

U4 Expert Answer



Corruption and Anti-Corruption in Bosnia and Herzegovina (BiH)

Query:

- “1. What are the types of corruption present in BiH?”*
- “2. What is the institutional and legal set up on the national level in Bosnia and Herzegovina (BiH) to deal with prevention and sanction of corruption and organised crime? Is there any independent monitoring body to follow up national efforts in anti-corruption?”*
- “3. Is the development sector in BiH affected by corruption and organised crime and how can donors help the country develop and at the same time safeguard their funds?”*

Purpose:

Our Embassy in Sarajevo is updating its anti-corruption plan and needs latest information on corruption, anti-corruption and the national capacity (institutional and legal) to fight corruption.

Content:

Part 1: Forms and Extent of Corruption in BiH

Part 2: Anti-Corruption Legal and Institutional Framework in BiH

Part 3: Corruption and the International Community in BiH

Part 4: Further Reading

Summary:

The post-war context in BiH remains characterised by a complex institutional structure, deeply entrenched ethnic and political divisions, and a general lack of transparency and accountability. Against this background, both petty and grand forms of corruption are present in the country, affecting all sectors of society, including the judiciary, tax and custom administration, public utilities, procurement and privatisation schemes as well as all major political processes. Under such circumstances, international aid is not believed to be free of corruption. The close connections between the ruling elite and criminal networks represent a further area of great concern in the country.

Although an anti-corruption legal and institutional framework has been put into place in recent years - mainly as a result of international pressure - there are neither signs of progress, nor of a firm political commitment against corruption. Such context makes

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the definition of an anti-corruption agenda for the international community extremely challenging.

Part 1: Forms and Extent of Corruption in BiH

Background

Since the end of the 1992-95 war, BiH has strived to achieve economic and political stability and restore the confidence of its citizens, foreign investors and the international community. However, according to a [2005 CMI report on corruption in Bosnia and Herzegovina](#), the post-war context remains characterised by the criminalisation of the state, the politicisation of the public sector, complicated power structures and fragmented administration, all these factors converging to create a fertile ground for corruption.

While most aspects of political, social, and economic life remain divided along ethnic lines, the report argues that the war has left a political vacuum in the country, leading to the emergence of a corrupt political elite that uses ethnic divisions to disguise its corrupt rent-seeking agenda. This is illustrated by far reaching cross ethnic collusion between political elites, and criminal and informal economic networks that have managed to sustain themselves after the war.

The Dayton Peace Agreement has given the international community an important role in BiH's complex governmental structures, with significant powers (also referred to as the Bonn powers) granted to international agencies such as the Office of the High Representative (OHR). Many of the country's reforms have been internationally driven. The complex system of power-sharing between regions, administrations, federal state structures¹, etc., further undermines the pace and effectiveness of peace- and state-building reforms. (Please see: <http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>)

¹ The country is politically decentralised and comprises two governing entities, the **Federation of Bosnia and Herzegovina** and **Republika Srpska**, with **District Brčko** as a de facto third entity.

[Freedom House 2008 Nations in Transit](#) reports that, although the OHR has sought to increase the focus on local ownership, domestic institutions still do not fully function without international intervention, and local political leaders have stalled the fragile reform process, undermining national democratic governance. The decision to close the Office of the High Representative originally planned for 2007 has been postponed, suggesting that the international community still lacks sufficient confidence in the ability of domestic institutions to maintain political stability in Bosnia.

Extent of Corruption in BiH

Against this background, corruption and organised crime are deeply entrenched in many aspect of BiH's public life and the country faces major governance and corruption challenges.

The country routinely performs very poorly in [TI's Corruption Perceptions Index \(CPI\)](#). In 2009, consistent with previous iterations of the index, BiH scored 3,0 on a scale of 0 (highly corrupt) to 10 (highly clean), ranking 99 out of the 180 countries assessed, suggesting widespread and endemic forms of corruption.

The [2008 World Bank Worldwide Governance Indicators](#), however, indicate positive trends in recent years for most areas of governance assessed. Except from poor and deteriorating scores in terms of 'political stability', the country has made steady progress in terms of 'voice and accountability' (48,6 compared to 43,3 in 2003) and 'control of corruption' (45,9 compared to 43,7 in 2008), while major improvement have been recorded in terms of 'government effectiveness' (35,1 compared to 20,9), 'rule of law' (43,5 compared to 23,3) and 'regulatory quality' (48,8 compared to 27,8).

