



Bosnia and Herzegovina

Post-Conflict Reconstruction

Country Case Study Series





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Preface

Following its creation in 1946, the World Bank's first loan to the government of France was to help rebuild the country after the massive destruction suffered in World War II. Since then, post-conflict reconstruction has been a recurring theme in the Bank's work. Given the rapidly increasing number of post-conflict areas, and the enormity and complexity of rebuilding in each case, the Bank is taking a fresh look at how it can best provide assistance to such troubled parts of the globe. One way is take a look back at past experiences in dealing with post-conflict reconstruction in an attempt to draw some key lessons for ongoing and future operations in post-conflict areas.

This review of Bosnia and Herzegovina is one of a series of field-based country case studies assessing the Bank's recent experiences with post-conflict reconstruction. Other studies in this series include El Salvador and Uganda.

Why choose Bosnia and Herzegovina, El Salvador, and Uganda for field-based case studies of post-conflict reconstruction? Indeed, the selection of countries for case study was not self-evident, precisely because each complex emergency is unique and because every situation presents a special kind of learning opportunity. A number of considerations went into these choices.

First, in each of these countries the Bank played a significant role in attempting to assist with post-conflict reconstruction. Second, the countries are diverse in the causes of state failure and collapse, as well as the factors that influenced the initiation or resumption of Bank operations. Third, the case study countries are also diverse in terms of region and phase of Bank assistance. For example, Bosnia and Herzegovina repre-

sents a relatively new recipient of post-conflict reconstruction assistance, El Salvador is a more mature recipient of such assistance, and Uganda presents a case in which post-conflict reconstruction assistance has been essentially completed.

The field studies began with a review of project documentation and a preliminary series of interviews with relevant Bank staff to identify the main issues affecting recovery in each country. The in-country research involved visits to project sites and interviews with a wide range of respondents, including, for example, representatives from the Bosnian government ministries and agencies; donor and United Nations (U.N.) agencies; nongovernmental organizations (NGOs); and Bank resident mission staff.

Overview of the Bosnia and Herzegovina Case Study

The Bosnia and Herzegovina case is unique within the Bank's post-conflict reconstruction experience in terms of regional characteristics, political complexity, and structure of economic governance. During the three years of conflict, there were 250,000 fatalities, a major internal displacement of population from "ethnic cleansing," an exodus to neighboring countries, and massive destruction and damage to infrastructure and other capital investments.

The Bank's reconstruction effort brought about a significant peace dividend in the federation. The overall short-term objective of jump-starting the economy was achieved, along with a rapid and visible improvement in the restoration of basic infrastructure (for example, housing, transportation, and power). The Bank's role in reconstruction and economic recovery was widely perceived to have been successful by government authorities, other donors, NGOs, and beneficiaries.

The Bank's nonlending activities were appreciated, including its provision of a framework for reconstruction and guidance to donors. There was widespread recognition by these groups that Bank-supported projects were implemented quickly. Other elements of success included a fairly wide dispersion of benefits to a broad range of beneficiaries (in the first stage, throughout the federation, although not as much in the Republika Srpska), the involvement of stakeholders, and contribution to local implementation capacity. The country's authorities particularly appreciated the sense of ownership afforded them by Bank projects.

In terms of program shortcomings, the Bank could have been more strategic in linking reconstruction programs to relief work. Also, the Bank could have done more, and gotten involved earlier, in the social sectors.



Acknowledgments

This report synthesizes the findings of an assessment of the Bank's experience with post-conflict reconstruction. The objective of the assessment is to distill lessons for ongoing and future operations from the Bank's experience in providing assistance for post-conflict reconstruction. The outputs of the study include an overview and three country case studies, including this volume. The overview is entitled "The World Bank's Experience with Post-Conflict Reconstruction" (1998).

The reports were prepared by a team led by Alcira Kreimer and comprising John Eriksson, Robert Muscat, Margaret Arnold, and Colin Scott. The following consultants contributed to the country case studies: Ann Elwan, Bosnia and Herzegovina; Jose Marques and Mauricio Silva, El Salvador; and Paul Collier and Zerubabel Ojoo, Uganda.

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Abbreviations and Acronyms

BiH	Bosnia and Herzegovina
BWG	Bosnia Working Group
CARE	Cooperative for Assistance and Relief Everywhere
CAS	Country Assistance Strategy
CG	Consultative Group
DHA	Department of Humanitarian Affairs
DPKO	United Nations Department of Peace-Keeping Operations
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ERC	Economic Recovery Credit
ERP	Emergency Recovery Project
ESW	Economic and sector work
ETF	Economic Task Force
ETF	Employment and Training Foundation
EU	European Union
FRY	Federal Republic of Yugoslavia
IBRD	International Bank for Reconstruction and Development
ICB	International competitive bidding
ICMPD	International Centre for Migration Policy Department
ICR	Implementation Completion Report
ICVA	International Council of Voluntary Agencies

IDA	International Development Association
IDP	Internally displaced persons
IFC	International Finance Corporation
IFOR	Implementation Force
ILO	International Labour Organization
IMF	International Monetary Fund
IMG	International Management Group
MAC	Mine Awareness Commission
MCPG	Mine Clearance Policy Group
MIGA	Multilateral Investment Guarantee Agency
NATO	North Atlantic Treaty Organization
NGO	Nongovernmental organization
NPA	Norwegian Peoples' Aid
NRM	National Resistance Movement
ODA	Overseas Development Association
OED	Operations Evaluation Department
OHR	Office of the High Representative
OSCE	Organization for Security and Cooperation in Europe
PIC	Peace Implementation Council
PIU	Project implementation unit
PMAU	Procurement monitoring and audit unit
RIC	Repatriation information center
RS	Republika Srpska
SAL	Structural Adjustment Loan
SFOR	International Military Stabilization Force
SFRY	Socialist Federal Republic of Yugoslavia
SSRP	Social Sector Rehabilitation Project
TAC	Transition Assistance Credit
TFBH	Trust Fund for Bosnia and Herzegovina
U.K.	United Kingdom
U.N.	United Nations
UNDHA	United Nations Department of Human Affairs

UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNMBiH	United Nations Mission in Bosnia and Herzegovina
UNRISD	United Nations Research Institute for Social Development
USAID	United States Agency for International Development
WHO	World Health Organization



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Summary and Lessons Learned

From Bretton Woods to the present day, the Bank has taken up the task of post-conflict reconstruction. Some of the first loans the Bank made after its founding helped to rebuild European countries after World War II. During that era, the Bank concentrated on providing physical capital. Today's challenges are quite different. The end of the cold war and the virtual explosion of civil conflicts in the 1990s have tested the ability of the Bank and the entire international community to address the devastation of human and social capital on an unprecedented scale.

Post-Conflict Lending by Region

The most significant increase came in the first half of the 1990s, when the majority of funds went to African countries (mainly Uganda). Of the US\$6.2 billion the Bank has lent to post-conflict countries since 1980, 56 percent, or US\$3.5 billion, has gone to the Africa Region. The next largest share has gone to the Latin America and Caribbean Region, which received just over 16 percent. The Europe and Central Asia and Middle East and North Africa Regions have received nearly equal shares, about 11 percent each, and the East Asia and Pacific Region received 4.5 percent. The South Asia Region received the smallest portion, just over 1 percent, consisting entirely of the Emergency Reconstruction Loan to Sri Lanka in 1988, following the peace accords.

Since 1980, the volume of Bank lending to post-conflict countries has increased more than 800 percent, to US\$6.2 billion, and has touched every region and economic sector.

Over the years, lending commitments to post-conflict countries have grown as a percentage of the Bank's overall portfolio. Overall lending to post-conflict countries constituted more than 16 percent of the lending

commitments of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) for fiscal year 1998. In several Regions, such as Europe and Central Asia and the Middle East and North Africa, lending to post-conflict countries makes up nearly half of the Regional portfolio. In Africa, post-conflict lending makes up close to a third of commitments.

Post-Conflict Lending by Sector

Over the past 20 years, the Bank's post-conflict reconstruction lending projects have covered every sector. Of the US\$6.2 billion in lending volume, the largest portion, 32.6 percent, supported multisector projects. Multisector projects include central bank transfers to stabilize the macroeconomic situation, technical assistance loans, and general emergency reconstruction or recovery projects that have several economic and social components designed to provide rapid assistance for the most pressing needs. Of the nearly US\$2 billion in multisector lending, more than half was in structural adjustment loans or credits for budget support. The multisector also includes the demining implemented in Bosnia.

Nearly 10 percent of the US\$6.2 billion financed agricultural projects, and 9 percent supported transportation projects (mainly highway reconstruction). The urban development sector received 8.5 percent of post-conflict reconstruction assistance. Population, health, and nutrition received 7.4 percent of the lending amount, and electric power and other energy received 6.6 percent. Other, sectors received smaller amounts of support—education, 4.2 percent; water supply and sanitation, 4.2 percent; and so on.

Need for Evaluation

In view of both the high risk and attendant potential returns entailed in an expanded role for the Bank in post-conflict reconstruction, the Bank's Board of Executive Directors called on the Operations Evaluation Department (OED) to assess recent and ongoing Bank operations in such areas. The objective of this assessment is to distill lessons for ongoing and future operations in post-conflict reconstruction. Specifically, it aims to enhance the institution's ability to respond more effectively and efficiently to the needs of societies rebuilding after conflict.

Case Study Selection

Three cases were chosen for field study: Bosnia and Herzegovina, El Salvador, and Uganda. The selection of countries for field case study was not self-evident precisely because each complex emergency is unique

and because every situation presents a special kind of learning opportunity. A number of considerations went into these choices.

First, in each of these countries the Bank played a significant role in attempting to assist with post-conflict reconstruction. Second, the countries are diverse in the causes of state failure and collapse, as well as the factors that influenced the initiation or resumption of Bank operations. Third, the case study countries are also diverse in terms of region and phase of Bank assistance. For example, Bosnia and Herzegovina represents a relatively new recipient of post-conflict reconstruction assistance; El Salvador is a more mature recipient of such assistance, and Uganda presents a case in which post-conflict reconstruction assistance has been essentially completed.

The Bank's Post-Conflict Response Mechanisms

Every post-conflict country is unique, and no single formula can respond to all reconstruction needs. The Bank has used a broad array of mechanisms to support the transition to peace and the resumption of economic and social development. Its lending operations have consisted of macroeconomic and sectoral adjustment reforms, direct investment, and technical assistance in support of reconstruction. Nonlending services have included damage and needs assessments, economic and sector work (ESW), Country Assistance Strategies (CAS), and aid coordination.

Key Issues Analyzed

In the case studies of Bosnia and Herzegovina, El Salvador, and Uganda, six key issues were analyzed, including the Bank's main strengths or comparative advantages; partnerships with other donors, international organizations, and nongovernmental organizations (NGOs); role in reconstruction strategy and damage and needs assessments; role in rebuilding the economy and institutions of governance; internal management of resources and processes; and implications for monitoring and evaluation.

Main Strengths and Comparative Advantages: Stabilizing and Rebuilding the Economy

Supporting Macroeconomic Stabilization

Supporting the achievement of macroeconomic stabilization is an area of comparative advantage for the Bank and should be one of its highest priorities in post-conflict situations. Moving to macroeconomic stability as soon as possible in a post-conflict setting is crucial to economic recovery.

The Bank's performance in supporting fiscal and other structural economic reforms, such as privatization and tax policy, has been mixed. Thus, the pursuit of economic reforms should continue incrementally, taking into account the country's historical and current policy and institutional enabling environment.

The case studies confirmed that on the grounds of relevance, efficacy, and efficiency, stabilizing the economy is the area of strongest Bank performance in post-conflict reconstruction.

Rebuilding Physical Infrastructure

The Bank's assistance for rebuilding physical infrastructure, including the policy and institutional aspects, has been another strong area of performance. The areas typically most important to facilitating recovery are roads, transportation, power, telecommunications, basic housing, and water and sanitation.

Bosnia and Uganda received comprehensive reconstruction support from the Bank. In Bosnia and Herzegovina, the Bank helped start the reconstruction effort in 1996, without waiting for financial normalization and membership in the Bank. Sixteen emergency projects for the country addressed all major infrastructure and social sectors. They also incorporated a focus on employment generation and support for institutional development.

The Bank's involvement in Uganda's reconstruction was particularly comprehensive. Since the National Resistance Movement (NRM) government took power in January 1986, the Bank has coordinated closely with international donors to support the country's reconstruction effort. In the first five year after the conflict (1987–92), the Bank supported approximately 25 lending operations amounting to more than US\$1 billion. It also provided financing for an Economic Recovery Credit (ERC) and a series of sector investment and reform programs (agriculture, education, health, railways, telecommunications) aimed at rehabilitating key economic and social infrastructure affected by the war.

In El Salvador, several high-quality Bank lending operations and non-lending services made significant contributions to post-conflict reconstruction and economic recovery.

Supporting Basic Production Sectors

The Bank's approach to assisting basic production sectors, such as agriculture and industry, has been for the most part indirect, concentrating on policy and institutional enabling environments and on infrastructure. Operations intended to strengthen public sector entities in agriculture in El Salvador encountered protracted problems in attempting to work

with weak, inefficient, or rigid bureaucracies. This led to the canceling or restructuring of operations and to a search for alternative approaches to such functions as research, extension, and service and input delivery, relying more on the private sector and NGOs. The performance of operations that have assisted intermediary organizations in support of microenterprise and other participatory local development efforts has been mixed. The record has been relatively satisfactory in Bosnia and Herzegovina, and less satisfactory in Uganda.

Demining

Demining is unique to post-conflict situations and essential for rehabilitation and recovery. Although there are strong economic and humanitarian reasons for demining, the main lesson learned from this assessment is that Bank involvement should focus primarily on indirect, nonclearance activities such as coordination, information and mine awareness, training, and institution building.

Partnerships with Other Donors, International Organizations, and NGOs

Consultative Group Meeting Benefits

The Bank's use of consultative groups has been particularly effective for mobilizing aid resources, including facilitating the clearing of arrears (as in Bosnia), seeking a coordinated approach to macroeconomic issues, and providing information on needs and assistance flows. Some of the benefits perceived by aid recipients of a Bank role in aid coordination included the quality of its analytical and advisory services, its unique relationship with the International Monetary Fund (IMF), its credibility in the eyes of the rest of the donor community, and its potential to mobilize funds from other sources.

It helped enormously to have the Bank's leadership role clearly defined and mandated by key members of the international community, as well as strongly backed by top Bank management, as in the case of Bosnia and Herzegovina after the Dayton Accords. Even in the absence of such a designation, it is important to have a clear request from the government early on, as in El Salvador. It was also valuable for the government and the main donors to achieve a consensus on a policy framework for sustainable recovery and reconstruction, as in Bosnia and Herzegovina and Uganda. In El Salva-

Early leadership or participation in damage and needs assessments in post-conflict countries has facilitated the Bank's subsequent involvement in developing reconstruction strategies and in aid coordination.

dor, holding a CG meeting *before* the peace accords were signed contributed to the effectiveness of coordination.

Coordination in Undertaking Damage and Needs Assessments

One area where a coordinated, joint approach among donors was particularly desirable was in undertaking damage and needs assessments, as illustrated by the Bosnia and Herzegovina experience. A joint effort in this area is not only more efficient but can also help set the stage for effective cooperation and coordination between donors and governments when implementing post-conflict reconstruction initiatives. Assistance for preparing a national reconstruction plan should also be coordinated to avoid the imposition of unnecessary burdens on the government.

The resource mobilization function of aid coordination may lead to the cofinancing of operations. This is particularly desirable for general program assistance for balance of payments and budget support, for which conditions and tranches must be synchronized. However, the Bank had difficulty in mobilizing adequate cofinancing for budget support in Bosnia and Herzegovina and El Salvador. Some donors were ambivalent toward the governments, because of concern either about the depth of their commitment to peace accords or about their accountability and legitimacy.

In-Country and Sectoral Coordination

Another challenging aspect of coordination for the Bank has been at the in-country and sectoral levels. Misunderstandings and differences can arise with other donors that have substantial resources, those that have had a long-standing coordination role, or those that have both. The case of Bosnia and Herzegovina demonstrates the importance of partnerships in the reconstruction process. The sector task forces, for example, were credited with success in information-sharing within sectors and with some success in avoiding contradiction and overlap among donors.

Coordination with NGOs

The Bank's coordination with NGOs, both local and international, and its relationship with civil society in general are also important. A strong resident mission with an NGO liaison officer in Bosnia and Herzegovina, for example, facilitated these relationships. The Bank is seen as an effective bridge between the government and NGOs there. The Bank's rather rough but improving relationship with Salvadoran NGOs could arguably have been more harmonious sooner had there been a resident mission.

Despite the presence of a resident mission in Uganda, the Bank has been criticized by NGOs and some U.N. sources for its coordination and partnership role there. Some felt that the Bank's leadership had focused the development community on macroeconomic reforms at the expense of poverty alleviation programs. In addition, the Bank was criticized for employing a "standard economic model approach" to coordination rather than adopting a special post-conflict approach. NGOs also felt that the rhetoric of partnership and participation "was moving faster than reality."

Partnerships are key to effective aid coordination. It is critical to establish at the outset of the recovery process what each donor will do.

Rebuilding Human, Social, and Cultural Capital

Human Capital

Investment in human capital, including education and health spending, is an important component of post-conflict work. Violent conflict can decimate the human resources of a country as people are killed, maimed, or displaced in large numbers. Human capital services are typically the first to be disrupted by conflict. Education, health, and community services stop, bringing the realization of human potential to a halt. Schools, hospitals, clinics, and community centers are destroyed, as is the government's capacity to administer services. Conflict also creates newly vulnerable groups, such as the unemployed, ex-combatants, households headed by women, children, and the disabled, who are legitimate beneficiaries of reconstruction aid for socioeconomic as much as for humanitarian reasons.

Human capital or social sector work was not generally a priority in the Bank's post-conflict projects or in its ESW, both of which concentrated initially on macroeconomic, sector, and infrastructure work. El Salvador and Bosnia and Herzegovina were exceptions, with the latter portfolio containing an early and balanced inclusion of social sector work. In Bosnia, four of the sixteen projects contained social sector components. Uganda operations produced unsatisfactory results, notwithstanding some effort to prioritize health, education, and economic support for the rural poor and vulnerable groups.

The restoration and development of human capital in the post-conflict phase is essential to establishing a base for economic rebuilding.

The El Salvador Basic Education Modernization Project was built on a Bank-supported Community Managed Schools Program (EDUCO) pilot project and employed a community-managed approach, initiated during

the conflict by the communities themselves. The participatory nature of the El Salvador program contributed to consensus building and the sustainability of the peace process. Strong government and Bank commitment have also been important for performance and the achievement of objectives.

Social Capital

Inherent in violent civil conflict is the destruction of social capital, particularly institutions of governance and civil society and such basic attitudes and behaviors as trust and participation. While the severity of this problem in post-conflict countries is increasingly recognized, neither the Bank nor any other international donor has an obvious comparative advantage in this area. Analyses undertaken by the Bank and others have identified some key components of good governance and vigorous civil society that need to be addressed. These components include transparency, accountability, the rule of law, and the professions. Several recent Bank-supported pilots (as in Bosnia and Herzegovina), and World Development Institute efforts (as in Uganda) show promise in these areas.

Reconstruction efforts must consider the possible productive difficulties women face in post-conflict situations (such as lack of labor at critical times in the agricultural season), since in many post-conflict countries a third or more of the working-age men have been killed and women are the productive basis for restarting the economy.

The Role of Women

The role of women in rebuilding social capital should also be examined and exploited. Often considered a “vulnerable group” in post-conflict settings, women have potential as strong community leaders who

can facilitate the rebuilding of social capital and may be overlooked.

It is only in Bosnia and Herzegovina that the Bank has made a specific operational effort to address the particular needs of women.

Demobilizing Ex-Combatants

The related activities of the demobilization, reinsertion, and reintegration of ex-combatants into the civilian economy and society can be important to economic recovery and sustained peace. Bank-supported efforts in this area expanded in the 1990s, and the Bank has played a leadership role through the analysis of its experience in Africa. The experience of the Bank and other donors has generated several lessons, as well as some unresolved issues. For example, when the parties to the peace accords are not fully committed, one side or the other can manipulate the process. An approach narrowly targeted on ex-combatants, as opposed to an area or countrywide approach, can create resentment among local populations.

Demobilization can also sometimes be premature, particularly where a continuing threat to national security exists, as may have been the case in Uganda. The Uganda experience also demonstrates that the availability of land is an important determinant of success in the reinsertion and reintegration of ex-combatants.

Land is not a guarantee of success, however, as illustrated by El Salvador, where a substantial number of ex-combatants who have been provided land under the accord-mandated Land Transfer Program abandoned their land for a variety of reasons, including poor land quality, lack of supporting services and credit, and lack of aptitude and interest.

The Bank has acquired some expertise in public sector downsizing programs that can be applied to demobilization efforts. Training schemes have had a mixed record in both areas.

Cultural Capital

What is the justification for assisting in the protection and conservation of cultural heritage in situations of complex emergencies? Applying scarce resources to conserving cultural heritage in a post-conflict situation may seem frivolous at first glance. However, cultural heritage has the power to inspire hope and remind people of their creativity. Its destruction is a decisive way to assert primacy and control and can become a symbol of the brutality and insanity of war. So sensitive are cultural heritage sites that they can become flashpoints in ethnic and civil conflicts, as in the bombing of Bosnia and Herzegovina's Mostar Bridge.

In attempting to reestablish civil society in the face of ethnic rivalries, protecting cultural heritage is one of the tasks requiring attention in any assistance strategy.

