The Role of Economic Development in Reconciliation: One Experience from Bosnia and Herzegovina

VINCE GAMBERALE

Abstract
Since 1992, the fledgling nation of Bosnia and Herzegovina (BiH) has suffered from, endured the consequences of and is still recovering from the trauma of war, the displacement of almost half its population, and the need
to reform its economic and political systems from its pre-war socialist past. Compounding this have been the complex political structures inherited from the Washington and Dayton Peace Agreements; which in turn have the net effect of smothering the full economic development potential of BiH.

Due to the events since 1992, most citizens of BiH are polarized by their ethnic backgrounds of Bosnian Serb, Bosnian Croat or Bosniak (Muslim Slav), despite there having been an inter-ethnic marrying rate of up to 30 per cent prior to the war. This current ethnic division was a result of the 1992 to 1995 conflict and, in 2005, is generally still encouraged by most of the nationalist political parties of BiH who are still in power at most levels of government.

Given all this upheaval, trauma, and loss due to the 1992 to 1995 war, and the reconstruction and intense transition efforts since 1995, the outstanding question remains: What possible role can economic development play in a post-conflict environment in influencing reconciliation between the ethnically polarized peoples of BiH?

In this light, the purpose of this article is to review one experience in economic development from BiH, the Municipal and Economic Development Initiative (MEDI) implemented by the international organization CHF International, and to explore this question by extracting any possible lessons learned or insights gained towards the possible correlation between the economic development process and the tolerance/reconciliation process.

**Economic Development Issues and Mitigating Forces**

It is important to note the current status of factors or trends influencing the economic development environment of BiH in 2005. These factors include the impact caused by the destruction/damage of infrastructure, displaced populations, privatization of the socialist economy, political transition from socialism to democracy, the inherited complex system of government, and the corruption/criminalization of the economy caused by the war. Although these factors appear dire, many of them are being mitigated by positive counter-trends or forces.

During the ‘92–’95 conflict within BiH, a substantial proportion of its economic infrastructure (roads, bridges, energy generation and distribution and so on) were either damaged or destroyed. It is estimated that up to 60 per cent of the housing stock in BiH also suffered the same fate. Since 1995, donor agencies (multilateral and bilateral) have provided over US$5 Billion in post-conflict aid funding. A substantial proportion of this aid funding has been provided for infrastructure reconstruction and rehabilitation. As international aid funding has contracted rapidly since 2001, there has been an increase in funding from various governments and the private sector towards economic infrastructure; including the Arizona Market in Brčko, construction of the 5C Motorway between Sarajevo and Visoko, and the construction of the motorway between Banja Luka and the BiH/Croatian Northern Border. The housing stock has benefited greatly from diaspora remittances and the micro-credit lines disbursed towards home rehabilitation and improvement.
During the ‘92–’95 BiH conflict, approximately half the population of BiH was forced to flee their homes. The current estimates of population for BiH range from 3.3 million to 3.9 million. There are also an estimated 700,000 refugees that continue to live abroad within either the Balkan region, Europe or overseas. After 1995, within the post-conflict environment, it was estimated that up to 30 per cent of BiH’s GDP was generated by remittances from this external refugee/diaspora community. Originally, these remittances were used largely to support consumption within BiH, but there are currently a growing number of examples of these remittances partly shifting from consumption towards private investment. In tandem with these financial investments, there has also been entrepreneurship and human capital investments by the refugee/diaspora community that have demonstrated success. Successful company examples have included the LRC Credit Bureau, Prizm Research (Social and Market Research) and Pharmamed (pharmaceutical products).

Of major concern in achieving the potential of economic development and growth within BiH are the political and government systems inherited from the Washington Agreement (1994), and the Dayton Agreement (1995). As a consequence of these agreements, BiH was burdened with a system of government that included: the Office of the High Representative (OHR), with decree power to enforce laws and remove government representatives/officials; a national government with no or limited capabilities to raise taxes or implement laws; three entity governments (RS, FBiH, and Brcko) with tax and law making capabilities; within the FBiH, ten Cantonal governments, also with tax- and law-making capabilities; and 148 local governments with extremely limited tax-raising and by-law capabilities. The state, entity and cantonal levels of government support an executive branch (headed by their respective Prime Ministers, assembly/legislature, and judiciary).