Bosnian citizens also perceive corruption to be very high in the country. A [survey](#) conducted in May 2008 for the Center for Investigative Reporting (CIN) in Sarajevo found that 82 percent of the citizens surveyed consider corruption in BiH a serious problem. According to [TI's 2007 Global Corruption Barometer](#), Bosnian citizens are pessimistic about the future with 66 % of the respondents believing that corruption will increase in the next three years.

Corruption is also identified by the [World Economic Forum's 2008-2009 Global Competitiveness Report](#) as one of the major constraints for doing business in

the country, along with government instability, policy instability, inefficient government regulation and inadequate infrastructures. Consistent with regional trends, 35% of the companies surveyed within the framework of the [World Bank and IFC 2009 Enterprise Survey](#) also identified corruption as one of the largest constraints to business operations.

Forms of Corruption in BiH

Bureaucratic Corruption

Bureaucratic corruption is facilitated by the complex and fragmented governmental structures that have been sanctioned by the Dayton Peace Agreement, which provided for an initially very weak state level government, and two entity level governments, each of which is divided into sub-layers. According to the above mentioned 2005 CMI report, this bloated public sector accounts for 54% of the annual GDP - more than in any other European country. These different layers of government result in confusion over legislation and competencies and create a heavily bureaucratic system that lacks transparency, undermines citizen accountability and provides many opportunities for abuse of office and diversion of public funds.

According to the [US Department of State's 2008 Investment Climate Survey](#), it is often impossible to know all of the laws or rules that might apply to certain business activities, given overlapping jurisdictions and the lack of any central source of information. In addition, businesses are subject to inspections from a myriad of entity and cantonal/municipal agencies.

According to the [World Bank and IFC Doing Business 2009 Survey](#), establishing a business in BiH can be an extremely burdensome and time-consuming process. Businesses must navigate a complicated web of regulatory procedures to get the necessary licenses to begin operations, obtain licenses or simply expedite the approval process. There are a total of twelve procedures to complete registration for a new business and it takes on average one month to complete all required steps.

Political Corruption

Corruption and various forms of nepotism are rampant in all spheres of public and political life in BiH, penetrating the highest levels of the Bosnian leadership.

According to the [CMI report](#), the widespread politisation of the public sector has been a legacy of the war, whereby appointments to newly created administrative structures were made by political allegiance. As the public sector remains one of the major sources of employment opportunities in the country today, appointments continue to be manipulated and exploited by the leading nationalist parties. Anyone wanting to climb up the social or economic ladder within his or her ethnic group has to have support from one or more of the political parties.

As already mentioned, the new political elite that has emerged in the post-war context entertains close ties with both criminal and informal economic networks as well as nationalistic political parties. According to the [CMI report](#), political parties control state assets, licensing, housing policy, appointments to public offices and to management and executive functions of state owned companies, privatisation processes, tax collection, public utilities, customs, the security sector etc. In the [2009 Global Corruption Barometer](#), Bosnian citizens identify political parties as the institutions most affected by corruption, scoring 4,4 on a scale from 1 (not corrupt at all) to 5 (extremely corrupt).

The [Freedom House 2008 Nations in Transit](#) country report finds that elections in BiH are usually characterised as free and fair by international monitors, including the OSCE, and the country has held regular elections since 1996. However, the Law on Elections based on the Constitution tends to advantage strong ethno-nationalist political parties and disregard the political rights of minorities. Government pressure on opposition parties has been limited in the 2007 elections, as they did not represent any serious threat to the ruling coalition. While all significant political parties formally adhere to a democratic system of governance, the long-dominant nationalist parties tend to maintain their control over public institutions and used them to stay in power.

Organised Crime

There is little data available on organised crime in BiH and its penetration into state structures and legitimate businesses, but most reports refer to a growing criminalisation of the state. Organised crime in BiH has its origins in the regional instability that has undermined effective law enforcement. The war has encouraged the organisation of smuggling channels for arms necessary for fighting the war by groups closely connected to the highest political spheres. Subsequently activities were extended to other criminal activities such as drug or women trafficking throughout the region with the knowledge and often active participation of the ruling elite. (Please see: [Corruption, Contraband and Organized Crime in Southeast Europe](#)). As a result, a criminal elite has emerged that entertains strong links to the nationalist political parties.

