

**BOSNIA'S ALLIANCE
FOR (SMALLISH) CHANGE**

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BOSNIA'S ALLIANCE FOR (SMALLISH) CHANGE

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Put together under the tutelage of representatives of the international community in the aftermath of the November 2000 general elections, the ten-party coalition known as the Democratic Alliance for Change has governed the larger of Bosnia & Herzegovina's two entities and led the state-level Council of Ministers since early 2001. Intended by its sponsors and members to sideline the three nationalist parties that had fought the 1992-95 war and ruled their respective pieces of BiH thereafter, the Alliance was also expected to undertake thoroughgoing reforms and to provide proof that implementation of the Dayton Peace Accords might yet produce a viable state.

This alliance of Federation-based parties of disparate size, ideological orientation and national coloration has cooperated at state level with parties from Republika Srpska that are both in power and in opposition in that entity. The Alliance has thus lacked cohesion on both levels of government. It has sought to push a reform agenda, but one that cannot help but reflect the lowest common denominator of what is acceptable to its different sets of partners in the Federation and the Council of Ministers. Changes acceptable to the Federation parties have often proved anathema to those from the RS. Even in the Federation, the Alliance has had difficulty in carrying with it the cantonal governments that are meant to be under its control.

Given its unnatural birth and incoherent membership - not to mention the limitations imposed by Bosnia's dependent status and relative poverty - the Alliance for Change has registered significant successes. They have not proved sufficient, however, to bind the Alliance parties together, whether in respect to what remains undone among promised reforms or to fight the forthcoming elections as a bloc. The

Alliance is now expiring. Not only are its member parties and their headstrong leaders busy positioning themselves separately for elections that will be conducted according to new rules, but the Alliance as a whole is being subjected to sustained attack from inside and without as the race commences.

The 5 October 2002 general elections will for the first time be run by Bosnians and elect governments that will serve for terms of four rather than two years. They will also have to give effect at entity level to the constitutional amendments agreed with or imposed by former High Representative Wolfgang Petritsch in April 2002. These provide for fair representation of each of BiH's three 'constituent peoples' in both entities' legislatures, governments, judiciaries and administrations. Four-year mandates, for their part, will give the victors opportunities actually to accomplish something while depriving them of excuses for failing to do so. The pursuit of narrow party political or national interest, the absence of vision or application and manifestations of incompetence or criminality will be less tolerable. In order, however, to take advantage of the new circumstances and to enhance their chances of moving Bosnia forward, any new coalition or alliance will need to learn the lessons of the Alliance for Change's brief exercise of power.

Both the international community and non-nationalist Bosnians expected much from the Alliance: the eradication of rampant corruption, economic reforms, jobs, regular pensions and a new relationship with BiH's foreign overseers. Improvements indeed followed in those areas where consensus existed (enhanced revenue collection and fiscal reforms such as the merger of pension funds), or where there was little resistance (fulfilment of conditions for accession to the Council of Europe)

or that were perceived as inevitable (constitutional reforms and anti-terrorist measures). But in those spheres requiring a commitment to overcome diverging interests within the Alliance – such as reform of the social service sector, privatisation and, above all, economic revival – action was to be deferred or abandoned.

In governing the Federation, the Alliance has had the daunting task of doing battle with the legacy of corruption, national-territorial division and near bankruptcy bequeathed by the long years of parallel rule by the (Bosniak) Party for Democratic Action (SDA) and Croatian Democratic Union (HDZ). It has also had to cope with the fact that these two entrenched power structures retained or shared power with Alliance parties in various cantons, cities, government institutions and public enterprises. Moreover, the installation of the Alliance was soon followed by a constitutional crisis provoked by the HDZ, which proclaimed 'Croatian self-rule' in March 2001. Once this challenge was seen off, the Alliance confronted, in the aftermath of the 11 September attacks on the U.S., the urgent necessity of a reckoning with Islamist elements formerly patronised and protected by the SDA. In taking on such people the Alliance risked upsetting its core Bosniak constituency and destroying its own tenuous unity. It also exposed itself to accusations that it was forsaking human rights and the rule of law in order to do America's bidding.

Despite such trials, the Alliance has managed to make notable improvements in areas such as budgetary and financial discipline in the Federation. At the level of the state it has focused with some success on boosting the dignity, competence and image of Bosnia & Herzegovina. Albeit oversold as a slogan, 'partnership' with the international community has replaced the confrontation that characterised the old regime. Bosnia has finally become a member of the Council of Europe and may be on the threshold of completing the 'road map' that will make it eligible for a feasibility study leading to a Stabilisation and Association Agreement with the European Union (EU). Finally, the Alliance made a significant difference in negotiating the entity constitutional amendments that constitute the first major step in revising Dayton structures and which should gradually transform state and entity governance over the next few years.

Yet the Alliance has failed to fulfil expectations that it would put more bread on Bosnian tables. In

the first place, it has been too cautious in pushing the fundamental reforms required to unify the BiH economic space and restructure the economy by completing privatisation and liberating the private sector. It has busied itself instead with establishing its member parties' control over public companies and disputing - to no discernible benefit - the previous privatisations of money-spinners such as Fabrika Duhana Sarajevo (Sarajevo Tobacco Factory, FDS) and Aluminium Mostar. Attempts to gain control over public-sector firms have resembled an endless chess game among the Alliance parties. Privatisation has only crept forward, burdened both by an ill-conceived method imposed by the international community and by the reluctance of the Alliance parties to divest themselves of their principal – if ever diminishing – source of power, patronage and funds.

Secondly, the Alliance has wasted valuable time that it might have used to devise a coherent economic development plan. There is still no agreed vision of Bosnia's economic future, and the various schemes promoted by one or another Alliance party have remained vague, fragmentary or mutually exclusive, ranging from ardent Thatcherism to reform socialism. Unfortunately, the absence of an agreed reform agenda has extended to other spheres as well: rule of law, state-building and refugee return.

Although it is too late now to remedy this lack in practice, Bosnia's political parties - and especially the Alliance parties - should use the current campaign for more than slinging mud, revelling in scandals and glorifying their leaders. They need to think and plan ahead, offering voters positive manifestos as well as negative attacks on their rivals. The issues and challenges that will confront the governments formed after 5 October are already apparent. The formation of a new alliance will prove easier - and its chances of delivering on its member-parties' promises will be greater - if a measure of programmatic clarity and, perhaps, even concord can be offered to and endorsed by Bosnian citizens over the months ahead.

To help focus the election campaign on fundamental issues of economic development and reforms of the social, fiscal and governance sectors and, thereby, to enhance the chances that the coalition governments which emerge will be both committed and equipped to pursue a clearly defined reform agenda, ICG makes the recommendations that follow.

RECOMMENDATIONS

To International Organisations, Civil Society Groups and the Bosnian Media:

1. Press the political parties to acknowledge and take positions on the most important economic and political challenges facing BiH and in particular invite them to sign a pre-election compact (or social contract) committing to plans for resolving the economic and social crisis confronting BiH.

To Donor Countries and Other Friends of BiH:

2. Based on the conclusions of the Peace Implementation Council, the post-accession requirements of the Council of Europe and the various international credit and stand-by

arrangements to which BiH governments are committed, assist those parties willing to cooperate to draw up manifestos for reform that set out clearly defined goals and identify agents of change in the economic, social, legal, fiscal and refugee-return sectors.

3. Publicise fully the cooperation or non-cooperation of individual parties.
4. Use such manifestos for establishment of benchmarks against which to measure the performance of post-election governments and to push for further reforms.

Sarajevo /Brussels, 2 August 2002

BOSNIA'S ALLIANCE FOR (SMALLISH) CHANGE

I. POLITICS: ALLIANCE AND MISALLIANCE

A. INTRODUCTION¹

The ten-party Democratic Alliance for Change was formed in January 2001 as a result of international intervention. In particular, it required energetic lobbying and arm-twisting by the then American and British ambassadors to Bosnia & Herzegovina, Thomas Miller and Graham Hand, to convince the leaders of the stronger parties to work together. The parties that were to comprise the Alliance had won just short of half the seats in the 140-member Federation House of Representatives in the November 2000 elections and secured a clear majority in the House of Peoples after the cantonal assemblies elected their delegates to that chamber.² Of these parties' 69 deputies in the lower house, 37 represented the Social Democratic Party (SDP) and 21 the Party for BiH (SBiH). The other eight parties could claim just eleven members between them. This meant that the Alliance government in the Federation would occasionally depend upon the

support of a half dozen deputies representing three other small parties.

At state level, five Alliance parties won seventeen of 42 seats in the House of Representatives and received seven places in the fifteen-member House of Peoples. The Alliance was able to dominate the six-member Council of Ministers – which is as close as Bosnia gets to having a central government – by virtue of a working arrangement with four parties from Republika Srpska: the Party of Democratic Progress (PDP), the Party of Independent Social Democrats (SNSD), the Socialist Party of RS (SPRS), and the Serb People's Alliance (SNS).³ These parties held five seats in the House of Representatives and three in the House of Peoples. Three of the four RS parties also shared power in Banja Luka in a coalition effectively dominated by the Serb Democratic Party (SDS), but led by the PDP's Mladen Ivanic.⁴ Their collaboration with the Alliance at state level was, as a consequence, always likely to be highly problematic.

In the eyes of both its domestic leaders and foreign midwives, the purpose of the Alliance for Change was to put an end to ten terrible years of wartime and post-war rule by the big three nationalist parties: the Croatian Democratic Union (HDZ), the Serb Democratic Party (SDS) and the (Bosniak) Party for Democratic Action (SDA). Although continuing to enjoy substantial or, in the case of the HDZ, overwhelming support among their respective

¹ In researching this report ICG interviewed leaders and members of the Alliance parties, opposition parties, representatives of civil society and functionaries of international organisations in both BiH entities.

² The member parties of the Alliance were the Social Democratic Party (SDP), Party for BiH (SBiH), New Croat Initiative (NHI), Bosnia-Herzegovina Patriotic Party (BPS), Republican Party, Civil Democratic Party (GDS), Croat Peasant Party (HSS), Liberal Democratic Party (LDS), Democratic Party of Pensioners of BiH, and Party of Pensioners of the Federation of BiH. The Herzegovina-based People's Party of Work for Betterment and the RS-based Party of Independent Social Democrats (SNSD) later attended the Alliance's co-ordination meetings, but without formally joining the coalition. The two pensioners' parties subsequently merged.

³ For the full results of the electoral contests in both entities, see *Sluzbeni glasnik Bosne i Hercegovine*, Vol IV, N°30, 12 December 2000.

⁴ The SNS later joined the SNSD in opposition in the RS. For an analysis of how Radovan Karadzic's SDS maintained its power in the RS under cover of a coalition in which its ministers ostensibly served in a personal capacity, see ICG Balkans Report N°118, *The Wages of Sin: Confronting Bosnia's Republika Srpska*, 8 October 2001.

national constituencies as a result of their pre-war and wartime 'services' to their nations, their stewardship since Dayton had left Bosnia poor, dysfunctional, divided, corrupted, unreconstructed and hopeless. It had also helped to thwart the efforts of the international community either to remedy matters or to envisage a way out of the impasse. Sustained by a rhetorical commitment to the defence of their nations' existential interests against the others in any and all circumstances, the three ruling establishments effectively depended upon one another as both bogeys and partners.

