Balkans 'reconstruction': The case of Bosnia shows how not to do it

by Elke Fimmen

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The reconstruction in Bosnia-Herzegovina was sabotaged by supranational bureaucrats. This blunder must not be repeated in the "Marshall Plan" for Kosovo and Southeast Europe.

In the current debate over a stability package for Southeast Europe, the International Monetary Fund and the World Bank are arguing for the same approach that was applied in Bosnia-Herzegovina. These supranational institutions brag that this earlier project boasted exemplary cooperation among the "international community of nations" in the work of reconstruction.

The truth is entirely the opposite. Reconstruction has *not* occurred. Consider the following:

Three and one-half years after the end of the war, the economy of Bosnia-Herzegovina is still in disastrous condition. At least half of the population—but, more likely, 70%—is unemployed. More than half of the residential housing remains destroyed. Bosnian sources claim that only 1% of the land-mines have been cleared, so that with each new day, more people are wounded or die from exploding mines. Repair of some of the most important bridges and roads has begun, but there is no perspective that this will lead to an increase in employment, because the aid money is promoting only small projects.

Productive output is at 20% of pre-war levels. The Volkswagen plant in Sarajevo resumed its production of cars in October 1998, with 60 employees, and the event was celebrated as "the first large-scale resumption of production" since the end of the war. On top of that, between 10,000 and 15,000 Kosovo citizens sought refuge in Bosnia in December 1999, and they are being supported out of Bosnia-Herzegovina's already-scarce aid money.

Despite the complex political framework of the December 1995 Dayton Agreement, which resulted in the country's partition into the Croatian-Bosnian Republic and the Republika Srpska, this abysmal record of "reconstruction" was by no means inevitable. The most important prerequisites for a rapid reconstruction, which would have relieved a considerable portion of the ethnic tensions in the country, were clearly present from the outset: a highly motivated population, skilled labor, and an infrastructure that needed only to be repaired.

But it is obvious that the World Bank, the International Monetary Fund, and the European Commission did not want the reconstruction of a stable, sovereign nation of Bosnia-Herzegovina. Instead, the leading international financial institutions insisted on pursuing their policy of restructuring and privatizing Yugoslavia, which had been interrupted by the war. It was this killer monetarist policy of Jeffrey Sachs and his ilk, that caused the economic collapse, which then accelerated the break-up of Yugoslavia, and prepared the way for the latest war.

Blunder 1: Bureaucracy instead of reconstruction

The Bosnian government estimated the cost of war damages at between \$50 and \$80 billions. The World Bank and IMF, on the other hand, set the costs at a mere \$10 to \$15 billions. In the end, \$5.1 billions of reconstruction aid was agreed upon, over a span of four years—1995-99. But only a fraction of this sum ever has arrived in Bosnia-Herzegovina.

According to the World Bank, a mere \$3.1 billion in aid had been formally promised at the fourth donors' conference in July 1998. Of that money, only \$1.8 billion had actually been paid out—but not actually put to work for reconstruction. Until July 1997, the grand sum of \$400 million—out of a promised \$1.8 billion—was all that was effectively available to Bosnia.

Where did the rest of the money go? Much of the reconstruction allocation was swallowed by the international bureaucracy, under the leadership of the World Bank and the European Commission. In 1996, the Refugees Minister of the Federation, Rasim Kadic, spoke of an allocation ratio at the European Commission of eight to one. In other words, for each deutschemark which flowed for reconstruction, DM 8 were spent on the Western supervisory organizations. The office of the High Representative, which is supposed to super-

Devastation in Aleksinac, Yugoslavia, May 1999. The Balkan countries need a real "Marshall Plan" of reconstruction, not the kind of penny-pinching fraud that was perpetrated against Bosnia by the International Monetary Fund and World Bank.

vise civilian reconstruction, employs 150 well-paid international bureaucrats, as well as 250 Bosnian employees.

There are at least 200 non-governmental organizations (NGOs) at work in Bosnia-Herzegovina, and before any project is begun, experts from consulting firms have handsomely skimmed the pork-barrel with their project planning and various other expertise. This, despite the fact that the Bosnian institutions responsible for energy production, water management, and transportation, already had a precise and competent overview of the damages at the end of the war, and had already presented plans and cost estimates for the necessary repairs.

In August 1997, the German weekly news magazine *Focus* reported that the water works in Sarajevo had run out of money to make urgent repairs to water mains destroyed in the war. Although this problem, together with the repair of the city's gas lines, was of the highest priority, nothing was done, because, that previous March, the European Commission had awarded an Austrian consulting firm the contract for an "analysis of the water-supply network" in Sarajevo, and the consulting firm had still not yet completed its study by August.

There is no mystery about who is responsible for this misery: the World Bank and the European Commission. In 1996, these organizations deployed so-called task forces in each sector, which were supposed to coordinate the programs of particular countries, institutions, and NGOs, and to work out priorities. These task forces work together with the responsible Bosnian ministries of the republics of partitioned Yugoslavia. The task forces for the energy-supply and coal sectors are directly subordinated to the World Bank; the World Bank, together with the European Bank for Reconstruction and Development, also oversees the roads and urban transportation sectors.