A series of factors, such as complicated political and administrative arrangements, peace building, post-war reconstruction, and other pressing issues have side-tracked the fight against organised crime, smuggling and corruption in the post-war context. According to a [Global Integrity 2007 Report](#), BiH remains a significant transshipment point for drugs from Afghanistan and Iran, and robust trade continues in illegal arms, human trafficking, cigarettes and gasoline, with the active involvement of customs officials, police and high-level politicians.

Sectors Most Affected by Corruption

Licenses, Infrastructures and Public utilities

The [2005 CMI report](#) refers to major cases of mismanagement, conflict of interests and abuse in public electricity companies revealed by an international audit of Elektroprivreda Republike Srpske in 2003. The international community's High Representative subsequently sacked the Director and former Ministry of Energy and issued an order for special audits to be conducted in six public utilities companies in late 2004.

However, in spite of such big scale scandals, companies tend to report less corruption to obtain public utilities, such as electricity and phone

connections, and bribery to obtain licenses seems to have decreased since 2002. (Please see: [Business Anti-Corruption Portal](#)). According to the [World Bank 2009 Enterprise Survey](#), 6% of the firms interviewed reported being expected to make gifts or informal payments to get an operating license.

Judiciary

Corruption in the judiciary remains a major challenge to the restoration of the rule of law in the country. Companies interviewed within the framework of the 2009 World Bank and IFC surveys perceive the judiciary as corrupt and a major constraint for doing business in the country. Citizens also lack confidence in the judicial system that they perceive as one of the most corrupt institutions, as indicated by the judiciary's score of 4,2 in [TI's 2009 Global Corruption Barometer](#).

[Freedom House Nations in Transit 2008](#) reports that although operating relatively independently, the judiciary is still struggling to maintain its independence from the government and remains influenced by nationalist political parties. The [Bertelsmann 2008 Transformation Report](#) further mentions a legacy of control by political parties, ethnic bias, weak professional standards and corruption. Respect for basic political, civil, and human rights tends to be selective and independent judges have reportedly faced various forms of threats and intimidation.

Although some progress has been made in prosecuting individuals accused of corruption and enforcing legislation against conflicts of interest, [Global Integrity 2007](#) reports that the justice system has not indicted any politically connected individuals or major crime figures.

Judicial corruption and political interference have been recently illustrated in connection with the trial against Dragan Covic. The president of the Croatian Democratic Union of BiH party since 2005 and former member of the presidency was sentenced to five years imprisonment for corruption by the Office of the High Representative for corruption in November 2006, but released shortly afterwards, and subsequently played an active role in the formation of a new Bosnian government.

Despite the initiation of reforms, courts remain slow and inefficient, due to weak judicial structures and

professional standards. Excessive delays in the criminal justice system and overwhelming backlogs of cases continue to hamper the effective delivery of justice.

Tax and Customs Administration

The **tax administration** has undergone major reforms in recent years, with the view to increasing tax revenues and reducing corruption. However, there are indications that corruption is still prevalent and Bosnian citizens perceive the tax and revenue authorities as very corrupt, scoring 4 in **TI's 2007 Global Corruption Barometer**. This is usually attributed to the complex institutional set up that comprises a myriad of entities, cantonal and municipal tax offices. Offices operating at the local level have close links with local citizens and companies, creating opportunities for corruption.

Corruption in the **customs administration** is strongly associated to levels of transnational organised crime and the transshipment of drugs from the Middle East, often with the active involvement of high level politicians, customs and police officials. According to the **CMI report**, Interpol estimates that about seventy per cent of the heroin seized in Western Europe transited through the Balkans route and a range of other commodities such as cigarettes, forged goods, stolen cars, women and children pass through BiH each year. Appointments in the customs service are among the most lucrative jobs and believed to be made on the strict basis of political allegiances.

Public Procurement and Privatisations

Corruption typically affects both procurement and privatisation processes in BiH. The implementation of the procurement reforms is on the way but not yet fully functional. Public biddings still often lack effective transparency, accountability and appeal mechanisms, and tenders are occasionally "adjusted" or cancelled in favor of particular bidders. TI's **2007 National Integrity Study** (NIS) mentions that procurement officers are not obliged to declare their assets and no monitoring of lifestyles takes place. Close to 6% of the firms interviewed within the framework of the **Doing Business 2009 Survey** report being expected to make a gift to secure a government contract.