Although the Bank has carried out a number of projects with cultural heritage conservation components, it has little experience doing so in post-conflict situations.

The Bank's Institutional Arrangements

The case studies reveal the great importance of management decisions regarding the staffing and structuring of post-conflict country teams and the programming, design, and implementation of operations. The country director must have a mandate to give the country substantial if not full-time attention. Resident representatives need sufficient authority to make a wide range of programming and implementation decisions in the field.

Early post-conflict situations require timely and flexible programming, design, and implementation. From the initial base of a well-

prepared damage and needs assessment, the Bank should refine its strategy over the few years that follow through a series of workshops and policy notes. A full CAS can be prepared when time and resources permit.

Despite the high up-front costs, well-staffed resident missions are a precondition for successful Bank intervention in post-conflict situations.

Expeditious preparation, piloting and bridging funds, and loan instruments should be resourced at sufficient levels to enable the Bank to be effective earlier in post-conflict situations. Mechanisms for rapid procurement and disbursement should be devised for post-conflict situations, consistent with sound practice.

Implications for Monitoring and Evaluation

The effective implementation of post-conflict operations requires intensive monitoring, and the Bank must be prepared to allocate sufficient administrative budget resources for this task. Monitoring efforts should also draw on external expertise about a post-conflict country and make better use of ESW, which should include longitudinal household and community studies. Considering the need for completion information in often highly volatile post-conflict settings, the Bank should sharply reduce the interval between project closing and completion reporting, with appropriate streamlining of the process.

Summary of Main Findings of Individual Post-Conflict Case Studies

Bosnia and Herzegovina

Early, Comprehensive, and Inclusive Approach

The Bank's response to post-conflict needs in Bosnia and Herzegovina was early and comprehensive. Its role in reconstruction and economic recovery is widely perceived to have been successful by the country's authorities, other donors, NGOs, and beneficiaries. The OED team agreed with this assessment. The Bank's nonlending activities are appreciated, including providing a framework for reconstruction and guidance to donors. There is widespread recognition that Bank-supported projects were implemented quickly.

Elements of Success

Other elements of success include a fairly wide dispersion of benefits, both geographically and to a broad range of beneficiaries; involvement of stakeholders; an early and balanced inclusion of the social sector projects in order to rebuild human capital; and a contribution to local implementation capacity. The country's authorities particularly appreciated the sense of ownership afforded them by Bank projects.

Ability to Move Quickly

The peace implementation agenda dictated a compressed timetable for launching the reconstruction program. The Bank was able to adhere to this timetable for a number of reasons: the availability of planning resources, support from the Dutch Executive Director, strong and visible support from the Bank's President, its role in coordinating the planning work, coordination with other actors, and superb staff quality and dedication.

Highly Qualified and Dedicated Staff

In addition to speed, the special attention given to the program within the Bank contributed to the overall quality of the program as well. A very skilled country director was appointed solely for Bosnia and Herzegovina. Her commitment to the process, attention to speed, and quality of work were important in meeting the compressed timetable for project processing. The resident representative also played

an important role in the process. His ability to deal with differing perspectives and work with all involved parties in the resolution of issues were very much appreciated by the government, donors, and other agencies.

Successful Project Implementation and Dispersion of Benefits

The OED team found that the benefits of Bank-assisted projects to date are being felt throughout the federation and are increasingly reaching Republika Srpska. The range of benefits has been delivered quickly to a diverse set of beneficiaries while involving stakeholders and building up local implementation capacity. Several factors contributed to success in the implementation phase, including early establishment of a resident mission, streamlined project process and procurement procedures, sector diversification, pilot projects and project preparation, local ownership, and widespread participation.

Economic Management in Peace Agreements

The provisions for fiscal strategy built into the Dayton Accords are of particular importance for the reconstruction work of donors, especially for the Bank. The Bosnia and Herzegovina experience demonstrates the importance of incorporating into a peace accord, to the extent possible, economic management provisions that are more likely to enhance than to obstruct the economic recovery process. Despite Dayton's built-in obstacles to effective economic governance and the continuing political tensions, the first year and a half saw substantial economic recovery. In this context, the Bank has also played a central role in the mobilization and application of external resources critical to this recovery.

El Salvador

Overview

The Bank's assistance to El Salvador focused mainly on macroeconomic reform but also included projects addressing the health and education sectors to improve the country's poor social indicators. Bank assistance was critical to laying a sound macroeconomic foundation for an impressive economic recovery during the first half of the 1990s, as well as mobilizing international economic support. While the Bank lagged behind several other donors in the volume of its post-conflict assistance, its leadership of a series of four CG meetings between 1991 and 1995 made a vital contribution to post-conflict reconstruction and economic recovery. Several high-quality lending operations and nonlending services also made significant contributions. However, no effort, with or without donor support, has yet shown any real promise for reversing perhaps the most serious socioeconomic legacy of the conflict: violent crime, or "microinsecurity," of epidemic proportions.

Reengagement before the End of the Conflict

By establishing effective working relationships with the government a couple of years before the Peace Accords, the Bank was able to provide timely macroeconomic assistance and coordination support to El Salvador's reconstruction program. The timing of the Bank's reentry in El Salvador was propitious, although not entirely intentional. It is hard to say whether, in the absence of the earthquake disaster, the pre-Peace Accords relationships between the government, the private think-tank Salvadoran Foundation for Economic and Social Development, and the Bank would have developed as expeditiously and productively as they did.

Lending Operations

Early operations, including the two SALs and the SSRP, were well-timed. It is also clear that the Bank pursued comparative advantages in policy and institutional reform in its programming.

The Success of Post-Conflict Education Lending

In the social sectors, the Bank seized a window of opportunity in supporting EDUCO, the community self-managed education initia-

tive of the government. This expanding initiative promises to correct and reverse some basic deficiencies in the pre-conflict educational system of El Salvador. The EDUCO experience provides a good example of post-conflict support being more than just reconstruction but also entailing a redirection of development. However, the Bank's experience providing support to the health sector in El Salvador during the early post-war years has been mixed and has not yet led to a full follow-on project.

Good Aid Coordination

The donor coordination role played by the Bank just before the Peace Accords and during the first few years of post-conflict reconstruction was indispensable. The holding of a CG meeting before the Peace Accords were signed and the commitment of experienced and capable Bank leadership to the process contributed significantly to the effectiveness of coordination. It was also important that the government gave priority to donor coordination and endorsed the Bank's supportive role.

Effective Bank Country Team

A high degree of capability, experience, and continuity combined to make for an effective Bank Country Team in the crucial years just before and after the El Salvador Peace Accords. This team made a critical contribution to the Bank's performance in a tense environment. Views on establishing a resident mission are mixed, with some believing it unnecessary, while others favor such a presence to enhance the Bank's image and relations with civil society and other donors.

Uganda

Comprehensive Involvement and Main Successes

Bank involvement in the reconstruction efforts in Uganda have been particularly comprehensive. In the first five years after the conflict (1987–92), the Bank supported approximately 25 lending operations amounting to more than US\$1 billion and closely coordinated with international donors. The Bank's role was key in strengthening the Ministry of Finance and the Central Bank, removing the monopoly of the Coffee Board, assisting in sugar rehabilitation, and rebuilding roads.

Program Shortcomings

Despite good performance in reforming and rebuilding the economy, there have been several respects in which Bank involvement could have been improved: insufficient attention to consensus building; excessive use of conditionalities; and, most important, a seriously dysfunctional emphasis on raising taxation. The Bank did not always fulfill its potential comparative advantage, for example, in the power sector, a key element in recovery. Nor did it fully convert its coordination role into creating an overall strategy for reconstruction or a sector-by-sector plan.

Social Sector Shortfalls

The Bank's performance was relatively poor in the social sectors, particularly in strengthening health and education institutions. Investment in the social sectors was often premature, implemented through weak ministries, and with inadequate forethought to the nature of the services the Bank was trying to support. The post-conflict period required major health sector reforms, which fell short of needs. Education investment was equally disappointing, with only an estimated 37 percent of funds reaching schools. There was too much dependence on the existing bureaucracy, and not enough use was made of NGOs.

Bank Processes and Institutional Arrangements

Regarding Bank processes and institutional arrangements, project design did not fully reflect the need in Uganda's unsettled institutional environment for a flexible, process-oriented design. This was particularly evident in the social sectors, where education and health

ministries were too weak to accommodate spending, and supervening events such as decentralization and renewed conflict changed priorities. Changes in key resident mission staff, task managers, and government staff were inevitably disruptive at times. Bank staff were not generally familiar with working in conflict countries or with the international relief and rehabilitation system. Staff resources and time were concentrated in Kampala, often with little understanding or contact with international and local NGOs.

Differing Timetables for Post-Conflict Recovery

A final shortcoming of Bank projects was that, where they were not sequential, many were too short to address the projected length of recovery. There are at least two different timetables in post-war recovery, well-manifested in Uganda. The first is a real-time duration of the recovery process, which typically requires at least two decades of sustained effort, with the risk of war a recurrent phenomenon. The second timetable is set by donor considerations, which may be guided by different objectives and manifests itself through programs that do not necessarily take into consideration the very long recovery process. The government has to observe both timetables, weighing the political expediencies of short-term measures to provide security and boost confidence with the needs for longer-term recovery.

The conflict in Bosnia and Herzegovina (BiH) resulted in 250,000 fatalities, massive internal displacement, and the exodus of one million refugees. The agreement in Dayton was reached only after the United States and other key participants exerted substantial pressure on the three parties. To achieve acceptance, the agreement contains ambiguities on many points and avoids partition by calling for the three parties to participate in a highly decentralized relationship. It lays out a structure that combines two "entities"- the Bosniac-Croat "Federation of Bosnia and Herzegovina" and the Serb "Republika Srpska" (RS) under the aegis of an unusually weak state. While the agreements call for a major international aid effort for post-war reconstruction, they also pose difficult problems for the reconstruction process, and for the Bank and other agencies attempting to help create economic and social conditions conducive to a sustainable peace.



2

Evolution of the Conflict

Historic Background

The South Slavs

Until the emergence of Croat and Serb nationalism in the 19th century, the history of the South Slavs (contrary to a common misconception) had been free of "tribal" or "ethnic" conflict. Descending from the Slaveni migrants of the 6th and 7th centuries, the distinction between Serb and Croat derived from the late 7th century arrival of two relatively small groups that assimilated quickly into the Slaveni majority but gave their names to Slaveni living in different areas. Situated between Roman Catholicism and the Byzantine, Hapsburg, and Ottoman empires, the South Slavs became differentiated over time by religion but continued to share linguistic and other cultural characteristics. While the Muslims, Catholic Croats and Slovenes, and Orthodox Serbs constituted majorities in different regions, there were periods of conversions and population movements in all directions. As a result, all majority areas contained significant minorities, including Albanians, Hungarians, and many others.

Developments in Bosnia

Among the many jurisdictions of the Yugoslav region, Bosnia has had the longest history as a geographically continuous entity, beginning with its independent statehood in the 14th to 15th centuries. The idea that Catholics living in Bosnia were Croat and that Orthodox were Serb was introduced only in the 19th century, especially after the Austrian take-

over of Bosnia in 1878. Given the long history of conversions, migrations, and intermarriage (prior to the conflict, 30 to 40 percent of Bosnian marriages were religiously or ethnically mixed), the newly introduced “ethnic” identities had little basis in genealogy, and no Bosnians of any persuasion had previously considered themselves Serb or Croat.

Post-World War I: Creation of the Kingdom of Yugoslavia

The Balkan lines were redrawn after World War I. The Kingdom of Yugoslavia was created (initially named the “Kingdom of Serbs, Croats, and Slovenes”), bringing the South Slav areas (except for Albania) together for the first time in a common independent state. The interwar politics of the kingdom were turbulent, with the dominant Serb and Croat parties unable to achieve a stable modus vivendi. Specifically, they could not overcome the tensions between their distrust of their rival nationalisms on one hand, and their belief that remaining together in the larger Yugoslavia could help them better resist the hegemonic designs of outside power, on the other hand.

This extreme ethnic or cultural mixture has made modern state formation in the Balkans, based on the Western European model of relative homogeneity within historic borders, a highly conflictive process.

Fear that the dictatorship imposed by the monarch in 1931 was tantamount to open Serb domination resulted in the king’s assassination in 1934 by the Croatian fascist movement, the Ustashe. Subsequent efforts to find a compromise solution failed.

The Impact of World War II

The Axis invasion of Yugoslavia in 1941 gave the Ustashe the opening for the creation of a separate, though puppet, Croatian state. The Ustashe undertook a policy of mass imprisonment and slaughter against the state’s minorities, including Serbs, Jews, Gypsies, Bosniacs, and other sympathizers of the antifascist movement. This was the first large-scale, ethnicity-based violence by one South Slav group against another. Estimates of the number of victims of the genocide range from 185,000 to 700,000.

During World War II, Bosnia’s mountainous terrain was at the heart of the resistance struggle. Warfare, deportations, and extermination led to disproportionately high Bosnian casualties.

The conflict between the Chetnik and Partisan resistance forces during the war further exacerbated ethnic tensions. During the wartime years, external players intruded in new and unprecedented ways in Bosnian affairs. Not by coincidence, some Bosnian political groups for

the first time systematically perpetrated large-scale atrocities against members of other ethnic groups. The wartime conflicts, in other words, redefined the Bosnian political landscape and helped radicalize the perceived alternatives for interethnic relations. The primary contenders of World War II have been emulated in ideology, rhetoric, symbolism, organization, and even disorganization by the groups that emerged in the early 1990s as combatants in the Bosnian conflict.

Bosnia's previous multiculturalism and its relative freedom from the chauvinism that had been overtaking other parts of Yugoslavia were seriously compromised by the effects of World War II.

Post-World War II: The Tito Years and Formation of the Socialist Federal Republic of Yugoslavia

After the war, the victorious Partisans imposed a new paradigm as a solution to the Yugoslav problem, combining Marxism with a high degree of decentralization of economic and cultural authority. While the state's ideology asserted the historical conviction that class would cut across and override anachronistic nationalisms, the state's decentralized structure was based on ethnically defined jurisdictions that were given increasing scope for autonomous governance. Tito's innovations in worker ownership of enterprises, his tolerance of a considerable degree of personal freedom, and his break with the Soviet Union put Yugoslavia in a unique position between East and West.

The postwar constitution established five nationality-based republics: Serb, Croat, Slovene, Montenegrin, and Macedonian. Two large autonomous provinces were established within the Serb republic for the Hungarian and Albanian minorities: Vojvodina and Kosovo, respectively. The sixth republic was Bosnia and Herzegovina—the only republic having no ethnic majority that would call for a “national” identity.

In effect, BiH was a microcosm of Yugoslav ethnic mixing without the delineation of internal borders that, in the rest of the country, formally recognized the idea of ethnicity-based self-determination and separation.

If the logic of “ethnic” self-determination were carried to the full, Yugoslavia would have required further division of the eight recognized “national” entities to create jurisdictions for its many other groups, including speakers of Bulgarian, Czech, Romani, Romanian, Ruthenian, Ukrainian, and Vlach.

The Death of Tito and the Fall of Yugoslavia

After Marshal Tito's death in 1980, the growing crisis of an unsustainable economic system, and the loss of Tito's overwhelming personal

opposition to divisive nationalist expression or activity, opened the way for the substitution of nationalism for the now discredited socialist ideology.

The Violent Breakup of Yugoslavia: Many and Complex Causes

Republic Secession

The causes of the breakup of Yugoslavia and of the attendant conflict are complex; different observers emphasize different factors. Some accounts focus on the sequence of events immediately preceding the conflict, especially the international community's swift recognition of the Slovene and Croatian declarations of independence in June 1991—in effect, reversing the earlier urgings that Yugoslavia continue to search for a viable, unified state solution.

Bosnia and Herzegovina Secedes

The Bosnian authorities then quickly announced a referendum asking the population if it also wanted to secede from Yugoslavia and establish an independent state of Bosnia and Herzegovina (BiH). The Serb population in BiH warned they would boycott the referendum to express their opposition. The separation was approved by the Bosniacs and Croats, and in February 1992, BiH declared independence and was quickly recognized internationally.

Recognition of an independent Croatia and Slovenia in effect gave international approval to the idea that internal ethnic-majority self-determination was a valid basis for sovereignty—thereby supplanting the concept of a preexisting multicultural state.

The Serb Minorities

The Bosnian Serb leadership refused to accept incorporation in the new Bosnian state, declaring the establishment of a separate (unrecognized) state of their own. Also, in the absence of a guarantee that they would not be threatened, the Serbs, who were suddenly a minority in a separate Croatian state, declared secession from Croatia and took up arms.

The War's Toll

Three years of warfare, “ethnic cleansing,” and its accompanying atrocities resulted in 250,000 Bosnian fatalities, massive internal displacement, and the exodus of one million refugees to mostly European safe havens. The exact course of the conflict need not be detailed for the purposes of this study. It is important to point out, however, that the fighting varied in

intensity from one locality to another and that local militias focused on punitive attacks on rival ethnic neighborhoods, destroying homes and driving out “foes” who had previously been friends and neighbors.

At various times and places, Croat and Bosniac forces were sometimes fighting each other, and sometimes allied against the Serbs. In Sarajevo, which had been the epitome of Bosnian multiculturalism and secularism, people from all ethnicities and religious persuasions fought in the city’s defense. In contrast, the Serb inhabitants of a close suburb of Sarajevo were pressed by their leadership to abandon the city, destroying their homes as they left, rather than staying within the federation part of post-Dayton BiH.

Other Causes: The Fragility of the Tito Political Paradigm

Some observers put greater emphasis on the historical roots of Yugoslav fragility rather than on the political and diplomatic events of the late 1980s and early 1990s in explaining the conflict. Tito’s paradigm has been described as merely having suppressed surface manifestations of the underlying divisions.

Some experts believe that the main factor in the breakup was an undeveloped political culture and a heritage of authoritarianism that diverted democratic aspirations into nationalistic struggle. For decades, society has been indoctrinated with collectivist rhetoric; class struggle was a dominant ideological doctrine. This formulation of ideological and political life as an existential struggle between friend and foe was thus well-suited to the nationalist world view.

The Tito paradigm is blamed for being substantially responsible for the inevitability of conflict by denying the society the possibility of democratic liberalism that might have served as an alternative to collective identity, with the resultant postcommunist flight into nationalist extremism.

Before the Dayton Accords of November 1995, such scholars saw (with little optimism) democratic liberalism as the only possible solution—short of an extended international tutelage. They looked to the possibility that liberalism could transform nationalism into a model of ethnic justice based on a foundation of individual rather than collective rights.

Structural Economic Causes

A more multifaceted explanation of the causes of the Yugoslav conflict is presented by Susan Woodward, who describes the different economic structures and orientation the republics had developed during Yugoslavia’s rapid economic growth in the 1950s and 1960s. She highlighted the fact that the economic crisis that Yugoslavia experienced in

the 1980s divided radicals from moderate reformists within the republics and pitted the interests of Slovenia and Croatia against the perceived interests of Serbia and the other republics.

Woodward's analysis should serve as a caution regarding the introduction—content, timing, constitutional implications, and so on— of economic reform programs in deeply divided countries.

Despite substantial Western aid in the 1950s and 1960s, the underlying economy stood on a weak footing of inefficient, “socially owned” enterprises. To cope with this economic crisis and to deal with the country’s external debt burden, a set of reform policies was introduced. The reforms were hotly debated, and their implementation was extraordinarily difficult and divisive in Yugoslavia since the changes entailed monetary and fiscal recentralization and required strengthening the central state at the expense of the republics.

Economic Reform Difficulties

The reform debate and the increasing sense of unraveling at the state level played into the hands of the radical nationalist factions. The ethnonationalist leaderships in Slovenia, Croatia, and Serbia were able to characterize one another’s positions as deliberate threats to their respective national interests. We cannot attempt to do justice to the detail of Woodward’s treatment of the complexities and interactions among (and within) the republics.

A brief passage from Woodward may capture the core of her analysis on economic reform and transition in a state highly dependent on a policy framework mutually acceptable to distrustful or antagonistic ethnicities:

In contests subject to influence and decision by the republics, Slovenia was the one able to risk no compromise; in setting the program and pace of federal reforms, foreign creditors and advisers, led by the IMF, held the position of strength. Although these two economic powers, Slovenia and foreign creditors, represented the two extremes in the confrontation over constitutional reform of the state, their actions were leading in the same direction. Politically, they both attacked the stabilizing political mechanisms of the socialist period— the constitutional rules aimed to protect a perception of national equality, the limits on political nationalism in or by republics that could destroy the country’s multinational composition, and the symbols and institutions of Yugoslav identity at the federal level. Economically, they both took aim at the redistributive transfers at the federal level and social protections that, however minimally, prevented total exclusion of individuals who would lose under economic liberalism. ¹

Conflict Denouement

After the international recognition of Slovenia and Croatia, the remaining unresolved issues of the successor arrangements concerned BiH and the Eastern Slavonia region of Croatia. Under the Washington agreement of March 1994, a ceasefire was negotiated between the Bosnian Croats and Muslims (the Bosnian Muslims are now referred to as Bosniacs), based on the formation of a federation between the two groups now largely concentrated, but still residing in, close proximity along informal but well-understood internal lines of demarcation.

The Dayton agreement, in effect, recreates key Yugoslav concepts within a Bosnian miniature.