Defections by both individual Bosniak voters and by the largely Bosniak SBiH from the SDA made it possible to break this tripartite stranglehold on power. Running independently of the SDA in 2000, the SBiH won 15 per cent of the votes for the Federation House of Representatives, while the multinational SDP pushed up its share to 26 per cent, nearly double what it had been in 1998. The SDA's failure to maintain its primacy among Bosniak voters permitted the Alliance parties, in turn, to exclude the HDZ from power in the Federation. Although continuing to rule Croat-majority cantons, the HDZ's cosy condominium with the SDA in the Federation was at an end.

There was more, however, to the electoral success of the Alliance parties than abandonment by the majority of Bosniaks of their standard-bearer since 1990. An increase in the number of small parties winning seats at state and entity level and a 2 per cent fall in even the HDZ vote indicated that dissatisfaction with a system that delivered wealth to the well-connected few, poverty to the many and no cause for expecting anything better was widespread. SDP leader Zlatko Lagumdžija caught this mood when, the day after the Alliance's formation, he vowed to "stop the free fall of Bosnia's economy, that is, to stop the process of Bosnia becoming a black hole in the region".⁵ This paper will assess the extent to which the Alliance has delivered on this and other promises.

B. BOSNIAK QUARRELS

Bosnian parties still tend to be dominated by their charismatic, domineering and self-important leaders: men who prefer smoke-filled rooms and

rhetoric - whether in the service of trendy platitudes or of narrow national interest - to the elaboration and propagation of substantive political programs. One reason why there are so many parties in BiH is that leading or representing a political party (however small) and securing a public position (however modest) is a surer means than most to accumulate power, privilege and wealth.

Nevertheless, some improvements have been registered over the past six years, and even more over the past eighteen months. Since 1996, political discourse has moderated and voters no longer feel obliged to support the parties that led them into, through and beyond the war. The international community has worked, sometimes clumsily, to encourage this process by enforcing or changing the election rules, by ousting or banning politicians and parties branded as enemies of Dayton and by uncovering instances of corruption that could be laid at the door of the nationalist parties.⁶ Meanwhile, everyday issues of jobs, pensions, health care, education and legality have begun to supersede the symbolic and invariably non-negotiable issues of nation.

This has permitted the non-nationalist parties to pose as credible alternatives, facilitated the

⁶ High Representative Carlos Westendorp's dismissal of RS President Nikola Poplasen in March 1999 and the OSCE's disqualification of his Serb Radical Party (SRS) before the November 2000 elections are notable examples of such intervention. The SRS was allowed to register to compete in the 2002 elections only after it finally removed Poplasen as its leader. Similarly, the HDZ was compelled in spring 2002 to drop its president, Ante Jelavic, and several other hard-liners held responsible for the March 2001 proclamation of Croat 'self-rule' in order to take part in the forthcoming elections. However, the HDZ's initial refusal to comply with the election rule disqualifying banned politicians like Jelavic from running for office or holding positions in the party helped produce a split in HDZ ranks between the keepers of the 'Herceg-Bosna' flame, led by Barisa Colak, and more Bosnian-oriented elements, led by Miro Grabovac-Titan. The latter broke away to form the Croat Democratic Union (HDU), while Colak, serving as Jelavic's front man, inherited the HDZ itself. The SDA has also had to rid itself of banned officials and former leaders such as Edem Bikcagic and Hasan Cengic. See 'Jelavic, Andric Luzanski, Tokic i Batinic podnijeli ostavke', *Oslobodjenje*, 9 April 2002; 'Dragovoljac koji nije razumio Jelavica', *Dnevni avaz*, 16 May 2002; 'Bicagic nije htio dati ostavku pa ga Glavni odbor SDA razrijesio', *Dnevni avaz*, 12 May 2002; 'Brka i Cengic otpali. Muratovic se povukao', *Oslobodjenje*, 29 June 2002; and 'Cengic najavio medijski obracun protiv Tihica', *Oslobodjenje*, 4 July 2002.

⁵ As quoted by Senka Kurtovic, 'Ozvanicena Demokratska alijansa za promjene', *Oslobodjenje*, 13 January 2001.

emergence of 'swing' parties, ready to enter into coalitions with either camp and, latterly, stimulated many parties to spread their nets across entity boundaries in search of votes. Nationalist and multinational parties alike will compete in the 'other' entity this year.⁷ But the breaking of the nationalists' stranglehold on 'their' corps of voters has also meant a rise in the number of parties contesting elections: from 47 in 1996 and 44 in 1998 to 56 in 2000 and 57 in 2002.

Between 1996 and 1998, for example, the SDS and HDZ shares of the votes cast for the Serb and Croat members of the state Presidency dropped from 61 per cent and 78 per cent, respectively, to 45 per cent (when the SDS candidate lost to Zivko Radisic of the short-lived Sloga [Concord] coalition) and to 53 per cent (when the SDP candidate ran the victorious Ante Jelavic a close race). On the other hand, the percentage of the Bosniak vote for Alija Izetbegovic rose from 76 per cent in 1996 to 87 per cent in 1998, when the SDA leader was also supported by the SBiH, LDS and GDS. As noted above, it was the belated but large-scale desertion of the SDA by Bosniak voters in 2000 that made the formation of the ten-party Alliance for Change possible.⁸

Theirs, however, was a marriage of convenience between parties of disparate size, ideological hue, history and national composition. It was also a shotgun wedding, presided over by the importunate British and American ambassadors, who also did most of the courting of the coquettish but

indispensable bride, Haris Silajdzic. Unsurprisingly, therefore, the Alliance's ability to hang together was to depend more on its parties' relish of office than on their shared determination to push through coherent reforms. More surprisingly, the Alliance's foreign *kumovi* (best men) afterwards left their protégés largely to their own devices. This meant, effectively, in the charge of the SDP's Zlatko Lagumdžija, since Silajdzic withdrew from day-to-day politics into enigmatic semi-detachment. The foreigners continued, nonetheless, to expect great things of the Alliance.

It has suffered, however, from multiple rifts over both policy and patronage. The main rift has been between its two major parties, the SDP and SBiH. But disagreements have also been rife between and among the big two and their eight much smaller partners. The latter accuse the SDP and SBiH of using them to make up the Alliance's majority in the Federation parliament and to burnish its multinational and civic image while depriving them of both a role in policy-making and a real share of power.⁹

Such complaints grew louder as the election campaign drew near in spring 2002, and it became clear that the SDP and SBiH were each determined to run alone, thereby leaving their erstwhile partners to face possible extinction at the polls. Natural complaints on this score - and assertions that the Alliance is dead, save as a means for its member-parties' ministers to continue to collect their salaries

⁷ Thanks in large part to the April constitutional amendments, 27 Federation-based parties will run in the RS this year, and twelve RS-based parties will compete in the Federation. Of the 57 parties running in 2002, far fewer will win seats than in 2000. This is because the new election law sets a higher threshold (3 per cent) for the allocation of cross-constituency 'compensatory' seats, an effect that will be intensified in the Federation by the recent amendments' reduction in the size of the House of Representatives from 140 to 98. Manipulation of the compensatory seat rules before the 2000 elections by OSCE allowed (and was intended to allow) small parties to gain seats with less than 0.5 per cent of the vote. See 'Nema vise poslanickih mjesta za nekoliko glasova', *Oslobodjenje*, 24 June 2002.

⁸ Because candidates for the Presidency run as representatives of their constituent nation, their vote tallies best reflect the standing of the nationalist parties. Those elected in 1998, however, won four-year terms, although Jelavic was sacked (and replaced by the second-place SDP candidate, Jozo Krizanovic) while Izetbegovic resigned (and was succeeded by the SBiH's Beriz Belkic). For post-war election results, see www.oscebih.org.

⁹ All the smaller parties in the Alliance complained to ICG about the supposedly unfair share of government positions and plum public sector directorships taken by the SDP and SBiH. According to these parties, Alliance co-ordination meetings have been dominated by arguments over the distribution of jobs rather than being used for discussing and making policy. For details, see 'Dok se Alijansa dogovara, direktori mijenjaju stranacke dresove', *Dnevni avaz*, 20 October 2001; 'SDP ce postavljati nove ljude, SBiH ce postavljati kvalitetne', *Dnevni avaz*, 15 January 2002; 'Stranka penzionera "blokiral" izbor novih direktora', *Oslobodjenje*, 29 January 2002; and 'Pogresne mete, skriveni ciljevi', *Oslobodjenje*, 16 March 2002. But if size matters, so does nationality. Croats, for example, were outraged by the absence of any Croat Alliance representative from the Leeds Castle discussions with the incoming High Representative in April. The SBiH has, for its part, muttered darkly about the over-representation of Croats in economic portfolios and the supposed influence of a Croat financial lobby. See 'Pisat cu Petricu i ukazati mu na stetnost sastanka kod Esdauna', *Dnevni avaz*, 16 April 2002; 'Alijansa - pokrice za hrvatski finansijski lobi!?', *Oslobodjenje*, 11 January 2002.

- have been accompanied, however, by vicious scandal mongering and attempted character assassination of all by all. As OSCE Head of Mission Robert Beecroft told the organisation's Permanent Council in Vienna on 4 July 2002:

Early indications are that this will be a politically hot summer in BiH. Personal attacks, often with ethnic undertones, have coloured the campaign thus far, while too little attention is being paid to substantive, post-election reform agendas. Those elected on 5 October will be in power for four years. With much at stake and an electorate that shows signs of losing faith in political options, I hope that OSCE member states will register their concerns about campaigning that focuses on personalities and ethnic resentments, rather than on political and economic progress in a state that needs to show more energy and determination as it moves toward a truly European vocation.¹⁰

Members of the Alliance and other observers have voiced a variety of grievances to ICG regarding the work of the coalition. The SDP is accused by some of its allies of still being in thrall to its communist heritage, but without the quality of leadership that characterised Titoism in its heyday. In particular, the party is said to hanker after democratic centralism, to view its partners as mere transmission belts, to lack a real commitment to a free market economy and to itch to micromanage or prop up state firms. Yet the SDP has also been the driving force behind such difficult and necessary reforms or policies as have been pushed through by the Federation government and the Council of Ministers. These are discussed below.

For its part, the SBiH remains closer ideologically to the SDA (from which Silajdzic split in 1996) than it is to the SDP. The SBiH is viewed by its coalition partners as a hostage of its leaders' wartime and post-war pasts, and at least partly responsible for the resurfacing of old scandals, intrigues and criminal cases that have embarrassed the Alliance. Having also shared power with the SDA and HDZ in the bad old days of parallel rule, and subsequently absorbed more converts from the SDA, the SBiH not only carries as much historical

baggage as does the SDP, but it tarnishes the Alliance's non-nationalist lustre.¹¹

As a 'party of continuity', the SBiH has sought to maintain control over such key institutions as the Federation interior ministry and has campaigned as ardently as the SDA in favour of restitution for property-owners (especially the religious communities) whose possessions were nationalised by the communists after 1945. This means that it has sought a slower pace of reforms in some spheres and a more aggressive approach in others, seemingly mindful of its double duty to protect the Bosniak wartime past from critical scrutiny while persevering with the more noble Bosniak wartime aim of creating an integral and secular Bosnian state.

Control over the Federation interior ministry permitted the SBiH to influence or restrain the investigation of past cases of official corruption, Islamist infiltration, dodgy arms deals and organised crime networks established during and soon after the war.¹² The 11 September 2001 attacks on the U.S. appear to have put an end to such indulgence. American pressure on BiH to sign up to the war on terrorism – coupled with SFOR's new readiness to divulge intelligence – impelled the Alliance both to move against dubious Islamist elements and to purge and unify the Federation's separate Bosniak (SDA) and Croat (HDZ) intelligence agencies. As of July 2002, the Federation has one intelligence service, the director and deputy director of which have been confirmed by parliament. This seems not only to have put an end to a longstanding and debilitating legacy of the 1993-94 Croat-Bosniak war, but also to have marked the SBiH's

¹⁰ 'Head of Mission's Statement to OSCE Permanent Council', PC.FR/27/02, Vienna, 4 July 2002.