The process of transition of state-owned economy into private ownership through privatisation has also

created many opportunities for abuse. Since 1997, the country has gone through a wave of privatisation processes that have been tainted by allegations of corruption and irregularities. Most common practices in privatisation processes include avoiding transparent and open bidding procedures, introducing legal changes allowing government to privatise virtually every public company, etc. In some cases, managers of state owned enterprises were in clear conflict of interest situations, providing the documentation needed for the privatisation - including estimates of the worth of the company - and at the same time being entitled to participate in the bidding process. **TI's NIS** further mentions that the key positions in privatisation agencies/directorates as well as in managing boards in public companies are held by political allies of the ruling elite.

According to **Global Integrity 2007**, over the past few years, the governing Republika Srpska Alliance of Independent Social Democrats (SNSD) party has sold off many of Serb-controlled Republika Sprska's best assets without public bidding or in irregular privatisation deals, including the state telephone company, refinery and tobacco factory. Significant public-works projects have also been unilaterally negotiated and awarded without public bidding to private companies.

Natural Resources and Extractive Industries

Corrupt practices are especially prevalent in the management of strategic natural resources, such as oil, gas or aluminium. Lack of transparency and oversight have for example characterised the sale of the Brod oil refinery and fuel retailer to a Russian investor or the sale of the Gacko Thermo Power plant by the government of Republika Srpska. **Global Integrity 2007** also mentions major irregularities in the privatisation of BiH's largest exporter, Aluminija Mostar, conducted through a series of secret meetings involving government ministers but no representatives from the Agency for Privatisation.

Part 2: Anti-Corruption Legal and Institutional Framework in BiH

According to **Global Integrity 2007**, Bosnia & Herzegovina has a reasonably good legal and

institutional framework for fighting corruption, but faces major implementation challenges which may reflect a lack of political will to effectively tackle corruption. Bosnian citizens lack confidence in the government's commitment against corruption. TI's **2009 Global Corruption Barometer** indicates that more than 66% of the respondents perceive government efforts to fight corruption as somewhat or very ineffective.

The Legal Framework Against Corruption

Anti-Corruption Legislation

BiH scores very strong for anti-corruption legislation in the Global Integrity Index 2008 (Please see: <http://report.globalintegrity.org/Bosnia%20and%20Herzegovina/2008/scorecard>).

The **Criminal Code of BiH** criminalises practices such as corruption, extortion, active and passive bribery, money laundering, misuse of public resources for private gain, etc.

A **Law on Conflict of Interest** has been passed at the state, entity, and district levels, regulating the giving of gifts. However, it only applies to elected officials, executives and advisors, excluding for example non elected procurement officials.

A **Public Procurement Law** establishes a set of rules and procedures to guarantee transparent and more competitive public contracting processes. It scores weakly in the **Global Integrity Index 2008** and has been judged unsatisfactory in the reports of all three Supreme Audit Institutions². The adoption of a new law drafted in January 2009 was still pending as of June 2009.

² Transparency International's **2007 National Integrity Study** states that "Three Supreme Audit Institutions (SAIs) exist in parallel in the country: BiH level or the Audit General Office of the Joint Institutions of BiH, and the two Entity audits: Audit General Office of the Federation of BiH (responsible for the 10 Federal cantons) and Audit General Office of the Republika Srpska." Transparency International (2006): National Integrity System Study Bosnia and Herzegovina 2007. Pg 100.

The **Freedom of Information Law** was adopted in 2000. However, it does not provide for legal penalties against competent authorities for failing to implement the law's legal provisions.

Other laws pertaining to the fight against corruption in Bosnia and Herzegovina include the **Law on the Prevention of Money Laundering**, the **Law on Witness Protection** and the **Law on Financing Political Parties**. BiH has also signed and ratified the **United Nations Convention against Corruption** in 2006. In April 2008, Bosnia and Herzegovina also acceded to the UN Protocol against Illicit Manufacturing and Trafficking of Firearms.

In spite of these various existing instruments, there are major loopholes in the anti-corruption legal framework. For example, whistle-blowing protection is almost inexistent. Immunity rules for Members of Parliaments also apply to corruption related offences and civil servants who are convicted of corruption are not prohibited from future government employment. Observers usually note that the impact of anti-corruption legal measures have been limited by poor implementation of the legal framework, as well as existing legal loopholes in the various instruments, resulting in low levels of public confidence.