The Dayton agreement ended the remaining conflict between the Serbs and the allied Croat-Bosniac forces. While the Serbs appeared to have a substantial military advantage over the Croats and Bosniacs at the start of the conflict, the alliance of the latter two succeeded in developing sufficient military capability to deny Serb maximalist objectives. In the end, the parties were brought to the table by North Atlantic Treaty Organization (NATO) air strikes against Serb positions around Sarajevo in August 1995.

Dayton Peace Accords

The agreement in Dayton was reached only after the United States and other key participants exerted substantial pressure on the three parties. To achieve acceptance, the agreement contains ambiguities on many points and avoids partition by calling for the three parties to participate in a highly decentralized relationship within a state of unusually weak powers.

By requiring the parties to permit refugees to return to their homes, allow freedom of movement within the new BiH, protect human rights, and turn indicted persons over to the international tribunal established to prosecute those who had committed war crimes during the conflict, Dayton rejected the extreme ethnonationalist principle of “ethnic cleansing” and the resulting population displacement. At the same time, Dayton recognized the reality of a much greater degree of ethnic concentration in BiH than was the case before the conflict. It lays out a structure that combines two “entities”—the Bosniac-Croat “Federation of Bosnia and Herzegovina” and the Serb “Republika Srpska” (RS) under the aegis of an unusually weak state. The powers reserved to the entity level go

Many aspects of the Dayton legal framework for economic management are problematic, if not dysfunctional.

much beyond the decentralization of the former Yugoslavia, while the state is much weaker in relation to the Bosnian “entities” than the Yugoslav state was in relation to its constituent republics.

Four-Tiered Governmental Functions: State, Entity, Cantons, and Municipalities

Under the Dayton Accords, government functions are divided among four levels: the state, the two entities, ten cantons within the federation

The lengths to which these constitutional provisions go to take account of the breakdown of interethnic trust is illustrated by the provision that municipalities with an ethnic majority that differs from the majority of the canton will assume all the functions (education, culture, housing) that would otherwise have been exercised by the canton.

entity, and municipalities. The cantons include six that are essentially Bosniac in population, two that are Croat, and two that are mixed. The state’s political responsibilities are limited to foreign policy, interentity law enforcement, and immigration and refugee policies. The state’s economic responsibilities include mainly foreign trade policy, customs policy, external debt, and regulation of interentity transport and communications. All other

functions are reserved for the entity governments.

Within the federation, there is further delegation to the cantons, some joint federation and canton responsibilities, and in both the federation and the RS further devolution of responsibilities to the municipalities.

The most unusual provision setting BiH governance apart is the allocation of defense and police to the entities rather than to the state.

State Fiscal Weaknesses

Of particular importance for the reconstruction work of the donors, especially for the Bank, are two unusual sources of state fiscal weakness built into the Dayton Accords. First, the state

The BiH experience thus far demonstrates the importance of incorporating into a peace accord, to the extent possible, economic management provisions that are more likely to enhance than obstruct the economic recovery process.

has no significant revenue sources of its own. To finance the central budget, the state must rely on transfers from the entities. The state is not barred from having future sources of direct revenue, but such sources could be legislated only with the agreement of the entities. Second, while the state is given responsibility for trade and customs policy,

administration is in the hands of the entities. There are further complexities in the distribution of powers and responsibilities within the federation—among the federation, canton, and municipality levels.

As Fox and Wallich point out in their analysis of the fiscal provisions spelled out in the Dayton Accords, the arrangements contain substantial ambiguities (such as those regarding which level sets tariff rates) and inefficiencies from an economic management point of view, and put the very sustainability of the state on a weak foundation. The Bosniacs favored a relatively strong federation, whereas the better-off Croats feared being disadvantaged and preferred maximal decentralization to protect themselves against exposure to taxation to finance transfers to non-Croat areas.

The Bank paper identified the fiscal problems involved and proposed options. Solutions, including adjustments or revisions of aspects of the Dayton rules, will require a degree of trust and desire to make the Dayton structure work that appears to be beyond the parties at the present time.

The paper also serves to inform negotiators in future situations where a peace accord is being hammered out among reluctant participants along federal or other nonunitary lines. A principal assumption of the Dayton negotiators and the international oversight participants has been that rapid economic recovery is essential for cementing the peace process. The very important humanitarian considerations aside, it has been taken (in the BiH and other post-conflict cases) as self-evident that perceptible progress in living standards and economic activity (especially in employment recovery) would help to focus the population's attention on restoring normal life and reducing the prospects that political leaders could mobilize support for actions that would threaten the peace dividend. This may be a debatable proposition, depending on the circumstances in each case that have brought the warring parties to the peace table.

In sum, the peace accords pose difficult problems for the reconstruction process and for the Bank and other agencies attempting to help create economic and social conditions conducive to a sustainable peace. The accords have created a perhaps uniquely weak state to serve as interlocutor and counterpart to the Bank and other external agencies. It is weak in two senses. First, the state has virtually no capacity to bring about agreement or compliance on the part of its citizens or constituent jurisdictions. Second, the state machinery is extraordinarily lacking in resources and institutional capability.

However, the country has human resources, although (perhaps only temporarily) depleted, that are much stronger than the Bank usually has

The obviously close relationship between the political and economic aspects of the agreement, and of the reconstruction process, has raised delicate issues of authority, responsibility, and coordination in the context of this elaborate and multiparticipant international machinery.

encountered in post-conflict periods in much less developed countries. Reconstruction has encountered particularly difficult problems where cooperation among the former warring parties is required by the nature of the activity, as in telecommunications. In this context, the extent of the recovery that has been achieved, and the scope and implementation record thus far of the Bank's project portfolio, emerge from this examination as surprisingly successful.

Reluctant Peacemakers

The fragile structure for governance and the extremely limited roles given to the state-level institutions reflect the reluctance of the parties to participate in the conflict resolution process and in the design of the post-conflict arrangements. The rhetoric and actions of the Croat and Serb leadership (at this writing, the pre-conflict political leadership of all three parties remains in power), apparently still closely influenced by the (also unchanged) leadership in Zagreb and Belgrade, continue to reflect their "maximalist" preference for separation from Bosnia and for association or incorporation with Croatia and the "rump Yugoslavia," respectively. During interviews in the country in June and July 1997, the most commonly expressed view was that the conflict is continuing in nonviolent forms and would break out in warfare again, if and when the International Military Stabilization Force (SFOR) is withdrawn.

International Presence: Trying to Implement and Solidify Dayton

Under the Dayton and Paris agreements, this fragility and reluctance are addressed directly through the provisions for SFOR and for a continuing role of international diplomatic intervention and administrative machinery. The machinery includes a Peace Implementation Council (PIC) composed of the national and international signatories to the agreements; a PIC Steering Board, meeting monthly and made up of a subgroup of the signatories; and an Office of the High Representative (OHR), with offices in Sarajevo and Brussels.

The OHR is charged with monitoring and overseeing the implementation of the civil aspects of the Dayton Accords, including political, economic, and humanitarian aspects. The Organization for Security and Cooperation in Europe (OSCE) has played a primary role in supervising the elections mandated by the agreement. The OHR has final authority regarding interpretation of the civilian implementation aspects of the agreement. The authority of the OHR has also been confirmed by the U.N. Security Council. OHR employs about 85 international staff, mostly in Sarajevo.

Finally, the agreement calls for a major international aid effort to effect a postwar reconstruction. The effort involves a large number of donors and NGOs and is coordinated through arrangements involving the Bank and the European Commission, with the bilateral donors playing varying roles of greater or lesser joint participation.

Yugoslavia had been a steady borrower from the Bank since 1949, until lending ceased in 1991 with the breakup of the country. Bank planning for reconstruction began as soon as senior management felt there was a strong expectation that a peace agreement would be reached and that the Bank would be a part of an integrated international effort. The Bank set the pace for defining the reconstruction and recovery framework, working within the political time period set by the international community's peacemaking efforts. The peace implementation agenda dictated a compressed timetable for launching reconstruction efforts. Some factors that allowed the Bank to adhere were the availability of resources, strong support from the Dutch Executive Director's office, strong and visible support from the Bank's President, effective coordination with other donors, and strong staff dedication. The Bank helped kick-start the reconstruction effort with 16 emergency projects— notably without waiting for financial normalization and membership in the Bank. A full-scale assistance program followed, including clearing of arrears to the Bank and membership; development and implementation of a full-scale, medium-term assistance strategy to support BiH's systemic reform program; and a continuation of support, in conjunction with other donors, to the reconstruction program for BiH.



3

The Bank's Role in Brief

Before the Conflict

Early Lending for Infrastructure

Yugoslavia was a strong borrower and steady client of the Bank. The Bank had been lending to Yugoslavia since 1949, with some early lending for reconstruction in the late 1940s and early 1950s. The lending program was relatively large, covering a broad range of sectors. Trunk infrastructure (transport and energy) figured heavily in the lending program, but agriculture, water, and the environment were also significant lending sectors. Many of the Bank loans were to individual republics, with the guarantee of the Socialist Federal Republic of Yugoslavia (SFRY). ESW accounted for a substantial part of the Bank's activities in Yugoslavia. As was the case in many of the countries in the region, there was no resident mission.²

The 1980s and 1990s: The Beginning of Prolonged Economic Crisis and Breakdown

In the early 1980s, Yugoslavia began encountering serious debt-servicing problems and became engaged in a series of restructuring and stabilization programs with creditors and the IMF. The Bank carried out substantial economic work focusing on adjustment, monetary policy and stabilization, and financial sector restructuring, as well as sector work focusing on policy and reforms in several sectors. A SAL was made to

SFRY in 1987, but by the late-1980s, hyperinflation had reached disastrous proportions. Although there had been some short-term success in controlling inflation, it became clear that despite these efforts, the underlying structural problems had not been resolved, particularly in the commercial banking sector. A second SAL was approved in 1990. However, the excess money creation and spiraling wage demands of other republics following the lead of Serbia soon precipitated economic disintegration and the breakup of the SFRY. Regular lending ceased in mid-1991.

During the Conflict

Suspension of Bank Lending and Allocation of Yugoslav Debt Among the Former Republics

Bank lending remained suspended during the conflict. Yugoslavia's debt to the Bank was allocated among the former republics. In February 1993, a Board decision laid out the conditions under which the five new republics would succeed to SFRY's membership, which included acceptance of the debt allocation and a firm plan for clearing arrears, if any, to the Bank (see Annex 1).

Each of the new republics had been affected by the breakup, the conflict, and sanctions to varying degrees, and the Bank's approach during the conflict and directly afterward was tailored to their individual circumstances. For much of the conflict period in BiH, the only Bank activity was monitoring the political and social trends, the conflict events, and the efforts of the international community to secure a lasting cease-fire.

For some time, following the Washington agreements of March 1994, but prior to an overall cease-fire, the international community called on the Bank to assist in BiH. The Bank's response was that regular lending was not feasible because of the difficulties surrounding membership, which would be contingent on a firm plan for clearance of BiH's arrears to the Bank. The arrears had been accumulating throughout the conflict period and were more than US\$400 million at the time of Dayton—an enormous figure in the context of BiH's disastrous economic circumstances and the overwhelming need to finance reconstruction. However, the Bank took on an active role when the Bank's management determined that a lasting cease-fire was anticipated and there was a real commitment on the part of the international community to assist BiH.³

The Beginnings of Bank Reengagement in Bosnia

The Bank's active role began with planning a strategy for Bank assistance. The Bosnia Working Group (BWG) within the Bank started to

hold planning meetings, working closely with the office of the Dutch Executive Director.⁴ The Dutch government provided grant resources for planning activities, which were then used to support consultants and travel of Bank staff and government officials.⁵ The executive director was influential in securing these resources to allow the work to begin.

Preliminary Bank-Bosnian Official Meetings Before the Ceasefire

The first planning mission met with BiH officials in January 1995—ten months before the cease-fire. The meeting took place in the Bank's resident mission in Warsaw, since conditions in BiH were still not considered secure enough for Bank missions.⁶ At this first working-level meeting, the main areas for future work with the authorities—reconstruction, economic recovery, economic transition, and financial normalization—were discussed, and a working relationship between BiH authorities and the Bank was established.⁷ Again, it was made clear that membership was not possible until there was a well-defined plan to clear arrears to the Bank.

A second mission to Warsaw took place in June 1995 and initiated work on a framework for economic recovery. At the Bank, work was started on assessing reconstruction needs in each sector. The Bank coordinated the studies and took the lead in assembling documentation for donors, but also cooperated with the European Bank for Reconstruction and Development (EBRD), which headed the work in certain sectors (railways, telecommunications). Close relationships were developed with other agencies—the International Management Group (IMG), the Soros Foundation, and the World Health Organization (WHO)—whose staff had been in BiH during much of the conflict, assessing damage in various sectors.

The Creation of a Dutch Trust Fund for Supporting Project Preparation and Pilot Projects

Meanwhile, arrangements were being made by the Netherlands government for a new, larger trust fund to support project preparation and pilot projects. A third mission to Warsaw in the late summer discussed institution building and identified priority reconstruction needs with BiH officials at the sector and aggregate levels. This provided an overall cost estimate of US\$5 billion for the most urgent rehabilitation needs necessary to establish a framework for donor assistance.

In early October 1995, using the opportunity afforded by the annual meetings, informal meetings were held to present the BiH situation and generate political and economic support in the international donor community. At a meeting in which the BiH Minister of Finance made a

presentation to the Board of Directors, the Bank's leadership in the preparation of a detailed reconstruction program for BiH was broadly endorsed by the 37 countries and organizations present. The donors agreed to convene as soon as the peace agreement was made final.

Bank Participation in the Dayton Accords Negotiations

The Bank was invited to participate at Dayton, an unusual occurrence compared with other post-conflict situations. It is an example of one of the partnerships with donors—in this case, the United States—and demonstrated recognition in the international community of the importance of the links between political structures and financial arrangements.

Phase One of the Peace Emergency Program

The Bank led a joint first mission to BiH in October and November 1995, which included representatives of the IMF, the European Commission (EC), the EBRD, and the United States Agency for International Development (USAID), as well as Bank staff in each of the main sectors. It updated the estimates of the priority reconstruction needs developed during the planning period and made final the strategy for economic recovery.

First Donors' Conference for Bosnia: Initial Steps Toward Support for Reconstruction and Recovery

A report outlining the economic recovery strategy agreed on between the Bank and the authorities was prepared for the first donors' conference in Brussels, cochaired by the Bank and EC on December 20–21, 1995.⁸ The objectives of the conference were to (a) present the assessment of priority reconstruction needs prepared by the Bank in cooperation with the EC and EBRD; (b) mobilize financial support for these needs, particularly for the first quarter of 1996; and (c) discuss existing donor efforts and plans and implementation and coordination mechanisms for the broader reconstruction program. The need for the donor community to begin providing reconstruction assistance rather than relief was emphasized. The assistance framework outlined projects in the various sectors requiring priority funding. The conference mobilized over US\$600 million in firm pledges, with additional donors intending to make further contributions.

The Establishment of a Bank Resident Mission

The resident mission was established in January 1996, more than two months before the announcement of BiH's membership in the Bank. The

resident mission's staff increased during the first year to accommodate the need for an anchor person or task manager for each of the sectors and projects.

The Development of a Two-Track Assistance Strategy

The Bank developed a two-track assistance strategy that sought to leverage the Bank's limited resources with donor funds. The first track was a wave of emergency projects to help jump-start the reconstruction effort without waiting for financial normalization and membership in the Bank. The second track was a full-scale assistance program: normalization of BiH's financial relationship with the international community, starting with clearing of arrears to the Bank and membership; development and implementation of a full-scale medium-term assistance strategy to support BiH's systemic reform program; and a continuation of support, in conjunction with other donors, to the reconstruction program for BiH.

Establishment of the Bank Trust Fund for Bosnia

Bank funding for the first set of projects was designed to mobilize additional donor resources to close the financing gaps. Funding was provided from a special Bank Trust Fund for BiH (TFBH) in the amount of US\$150 million, of which US\$125 million was made available on concessional terms identical to those for IDA credits and US\$25 million on a grant basis.⁹ The transfer of the funds from surplus to the TFBH was authorized in February 1996. By this time, the Dutch trust fund had also been established, providing more than US\$10 million for project preparation and pilot projects.¹⁰ The first seven projects for BiH, presented to the Board in the first half of 1996, were funded from TFBH resources.

During most of 1995—that is, between the Bank's initial meeting with the BiH authorities and the signing of the Dayton Agreement—Bank staff and BiH authorities were aware of the difficulties that would be encountered in clearing arrears and gaining Bank membership. It was also evident that the Bank would work with the authorities to find a way to proceed. In the meantime, the Bank assisted the authorities in planning reconstruction and economic recovery (with the help of a small trust fund) and arranged Bank assistance to BiH through the TFBH, funded through a transfer from the IBRD surplus.

Arrears Workout Plan

In March 1996, the plan for BiH's membership in the Bank and proposed financial assistance strategy was presented to the Board. The size of the arrears, the pressing need for available donor funds to be

expended on reconstruction, and the devastation of the BiH economy made the arrears situation seem intractable. The presentation of the arrears clearance plan to the Board occurred more than a year after the first discussions with the Bosnian authorities in early 1995. The plan included a Consolidation Loan Package through which BiH's outstanding obligations to IBRD could be repaid, and new obligations incurred, with a final maturity of 30 years, including a 5-year grace period.¹¹

Using the Bangladesh Arrears Clearance Precedent

In previous nonaccrual workouts, countries have used a combination of donor resources, their own reserves, and other non-Bank financing (including bridge financing) to clear arrears. Since this was not possible for BiH, management sought an approach that would assist BiH, while at the same time protecting the financial standing of the Bank. The approach involved an exceptional refinancing of existing debt, based on the Bangladesh precedent. This allowed BiH to clear its arrears using as much concessional financing as possible and reduced its debt service obligations in the short to medium term. It protected the Bank by using an existing precedent and ensuring that the plan did not involve a debt write-off or forgiveness by the IBRD.

Box 3.1: Bosnian Eligibility Conditions for Arrears Clearance Using the Bangladesh Precedent

The Bangladesh precedent for exceptional refinancing, which essentially amounted to rescheduling under different terms, applied to BiH because it:

- Had emerged from a current or former member of the Bank
- Was assuming responsibility for a share of the debt of that member
- Had experienced a major armed conflict in its territory, and had limited creditworthiness for servicing the assumed debt
- Would benefit from a significant improvement in repayment capacity from the rescheduling and refinancing, given appropriate supporting measures.

Note: The eligibility criteria for this kind of exceptional rescheduling and refinancing were amplified to include the extensive destruction of physical assets, as in BiH's case.

Bosnia Gains Bank Group Membership

With the approval of this plan on March 12, 1996, and satisfaction of the other membership conditions, BiH was able to assume membership in the Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA), which was announced on April 1, 1996, but made effective on February 25, 1993. The Consolidated Loan Package, containing three loans with a total amount of

US\$650 million, was distributed to the Board in May 1996. The structure took into account the ongoing efforts to raise donor funds to reduce BiH's IBRD debt stock and future debt service payments by prepaying principal not yet due on high-interest obligations and by the government's choice on the currency composition of the package. With approval of the package, BiH became eligible for new borrowing on IDA terms.

Emergency Projects

Sixteen projects were processed as “emergency” operations.¹² Whether financed through the TFBH or regular IDA credits, these projects made use of streamlined processing and procurement procedures (described in more detail in Chapter 7). The projects, amounts, source of trust fund and IDA funding, and dates of approval, are as follows:

- **Emergency Recovery Project (TFBH \$45m, February 1996).** Designed to provide a rapid “injection” of resources to deliver maximum impact, it provided funding for critical imports for agriculture, power, and transport; lines of credit for small- and medium-size enterprises; support for key government institutions; and an Emergency Social Fund to provide minimal levels of cash assistance for the poorest households during 1996.¹³ It mobilized substantial donor resources—of the total project cost of US\$160 million, US\$45 million came from Bank trust fund resources, with the remainder from Canada, the European Union (EU), Luxembourg, the Netherlands, Switzerland, the United Kingdom (U.K.), and others.
- **Emergency Transport Reconstruction (TFBH \$35m, March 1996).** The project financed works to overcome the most serious transport constraints, including repair and rehabilitation of about 180 kilometers of roads, tunnels, and landslips; 21 bridges; opening of rail services; support for reopening urban transport services, mainly in Sarajevo; and preparation for further works and designs for a new road to Gorazde, as required under Dayton. It also provided US\$3 million in recurrent fuel costs and funds for clearing landmines on transport project sites. In collaboration with the project, the EBRD provided financing for the opening of the Sarajevo airport for civilian air services.
- **Emergency Farm Reconstruction (TFBH \$20m, March 1996).** The project was designed to help jump-start agricultural production, improve food security, and create employment and income through agricultural imports for war-damaged farms, including motor cultivators, tractors, harvesters, and livestock (imports of cattle and goats).