¹¹ Former SDA members and public officials who have switched to the SBiH since 2000 include Sefika Hafizovic (deputy Federation finance minister), Ramiz Mehmedagic (Federation minister for urban planning and the environment), Besim Mehmedic (Federation transport and communications minister) and Enver Kreso (director of the Elektroprivreda utility). The other coalition parties are also replete with leaders who formerly belonged to or worked with the SDA or HDZ.

¹² Speaking on the occasion of the 2002 *Ajvatovica* (the most important annual Muslim pilgrimage), Izetbegovic acknowledged that his party had fallen prey to corrupt practices, but argued that such deviations were the result not of malice but of the lack of infrastructure and cadres following the war. He asked for understanding and forgiveness, and called upon Bosniaks to vote nonetheless for the true guardians of their national interests. FTV1, *Dnevnik 1*, 30 June 2002.

abandonment of at least a part of its commitment to protect old comrades.¹³

The state and Federation authorities also seized the opportunity provided by the war on terrorism to rid BiH of the embarrassment represented by its wartime embrace and post-war naturalisation of mujahedin from Islamic countries. In January 2002, the Council of Ministers approved – contrary to a ruling by the Human Rights Chamber – the handover to the Americans of six Algerians who had been in custody since the autumn, but against whom the U.S. had refused to provide any evidence. The ‘Algerian Six’ were promptly despatched to the Guantanamo Bay prison on Cuba. Likewise in response to American prompting, the authorities launched investigations of the activities and funding of humanitarian organisations linked to Arab states.

This readiness to meet U.S. concerns exposed the Alliance and, especially, the SDP to recriminations from the guardians of both civil liberties and Bosniak national and religious interests. The SDA and the Islamic Community charged Lagumdžija and the SDP with taking part in the world-wide vilification of Islam and jeopardising Bosnia’s good relations with Muslim states.¹⁴ Human rights groups and parts of the media accused Foreign Minister Lagumdžija of riding roughshod over the law and damaging BiH’s reputation. Stung more by the former than by the latter criticism, Alliance leaders embarked on a round of official and unofficial fence-mending visits to Muslim lands.¹⁵

After removing its original appointee, Muhamed Besic, as Federation interior minister in October 2001, and replacing him with Ramo Maslesa, the SBiH has kept a relatively low profile as more cases of alleged SDA involvement in ‘terrorism’ have come to light in the first half of 2002.¹⁶ Several SDA worthies suspected of organising an Iranian-staffed training camp for terrorists and assassins at Pogorjelica at the end of the war were arrested in April. Large caches of arms and explosives dating from 1995-96 were uncovered by SFOR in east Mostar in May. Stories of involvement in illegal arms trading by the Bosniak component of the Federation army followed in June.

Investigation of the part played by Bakir Alispahic (a former SDA interior minister and intelligence service chief) in the Pogorjelica affair and reports that Hasan Cengic (an SDA hard-liner and onetime Federation defence minister) had been responsible for stockpiling the arms uncovered in Mostar coincided with another apparent effort by the SBiH to oust an inconvenient police official. Allegedly on Silajdzic’s orders, Maslesa recently tried and failed to remove Dragan Lukac as Federation police commissioner. It is Lukac (a Croat) who is meant to be the driving force behind the Pogorjelica and Mostar investigations. When foreign intervention scuppered this effort to sideline Lukac, both the SBiH and the entire Alliance leadership denied any knowledge of the matter. Maslesa’s move, meanwhile, was ascribed to a sudden urge on his part to reorganise senior staffing in accordance with a new rulebook.¹⁷

The debate over restitution represents another clash between wishful thinking and harsh reality.

¹³ Vildana Selimbegovic, ‘Spijunske igre drzavnim tajnama’, *Dani*, 8 March 2002. However, for a commentary questioning the reality of the intelligence agencies’ unification and reform, see Ivan Lovrenovic, ‘Profesija: spijun’, *Dani*, 12 July 2002.

¹⁴ For the background, see ICG Balkans Report N°119, *Bin Laden and the Balkans: The Politics of Anti-Terrorism*, 9 November 2002. An update can be found in ICG Balkans Report N°127, *Courting Disaster: The Misrule of Law in Bosnia & Herzegovina*, 25 March 2002, pp 22-23.

¹⁵ Lagumdžija’s harshest critic from the secular Bosniak and integral BiH camp has been the weekly *Dani*. Since January 2002, the magazine has missed no opportunity to rubbish the SDP leader. For a summary charge sheet, see Senad Pecanin, ‘Sedmi Dan’, *Dani*, 28 June 2002. Lagumdžija, Azra Hadziahmetovic (state minister for foreign trade) and Silajdzic have toured Muslim countries. See ‘Alijansa rusi prijateljske odnose sa arapskim zemljama’, *Dnevni avaz*, 18 May 2002; and ‘Ostra polemika Behmena i Cengica’, *Dnevni avaz*, 22 May 2002.

¹⁶ Originally seen as a mark of the party’s displeasure at Besic’s eager co-operation with the Americans, subsequent interpretations have emphasised either Besic’s supposed incapacity or his determination to attack organised crime. For some of the ‘explanations’ of this still-obscure affair, see ICG Balkans Report N°119, *Bin Laden and the Balkans: The Politics of Anti-Terrorism*, 9 November 2002.

¹⁷ See ‘Iza neuspjele smjene Lukaca stoje uspaniceni Cengic, Orucevic, Silajdzic i Halilovic’, *Slobodna Bosna*, 30 May 2002; ‘Smjena Dragana Lukaca je samo odgodjena’, *Oslobodjenje*, 4 June 2002; and ‘Medjunarodna zajednica stiti svoje miljenike’, *Oslobodjenje*, 10 June 2002. For background on the UN IPTF’s efforts to interpose professional police commissioners between entity and cantonal interior ministers and their forces, see ICG Balkans Report N°130, *Policing the Police in Bosnia: A Further Reform Agenda*, 10 May 2002.

Demands for restitution animate the clerical allies of the nationalist parties, even if common sense and the wider public interest counsel that this is a matter best left alone. The restitution issue is particularly salient in Sarajevo, where much valuable commercial real estate belonged to religious communities before the Second World War.¹⁸ Were restitution to take place, the old Bascarsija (Big Market) district would be restored almost entirely to the Islamic Community, and hundreds of shopkeepers would face eviction and/or ruin as commercial rents were imposed. The shopkeepers' revolt against the SDA's promise to push through restitution is widely regarded as having cost the party victory in the city in the 2000 elections and brought the Alliance to power in Sarajevo Canton. The SDP had argued against restitution and promised shopkeepers the right to buy their shops. The Alliance, however, has been unable to deliver on this pledge, and the debate over restitution continues.¹⁹

Property restitution would, of course, satisfy the religious communities: not only confirming their lobbying power but also making them the biggest and richest property owners in the country – but at the cost of putting many small shopkeepers out of business and flat dwellers out of their homes. The SDP and several other Alliance parties have proposed instead to offer compensation from the proceeds of privatisation to the former owners (or their descendants) of nationalised properties. But such a solution would mortgage Bosnia's future by allocating scarce resources to a largely unproductive purpose at the time when the country is threatened by mounting debts and haunted by growing poverty. Restitution and/or compensation should wait.

¹⁸ For details on who owned what in Sarajevo, see 'Restitucija: Sta je cije u BiH?', *Dani*, 17 May 2002.

¹⁹ This is not the only unfulfilled promise. Despite its convincing victory in Sarajevo Canton, the Alliance has not mustered the strength or will to reform the city administration. For example, the Urban Planning Office, a key agency responsible for approving development projects, remains in the hands of Alija Izetbegovic's son, Bakir. Initial efforts to remove him from office and, thereby, to show that the Alliance was in earnest about promoting reform and fighting corruption failed when they encountered entrenched opposition, including, reportedly, from Silajdzic. ICG interviews with Sarajevo city officials, April-May 2002. See also 'Vijecu ministara predložili smo naturalnu restituciju', *Dnevni avaz*, 27 November 2001, and 'Behmen povukao prijedlog Mehmedagica', *Dnevni avaz*, 13 May 2002.

C. CROAT COMPLICATIONS

The declaration on 3 March 2001 of Croat 'self-rule' by the HDZ-led Croat National Assembly (HNS) came both as a godsend to the Alliance in much of the Federation – allowing it to dismantle longstanding parallel structures – but also as a reminder that the new government's writ did not even begin to run in HDZ-controlled cantons.²⁰ The HDZ's post-election boycott of the Federation parliament and the High Representative's post-self-rule dismissal of Ante Jelavic from the state presidency gave the Alliance a unique opportunity to push through reforms of a thoroughly corrupt system. The government merged and reorganised the pension and health care funds. It imposed its authority on police and customs officers who made the mistake of declaring for 'self-rule' in ignorance of who it was that paid their salaries. It unified the previously separate budgets that had sustained apartheid in the Federation. Taking advantage of the temporary desertion of Croat soldiers offered (but then denied) higher pay by the HDZ, it moved to downsize the Federation army and to investigate the malfeasance of former defence ministers. These were major achievements that are unlikely to be undone, even if the SDA and HDZ should return to share power after 5 October.

On the other hand, the Alliance government has had to recognise that it and its partner Croat parties enjoy little authority and less legitimacy in HDZ-ruled cantons in central and western Herzegovina. This power and credibility deficit has impeded the Alliance's efforts to do away entirely with parallelism. Not only does the former 'Herceg-Bosna' retain its own utilities, post office and ethos, but in 'mixed' Canton 7 (Mostar) there is still a divided budget. Moreover, the Federation army remains divided into Bosniak and Croat components (with separate budgets) and the civil service is but partly integrated and reformed.²¹ Nor has the Alliance succeeded in asserting government control over supposedly state-owned companies long under the thumb of the HDZ.

²⁰ For details, see ICG Balkans Report N°106, *Turning Strife to Advantage: A Blueprint to Integrate the Croats in Bosnia and Herzegovina*, 15 March 2001.

²¹ See interview with Defence Minister Mijo Anic, 'Nikad nisam trazio smjenu generala Zeke!: Komponente ostaju', *Oslobodjenje*, 6 July 2002.

D. THE INTERNATIONAL COMMUNITY

The British and American ambassadors' godfatherly relationship with the newborn Alliance did not include the High Representative. Nor did it ensure that the coalition, as it matured, did not feel the occasional need to bite the hands of its ostensible foreign patrons. In any case, the personal and organisational rivalries besetting the 'international community' in BiH were no less marked than those of the Alliance itself. These factors made for an occasionally bumpy ride, regardless of the fact that there was a real community of interest between the Alliance parties and the country's pro-consuls. The Alliance thus deprecated OHR rhetoric about making Bosnians assume 'ownership' of institutions, laws and processes imposed or initiated by the foreigners, insisting instead on its own full 'partnership' with international bodies in determining the course ahead.