Therefore, for an estimated population of 3.5 Million, the citizens of BiH are currently disserviced by one weak national government, thirteen powerful entity or cantonal governments (currently dominated by ethnic-based political parties) and 148 weak municipal governments. There is extreme confusion regarding responsibilities and jurisdictions between these various levels of governments, including the function of economic governance. It is extremely difficult to ascertain which level of government has what responsibility or resources towards the economic development of BiH, presenting a quagmire whereby the government is perceived to function under the notion that ‘Everyone is in charge and no-one is in charge!’

Compounding the above is the issue that an estimated 40 per cent of the BiH workforce are still employed by the public sector, and that approximately 70 per cent of the various governments’ budgets are expended on their own administration, as opposed to 30 per cent for the provision of services to its citizens. Therefore, it would be an understatement to note that there is great disenchantment and cynicism by the citizens of BiH towards their various governments.

Although at the time the Dayton Agreement was applauded for stopping the war in 1995, ten years on in 2005 it is largely seen by most stakeholders as a
foundation for a failed state. In 2005, the eight main political parties of BiH commenced a movement (under the auspices of the international community) to reform the Dayton-imposed constitution. Although there are great disparities between the various political parties on the vision of the future constitution, there is consensus that if reform does not occur, the consequences of a potential failed state are too dire.

Other factors or trends that are improving or have the potential to improve the economic governance within BiH include: the commencement of negotiations towards the EU Structural Accession Agreement (SAA) in 2005, which is the first step in commencing the EU membership process; the establishment of the five Regional Development Agencies, or RDAs (the RDAs are the catalysts for economic planning, operate as a conduit for EU economic development funding, and are commencing to fill the economic governance void) and their respective economic zones; the success of the BiH Central Bank in improving the macroeconomic environment (inflation is currently less than 1 per cent), and the overall efficiency of the financial services sector; and the establishment of the Indirect Tax Authority (ITA) at the state level of government. As a consequence of the ITA, all sales taxes will be converted to VAT®, and the state government will receive its first taxation revenue base at the expense of the cantons and entities.

Post-1995, BiH has also been enduring a privatization process of its public corporations and public housing stock. The process of privatizing public corporations has been mired with delays and allegations of political corruption and nepotism. Despite this, there have been some successes in this process, notably: the successful privatization of the banking sector; the Mittal purchase of the BH Steel plant in Zenica; purchase of the Holiday Inn by Austrian Investors; and the restitution and privatization process of property to its pre-war owners/occupants. The restitution process of property was overseen by the OHR and established the twentieth-century precedent of completely returning property to its original owners/occupants in a post-conflict environment. To date, approximately 97 per cent of properties have been returned to their pre-war owners/occupants. Although this return of property has not necessarily resulted in the return of the respective owner/occupant to their pre-war community, it has provided the opportunity for its re-engaged owner/occupant to access the asset for sale, or for any other desired purpose.

The general nature of conflict usually encourages the criminalization of its economy, with many warlords or organized crime groups controlling lucrative smuggling routes in and out of the conflict-affected areas. The conflict-affected peoples of BiH were forced to pay exorbitant prices for basic needs such as vegetables, meats, fuels and even water (in the case of Sarajevo during the siege). Compounding the war smuggling was also the ‘sanctions-busting’ activities of weapons trade, which was in contravention of the UN Security Council Weapons Embargo for the BiH conflict. Under these circumstances, many war profiteers amassed vast fortunes. Ten years after the conflict, many of these profiteers have converted their contraband fortunes into legitimate business activities and investments within BiH. As a consequence, many are becoming the new economic elite of BiH and are advocating and lobbying for legitimate economic
laws, regulations and infrastructure. Although this benevolence can serve to protect their own interests and consolidate their gains, the effect may also have the potential of improving the general wealth and employment conditions within BiH!