- Project funds were also used to strengthen veterinary services and equipment and for project implementation support.
- **Water, Sanitation, and Solid Waste Urgent Works (TFBH \$20m, March 1996).** The project was designed to (a) restore water, sanitation, and solid waste services using piped water supply, and sewerage systems to mitigate public health risks in priority areas; (b) assist in the development of a long-term sector strategy and a detailed emergency program; and (c) rebuild and strengthen sector institutions so that improvements will be sustainable. The project financed equipment and materials and urgent works within the federation.
 - **Emergency District Heating Rehabilitation (TFBH \$20m, May 1996).** The project provided assistance in restoring heating service in Sarajevo by reconstructing both the district heat supply system and the distribution systems inside the buildings. It also included financing for engineering surveys of the district heating system in Banja Luka in the RS.
 - **Emergency Education Reconstruction (TFBH and IDA \$10m, May–June 1996).** The project assisted in restoring classroom conditions that would permit effective teaching and learning, particularly in primary schooling, and in building government implementation capacity at the federation, canton, and municipal levels. Project components included primary school rehabilitation; the provision of books and educational materials; and technical assistance, training, and equipment for capacity building and implementation. It also included project preparation and pilot projects in the RS.
 - **War Victims Rehabilitation (TFBH and IDA \$10m, May–June 1996).** The project addressed the health needs of people with war-related disabilities. Its components included support for (a) community-based health rehabilitation, through the provision of facilities, equipment, technical assistance, training, essential drugs, and supplies for physical and occupational therapy; clinical services for treatment of mental illness and psychosocial rehabilitation; (b) prostheses and orthoses production; and (c) orthopedic and reconstructive surgery, as well as project implementation assistance.
 - **Emergency Demobilization and Reintegration (IDA \$7.5m, July 1996).** The project was designed to support the placement of demobilized soldiers, returning refugees, displaced people, and other war-affected people into productive jobs. It financed (a) computer hardware and software and technical assistance to reestablish labor market information systems; (b) assistance to counseling and job-finding services; and (c) on-the-job and institution-based training to about 32,000 people.

- **Emergency Electric Power Reconstruction (IDA \$35.6m, July 1996).** The project was to restore electricity service in major cities and vital industries throughout the country and to increase coal production to supply the fuel necessary for cogeneration thermal power plants. It also strengthened the institutional capacity of electric companies and supported restructuring of the power and coal sectors. The project was developed and financed jointly with the EU and EBRD, with cofinancing from several bilateral donors.
- **Emergency Housing Repair (IDA \$15m, approved July 1996).** The project was designed to support the government's efforts to carry out urgent housing repairs, in particular to restore common areas and weatherproof public sector housing in order to prevent further deterioration. The project assisted in repairing about 20,000 units.
- **Emergency Landmines Clearance (IDA \$7.5m, July 1996).** The project was designed to assist in tackling four priorities of the overall landmines clearance program: setting up an institutional structure, protecting the population through mine awareness programs, expanding landmine clearing capacity, and carrying out urgent mine-clearing in support of reconstruction and restoration of essential public services.
- **Emergency Public Works and Employment (IDA \$10m, July 1996).** The project financed labor-intensive subprojects in public works averaging less than US\$100,000 each throughout the country over a two-year period. It also had a component to assist in the establishment and operation of the Public Works Department within the Employment and Training Foundations in both the federation and the RS.
- **Transition Assistance Credit (IDA \$90m September 1996).** It was designed to provide quick-disbursing funds for fiscal and balance of payments assistance and to support the establishment of a functioning federation to replace the parallel structures that developed during the war. It also supported the formulation and implementation of uniform, federationwide budgetary and intergovernmental fiscal policies, including pensions and health. The major structural objective was to assist in developing strategies for enterprise and banking reforms, laying the foundations for rapid privatization at a later stage, and designing a settlement mechanism to handle outstanding claims on the state.
- **Essential Hospital Services (IDA \$15m, December 1996).** The project was designed to strengthen priority hospital services at the secondary level and to support the initial steps in health finance reform through (a) rehabilitation and reconstruction of hospital facilities, (b) the provision of priority medical equipment and supplies, (c) upgrading clinical

- skills and practices, and (d) supporting the early phase of health finance reform.
- **Emergency Industry Re-start (IDA \$10m, December 1996).** The project supported the Investment Guarantee Agency, an independent corporation established by the government to operate the Political Risk Guarantee Facility. The facility's objective was to attract foreign private financing to restart production. Its marketing department supported the Facility by providing information to assist in establishing (or reestablishing) links between local and foreign firms in joint venture or investment relationships.
 - **Local Initiatives (IDA \$7m, December 1996).** The project financed credit to micro and small enterprises and other income-generating activities. Local institutions and NGOs were contracted under the project to provide financial and nonfinancial services to the self-employed and microenterprises. War widows, demobilized soldiers, the displaced, and returning refugees were targeted. Loans were made in amounts up to US\$7,500.

Multisectoral Projects with an Emphasis on Employment Generation and Institution Building

The sixteen projects, together with projects for selected subsectors led by other donors (air transport, telecommunications), addressed all major infrastructure and social sectors. They also incorporated a focus on employment generation, targeting the individuals most affected by war, as well as support for institutional development.

Modular Design of Projects

The projects were generally designed to be modular to allow for expansion (to additional towns, for example) as more donor resources became available. Most, if not all, of these projects were part of programs involving multiple sources of financing. The first projects addressed reconstruction and recovery needs in the federation only, but later projects included components for the RS.¹⁴

The Creation of Project Implementation Units

A project implementation unit (PIU), BiH-headed and staffed, was established for each project (two PIUs were established for projects implemented in both the federation and the RS). The PIU experience has been very positive in building up both local implementation capacity and government ownership of the projects (see Chapter 8). Task forces were set up to coordinate within the sectors.

Successful Project Implementation

The status of the priority reconstruction program is described in documentation for the donor conferences, and it is beyond the scope of this case study to review these projects. On the whole, however, OED found that project implementation has been very successful, and there is widespread recognition of this success among donors, beneficiaries, and BiH authorities. Funds have disbursed quickly and benefits are perceived to be reaching the intended beneficiaries. Many of the projects are nearly complete. In several sectors, project implementation has helped to initiate links between the entities at the technical level.

Some particularly notable project features include the outreach elements of the local initiatives (microenterprises) project, in particular the successful use of NGOs in administering the project, the high repayment rates on microcredits, and the low cost of creating a job (the pilot project experience was that one job was sustained or a new job created per DM1,350 loaned).¹⁵ In agriculture, the provision of pregnant livestock to farmers has met with great success.

Evaluation of the First Completed Project: Transition Assistance Credit

The Transition Assistance Credit (TAC) is the only project that has been completed. The draft Implementation Completion Report (ICR) found the project satisfactory in implementing core institutional reforms and in defining and implementing a medium-term policy framework. Several federation institutions have been established (Customs Authority, Tax Administration, and Banking Agency). Although the federation payments system is “moving toward unification,” full unification has not been achieved because of an inability to merge the payment bureaus in Sarajevo and Mostar.

TAC Project Shortcomings

The ICR notes that given the level of development of the new government structures, the goals of the TAC were overly ambitious. Reviewers cited rapidly changing government institutions and “less than full oversight and transparency in the management of public funds.” Also noted was a serious problem regarding credit and the use of funds for expenditures outside the budget, in particular to provide credits to enterprises. The problem might have been avoided if the TAC had been disbursed in two tranches to allow for better supervision or had TAC proceeds been earmarked for specific authorized expenditures. A follow-on public

finance reform project to assist in establishing a wide range of fiscal-related government agencies and policies is envisaged.

The Next Phase

Reconstruction and growth, particularly in the federation, are clearly visible, but the physical damage remains substantial. Relief is slowly being phased out, and donors are redoubling their efforts to target vulnerable groups and to find ways to fund more of this targeted support using BiH productive capacity such as the United Nations High Commissioner for Refugees (UNHCR) program of unloading locally produced goods in their relief supplies.

This accent on local production should be emphasized in future post-conflict relief operations as soon as it is feasible. In Bosnia, many observers feel that more could have been done at a much earlier stage.

Some aspects of the reconstruction and economic recovery schemes will need to continue for some time; for example, there is still a large housing and building repair agenda and scope for expansion of small- and medium-size credit schemes. Although massive donor funding will continue to be necessary, there is concern that donor funds may decline as time goes by and crises in other countries compete for funds.

Moving Toward Sustainability of Investments

The Bank has made sustainability a major focus for the joint efforts of donors and BiH authorities and emphasized in 1997 that, “cost-recovery mechanisms should be designed before investments are made.” Recent Bank statements describe sustainability as covering many areas, including (a) better maintenance and cost-recovery through user charges, (b) sustainable budgets at all levels of government, (c) well-governed and capable public institutions, and (d) privatization and structural reforms in the banking sector to create viable financial intermediaries and unleash private initiative. Several of the sectoral emergency projects mentioned sustainability and other policy-related objectives, but these were secondary to the urgent reconstruction needs being addressed, and the achievement of these objectives has not yet been evaluated.

Future Directions

Future projects will need to address these sustainability issues. However, the institutional structure in these sectors is still weak, and the mechanisms in place now for emergency program implementation are unlikely to suffice for coordinating the policy reform agenda.¹⁶ The next round of projects will need to include substantial institutional strengthening.

Transition to a Market-Based Economy

To assist in transition issues, there will be a strong focus on institution building and policy reform in the enterprise and banking sectors. Enterprises in BiH are eager to move forward on privatization, and several steps in the adjustment to a market economy have already been taken. A dialogue has been established with all levels of government on the directions for economic reform and privatization. The federation government is also preparing a privatization program and has nominated a director for the federation Privatization Agency. In addition, six key privatization laws have been presented to the federation Parliament, one of which (Privatization Agency Law) has already been enacted, and two more of which have had their first and second readings in Parliament.

Several constraints are already being anticipated and addressed through projects by the Bank and other donors. For example, the availability of credit is addressed through lines of credit, sponsoring of a new BiH Microcredit Bank, and the EBRD Equity Fund project. Political risk is addressed through a guarantee facility.

But practical issues remain. How best to get privatization started? What should be done about the large socially owned enterprises? While there appears to be broad support for privatization in many parts of the country, difficult issues of ethnicity and of political penetration remain.

The CAS, whose thrust has been agreed within the both the federation and the RS, emphasizes strengthening institutions and policies for macroeconomic management, making the transition to a modern market-based economy, and increasing the sustainability of infrastructure and social sector reconstruction efforts.

The Bank's leading role in putting together the reconstruction and recovery framework was appreciated by the government and the international community. There seems to be strong support for the Bank to play a lead role in policy work in the next phase. However, the Bank needs to ensure that it works with partners, even where it has the lead role. A problematic aspect, which occurs frequently in emergency assistance, has been the continuing tendency for some of the donors to work independently in of project selection, priority setting, and procurement methods. The Bank's relationship with NGOs in BiH is very good, and there are promising precedents for future work.



4

The Bank's Role in Aid Coordination

Early Monitoring of the Conflict and Liaison with the Donor Community

Although the Bank's contacts on BiH with the international community were limited during the height of the conflict, it had maintained active contacts relating to its reconstruction program for Croatia and was thus following the events in BiH and the peace-brokering efforts of the international community very closely. Bank representatives had attended various conferences on the situation in former Yugoslavia and, in particular, on efforts to restore essential services in Sarajevo.¹⁷ Despite a relatively inactive role, it was clear that reconstruction would need to begin as soon as the situation on the ground would allow and that the international community expected the Bank to take a strong role in the eventual reconstruction.

During the early planning phase, the Bank worked closely with the Dutch Executive Director's office, which took an active role in communicating with representatives of key countries about the BiH situation and prospects and timing for Bank involvement. These efforts culminated in the October 1995 meetings in Washington, which paved the way for the first mission to BiH and the first donors' meeting in December, following closely on the signing of the peace agreement. The Bank had also kept in touch with the IMF, the EC, and other bilateral and international agencies that had been engaged in various BiH-related activities prior to the Dayton Accords.¹⁸

The contacts maintained by the Bank during the conflict and the efforts of the Dutch Executive Director's office helped to inform Bank

management about consensus-building in the international community on the Bank's role in the eventual reconstruction effort, on timing for starting reconstruction in earnest, and on the international commitment to providing the peacekeeping and other interventions (ongoing relief if needed and "peace implementation") necessary for reconstruction efforts to be effective. They also helped to inform the international community about the Bank's constraints relating to BiH's lack of membership and the difficulties to be faced in assisting both reconstruction and recovery and financial normalization.

During this period, the Bank initiated much of the day-to-day coordination work (processing papers, arranging conferences), but this work was done in partnership. As the needs assessment work began, coordination with the EC provided "international solidarity" and risk-sharing and ensured coverage of all major sectors. Cooperation with agencies operating on the ground in BiH (IMG and others) during the conflict was essential in order to access the basic information about damage, capacity, and so on.¹⁹ Some interagency relationships forged during the needs assessment phase helped in later coordination on the ground (IMG and the Soros Foundation).

Donor Conferences

Early Donor Conference Successes

The Bank has been a main actor in organizing international support for the reconstruction of BiH. The Bank President participated in the London Peace Implementation Conference in December 1995, emphasizing the need for the international community to act quickly to underwrite BiH's economic recovery. The first donor conference organized by the Bank in December 1995 established the framework for reconstruction and recovery and mobilized pledges of about US\$600 million; the second followed about four months later and mobilized an additional US\$1.23 billion.

Discussions were held in January 1997 in Brussels to discuss BiH's priorities in 1997 and needs for the "1997–98 consolidation period" in preparation for the next pledging conference in July 1997. The Bank's presentation outlined four main areas of concentration for donor funding: infrastructure, refugee return and community support programs, social sectors, and employment creation through private sector and financial sector reforms with an overall emphasis on sustainability.

Benefits of Donor Conferences

BiH authorities and the people of BiH see donor conferences as the main vehicle for mobilizing donor resources. Indeed, they mobilized support for BiH from 60 donors, enabling a successful start to reconstruction in 1996. Other perceived benefits include setting up a structural framework for aid efforts, identifying priorities, and sharing information.

The timing of donor conferences has also been used as an incentive for certain actions to be taken by the authorities.

The donor conferences also helped to keep the momentum of resource mobilization, project preparation, and strategy preparation appropriate to fragile post-conflict situations.

The Bank and the International Community in Bosnia and Herzegovina

New and Unconventional Post-Conflict Partnerships

The leadership role in aid coordination in-country has been shared, with the Bank and the EC considered as the “lead donors” for the overall program. However, other main players within the donor community include the U.N. agencies, the EBRD, and bilateral donors.²⁰ Partnerships have been very important in the reconstruction process, and some of the partnerships have been unusual ones. For example, the Implementation Force (IFOR) and SFOR have worked closely with the Bank on various aspects of the reconstruction program, such as urgent transport reconstruction and mine clearing. An IFOR-SFOR staff has been stationed in the resident mission since it was opened. In addition to furthering coordination, IFOR-SFOR helped in several ways—by providing an audit function for some Bank credits and assisting the mission in security arrangements for high-ranking visitors.

The Bank's leading role in putting together the reconstruction and recovery framework is appreciated by the government and the international community. There seems to be strong support for the Bank to play a lead role in policy work in the next phase. However, the Bank needs to ensure that it works with partners, even where it has the lead role.

Formation of Sector Task Forces to Facilitate Donor Coordination

Donor coordination is extremely time-consuming, particularly during project preparation and the early phases of implementation, when task managers spend a relatively large proportion of their time dealing with coordination issues. In BiH, the main donors in each sector participate in a sector task force, which is the main aid coordination

mechanism within the sector. The chairmanship of the sector task force depends on the sector: of the 11 task forces currently operational, 4 are chaired by IMG (power and coal, housing, transport, and water and waste management); 1 each by USAID and the Overseas Development Association (ODA) (industry and natural gas and district heating, respectively); 1 by the International Labour Organization (ILO) (employment and training); and 3 by U.N. agencies (education and cultural activities by United Nations Educational, Scientific, and Cultural Organization [UNESCO], health and social safety nets by WHO, and landmine clearing by the United Nations Mission in Bosnia Herzegovina [UNMBiH]). The Bank chairs only one task force—on economic policy—which is cochaired by the IMF. All the sector task forces are under the guidance of the Economic Task Force (ETF), chaired by OHR.

The sector task forces are credited with success in information sharing within sectors. They have had some success in avoiding contradiction, duplication, and overlap among donors. However, success in carrying out fully coordinated programs on the ground has been limited. Experience seems to vary by sector.²¹ Many donors still prefer to carry out programs of their own choice and design. BiH authorities seem to have little to say about the task forces and in some sectors apparently do not participate very actively.

The Monitoring Role of Sector Task Forces by the Economic Task Force

It is not very clear what was expected within ETF's monitoring role over the sectoral task forces. However, recently ETF has prepared a paper defining the role of task forces, including policy setting, identification of funding gaps, program and project development, monitoring project implementation, and reporting on progress and problems. The policy setting role includes establishing policy guidelines for program development; establishing technical, managerial, or financial conditions that donors may require of "recipients" to promote a sound economic framework and effective project implementation; and consulting with OHR's ETF regarding who "shall provide guidance and recommendations with respect to political conditionality."

Bank-Donor Relations: Complicated by Differing Objectives and Time Periods

The Bank's working relationship with other donors appears good at a personal level. However, the differing objectives and time periods of the various donor organizations heavily influenced both their choice of

intervention and modes of implementation (OHR perceives projects as needing to be finished within the peace implementation time period, and this has fostered a tendency to bypass local government authorities). The Bank, for its part, is perceived to be less motivated by political concerns than other donors.

A problem not uncommon in other post-conflict situations has been the continuing tendency for some donors to work independently in project selection, priority setting, and procurement methods.

The Bank's Working Relationship with NGOs

The Bank's working relationship with NGOs appears to be very good. The resident mission, through its NGO liaison officer, has made efforts to open lines of communication with NGOs (the Resident Representative has attended and addressed NGO meetings) and to work with them wherever feasible. All the NGOs interviewed in Sarajevo expressed strong appreciation for the Bank's communication and coordination efforts and for the Bank projects that were providing resources to disadvantaged groups through local NGOs (such as the Local Initiatives Project). The various relationships with NGOs forged through this project have been very positive.

The Bank as an Effective Bridge Between NGOs and the Government

The Bank is seen as an effective bridge between the government and NGOs. The Cooperative for Assistance and Relief Everywhere (CARE) is suggesting that the Bank help to organize meetings on future funding specifically for vulnerable groups. There is also a collaborative project involving the Bank, the Open Society Fund of BiH, the International Rescue Committee, and the International Council of Voluntary Agencies (ICVA) in supporting reforms in the legal framework for the NGO sector in BiH (with funding from the Office of Transition Initiatives of USAID and others).

NGO-Government Relations

The NGO-government relationship appears less good in general. BiH authorities feel that they are not adequately informed about NGO activities. Coordination between NGOs and local authorities has been more difficult in some sectors than others. In 1996, there were instances of local authorities unaware of what donors were doing, arranging for housing repair works to be contracted in housing units already selected for repair by NGOs. Similarly, a number of NGO-implemented decentralized projects to assist war victims were difficult to coordinate with the activities undertaken as part of the government-designed program.

The formation of task forces helped to avoid repetition of this kind of situation. The Bank's success with both the NGO community and the government—despite the less-than-perfect relationship between the government and NGOs—stems from the Bank's encouraging local NGO involvement in areas where local government and private expertise is limited (such as in microcredit administration) by not “bypassing” legitimate local authority. BiH authorities have also been involved and informed through the PIUs.

Despite difficult obstacles arising from the problems of economic governance and from the various failures of the parties to adhere to major provisions of the Dayton Accords, the first year and a half of peace have seen substantial economic recovery. The Bank has played a central role in the mobilization and application of external resources critical to this recovery. The benefits of Bank-assisted projects are being felt throughout the federation and are increasingly reaching Republika Srpska. The range of benefits has been delivered quickly to a diverse set of beneficiaries while involving stakeholders and building up local implementation capacity. Several factors contributed to success in the implementation phase, including early establishment of a resident mission, streamlined project processing and procurement procedures, sector diversification, pilot projects and project preparation, local ownership, and widespread participation.



5

The Bank's Role in Stabilizing, Reforming, and Rebuilding the Economy

Reinventing an Economy in an Unpropitious Environment

The Bank has had to play a major conceptual, coordinating, and financing role in each of the three dimensions of post-conflict recovery in BiH: (a) in economic stabilization and reconstruction to facilitate refugee and internally displaced populations return and resettlement, and the revival of economic activity and employment; (b) in resumption of the economic transition to a market economy that had begun in the pre-war, former Yugoslavia; and (c) in the creation and operation of the institutions of economic governance needed for the functioning and interaction of the government structures called for under the Dayton Peace Accords.

Placed in a central role by the international community in its efforts to create a durable peace in BiH, the Bank faced an unusually complex challenge. Economic recovery and reconstruction was not only an objective in and of itself, which would be difficult enough in circumstances of simultaneous economic transition from a socialist to market-based economy; it also had to serve as an instrument for creating economic governance institutions that, aside from their normal role as managers of economic activity, would also bring together the previously warring parties.

While stabilization was not difficult to achieve, the Bank's efforts to promote transition and reconstruction in BiH have faced unusually

The Dayton Accords provisions regarding the central bank are especially revealing of the lack of trust among the parties— and of a consequent international agency role.

difficult obstacles arising from the problems of economic governance and from the various failures of the parties to adhere to major provisions of the Dayton agreement. The Bank has had a realistic fix on the obstacles of bitterness, mistrust, and misgivings facing institutional progress and on the fact that the struggle to create the new institutional structure was compounding the recovery and transition difficulties.

Prior to the elections in September 1996 and the establishment of an all-Bosnia state government in January 1997, there were no institutions in BiH with either the authority or the capacity to design or implement a general program of economic recovery for the country as a whole. It was recognized in the Dayton agreements and in the relevant subsequent determinations by the PIC and the Bosnian authorities that international economic agencies would have to play a vital role for the immediate and near-term periods following the agreements. The Bank and IMF have had lead roles, supported by the EC, EBRD, and other agencies with more narrowly defined foci.

The implementation of the international responsibilities for economic recovery has been complicated by the Dayton provision that the economy would be transformed from a socialist economy to one based on private property and the promotion of a market economy. It was also made more difficult by the dispersion of the different components of recovery and transition among several layers of poorly cooperating jurisdictions.

