act in a more harmonious and coordinated manner in the

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<sup>151</sup> *Official website of the Southeastern Europe Net*, accessed on 29.10.2010.  
[www.seeurope.net/files2/pdf/ig2006/At\\_Glance.pdf](http://www.seeurope.net/files2/pdf/ig2006/At_Glance.pdf).

privatization process of BiH's state assets. It can be argued that this was the case because the neo-liberal restructuring and integration with international market by opening the country to foreign investors was the main goal of the donors.

Another point is that donors have always seen themselves right and if there were any mistakes, they have blamed the Bosnian side arguing that failures resulted from inadequate implementation of these reforms. Donors argue that the source of failure must be something else, not the privatization itself, but its slowness, wrong methods and lack of complementary reforms. Donors has not hence amde any adequate self-criticism Instead, they have suggested new reforms to complete the transformation of the economy. The following paragraph is an exemplary of this mindset:

“Privatization in transition economies could have and should have been better managed; opportunities were missed. However, holding privatization accountable for all the problems of transition is inaccurate and unfair. Change of ownership was by itself insufficient to cut political-financial links between firms and the state, but that was not clear at the outset, and still appears to be a necessary, if not a sufficient, condition for successful reform. It is now also clear that approaching privatization less hastily and in a, more deliberate manner might have been possible, in which case the results might have been less insider ownership and domination, less resistance to external investors, and more protection for minority shareholders.”<sup>152</sup>

Another point to be touched upon is that donors have favored foreign firms and entrepreneurs against local ones during the privatization process. This can be understood from the discourse used in many reports through expressions such as “foreign investment with its technology and know-how transfer, new corporate governance structures, fresh capital, modern managerial skills, access to foreign markets and distribution channels”.

Donors have also had similar views in the context of challenges and obstacles during the privatization process. According to them, challenges were the result of some political, social and administrative/institutional reasons. Firstly, as if it was not

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<sup>152</sup> John Nellis, “*The World Bank, Privatization and Enterprise Reform in Transition Economies: a Retrospective Analysis*”, Transition Newsletter, January-February 2002, p. 17.



the international community that put into entry the Dayton Peace Accords and its stipulations which created fragmented institutional and constitutional structures in all sectors, they have always complained about the lack of coherence and coordination among privatization agencies in BiH and lack of legal harmony. As to the political challenges, donors have also criticized relentlessly the BiH authorities at all levels, namely state-level, entity levels and cantonal/local levels, that they did not cooperate with donors and they had some objections about the process. This is another dilemma for the donors because, on the one hand, they claim that they aim at building democracy and on the other they always blame the elected government and politicians. In this regard, it can be said that donors have adopted a top-down approach in the process of privatization without holding its responsibility.

As to social challenges, political parties, in particular the nationalist ones, managers and management boards in the SOEs and workers and trade unions have been considered as the major sources of opposition against privatization by the donors because of the formers' "vested interests" in these assets.

Finally, it would not be wrong to say that while the success in the privatization process has been taken over by the donors, the BiH side has been declared as a scapegoat to bear the all blames of privatization process by the donors.

In the final analysis, in a country which had undergone a civil war that resulted in high unemployment rates, a remarkable number of disabled persons, internally displaced persons and refugees, deteriorated productive capacity, no savings for investment, lack of human capital, a fragmented state apparatus, organized crime and a number of war profiteers and ethnic tensions, privatization programs and projects should have addressed the priorities and needs of the local. BiH was not just another transition country, it was a post-conflict country. It has needed support and assistance for recovery and reconstruction socially, politically and economically. Instead of rapid privatization process dictated by the donors, BiH has needed public intervention/social state in all walks of life to mitigate the problems posed by the war. However, donors have insisted on the privatization of state assets in BiH, as they did the same thing in other transition countries. A new

and original strategy could have been adopted for the post-conflict BiH which would have taken into consideration the priorities and needs of the country with a bottom-up approach, instead of resorting familiar, similar and usual arguments. Donors could have developed a strategy prioritizing displaced persons and refugees, social needs, ethnic divides and other problems related to the post-conflict situations. However they have not chose this. Thus it can be argued that examination of privatization program in BiH reveals that the underlying intentions of international community in BiH were more related to neoliberal restructuring in line with the needs of capital than social, political and economic rehabilitation through proper development and poverty reduction strategies.

## **CHAPTER 5**

### **PRIVATIZATIONS AND POWER STRUGGLES IN BOSNIA-HERZEGOVINA**

#### **5.1. Introduction**

The thesis argues that the internationally-led reconstruction and transition program designed for BiH did not differ from programs implemented in the other transition countries. The reconstruction and transition process from war to peace, from socialist economy to market economy, and from communist regime to liberal democracy did not reach its goals. On the contrary, BiH, 15 years after the war, has accomplished neither market economy nor liberal democracy based on ethnic harmony. BiH is still being challenged with threats of ethnic tensions, ultra-nationalism and corruption.

Even though internationally-led reconstruction and transition process might not be regarded as responsible for all the failures in BiH, inaccurate preferences and improper suggestions for the resolution of problems during the reconstruction process have had a remarkable share in the protracted malfunctions of economy and politics. The state of affairs in BiH today which can be defined as a “stalemate” has stemmed partly from “wrong diagnosis and decisions” implemented in the reconstruction and transition programme.

The “privatization” process which was an integral part of reconstruction and transition led by international community in BiH is focused and employed as a case study in this thesis. The third chapter dealt with the historical background of local actors that might hold back the transition process, if not halt it completely. The fourth chapter argued that the privatization program proposed by the international

actors involved in Bosnian transition did not take into consideration the conditions specific to BiH.

The fifth chapter's focus will be on the interplay between the local and international actors within the framework of the privatization programme as an integral part of the reconstruction and transition process led by the international community in BiH. While the main purpose of the privatization programme, from the international community's viewpoint, was the accomplishment of the transformation of economy from command economy to market economy, the other purpose was the limitation of the local elites' power and influence in the society through disrupting ties which provided the ruling nationalist local elites and their allies with the tools to maintain their power. In this regard, the thesis seeks to reveal the dialectic of privatization programme in terms of the relationship between international and local actors. Thus, following questions will be raised:

- What were the stances of the main actors/social forces involved in the privatization programme?
- What were the reactions of these social forces toward the privatization issue?
- How did the international and local actors interact with one another within the context of privatization process?
- Why did the local actors become indispensable executive partners of international actors in the introduction of privatization projects?
- In which fields was privatization planned? Banking, Enterprises, Housing?
- What were the outcomes of the privatization process in each field?

This chapter mainly addresses the mutual interaction between the local and international actors involved in BiH's privatization process within a dialectical framework by means of examining the changes in the actors' stances and positions toward one another during the post-conflict period. The factors that shaped the

framework in which privatization process was experienced are also examined as they are necessary in order to understand the dynamic relation between international and local actors. This chapter will also touch upon the evolution of relations between the international and local actors and how they interacted with one another. By doing so, the meaning and importance of the privatization process on Bosnian politics, economy, society and its place in the reconstruction and transition of BiH can be grasped more profoundly. This would also be useful for understanding how the local elites have reproduced and empowered themselves through the privatization process within the context of post-conflict period.

## **5.2. Political Economy of the Privatization Process**

The privatization issue has been brought into the agenda of Bosnian politics and economy under the conditions of abovementioned post-War context. Privatization emerged as a field where ruling nationalist local elites and international actors have sometimes struggled for the achievement of their contested goals while compromising in some other cases. The relations between the local and international actors during the privatization process have had a dialectic and dynamic nature rather than static and intransigent one since both the local and international actors have needed one another for the realization of their respective goals. In that manner, it can be suggested that there has been a *de facto* separation of powers, division of labor, or a symbiotic relation, between local and international actors in the process of privatizations. According to Pickel, the capabilities of international authority in BiH reduce as one moves from the political to the economic spheres, and from the state level to the localities.<sup>153</sup> The reason for this situation was the complex and paradoxical relations produced between the international and local actors whose priorities differed from one another. From the international actors' point of view, the top political issue was political stability within which neoliberal restructuring would

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<sup>153</sup> Pickel, p.10.

be accomplished, and from the perspective of local actors, the primary goal was their maintenance and consolidation of power and authority. In this vein, one can argue that there has been a trade off between international and local actors which would lead to forging of a complex relation among them. Local actors agreed to cooperate with international actors to prevent the resurfacing of conflict among ethnic groups in return for the consolidation and entrenchment of their political and economic power.<sup>154</sup> From the international actors' viewpoint, local nationalist actors have had a trouble-making capacity and they could have blocked the introduction of new reforms designed by international community. International actors preferred not to act directly against the local elites though to maintain the Dayton *status quo* as they were aware of the fact that these local elites were the successors of those "nationalist" elites who had waged war in the early 1990s. As Paul Meinshausen put forward "the international community and the nationalist parties have become united in a mutually advantageous and mutually reinforcing process of sharing power, responsibility, and blame. This process has been apparently oppositional but effectively cooperative, so that the outcome of twelve years of state-building has been the continued relevance and effective entrenchment of both the international community and the nationalist parties in the Bosnian state."<sup>155</sup> As a result, it can be argued that there has been a symbiosis developed between international and local actors that affected the privatization process.