Several disputes broke out in the spring and summer of 2001. One concerned the Alliance parties' initial failure to enact a permanent election law, drafted by OHR and adopted by the Council of Ministers in May, which was the basic precondition for BiH to gain admission to the Council of Europe. High Representative Wolfgang Petritsch set great store by securing CoE membership and putting BiH on the road to European integration. The SBiH set greater store by using the election law to promote constitutional change and Bosnian state integration. The chairman of the Council of Ministers, the SDP's Bozidar Matic, resigned on 21 June, after SBiH and SDP deputies in the state parliament rejected both the law and Matic's argument that it could not be used as a means of challenging or amending the Dayton constitution. Lagumdžija took over as chairman of the CoM, after which there was no repeat rebellion by Alliance MPs when a virtually identical law was put before them again in late August.

Another bone of contention over the summer was CIPS – the Citizen Information Protection System.²² The Alliance declared its vehement opposition to the manner in which OHR was going about the realisation of this state-building project. In

particular, the Alliance objected to OHR's high-handedness in launching a tender for the KM 33 million (€17 million) project and, then, in accepting the bid of Germany's Siemens without either adequate consultation or transparency.²³ Following 11 September, however, the CoM found new merit in the CIPS project and its implementers, especially when it turned out that there would be plenty of sub-contracts to go around.

The Alliance's confrontation with OHR intensified to include another international tender: that for a third mobile telephone operator.²⁴ Again, the issue at stake was money and the foreigners' alleged disregard for Bosnian interests. The Alliance insisted that BiH was getting a bad deal in both cases. Not only was CIPS too costly, but a big foreign firm would reap the benefit. The third GSM licence, on the other hand, was being sold off too cheaply by OHR's supposed poodle, the Communications Regulatory Agency. BiH could and should get far more for a precious national asset than the measly KM 5 million being offered by Deutsche Telekom's Croatian subsidiary. In fact, the Alliance's tub-thumping was to mean that Bosnia would get nothing. The would-be licence-holder withdrew in the face of the government's protests, the telecoms' bubble burst and Croatian Telecom acquired the third licence by the alternative route of asserting its majority ownership of the 'Herceg-Bosna' Post Office, itself the principal shareholder of an existing GSM operator, Eronet. The Alliance's self-inflicted loss of the opportunity to get something for the third licence has since been regretted by some of its member parties, even though the political gain seemed rich at the time.

In re-framing 'ownership' as 'partnership' – and in asserting its right at least to raise a ruckus – the Alliance succeeded in enhancing both its perceived independence among its constituents and its subjectivity with the international community. In reality, however, the Alliance continued to rely on OHR and the other international missions to do what it could not or dared not do. The foreigners,

²² CIPS aims to create a common database on Bosnia's citizens and to permit the issuance of new ID cards and passports. Once implemented, it should ease visa requirements for Bosnian travellers and obviate the need for voters to re-register for every election.

²³ For background, see 'OHR na racun drzave BiH "Simensu" dao posao od 42 milion KM', *Oslobodjenje*, 18 July 2001, and 'Ako ne ponisti tender OHR preuzima svu odgovornost', *Oslobodjenje*, 26 July 2001. The recent state of play is summarised in 'Graficari najavili strajk, CIPS pod istragom', *Oslobodjenje*, 18 July 2002.

²⁴ See 'Koristit ce infrastrukturu drzavnih operatera i unistiti njih i drzavu!!!', *Slobodna Bosna*, 26 July 2001.

for their part, appear to have been satisfied with mediating the emergence of Bosnia's first serious post-war multinational government. There was little effort thereafter to help the Alliance develop mechanisms for internal co-ordination and policy making - perhaps because neither side realised how badly they were needed.

II. PERFORMANCE: THE ALLIANCE IN POWER

A. INTRODUCTION

The Alliance has contributed to the relative normalisation of politics in BiH over the past eighteen months. It has also been responsible for pushing through some significant reforms that had been stalled for years and for at least putting others on the agenda. Assessments of the Alliance's performance – whether by its member parties, its opponents, media commentators, citizens' groups or foreign officials – naturally vary both overall and according to particular issues. Most observers give the Alliance credit, however, for improving on the records of their predecessors at state and Federation level. Although it would have been difficult to do worse, the overblown expectations that accompanied the advent of the Alliance mean that any passing mark can be deemed creditable.

In particular, the Alliance is praised for both reducing the extent to which parallel Bosniak and Croat structures and institutions prevail in the Federation and for bringing fiscal discipline to government and strengthening revenue collection. As Lagumdžija noted recently in a speech in Vienna, hard currency reserves have doubled in the past year, tax rates have been reduced by almost a third from what they were two years ago, and private savings deposited in a revitalised banking system have grown five fold.²⁵

The Alliance is also credited with moving ahead with reforming and downsizing the Federation army and with making some progress in making BiH fit to join the Partnership for Peace. Relations with Yugoslavia have been normalised and free-trade agreements have been signed with several countries in the region. The Alliance governments have done their bits as well to sustain refugee return,²⁶ to support deployment of the State Border

²⁵ 'U iducij godini ekonomski bum u BiH', *Oslobodjenje*, 21 June 2002. Characteristically, however, Lagumdžija's front page prediction of a 'boom' in BiH was negated by a warning from the High Representative on page 3 that the state's burden of debt would produce a worsening of economic conditions by spring 2003. 'Otplata dugova prijeti ekonomskom krizom', *Oslobodjenje*, 21 June 2002.

²⁶ On the other hand, the continuing absence of a Federation minister for refugees and DPs has reportedly imperilled the

Service and to shepherd laws proposed or imposed by the High Representative through parliament. The Alliance has also fought Bosnia's corner with the international community ('partnership'); reaped some benefit from the country's accession to the Council of Europe; and avoided relegation to any axis of (secondary) evil after the terrorist attacks on New York and Washington.

The role of the Alliance parties in the making of the 27 March 2002 Sarajevo Agreement that formed the basis for the amendments to the entities' constitutions has, however, been subject to contrary interpretations. The opposition parties in the Federation, led by the SDA, and some print media have castigated the Alliance for participating in the negotiation of the Sarajevo Agreement, for accepting the resulting set of principles and for hailing the partial imposition that followed as a great victory for BiH and itself. In the critics' view, the negotiations were a sham; the agreement was a grossly inadequate response to the original 'constituent peoples' decision of the Constitutional Court; and the High Representative's amendments effectively legitimised Radovan Karadzic's genocidal creation.²⁷

Rhetoric aside, these criticisms amounted to accusing the Alliance of settling for half a loaf: of taking part in a process requiring consensus and, hence, compromise and of merely initiating the revision of Dayton rather than completing it. However unpalatable such pragmatism may be to those who are impatient to rid BiH of its Dayton inheritance, the role of the Alliance parties is likely to look farsighted if the amendments are fully implemented and begin to transform the political landscape in the entities. This is another question

Federation's financial support of returnees to the RS. The former minister, BPS leader Safer Halilovic, was forced to vacate his post in autumn 2001, after surrendering to the ICTY, where he faces war crimes charges. The BPS, however, long refused to 'surrender' the portfolio, and prevented a replacement from being named. Although a nomination was eventually agreed in spring 2002, parliament has yet to confirm it.

²⁷ See Senad Pecanin, 'I Radovan zadovoljan i Petritsch uspjesan i trijumf Alijanse' and other articles in *Dani*, 26 April 2002. Also see Danka Savic, 'Ustavne promjene: Kako su mijenjani ustavi a kako stavovi', *Slobodna Bosna*, 25 April 2002. For an account of the background and issues at stake, see ICG Balkans Report N°128, *Implementing Equality: The 'Constituent Peoples' Decision in Bosnia & Herzegovina*, 16 April 2002.

that will only be answered after the October elections. It will be up to the successor governments (and the international community) to realise or stifle their potential. Since the RS parties now regard the process of constitutional reform as complete – and opponents of the Sarajevo Agreement in the Federation fear they are right – it will be the task of any new alliance to prove otherwise.

Another sphere in which the performance of the Alliance has been much criticised is the fight against institutionalised corruption. Despite declaring its commitment at the outset to cleaning house – and initiating criminal charges for misuse of public funds in the Ministry of Foreign Affairs and supporting criminal investigations of top officials of the former regime – the Alliance largely abandoned this difficult and politically risky pursuit. Instead, it has left it to the international community to take up and run with the rule of law banner.²⁸ It has paid a price, however, as the election campaign has begun, and virtually every day has brought a new allegation in the press of bribes, favours and conflicts of interest.²⁹ In failing to stake out and maintain a more determined stance on the fight against corruption, the Alliance parties have exposed themselves to both justified and unjustified taunts that they are no purer than their predecessors.

The Alliance's economic – as opposed to its fiscal – record and, in particular, its inability to create

²⁸ After wasting many years on ineffectual and fragmented judicial and legal reforms, Bosnia's foreign guardians rededicated themselves to establishing and entrenching the rule of law in early 2002, a commitment that the new High Representative has latterly made his top priority. For a detailed analysis of judicial and legal reforms in Bosnia, see ICG Balkans Report N°127, *Courting Disaster: The Misrule of Law in Bosnia and Herzegovina*, 25 March 2002.

²⁹ The unravelling of the Am-Sped affair (discussed below) has produced the most dramatic, embarrassing and literally incredible fall-out to date, implicating to various degrees virtually everyone it has touched. But another and subtler contemporary scandal reveals more about Bosnia's political culture. This is the story of unrecognised conflicts of interest on the part of ministers supervising the implementation of the CIPS project and their involvement in awarding contracts to firms with which they have family or other connections. For example, Deputy Minister for Foreign Trade and Economic Relations Jadranko Prlic has blithely dismissed the relevance of the fact that one of the principal CIPS contractors, Optima, is owned by his wife. See 'Sta Vijece ministara krije o CIPS-u', *Dnevni avaz*, 10 July 2002; and 'Suvlasnik Optime nizam ja nego moja supruga', *Dnevni avaz*, 11 July 2002.

employment and attract investors have likewise been a disappointment to many. There are several reasons for this lacklustre performance. In the first place, objective circumstances are dire. Moreover, economic revival requires more time, competence and commitment than the Alliance has had or demonstrated. Its heterogeneous membership and short-term perspective have made it unable to reconcile its many divergent interests. Most importantly, economic regeneration requires a strategy with clearly defined goals, timelines and agents of change. The Alliance parties have failed to produce any such plan.³⁰ Yet in this they are not alone. The lack of any realistic vision for Bosnia's economic development is one trait shared by all the country's political parties.

B. BUDGET UNIFICATION

Thanks to its majorities in both houses of the Federation parliament (boosted as they were by HDZ boycotts), the new Alliance government was able to tackle the fiscal and national parallelism bequeathed by the SDA and HDZ. They had run up huge debts in the maintenance of their separate power structures. Not only were the army, police, and intelligence services divided between Bosniak and Croat components, so too were the pension and health funds, government ministries and institutions and publicly owned companies. The new Ministry of Finance abolished the practice of dividing non-transparent budget allocations along national lines. This put an end to the mechanism that had sustained

parallel structures against all assault over the previous six years. The Federation budget was made to operate as a transparent treasury,³¹ with centralised revenue collection and expenditure allocation.³² In Herzegovina-Neretva Canton, by comparison, the continuing SDA/HDZ condominium still maintains a nationally divided budget.

When the Alliance took over, the Federation's debts included KM 250 million (approximately €128 million) for five unpaid months of pensions; KM 36 million for road maintenance; KM 42 million for two outstanding disability payments; KM 40 million for two missed instalments of army salaries;³³ and KM 60 million owed by various ministries. Because of these debts and the ban imposed by international financial institutions (IFIs) on further borrowing, the government had to increase revenue collection. It cracked down on tax evaders and significantly improved tax and customs receipts. In the first seven months of 2001, the budget was completely covered.³⁴ In October, the government had a KM 135 million (approximately €69 million) surplus that it used to pay off some of the outstanding pension and disability arrears.