Permeating all of these issues is the stigma of petty and systematic corruption. The confusion caused by the multilayered jurisdiction of multiple governments, domination of political parties within government institutions and public corporations, the complications and lack of transparency within the privatization process, and the low average wages earned (approximately 300EUR/Month), all augur badly in the fight to prevent corruption. Of importance in BiH is the need to establish transparent systems or practices that establish checks and balances against the potential for corruption. Notable examples of these systems include the Central Bank-administered treasury accounting system and the transparent budget and capital planning processes implemented throughout many local government municipalities.

Despite the many negative issues that impact on the potential for economic growth within BiH, there are abundant signs of counter-trends that do augur well for the future of BiH’s economy. Although potential exists, BiH currently remains an economically ‘poor’ country, with its annual GDP/Capita estimated to be between US$1500 and US$2500. Given this, the Organization for Economic Co-operation and Development (OECD) proposes that for a nation to become economically sustainable and viable its annual GDP/Capita should be above US$5000. BiH’s economic growth rate has been positive in the post-conflict environment, but it is unclear how rapidly this OECD benchmark can be achieved.

**Municipal Economic Development Initiative (MEDI)**

Given the economic issues and mitigating factors detailed above, Community Habitat and Finance (CHF) International was funded by USAID and the Swedish International Development and Co-operation Agency (SIDA) to implement the MEDI project. The MEDI project commenced in 2001 and was implemented in fourteen municipalities within the Lašva and Bosna Valleys of Central BiH. Many of these activities were later expanded to include additional municipalities within the Vrbas Valley and the city of Sarajevo. It is important to note that some of the most intense fighting between all ethnic groups occurred in this region, especially during 1993. The fighting was brutal and the consequential human suffering and tragedy was abominable.

Given the polarization of the ethnic communities within the central region of BiH, the goal of the MEDI project was to improve the economic environment at the municipal level by establishing and encouraging partnerships between the local governments, private sector and civil society.

The diagram below expresses the MEDI methodology within the following: ‘Through Private–Public Partnerships (using credit as the ‘hook’) – create a “critical mass” of association members that will utilize “pressure” to ensure a
more “responsive” government that will seek an environment that encourages economic development.’

The following methodology (in sequential order) was utilized by the project:

1. Identify or create a small business and home owners association in target communities and train the association in proper organizational management. This includes such sustainable activities as: developing a membership base; providing membership services; improving advocacy techniques; and, most importantly, assessing and pursuing income-generating opportunities.

2. Offer direct credit to the members of the association for small business development and shelter/quality-of-life improvements. This simultaneously supports membership growth, familiarizes the association’s members with credit mechanisms, and effectively creates a ‘peer group’ within the memberships of the organization that ensures the proper functioning of the loan program.

3. Obtain agreement from the mayor of the same municipality to participate in the program by agreeing to regularly meet with the association leaders on a scheduled basis to work towards transparently improving the municipal processes that affect small business and home owners within the given community.

4. Work with the municipality to design, build and operate one-stop shops in an easily accessible and highly visible location near the entrance to City
Hall. This includes designing, preparing and printing essential business and citizen information materials for the one-stop shop, comprising application forms, required-document lists, key processes, responsible staff names and phone numbers, organizational charts and so on. The local government processes needs to be re-engineered, automated and made more efficient, to better meet the needs of citizens.

5. Create a regional enterprise network from representatives of the local associations, to serve as collective membership that not only unifies the membership of the associations but also creates a critical mass to more effectively advocate change from other levels of government in the form of reduced fees/taxes, or to refine/eliminate unnecessary bureaucracy to better support the needs of small business and home owners.

6. Create a regional mayors’ coalition, that encompasses mayors from the partner cities, to serve as a collective organization that also has the critical mass to more effectively advocate change—from other levels of government—to address those common issues that affect their municipalities’ ability to effectively deliver municipal services.

7. Develop a regional Private–Public Partnership, comprised of both the regional association and the regional mayors’ coalition, to jointly lobby other agencies and levels of government for change that addresses the collective interests of their communities (typically more responsibility for the local government), to develop regional economic development goals and objectives, and to target major investment opportunities that could improve the economic conditions in their region.