As stated above, the posture of the international actors has been influenced profoundly by the neo-liberal globalization. In this vein, they prepared a reconstruction and transition programme based on neoliberal prescriptions in line with the mainstream approaches. The programme introduced in BiH was almost the same as those programmes implemented in other transition countries though the expected results were not realized. According to the international community, the

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<sup>154</sup> James K. Boyce, "Aid Conditionality as a Tool for Peacebuilding: Opportunities and Constraints", *Development and Change*, Vol. 33(5), 2002, *passim*.

<sup>155</sup> Paul Meinshausen, **Reconceptualizing the Relationship between the International Community and the Nationalist Parties in Bosnia-Herzegovina**, MSc. Thesis, METU, 2008, Ankara, p. 105.

main goal of the international intervention was the creation of a new BiH in the heart of Europe which would be in a harmony with international politics and economy. Therefore, BiH must have undergone a neoliberal restructuring process.

However, the transformation of BiH into a liberal democracy and market economy was not possible without the introduction of “private property”. Private property was needed for the creation of private sector in the capitalist economy. Private sector must have been reinforced through some policies so that it would lead the economy as a driving force. In this regard, privatization was thought as the first and foremost remedy to the problem of private property lacking and private sector for it would contribute to the establishment of market relations in Bosnia.<sup>156</sup> Thus, privatization process became the backbone of the reconstruction and transition programme. From the viewpoint of the international actors, privatization was a *sine-qua-non* issue in the reconstruction and it must have been achieved whatsoever it would cost politically, economically and socially. In this regard, as Türkeş applying the Gramscian analysis put it, the hegemonic project of the international community targeting the neoliberal restructuring of BiH could only be achieved through the provision of the consent of the local elites. If their consent could not be ensured, the introduction of privatization and other neoliberal policies would not be possible in a war-torn country such as BiH without any resistance. Therefore, in the eyes of the international actors, the ruling nationalist local elites have been deemed as the main partner in the introduction and adoption of the privatization programme in BiH due to their potential influence and leadership in the society. Local elites must have been co-opted in an historic bloc to achieve neoliberal transformation.

On the other hand, the co-option of the ruling elites was not as easy as it appeared. The reason for this situation was that the ruling elites were faced with a predicament stemming from the contending demands of both international community and their local constituencies. As also explained formerly, the predicament of the local elites was the double pressure coming from both above and

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<sup>156</sup> Donais, p. 39.

below, from international and local actors. International pressure meant the introduction of the privatization programme in return for international aid and support. The ruling elites were reluctant since the introduction of the privatization process would be the denial of their “raison d’être” due to the nationalistic sentiments of the masses supporting them since the 1970s on the basis of “economic nationalism”. Clientelistic and patrimonial relations they had established within the society would have been disturbed by the process. However, they were also aware of the fact that they could not have remained in power without international aid and support.

As to the pressure from below, from the masses, if the privatization programme were to be introduced, the popular support of constituencies for all nationalist parties could have been eroded as a consequence of the possible adverse effects of privatization such as unemployment, inflation, fluctuations in the economy. Eventually, the end result of privatizations for ruling nationalist elites might have been the loss of economic and in turn political power.

Hence, both local and international actors had to reconcile and revise their positions in the context of privatization practices for the sake of their core long-term goals, which were neoliberal restructuring for the international actors and consolidation of power for the local elites.

As to the local elites’ strategy in the context of privatization, Donais suggested that the local elites devised a dual strategy which first aimed to delay the process as much as possible and, secondly to ensure the transfer of socially-owned assets to themselves, namely to the ruling elites and/or their friends or allies, when the privatization of these assets had become inescapable.<sup>157</sup> Thus, the ruling elites hoped to set a balance between the dictates of international actors and the needs of their constituencies.

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<sup>157</sup> Timothy Donais, “*The Politics of Privatization in Post-Dayton*”, *Southeast European Politics*, June 2002, Vol. III, No:1, p. 8.



In line with the first part of dual strategy adopted by the local elites, they, firstly, sought to defer – as long as they could- the supplementary or additional legislation which was supposed to function as a complementary to the privatization process, such as laws on bankruptcy, social safety nets, labor, strikes, securities and corporates etc.<sup>158</sup> Secondly, they sought to delay the privatization programmes by not preparing the necessary documents for privatization which would have given detailed information about the socially assets and companies. Thirdly, they put forward the ambiguities in property status and capital/share ownership as excuses to delay the privatization since some of the enterprises had been privatized in the pre-War period with the “Markovic Law”. After the war, the uncertainties in the property status and share ownership of the enterprises were used to delay the selling of some of the assets. In short, “the ruling nationalists deliberately and consistently found bureaucratic reasons for delaying privatization.”<sup>159</sup>

For the second part of the dual strategy, the local elites did everything possible to manipulate the privatization process for their own end benefitting from the war-time network and connections among themselves. On the one hand, they were to some extent ready to stand against the international community, but on the other hand, if it was not possible to delay the privatization process further, the local elites sought to obtain the maximum gain from this process by compromising with the international actors.

Against the local elites’ strategy toward privatization, international actors also developed a dual strategy. Sometimes, they preferred to introduce an accorded and tuned strategy with the local elites, leaving the control of the process to local dynamics in return for the commitment to and continuance of the neoliberal reforms and privatization process itself. The rationale behind the adoption of such a reconciliatory strategy can be explained partially through the fact that international

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<sup>158</sup> Olle Andreasson, **The Good, The Bad and The Ugly: Post-war Privatization in Bosnia and Herzegovina**, Minor Field Study, Department of Economic History, Uppsala University, 2007, p. 21-24.

<sup>159</sup> Donais, *The Politics of Privatization in Post-Dayton*, p. 8.

actors had the unshakeable belief that market forces could have fixed all the malfunctions emanating from the privatization process sooner or later.<sup>160</sup> Sometimes, when international actors perceived their wider goal, namely neoliberal restructuring of BiH in line with the necessities of neoliberal globalization, under threat, they felt they needed to intervene directly in the privatization process. One can argue that it resembled to the consent/coercion dilemma of Gramscian theory.

The tuning and accordance between the postures and goals of local and international actors can be described with the term “division of labor”. As such, while international actors set policies and demarcated the boundaries regarding politics and macroeconomics in order to transform BiH in line with the necessities of neoliberal globalization successfully, the implementation and practices of these policies especially in the field of economy was left to the mandate of local elites.<sup>161</sup> One can argue that the privatization process in BiH was carried out through the local actors’ practices and under the close guidance of international community.

Predictably, there have been various implications stemming from above-mentioned interplay between international and local actors which were inconsistent with the Dayton arrangements and reconstruction programme. Unlike the rhetoric regarding peaceful co-existence and sustainable development, the privatization process made BiH more vulnerable against the fluctuations of the world economy and more fragmented along ethnic lines. Privatization process also entrenched economic interests associated with the dominant nationalist elites.<sup>162</sup> As a result of the privatization process, while 90 per cent internationalization was witnessed in the privatization of financial sector, while small and medium –sized enterprises and apartments were sold along the ethnic lines. As to the privatization of larger and strategic assets, there was still some bargaining about the fate of strategic enterprises. International actors have embarked to involve directly in the privatization of strategic

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<sup>160</sup> Donais, **The Political Economy of PeaceBuilding in Post-Dayton Bosnia**, p. 38.

<sup>161</sup> Pickel, p. 8.