The draft 2002 budget of KM 1.5 billion (approximately €770 million) was much more ambitious. Projected expenditures included KM 230 million in subsidies for the private sector and agriculture, as well as tax credits.³⁵ The IMF banned these, warning the government that such subsidies would not have a lasting effect on employment. It would be better to clear arrears and to finance

³⁰ The most recent effort to produce a comprehensive development plan for BiH is the World Bank's globally driven Poverty Reduction Strategy Plan (PRSP). This project serves a 'social contract' purpose by allowing the country to identify its own development priorities, which can then be supported by the IFIs and bilateral donors. The final version of the five-year PRSP for BiH is set to appear in September 2002, and will specify the direction of development in areas as diverse as economic and fiscal reforms, education, transport infrastructure, health policy and refugee return. It is being created in consultation with NGOs, the private sector, academic institutions, trades unions and the entity and state authorities. The preliminary assessment of the funds needed to implement PRSP objectives is some \$3 billion, none of which has yet been committed by donors. ICG interview with the project coordinator, 5 June 2002, and 'BiH medju najsiromasnijim u Evropi', *Oslobodjenje*, 10 June 2002. For an analysis of Bosnia's other economic woes and proposed reforms, see ICG Balkans Report N°115, *Bosnia's Precarious Economy: Still Not Open for Business*, 7 August 2001.

³¹ The treasury system provides for centralised revenue collection into a single account controlled by the finance ministry, which then allocates funds to other ministries and agencies as specified by the budget. This system replaced the old one in which every government body had its own account, with expenditures virtually untraceable due to vaguely defined budgets. This offered opportunities for misuse of public funds.

³² According to the IMF, however, the Federation army budget remains divided. *IMF country report N°02/52*, March 2002, p 10.

³³ OSCE has estimated that the total debt related to the Federation army approximates KM 500 million. ICG interview with a Federation official, 4 June 2002.

³⁴ The 2001 Federation budget was KM 1.176 billion (€601 million). *Izvjestaj o izvrsenju budzeta – proračun Federacije BiH za 2001.godinu*, Federalno Ministarstvo Financija/Finansija, Sarajevo, January 2002.

³⁵ See 'Ove godine bez isplata zaostalih invalidnina i penzija', *Dnevni avaz*, 18 April 2002.

severance packages for demobilised soldiers.³⁶ A deal was apparently struck whereby the government agreed to postpone distribution of subsidies until after the elections, hoping to prove in the meantime that it could really afford them while avoiding the appearance of buying votes.³⁷

C. SOCIAL AND LABOUR ISSUES

Cutting expenditure was the other side of the budgetary coin. The Alliance merged the two (Bosniak and Croat) pension funds, completed reforms of the Federation employment bureaux and health funds and moved towards downsizing the army by some 10,000 men. The army remains the largest single charge on the budget, gobbling up close to KM 300 million (approximately €150 million) per annum. Despite IFI strictures against borrowing, the government was permitted to borrow KM 100 million in order buy out serving soldiers. The credit is being used to offer a severance payment of KM 10,000 to each soldier who voluntarily leaves the army. There have been more than enough takers.

The government also announced plans to cut the administration by 40 per cent. But this has not been implemented. Moreover, according to the IMF, the authorities found it difficult to resist political pressures to increase wages and pension entitlements, despite the generally tight spending regime. It seems, therefore, that although the Federation government paid two outstanding pension instalments, it could have done even better.³⁸

Disability payments and benefits for war veterans and their families are also contentious areas that have long cried out for reform. Given both financial constraints and the need to restructure the whole social sector, the Federation government sought to slim down the veterans' benefits system and to restrict eligibility in order to provide increased benefits to those in greatest need. It failed, however, to get an appropriate law through parliament in time

to win a World Bank credit of €60 million with which to carry out this reform. In fact, its proposed reform turned by mid-July into a pork-barrelling measure that looked likely to jeopardise more than KM 200 million in IFI support before being withdrawn on 23 July.³⁹

But veterans and their families are a vocal, easily mobilised and publicly fêted constituency whose wrath the government had already incurred.⁴⁰ Their lobbying and threats of more demonstrations in an election year placed put the government between a rock and a hard place. While it is understandable that politicians should have been reluctant to contemplate political suicide - even for KM 200 million - the unravelling of the government's determination to cut veterans' benefits is symptomatic of what lies ahead for Bosnian governments. They will more often be forced to choose between immediate political survival and eventual economic revival.

Strikes by impoverished and irate workers are another measure of social discontent and a challenge to weak governments. If BiH were not so divided – nationally, jurisdictionally and regionally – they might prove truly destabilising. As it is, their confinement to particular sectors or localities denies them much clout. Nonetheless, the Alliance government confronted major strikes by coal miners

³⁹ See 'BiH bi mogla izgubiti vise od 200 miliona KM', *Dnevni avaz*, 13 July 2002. Had the \$60 million credit been committed by the end of June, funds set aside for BiH in the current financial year could have been used. But in the increasingly unlikely event that any credit for this purpose is now approved, it will have to come from a substantially smaller allocation for 2003 and, hence, reduce the amount of money that can be used for other projects and reforms. ICG interview with World Bank official, 20 May 2002. For further details on how much of foreign assistance is at stake see 'Zakon ugrozava i socijalna primanja', *Oslobodjenje*, 20 July 2002.

⁴⁰ Public debate on reforming veterans' support initiated by the SDP minister for veterans' affairs in 2001 led to protests by former servicemen and their families. On 1 March 2002, Alliance leaders attempted to address an angry demonstration by veterans in front of the BiH Parliament. Met with missiles and insults, then Chairman of the Council of Ministers Lagumdžija riposted that these were the same sort of people who had thrown stones at him in Banja Luka on 7 May 2001, when a riot by Serb nationalists prevented a ceremony to mark the reconstruction of the historic Ferhadija mosque from taking place. Lagumdžija's insensitive remark was much resented and widely condemned. For an alternative view, see 'Lagumdžija, Behmen, Halilovic se svadjali sa pijanicama i provokatorima', *Slobodna Bosna*, 7 March 2002.

³⁶ *IMF country report N°02/52*, March 2002, p 15.

³⁷ See 'Grabovac ce odgovarati zbog embarga MMF-a?', *Oslobodjenje*, 13 April 2002. For the government's interpretation of the postponement, see 'MMF nam nije nametnuo embargo niti ce biti rebalansa budzeta', *Dnevni avaz*, 15 April 2002.

³⁸ *IMF country report N°02/52*, March 2002, p 11.

in the Tuzla region soon after it took power. The strikes reflected the miners' anger over the previous government's mismanagement of their industry. Debts had been allowed to mount and the value of the mines had declined. For example, in 1994 the Banovici mines were KM 5 million (approximately €2.6 million) in debt, but were valued at KM 360 million (approximately €180 million). By 2000, the debt had risen to KM 80 million but their value had dropped to KM 56 million. This negative equity was partly explained by falling coal prices, but was also a result of incompetence or worse. Among Banovici's debts was KM 40 million in unpaid social contributions.

The government resolved to buy peace. It paid off the debt, spent KM 5 million to improve workers' safety and offered KM 4.5 million in tax breaks on the oil and petroleum derivatives used in the coal mines. These measures brought relief to a part of a sector that employs some 40,000 workers, but they did not amount to an energy policy.⁴¹ And as the elections approach, more miners' strikes have been announced.⁴²

⁴¹ 'Stanje je ocajno, ali se pogorsava', *Dani*, 21 June 2002. Energy is one of BiH's most important natural resources. The country generates 28 per cent of its electricity in hydroelectric plants and 70 per cent in thermal plants. The Federation, however, is more reliant on (and richer in) hydropower: 46 per cent of electric power comes from hydro plants and 54 per cent from thermal plants. ICG interviews with officials of the World Bank and the Federation Ministry of Energy and Industry, 20 May and 3 June 2002. It took over two years of hard inter-entity negotiations before agreement was reached in early 2002 on a restructuring scheme for the energy sector that would permit BiH to benefit from a \$230 million-credit from the World Bank. The plan, however, has continued to raise hackles on the grounds that it will favour foreign energy companies over domestic ones when it comes to winning electricity distribution contracts. See 'Osporen vladin koncept', *Oslobodjenje*, 25 June 2002.

⁴² Conflicts between the Federation government and cantonal governments (even those controlled by Alliance parties) over which of them should take responsibility for the problems of debt-ridden state firms or those that have been ineptly privatised have become common. The case of the Tuzla-based chemical company Polihem is indicative. Now owned by one of BiH's investment funds, Polihem was purchased with vouchers, not hard cash. In the absence of any investment or hands-on management by the owners of the failing firm, its workers recently turned to the only address they knew – the Tuzla Canton government. In spring 2002, Polihem workers organised public protests and blocked roads in an effort to get the authorities to pay their outstanding health and pensions contributions, amounting to tens of millions of marks. Their demands led to a dispute

D. PRIVATISATION

Privatisation is a necessary if not sufficient precondition for economic revival. But retention of government control over large publicly owned enterprises still strikes most Bosnian politicians as both necessary and sufficient for them to retain power. They pay lip service to privatisation, but are shy of doing it. Progress in any case has been halting. The Federation has so far privatised 65 per cent of smaller enterprises, a category of firm which is generally expected to enjoy above average growth and to create new jobs after privatisation. However, only 17 per cent of larger enterprises have been sold. This means that the 2002 target of privatising 60 per cent of such firms, set by the International Advisory Group, will not be met. Among the most important (or 'strategic') enterprises, only 16 per cent (nine out of 56) have been sold, despite expert support from several international agencies.⁴³

The reasons behind this mediocre performance are Bosnia's continuing unattractiveness to domestic and foreign investors alike, the extra uncertainties of an election year, over-manning (which cancels out the advantage of low wages), large debts and the need for substantial investments to bring obsolescent and moribund firms back to life.⁴⁴ As if these disincentives were not enough, the prevailing political culture of hostility to privatisation, unresolved issues of ownership and the politicians' profound reluctance to let go further undermine the process.

between the Alliance governments in Tuzla and Sarajevo. The Federation denied any responsibility for the firm since it had been privatised by the canton's privatisation agency. Left to deal with hundreds of wrathful workers on its own, the cantonal government eventually decided to pay off the arrears, thereby mortgaging the income from future privatisations in the canton. See 'Beslagic podnio ostavku', *Oslobodjenje*, 26 October 2001; 'Odbijena Beslagicева ostavka, rekonstrukcija vlasti do 10. Novembra', *Oslobodjenje*, 28 October 2001; and 'Vise stotina radnika Polihema pozdravilo dogovor sa vlastima', *Dnevni avaz*, 14 May 2002.

For details on the futility of voucher privatisation and, in particular, the inability of voucher-based investment funds to revive companies, see David Ellerman, *Voucher Privatisation with Investment Funds: An Institutional Analysis*, World Bank Policy Research Working Paper, N°1924, May 1998.

⁴³ ICG interviews with Alliance party leaders, April-June 2002.

⁴⁴ OHR Economic Newsletter, Vol. 5, Issue 1, 25 May 2002, www.ohr.int.