In August 2005, the summarized results and impacts of the MEDI methodology included the following:

1. The establishment of sixteen business associations or community development corporations representing a mobilized membership base of over 3,000 business or home owners and 14,000 employees. The membership base was characterized by the following demographic: (a) 70 per cent Bosniak, 26 per cent Bosnian-Croat, 3 per cent Bosnian-Serb and 1 per cent Other; (b) 20 per cent female, and (c) 12 per cent returnee.  

2. The establishment of the Lider Micro-Credit organization that has disbursed more than 5,500 small business, housing or consumer loans valued at more than US$10 million, with a repayment rate of no less than 98.5 per cent.

3. Over 300 advocacy actions targeting the improvement of the economic environment that have resulted in 130 economic reforms at the local, cantonal, entity and state levels.

4. The establishment of eighteen Municipal Customer Service Centers (or One-Stop Shops) that have improved service proficiency by a minimum of 30 per cent, and leveraged an additional 40 per cent funding from the local governments.
5. The establishment of the REZ Regional Development Agency (RDA) that facilitated, through partnership groups, the production of the Central BiH Economic Development Strategy. The REZ RDA is currently implementing or monitoring over thirty economic development projects linked to their regional strategy. The REZ RDA has also facilitated over US$1.5 million in contract mediations and credit referrals. The REZ RDA is sanctioned by the OHR and the EU as the designated RDA for Central BiH, and its corporate governance structure is comprised of the local governments, cantons and business associations found within the region.

Lessons Learned

By 2005, the results of the MEDI methodology had substantially exceeded all project targets or expectations initially anticipated in 2001. Of major concern was the issue of whether ethnically polarized communities were willing to cooperate towards achieving the result of improving their economic environments. The conclusive answer was that there was generally a deep desire by the communities in question to improve their economic circumstances despite the past conflict.

There were many lessons learned and insights obtained regarding the relationship between the economic development process and the tolerance/reconciliation process. These included such factors as the concept of tolerance, the desires of the silent majority, the role of local leadership, grassroots movements, the use of incentives towards mobilisation, the role of honest brokers, the potency of economic issues in advocacy and co-operation, and the ‘Cyprus Effect’ (explained below).

The incidence of tolerance witnessed between the ethnic communities was much higher than expected. However, this concept of tolerance could also be interpreted as the following: ‘I will tolerate the differences I have with you, but I will never reconcile them, I may eventually put aside the injustices and tragedy that have occurred against me but I will never forgive you’. This is in contrast to an interpretation of reconciliation whereby the following may be construed: ‘I will reconcile the differences I have with you and I can forgive the injustices and tragedy that have occurred against me in the past’. Given the high incidences of injustices, tragedy, and trauma that occurred to the citizens of BiH during the war only six years earlier, the move towards the latter concept of tolerance was remarkable.

Given this, the polarized communities were willing to engage with each other due to their deep desire to improve their economic lot. Despite the vitriol of polarization espoused by the nationalist parties, the silent majority of citizens deeply desired to move forward from the war and build a future for themselves and their children. Citizens want access to jobs and to improve their income; the private sector wants access to markets and to improve their profitability. This desire was latently held by the silent majority, but was not able to be expressed. This expression towards progress required stakeholders within the silent majority to mobilize and associate themselves. To start this mobilization and association process there was a need for incentives.
In the case of the MEDI methodology, the incentive was access to small business and home-improvement credit lines. During the MEDI project, a survey was conducted on an annual basis to ascertain reasons why business, farm and home owners would join their respective municipal associations. In the first year the main reason for joining was to access the micro-credit lines, in the second year the main reason for joining was to advocate towards economic reform, and in the third year the main reason for joining was to participate in improving the economic environment within their given community.