<sup>162</sup> Bieber, p. 36-38.

assets whereas local actors did not take a position in their privatization.<sup>163</sup> Local actors were implicitly inclined to attract investors from their “patron” countries against the international investors.<sup>164</sup>

### **5.3. Institutional and Legal Framework**

Before examining the whole privatization process in detail and with examples, it is important to address certain loopholes of the institutional and legal framework and the methods employed for the realization of privatization which would shed light on the interplay between local and international actors during the Bosnian privatization process.

As to the institutional context, the first point to be touched upon was the creation of multiple privatization agencies in line with the international actors’ advice and guidance. In BiH, the privatization process was organized according to the principle of territory though there was a call for inter-entity cooperation in the framework law of BiH. In this regard, each entity adopted its own laws to establish a legal basis for privatizations.<sup>165</sup> According to these laws, a complex privatization system was introduced in BiH comprising 12 privatization agencies. In the Federation, the privatization agency was founded in 1997 with 10 cantonal agencies under its jurisdiction, while the privatization agency for Republika Srpska was set up in 1999. These agencies were authorized to regulate and implement the whole process to privatize the assets in their territories. They were made responsible for the

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<sup>163</sup> Eric Martin, *Nation-Building in Bosnia and Herzegovina: Cooperation, Coordination and Collaboration*, South East European Journal of Economics and Business, Vol. 2, Nov. 2007, pp. 7-22, p. 11.

<sup>164</sup> Zachariah James Falconer-Stout, **The Political Economy of Sub-State Development in Post-Conflict Bosnia and Herzegovina: An Assessment of the Entities**, MA Thesis, Central European University, Budapest, 2009, p. 44.

<sup>165</sup> Andreason, p. 27.

coordination and supervision of privatization process.<sup>166</sup> The main purpose of the establishment of such a complex and fragmented system was to avoid unfair asset allocation across communities though it was also anticipated that having multiple privatization agencies might have also led to some inefficiencies. However, this fragmented system produced not only inefficiency but also unfair allocations. It was exploited in the interethnic tensions to appropriate the assets through the members seated in privatization agencies and in the management boards of companies who were nominated and affiliated closely to nationalist parties.<sup>167</sup> Even, the ruling elites attempted overtly to pass laws that would have deprived people from other ethnic groups of reclaiming their property.<sup>168</sup> Though some of regulations as such were tried to be blocked by the OHR, this was a manifestation of local elites' intention of privatizations from the very outset. On this issue, international actors could have been more proactive and involved in the process, but they did not. Rather, they preferred to intervene directly in cases only when their own interests were at stake, such as privatization of banks and larger and strategic enterprises. Otherwise, international actors have let the local actors totally free in the process of privatization.

As to the methods, Bosnian authorities adopted several ways for the privatization of socially-owned assets, namely apartments, company shares, some parts or the assets of company, business premises owned by the municipalities. These assets were to be privatized via public offering share (mass privatization), tender, auction, direct sale and any combination of any of these methods.

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<sup>166</sup> Kate Bayliss, **Post-conflict Privatisation: A Review of Developments in Serbia and Bosnia Herzegovina**, Working Paper, London ODI, 2005, p. 41.

<sup>167</sup> Suljkanovic Midran, **Corporate Governance in Post-Privatized Bosnia and Herzegovina: Impact of Ownership Structure on Performance**, a research by the EPPU, Faculty of Social Sciences, University of Ljubljana, Ljubljana, 2010, p. 4.

<sup>168</sup> Martha Walsh, **Aftermath: The Impact of Conflict on Women in Bosnia and Herzegovina**, USAID, Working Paper No. 302, 2000, p. 133.

Mass privatization or public offering shares (POS) was the method usually to be applied in the privatization of some SMEs and apartments at the initial years of the process. On the other hand, tender, auction, direct sale or any combination of these methods were applied in the privatization of other SMEs, large and strategic enterprises and banks. In auctions, price was the key factor in the sale of assets. However, tender represented a method of sale in which some other factors such as employment and investment along with the price were taken into account.<sup>169</sup> Each auction and tender was supervised by a commission composed of three members. Two members, including the head of commission, were from relevant privatization agency and the third one was the chief of the company to be privatized. In this regard, majority of each tender or auction commission always came from the bodies in which ruling elites were influential.

At this juncture, it is necessary to underline that the success of privatization process was dependent upon the abundance of capital available for purchase of assets. However, people did not have any capital available to buy assets; they were not even given their claims by the State. To pay people's claims, Bosnian authorities adopted the "Czech Model" of distributing certificates, which was also known as vouchers in Republika Srpska (hereafter certificate), to liquidate the citizens' claims from the government. These certificates could be used during the whole privatization process in the purchase of assets, with only two exceptions. First exception was that the holders of these certificates were not allowed to use their certificates in the purchase of banks either in the Federation or in Republika Srpska. Second, these certificates could not be used in the privatization of apartments in the territory of Republika Srpska.<sup>170</sup>

According to this mechanism, "the right to file a claim was given to each person who was a citizen and resident of the former Socialist Republic of BiH on the

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<sup>169</sup> Enisa Salimovic, "Privatisation in Bosnia and Herzegovina", South-East Europe Review for Labour and Social Affairs, Vol. 2, No.3, 1999, pp. 163-179, passim.

<sup>170</sup> Salimovic, **passim**.

31st March 1991, provided that he/she was 18 on the day of entry into force of this model. Certificates in the Federation or vouchers in Republika Srpska were given to people on the basis of their foreign saving accounts, unpaid pensions, and unpaid salaries. Furthermore, additional certificates were also distributed to war veterans, soldiers and families of killed and missing soldiers.<sup>171</sup> According to the law, internally displaced persons could have claimed rights for certificates in regions where they lived at that time rather than their country of origin in pre-war period.<sup>172</sup> The implications of accepting the post-Dayton settlements of citizens as a basis to claim certificates have been the encouragement of territorial homogenization on ethnic basis, which indeed conflicted with Dayton's goals. On the other hand, the certificates could also be exchanged and traded in the market whereby dominant elites of Bosnia benefited from this for their own interests.

Due its profound effects, the establishment of PIFs was another interesting aspect to be touched upon within context of the privatization process. PIFs were financial institutions in which certificates of small investors could have been collected in a pool of fund in order to invest in a company that was supposed to be profitable and good for investment by the management of the PIFs. There were 11 PIFs in the Federation and 13 PIFs in Republika Srpska.<sup>173</sup> Investing in a PIF did not mean that the holders of the certificates would have become the owner of the shares of the company in which the certificates were invested. Instead, the holders of the certificates could have only become the owners of the shares of PIF and minor shareholders of PIFs. Moreover, the law on "the establishment and registration of PIFs" regulated that the establishment of a PIF would have only been possible for those people who had the enough cash that amounted to millions of dollars. Thus, the mechanism of the PIFs in practice favored once again the dominant elites since they were only the ones who had the potential to establish a fund in the context of post-

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<sup>171</sup> Salimovic, p. 170-176.

<sup>172</sup> Salimovic, p. 171.

<sup>173</sup> Bayliss, p. 39-40.

War Bosnia. In that sense, it can be argued that these regulations paved the way for the appropriation of assets by the war-profiteer local elites of Bosnia.

PIF's influence in the management of companies was limited as they could nominate only two out of eight members of the management boards.<sup>174</sup>

There was another important limitation for the PIFs. They could not invest more than %20 of their capital in one enterprise and were not permitted to own more than % 30 of a company which precluded them from holding majority shares in companies. Thus, it was ensured that privatized companies were managed with a dispersed ownership structure so that the ruling elites did not risk losing control of socially-owned assets. The dispersed ownership supported via the method of mass privatizations and the limitations imposed on the PIFs were seen as guarantees to keep the dominance of the elite in the companies. International actors, too, encouraged the implementation of mass privatization or POS method because of its simplicity and speed.<sup>175</sup> On the other hand, from the constituencies' point of view, it was not important which method was adopted for the privatization because they did not have enough savings to invest in the companies. They only had some certificates and savings with which they could buy an apartment for accommodation.

At first glance, as understood from the brief examination of this institutional, legal and methodological framework of the privatization process, there were several loopholes in the legal framework and it provided the local elites with opportunities.<sup>176</sup> Whether these loopholes were inserted in the legislation deliberately or not is not clear while it was certain that both local and international actors took advantage of these loopholes and opportunities.