Political controversy has been most intense in the cases of highly profitable companies like Aluminium Mostar (AM) and Fabrika Duhana Sarajevo (FDS, Tobacco Factory Sarajevo) that should be ripe for privatisation (or re-privatisation) but whose 'loss' would most afflict both populace and parties. The Alliance has appeared to devote more time and energy to taking control of such firms – by putting its own people on their boards – than it has to thinking about their re-privatisation.⁴⁵ Alliance leaders have argued that establishing their control has been necessary in order to rectify the abuses of the previous regime and to prevent privatisations that would amount to theft, based as they would be on wartime 'cleansing' of the workforces and subsequent asset stripping and embezzlement. Yet despite all the time and effort expended on installing 'politically correct' directors, some important firms have eluded the Alliance's grasp.

In February 2002, the Federation Finance Police established that the privatisations of FDS conducted before and after the war were invalid, and that the company remains in public ownership.⁴⁶ The Federation Supreme Court is still deliberating on the appeal against the Finance Police's decision by FDS manager Sefik Lojo.⁴⁷ Despite its importance to all concerned, the case is unlikely to be resolved any time soon. In the meantime, FDS remains under the control of a man who is being prosecuted in another case of allegedly illegal privatisation.⁴⁸

The Federation government's inability to remove Lojo and to repossess FDS has undermined its claims to have smashed the old system of corruption and misuse of state companies.⁴⁹ Nor is the AM saga any closer to resolution.⁵⁰ After the Federation government rejected an OHR-organised audit of AM, the World Bank offered to underwrite another audit so as to permit further private investment in the company. The Federation, however, wants a new audit to be conducted by its own Financial Police. But they have been denied access to AM.⁵¹

Insisting on changes to the governing boards of those few profitable enterprises BiH possesses – and then squabbling over whom should be appointed from among the Alliance parties' faithful – has undoubtedly delayed privatisation. But, according to government officials, it may have brought benefits as well. The changing of the boardroom guard has apparently led to reduced losses by public companies: from some KM 400 million (approximately €200 million) in 2000 to KM 99 million in 2001.⁵² If this means that more competent or honest people are now in charge, then effective and profitable privatisation may yet follow, notwithstanding the black marks represented by AM and FDS.

More worryingly, two major foreign investors, Coca-Cola and KIA (the Kuwait Investment Agency, which has sunk KM 120 million into Zenica's BH Steel, thus acquiring a half stake), have recently threatened to pull out of BiH.⁵³ The reasons, they say, are that its divided economic space exposes them to double taxation,⁵⁴ while its

⁴⁵ ICG interview with Bosnian official, 3 June 2002. ICG has been unable to establish the number of people the Alliance has nominated to the governing boards of state-owned companies. Repeated requests to the government for this information have gone unanswered.

⁴⁶ Federation Finance Police, 'Zapisnik o izvršenoj kontroli prethodno izvršene vlasničke transformacije kod Fabrike duhana Sarajevo - Dioničarsko društvo u mjesovitoj svojini sa P. O. Sarajevo', 9 January 2002; and 'Rjesenje za otklanjanje nepravilnosti i nezakonnosti provedene vlasničke pretvorbe državnog vlasničkog kapitala', N°011-181/02, 20 February 2002.

⁴⁷ The Federation Supreme Court dismissed two out of three appeals against the Finance Police. The third, which is still being considered, concerns the ownership of FDS. See 'Odbijena tuzba FDS protiv nalaza Finansijske policije', *Dnevni avaz*, 13 July 2002.

⁴⁸ This case involves the privatisation of the food-processing firm Fruteks of Celici through fraudulent capital investments and bank loans by the now bankrupt BH Bank. Finance Police Criminal Charge N°FP=101-385/01, 8 March 2001.

⁴⁹ In a recent letter to Premier Alija Behmen, Principal Deputy High Representative Donald Hays expressed impatience over the slow pace of removing barriers to business and carrying out transparent privatisations in the Federation. In particular, Hays asked why FDS remains in limbo, despite all the efforts of the Finance Police and government. Letter, Hays to Behmen, 1 July 2002.

⁵⁰ In fact, the involvement of a major foreign investor (DaimlerChrysler) has made it yet more convoluted. For an account of the battle over AM, see ICG Balkans Report N°115, *Bosnia's Precarious Economy: Still Not Open for Business*, 7 August 2001.

⁵¹ See Senad Pecanin, 'Posljednji cin najvece posljetatne pljake u BiH', *Dani*, 21 September 2001, and Vildana Selimbegovic, 'Sedmi dan', *Dani*, 14 June 2002.

⁵² ICG interview with a Federation minister, 3 June 2002.

⁵³ See 'Kuvajcani prijete povlacenjem', *Dnevni avaz*, 27 June 2002.

⁵⁴ Joseph Inghram, 'To je ono pravo', *Oslobodjenje*, 25 June 2002. Federation-based Coca-Cola has complained that

laws make shedding redundant staff difficult. Although SBiH leader Silajdzic continues to claim that BH Steel has been a glowing success, recent revelations regarding both the big salaries paid to directors and the extent of over-manning on the shop floor support KIA's complaints that its investment is going sour.⁵⁵

It is clear that once risk-taking foreign investors have been induced to come to Bosnia, they also need incentives to stay. Personal connections – such as those of Silajdzic with the Kuwaitis – and a friendly political regime may help bring investment,⁵⁶ but such things are evanescent, and ultimately unavailing if the management lacks the power to manage and the business environment is not right. The Alliance has done very little to remedy either deficiency.⁵⁷ Meanwhile, the Federation government continues to postpone making difficult decisions concerning the fates of some 2000 BH Steel workers, and the Kuwaitis continue to threaten withdrawal.⁵⁸

E. THE BLACK ECONOMY

Nor has the Alliance been able to alter the fact that the only companies that are regularly able to treat Bosnia as a single economic space are fictitious or phantom firms. Such companies have an annual turnover of approximately KM 1 billion (approximately €500 million). They cause the entities to lose over KM 680 million in revenue.⁵⁹ Paradoxically, their existence is possible only because the BiH economic space is divided. This usually makes it impossible to track them down, enforce the law and collect taxes and customs

double taxation – in the Federation and in the RS – impairs its competitiveness.

⁵⁵ See interview with Haris Silajdzic, 'Pobjedujemo sigurno', *Dani*, 14 June 2002.

⁵⁶ In the case of BH Steel, the investment has seemed more like a social program to sustain the workforce than a serious investment accompanied by the installation of a skilled management team and transfers of technology and know-how.

⁵⁷ See 'Zasto se u BiH za registraciju firme trazi analiza krvi', *Dnevni avaz*, 28 June 2002.

⁵⁸ See 'Kuvajcani prijete povlacenjem', *Dnevni avaz*, 27 June 2002; and 'El-Mari: Ako odemo ponijecemo svoj novac', and 'Zahitjevi kuvajtskih investitora nezakoniti', *Dnevni avaz*, 28 June 2002.

⁵⁹ 'Fantomске фирме отеле 808 милиона марака', *Nezavisne novine*, 22 May 2002. For details on how phantom firms launder funds, see 'Prevara godine', *Dani*, 7 June 2002.

duties. In addition, the fact that revenue is collected at the retail level vastly increases the number of firms the authorities need to police. Rather than checking for evasion by the several hundred larger trading companies that account for 50 per cent of total turnover, the tax authorities need to monitor tens of thousands of small concerns, thousands of which, in turn, are fictitious.

Customs fraud cases have recently rocked both entities, leading to the resignation of RS Finance Minister Milenko Vracar on 13 June 2002, to the dismissal of his Federation counterpart, Nikola Grabovac, by the High Representative the next day, and to the resignation of RS Customs Director (and SDS loyalist) Goran Popovic on 18 June.

Grabovac was sacked for refusing to accept political responsibility for a KM 1.7 million (approximately €870,000) loss of revenue resulting from the wrongful return of customs duty deposits to the Orasje-based company Am-Sped. Despite the fact that Am-Sped had been subject to criminal proceedings for customs fraud since 1997, Grabovac approved the KM 1.7 million refund.⁶⁰ He subsequently denied he had known of Am-Sped's record at the time, and argued that he had been set up by political enemies.⁶¹ Although the case looked at first as no more than a bungled attempt by a Croat politician to do a good turn to a Croat-owned firm, it has since exploded to embarrass the Alliance generally – and looks likely to continue to do so through the campaign.

The European Commission-funded Customs and Fiscal Assistance Office (CAFAO) had alerted both entities to the dimensions of customs fraud in spring 2001, and proposed a sixteen-point action plan to

⁶⁰ In its origins, the case involved the falsification of customs documents certifying that goods imported into the Federation had been cleared in the RS where duty was paid. The false documents were then used to claim back the cash deposit against customs duty paid by the importer at the border crossing as a guarantee that the duty would be paid at the point of sale. The Am-Sped goods, however, were reportedly never sold in the RS, and so no duty was paid. Instead, they were sold duty-free in the Federation, after which Am-Sped claimed the refund on its KM 1.7 million deposit. ICG interview with CAFAO official, 13 June 2002.

⁶¹ For details, see the NHI open letter, 'Nova Hrvatska Inicijativa: Priopćenje za javnost', *Oslobodjenje*, 13 June 2002, and 'Pedi Esdaun smijenio ministra Nikolu Grabovca', *Oslobodjenje*, 15 June 2002. The High Representative's decision can be accessed at www.ohr.int.

combat it. The Federation government proceeded to implement these measures, but soon achieved all it could on its own. Real success depended on enlisting the co-operation of the RS, since shady companies move their operations back and forth between the entities to benefit from the discrepancies in their legal and administrative environments. The RS, however, has done very little to implement CAFAO's recommendations or to collaborate with the Federation.⁶²

The Federation not only improved its revenue collection, but also carried out far-reaching reforms of the customs and tax administrations, which now have the intelligence and enforcement capacities to deal with systemic fraud.⁶³ But while the Federation Tax Administration's wholesale trade department employs 78 inspectors, its equivalent in the RS has just eight. Nor, despite facing the same problems – and having an even greater need for revenue – has the RS undertaken significant reforms.⁶⁴

⁶² ICG interview with a foreign official, 13 July 2002.

⁶³ The recently passed Federation tax law gave sweeping powers to tax officers, including the rights to search and seize property and to carry arms. Some Alliance MPs objected, arguing that abuses of official authority and human rights could occur if the exercise of such powers were not subjected to judicial supervision. See 'Silom iznad drzave', *Oslobodjenje*, 2 June 2002.

⁶⁴ CAFAO advised the RS Tax Administration that it needed to employ 40-50 inspectors. (ICG interview with customs official, 13 June 2002.) Finance Minister Vracar and Customs Director Popovic were unlikely casualties of this failure to clean house. The powerful are not normally called to account in BiH, and more rarely still in the RS. A routine analysis by CAFAO of textile imports into the RS stumbled upon a scam within the customs administration that had cost some KM 30 million in lost revenue in a year, but had netted KM 5 million in bribes for those involved. Some of these profits, in turn, had gone on maintaining Radovan Karadzic and his bodyguards. Allegedly run by the head of the customs intelligence unit, the scam worked by allowing importers of textiles to declare and pay duty on only a percentage (often a third) of a given cargo's real value. In return, participating customs officers would take and distribute a substantial kickback. Many of the importers, meanwhile, were actually based in the Federation, but used fictitious RS companies for cover. If the reluctant RS law enforcement agencies eventually prove that a purpose of the scheme was indeed to support Karadzic, then the ultimate irony of this sordid affair will be that some Federation businessmen unwittingly helped protect their onetime persecutor. See Dragan Jerinic, 'Serb Minister Resigns over Customs Scandal', *IWPR Balkan Crisis Report*, N°343, 14 June 2002; and the interview with CAFAO head Allan Jensen, 'Pet miliona mita, 40 miliona utaje', *Nezavisne novine*, 23 May 2002.