Finally, it was complicated by the provisions separating state trade and fiscal policymaking from entity implementation of these policies.

While the central bank is to be the sole authority for issuing currency and for monetary policy, a critical policy area for the state level of any country, Article VII of the Constitution requires that the bank operate as a currency board for its first six years, preventing the bank from extending credit or creating money. In

addition, it was required that the first governor of the bank be appointed by the IMF and that the governor not be a citizen of BiH or any neighboring state. These provisions were unparalleled in any other country.

During the conflict, however, the authorities of the Croat and Serb majority areas integrated themselves more into the economies of Croatia and the Federal Republic of Yugoslavia (FRY), respectively. They adopted the currencies of Croatia and FRY (kuna and dinar), although the deutsche

A fundamental difficulty facing the Bank's efforts has been the existence of diametrically opposed economic objectives of Dayton and the Bosniacs, on the one hand, and the Bosnian Croats and Serbs on the other. For all its concessions to decentralized authority, Dayton assumes that the BiH state will coincide with a BiH-wide economy.

mark is used widely throughout BiH. They replaced some of the preexisting (Yugoslav) Republic of BiH economic legislation (on taxation and trade) with legislation taken from Croatia and FRY. Relationships of trade, telecommunications, and personal movement were promoted with their patron states and restricted or blocked altogether (through phone connections) with each other and with the Bosniac-majority area.

Political Differences Continue to Impede Economic Integration

Since Dayton, the passage of essential economic legislation and establishment of the common state institutions called for under the Constitution has been slow and difficult because of the inconsistent political agendas of the three parties and the efforts of hard-liners to delay or frustrate the creation of state functions. While trade has resumed on a limited scale at some locations, there are often risks for vehicles—which all bear license plates indicating the majority-area place of registration—that move from their home area to another. For instance, the director of a promising enterprise in a Bosniac town complained of his inability to move his product through Croat cantons to customers in Europe. There are still no direct telecommunications among the Bosniac, Croat, and Serb areas for various political, not technical, reasons. Telephone calls between people located in towns that are in different ethnic areas, even if the towns are quite close, must be routed in a roundabout way through communication centers in other European countries.

The most important and difficult function of the Bank and other international agencies has been to act as diplomatic midwives to economic governance.

In the context of these structural, legal, and political difficulties, the Bank and other agencies, in their respective areas, have had to develop conceptual frameworks and provide technical assistance on legislation and institutional formation.

They have had to induce or press the representatives of the parties to participate in the required processes and to undertake the necessary parallel or joint actions needed to set the relevant policies and to follow through on their undertakings and implementation responsibilities. Bank staff often found that agreements obtained in a meeting with an apparently senior official would be repudiated at the next meeting by another official from the same entity. A state-level official representing one entity might be less authoritative on state matters than an entity-level official (or political personage) of the same entity.

Stability and Recovery off to a Fast Start

Balance Sheet Thus Far

Despite Dayton's built-in obstacles and the problems outlined above, the first year and a half of peace have seen substantial economic recovery. In 1996, GDP recovered 50 percent from the disastrously low level to which output had fallen during the conflict. In terms of infrastructure, major road and bridge repair has enabled traffic to resume. Much electric power has been restored. There has been substantial reconstruction of schools and hospitals.

Production and commerce are also recovering, although the manufacturing sector in late 1996 was still operating at only 10 percent of its prewar level. Between the Bank's infusion of balance of payments support and the sectoral infusions by the Bank and other donors, both import capacity and the demand for local goods and services have been recovering rapidly, especially in the federation.

Bosnian decisionmakers frequently chose to struggle over political symbols at the expense of pragmatic compromise that would have unblocked stalled aid funds.

Unemployment has fallen but is commonly believed to remain very high, estimated at 50 percent in early 1997, with higher levels reported for the RS and the Mostar areas. Progress in privatization has been too slow to draw foreign investment into the large enterprise sector, but small- and medium-scale local firms have responded well to the opportunities created by the reconstruction effort.

Uneven Geographic Distribution of Peace Dividends

Recovery has been very uneven, however, with the RS lagging well behind the federation because of the international isolation prior to March 1996 and the delay in the initiation of aid flows following the RS decision not to attend the second donors' conference the following month. For some time, the RS also delayed its own access to Bank funds by its unwillingness to accept the Bank's standard arrangements, under which the national state, as borrower, sublends to subnational jurisdictions. The RS authorities interpreted this as implicit confirmation and strengthening of the role of the Bosnian state over its entities. Within the federation, the Croat-majority area suffered less destruction than other parts of the country and has apparently achieved a higher level of recovery in output.

The Evaluation of the Bank's Role in Aid Coordination and Economic Recovery

The Bank has played a central role in the mobilization and application of external resources critical to this recovery. The donor community endorsed the US\$5.1 billion reconstruction program target for 1996–99, and commitments for 1996 were on target. Speed of disbursement has varied by donor and activity. Bank disbursement of trust funds and IDA credits has been among the fastest and has been unusually rapid in relation to average Bank experience.

The Creation of Multisectoral Projects, Project Implementation Units, and Sectoral Task Forces

To facilitate the coordinated use of the funds coming from many donors and adherence to the priorities of the program, the Bank designed a full set of sectoral “projects,” each managed by a PIU working closely with the respective BiH ministry or agencies. Coordination in most of the sectors has been effected through local sector task forces, chaired by persons from different agencies.

The Bank provided some project credits of its own, calling on the donor group to provide the remaining funding requirements, preferably through the PIU vehicles. The total recommended cost of the 16 projects approved by the Bank as of the end of 1996 (the amount required from the donors as a whole to cover the total need) was about US\$1.1 billion. Bank commitments for these same projects totaled about US\$350 million, while the total funds to be managed by the Bank, including other donor funds channeled through Bank management, exceeded US\$500 million.

While some donors have channeled their aid through the PIU mechanism, others have preferred to implement their projects bilaterally, relying on the task forces for coordination. The Bank has been submitting regular reports to the donors on the progress of funding and implementation across the range of sector programs, along with recommendations for adjustments.

Sectoral Shortfalls

While the system has been very effective overall for fueling sectoral recovery, there have been shortfalls. Not all of the task forces have been equally effective. Funding in some sectors, such as electric power, have fallen significantly short of target. Funding and implementation in the telecommunications sector have lagged well behind target and schedule because of the inability of the BiH parties to agree on basic questions of network integration and access. In the education sector, the funding target has been met, but the Bank pointed out that the most

urgent needs for restoring basic education were underfunded and called on donors to shift priorities.

Puzzling High Unemployment Figures

While the physical reconstruction and recovery in economic activity have been generally commendable, the reported persistence of high unemployment is puzzling and troublesome. It is commonly assumed in the wake of peace settlements that rapid recovery in employment can make a significant contribution to cementing the peace. The population's attention would be reoriented to the benefits of normalization, thereby raising the political risk to local authorities of pursuing policies that could threaten the recovery in living standards. (This assumption appears in the Bank's report to the second donors' conference.) The report stresses the importance of employment generation and proposes steps to ensure that aid flows and projects are employment-intensive.

Possible Explanations for High Unemployment Figures

In this context, the OED review team was struck by the absence of any overt signs of idleness anywhere it traveled. Few informants raised the employment problem, and none did so with any sense of urgent concern over widespread deprivation. The answers may lie in the remittances many families are receiving from refugees in Germany and elsewhere or some substantial overestimation in the numbers. The still extant former Yugoslav law requiring employers to pay a 100 percent payroll tax operates as a strong incentive for employers to understate the number of their employees.

It may well be the case that reemployment and new jobs created by small- and medium-size enterprises have been substantial, but not reflected in the official statistics based on the payroll tax reporting. However, BiH's largely inoperative big industrial state-owned enterprises cannot revive their labor forces unless significant privatization occurs. Finally, the unemployment rates probably vary greatly from one municipality to another, mirroring the uneven distribution of the economic recovery. Clarification of the employment and family income situation appears to merit high priority, perhaps as a subject for Bank ESW.

Slow Progress on Privatization and Foreign Investment

Privatization and foreign investment are other important components of the recovery strategy, essential for revitalizing the industrial sector and reestablishing manufacturing employment. It was probably unreal-

istic to expect a rapid foreign investment response to the Dayton agreement, given the political realities. The OED team got a sobering and perhaps overly pessimistic picture from the commercial counselor of one of the G-7 embassies. The idea that any foreign company would be interested in entering BiH (except to sell products to aid-financed projects) struck him as fantasy. He advised any inquiring businessmen—apparently very few, if any—from his own country to look elsewhere for investment opportunities. He saw no advantages in BiH when compared with the array of stable country alternatives open to European investors. He viewed a recent Siemens investment as a rare exception, perhaps reflecting what he saw as the political duty of Germany to be the first donor to promote foreign investment in BiH. He pointed out that the only foreign bank to open an office in BiH thus far was Turkish, amounting essentially to a diplomatic gesture, since the bank appears to be doing no business.

Political or criminal capture of state and “privatized” enterprises is a problem in many transition economies, including some post-conflict ones. Under such circumstances, privatization may have undesirable consequences, economic and otherwise, that the Bank and other donors must take into account. This is a general problem that merits more attention than it has received.

Strategy for Attracting Private Investment

The strategy to encourage private investment has focused thus far on basic rather than ideal conditions—privatization, creation of an enhancing legal framework and banking system, and the recent creation of a political risk guarantee facility. Restoration of interlinked transport, power, and communications systems and restored freedom of movement (only partially achieved) will also be critical enhancing factors.

One of the most important contributions of the Bank has been providing BiH authorities a road map for the articulation of economic policy and its implementation.

Privatization Risks: Cronyism and Corruption

In the next phase, the Bank will have to take into account the “downsides” of what is purportedly “private sector” activity. Many informants pointed to a rise in cronyism and corruption, especially—but not limited to—the reported connections between RS authorities and enterprises enjoying de facto monopoly rights. Press accounts have confirmed the grim portrait painted by several interlocutors of this study of an RS economy being bled for personal aggrandizement by a predatory leadership.

Privatization and Ethnic Ownership

Privatization in BiH could also be complicated by the implications for ultimate if not immediate ethnic identity of ownership. A free market in enterprise equity could result in some enterprises in one ethnic-majority area falling under the ownership of persons not members of that same majority. This would be a very promising development if accepted by all parties, especially if numerous enterprises came to be owned or

The view that creating political symbols of common statehood prevailed over the Bank's more "technical" view. From a pure efficiency standpoint, the economic and fiscal outcomes at Dayton were far from optimal, and indeed far from the initial proposals tabled by the Bank's representation.

managed by persons from two or all of the major ethnic groups. Perhaps a method could be found to identify profitable possibilities along such lines, inherently cross-entity, and to promote their realization.

The recovery strategy evolved out of the meetings Bank staff held with federation authorities beginning in Warsaw in December 1994. In the spring of 1995, the Bank

played a major role as these discussions ranged over the needs for economic reform and reconstruction and the institutions that would be required (in a federal structure that could be anticipated then as the likely outcome of a settlement) for economic governance and program implementation.

In September 1995, with assistance from the EU and drawing heavily on the in-country knowledge of the IMG, the Bank produced a two-volume assessment of the reconstruction needs. In October, Bank staff traveled to BiH for the first time (with a multiagency team) to discuss the basics of an economic policy that would be needed to make the emerging post-conflict configuration work. The Dayton agreement was negotiated the following month, setting the stage for the first donors' conference, where the results of the analytic work to date were presented. At the second donors' conference in April 1996, the Bank, with assistance from the EU and the EBRD, presented additional reports spelling out further the policy and institutional requirements for economic policy and management under the Dayton structure.

Moving Forward: Navigating the Political and Economic in an Intricate Peace

It is very important to observe that the Bank's various policy and institutional activities add up to a vigorous effort to implement the provisions of the Dayton agreements. It remains to be seen if the economic governance provisions per se turn out to be enhancing or negative fac-

tors, separable from the difficulties presented by those preferring no unification structure. In retrospect, the Dayton arrangements will hold lessons for the economic aspects of future conflict settlements, especially where the parties are pressed to the table under duress and where governance will have to be based on substantial decentralization or autonomous jurisdictions.

It is interesting that the Bank representation at Dayton recommended against some of the provisions that became embodied in the agreements, including the introduction of a new common currency. The Bank's argument was that the objective of a single currency was already being performed by the common use of the deutsche mark.

It is too early to judge, but as an example thus far (in addition to others cited above), the unsuccessful effort to obtain agreement on the design of the currency proved to be a source of friction. It was also a piece of unfinished business, among others, that stood in the way of meeting the IMF's conditions for establishing a Standby Agreement.

Although the Bank had a central conceptual role in assisting the BiH authorities in developing their framework for reconstruction, the Bank has not provided technical assistance in the usual project form that often accompanies credits for general balance of payments cum budget support. This has been partly because of institutional peculiarities such as the absence of a ministry of finance at the state level and the limited economic role of the state budget functions. It is also partly because detailed technical development in areas such as customs and taxation is being assisted by other agencies, including the IMF, the U.S. Treasury, and the EU.

Bank staff appear to be very aware of the tensions inherent between the daily struggle to keep the peace process afloat and the long-term need to construct a solid economic and institutional foundation for BiH stability and ethnic harmony.

Bank-Government Relationship Intricacies

Even if one accepts the opinions of some informants to the effect that the Bank made errors of commission or omission that exacerbated relations among the parties or damaged the Bank's credibility in the eyes of one or more of the parties, the OED team concluded that the Bank staff had navigated well through the murky political climate of this period. Staff appeared to understand the intricacies of negotiating and implementing in a governance environment very different from what normally prevails in Bank clients. Especially reassuring to the team in this respect were the words of caution from several Bank staff that the facts or judg-

ments expressed by some informants may not be intended to be taken (or should not be taken) at face value.

Reconciling Short-Term and Long-Term Goals

Finally, the OED assessment team was struck by the problems of reconciling short- and long-term goals.

The consensus among interviewees is that the BiH experience thus far can be divided into two periods. In the first period, from the Bosnian-Croat ceasefire to the installation of the elected state government in January 1997, the creation of governance institutions was making reasonable progress. By the end of 1996, the Bank could report that the year had seen several BiH achievements regarding economic governance and implementation under the Dayton framework.²² The

Physical reconstruction, although certainly not complete in all sectors, will henceforth need to be complemented with attention to the normal requirements for financial and economic sustainability.

Bank was cautiously optimistic then that the parties, if partially and hesitantly, were moving in the right direction. In the short run, progress on the long-run economic front seemed to be moving ahead of the political rhetoric and ahead of other aspects of the civil side of the agreement, such as refugee return.

In the second period (since the installation of the state structure with participation of all three parties), however, the atmosphere has turned less favorable, agreements have become harder to reach, and the de facto veto power of each party has become a major obstacle. As noted earlier, the first half of 1997 passed without its scheduled donor conference, delaying and perhaps ultimately reducing the inflow of external resources. In this period, the political complexities among the parties appear to have increased. At the same time, the recent seizure of some individuals indicted for war crimes may signal a diminishing willingness of PIC members to accept continued delay in implementation of the lagging civil aspects of Dayton. Whether this will be reflected in donor participation in the reconstruction effort remains to be seen.

Delays in Moving From Urgent Reconstruction to Sustainable Investment

With new Bank and other donor money on hold since early 1997, the reconstruction program has been delayed in testing the Bank's presumption and recommendation that BiH is ready to begin moving from "urgent repair" to a second phase of "sustainable investment." In the report to the donors' meeting scheduled for January 1997 and later postponed,

the Bank described the first year as a period during which urgent repairs were mostly financed through donations, and little attention was paid to the conditions under which restored infrastructure would be operated or to the financing mechanisms that would ensure sustainability over the medium term. It noted that priorities should reflect medium-term needs, operating conditions should be defined in detail, and cost-recovery mechanisms should be designed prior to making investments.

Requirements for Sustainability

The report also lists some requirements for sustainability: user charges so that utilities can cover operating costs and finance investment, sustainable budgets at all government levels so that teachers and doctors can be paid, viable and competent government institutions, and reforms to create viable financial intermediaries. The report calls on the donors to “support enhanced policy environments across all sectors” and spells out the required sectoral strategies.²³

Shifting into the Second Phase of Reconstruction: Implications for the Government

This shift into a second phase of reconstruction will force BiH authorities to confront technical and financial management issues that are highly political in the BiH context. Examples cited in this same report were the need for interentity agreements on transport infrastructure linkages, the telecommunications connection impasse, increased cooperation among the power companies, resolution of the ownership issues blocking housing rehabilitation, and the harmonized legal and regulatory requirements for enhancing private investment.

The shift to the second reconstruction phase will increase the Bank's exposure to the political dimensions inherent in most if not all its own projects. It will increase the Bank's responsibility to identify for relevant donors political obstacles to sustainable investment programs and to help develop coordinated responses. It will also bring formal conditioning into Bank credits.

Implications for the Bank and Other Donors

The shift into a second phase as described will have several implications for the Bank and other donors who accept the Bank's recommendation to shift emphasis toward sustainability.

The need for more elaborate work on sustainability conditions in loan preparation also means that fast-track processing will phase out, and the Bank's new projects in BiH will be managed according to the Bank's normal timing and processes. The BiH authorities will need to

understand these changes and not misinterpret their purpose. Assuming the reconstruction program gets back on track, all of this suggests that effective management of the increasing portfolio in BiH will require the continued presence of a large resident mission headed by forceful and diplomatically adept management.

Summing Up

In close coordination with the IMF, the EU, and other donors, the Bank has undertaken an enormous effort of conceptualization; aid mobilization and coordination; and project design, funding, and implementation to promote recovery in BiH and to bring about the creation of the institutional structures required to make Dayton work. The Bank's work has created many opportunities and incentives for the BiH parties to work together.

While substantial overall, the recovery and the institutional accomplishments have been uneven among the parties, varying between the entities and from one canton or municipality to another. Although it would have been unrealistic to expect rapid emergence of cooperation among the parties after such a period of violence and jingoism, many interlocutors expressed deep disappointment only a year and a half after Dayton.

A Fragile Peace

Virtually all interlocutors with whom fundamental issues arose during the course of the interviews believed that a reversion to warfare

The very rapidity of the economic revival, at least in the federation, along with the institutional progress noted for 1996, may have contributed to a sense that rapid reconciliation was a realistic possibility after all and that encouraging economic facts could overcome underlying political hostilities and divisions.

would be avoided only if the international military force remained in BiH for another 5 to 10 years. It is hoped that in that time span, the experience of working together and of seeing the economic and social benefits of an extended period of peace would gradually lead to the conviction that peace within a pluralist country is a positive-sum game. In such a scenario, the role of the Bank would continue to be critical. As pointed out above,

the interaction of political and economic factors is likely to increase. It is critical for the Bank, the international civil and political oversight mechanism (which presumably would remain in place as long as the military force remains), and the bilateral donors to improve their understanding of the scope and limitations of their respective roles and the effectiveness with which they manage the interface of their different responsibilities and mandates.

The Bank-supported BiH program shows an early and balanced inclusion of social sectors in the numbers and timing of social projects. Findings in the education and health sectors so far include: (a) education is unlikely to play its full role in reconciliation for some time and evenhandedness in addressing needs throughout the country is critical; (b) investment programs designed by the entity governments are an appropriate framework for maximizing the effectiveness of donor contributions, as they facilitate donor coordination and fund-raising; (c) support to ministries in both entities will be necessary to ensure the transition from postwar emergency to sustainable sector development; and (d) substantial sector restructuring and reform are required to ensure the sustainability of efforts to date. The employment generation experience has been positive; however, there is a need for better information on job opportunities. Successful experience with microcredit and employment generation in the BiH program so far indicates that the Bank may have a comparative advantage in helping the government work with intermediaries at the local level to promote effective and efficient ways of delivering assistance to individuals. Despite the very difficult conditions— changing political and administrative structure and high turnover— the first year showed progress in institution building.



6

The Bank's Role in Rebuilding Human and Social Capital

Within the reconstruction program supported by the Bank, a review of the timing and emphasis of the 16 emergency projects shows an early and balanced inclusion of social sectors. The first project provided support for the social fund and 2 “social projects,” education and war-victim rehabilitation, were approved three months later. Of the 16 projects, 4 could be classified as having a primarily social emphasis (war victims, education, hospital services, and demobilization and reintegration). If employment generation, microcredit, and housing repair projects could be included, the number would increase to 7.

Within the health and education subsectors, Bank staff point out that the level of physical devastation was such that there was really no choice but to begin with some bricks and mortar assistance (in addition to the fiscal support that helps to sustain the health and education personnel) before addressing policy issues, such as how best to restore human and social capital.

Human Capital

Support for Social Welfare

Through the Bank-supported reconstruction program, vulnerable groups were assisted through programs for emergency cash benefits for

the poorest households, emergency repairs for institutions for children and the mentally ill, retraining and equipment for the disabled, foster parents, and support for pension and health insurance agencies. The first intervention was through the Emergency Recovery Project (ERP), which included support for an Emergency Social Fund.²⁴ The fund was to provide minimal levels of cash assistance for the poorest households and support to orphans and the war-injured through the provision of direct assistance and retraining programs in selected areas.

Preliminary indications are that the payments may have been too widely dispersed and not sufficiently means-tested. The next interventions, to be designed in cooperation with the Ministry of Social Welfare, are planned to be better targeted, with attention to impact evaluation.