Firstly, as stated earlier, the whole process was almost left to the discretion of local authorities and ruling elites allowing them to manipulate the process for their own ends. Distribution of certificates was determined on arbitrary calculations

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<sup>174</sup> Donais, **The Politics of Privatization**, p. 7-8.

<sup>175</sup> Bayliss, p. 38-46.

<sup>176</sup> **Bosnia's Precarious Economy: Still Not Open For Business**, Brussels, International Crisis Group Report, 2001, p. 18-20.

favoring the “right” ethnicity in all parts of BiH. Moreover, all data and reports regarding the privatized assets were prepared by the dominant elites. Thus, they could easily consolidate their positions by enjoying their intervention in these processes .

Second, realizing mass privatizations via certificates in the initial phase resulted in the alleviation of the burden of the state debts, and freed the local elites from financial risks in budgetary practices. The local elites also benefitted from the certificate-based privatization by distributing them on the basis of ethnicity. They bought the certificates in the “free” market at a 2-3 per cent of nominal price and then used them for purchasing public assets. It can also be argued that in the certificate-based privatization process individuals who had enough resources accumulated large concentrations of certificates which gave them an upper hand against the foreign investors in the privatization process.

Thirdly, the international actors’ main goal of transition to capitalist market economy through the privatization of public assets was almost accomplished in an irreversible manner thanks to the participation of the majority of people in the process which also meant *de facto* approval of the project. In this regard, the international actors’ concern for privatization was legitimized with the inclusion of people in the process in return for overlooking the local elites’ manoeuvres. Furthermore, the concepts of “private property” and “market economy” were also settled indispensably in the minds of the Bosnian people. After these practices, it can be easily argued that “private property” concept has become an established component of Bosnian political economy in the post-Dayton context.<sup>177</sup> Shortly, the only notion that international actors focused was the transferring of socially-owned assets from public to private hands quickly.

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<sup>177</sup> Jansen, *passim*.



## 5.4. Sectoral Analysis of the Bosnian Privatization Process

### 5.4.1. Privatizations of Apartments

As to the sector by sector analysis of the privatization process in BiH, each process has brought about different outcomes. With respect to the privatization of apartments, the process was almost completed by the transfer of nearly 100 per cent of the socially-owned houses into private property.<sup>178</sup> However, it was one of the areas in which ethnic politics became widespread and apparent the most. Despite the differences between the methods adopted in each entity, the ethnicization was common for both entities. In the Federation, the main problem in the privatization of apartments emanated from the arbitrary distribution of certificates. Entity government of the Federation allocated disproportionate numbers of certificates to persons from their own ethnic groups. Taking advantage of the loopholes in the legislation, it was also witnessed that additional certificates and discounts in apartment prices were provided for their war veterans who might probably keep hostility against other ethnic groups and be provocative against peace.<sup>179</sup> Given the discriminative components of apartment privatization legislation against woman and the acknowledgement of the paramilitary groups' presence, favoring "their" war veterans can not be read as an example of "affirmative action" toward disadvantaged sections of the society.<sup>180</sup>

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<sup>178</sup> Florian Bieber, "Bosnia-Herzegovina: Slow Progress towards a Functional State", Southeast European and Black Sea Studies, Vol.6 No. 1, March 2006, p. 54.

<sup>179</sup> ICG Report, p. 22-23.

<sup>180</sup> Martha Walsh, *ibid.*, Law on the Sale of Apartments in BiH allowed for a reduction in the purchase price based on a percentage of the number of years the buyer had worked. It allowed spouses to combine their years of work to increase the deduction. Although it enabled a surviving spouse to use the work years of the deceased spouse, there was no provision to allow a surviving spouse to combine his or her working years with those of the deceased. Women, by virtue of longer life spans and the wartime death toll among men, constituted the majority of surviving spouses. Young widows, with few if any working years of their own, and single women with no years to combine, were proportionately disadvantaged." see also Dina Francesca Haynes, "**Lessons From Bosnia's Arizona Market: Harm to Women in a Neoliberalized PostConflict Reconstruction Process**", University of Pennsylvania Law Review, Vol:158, 2010, pp. 1780-1829.

On the other hand, in Republika Srpska, although the result was the same in terms of discrimination, the apartment privatization process was conducted in a slightly different manner. In Republika Srpska, socially-owned houses were only allowed to be privatized with cash, rather than certificates, as stated above. Thus, in practice, apartments in the Bosnian Serb region could be bought only by the rich local ruling elites. The rationale behind the “privatization only with cash” practice was the prevention of the return of the displaced persons to Republika Srpska decreasing the accommodation possibility.<sup>181</sup> Furthermore, inapplicability of certificates in house privatizations can also be interpreted as an effort to direct certificates of Serbs toward the privatization of enterprises, thereby accelerating the “Serbization of enterprises”.

In Republika Srpska, “privatization only with cash” did not mean that the rich local elites forgot their poor constituencies. The ruling local elites continued to pursue their ethnic homogenization policy through free distribution of land, construction materials and permitting illegal construction of houses which can also be regarded as privatization. It was the same case in the Federation.<sup>182</sup>

Disproportionate allocation of certificates to citizens from the “right” ethnicity in both entity and the inapplicability of certificates in apartment privatization in Republika Srpska were aimed at territorial homogenization; they were measures taken to exclude the “others” on the basis of ethnicity. They fueled ethnic divisions against reconciliation by segregating the moderates and radicals. Local elites exploited opportunities for ethnic displacements within the context of apartment privatizations. They virtually succeeded in gathering their own ethnic groups in regions-controlled by them. Thus, they ensured ethnic homogenization and the basis for their electoral support. On the other side, international actors ignored these discriminatory practices for the sake of quick and simple transferring of socially-owned assets.

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<sup>181</sup> Salimovic, p.173-175.

<sup>182</sup> Donais, **The Political Economy of Peacebuilding in Post-Dayton Bosnia**, p. 135.

#### **5.4.2. Privatizations of Small and Medium Sized Enterprises (SMEs)**

Privatization of the SMEs was similar to the privatization of apartments. Local elites acted freely and bought almost all assets in this sector themselves. This was because the model adopted for privatization suggested by the international actors was open to manipulation for the following reasons.

First, each company was obliged to draw up a privatization schedule and an initial balance sheet which would include information about the situation of the company, its obligations, assets, debts, employees and other necessary details which were indicative in calculation of the price of the company. However, preparation of the general overview and privatization schedule for each company was made by the company's staff whose ties with nationalist political parties and local elites were apparent. Before submitting the reports about companies to the privatization agency, they had the opportunity to distort information in favor of themselves. The politically-oriented staff could present the company as overstuffed and highly indebted than they really were. The company could be made to look unattractive for small investors who were deterred from investment because of distorted reports prepared by the insiders. Thus, insiders or those who had well-connected ties to insiders would seize the enterprises easily.<sup>183</sup>

Secondly, as stated earlier, since certificate-based privatization model favored the rich and the wealthy, virtually only locals with resources could buy the SMEs. The new owners of the SMEs were usually the members of a rather unholy alliance among the ruling parties, the increasingly powerful mafia, and elements of the old socialist-era *nomenklatura*. However, there were minor differences between the Federation and Republika Srpska with regard to the SME privatizations.

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<sup>183</sup> Bayliss, p. 57.

In the Federation, while the majority of the people used their certificates to buy apartments, those poorer ones who had not enough resources for subsistence, let alone for buying an apartment, had to sell their certificates in the “market”. However, when the certificates were sold, the value of certificate fell below to about % 3 of its nominal value. Certificates were bought from impoverished citizens for a small fraction of their face value by the wealthy, corrupt and politically-connected insiders and then used to buy the SMEs for cheaper prices. This was a model favoring the rich and wealthy local elites of the Federation and it was discriminatory against the poor, be it Bosniak, Serb or Croat.

On the other hand, in Republika Srpska, the certificates did not have a face value. The value of a certificate was calculated through the number of investors interested in a company. The value of a certificate would fall, if the number of investors were high or vice versa. In this respect, this system appeared at first glance as if more egalitarian than the system implemented in the Federation, even though it was not. In this system, in practice, it was aimed to preclude non-Serbs from buying the SMEs by inflating the number of Serbs participating in the process.