Once the associations were mobilized and the partnerships with the local governments were solidified, the stakeholders (local government, private sector and civil society) within all the given communities had a clear focal point for their impoverishment and economic grievances: their cantonal and entity governments. The local governments were frustrated by the expectations of service delivery imposed on them by the higher levels of government without the necessary resources being allocated to deliver such services. The private sector was frustrated by the labyrinth of rules, regulations, bureaucracy and corruption that smothered their capability to function, let alone grow. The focal point of this grassroots alliance was initially to advocate for economic reform. Economic reform (as opposed to ethnic polarization) is a neutral but powerful dimension in the effort to mobilize stakeholders across the ethnic divide to co-operate and seek change. Once this mobilization was ‘in full swing’, the higher levels of government could generally no longer ignore the desires or voice of the ‘silent majority’. This was especially true in the case of the REZ RDA, where the representation of this ‘silent majority’ was institutionalized within its governance structure. Although the engagement from the top down towards the grassroots was spasmodic and at times self-serving, the process of moving from ethnically based issues towards economically based issues had commenced.

Of major importance within this mobilization and advocacy process was local leadership. In all except for one municipality, local leaders (regardless of ethnic background or political affiliation) came forward to take up the challenge of economic reform. These local leaders were mayors, council members, business leaders or community leaders who demonstrated the example of tolerance and co-operation. They did not express the politics of fear and hatred towards the different ethnic communities, and encouraged co-operation with ethnic minorities within their given communities and the surrounding municipalities. They understood that tolerance rather than division was the appropriate path towards rebuilding their community’s future. It required great courage of these leaders to steer away from fear-based politics, whereby blame and inaction for the current circumstance could be focused on their previous adversary instead of themselves.

It is also important to note that these factors of mobilization, advocacy and leadership must be locally driven, as opposed to being driven by the International Community (IC). In the case of the MEDI project, the role of CHF International was simply to provide the local leadership with the tools and methodology to start and encourage this process. Once the process was ‘owned’ and led by BiH citizens, the chances of success were far greater than implementing a process forced onto them by the IC.
During the MEDI project, economic development generally encouraged connections between neighbouring municipalities regardless of ethnic affiliation. Local government and private sector representatives from neighboring municipalities could co-operate on economic planning and implement infrastructure projects that could be of mutual benefit to each other’s citizens, such as road improvements, energy projects or even the establishment of industrial parks.

The establishment of economic institutions that behaved as ‘honest brokers’ also played an important role in the economic development process and in bridging the ethnic divide. Examples of these types of apolitical institutions include the Central Bank, the RDAs and the LRC Credit Bureau. The Central Bank was initially headed by a New Zealander (Peter Nichol), who laid the foundation of an institution that would (without political interference) professionally serve the needs of the financial sector within BiH. In the case of the LRC, there was the need to have an institution that would encourage financial transparency through the use of credit reporting. Where neighboring countries have attempted to do this through government-run registries, BiH was at a disadvantage to do this due to the distrust of ethnic-based political parties towards sharing information on their constituents. By being an apolitical private company, the LRC provided a reservoir where credit reporting information could be centralized without the fear of that information being viewed by previous adversaries. With some exceptions, the RDAs are also an apolitical vehicle that are filling the economic governance vacuum in BiH, and bridging the ethnic divide by conducting economic planning and implementing projects.

At the end of the ‘92–’95 war, BiH was ethnically divided into the entities and cantons. The combatants were divided by the Inter-Entity Boundary line (IEBL), with this IEBL and Dayton Peace Agreement being monitored by the Stabilisation Force in Bosnia and Herzegovina (SFOR). Border points or physical walls were not constructed over the IEBL, as was the case in Cyprus and now Israel. In contrast, the IC encouraged the right of return, free movement throughout BiH and a single economic space. As mentioned, refugees and Internally Displaced Persons (IDP’s) were encouraged to return to their pre-war homes, or at least to see and dispose of their asset through the restitution process. The Office of the High Representative (OHR) in Bosnia and Herzegovina decreed to replace the then-existing number plates that displayed their home municipality with generic number plates that had no location indicated on them. This encouraged many citizens to cross the IEBL without any immediate fear of attack. Where opportunities and potential profits arose, businesses began operating across the IEBL, re-engaging previous and new markets. In many cases, local governments began to engage with their pre-war neighbours to cooperate on development issues. Despite the prejudices and fears that still exist today, travel across the IEBL or ethnically divided cantons is commonplace today. Many citizens will cross the IEBL to go shopping or even visit pre-war friends.