There were accusations from the outset, that the European Union (EU) was sabotaging the reconstruction with bureaucratic stalling. The EU is the largest "donor" for the project, along with the World Bank. The Austrian chief coordinator for reconstruction, Alexander Petritz, claimed in an interview with *Focus* in August 1997, that the EU hand spent only DM 140 million of the DM 380 million available for 1996, "although there are enough firms willing to go to work" and waiting to begin work on specific projects. The money was instead going into the EU bureaucracy.

Christian Schwarz-Schilling, a Christian Democratic member of the German lower house of parliament, the Bundestag, writing in the German daily *Die Welt,* accused the EU of "ill intentions," and appealed for bilateral aid from Germany, so that reconstruction could finally begin to move ahead. Germany had paid between DM 340-600 million to EU headquarters in Brussels, earmarked for Bosnia. But, the head of the Cap Anamur refugee organization, Rupert Neudeck, claimed that the EU had made only 15% of this money actually available by the spring of 1998.

In August 1998, the European Central Accounting Office accused the EU of gross incompetence. Only a fraction of the DM 2 billion paid to Brussels for the 1996-99 period, had been actually disbursed. In the decisive years 1996 and 1997, only 29% of DM 1.1 billion had flowed into reconstruction work—that is, only DM 300 million. By that time, only 6,300 homes had been repaired—just 2% of the total number of planned repairs. In the city of Gorazde, for example, 42 homes were built, instead of the planned 400. And even the homes which were built, often remained unoccupied, because they could not be connected to electricity and water supplies.

Blunder 2: Abuse of influence

Whoever controls what is or is not built, creates an entire layer of the population who are dependent on salaries from the international organizations. This controller also has the leverage to influence the political stability of the country. It is most interesting to see *which* external agencies received the EU's contracts for work on the so-called Essential Aid Program, at a volume of ECU 125 million. (The ECU is the EU currency, the euro.) One of these companies was the British firm Crown Agents, which, until recently, was directly attached to the British Crown, and which was active in many countries as a front for British intelligence services. The Crown Agents group works closely with another Crown agency, the Overseas Development Agency (ODA). This group had grabbed the supervisory function in Bosnia for the re-establishment of gas supplies (and thus also the negotiations with the Russian firm Gazprom); the net effect of its supervision was that residents of Sarajevo froze through the winter of 1996-97.

The responsible procurement agent John Lillywhite, of Sutton, England, together with his colleague Julie Wood, from a second procurement agency, Italtrend srl, headquartered in Reggio Emilia, Italy, was supposed to identify projects, organize construction contracts, and supervise the fulfillment of the contracts. Europe/Crown Agents signed on as responsible for institutions, agriculture, transportation, water systems, and sanitation; Italtrend covered health, housing construction, energy, and education. It was precisely at this point, that a decisive push in reconstruction was necessary.

But by the end of 1996, the EU had severed its relations with both of these agencies, because of alleged "irregularities." In mid-1997, British special forces units shot the known war criminal, Simo Drljaca, in Prijedor; it was then discovered that Drljaca had received handsome payments from British reconstruction funds for financing his "privatized" construction firm, Komgrad. Despite such flagrant cases of corruption, and the ostensible "severance" of relations to Crown Agents, the EU continued to pay Drljaca's former mercenary organization.

That is not the end of the story. To defend their own egregious behavior, British Foreign Minister Robin Cook and Carlos Westendorf, the High Representative of Civilian Reconstruction in Bosnia-Herzegovina, suddenly hurled wild accusations of rampant corruption against Bosnian authorities. They claimed that $50 million of World Bank funds had disappeared. It proved impossible to substantiate the accusations—a fact which the IMF officially acknowledged in a report in August 1998. The chief purpose of the accusations had been to stir up a political storm against Bosnian President Alija Izetbegovic and his associates, and to argue that Westendorp should have veto power over Bosnian legislation. That formally sealed the political control over Bosnia-Herzegovina. Now, the country has been degraded to the status of an economically and socially unstable protectorate of foreign powers.

Blunder 3: Priority on repayment of debt

The Dayton Agreement required that Bosnia agree to pay 17% of the old debts of former Yugoslavia. At the end of 1997, the IMF reported that the total foreign debt of the country was $4.1 billion, which corresponded to 90% of the nation's gross national product. Although a portion of this debt was restructured (naturally, at the price of additional costs and interest payments), a burden of this magnitude would suffocate any country already destroyed by war. The budget of the central government for 1998 set 57 million convertible marks, out of 183 million, for administrative expenditures, and 126 million for payment of foreign debt.

When, in July 1997, the Bosnia-Herzegovina Federation paid its share of the semi-annual $8 million tranche of a $680 million credit, but the Serbian side declared that it was insolvent, the World Bank threatened to freeze credit lines for the entire country, to halt ongoing projects, and to cancel new programs in transportation and schools. It was decreed that both entities had to pay their respective shares automatically to the account of the central bank. This behavior highlights the priority of the World Bank, which is supposed to be promoting reconstruction: In the only sector where there is centralized activity, the priority is repayment of debt!