Thirdly, the supervisory boards and/or tender commissions in the privatization process were managers or those appointed by the managers who had close links with the local elites.<sup>184</sup>

Furthermore, another complicated element in the privatization of the SMEs in Republika Srpska was the sale of a company without transferring the majority control to any private buyer. This was provided with the allocation of 55 % of company shares to certificate-based privatization which meant to give the control to PIFs rather than individuals, % 10 to the pension fund and % 5 to restitution fund. Under these conditions, taking into consideration that the management of the PIFs was determined chiefly by political party recommendations, 70 percent of a company

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<sup>184</sup> Salimovic, p. 170.

would be under the influence of Republika Srpska political bodies of one kind or another.<sup>185</sup>

There were, of course, similar forms of privatization tricks in the Federation, leaving privatized firms similarly unmanageable and handicapped such as asset stripping and selling the company's property at cheaper prices to insiders or their allies prior to privatization. One of those tricks was "co-capitalization", a model that was invented by the Tudjman regime and was copied in Croatian and Bosniak cantons. According to the Pugh's description, it was a model that necessitated, firstly, the establishment of a shadow management board to take over the enterprises. Secondly, the shadow board would have ensured that the enterprise was owned by the insiders through contractual continuity.<sup>186</sup>

Thus, the local elites succeeded in the seizure of almost all the SMEs thereby aggravating the ethnic division in the employment and clientelistic relations in the society. Even though the privatization of the SMEs discouraged refugees and displaced persons to return and in general was against Dayton ideals, international actors preferred not to interfere in this area and did not raise their voice in the face of this "*fait accompli*".

### **5.4.3. Privatizations of Banks**

International actors attached more importance to the privatization of financial institutions and banks, along with the larger and strategic enterprises. In this vein, they were more interventionist than they were in the privatization of apartments. The reason for this international interest and intervention in the privatization of financial assets stemmed from the huge role of financial bodies in a neo-liberalized economy. From their viewpoint, the success of whole neoliberal restructuring project and transition process had hinged on the implementation of the efficient monetarist

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<sup>185</sup> Bayliss, p. 42.

<sup>186</sup> Michael Pugh, "*Postwar Political Economy in Bosnia and Herzegovina: The Spoils of Peace*", *Global Governance*, Vol. 8, 2002, p. 474.

policies.<sup>187</sup> Therefore, without the smooth functioning of daily financial operations and sound banking system, it was not possible to restructure BiH in line with the necessities of neoliberal globalization and to integrate the Bosnian economy with the world markets as well as opening it to international capital. Beyond that, it was also impossible to introduce financial reforms such as common currency and to ensure management of the debt servicing, especially foreign debts. Ultimately, it would have been impossible to create a common market among the homogenized ethnic territories without the smooth functioning of the financial system. Henceforth, international actors could not have allowed the local elites to be influential in the financial sector. They had to prevent the local elites from being dominant in the privatization of banks.

In pre-war Bosnia, there had been neither treasury nor central bank for monetary policies. Instead, the duties of the treasury and central bank had been fulfilled through payments bureaus which had been one of two important tools for the central authority to preserve prevalence over the six Republics of ex-Yugoslavia exercising state monopoly on financial resources. The other tool was the Army. The role of the banks, in this sense, had been minor in the functioning of the economy in the pre- and immediate post-war periods.

As expected, the local elites waged a struggle for the control of financial instrument as they did in other sectors. In this regard, the payment bureau in Bosnia was re-organized along ethnic lines and it was separated into three pieces, where each piece was controlled by each ethnic group in the aftermath of the war.<sup>188</sup> Thus, the local elites could have the opportunity to control all financial flows. Additionally, some banks were also started to be acquired by the local elites to complement their existing control in the field of finance which eventually facilitated the establishment of parallel structures within more autonomous territories, in contrast to what the

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<sup>187</sup> ICG Report, p 27-35.

<sup>188</sup> Cox, p. 8.

international community foresaw in the Dayton for Bosnia's future.<sup>189</sup> In this regard, the local elites attempted to seize the control of banks. As Pugh pointed out, Jadranko Prlic, former Prime Minister of Herceg-Bosna and Mostar Tycoon, acquired Hrvatska Postanka Banka at a very low price while Privredna Banka Sarajevo was privatized via an offshore company which was supposed to be owned by the local elites.<sup>190</sup> Another motive for the acquisition of the banks was that the local elites were aware of the fact that pre-war financial system of Bosnia based on payment bureaus would be replaced by the banking system sooner or later. Therefore, the local elites had to get prepared for this as well.

The acquisition of some banks and payment bureaus by the local elites in the initial phase of the privatization process led international actors raise concerns about the future and success of the whole neoliberal restructuring project and debt servicing of BiH. The acquisitions of banks by the local elites compelled international actors to take measures and stance against this.

In this regard, international actors agreed to put pressure on the financial sector and not to tolerate botched privatizations in the banking sector.<sup>191</sup> Firstly, international actors embarked on to eliminate payment bureaus to lay the foundations for the commercial banking system. Secondly, international actors also imposed some conditionality on loans and grants through the IMF's Structurally Adjustment Programs such as dictation of BASEL Principles, strict requirements and supervision for the ownership of banks<sup>192</sup>. Thirdly, of course, to some extent, international community benefitted also from the transparency and corruption discourse in financial sector to exert pressure against the new owners of privatized banks through

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<sup>189</sup> Amra Festic and Adrian Rausche, "War by Other Means : How Bosnia's Clandestine Political Economies Obstruct Peace and State Building", *Problems of Post-Communism*, Vol. 51, No. 3, May-June 2004, p. 31.

<sup>190</sup> Pugh, *Transformation of Bosnian Political Economy*, p. 451-452.

<sup>191</sup> Divjak and Pugh, p. 381.

<sup>192</sup> Coşkun and İlgün, p. 57.

dubious transactions accusing them that they aimed to use these financial enterprises for money laundering and funding the para-militias.<sup>193</sup> Furthermore, at times some important figures got also involved in the privatization process of banks -an example of which was Wolfgang Petrisch, former high representative-, who took over an intermediary role between Austrian banks and Bosnian authorities, as Rüma points out.<sup>194</sup>

The struggle between local actors and international actors on the control of the financial system was also unveiled in a number of cases. Sometimes international actors' interventions in the banking system against the local elites' influence might be overt. In the case of "Hercegovacka Banka" in 2001, international community charged the management board of the bank with the allegations of favoring some businessmen who had direct ties to Croatian Defense Council (military formation of HDZ) and financing secessionist movements. After some provocative actions in line with the allegations, international agencies responded with diplomatic measures to interrupt the criminal and clandestine network supported via the economic capacity and capability of the bank. However, these measures were not sufficient. OHR issued a decision to hand over the bank to a provisional administration. The physical control of the bank was made possible with the help of 5000 troops and 400 armored vehicles from SFOR. During the take over, assaults were directed against the investigators charged with the revelation of criminal elements in the bank.<sup>195</sup> As this example illustrates, international actors could criticize the privatization implementations open and loud and, even, intervene directly, if the situation necessitated this. The case also highlights the limits of the implicit agreement between the international actors and local actors. The local elites were free to act only to a degree that was permitted by the international actors.

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<sup>193</sup> Letter of Intent to IMF between the years 1998-2006.

<sup>194</sup> Rüma, p. 177-178.

<sup>195</sup> Festic and Rausche, p. 31.



Additionally, international reports were also published consecutively about the frauds in the privatization of banks. A striking example that was publicized to justify the international involvement was the role of “Zepter Komerc Bank” in the privatization of Agroprom Bank.<sup>196</sup> In a report by International Crisis Group, the Zepter Komerc Bank was described as a cover organization established by the Serbs in Basel in 1999 when there was no obvious economic reason to open a bank in the Republika Srpska. According to them, the bank was manipulated by the local elites to down the price of other banks called state-owned Agroprom Bank and Razvojnja Bank through transferring of huge amount of accounts to the Zepter Bank.<sup>197</sup>

As a result, exerting pressures on the local elites yielded results and most banks, be it formerly privatized and state-owned, were handed over through international tenders to international investors from countries such as Austria, Italy, Turkey, Serbia, Slovenia and Croatia since the local elites desperately needed the funds that were conditional upon the bank restructuring.<sup>198</sup>

Bosnian banking sector was privatized almost in line with the international actors’ will. The number of banks decreased from 61 to 29 either through closure or merger. 90% of these banks was now privately owned. The share of foreign investors in the total banking capital rose nearly to 80%. Thus, the local elites lost their grip in the financial sector to a minimal degree. In this regard, it can be argued that the restructuring of the banking sector, including the establishment of the central bank, was almost completed in BiH. Bosnian financial system started to be controlled fully by the international financial institutions and got integrated with the world financial system. Rating agency Moody’s gave the “B2” credit rating for the Bosnian banking sector. It meant that the end-goal of international community was accomplished. All the problems in the management of debt servicing were overcome to the benefit of international markets. Contrary to the enduring problems inherited in other spheres

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<sup>196</sup> ICG Report, p. 30-31.