The above is in large contrast with Cyprus: due to the 1974 conflict, Cyprus is divided by a physical wall or wire fence known as the ‘Green Line’, that straddles and separates the entire country between the ‘economically
underdeveloped’ Turkish Cypriot north and the ‘economically developed’ Greek Cypriot south. In 2004, due to the UN Annan Plan on unification and the EU accession process, there was a general optimistic mood that the north and south of Cyprus could be reconciled and united after thirty years of physical separation. A referendum on unification was to be held just prior to EU membership being granted to Cyprus, with the expectation that if the majority of Turkish Cypriot and Greek Cypriot citizens voted ‘yes’ for the UN Annan Plan, the north and south would enter the EU as a unified state; if not, the Greek Cypriot south would enter the EU alone. The perceived fears prior to the referendum were that the Turkish Cypriot north would be recalcitrant and not support the unification process. Just days prior to the referendum, the Greek Cypriot leader presented himself on national television and begged the Greek Cypriot population to vote ‘no’ on unification! In a bizarre twist, the Turkish Cypriot population overwhelmingly voted ‘yes’ and the Greek Cypriot population overwhelmingly voted ‘no’ for unification.

In hindsight, the basic foundations or preconditions for the reconciliation or unification of Cyprus appeared to have been lacking—the tolerance process had not yet truly begun. Since 1974, there had been no movement of citizens or trade across the Green Line north or south. On 23 April 2004, the Green Line was opened by the Turkish Cypriot north for the first time in twenty-nine years to citizens of the south in a show of goodwill. Some Greek Cypriots ventured north for the first time since the war and were discouraged by what they saw; Turkish immigrants (from Turkey) living in the Greek Cypriot’s previous homes, their previous orthodox churches used as animal barns, and Turkish troops patrolling their previous environment. In contrast to BiH, there were no confidence-building measures through economic development, business trade, restitution, right of return or joint institutions established in Cyprus. This ‘Cyprus Effect’ demonstrated, after thirty years—although peace reigns in Cyprus—that with complete separation between the rival ethnic groups, the tolerance process is distorted or prevented from occurring. Complete separation prevents any confidence-building measures from being implemented and also prevents the mutual benefits that could be obtained from co-operative business or economic development activities.

**Conclusion**

The lessons and experience gained from BiH demonstrate that economic development can play an important role in commencing the long-term journey towards reconciliation in a post-conflict environment. Economic and business development activities encourage inter-ethnic confidence-building, communication and co-operation. They support the deeply held desire of the conflict-affected citizens to find security through employment and greater income, they allow governments to focus on infrastructure improvements, and also support the private sector in meeting its growth and profitability desires. Economic development encourages tolerance between the different ethnic communities. Although tolerance between the different ethnic communities does
not guarantee reconciliation; it may pave a long-term generational foundation or environment that could lead to a reconciliation process in the future.

It is important to note that the modern European Union (of 25 nations in 2004) commenced as the humble European Coal and Steel Community (ECSC) in 1951. The ECSC was founded by the previous Second World War combatant nations of Germany, France, Italy, Belgium, Netherlands and Luxembourg. Although the founders’ goal for the ECSC was economic development, it was initiated as a peace-building project only six years after the war.

**Endnotes**

1. Entity and Cantonal governments of BiH.

2. The pre-war population of BiH was estimated to be 4.2 Million.


4. The Washington agreement provided a ceasefire and political framework for co-operation between the then-conflicting Bosniak and Bosnian Croat opponents. The agreement established the ten cantons and the Federation of BiH (FBiH).

5. Office of the High Representative.

6. Republika Srpska (RS).

7. Federation of Bosnia and Herzegovina (FBiH).

8. Value Added Taxes (VAT).

9. It is important to note that the ethnic demographic of the membership base reflects the general ethnic demography of the population within the Central Region of BiH.