Education

Addressing Post-Conflict Education Needs

Education was severely disrupted by the war—by loss of teachers (through military service, displacement, or death), destruction of schools (about 70 percent were damaged, destroyed, or requisitioned for military use), and lack of safe access during the hostilities. The Emergency Education Reconstruction Program included (a) the refurbishment or construction of 96 primary schools throughout the federation, (b) the provision of books and materials to federation schools, (c) strengthening of education implementation capacity at the federation and canton levels, and (d) preparation of similar reconstruction activities for the RS.

As of March 1997, there was good implementation progress, with more than 90 percent of the Bank funds committed. However, additional resources are needed to fill the large financing gap in the program and extend coverage in the RS. In particular, there are extensive financing needs for school reconstruction, educational materials, student

recovery (remedial programs for students who fell behind during the war), teacher training, and institution building. A serious need for better coordination among education authorities at various levels of government was identified.

Promising initiatives in reconciliation and tolerance education are isolated. Continuing sensitivities on the language issue suggest that progress will be slow. Operating in a policy vacuum is difficult, and uncertainty about government roles is hampering the restoration of teacher

Lessons learned include the finding that evenhandedness in addressing education needs throughout the country is critical and that it will take time for education to play its full role in post-conflict societal reconciliation.

salaries and delaying key decisions on reforms in the sector. The Education Task Force, led by UNESCO, is intensifying its work to improve donor coordination. Moreover, there are structural issues to be resolved, the most serious of which relates to the roles of the different levels of government in financing and delivering education. Some of the additional issues identified include the need to upgrade teacher skills, to reorient education programs to promote reconciliation, and to be more consistent with the needs of a modern market economy.

Health

Addressing Post-Conflict Health Needs

The health status of the population deteriorated severely during the war, with more than 200,000 people wounded, and more than 13,000 of these suffering permanent physical disabilities. The incidence of communicable disease, infant mortality, and premature death increased substantially. Damage to health infrastructure was unevenly distributed. For example, failure to maintain medical equipment was more severe in the RS, but war-related damage was heavier and more widespread in the federation. Needs in the health sector were defined by the entity governments with the assistance of WHO and the Bank and addressed through two separate Bank-assisted projects—War Victims Rehabilitation and Essential Hospital Services.²⁵

Support to both ministries of health will be necessary to ensure the transition from postwar emergency to sustainable sector development.

Lessons Learned

The programs have been under implementation for a relatively short time, but some lessons have been learned. For example, investment programs designed by the entity governments have proved to be an appropriate framework for maximizing the effectiveness of donor contributions, as they facilitate donor coordination and fund-raising. Substantial sector restructuring and reform are required to ensure the sustainability of efforts to date.

In the sector dialogue, which was mostly carried out in the context of preparation for priority investment projects, three main policy issues were identified: the restructuring of the health care delivery system (away from the large hospital infrastructure), health financing (universal access, efficiency, cost-containment, and sustainability), and sector governance—that is, the roles and responsibilities of various levels of government (state, entity, cantons, and regions).

Employment Generation

Addressing Post-Conflict Employment Generation Needs

Other projects contributed to the objective of rebuilding human capital, including the Demobilization and Reintegration, Local Initiatives (microcredit), and Public Works and Employment Projects. All of these focused on providing productive employment and targeted the population most affected by the war. Employment and Training Foundations

Particularly good experience has been noted to date with the Local Initiatives Project, which provides small credits to help war-affected groups make the transition from dependence on humanitarian assistance to active employment.

(ETFs) were established as umbrella agencies to provide financing to local initiatives in employment and training. The ETFs implement the three projects. Preliminary indications from the projects are that the employment generation experience has been positive.

Lessons Learned

The lessons focus primarily on sustainability and labor market reforms. However, the need for better information on job opportunities is highlighted.

The April 1997 summary report notes, for example, that of 597 loans disbursed so far, about half were to women (303 loans); of the 294 loans to men, about two-thirds were to demobilized soldiers. About 38 percent of the loans were to displaced persons. The total repayment rate exceeds 97 percent. In general, some of the elements of success in the employment-focused projects were the use of pilot projects and local knowledge about vulnerable groups.

Gender Issues

Addressing Post-Conflict Gender Issues

Although for the most part women have not been separately targeted in the Bank's reconstruction efforts in BiH, sector analyses and project design demonstrate an awareness of the particular needs of women in post-conflict situations and of the programs required to help address those needs. Women are among the beneficiaries of the Emergency Demobilization and Reintegration Project, the Emergency Recovery Project, and the War Rehabilitation Project. Displaced women were one of the three target groups for the pilot phase of the Local Initiatives Project, which supports microcredit programs.

An evaluation of the pilot phase of the Local Initiatives Project reveals that in this group, 99 percent of the borrowers were women. The average loan size for this group was DM700, 228 loans had been disbursed, 185 jobs had been created, and repayment rates were 100 percent (and 88 percent on an individual basis). The project appears to have worked remarkably well and is widely perceived to be successful by beneficiaries, NGOs, other donors, and government officials because of its reliance on local organizations and its success in reaching beneficiaries.

Social Capital

Progress in Institution Building

Despite the very difficult conditions—including changing political and administrative structure and high turnover—the first year showed good progress in institution building. In formal institutions, support was provided for more than ten new government institutions, primarily in the federation and state. The establishment of PIUs in all major sectors, the hiring of local staff, both at professional and support levels, and the provision of seminars and training contributed to the significant increase in institutional capacity.

Rebuilding Civil Society

Several NGOs and other agencies are involved in civil society projects in BiH. For example, the Soros Society has a “Civil Society Education Program;” the EU has a democracy program. Although the Bank is not directly involved, it maintains contact and shares information with NGOs. There are also several television and radio initiatives to provide balanced information to all parts of the country. The Office of Transition Initiatives in USAID is perhaps the largest supporter of media efforts to promote democracy. Although there has not been an evaluation of these efforts, early feedback is favorable.

Despite many positive donor and societal initiatives, the opinion is widespread that it will take a long time to rebuild civil society and that rebuilding in a pluralist and cross-ethnic mode will remain problematical.

Despite the bleak outlook in terms of formal programs to encourage tolerance and reconciliation, encouraging stories of individual initiatives, such as meetings between leaders of different religious groups and discussions of technical issues between former colleagues, abound. The OED review team heard of several participation opportunities for BiH citizens who favor alternatives to the present ethnocentric political con-

figuration—the alternative citizens’ forum, opposition parties, and human rights groups.

Perceptions about the Bank’s Role

The Bank does not provide humanitarian assistance, and hence its field presence is generally not felt during the relief stage.

This is clearly an area where there is scope for more discussion—and for agreements to be reached at an earlier stage in future post-conflict reconstruction. To take one example, the Bank provided recommendations on targeting and monetizing food aid, but its recommendations were not acted upon.

The point has been made that the Bank’s early involvement could help to smooth the “transition” between the relief and reconstruction stages.

Some other widely held perceptions related to this question include the view that

the Bank’s comparative advantage is not in working at the microlevel. Also, the Bank should not necessarily take a high-profile role in all sectors. In addition, other organizations tend to be more heavily involved than the Bank in the social sectors.

Interestingly, the experience to date in the Local Initiatives Project shows that the Bank can help the government work with intermediaries at the local level in ways that result in effective and efficient ways of delivering assistance to individuals. This successful experience may lead to the conclusion that the Bank’s comparative advantage is in “leverage”—using its ability to work with government to facilitate the replication of this kind of effective local initiative. Bank staff, as well as others interviewed, felt that the Bank should begin to use more “leverage” to influence policy.

In BiH, the Bank adapted its institutional processes to the volatile post-conflict context, adopting streamlined procedures, flexible financing, a willingness to help inexperienced local authorities with much of the initial preparation, and simplified procurement procedures, all of which allowed for a quick and effective response to urgent reconstruction needs. Further, the rapid and successful implementation of Bank efforts has been made possible by the high level of experience and dedication on the part of staff, strong senior management support, the early establishment of an in-country presence, the forging of good working relationships with other partners, and effective outreach efforts. Although it has been difficult to maintain a separation between reconstruction and politics, Bank staff have been sensitive to this context and have tried to bring the parties together within the framework of the governance institutions and sectoral implementation mechanisms that are the natural areas for Bank activity.



7

The Bank's Institutional Arrangements

Streamlining Bank Procedures

Special procedures were developed for BiH, adapting normal Bank standards and practices to fit the special circumstances of a country emerging from conflict.

The changes from normal project and program practices to post-conflict emergency practices included:

- **Internal project review.** The “one-stop” project process combined all internal reviews, with quality maintained under the direction of a strong task manager and team and a strong division chief. The one-stop review, in particular, is credited with saving a great deal of processing time.
- **Local-cost financing.** Normally the Bank requires the government to finance a proportion of local costs to demonstrate its commitment to the project. This is not feasible in countries severely affected by conflict, and the Bank financed up to 100 percent of local costs, net of taxes.
- **Project preparation facilities.** An advance amount larger than the usually allowed US\$1.5 million per project may be required.
- **Fully defined financing plan.** Projects went to the Board for approval with funding gaps. As there may be many donors involved, the pledges were complex, and waiting for complete financing would have compromised the speed of getting assistance under way. The BiH projects were often designed to be modular—with geographic “packages” of

interventions that could be deleted from the program if the funding did not materialize.

- **Trust fund implementation.** Because of the greatly reduced institutional capacity in post-conflict countries, trust funds need to be implemented by or through the Bank, rather than solely by the country, which is the guiding assumption under normal procedures.
- **Country Assistance Strategy.** Because it was impossible to conduct a full evaluation, with recent economic and portfolio performance, macroeconomic projections, and so on as normally required prior to providing Bank assistance, a more streamlined approach was used. Thus, a three-page “support strategy” was presented to the Board prior to the first project.
- **Simplified procurement procedures.** Procurement procedures for the emergency BiH programs were developed by the department and approved by a decision of the BiH Ad Hoc Advisory Committee. The changes from normal procurement procedures include, for example, higher thresholds for international competitive bidding (ICB), reduced bid submission time, and so on.

Providing Training and Technical Support to Governmental Institutions in Dealing with Bank Procedures

In a post-conflict situation such as that of BiH, it is unlikely that government officials have much experience with the Bank. Moreover, the institutional structure is weak and tends to change rapidly. It is recommended that several seminars be held for officials at various levels, at fairly frequent intervals at first, to explain how the Bank works. For procurement, support to local authorities has included (a) early exposure to procurement and disbursement procedures through seminars (repeated seminars are necessary because of the changing structures), (b) a procurement adviser stationed at the mission, and (c) a procurement monitoring and audit unit (PMAU) established by the authorities and financed by the Bank.

Staffing the Country Team and Resident Mission

Staff Commitment

The Bank staff involved in the BiH program, both in the planning stage and the emergency project stage, worked very long hours, under considerable pressure, for long periods. This was necessary to meet the compressed timetable dictated by the peace process during the planning stage. During the implementation stage, quick implementation and visible improvements in living conditions were required in order to cement

the peace. This dedication was evident at all staff levels, in management, and in the resident mission.

Deploying Experienced Staff

Bank staff working in several of the reconstruction areas were familiar with their sectors because of their work in the former Yugoslavia, although they had to rely on other organizations for current information on war damage and reconstruction needs. Experienced staff were responsible for coordinating damage assessments and, by and large, for the design of the emergency projects. This was particularly true in the traditional infrastructure sectors, such as water, transport, and power, where all the staff had managed tasks in their sectors in Yugoslavia before the war.

This level of staff experience, and their familiarity with the infrastructure itself, as well as the institutional structure specific to Yugoslavia, was instrumental in the success of the emergency infrastructure projects.²⁶

In sectors that are relatively new to the Bank, in particular microcredit and demobilization, experienced consultants were used to assist in project design.²⁷ Task managers in the various sectors appeared to the OED mission to be very much aware of the need for sustainability, including policy reforms, and the need to phase them in with the remaining physical reconstruction.

Support of the Director and Senior Management

Part of the success of the BiH reconstruction program is undoubtedly owed to the special attention given to the program within the Bank. A very skilled Country Director was appointed solely for BiH. Her commitment to the process and attention to the speed and quality of work important in meeting the compressed timetable for project processing.

Bank teams working on post-conflict reconstruction programs need to have senior management support, as well as an ability and willingness to undertake innovative or even "risky" activities. Moreover, they are required to work under pressure to meet ambitious targets.

The Resident Mission and the Resident Representative

The early establishment of the resident mission had several positive effects. It allowed staff to be stationed in the field as well as in Washington and to share the project preparation, processing, and donor coordination work, which would otherwise have been difficult to complete within the compressed time period. The resident mission also played a role in public relations.

Several Bosnians have been employed at the resident mission at a higher level and are contributing to project implementation and supervi-

sion, with a view to increasing levels of responsibility in the near future. The Resident Representative has played an important role in the process. He is very skilled at dealing with different perspectives and much appreciated by government, donors, and other agencies for his ability to work with all parties to resolve issues but also to make the necessary decisions to resolve impasses.²⁸

Working Relationships

The Bank established good working relationships with a wide range of international and national groups active in reconstruction in BiH—bilaterals, donors, the OHR, the IMG, the U.N., and other international agencies, as well as many levels of government, changing government institutions, and NGOs. The coordination aspects of the work, while necessary, were very time-consuming. The Bank's working relationship with NGOs appears to be particularly noteworthy, in large part because of efforts of the Resident Mission Liaison Officer and the Resident Representative.

Public Relations

The Bank, and particularly the resident mission, made considerable outreach efforts during this period, as there was little popular knowledge in BiH about the Bank's objectives and means of operation. This was done through meetings, seminars, local press releases, field visits, and tours. Also, because the Bank's work in BiH had a high international profile, external affairs staff worked with the Bank team to ensure the quality of the information made available to the international press. High-profile visits by Mr. Wolfensohn, the Executive Directors, and others all helped to disseminate information about the Bank's work in BiH.

It has been especially difficult to maintain a separation between reconstruction and politics when non-cooperation on a reconstruction matter is being used as a political instrument.

Using Conditionality

Difficulties in Separating Economics and Politics in a Post-Conflict Environment

In the highly charged and fragile political context of BiH, many aspects of the Bank's work have been affected by political circumstances and have had political implications, regardless of staff efforts to maintain the Bank's general stance of noninvolvement in internal political matters.

The obverse implication in such instances, described by several of the interviewees, is that cooperation in any of these instances—if it could be brought about—would also be a political act. It could contribute to a bridging of differences, reduction in distrust, and practical shared experience, thereby demonstrating that cooperation within the Dayton framework is possible and can be a positive-sum game.

In many ways the Bank staff has been sensitive to this context, trying to bring the parties together within the framework of the governance institutions and sectoral implementation mechanisms that are the natural areas for Bank activity. Examples include seminars the Bank has run for local dissemination and discussion of the ideas and programs presented to the donors' conferences, the staffing arrangements of the PIUs, and the continuous efforts to induce Bosnian officials to put symbols and non-substantive objections aside and to get on with the job. The staff has evidently been assiduous, and normally diplomatic, in these efforts.

Finally, it is worth noting that some interlocutors pointed to a high risk of leakage that Bank projects would face as the Bank expands its activities in the RS. This suggests that Bank projects will need to be designed with tightly drawn conditions, especially respecting beneficiaries, PIU independence, procurement, and resident mission oversight.

In the widest sense, the success of all efforts to assist in the reconstruction of BiH depends critically on the success of the political aspects of the peace process.

Several issues related to Bank involvement were unique to the BiH case. For example, BiH saw the implementation of the Bank's first stand-alone Landmine Clearance Project. Although the project provided valuable experience, it is not an area of Bank comparative advantage. Instead, the Bank focus should remain on nonclearance activities, such as coordination, mine awareness, and institution building. Repatriation is another issue in BiH receiving much international attention. Although the Bank has not been involved directly in resettling people, the demobilization and local initiatives projects address one of the main constraints facing returning refugees and displaced people— namely, lack of employment and other opportunities for income generation. The reintegration process is very difficult, and with UNHCR as the lead agency, there is no compelling reason for the Bank to become more involved. A final issue pertains to project implementation. At the request of the Bank, BiH authorities appointed a PIU director for each Bank project. This sped up the implementation process, made it less expensive because of the lower costs of local staff, and allowed local authorities to gain implementation capacity.



8

Special Issues

Demining

Little Information Available

The Bank's first operation in the landmine clearance sector was through the BiH reconstruction program. Reconstruction and resettlement sites are often in areas of prolonged conflict and are at risk of being mined. When defining the priorities of the reconstruction program, there was tremendous pressure from the various sectors to ensure access to the sites for design and survey work. However, there was little, if any, accurate information available about the landmine situation in the reconstruction priority sites, no information on the landmine situation in general, and no program to survey potentially mined areas and clear them as necessary.²⁹

General Lack of Capacity to Deal with Demining

The Bank, the government, and the donors did not possess much knowledge concerning the range of difficulties related to mine clearing. There was no local institutional capacity to define a strategy and set standards for mine-related activities. There were no local companies capable of handling mine clearance on a large scale to an acceptable standard.³⁰ Moreover, the international mine clearing industry was relatively “thin” and immature.³¹

Bank Landmines Clearance Project

The Bank proposed a Landmines Clearance Project to focus attention on the problem, assist the government in defining a program and finding solutions, and mobilize resources for mine clearing.³² The decision to implement a self-standing project in an area in which the Bank did not have experience and where it does not have a comparative advantage was, in retrospect, a mistake. In interviews with Bank staff working in BiH, the Landmines Clearance Project was unanimously mentioned by interviewees as an example of a less-successful exercise within the very successful first generation of reconstruction projects.

Implementation Experience

The Bank's approach was to assist the authorities to procure, as quickly as possible, the expertise to survey and clear the most urgent priority reconstruction sites and to simultaneously design and support training programs to create local employment and build up local mine-clearing capacity. Project preparation started at the end of 1995. The project, like several others that were approved at the same time, was designed to cover both entities.³³ In the early phases of implementation, the lack of local institutional structure (until March 1996) and the lack of technical knowledge were large constraints. There was little understanding of the need for training, the need to impose strict standards, or the cost of operations. The situation was complicated by the appointment of a national agency for mine clearing, followed by the establishment of a PIU at the federation level.³⁴

Debate Over Using Local Mine-Clearing Capacity

In BiH, and probably in other post-conflict situations to come, the peace agreement includes clauses on the ex-combatants' responsibilities to clear mines. However, the reality may be that the commitment is weak, although a lack of commitment may not be obvious at first, when there is tremendous pressure for access to urgent reconstruction sites.

The government was unwilling to spend resources on foreign contractors for the urgent mine-clearing work, insisting that there was sufficient local capacity and that mine-clearing funds should go to local companies. Bank staff and consultants had some knowledge of the local capacity and had serious concerns about their clearance and safety standards.³⁵ Much time and effort were spent in trying to convince the government to reverse this position.³⁶ When these efforts were unsuccessful, time was also spent trying to accommodate the government's position by suggesting forms of foreign supervision for local mine-clearers.

BiH counterparts in the PIU were unable to write the original bid documents for mine clearing or to revise them to reflect the various forms of cooperation involving local mine-clearers and foreign supervision the Bank proposed to satisfy the government's requirements. Bank staff and consultants (and initially the staff of the Mine Awareness Commission, or MAC) had no choice but to spend considerable time helping to draft documents. These documents attempted to accommodate various forms of local mine clearance with foreign training and supervision, which failed to gain endorsement from the authorities.³⁷ This caused significant delays during the 1996 mine clearing season.

In the meantime, however, more information was accumulating about the mine situation through surveys of priority reconstruction sites. MAC was involved in building the database, while the PIUs worked on a list of priorities. The most urgent reconstruction works were carried out in the areas known to be clear, and the known mined areas were cleared in an ad hoc manner, some by the PIUs with donor support, MAC technical assistance, and Bank implementation efforts. By the advent of the 1997 mine-clearing season, the authorities had accepted the need for international management for mine clearing contracts, the PIU had gained some experience, and implementation improved. The project started disbursing. The project was expected to close on schedule in 1998.

Several observers in BiH have commented on the lack of a real commitment from the relevant authorities to clear mines. This may or may not have had a bearing on the government's reluctance to proceed with foreign contractors.

Aid Coordination Experience

The Bank's approach was to work in cooperation with other donors, the U.N. Department of Peace-Keeping Operations (DPKO) and Department of Humanitarian Affairs (DHA), and the United States, as well as local authorities.³⁸ Good working relationships were established initially between the United States, the United Nations, and the Bank through a series of planning meetings. Contacts with the EU, both in Brussels and in Sarajevo, were maintained. These relationships assisted in information-sharing later on. The Mine Clearance Policy Group (MCPG), headed by a representative of OHR, was set up early with a mandate for in-country coordination. Meetings were attended by all main donors in the field. This organization and its successor, the Mine Clearance Task Force, headed by a representative of the UNMBiH, was useful in information-sharing and avoiding duplication and inconsistency.

Although good relationships were maintained, practical collaboration was affected by several factors. The United Nations Department of Humanitarian Affairs (UNDHA) had severe funding problems, and much of the initial MAC installation and data processing capacity was there-

With these divergent donor and local perspectives, the task force has not been able to achieve a fully collaborative modus operandi and to agree on a well-defined strategy for training, survey, mine awareness, priority setting, and mine clearance.

fore funded by the United States.³⁹ There was a large diversification of objectives among the various organizations involved. The OHR and the UNMBiH, and to some extent the EU, were operating in a limited time period, and the development of local institutional capacity was not a main objective. The EU financed equipment, training, and

salaries for mine-clearers, but did not address the problem of how the trained mine-clearers would be employed over the longer term.⁴⁰

MAC maintains the position that it will hand over a fully functioning capacity to the authorities, whereas the Bank's perspective was that MAC should work with the authorities from the beginning, building up their capacity.⁴¹ Other donors had a sectoral or regional focus that precluded their direct participation in the priority reconstruction program defined at the first donor conference.⁴²

Lessons Learned

There has been a very steep learning curve for Bank staff involved in the sector.⁴³ Two fundamentals to keep in mind are that the ultimate goal of a mine clearance program is to make land available for use (not clearing mines, per se) and that mine removal is a very slow and expensive process. It is therefore important to focus on making land accessible by removing the uncertainty about suspicious areas through surveys and information, to reduce the risks as much as possible through mine-marking and mine awareness, and to concentrate scarce mine-clearing finance on high-priority areas that are known to be mined.