<sup>197</sup> ICG Report, p. 31.

<sup>198</sup> Pugh, **Transformation of Bosnian Political Economy**, p. 452.

of the privatization in particular and the economy in general<sup>199</sup>, the Bosnian banking sector was successfully restructured.

#### **5.4.4. Privatizations of Strategic Enterprises**

After the privatization of the apartments, SMEs and banks, the focus was oriented toward larger and strategic companies (hereby strategic enterprises). In this area, the local elites were not willing to sell the strategic enterprises because, as stated formerly, they used these assets for partisan purposes, hiring large numbers of war-veterans and treating them as social safety nets and sources of cash, to fortify the patrimonial and clientelistic relations.<sup>200</sup> Therefore, international actors had to take a stance against the local elites' unwillingness since the reluctance of the local elites would cause delays.

In this regard, international actors started to influence public opinion that the privatization process had been generally conducted in a shady and non-transparent manner. According to them, the privatization of apartments and SMEs also led to ethnicized corruption. Reports and press statements by international actors and local opposition were published repeatedly. In 1999, the leader of the non-nationalist Social Democrat Party, main opposition party, defined the privatization process with expressions such as "robbery in progress" and "selling of state's wealth to the ruling nationalists for petty cash" in *Dnevni Avaz* daily. In May 2000, a report prepared by the US General Accounting Office underlined that privatization process was tainted by ethnicized corruption noting that the majority of the already privatized companies were acquired by the nationalist parties.<sup>201</sup>

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<sup>199</sup> Coşkun and İlgün, p. 57.

<sup>200</sup> Andreason, p. 21-24.

<sup>201</sup> Donais, **The Politics of Privatization**, p. 9.

Upon the repetition of similar reactions, international actors- taking the advantages of the circumstances- again intervened in the privatization process of strategic enterprises as they did in the bank privatizations, a stance opposite to the stance they took in the sphere of SME and apartment privatizations. Firstly, the OHR sacked the head of the Federation's Privatization Agency. Later, USAID suspended its financial support due to the lack of progress in the privatizations process of the strategic enterprises. Finally, they established an "International Advisory Group on Privatization" (IAGP) to tackle the problems in the privatization of strategic enterprises, to provide consultation and, eventually, to sell them to foreign investors to be able to attract foreign investment. Members were appointed to the IAGP by the prominent actors involved in the privatization such as World Bank, IMF, USAID, EU and GTZ. The IAGP identified 139 strategic enterprises, 87 of which were from the Federation and 52 from the Republika Srpska. Main duty of the IAGP was the preparation of the strategic enterprises transparently and with international guidance for privatizations to attract the foreign investors.<sup>202</sup>

The local elites' first response to this manoeuvre was to delay the privatization further as much as possible, resorting to the covers such as necessity for modernization and restructuring of enterprises and solving of property-related issues<sup>203</sup>. They succeeded in their attempts and managed 5 to 10- year delays in privatizations.<sup>204</sup>

As a second option, local elites sought to sell strategic enterprises, as stated earlier, to the investors from "patron" countries. In this regard, while the Serb investors from Serbia involved in the privatization of telecommunication enterprise in Republika Srpska, the Croations from Croatia invested in the strategic assets such as Aluminij Mostar in Croation-majority cantons. On the other hand, the Bosniaks

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<sup>202</sup> Martin, p. 22.

<sup>203</sup> Divjak and Pugh, p. 373-374.

<sup>204</sup> 2010 Report of Federation of Privatization Agency FPA, accessed on 29.10.2010. available at [www.afp.com.ba](http://www.afp.com.ba), p. 11-12.

also encouraged the investors from Muslim countries such as Saudi Arabia, Turkey, Iran and etc., such as the purchase of Bosnian airlines by Turkish Airlines.

Arguably, the reason why the local elites did not purchase the strategic enterprises might be because they did not have enough capital to buy these assets. Even if they could buy them, they knew that international authorities would certainly find sufficient justification to intervene and cancel the sale.

In conclusion, there was still uncertainty about the future of the assets of the strategic enterprises. The reason for the ongoing debate between the local and international actors on the issue emanated from the importance of these assets since these assets have been both larger and strategic and had the potential to monopolize the market. They were mostly infrastructural public enterprises on gas, electricity, water, transportation, telecommunication, heavy industry, mine and media which could have also provided remarkable number of employment.<sup>205</sup> Unlike the bank privatizations, the local elites have so far succeeded in the preservation of these assets against the international investors.<sup>206</sup> However, the international actors continuously stressed the importance of the restructuring of the strategic enterprises in their reports, although they might not have insisted as much as they did in the privatization of banks. Furthermore, it was confirmed once more that the international actors might intervene and get involved in the process directly when the interests of the international community and the capital and their goal of neoliberal restructuring process come under threat.

#### **5.4.5. Illustrative Cases on Bosnian Privatizations**

There were a number of examples that illustrated the privatization practices in BiH as described above. These examples symbolized ethnic division on the one hand and corruption on the other. They also reflected the implicit reconciliation

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<sup>205</sup> **Bosnia and Herzegovina: Poverty Reduction Strategy Paper**, Washington, IMF Report, 2004, p. 17-18, 66.

<sup>206</sup> FPA 2010 Report, *passim*.

between the local and international actors. One of the examples was from the forestry sector. Drvar was a town where Serbs and Croats had lived together in the pre-war period. The town's major pre-war industry was a wood-processing firm called Sipad-Grmec. It was privatized through the "co-capitalization" model explained above and it was re-named as Finvest. Finvest company became the largest employer with 400 workers on its payroll. It was reported that the company's owners had close links with the HDZ. As expected, there was no Serb employee in the company. The company even rejected to compensate the dismissed employees, namely Serb employees. Without the opportunity to feed oneself, the incentives for return did not mean much to a person, as a Serb businesswoman put this ethnic division very well.<sup>207</sup>

Another much-known example was the privatization of the Holiday Inn Hotel. The Holiday Inn sale was a typical case which reflected the cozy business relationship between the buyer – a prominent Sarajevo business figure named Nedim Causevic – and the director of the Federation Privatization Agency (FPA). Both figures had worked together in the state-owned telecommunications monopoly for years. Furthermore, the director of the FPA at that time was a close relative of the former Prime Minister Edhem Bicakcic, notoriously known with his corrupt record. In the privatization of the hotel, the Causevic-led group offered 5 million Deutsche Mark (DM) in cash and it was accepted by the FPA. However, the value of the Holiday Inn Hotel was about 48 million DM. Upon the news published in Sarajevo weekly, the sale was annulled. However, international community had continued to insist that the privatization process had been technically legal despite the annulment.<sup>208</sup>

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<sup>207</sup> Timothy Donais, "A Tale of Two Towns: Human Security and the Limits of Post-War Normalization in Bosnia-Herzegovina", *Journal of Southeastern Europe and the Balkans*, Vol.7 No.1, 2005, p. 24.

<sup>208</sup> Donais, *The Politics of Privatization*, p. 7.