F. STATE-BUILDING

Long a virtual rather than an actual or functional state, Bosnia & Herzegovina has benefited from the advent of the Alliance for Change and its readiness to work with the international community to endow the country with more of the attributes of sovereign statehood. Not only has the Alliance shared the international strategy of integration by sector, but it has also been ready and able to 'domesticate' with less delay the laws, agencies and programs that have been imposed or established by the foreigners. By embracing the notion of 'partnership', Alliance leaders have also sought to make themselves subjects in Bosnia's development, rather than objects of the international community's policies and power.

But for all the real and rhetorical improvements registered since January 2001, BiH still is not a competent state, let alone one that inspires or enjoys the loyalty of all its citizens. The fundamental obstacle remains the absence of a common vision or definition of what Bosnia is for, how its parts should relate to the whole and how its people(s) ought to order their various levels of identity and allegiance. Overt separatism may be in retreat, but two small sensations in the press in June 2002 highlight the continuing dilemma of whether BiH is the legitimate homeland of all its peoples or merely a *pis aller* for too many of them.

Inspired by the sight and sound of footballers and their fans singing their countries' national anthems during the World Cup, Sarajevo actor Josip Pejakovic proposed a competition to write lyrics for Bosnia's tuneful but generally ignored anthem. The fact that BiH has a hymn at all is the result not of local initiative but of international pressure. Moreover, the additional facts that the composer both hails from Republika Srpska and has been fighting the state authorities for payment of the prize money he was promised for winning the original competition have not helped his anthem to gain acceptance. Bosniaks, Croats and Serbs prefer their traditional songs. To get the ball rolling, Pejakovic penned lyrics himself. His idea was quickly endorsed by Beriz Belkic, current chairman of the state Presidency, and other leading politicians, albeit with expressions of scepticism by some either that lyrics acceptable to all could be produced or that the

current tune is worthy of such adornment. The competition, however, seems likely to go ahead.⁶⁵

Among those supporting the proposal was Nikola Spiric, the Serb chairman of the BiH House of Representatives, who took the opportunity to refute the proposition that Bosnia's Serbs invariably oppose any scheme to affirm the state.⁶⁶ Yet in the same week *Reporter* columnist and Banja Luka law professor Miodrag Zivanovic drew attention to a recent speech by the pro-rector of Srpsko Sarajevo University. Addressing a conference of RS faculties of education, the pro-rector reportedly summoned those present to "fight with all their might" against the plans of the international community to turn us into citizens. "No", declared the professor, "We dare not become citizens - we must remain Serbs!"⁶⁷

Spiric's endorsement of a full-fledged hymn and Zivanovic's mockery of the pro-rector are positive signs – as, more substantively, was the RS political establishment's earnest engagement in the negotiations leading to agreed principles for entity constitutional amendments in the spring. But they do not alter the fact that, for Bosnia's nationalist parties – and for almost all parties in the RS – politics remains a zero-sum game. As far as the RS is concerned, virtually every initiative to equip BiH with state-like powers, responsibilities and dignities is denounced as unconstitutional and resisted to the last semi-colon in order to stop it in its procedural tracks.⁶⁸

It is this inveterate resistance that has made the Office of the High Representative Bosnia's principal legislator, imposing laws to strengthen the state that could never otherwise be passed. Once imposed and implemented, however, the

parliaments are subsequently dragooned into enacting them. By such means are Bosnians required to take 'ownership' of what others have decreed is best for them.⁶⁹

Matters have improved under the Alliance. The Council of Ministers (CoM) is composed of people who, because they share some common ground, have been better able than their predecessors to agree policy and propose legislation to the Parliamentary Assembly. What unites them is a measure of pragmatism in the short term and a vague commitment to European integration in the longer term. Their first practical initiative was to consolidate the six state-level ministries, thereby doing away with their tripartite (national) divisions.⁷⁰ Although national parity and rotation are still the rule, the current CoM has sought to reduce the disruptive effects of the latter practice by agreeing that each 'constituent people' should have an equal number of ministers who need not rotate every six months. Only the chairmanship of the CoM rotates among ministers, who retain their specific portfolios while serving as chair.

In policy terms, the CoM concentrated initially on improving Bosnia's international standing. The major success in this respect was accession to the Council of Europe in April 2002.⁷¹ The Foreign

⁶⁵ Prvi tekst himne predložio Josip Pejkovic, *Oslobodjenje*, 17 June 2002, and I političari se slazu da država himna treba tekst', *Oslobodjenje*, 20 June 2002.

⁶⁶ Ibid.

⁶⁷ Miodrag Zivanovic, 'Nevjerovatno, a istinito', *Reporter*, N°217, 18 June 2002, p 9.

⁶⁸ For details on this dynamic, see ICG Balkans Report N°118, *The Wages of Sin: Confronting Bosnia's Republika Srpska*, 8 October 2001, pp 42–45. Even when RS representatives do accept an innovation that boosts the competence of the state, they take elaborate precautions to reassure their constituents that no threat to entity prerogatives is involved. Thus, in reporting the BiH parliament's passage of the law creating the State Information and Protection Agency (SIPA) in June 2002, *Glas Srpski* hastened to tell its readers that this was no slippery slope towards a state interior ministry. 'Odbijen prvi udar', *Glas Srpski*, 22-23 June 2002.

⁶⁹ In June 2001, for example, Alliance MPs, supported by PDP and SPRS deputies, adopted ten laws that had been imposed by the High Representative between 1998 and 2001, including laws on the State Border Service, the BiH coat of arms and flag (which were OHR designs) and a package of laws relating to standards, weights and measures, and including a state-level institute to monitor and enforce them. *Tebelarni pregled akata u parlamentarnoj proceduri za mjesec maj 2002*, Parlamentarna skupština BiH, Zajednička služba, May 2002.

⁷⁰ The six ministries are foreign affairs, European integration, foreign trade and economic relations, treasury, civil works and communications, and human rights and refugees. Each of the three 'constituent peoples' has two ministers. But for each minister there are two deputy ministers representing the other two nations. The conspicuous absence of ministries of justice, interior, defence, education or culture, health, energy, industry, environment and agriculture are fruits of Dayton, as is the fact that the Council of Ministers is not a government.

⁷¹ Membership in the Council of Europe not only has the symbolic value of recognising BiH's place in the European family of states, but it also brings the tangible benefit of affording Bosnian citizens access to the European Court of Human Rights. There are, however, 90-odd post-accession obligations that BiH is obliged to fulfil before it can claim to embody European standards of democracy and human rights.

Ministry has also sought to assert BiH's place in the region, and particularly as a state that is not subordinate to its entities' (Dayton-mandated) special relationships with either Croatia or Yugoslavia.⁷² The 15 July Sarajevo summit of the Croatian and Yugoslav presidents with the BiH Presidency put a symbolic seal on its neighbours' full recognition of the country's sovereignty and territorial integrity. The Foreign Ministry has, in addition, taken steps to slim down, unify and professionalise BiH's corps of diplomats.⁷³

The current three-man state Presidency has likewise done much to enhance its own relevance, dignity and efficiency. The incumbents' agreement to establish a common secretariat to service them all has helped.⁷⁴ The Presidency has also become more visibly engaged in affairs of state, its members appearing often together on television and in public and issuing joint statements on matters of moment. The relative absence of discord among the moderate politicians who have taken (eight monthly) turns as chairman has contributed to improving both BiH's image abroad and the repute of its institutions at home.⁷⁵

⁷² Diplomatic relations were established with post-Milosevic Yugoslavia in 2001. A trade agreement, abolition of visas and plans to recognise dual citizenship followed in 2002. For its part, post-Tudjman Croatia repudiated its special relationship with the Federation and its Croats, putting its relations instead on a state to state basis.

⁷³ Forty-two diplomats were recalled from abroad in an effort to consolidate the service and to rid it of people appointed solely to satisfy the previous regime's need to reward or exile party stalwarts and political rivals. The foreign ministry also filed criminal charges for misuse of funds against Muhamed Sacirbey, the wartime ambassador to the UN and sometime foreign minister. ICG interview with a Ministry of Foreign Affairs official, 31 May 2002. Also see 'Lagumdzija: Samo je Sacirbegovic ukrao novac od BiH i njenih gradjana', *Dnevni avaz*, 9 March 2002; 'Milionski manjak ambasadora Moa', *Dani*, 30 March 2002; and 'Zatvoriti ambasadu ili ambasadora', *Dani*, 28 June 2002.

⁷⁴ Before the Alliance came to power, the Presidency was completely subdivided into Bosniak, Croat and Serb offices. The establishment of a joint secretariat in early 2001 meant that incoming mail could be shared and an archive established. The prominence of the candidates for the Presidency in this year's elections testifies to its enhanced status. ICG interview with an independent consultant, 26 April 2002.

⁷⁵ This tendency to get along with his colleagues has, however, occasionally spelled trouble for the Serb member, Zivko Radisic. He was roundly abused in the RS in mid-

Although more than cosmetic, the reforms to the machinery of state undertaken to date have been modest. In particular, they reflect the limited extent to which it is possible in BiH to eschew narrow party or national interests, to build consensus and to mobilise for reform. For example, it proved impossible for the Alliance to adopt and pass a law to establish a professional civil service. The outgoing High Representative had to impose it in May 2002.⁷⁶ Even a supposedly shared foreign policy goal can be held hostage to the rule of the lowest common denominator. It took more than a year, for example, to mobilise the requisite will to enact the generously pared down list of laws that BiH was obliged to pass to gain entry into the Council of Europe.

Where the interests or sentiments of the constituent peoples and their parties diverge, the state can have no coherent foreign policy. And if *raisons d'etat* nonetheless compel the CoM to adopt one, it can expect howls of outrage. Thus, when BiH was required after 11 September 2001 to put itself fore square on the side of the United States in the war against terrorism, the CoM was subjected to severe criticism by predominantly Bosniak members of the human rights lobby. Similarly, when the (Croat) defence minister in the Federation sold some obsolescent armoured personnel carriers to Cameroon through Israeli intermediaries in early 2002, there were fierce objections from the (mainly Bosniak) media to doing any business with Israel while Palestinians were under siege on the West Bank.

While most Bosnian politicians – and all those in the Alliance – nowadays proclaim themselves keen on joining the European Union, progress has been halting in fulfilling the eighteen conditions on the 'road map' that will, in turn, take BiH towards a feasibility study and, eventually, a Stabilisation and Association Agreement. What should have taken six months has required nearly two years, and may yet fail at the last milestone because of RS objections to passing the final law on the list: the Public Service Broadcasting act. Although Petritsch imposed this law in late May 2002, it must also be enacted by the state parliament if the road map is to be

2001 for agreeing to a common framework document on BiH's defence policy.

⁷⁶ It was, however, passed retrospectively by the Parliamentary Assembly according to the urgent measures' procedure in late June.

completed.⁷⁷ Meanwhile, Bosnia's neighbours are moving ahead with greater speed and resolution.⁷⁸

Legislative hold-ups also imperil efforts to create a single economic space and to facilitate both inward investment and Bosnian exports. Principal Deputy High Representative Donald Hays called upon the entity premiers and the chairman of the CoM on 25 June 2002 to do everything in their power to get twelve crucial economic-reform laws through their respective assemblies. Of the twelve, eight are state-level acts, seven of which have been duly adopted by the CoM but are stuck in the Parliamentary Assembly.⁷⁹ Parliamentary debates may be more decorous these days, and MPs may have widened their horizons through increased contacts with foreign parliamentarians,⁸⁰ but obstruction remains their weapon of first and last resort.