Some of the recommendations to be made after the BiH learning experience include the following:

- It may be useful to devise ways to test the commitment of all relevant political and military authorities to clear mines prior to initiating large-scale clearing activities. However, this is certainly difficult to achieve in a situation such as that in BiH, where nonperformance on commitments to fundamental aspects of the peace accords is rife.
- Performance should be measured in accessible area gained.
- The most cost-effective way to deal with the need for access to prior-

ity reconstruction sites is to start focused survey work at these sites as soon as possible.⁴⁴ This should be financed from project preparation funds. Cost estimates for the survey, as well as an allowance for clearance, should be budgeted in each relevant sector project. Any ongoing mine-clearing capacity should be immediately diverted to the priority sites where there is a mine hazard. This would include making use of military mine-clearing. However, if no capacity is available, this would have to be procured from international companies.

- The government, at the highest level, needs to be willing to finance international mine-clearers to clear priority sites, should this be deemed necessary. The Bank should confirm this willingness early and should not finance reconstruction activity on sites where the Bank is not satisfied about the mine situation or the mine-clearing solution proposed.
- As mine removal is very slow and relatively expensive, other ways of reducing mine hazard need to be given due emphasis. A cost-effective approach would be surveying sites, which would also include clearing areas of low-density mines. Such an approach would also include marking known minefields and clearing heavily mined areas if absolutely necessary, using appropriately trained and supervised armies as much as feasible. In some areas, and depending on the priority of the land use, marking and mine awareness may be the only cost-effective intervention during the immediate postwar period.
- A comprehensive and accurate information system is crucial. This needs to be constantly updated as information is gathered from accidents, sightings, and police reports and should be made available to anyone who needs it.
- An authority should be established to handle and certify information, such as issuing mine risk assessments and clearance certificates.
- Since it is highly unlikely that adequate local civilian mine-clearing capacity will exist in an immediate post-conflict situation, it may be necessary to rely, at least in part, on local military mine-clearers, but with the caveat that experienced quality assurance should always be part of any such activity.⁴⁵
- Initial estimates of the number of mines tend to be exaggerated, and this can generate a lack of credibility later. It is important to keep in mind that in an immediate post-conflict situation, no one knows how many mines are in the ground. From a practical point of view, it is not the number of mines that is problematic. More important is the area that is mined, or potentially mined. Even that is unknown until all the information can be entered into a computer and processed.

- The distinction sometimes made between “humanitarian mine clearing” aimed at diminishing mine-related risks in everyday life and “reconstruction mine clearing” is not a clear one.⁴⁶ Using this distinction to delineate areas of operation for various agencies, or to con-

As a result of the BiH experience, the Bank should be in a stronger position in future cases to deal with the problem of post-conflict landmines located in areas relevant to Bank project facilities and activities. Coping with the landmine legacy of conflicts requires highly effective coordination of a very disparate set of national and international, and public and private, actors.

note a difference between “economic” and “humanitarian” perspectives, introduces a spurious complexity.

The Bank has acquired some valuable experience through the BiH demining project, especially concerning the problems of relating demining to reconstruction. Nevertheless, the Bank’s assumption of this responsibility in the absence of preexisting international coordination machinery on demining in BiH does not establish the Bank, de facto, as the agency with demonstrated

comparative advantage in this area. The Bank should not, as an organization, continue to build on this experience and solidify a comparative advantage as the international system’s lead agency on demining.

The subject has major technical and military aspects that are not within the Bank’s competence. Instead, the experience points to two conclusions.

The Bank should raise the need with the international community for strengthening the existing appropriate machinery that can be brought to bear on post-conflict landmine situations wherever they occur.

Displaced Groups and Refugees

The Status of Reintegration and Resettlement

The return of refugees to BiH, and of internally displaced persons (IDP) to their homes, has not happened on the scale originally anticipated. An estimated 130,000 IDPs returned home in 1996. Only about one-ninth of the total number of refugees has returned to BiH.⁴⁷ Most of the repatriation so far has been from Western Europe, and there has still been very little return from neighboring countries.⁴⁸ Most of the repatriation has been spontaneous, with only about 7 percent of the repatriates making use of organized repatriation procedures.

The timing of the Dayton Accords is now widely considered to have been ambitious and to have shaped overoptimistic expectations for resettlement and reintegration. The maintenance of the “precarious sta-

bility” now in place is held to depend heavily on maintaining an armed international presence. Even within the federation, where open conflict ceased more than three years ago, only now are some of the communities beginning to make bona fide advancements toward reintegration. Within the RS, where the population is now almost entirely Serb, there has been little progress toward reintegration.

The Establishment of a Repatriation Information Center

Long-standing reintegration programs are still ongoing, and new programs are being undertaken as part of a renewal of effort to facilitate the resettlement process.⁴⁹ Information about conditions in the return destination is crucial: UNHCR, in partnership with SFOR and the International Centre for Migration Policy Development (ICMPD), is leading an effort to establish a repatriation information center (RIC) to improve linkages between the institutions involved in repatriation planning, together with host governments and the planning for employment and other sectors in BiH. It should be able to provide information to potential returnees about physical conditions in their home town or village, their legal rights, and so on.

Constraints: Security, Return to Minority Areas, Employment, and Housing

The difficulties in resettling refugees and IDPs stem largely from the fact that about 75 percent of the returns will be to minority areas. Security is the major concern. There are continuing incidents of violence and harassment of returnees, and there is some uncertainty surrounding the ending of the SFOR mandate.⁵⁰ UNHCR notes some recent hardening of the international community’s position regarding this aspect, and others, of noncompliance with the Dayton Accords.⁵¹ There has been some discussion of conditionalities for humanitarian assistance and of positive incentives for communities who welcome back minorities—for example, the “open cities” concept. With tensions still running high, community reintegration requires a great deal of coordination and supervision.⁵²

Among the other problems facing returnees, the lack of employment opportunities looms large. Although there have been dramatic increases in employment, joblessness is still very high. For refugees, shelter does not seem to be a main constraint in individual households’ decisions to repatriate, given the temporary support available for returnees. However, a large-scale return to any one area would precipitate a short-term

shelter crisis. Damage to housing was severe, and it will take many years to reestablish the level of habitable housing stock that existed before the war. For many returnees, particularly those returning to a minority area, occupancy and ownership rights are an immediate concern but will take some time to resolve.

The Bank's Projects

There has not been a Bank project in BiH directed exclusively at refugees and displaced persons. Several projects, particularly the Emergency Demobilization and Reintegration Project (providing education and retraining to increase labor market participation) and the Local Initiatives Project (promoting employment through small credits), are, however, designed to assist DPs and refugees, among others who have been severely affected by war.

Findings

The reintegration process is very difficult, and UNHCR personnel note that a low-key approach appears to have the best results. The repatriation of refugees is a very important issue for the EU and some of the bilateral donors—particularly Germany and Switzerland—and is receiving a lot of attention. With UNHCR as the lead agency, there is no compelling reason for the Bank to become more involved.

There was a concern among the donor community that, because of the unsettled political situation, diminished institutional capacity, and "white collar" flight, a reliance on local project implementation capacity would slow down the reconstruction program. Many donors chose to bypass government authorities and implement projects using their own resources. However, rather than slowing down implementation, PIUs actually sped up the process and made it less expensive because of the lower costs of local staff.

Although the Bank has not been involved directly in resettling people, the demobilization and local initiatives projects address one of the main constraints facing returning refugees and displaced people—the lack of employment and other opportunities for income generation. These projects, together with the other Bank-assisted projects addressing health, education, housing repair, and infrastructure reconstruction, appear to provide

a broad range of assistance focused on the poor and war-affected individuals. None of the various organizations and individuals interviewed have had comments about errors or omissions regarding refugees and displaced people in the Bank's programs, nor have suggestions been made about any additional involvement for the Bank.

The Project Implementation Units

The Establishment of PIUs: Building Local and Institutional Capacity

The Bank worked closely with the government from its first involvement in BiH. Some donors felt that working with the government, with its constrained institutional capacity and potential for inefficiency, would affect the speed of project implementation. Initially, task managers were faced with an inexperienced and rapidly changing institutional structure with which to work. However, at the request of the Bank, the BiH authorities appointed a PIU director for each of the Bank projects in the spring of 1996. This gave a defined focus for project implementation.

Within the federation, the government appointments took into account the need for a certain number of PIU directors to be from each part of the federation, a certain proportion of directors from the Croat-majority areas. PIU directors in the RS were appointed later, once the modalities for lending within the RS had been worked out.

More important, the authorities appreciated the opportunity to participate and to gain implementation capacity, as well as the access to project information that PIUs provided.

Ensuring Transparency and Accountability

To ensure the responsibility and accountability of the PIUs, transparency of procurement practices, and proper allocation of funds under contracts, the government, in cooperation with the Bank, established PMAU, composed of national and foreign experts. As of May 1997, audits of five projects had been completed. The audit found that the projects had demonstrated an adequate level of transparency in the procurement process and a reasonable level of economy and efficiency. Resident mission staff note that the PMAU works well, and the Bank would like to replicate it in the RS.

Looking to the next phase, which is likely to encompass policy reforms, the limitations of the PIUs must be kept in mind. Decisions will have to be made on an individual basis as to the disposition of the PIU once project implementation is complete.

Working in post-conflict countries requires adequate budget, strong senior management support, streamlined procedures, and experienced and dedicated staff. All of those factors were present in the BiH recovery efforts. Streamlined procedures suggested by the BiH experience include a shortened review process, simplified procurement, and a willingness to help inexperienced local authorities with much of the initial preparation. For the most part, the Bank has delivered an effective "first wave" of reconstruction projects to the country. Reconstruction will need to continue, but the Bank's role will have to focus less on bricks and mortar and more on sustainability and transition issues.



9

Conclusions: Post-Conflict Lessons from the Bosnia-Herzegovina Experience

The Bank's role in reconstruction and economic recovery in BiH is widely perceived to have been successful by BiH authorities, other donors, NGOs, and beneficiaries. The OED evaluation team agrees with this assessment. The Bank's nonlending activities are appreciated, including its providing a framework for reconstruction and guidance to donors. There is widespread recognition by these groups that Bank-supported projects were implemented quickly. Other elements of success include a fairly wide dispersion of benefits to a broad range of beneficiaries (within the federation during the first stage, although not as much to the RS), involvement of stakeholders, and contribution to local implementation capacity. BiH authorities particularly appreciated the sense of ownership afforded them by Bank projects.

The Timing of Bank Efforts

The BiH experience shows that early involvement of the Bank is essential. Bank involvement began as soon as its senior management felt there was a strong expectation that a cease-fire or peace agreement would be signed and that the Bank would be part of an integrated international effort. There are perceptions among some members of the donor and humanitarian aid community that the Bank should have found ways to provide assistance to BiH earlier. In retrospect, since the cease-fire has proved sustainable, it may have been feasible to make an earlier decision to begin the planning phase. It should be stressed, however, that this is a matter of political judgment on the strength and sustainability of the peace-brokering process.

Some of the negative perceptions about the Bank's timing and inadequate involvement in the social sectors may stem from the difference in perspective between humanitarian aid (relief) and reconstruction and development. Facilitating a smoother transition between the relief and reconstruction phases is an area where there is scope for more discussion—and for agreement to be reached at an earlier stage in the next post-conflict reconstruction effort.

Regarding the timing of the first mission, Bank management determined that it was not feasible to send Bank staff into the country while conditions were not secure. Regardless of the timing and venue of missions, first involvement should include establishing (or reestablishing) a working relationship with the authorities as well as links with aid agencies and other members of the international community working in the country, to assist in both the damage and needs assessment work and in the identification of potential partners for local implementation capacity.⁵³

Once involved in the planning, the Bank set the pace for defining the reconstruction and recovery framework. The success in maintaining the necessarily rapid pace is evident from the timeline showing dates of Bank missions, documents, conferences, and so on related to the Dayton process (Annex 2).

The compressed timetable for the preparation of the reconstruction framework was made possible by a combination of factors:

- Availability of resources. Without the use of grant funds initially provided by the Dutch government, the reconstruction and recovery program would not have been ready on time.
- Support from an executive director “sponsor.” The Dutch Executive Director's office, in addition to mobilizing financial support for the Bank's work, served as a liaison with bilateral donors and other members of the international community.
- Rapid planning. The Bank's leading role in the planning work was crucial. The Bank was able to set a rapid pace for preparing the reconstruction program that other international agencies could not have matched.
- Support of the Bank's President. The strong and visible support of Mr. Wolfensohn was a key element in the Bank's response, both in the early stages, as in addressing the peace discussions in December 1995 and during his visit to BiH, and during project implementation. This support was manifested in an important mobilization of management in the country department and the resident mission.
- Staff dedication. The staff working on the BiH program, in both the planning stage and the emergency project stage, worked very long hours and seven-day weeks, and under considerable pressure, for months.

Working with Partners

Donor Coordination

The Bank's positive role in providing guidance to donors, by setting a coherent framework for reconstruction and recovery and cochairing donors meetings, was widely appreciated. Although the leading role was requested by the international community, Bank cooperation with other agencies as part of a coordinated international effort was crucial. There has been success in information sharing within the sectors, which has helped to avoid inconsistency, duplication, and overlap among donors. However, success in carrying out fully coordinated programs on the ground has been limited.

Although having separate procurement arrangements is a well-established practice in the aid system, in this case the continuing tendency for donors to work independently in project selection, priority setting, and procurement methods was particularly disappointing. There is potential for continuing the Bank's guiding role through replicating positive experience from the first round of Bank-supported emergency projects. In particular, schemes that use local initiatives, such as the microcredit scheme, lend themselves readily to replication by other donors.

Lessons Learned

- Early involvement by the Bank in post-conflict areas is key.
- Smoother transitions are needed between the relief and reconstruction phases of post-conflict recovery.
- Regardless of timing and venue, contacts should be established as quickly as possible with government authorities, donors, and others in the international community. This facilitates the speedy preparation of damage and needs assessments and the identification of local counterparts.
- The compressed timetable for reconstruction was made possible by the availability of resources, support from an executive director "sponsor," rapid planning, support of the Bank's president, and staff dedication and experience.

BiH Institutions

The Bank has had to work with a number of different institutional settings in BiH, and Bank staff have taken this changing structure into account. When dealing with the federation, staff found it necessary to work with two distinct institutional structures; and for projects benefiting both entities, understandings and agreements had to take into account the interests of all ethnic groups. The PIUs in each entity, because of the local ownership, have worked well. Although much effort

has been made to inform people at all levels about the Bank, given the initial lack of knowledge about it and the changing institutional structure, earlier and more frequent information seminars would have been beneficial.

Lessons Learned

- Bank co-leadership of donor meetings and cooperation with other agencies in the international reconstruction effort have been crucial to the rebuilding of BiH.
- Despite best efforts, donors continued to work independently with respect to project selection, priority setting, and procurement methods. This remains problematic.
- Understandings and agreements with local authorities had to take into account the interests of all ethnic groups.
- Earlier and more frequent information seminars about the workings of the Bank would have been beneficial.
- Bank-NGO relations, facilitated by an NGO liaison officer and the Resident Representative, were very good. The Bank can act as an effective bridge between the government and NGOs.

NGOs

Relations with NGOs are very good, in large part because of the efforts of the NGO liaison officer and the Resident Representative. The various relationships with NGOs forged through the Bank's projects have been positive. The Bank is seen as an effective bridge between the government and NGOs and is involved in collaborative efforts with NGOs. Several NGOs and other agencies are involved in civil society projects in BiH, and although the Bank is not directly involved, it maintains contact and shares information with NGOs.

Results on the Ground

The OED mission found that the benefits of Bank-assisted projects are being felt, by and large, throughout the federation and are increasingly reaching the RS. The range of benefits has been delivered quickly to a diverse set of beneficiaries while involving stakeholders and building local implementation capacity. However, it should be noted that at this stage, the projects cannot be evaluated in terms of their sustainability or institutional development, other than in implementation capacity.

Stabilizing and Rebuilding the Economy

Of particular importance for the reconstruction work of the donors, especially for the Bank, are fiscal considerations built into the Dayton Accords. The BiH experience demonstrates the importance of incorpo-

rating into a peace accord, to the extent possible, economic management provisions that are more likely to enhance than obstruct the economic recovery process. Despite Dayton's built-in obstacles to effective economic governance and the continuing political tensions and complex maneuvering, the first year and a half of peace have seen substantial economic recovery. At different times, and separately by the authorities in the Croat, Bosniac, and Republika Srpska areas, appropriate fiscal policies succeeded in stabilizing prices and exchange rates.

The Bank has played a central role in the mobilization and application of external resources critical to this recovery. The donor community endorsed the US\$5.1 billion reconstruction target for 1996–99, developed by BiH authorities and a group of agencies, among which the Bank played a major role. Commitments for 1996 were on target. One of the most important contributions of the Bank has been to provide the BiH authorities with a road map for the articulation of economic policy and its implementation.

Lessons Learned

- The BiH experience demonstrates the importance of incorporating into a peace accord, to the extent possible, economic management provisions that are more likely to enhance than obstruct the economic recovery process.
- The Bank has a comparative advantage in playing a central role in the mobilization and application of external resources critical to post-conflict recovery.
- One of the most important contributions of the Bank in post-conflict situations can be to provide authorities with a road map for the articulation of economic policy and its implementation.

Human and Social Capital

The Bank-supported BiH program shows an early and balanced inclusion of social sectors in the numbers and timing of social projects. Within the health and education sub-sectors, bricks and mortar assistance and fiscal support to the sectors were needed urgently, before tackling the policy issues, which include the issue of how best to restore human and social capital. This does not mean, however, that Bank performance cannot be improved, and there may be some interesting lessons to be learned about what the Bank can do in the effective delivery of benefits targeted to the most vulnerable groups.

Education and Health

Education is unlikely to play its full role in reconciliation for some time, as evidenced by continuing sensitivities about language in schools and the infrequency of initiatives in reconciliation and tolerance educa-

tion. In both sectors, evenhandedness in addressing needs throughout the country is critical. Support to ministries in both entities will be necessary to ensure the transition from post-war emergency to sustainable sector development. Substantial sector restructuring and reform are required to ensure the sustainability of efforts to date. In education, for example, uncertainty about the roles of various levels of government is hampering the restoration of teacher salaries and delaying key decisions on reforms in the sector.

Employment Generation

Beyond education and health, other projects that contributed to the objective of rebuilding human capital focused on providing productive employment, and targeted the population most affected by the war. Preliminary indications from the projects are that the employment generation experience has been positive, although there is a need for better information on job opportunities. Particularly good experience has been noted to date with the microcredit project, which has had been able to target war-affected groups and has had good repayment rates.

Experience with microcredit and employment generation in the BiH program so far shows that the Bank can help the government work with intermediaries at the local level, resulting in very effective and efficient ways of delivering assistance to individuals. This successful experience indicates that the Bank may have a comparative advantage in working with government to facilitate the replication of this kind of effective local initiative.

Institution Building and Social Capital

Despite the very difficult conditions (changing political and administrative structure, high turnover), the first year showed progress in institution building. In terms of formal institutions, support was provided for more than ten new government institutions, primarily in the federation and state. The establishment of PIUs in all major sectors; the hiring of local staff, at both professional and support levels; and the provision of seminars and training have contributed to the significant increase in institutional capacity.

Lessons Learned

- An early and balanced inclusion of social sector projects is an important component of post-conflict rebuilding.
- Evenhandedness in addressing needs in post-conflict countries is critical.
- Support to ministries is necessary to ensure the transition from postwar emergency to sustainable sector development.
- Substantial sector restructuring and reform are needed in post-conflict areas to help ensure sustainability.
- Employment generation efforts are crucial to post-conflict economies, where high unemployment tends to be both endemic and chronic.
- The establishment of PIUs in all major sectors, the hiring of local staff (both at the professional and support levels), and the provision of seminars and training can significantly increase institutional capacity in post-conflict entities.

Demining

Although the Bank has acquired some valuable experience through the demining project, the Bank's assumption of responsibility in the absence of preexisting international coordination machinery for demining does not translate into establishing the Bank, *de facto*, as the agency with demonstrated comparative advantage in this area. There are major technical and military aspects that are not within the Bank's competence. Instead, the experience indicates that, the Bank should be in a stronger position to deal with the problem of landmines in the future. It should also raise with the international community the need to strengthen the machinery needed to deal with post-conflict landmine situations.

Lessons Learned

- The Bank does not have a comparative advantage in demining, which has technical and military aspects that are not within the organization's competence.
- The Bank should be in a stronger position in the future to deal with the problem of landmines in post-conflict areas. In this context, it should also raise with the international community the need to strengthen the machinery to deal with post-conflict landmine situations.