One of the most illustrative examples in terms of the above-mentioned state-of-affairs during privatizations was the incomplete privatization process of the most profitable firm “Aluminium Mostar”. As a strategy adopted by the Bosnian Croats, Croatian investors from Croatia were encouraged to invest heavily in Croat-controlled regions of BiH in order to transfer the publicly-owned shares to Croatian private hands thanks to the “co-capitalization” model. Despite the fact that Aluminij had suffered little damage during the war, its privatization value was calculated as 84 million USD which was only a small portion of its 620 million USD pre-war value. Croat management expelled all non-Croat employees. No shares or compensation were allocated to the non-Croat workers. At the end, Bosnian Croat employees and Croatian company TLM Sibenik seized the control of the company. However, no one has so far known what percentage of the ownership was acquired by the TLM Sibenik and how many shares remained in public hands. Aluminium Mostar was also purportedly used by the HDZ for money laundering. The reason for this was the fact that the company purchased electricity from the Bosniak-controlled Elektroprivreda through a Berlin-based middleman and it could not be understood why electricity had to travel from Mostar to Berlin and again to Mostar. Upon the pressure of public opinion both locally and internationally, OHR authorized a team of auditors to investigate the illegalities and irregularities occurred during the privatization process. The investigation resulted in a recommendation about that the company and the privatization process were to remain untouched due to the political and practical reasons. Some argued that such an outcome was a *fait accompli* accepted by international community as well.<sup>209</sup>

Another important case was the sale of telecom firm Eronet. Eronet was a firm founded in 1996 with the partnership of two firms. One of them was the socially-owned HPT Mostar with %51 shares in Eronet and the other one was a private company from Croatia Hrvatske Telekomunikacije (HT) with a % 49-share in

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<sup>209</sup> see Pugh’s articles and ICG Reports on Bosnia.

Eronet. After the initiation of the privatization process in BiH, socially-owned HPT Mostar sold its stake in Eronet without a public tender to three companies which were supposed to sponsor HDZ. HT sued because the sale of the HPT's shares would have only been possible by the HT's consent. Both Federation Supreme Court and Constitutional Court ruled that the sale was legal and rejected the claim that there had been a contractual violation even though the Eronet was a socially-owned enterprise. The Courts, however, should have applied the provisions of privatization law, rather than the contract law, since HPT was a socially-owned company and was the primary shareholder of Eronet.

There has also been an amalgamated structure among the managers, bureaucrats and political figures. Overlapping membership was also widespread in the management of boards, privatization agencies, political parties or bureaucratic positions. There have been many cases that members of the privatization agencies could sit on the tender commissions. In this regard, Pugh in his article titled "Post-War Political Economy: Spoils of War" pointed out a number of cases about the amalgamative relations among managers, war-profiteers, bureaucrats and political figures.<sup>210</sup>

### **5.5. Conclusion**

This chapter mainly focuses on the relations between international and local actors during the privatization process. It is argued that this relation had a dialectic nature thereby it was also paradoxical. The main reason for this was the post-war conditions determined by the external and internal factors.

Under the circumstances of post-Dayton *status quo*, both sides, namely international and local actors, sought to manipulate the introduction of privatization process as an integral part of the transition. However, both sides have also faced some dilemmas during this process. For the local actors, the dilemma was that they

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<sup>210</sup> Pugh, p. 470-471.

must have made a choice between using the socially-owned assets to control and reproduce the clientelistic and patrimonial relations in the society, and selling the productive assets at the expense of losing the control over the society and popular support in the coming elections.<sup>211</sup> For the international actors, the dilemma was that while they were neoliberalizing BiH, a war-damaged country with all its burdens, they needed local partners to gain the consent of the people. In this regard, local elites with both their leadership and trouble-making capacities were perceived by the international actors as strategic partners. Donais argued that BiH's ruling nationalist parties were seen both as indispensable partners and intransigent obstacles which also had a share in the adoption of inconsistent and often contradictory international policies towards them.<sup>212</sup>

As Belloni suggested, a dialectic and paradoxical relationship between international and local actors took place which was described as a mix of “collision and collusion”.<sup>213</sup> From the international actors' perspective, with the transfer of publicly-owned assets to private hands, a giant step would have been taken toward a new BiH restructured in neoliberal terms irreversibly in return for permitting the nationalist parties to remain in power and consolidate themselves. As long as the local actors would not jeopardize the security and transition process in BiH, international actors did not bother the local elites. In this regard, the fifth chapter mainly argued that there was a cooperation among the international and local actors during the privatization process in BiH.

As explained above, international actors preferred not to intervene in the privatization process of apartments and SMEs. They even overlooked some irregularities and some illegalities as “*fait accompli*” in these areas. However, when the irregularities and illegalities started to damage the privatization and transition

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<sup>211</sup> Pickel, p. 14-20.

<sup>212</sup> Donais, **The Political Economy of Peacebuilding**, p.168-170.

<sup>213</sup> Belloni, **State Building and International Intervention in Bosnia**, p. 103-107.



processes, international actors involved themselves in the privatization of banking sector and strategic assets.

As a result, the majority of the apartments and SMEs were privatized on ethnic basis. Thus, nationalist parties consolidated their power and succeeded in the reproduction of clientelistic relations in the society. In this regard, dividing lines in terms of ethnicity within the society were solidified, territorially ethnic homogenization was accelerated and, political and economic fragmentation was consolidated. Ethnic division was witnessed in the SMEs which caused the prevention of return of refugee through the elimination of subsistence opportunities.

On the other hand, international actors directly involved in the process of the privatization of banks. Thus, the control BiH's financial system was acquired by the international capital. The banking system, including the Bosnian Central Bank, was fully integrated with international markets. As a result, BiH has become a country which manages its debt service "soundly". Another aspect was that the local elites were financially dependent upon the international ones. It can be argued that the local elites' autonomy was limited in line with the international financial necessities which meant the erosion and curb of local elites' power.

There has been a stalemate in the privatization of strategic enterprises. This has been partly because of the economic crisis and partly because of the resistance of the local elites.

In conclusion, privatization as an integral part of the neoliberal restructuring led to the creation of authoritarian entities within an aid-dependent and fragmented BiH, contrary to the "ideals" of the Dayton Peace Agreement and reconstruction and transition programme. Furthermore, it has also led to the birth of a multi-layered neo-feudal structure. In the first layer, there were clientelistic and patrimonial relations between the individual and ruling nationalist parties in each cantons and municipalities. In the second layer, there were relations among federal state, entities and its sub-administrations. At the top of this layer, there was a dependent relation between international actors and local elites of Bosnia. In this regard, though the

stances of local and international actors adopted during the privatization process and its results seemed in contradiction with the Dayton and transition programmes in literal terms, they were in fact consistent with their actual goals, which was the accomplishment of neoliberalization in BiH for international actors and consolidation of power for the local elites.

## **CHAPTER 6**

### **CONCLUSION**

International community's vision on post-War Bosnia which was manifested in the Dayton Peace Accords was the creation of a new BiH which would not pose a risk at the heart of Europe against the international political and economic order in the initial years of the post-Cold War period. To this end, international community proposed to re-shape BiH in line with neoliberal globalization with the alleged aim of transforming BiH to a country based on liberal democracy with peaceful co-existence among ethnic groups.

International actors identified two important interrelated challenges on their way to be able to reach their goal of neoliberal restructuring. The first one was the lack of smoothly functioning market economy which would preclude BiH from integrating with the world economy and penetration of other countries into the Bosnian economy. Second challenge was the task of eliminating nationalist-extremist local elites who had become dominant in Bosnian politics during the war, and replacing them with moderates which would push BiH to comply with international political system.

The tool developed by the international community for overcoming these two challenges was the reconstruction and transition programme. The billions-dollar programme was prepared in line with the Dayton Accords. It stipulated wide measures ranging from physical reconstruction of economic infrastructures, rehabilitation of war-veterans, widows, orphans, disabled and displaced persons to restoration and rebuilding of state and administrative apparatus. However, as stated in the second and fourth chapters, the programme was wholly inspired from transition programmes implemented in other post-socialist countries. There had been

neither unique nor innovative elements involved in the programme specific to BiH. It did not take into account the extra-ordinary conditions of BiH such as its being not only a post-socialist but also a post-conflict country that had undergone a fierce ethnic war. The programme included all aspects of the Washington Consensus under the banner of Shock Therapy because it was designed in line with the necessities of neoliberal globalization. Hence, the programme sought to lay the foundations for the establishment of a functioning market economy.

The programme was so comprehensive and ambitious that it could not be put into practice without the help and consent of the local partners. Therefore, the goal of the elimination of nationalist-extremist local elites in the programme was deferred and/or ignored for the sake of establishing market economy. From the international community's point of view, the rationale behind the prioritization of the establishment of market economy at the expense of the elimination of warring parties was the unshakeable belief that self-regulating market would also redress the political atmosphere sooner or later. To be able to realize the self-regulating market, the first and foremost priority was the implementation of the privatization projects.

