

Comment: Facing The Challenge Of Corruption

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Reports of corruption in Bosnia should not lead to the reduction of reconstruction and redevelopment aid. Tax-payers whose governments have been paying for reconstruction in Bosnia and will probably now have to fork out to rebuild Kosovo should be alarmed by press reports that around a billion dollars have gone astray since the end of the Bosnian war.

This alleged theft must, however, be seen in context and should not become an excuse to halt further international spending in the Balkans. Instead, the reasons have to be examined, the lessons learned and policies adopted to eliminate fraud.

That corruption is endemic in Bosnia is hardly news. The country is, after all, emerging from nearly half a century of communism and four years of war. Transparency and accountability are alien concepts and thus the opportunities for fraud are manifold. Recent coverage of the issue in the *New York Times* follows IWPR's own report on the issue two months ago. [See *Credit Crunch* by Ibrahim Polimac, published on 5 July 1999.]

The extent of the losses is in fact probably considerably greater than the billion dollars reported, but precise figures do not exist and could not realistically even be collated.

For the most part the missing money have not come from foreign grant aid, but instead is being pilfered from funds that in a healthy political system would go to the state in its various guises. In Bosnia it has been diverted either into private pockets or into funding alternative, illegal political structures.

The big international donors, such as USAID and the European Union, do obviously monitor how their grants are spent and attempt to minimise the opportunities for fraud, as does the World Bank which designed and oversees implementation of Bosnia's 5.1 billion, dollar, four-year reconstruction programme

Indeed, with a handful of exceptions, the bulk of the 3.5 billion dollars which have been disbursed in Bosnia to date has actually been well spent and has gone on infrastructure projects, such as the reconstruction of bridges, power plants and housing.

Bosnia has been physically transformed in the three years and eight months since the Dayton Agreement ending the war came into force. However, physical reconstruction alone is not enough to create self-sustaining economic growth. And unless the Bosnian economy begins to attract commercial foreign investment, the country will remain dependent on aid. And the longer it lives off handouts, the more cash the West will have to spend.

Unfortunately, however, agencies such as the World Bank and the various donors, do not have the political clout to force through the critical political and economic reforms necessary both to root out corruption and to put Bosnia on its economic feet.

At the end of 1995 when the Bosnian war came to an end, Bosnia was divided into three separate ethnic territories each governed by a powerful nationalist party which had retained the communist apparatus of control while improvising all kinds of semi-legal means of raising cash during the war. Dayton added a new set of institutions on top, without breaking up the old ones.

War turns society on its head and allows misfits to prosper. In Bosnia individuals who would never have achieved in peacetime seized opportunities offered by the conflict and who continue to profit to this day. Meanwhile, many of the individuals who could help rebuild their shattered country have either emigrated or been marginalised.

Without dismantling Bosnia's existing domestic power structures, there is no way out of the current quagmire. No amount of aid will turn the economy around nor encourage foreign investment. Instead, the country will effectively remain an economic black hole, hemorrhaging its young and able citizens.

The task has already begun. The anti-fraud unit which came up with the billion dollar figure was set up in the Office of the High Representative in 1997 while EU customs officials have succeeded in reducing some of the most egregious examples of tax avoidance and are now attempting to reform the entire system.

Meanwhile the central bank, which under the Dayton Agreement is governed by a foreigner appointed by the IMF, has achieved monetary stability by constructing a currency board. However, much remains to be done.

Most Bosnians are aware how corrupt their leaders are and secretly support international efforts to restructure their country. However, as a result of the political system they live in, they are too dependent on authority to step out of line and demand reform, transparency and accountability.

Corruption-busting is therefore a task for the West, not only in Bosnia but also in Kosovo, where domestic power structures are equally insidious. The stakes are high because of the vested interests which have to be overcome.

If south-eastern Europe is to be brought into the European mainstream, as a succession of Western leaders promised at last month's Stability Pact summit in Sarajevo, this issue must be resolved. If, however, the West fails to rise to the challenge, the huge sums which have already been invested in reconstruction will have been wasted.

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