Elements of Success

The BiH case is unique within the Bank's post-conflict reconstruction experience in regional characteristics, political complexity, and structure of economic governance. Despite these obstacles, and with persisting tensions at the national and local levels, the OED assessment team found consensus on the excellence of Bank performance in its reconstruction efforts. Many factors contributed to success in the implementation of Bank assistance.

Priority within the Bank

Part of the success of the BiH reconstruction program is undoubtedly owed to the special attention given to the program within the Bank. A Country Director was appointed solely for BiH. Her attention to the speed and quality of work was important in meeting the compressed timetable for project processing. Bank teams working on post-conflict reconstruction programs need to have senior management support, as well as an ability and willingness to undertake innovative or even "risky" activities. Moreover, they need to work under pressure to meet ambitious targets, to pursue or provide legal and procurement clearances much faster than usual, for example.

Lessons Learned

The early establishment of a resident mission helped in many ways. It allowed staff to remain in-country for project preparation and implementation; assisted in public relations, including relations with other field-based donors and NGOs; and speeded up implementation.

Streamlined project processing and procurement procedures contributed greatly to the speed of project preparation and implementation. They allowed assistance to reach project beneficiaries more quickly.

The procedures included:

- The "one-stop" review, combining all internal reviews
- Waiving the normal Bank requirement for the government to finance a proportion of local costs; a larger than usual advance amount for project preparation
- Submission of projects for Board approval with funding gaps
- The implementation of trust funds by or through the Bank and the presentation of a shorter strategy to the Board rather than the full CAS
- Simplified procurement procedures, such as higher thresholds for ICB and reduced bid submission time.

The special funding arrangements for project preparation from the Dutch trust fund and from the Trust Fund for Bosnia and Herzegovina (TFBH) advances also helped fund both project preparation and pilot projects and the PIUs, which paved the way to a more rapid disbursement of funds once the projects were approved.

Pilot projects and project preparation have not been reviewed for all sectors, and results may well be mixed. However, good examples include the local initiatives pilot project, which tested lending methodologies and helped convince BiH authorities of the effectiveness of this kind of scheme.

Sector diversification, or getting involved in a wide range of sectors with relatively small amounts of "seed capital," helped diversify the Bank's interventions. Interventions benefited individuals indirectly (such as through trunk infrastructure projects) and directly (such as through employment and training and microcredit schemes). It also allowed the Bank to form partnerships for project implementation with a large number of local and international organizations.

The BiH authorities, who took local ownership, commended the Bank for involving them in procurement and other aspects of project implementation. They stressed the importance of the PIUs. They contrasted the Bank's concern for implementation through the government with the preference of several other donors to implement their projects themselves or through NGOs. This preference of the other donors reflected their initial assumption, proven incorrect, that local implementation capacity would be inadequate to move and manage resources swiftly and effectively.

Widespread participation resulted from the Bank's establishing good working relationships with a wide range of groups active in reconstruction in BiH. In particular, local NGOs participated in project implementation. Partnerships are key in helping post-conflict economies and societies recover.

Good public relations came from the Bank, and particularly the resident mission, and there were considerable outreach efforts during this period. There had been little popular knowledge in BiH about the Bank's objectives and means of operation. Meetings, seminars, local press releases, and field visits and tours, including high-profile visits by Mr. Wolfensohn, the Executive Directors, and others, all helped to disseminate information about the Bank's work in BiH. This work had a high international profile, and external affairs staff worked with the Bank team to ensure the quality of the information made available to the international press.



Annex 1

The Bank and the Successor Republics

After the break-up of SFRY, its debt to the Bank was allocated among the former republics. In February 1992, the Bank entered into interim agreements with Slovenia, Croatia, and SFRY (which then included Macedonia and Bosnia and Herzegovina) for debt service payments owed on this allocated debt. In February 1993, a Board decision laid out the conditions under which the five new republics would succeed to SFRY's membership. These included some fairly straightforward measures, such as capital subscriptions, but also the accession of the new republics to their share of the debt incurred by the former Yugoslavia and the important condition that there must be a plan to clear arrears on this debt, if arrears existed. Each of the new republics had been affected by the break-up, conflict, and sanctions to varying degrees, and the Bank's approach was tailored to their individual circumstances.

Several factors affected the timing of the Bank's start-up of assistance activities in the various parts of the former Yugoslavia:

- International recognition of the successor republics
- Sanctions against FRY (some countries may have interpreted the sanctions as precluding lending to the Serb entity in Bosnia) and, more informally, international opinion (for example, the difficulty of getting Board approval for lending to Croatia, although conflict had ceased, while Croat factions were involved in fighting in Bosnia)
- Bank membership for the successor states
- Bank policies on lending to countries in arrears (Bank, IMF arrears, and so on)
- Safety and security issues, such as the safety of Bank staff visiting the country and the security of investments to be made vis-à-vis the risk of renewed hostilities.

However, the Bank was active in each of the new republics as soon as possible. The feasible range of lending and nonlending activity was different in each republic.⁵⁴ Early Bank activities included working with the new governments on fulfilling membership conditions. Where Bank membership was relatively straightforward (in Slovenia and Croatia, the first two republics to declare their independence and the only two that had accumulated no arrears to the Bank), Bank assistance was given within the framework of lending operations. Even in Macedonia, where membership took much longer because of the substantial arrears problem and some initial difficulties in international recognition related to its name, financial assistance was in the form of lending (IDA credits and IBRD loans). However, the Bank's nonlending support to Macedonia was crucial in planning for financial normalization and mobilizing financing for arrears clearance.

There were several distinctive characteristics of the post-conflict Bosnia situation that had to be taken into account in the Bank's work:

- The difficult political situation, including continuing interethnic tensions and the ongoing implementation of the peace agreement, the fragmentation of the former republic, the several levels and complex relationships within government, and in particular the lack of a cohesive counterpart
- The devastation, which made vast reconstruction assistance necessary
- The massive displacement of the population
- The intractability of the debt and arrears situation
- The number of international actors that would be involved and the complexity of the relationships between them.



Annex 2

Chronology of Events

Date	Event	Bank Action
1947- 1991		Series of lending operations and ESW, culminating in a largely undischursed second SAL
March 1992	Declarations of independence, Bosnia and Herzegovina	
February 1993		Decision on succession mechanism for former SFRY republics
March 1994	Washington Agreements	
January, June, and August 1995		Meetings with Bosnian officials in Warsaw
June 1995		Initiation of needs assessments and economic recovery framework documents, in cooperation with other agencies
October 6, 1995		Information meeting of Bank's Board
October 12, 1995	Ceasefire signed	
October- November 1995		Bank-led joint mission to BiH
November 21, 1995	Dayton Accords initialed	
December 14, 1995	Dayton Accords signed	
December 20- 21, 1995		First donors' conference in Brussels
December 29, 1995		Board presentation on Bank assistance to Bosnia and Herzegovina, proposing trust fund
February- May 1996		Series of projects funded under TFBH
May 28, 1996		Consolidation loan package distributed to Board
June- present		Series of projects funded with IDA resources



Annex 3

List of Persons Interviewed

Bosnia and Herzegovina

Presidency

Kasim Begic, Adviser to the
Chairman of the Presidency
for Economic Issues

Council of Ministers

Neven Tomic, Deputy Chairman

Ministry of Foreign Affairs

Aziz Hadzimuratovic, Head,
Department for Reconstruction
and International Assistance
Alida Sofic, Adviser

Ministry of Foreign Trade and Economic Relations

Mirsad Kikanovic, Special
Adviser to the Minister
Berina Selimovic Mehmedbasic,
Assistant Minister
Ivica Miodrag, Adviser

Central Bank

Serge Robert, Governor
Kasim Omicevic, Deputy
Governor

Chamber of Economy

Mensur Smajlovic, President
Izet Starcevic, Secretary
Jozo Soric, Director
Elektroprivreda of BiH
Reas Maolovic, Manager

Office of the President of Republika Srpska

Rajko Tomas, Adviser to the
President for Economic Issues

Blagaj

Handzar Dzevad, Director,
Fish Farm

EBRD

Zsuzsanna Hargitai, Deputy
Resident Representative

French Embassy

Pierre Boedoz

International Crisis Group

Hrair Balian, Director
Christopher Bennett, Deputy
Director

International Management Group

Kevin Mannion, Director
Bruno Silvestrini, Head of Office, Mostar
Dino Bicciato, Manager Director Designate

Jablanica

Resad Malovic

Mass Media

Senada Mavric

Nongovernmental Organizations

Dianne Cullinane, Liaison Officer, Soros Foundation
George Devendorf, Country Director, ICVA
Elizabeth Hughes, Program Officer, WorldVision
Jim Kelly, Country Director, CRS
Jennie McCann, Deputy Director, Programs, International Rescue Committee
Klaus Mock, Adviser, German Advisory Office
Catiba Rekic, Program Director, Plavi Most
Goran Todorovic, Head of Office, Care International
Ramiza Velic, Project Manager, Plavi Most
Bill Warnock, Country Director, WorldVision

Office of the High Representative

Victor Massena
Egbert Gerkin

Project Implementation Units

Nikola Duric, Housing Project
Zorica Milos, War Victims Rehabilitation
Mehmedalija Sijaric, Sarajevogas
Zlatko Zvirac, Housing Project

SFOR

Terry Carter, Liaison Officer

United Nations

Alexander Ivanko
Pierre-Francois Pirlot
Bill Thomas, Logistics Officer, UNHCR
Kathy Walker, UNHCR

USAID

Michael Stievater, Office of Transition Initiatives

Geneva

Department of Humanitarian Affairs

David Bassioni, Chief, Inter-Agency Support Branch
Paul Hebert, Senior Humanitarian Affairs Officer
Deborah Saidi, Inter-Agency Standing Committee

IDNDR

Phillippe Boule, Director
Terry Jeggle, Senior Officer

IFRC

Peter Walker, Director
Peter Rees, Desk Officer for Former Yugoslavia

Netherlands Delegation to the United Nations

Eveline Herfkens, Permanent Representative of the Kingdom of the Netherlands to the Office of the United Nations; former World Bank Executive Director for Bosnia and Herzegovina

War-Torn Societies Project

Matthias Stiefel

United Nations High Commissioner for Refugees

Raymond Hall, Head, Inter-Organizations Affairs and Secretariat Services
Constantin Sokoloff, Senior Officer, Inspection and Evaluation

Harriet Bengtsson, Americas Bureau

Ms. Rianawati, Asia Bureau
Kazu Nagasaha, Asia Bureau
Morten Pristed, Associate Economist

Larbi Mebtouch, Head Reintegration and Self-Reliance

Jeff Crisp, Senior Policy Research Officer

N. Morris

E. Morris

UNOPS

Christophe Bouvier, Chief, Rehabilitation and Social Sustainability Unit

Tomas Paquete, Senior Adviser

Alfredo Lazarte Howle, ILO

World Bank

Headquarters

Hans J. Apitz, Acting Director, EC2

Wei Ding, Principal Economist
Andras Horvai, Senior Country Officer

Baelhdaj Merghoub, Project Adviser

Madalene O'Donnell, Consultant
Pedro Rodriguez, Task Manager,

Emergency Recovery Project
Barbara Santos, Senior Counsel
Mary Sheehan, Senior Country Officer, EC2DR

Christine Wallich, Country Director

Resident Mission

Claudio Domenis

Patrice Dufour

Sarah Forster

Mirjana Karahasanovic

Michael Koch

Zorica Lesic

Saumya Mitra

Rory O'Sullivan, Resident Representative

Marie-Theres Schurrer

Ilona Szemco

Enn Vasur

Fatmir Zeneli

Executive Director

Zlatko Hurtic, Assistant



Endnotes

Chapter 2

1. Woodward (1995b), p. 82.

Chapter 3

2. During most of the prewar years, Yugoslavia was in the Middle East and North Africa Region, which had no resident missions. Resident missions began to be established in the Europe and Central Asia Region in the early 1990s, when the former Yugoslavia was breaking up and lending had ceased.

3. The Bank's role within the international community in Bosnia and Herzegovina is discussed in more detail in Chapter 4.

4. The BiH Working Group included the country economist, lawyer, country officer, sectoral staff, a staff member from the financial risk department, and a representative from the Dutch Executive Director's office.

5. The Netherlands contributed about US\$1 million; the United States contributed about US\$250,000 to this fund at a later stage.

6. Sarajevo was still under siege. One issue was the lack of medical insurance coverage for staff for "acts of war."

7. The mission was carried out at the country officer and country economist level, with three BiH officials representing the Ministry of Finance and the Central Bank.

8. World Bank (1997).

9. In 1995, a post-conflict reconstruction trust fund (PCRF) of US\$60 million, with US\$25 million of this amount earmarked for use in BiH, was established, as well as a trust fund for BiH of US\$125 million. The Board deferred consideration of the PCRF but approved the use of an additional US\$25 million for BiH, together with the proposed US\$125 million.

10. It also provided US\$31.2 million in cofinancing for the Emergency Recovery Project.

11. The Board notes on the membership plan for BiH addresses the use of the plan as a precedent for post-conflict countries in the future. However, several issues are related to Bank policy on arrears, membership, and debt restructuring that would affect the use of the BiH plan as a precedent.

12. The implementation status of the emergency projects is discussed in Chapter 6.

13. The ERP was to support the establishment and operating costs of the emergency social fund, while donor support was to provide the actual cash payments.

14. Conditions embedded in the loan documents ensured, for example, that disbursement would depend on the RS signing subsidiary agreements with the state.

15. World Bank (1997).

16. Federation ministries were recently formed and not fully staffed; the RS ministries are still rudimentary.

Chapter 4

17. The Bank did not participate actively in this program, which was initiated relatively early in the peace-brokering effort, before widespread reconstruction efforts could begin in earnest, and before Bank management could be sure of a strong international commitment to solving BiH's reconstruction and membership problems.

18. For example, USAID's Office of Transition Initiatives had visited BiH in early 1995 and prepared a report on the political situation in various parts of the federation, the formation of cantons, and the level of cooperation and participation between ethnic groups, which had provided valuable information to the Bank.

19. The IMG is an organization whose staff consists primarily of engineers in the various infrastructure sectors, with the objective of carrying out engineering assessments of war damage in BiH.

20. Particularly UNHCR, which is the lead agency for the United Nations in BiH.

21. The transport trust fund, for example, is said to perform an important coordination role; in others (mine clearing), the trust fund avoids duplication and shares information, but each donor is working according to its own priorities.

Chapter 5

22. These include: the fiscal controls both entities were exercising, the establishment of a reconstruction cabinet of state and federation ministers, the PIUs that were facilitating implementation and creating institutional capacities, the establishment of a federal customs administration and adoption of uniform tariff code and customs policies, the drafting of a federal tax administration law for a unified collection system within the federation, progress in the work of designing

interjurisdictional fiscal relations, the establishment of a federal banking agency for standardizing bank licensing and supervision within the federation, progress toward the promulgation of framework laws for privatization, and progress toward setting up a unified payments system and banking supervision agencies.

23. See European Commission and World Bank (1996a), pp. ii-iii.

Chapter 6

24. This section covers assistance only in connection with Bank-supported projects.

25. The European Commission sponsored projects in medical supplies and equipment and renovation of primary facilities, with assistance from NGOs, the ODA, USAID, and others.

Chapter 7

26. IMG staff in the transport sector commented specifically on the positive effect of the experienced Bank staff in the early days of project identification and preparation.

27. It should be noted that demobilization needs in BiH are not typical of those of other post-conflict countries, such as those in Africa, where the Bank has experience. In BiH, demobilization efforts focus almost entirely on employment.

28. For example, deciding on a reasonable interentity allocation of Bank resources in order to avoid stalling progress on the overall reconstruction program.

Chapter 8

29. Mine information was in the form of piles of hand-drawn maps of varying quality. They were turned over to IFOR by the three armies as part of the demilitarization process, and were not usable at that time. Data processing and analysis took well over a year.

30. Although some mine clearing was being carried out by the local armies under the Dayton Accords, local capacity to clear mines to an acceptable standard was limited. Military mine clearing is generally not carried out to the standards expressed by DHA and professional mine-clearing companies. Moreover, given the extent of the landmine problem, the unrealistic timing outlined under Dayton, and the lack of motivation of the local armies to clear mines, IFOR was not able to exercise the kind of supervision required to achieve a high standard of clearance. However, until resources were available through Bank projects, efforts were made through meetings with local sector representatives, Bank staff, and IFOR to direct some of the ongoing military mine-clearing activities to the agreed-on reconstruction priority sites and to provide adequate supervision.

31. Only about six companies had recognized experience in mine clearing; competitive bidding was virtually unknown in the industry.

32. In addition, resources for landmine clearance for priority sector sites were included in several sectoral projects.

33. Although the RS part of the project became effective later than the federation part, as in the other projects approved at the same time, Bank staff report that implementation progress in the RS has been good.

34. The “state” agency was established before the elections, with a Bosniac head. The PIU director was a Croat. The Bank team had to deal with both structures through negotiations and during early implementation, working out procedures requiring two signatures, within the federation part of the project.

35. Bank staff were concerned about the safety of the mine-clearers and all those who would have access to the priority sites after clearance, particularly reconstruction contractors, who would increase prices to reflect increased risk because of the suspected presence of mines. Clearance standards are obviously a concern for any clearance project, but the urgent reconstruction sites were the priority at that time; the Bank was not asked to finance the clearing of areas for community use until later in the season.

36. Both the Resident Representative and the Director for BiH discussed this with the Prime Minister. It was also discussed at high-level meetings in Washington, D.C.

37. The normal situation was, for practical purposes, reversed, with the Bank’s staff and consultants drafting documents (contrary to usual Bank practice) and the authorities, in effect, being asked to approve them.

38. The U.N. Department of Humanitarian Affairs (DHA) and Department of Peace-Keeping Operations (DPKO) and the U.S. State Department’s Office of Political and Military Affairs.

39. The U.S. program also included funds for setting up training in both mine survey and mine clearing, but the lack of a coherent institutional setting, particularly in the early days of project preparation, created severe difficulties in coordinating these efforts within the federation.

40. For example, through private companies or for the government.

41. Although there appeared to be some sympathy with this point of view at UNHCR in New York, the responsible parties at UNMBiH and MAC clearly brought a military perspective to bear on the problem, and a “command and control” approach.

42. For example, Norwegian Peoples’ Aid (NPA) had set up an innovative program that trained BiH refugees in Norway during the conflict, giving refugees some skills and making trained clearers available when reconstruction started. NPA, however, deployed the mine-clearers and survey teams in accordance with Norway’s own reconstruction agenda (such as clearing housing in certain areas), and they were unable to assist the Bank-supported priority reconstruction program.

43. A June 20, 1997, memo from the outgoing Bank task manager, Xavier Devictor, outlined lessons learned from the first year of project implementation.

This section on lessons learned draws heavily from this memo and discusses some of its findings in detail.

44. Survey work includes identifying nonmined sites in suspected minefields, locating and removing isolated mines (which implies a low density of mines, or fewer than six mines per site; if the density is higher, then clearance works should govern), and locating the outer edge of minefields.

45. There are only a few commercial mine-clearing companies worldwide. Their services are costly, and their use should therefore be limited to very urgent sites. However, awaiting the emergence of a fully trained local capacity is likely to have a substantial opportunity cost in forgone use of infrastructure and economic and community activities, including resettlement.

46. Clearing mines to repair housing in a village where refugees are to return supports both reconstruction and resettlement and has a significant humanitarian impact, as does clearing mines around, for example, water treatment plants to restore water supply. The methods and standards of mine clearing are similar wherever mine clearing is needed to allow human activity.

47. It is estimated that about 60,000 of the refugees who left BiH during the conflict returned during 1996; an additional 38,000 returned during the first half of 1997; and an estimated 800,000 remain outside BiH.

48. Croatia and the Federal Republic of Yugoslavia are currently sheltering more than half of the refugees.

49. Numerous other organizations are involved in local projects designed to foster reintegration—for example, setting up local interest groups, clubs, social or other activities with mixed membership; sponsoring projects that require cooperation between the two parts of divided cities for implementation; and facilitating visits between universities or other organizations in the two entities. It is beyond the scope of this paper to review the reintegration programs of other donors, but in the broader context of war-to-peace transition and reconstruction, these should yield useful information for the international community. Early programs OTI initiated include the positive experience UNHCR reported in its operation of bus lines across interentity borders in several areas.

50. The International Police Task Force would remain, but since it is unarmed, there is concern about its safety and the safety of the people it would protect.

51. Annex 7 of the Dayton Accords, “Agreement on Refugees and Displaced Persons,” spells out the rights to return and the obligations to create suitable conditions for return.

52. Much attention is currently focused on returns to Brcko, which some see as a test of willingness to implement the reintegration provisions of Dayton. The Brcko case illustrates some of the complexities in the return process. OHR has established the “Procedure for Return to Brcko;” a Return Commission has been set up (OHR, UNHCR, SFOR, IPTF, the Property Commission, and the three mayors of Brcko). Once a person submits a declaration of intent to return, the Property Commission decides on ownership and occupancy rights,

the municipal authorities are notified of impending returns, and the present occupant is given 60 days to vacate. If the occupant intends to stay in Brcko, municipal authorities provide an alternative accommodation. The Return Commission also handles claims from displaced persons living in Brcko who want to return to their homes elsewhere.

Chapter 9

53. In the BiH case, it was relatively clear at the time who the authorities were, as the representatives of the internationally recognized Bosnia and Herzegovina. In other countries, this may not be as clear.

54. For example, in the case of Croatia, which was current in its payments to the Bank and therefore fulfilled the conditions for Bank membership with relative ease, the Bank's financial assistance began with the concurrent preparation of emergency reconstruction lending in several sectors and planning of a program of macroeconomic assistance.



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