In this regard, international community decided to benefit from the leadership capacity and the influence of the local nationalist elites in the society to introduce the ambitious transition programme including privatizations. The international community's approach to this issue was also in the interests of the nationalist local elites since they needed to legitimize their existence in the eyes of the international community. It would also pave the way for the nationalist local elites to entrench and consolidate their power in BiH. Therefore, nationalist local elites, too, welcomed the idea about being executive partners in the introduction of privatization projects as an integral part of the transition programme.

However, 15 years after the war, BiH accomplished neither liberal democracy nor peaceful co-existence based on market economy in spite of the billions of dollars spent by the international community. International intervention was not successful as assumed in the Dayton Accords. It resulted in the creation of an aid-dependent economy and a politically fragmented country along ethnic lines. On the one hand,

international intervention transformed the entities to pseudo-feudal structures at the local level instead of inter-entity cooperation under the central authority, and on the other hand, a *de facto* trusteeship was institutionalized at the international level rather than a self-sustaining country.

The main reason for this failure was the insistence of the international community on the introduction of the familiar post-socialist transition programmes without reference to the unique post-conflict conditions of BiH.

In this regard, the gaps and deficits between the arguments advocated by the international community and their implementation reflected the shortcomings of the programme very accurately. These shortcomings were also telling about the problematic implications of imposing one-size-fits-all prescriptions to every situation.

International community saw privatization as an integral part of the reconstruction and transition programme and sought to support the privatization implementations with several justifications to convince BiH. However, hardly anyone of these justifications surfaced.

Considering the gaps and deficits between theory and practice in terms of privatization, one of the common points highlighted in all privatization programmes was about “Goals”. Almost all privatization programmes argue that socially-owned enterprises would always prioritize the political concerns more than economic ones. It was argued that privatization was necessary because socially-owned enterprises were always exposed to exploitation by politicians. According to the proponents of privatizations, socially-owned enterprises would be a burden for the whole economy and were destined to bankruptcy if they did not prioritize economic motives. Then, the interaction between the politicians and economic agents must be cut through privatization since private enterprises function in line with economic interests and seek profit maximization rather than meeting the political demands. Thus, they would argue, the separation between the economy and politics would facilitate the economy to move into a more rational manner.

However, research and experiences suggest that it is impossible to cut the relations and/or interaction between the state apparatus and economic agents completely in real life. It is impossible because every privately-owned enterprise needs a secure environment to obtain its economic interests. Private sector often puts pressure on the state apparatus to take the necessary measures for the creation of a secure environment for its business interests. In turn, the agents of state, one way or another, expect some favors from the private sector. Thus, the relation between the state and the private sector would informally be re-established. It is the natural course of capitalist mode of production and market economy. It is not just peculiar to socialist or mixed economies. This irrationality is inherent in the market economy. Of course, this irrationality has also been observed in the Bosnian case from the very outset since almost all privatized enterprises and apartments were sold to local nationalist elites, party members or their supporters from the “right” ethnicity. While in the pre-privatization period political authorities had exploited the socially-owned economic assets for their ends, in the post-privatization period new owners of the enterprises benefitted from their political status and their close links with the state. Thus, the new owners of the enterprises have continued to exploit the state capabilities and assets thanks to their close ties with political authorities. These newly privatized enterprises were always favored at the expense of the “others” as well. In sum, Bosnian privatization practices were not sufficient to make politics and businesses disconnected. There remained still a powerful association between the politicians and businessmen who interlocked their interests with one another, as opposed to the initial the expectations of the international community.

Furthermore, in a country that underwent a fierce conflict such as BiH, it might have been useful to keep enterprises in public hands, at least for a reasonable period, until the social imbalances caused by the war were eliminated.

Another justification put forward by the international community was that privatization would boost economic “performance”. According to the main international actors’ discourse, privatization would have brought a new impetus to the economy since private sector is more inclined to innovation, new production

techniques and new managerial skills. Thus, economic performance of the enterprises or other economic entities would have increased through the dynamism of private sector. The figures on job-creation, FDI inflow, export volumes and gradually competitiveness of the Bosnian firms would have been developed in the immediate aftermath of the privatizations. However, Bosnian economy is yet to achieve remarkable breakthrough in terms of competitiveness neither in its region nor in Europe nor in world. Unemployment is still high; FDI inflow to BiH is still low and the rise in export volumes is not sustainable. BiH is still one of the two smallest economies together with Macedonia among the ex-Yugoslav republics, as was the case before the disintegration of Yugoslavia.

Additionally, the mass privatization method based on the distribution of vouchers in Bosnian privatization process affected negatively the performances of the firms since this led to dispersed ownership and lack of fresh capital which, in turn, made impossible improvements in corporate governance and new investments.

The fact that privatization would provide “market discipline” was another argument voiced by international actors during the privatization process in BiH. Since the privatization of the socially-owned assets would help to reduce their fiscal burden on the state budget, it would pave the way for budget discipline and gradually lead to macroeconomic stability and sustainable growth. Otherwise, taking into consideration large trade and current account deficits of Bosnian economy and declining levels of donor funds year by year, socially-owned assets together with their debts would aggravate the risks of economic fluctuations on the public sector. Thus, privatization implementations -with the removal of the “distorting effect” of public assets from the economy- would contribute to strict budget policy practices, economic stability and market discipline due to private “rational” market players and invisible hand of market economy. Another aspect of the “market discipline” argument was that competition among private actors would put pressure on the prices and costs. Thus, wages and other cost factors decisive on the prices would be re-arranged in line with the necessities of the competitiveness. In the context of the market discipline, one can suggest that BiH has achieved, to some extent, a market

discipline in budgetary and wage terms. However, the results of such effect of privatization are open to discussion since living standards of the masses exacerbated and the burden of strict economic policies levied on the labor. Furthermore, it made state apparatus destitute of the instruments which can be used for the sake of the Bosnian society. Bearing in mind that the notable portion of the Bosnian population - especially the widows, orphans, disabled and displaced persons- was suffering from the damages of war, efforts to achieve budget discipline were quite questionable. Last but not least, “market discipline” also helped to institutionalize the clientelistic and patrimonial relations between the dominant groups and their constituencies for survival.

“Political Influence” in the socially-owned assets was also one of the justifications employed by the international actors in BiH since the dominant political parties directly managed these assets. According to them, socially-owned assets were always exposed to corruption and they do not function in a transparent and accountable manner. However, Bosnian privatization process resulted in the seizure of the social assets by the very same dominant elites and insiders. Thus, it only accelerated the property transfer from public to dominant political elites and their friends. Furthermore, the privatization process itself was conducted in a very corrupt manner from the very beginning and in all phases of the process.

“Integration” argument was another aspect put forward by the international actors. Privatization would help BiH to integrate with the EU and world markets. According to them, privatization would not only lay the foundations to level the economic infrastructures with other markets, but it would also help realize the EU’s economic criteria which presume the establishment of a market economy.

International actors also argued that privatization would promote the “quality of life” through free media, plurality and its environmental benefits. According to them, privatization of the media would help bring to some extent plurality in the society. However, plurality was not achieved because the majority of the media has been under the dominance of the nationalist local elites.



It was also argued that privatization of socially-owned assets would lead to an upgrade in technology. Thus, environmentally friendly production capacities would replace the damaging effects of outdated ones.

All in all, privatization process exacerbated the political and economic situation in BiH. It accelerated ethnic division, and fragmentation among ethnic groups. It also paved the way for the consolidation of nationalist local elites' power in the society thereby establishing authoritarian pseudo-feudal political units. BiH also became a more dependent country as a result of the purchase of financial enterprises by foreign investors. Privatization also helped to legitimize the private ownership of property by the nationalist local elites who were controlling them by then.

It can be concluded that in the short term there happened to be two winners in the reconstruction and transition process of BiH. The first one is the international actors run by the necessities of neoliberal globalization since they succeeded in the neoliberal restructuring of BiH. They made BiH to integrate with the world economy and open its markets to international capital. The second winner is the nationalist local elites because they achieved to consolidate their power in BiH by taking advantage of the continuation of the clientelistic and patrimonial relations in the society. However, the future of BiH remains bleak. Internal turmoil, political polarization and ethnic division in the country have made many people question even the territorial integrity of BiH. Doubts about the political unity of the country have raised many questions about the fragility of the Bosnian economy. Political stability in the country as well as prospective EU membership remains ambiguous. Neoliberal transition programme and privatization policies have only helped to consolidate the fragility of the country.

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