Anti-Corruption Strategies

There had been several attempts to develop and implement an anti-corruption strategy, before finally an Anti-Corruption Strategy was adopted as a part of the country's larger **Mid-Term Development Strategy** in 2004. **TI's NIS** reports that no significant progress has been noted in implementing the Strategy because of the lack of institutional commitment, close collaboration, but also the actual political will to combat corruption. A further concern relates to the fact that most efforts have concentrated on strengthening individual pillars/institutions to the detriment of adopting a holistic, countrywide approach that would bring the key parties together to discuss the agenda and priorities. Expert's opinions from the Council of Europe evaluate the scope of the Strategy and its Action Plan as being narrow, concentrating on the adoption of repressive legal framework, while efforts on preventive and educational activities are underrepresented. (Please see: <http://europeandcis.undp.org/anticorruption/show/5DFCF132-F203-1EE9-B8338074D57C2E1C>)

Ultimately, the Ministry of Security of BiH prepared a separate **Anti-Corruption and Organised Crime Strategy of BiH for 2006-2009**, which appears to focus more on the crime prevention than on the anti-corruption front. This Strategy refers to broader concerns of good governance and anti-corruption through investigation and prosecution, and empowering the judiciary and law enforcement agencies.

The Institutional Framework³

Aside from the judiciary and the police forces, institutions charged with fighting corruption in BiH include the newly established State Investigation and Protection Agency, the Office of the Prosecutor, the Supreme Audit Institutions, law enforcement agencies, a public procurement agency and the Ombudsman.

The **State Investigation and Protection Agency** (SIPA), was established by the 2004 Law on State Investigation and Protection Agency, which gives SIPA the authority to investigate corruption crimes. This internationally supported agency constitutes the main anti-corruption agency at the state level, but it has also regional offices. Although SIPA is formally independent from political interferences, there are mixed reports on its efficiency in investigating corruption cases involving high ranking officials.

The **Office of the Prosecutor** was established in 2003 to deal with economic crimes, corruption and organised crime. It includes appointed international prosecutors and has become an important state-level institution investigating serious crimes such as money laundering, terrorism, trafficking and corruption. However, it has limited resources and heavy workloads. For example, an important organised crime case was dropped in the 2007 because the prosecutors could not afford forensic accountants. **Global Integrity 2007** further states that prosecutors cannot depend on police or other law enforcement agents to investigate complex cases,

because they are unskilled, poorly funded or politically influenced.

The **State Border Service** (SBS) was the first state-level law enforcement agency established in the country, controlling sea borders, airports and border crossing, also fighting corruption, drug smuggling and human trafficking. The European Union supports both, SIPA and SBS, with expertise and training.

Three **Supreme Audit Institutions** operating in the Federation of Bosnia and Herzegovina, republic Srpska and at the state level conduct external financial and performance audits of public expenditures and must report cases of alleged corruption. No corruption cases have been reported so far. According to the **Business Anti-Corruption Portal**, the SAI Financial Police are competent but lacking resources and governmental support.

The establishment of a single **Public Procurement Agency** (PPA) and its **Procurement Review Body** have been facilitated by the 2004 Law on Public Procurement largely as a result of international pressure. According to **TI's NIS**, these agencies were not fully functional in 2007. There is no institution responsible for maintaining a blacklist of corrupt bidders and companies violating procurement regulations are not prohibited to participate in further bidding processes. Many regulations are now online, but subject to ad-hoc changes, and specific regulations are not always clear or accessible.

Three separate **Ombudsman** institutions that existed in both entities and at state level have been merged 2006 in a single institution. It is mandated to cover the entire public sector and can issue recommendations and special reports that are enforceable. In practice, no sanctions have been imposed on those who don't comply, and there are concerns of political interferences.