The heartfelt concern which the World Bank shows for its international financial clientele, does not extend to to the Bosnian population. In a paper issued in the preparation phase of the donor conference in December 1995, the World Bank demanded that debts incurred by the Bosnian government to Bosnian citizens during the war, should *not* be paid under any circumstances. This included back pay for government employees and pensions, as well as liabilities of the government to households for the loss of savings accounts at banks: "If the government began to pay off these liabilities, this could burst the budget. . . . A considerable portion of these liabilities must be written off, in part or entirely, by compensating back wages and pensions with food or other services," the World Bank declared.

In particular, credits of Bosnian banks, especially the central bank, must not be used to pay these debts to the population. "Fiscal restraint," said the World Bank, should be exercised with respect to social services to "the poor and such as have been most affected by the war and unrest," since "a puffed-up social budget would undermine the budgetary prudence which is indispensable for stability."

Blunder 4: Destruction of the state's role

Those who want to enforce such priorities, also have to prevent the state from pursuing its own economic policy, independent of foreign interests. Article II of the Dayton Agreement limits the economic responsibilities of the central government to monetary policy (which operates under a foreign-controlled currency board), foreign trade, and customs issues, as well as acceptance of foreign credits and repayment of debt. Beyond these areas, the central government has scarcely any income from taxes, because taxes are collected by the two half-republics and the cantons. The central government is simply supposed to create the legal framework, so that the "free market" can work.

Thus, the IMF preparatory document for the second donor conference on April 2, 1996 (Executive Summary, p. xxi), says: "The government's extremely bad tax situation leaves no alternative but that of the private sector, should the current macroeconomic stability be sustained. The resources for any investments or interventions whatsoever on the part of the government are simply not available. Under these conditions, it will be the task of the creditors to take up job creation as an integral part of the reconstruction program."

The declared ideological aim of the leading aid institutions, the IMF and the World Bank, is to continue the process of privatization which was interrupted by the war. In IMF language: "It is tempting to argue that, on account of the special conditions in Bosnia-Herzegovina, the government should have a direct role in the expansion of production by reactivating state-owned enterprises." But the IMF strictly rejected that "tempting argument," and, instead, insisted on the promotion of "the expansion of the service sector and light industry by private enterprises."

Blunder 5: The currency board

Since August 1997, the chief instrument for denying the central government any independent role in reconstruction, has been the central bank, which, according to the constitution stipulated in the Dayton Agreement, is to function for at least six years as a currency board. The board is under the control of the IMF, and is led by a non-Bosnian president, who is chosen by the IMF, and who has three national deputies. It is expressly forbidden for the central bank to create money (Article VII of the constitution, Annex 4 of the Dayton Agreement). The bank may, as may any currency board, bring only that volume of money into circulation, which is covered by foreign exchange (in this case, deutschemarks). Because Bosnia has no export earnings to speak of, the main source of exchange is the money provided by the international community, which the currency board dispenses as it sees fit. If the volume of this money contracts, which has been increasingly the case since 1997, this immediately has an impact on the amount of money circulating in the economy.

Reconstruction can work

The above analysis is not intended to spread pessimism, but rather to show how a reconstruction program should *not* be designed. What is now needed, is a grand reconstruction plan for the entire region of Southeast Europe, *without the IMF and World Bank conditionalities*. Nations must have the possibility to create their own reconstruction projects, modelled upon the German Kreditanstalt für Wiederaufbau (Bank for Reconstruction), and to create credit through a national bank for financing those projects. International aid money must be administered by the governments themselves, with an accounting for their use. Humanitarian and international organizations may play roles in an advisory capacity only, but should not have the power to dictate decisions.

ASEAN seizes opportunities in a time of crisis

by Gail G. Billington

Three major conferences took place in Southeast Asia in late July, which proceedings reflect a distinct shift leading to even closer collaboration among regional leaders in concert with what *EIR* has identified as the "Survivors' Club" of major powers, including Russia, China, India, and Japan. The shift is driven by political fallout from the NATO bombing campaign against Yugoslavia and the lingering effects of the so-called "Asian contagion," the financial *tsunami* that slammed ashore in the first week of July 1997, and has yet to subside.

The annual ministerial meetings of the Association of Southeast Asian Nations (ASEAN) began in Singapore on July 23, followed by the July 26 meeting of ASEAN's foreign ministers with their 12 counterparts in the ASEAN Regional Forum (ARF), the only regional political and security forum, and concluding with the Post-Ministerial Meeting. On the sidelines, a density of bilateral meetings took place between individual foreign ministers, and among ASEAN's combined foreign ministers and each of their ten "dialogue partners," including China, India, Russia, the United States, the European Union (EU), Japan, South Korea, Australia, and New Zealand. Singapore Foreign Minister Shanmugan Jayakumar, who chaired the ARF meeting, welcomed Mongolia as a new