Anti-corruption efforts in the country have primarily developed under international pressure, however, they have taken a technical approach, largely ignoring the local political economy and face major enforcement challenges, as implementation is mainly left to inadequate domestic institutions. They have largely failed to adopt a comprehensive, holistic and country-wide approach, engaging the various stakeholders in the reform process. While progress has been made in professionalising institutions, such as the police or the judiciary, the lack of communication and co-operation

³ The following section is mainly drawn from data compiled from BiH's country profile of the Business Anti-corruption Portal (Please see: <http://www.business-anti-corruption.com/country-profiles/europe-central-asia/bosnia-herzegovina/>)

between the different integrity pillars has hampered substantive systemic reforms. As a result, anti-corruption activities remain largely uncoordinated and with no real political will and systematic approach. (Please see: http://www.transparency.org/news_room/latest_news/press_releases_nc/2009/2009_09_03_bih).

Independent Monitoring Mechanisms

The Helpdesk has not found any mentioning in the consulted literature of a domestic independent monitoring mechanism established to assess progress made against the government commitment against corruption. Efforts in this regard have mainly originated from the international community and civil society.

The Role of the International Community

The prospect of EU accession - which, according to polls is what more than 70 percent of the population wishes - provides opportunities to promote the anti-corruption reform agenda. There have been instances where the international community has publicly criticized the government for its lack of progress in anti-corruption reforms through the High Representative Office. (Please see: <http://www.business-anti-corruption.com/country-profiles/europe-central-asia/bosnia-herzegovina/general-information/>).

Since March 2002, the European Commission has reported regularly to its Council and Parliament on progress made by the countries of the Western Balkans region, looking at political, legal and economic standards for EU accession. The latest **EU 2009 progress report** states that Bosnia and Herzegovina has not yet achieved any significant progress in the fight against corruption, which is one of the conditions that BiH has to meet in order for the liberalisation of visa regime to be adopted. (Please see: http://www.transparency.org/news_room/latest_news/press_releases_nc/2009/2009_10_15_bih_progress_report).

The Role of Civil Society

Civil society has also a key role to play in monitoring progress made on the anti-corruption agenda in the prospect of EU accession. However, according to

Freedom House 2008, there is little evidence that the government responded to civil society pressure to agree on reforms that would bring BiH closer to the EU. Dependence of foreign funding raises concerns of long term sustainability of non-governmental organisations (NGOs) in BiH,

Transparency International Bosnia-Herzegovina (TI-BiH) is the major anti-corruption civil society organisation in the country and has consistently raised corruption issues with the government. Although civil society is independent in BiH, and the rights of assembly and association are formally protected, the organization has suffered repeated political attack from government in the last two years and was forced to suspend its activities in July 2008 for a few weeks. The government has announced that they would bring charges against TI-BiH for expressing its opinions and views, which bodes poorly for both the future of civil society and the fight against corruption.

Among other activities, TI-BiH monitors the privatisation of key companies, releases surveys and studies on corruption in the country, and runs an Anti-Corruption Legal Advice Centre for citizens to report corruption complaints. In September 2009, TI-BiH was consulted within the framework of the **EU 2009 progress report** and presented the results of its first monitoring of implementation and advocacy of anti-corruption standards, as well as the results of its second quarterly corruption perceptions research, stressing the potential of involving civil society in monitoring government's anti-corruption commitments (Please see: http://www.transparency.org/news_room/latest_news/press_releases_nc/2009/2009_09_03_bih).

According to **Freedom House 2008**, BiH law provides for diversity and independence of the **media**, but there are indications of strong alliances between political circles, business interests and media as well as signs of ethnic and political bias. There are also concerns regarding the growing influence of organised crime on the media, undermining the potential of investigative journalism in the country.

Part 3: Corruption and the International Community in BiH⁴

Ownership of the Anti-Corruption Agenda

While, on the one hand, international presence and the prospect of EU accession provide both incentives and opportunities to move the anti-corruption agenda forward, the invasive policy-making authority of the international community might, on the other hand, undermine the ownership of reforms and political will to effectively tackle corruption.

As already mentioned, the High Representative has in the past made use of the Bonn-authorities that allows him to remove corrupt and obstructionist politicians. However, these powers have also created a serious dilemma with regards to longer-term ownership and sustainability of reforms.

Corruption and International Aid

Given the endemic nature of corruption in BiH and close links existing between the ruling elite and organised criminal networks, rumours about corruption and misuse of international aid abound. A 1999 New York Times article estimated the figure to be as high as US \$1 billion. In the early stages of reconstruction nationalist politicians closely connected to criminal networks had become the key interlocutors and entry points into local communities and markets for the international community. Examples of practices at this stage of the reconstruction included:

- International agencies being forced into contracting cronies of the local elite at inflated prices, while

other potential bidders were threatened not to participate in the tendering process;

- Successful bidders for reconstruction contracts being forced to give a certain percentage of the contract value to local leaders;
- NGOs who received funding for specific reconstruction projects being pressured by local leaders to distort reconstruction priorities;
- General lack of transparency with regards to the use of direct assistance provided through local politicians and administrative structures, in the absence of independent verification mechanism.

More generally, direct budget support in BiH provided by the international community substituted for revenues lost to state and entity budgets through corrupt activities, such as customs fraud and tax evasion.

Corruption within the International Community

Against such a background, the international community in BiH has a particular responsibility to set the highest integrity standards with regards to its policies, programmes and practices. The **CMI report** points to certain areas of weaknesses, including:

- Lack of transparency in recruitment procedures for staff of international organisations and NGOs;
- Lack of respect of local laws and rules by international and diplomatically accredited staff;
- Few control mechanisms in place for the payment of items such as per diems, allowances, and other benefits.

Possible Solutions

The **CMI report** concludes that, in the absence of clear signs of a firm political commitment against corruption, defining an anti-corruption agenda for the international community in general, and for bilateral donors in particular, remains a challenge and could challenge the decision to engage under these circumstances.

Experience from anti-corruption interventions suggests that progress cannot be achieved without the full cooperation of national authorities. Latest developments in the country in the last four years do not indicate that the situation has positively evolved in this regard since the publication of the report. On the contrary, **Global Integrity 2008** reports that the fight

⁴ The following section is mainly based on the **CMI report** which provides a good overview of the paradoxes of international presence in BiH (Please see: <http://www.cmi.no/publications/file/2003-corruption-in-bosnia-and-herzegovina-2005.pdf>).

against corruption and for governmental transparency has continued to move backwards substantially. As it remains of crucial importance for the development of the country and the stability of the region to address issues of corruption and organised crime in BiH, the report's recommendations remain valid in today's context:

- Supporting the government in fulfilling its obligations under the EU pre-accession agenda;
- Promoting an independent judiciary with the resources and capacity to fulfil its anti-corruption and anti-organised crime mission;
- Enforcing strict control over the financing of political parties;
- Raising politicians and civil servant's integrity and ethical standards;
- Rationalising government structures and promoting public participation, transparency and accountability;
- Supporting civil society's role in the fight against corruption;
- Mobilising citizens to demand more transparency and accountability and to hold government accountable for its decisions and actions.

Part 4: Further Reading

Bosnia and Herzegovina 2009 Progress Report (European Commission)

This document reports on legal, political and economic progress made by BiH in terms of the various criteria for EU membership. It points towards a lack of significant progress in the fight against corruption. <http://www.delbih.ec.europa.eu/docs/ProgressReport20092.pdf>

Freedom House 2008

Freedom House publishes a flagship comparative assessment report, which looks at global political rights and civil liberties in a wide range of countries. <http://www.freedomhouse.org/template.cfm?page=47&nit=447&year=2008>

Bertelsmann Transformation Report 2008

The BTI analyses the states of democracy and market economic systems as well as the quality of political management in 125 transitional and developing countries. <http://www.bertelsmann-transformation-index.de/177.0.html?&L=1>

National Integrity Survey 2007

TI's National Integrity System (NIS) country studies are qualitative reports that provide a detailed and nuanced assessment of anti-corruption systems at country level. http://www.transparency.org/policy_research/nis/nis_reports_by_country

Corruption in Bosnia and Herzegovina (2005)

This CMI report provides a comprehensive overview of forms of corruption in BiH and shows how corruption threatens the consolidation of a viable, strong, multi-ethnic state. <http://www.cmi.no/publications/file/?2003=corruption-in-bosnia-and-herzegovina-2005>

Corruption, contraband and organized crime in Southeast Europe (2003)

This report provides a good overview of the origins, mechanisms and challenges of the rise of organised crime in the region, leading to a growing symbiosis between the state and organised crime. <http://www.csd.bg/fileSrc.php?id=51>

BiH's Country Profile on the Business Anti-Corruption Portal also includes a comprehensive compilation of data sources on the country. <http://www.business-anti-corruption.com/country-profiles/europe-central-asia/bosnia-herzegovina/sources/>