Although sessions of the state parliament are now called only when the agenda is set – thereby eliminating windy debates about what should be discussed – this has had the dual effect of delaying parliamentary sittings and draining them of content when they take place. Since Alliance managers refrain from risking votes they may not win, MPs are relegated to a largely formal role. This is conducive neither to parliamentary professionalism nor to the institutionalisation of representative democracy.

At present, party caucuses have no access to legal or other experts who might help them interpret the meaning and implications of proposed legislation. Nor is there any significant preparatory or committee work before or between sessions. Even party caucuses rarely harmonise their positions or plot their voting strategy. (On the other hand, deputies from the RS can usually be relied upon to

toe the entity line.) The executive, for its part, appears to make little effort to woo, guide or rally its deputies. Instead, decisions are made and enforced through unofficial channels. The sole role of MPs is to turn up, vote and collect their per diems. As long as the Parliamentary Assembly represents a hurdle to be overcome rather than a co-equal branch of government, both democracy and the state are the weaker.

By giving priority to passing as many state-building laws as possible, the Alliance has failed to address this parliamentary deficit. Rather, it has frequently sought – once agreement has been reached by the CoM and the Presidency – to preclude parliamentary stalling and abuse of the entity-majority requirement by rushing laws through the Parliamentary Assembly according to the urgent measures' procedure that disallows amendments.⁸¹ Laws either pass as proposed or fail. By raising the price of disobedience, the CoM can more often get what it and the international community wants. This tactic was adopted in the case of the Election Law that was finally passed in August 2001⁸² and has had to be employed in respect to many laws previously imposed by the High Representative, but for which BiH was required to assume 'ownership'.

Thanks to the High Representative, in fact, BiH now has institutions such as the State Border Service, the State Court, the Institute for Standardisation and the Energy Regulatory Agency whose staffing and structures are based on professional rather than national considerations. The State Court will soon establish a special chamber to deal with organised crime and corruption,⁸³ and in time there is likely to

⁷⁷ The RS objects to the PBS law because it will threaten government control over the entity broadcaster, RTRS.

⁷⁸ See the recent comments by External Affairs Commissioner Chris Patten, 'BH vlasti daju samo izgovore', *Dnevni avaz*, 7 June 2002, and 'BiH prewise kasni sa integriranjem u Evropu', *Dnevni avaz*, 17 June 2002.

⁷⁹ 'OHR Calls on Government Leaders to End Damaging Legislative Delays', OHR Press Release, 27 June 2002. www.ohr.int

⁸⁰ Wearing its populist hat, *Oslobodjenje* attacked such junketing ('Sa sekretaricama i vozacima za putovanja potrosili 130.000 KM', 16 June 2002), although the sum expended was minuscule. See the counter-attack by Sejfidin Tokic, 'Suocen sam sa neprincipijelnom kampanjom', *Dnevni avaz*, 17 June 2002.

⁸¹ Passage of a law in the BiH House of Representatives requires a double majority: of both the House as a whole and of the deputies from each entity. Given the preordained, cross-party solidarity of its deputies, this provision has worked to the advantage of the RS. Implementation of the 2002 constitutional amendments will, however, dilute this advantage. According to some accounts, the CoM invoked the urgent procedure for nearly half the 50-odd laws it had sent to parliament by spring 2002. ICG interview with an independent consultant to the BiH state institutions, 26 April 2002.

⁸² The support of PDP and SNSD deputies for the Election Law created ructions amongst the RS political establishment, which accused those Serbs who voted in favour of the law of betraying RS interests. See ICG Balkans Report N°118, *The Wages of Sin: Confronting Bosnia's Republika Srpska*, 8 October 2001.

⁸³ 'Vijeca protiv kriminala i korupcija', *Oslobodjenje*, 18 June 2002.

be another special chamber for trying war crimes in the country according to ICTY criteria. Since the formation of the Alliance, the High Representative has imposed twenty laws on state-level and constitutional matters, including those on the civil service and conflicts of interest. The Parliamentary Assembly, for its part, has passed close to 40 laws, some of which had been imposed years before.

On the other hand – and thanks in large measure to a tactical error by Presidency Chairman Belkic and the SBiH – the 2002 state budget was stalled for six months in parliament.⁸⁴ Belkic insisted that the budget should openly bear the costs of the agent representing the former Republic of Bosnia & Herzegovina in its long-standing suit against Yugoslavia at the International Court of Justice. Unsurprisingly, RS representatives threatened repeatedly to veto the whole budget because of this KM 450,000 (approximately €30,000) item. Belkic only withdrew when it looked as if the absence of a budget would deprive BiH of a vital IMF credit.⁸⁵ A face-saving solution was found by lodging the funding of the agent in the so-called budgetary reserves.⁸⁶ In the emerging pre-election hostilities, however, Belkic's mistake is now being ascribed to the SBiH's rivals in the Alliance.⁸⁷

Curing the state's fiscal infirmities will take more than a belated budget and another IMF credit. BiH's credit-worthiness is nil, burdened as it is by both growing external and internal debts. The external debt is KM 4.3 billion and the internal debt is some KM 10 billion (approximately €5 billion). The internal debt both undermines the entities' fiscal stability and offers them incentives to hide expenditure, make non-budgetary payments, milk public companies, forgive debts and/or to push up

taxes and charges in order to cover shortfalls.⁸⁸ The financial crisis is expected to hit by autumn 2003.⁸⁹ Whatever governments emerge from the October elections, they will have to cope with the storm.

One measure that could both help resolve the crisis and shore up BiH as a competent state would be to introduce Value Added Tax. Aside from its efficiency as a means of collecting tax and its necessity if BiH is to proceed towards European integration, the manner in which VAT is applied will profoundly affect the balance of power between the state and the entities. VAT is scheduled for introduction in 2003 as a single tax for the entire country. Yet the key questions that are still open are how the proceeds will be distributed between the state, the entities and Brcko district, and who will do the distributing. As matters stand, the state is dependent upon the fiercely competitive entities (and Brcko) to collect taxes and customs duties and to provide it with its widow's mite. The advent of VAT, however, could be used to redress this imbalance, as well as to unify the Bosnian taxation space and to eliminate the competition for revenue produced by the country's fiscal fragmentation. In any case, many of the internal debts are the responsibility of the state. It is the state, therefore, which should have the means to discharge them.

The state needs this power. Given the increasing scope of regional free trade agreements, the importance of customs revenue will slowly diminish. This, in turn, will create an incentive to unify the entities' customs administrations and to realise the savings that will accrue from eliminating duplicate institutions. But as customs revenues decline, the significance of tax revenues will rise. So, too, will the importance of robust collection, enforcement and tax policy. This should work in

⁸⁴ According to the Constitution, one of the Presidency's powers is to propose the annual budget to the Parliamentary Assembly, following the recommendations of the CoM. Article V(3) of the BiH Constitution.

⁸⁵ ICG interviews with Alliance party leaders, May-June 2002.

⁸⁶ 'Budzet na popravnom', *Glas Srpski*, 14 May 2002, and 'Budzet bez agenta', *Glas Srpski*, 15 May 2002. However justified in moral terms and useful as a means of scoring political points, Belkic's initiative was bound to fail. The eventual mid-June compromise, saving the IMF credit and finally providing BiH with a budget, means that the lawsuit will probably remain on hold this year while alternate means of funding are pursued

⁸⁷ See Senad Pecanic, 'Sedmi dan', *Dani*, 28 June 2002.

⁸⁸ The internal debt includes, among much else, citizens' pre-war foreign currency savings, war damage, and outstanding salaries, pensions and social payments. For details, see 'Drzava ce povecati porezne stope ili dadzbine?', *Dnevni avaz*, 27 June 2002. For an example of the current debate on whether to use part of the proceeds of privatisation for repaying internal debt or to revive production, see 'Unutrasnji dugovi deset milijardi KM', *Dnevni avaz*, 26 June 2002.

⁸⁹ The Federation government's pre-election quest to appease various constituencies is endangering a stand-by arrangement with the IMF, and has required Paddy Ashdown to fly to Washington to sort matters out. See the interview with Ashdown, 'Spasavamo BiH od bankrota', *Dnevni avaz*, 19 July 2002.

favour of a unified, state-level tax administration or, at the very least, symmetrical systems in the entities.⁹⁰

Anticipating pressure to have VAT collected on the state level, the RS government has already been arguing that tax policy is the constitutionally ordained prerogative of the entities. In view, however, of the mess they have made of it, of the prevalence of corruption and dysfunctional competition and of the financially crippled condition of the state, both fiscal efficiency and political necessity should prevail over strict constructionalism. The introduction of VAT should be used to empower the state - not only to collect and distribute revenue, but also to decide on fiscal policy, freed from the mutually exclusive interests of the entities.⁹¹

III. THE FUTURE: ENCOURAGING EFFECTIVE GOVERNMENT

A. THE CAMPAIGN

The governments formed after the October elections will have four-year mandates. This should, in itself, militate in favour of responsibility in the exercise of power by liberating the victors both from their obsession with dividing the spoils of office and perpetually campaigning to keep them. The progressive implementation of the entity constitutional amendments imposed by the High Representative in April 2002 will also change the rules of the political game as entity, cantonal and municipal governments, the public administration and the judicial system are nationally integrated. Equally, the obligations BiH has assumed through its entry into the Council of Europe⁹² and the requirements it will have to meet if it is to move forward towards a Stabilisation and Association Agreement with the European Union and membership in NATO's Partnership for Peace will make far-reaching reforms unavoidable.

In any case, radical and retrograde options that would further divide BiH by creating a third (Croat) entity or permit the secession of the RS and its unification with Serbia have lately loomed less menacingly. But neither is it reasonable to imagine that the international community will go on bailing out Bosnia's ineffectual governments for much longer. They will increasingly have to cope themselves with their inability to collect or generate sufficient revenues to pay their obligations to their citizens and to service the country's mounting debts.

⁹⁰ IMF Annual Report 2001, pp 17-18.

⁹¹ Although it will be difficult to convince RS parties to pay any attention to their constituents' material interests, the entity's growing impoverishment relative to the Federation is another argument for strengthening the Bosnian state's capacity to make fiscal and economic policy. According to the preliminary results of the World Bank's survey of living standards in BiH, 18 per cent of Federation residents live in poverty, but 28 per cent of RS inhabitants do so - and their degree of impoverishment is greater in absolute terms as well. Whereas GDP grew by 7.1 per cent in the Federation in 2001, in the RS it fell to just 1.9 per cent. ICG interview with a World Bank official, 20 May 2002.

⁹² The 91 post-accession requirements will oblige Bosnia, among other things, to sign, ratify and apply within two years the following conventions: The European Outline Convention on Transfrontier Co-operation and its Protocols and CoE conventions on Extradition, Mutual Legal Assistance in Criminal Matters, Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, and Transfer of Sentenced Persons. Bosnia will also need to adhere to European conventions on the Suppression of Terrorism, Transfer of Proceedings in Criminal Matters, Compensation of Victims of Violent Crimes and Cyber Crime within three years of accession. Other requirements concern the ratification of the European Convention on Human Rights; effective co-operation with the ICTY; full implementation of the property laws; and the unification of Bosnia's armies. Bosnia & Herzegovina's Application for Membership of the Council of Europe, October 2001.

They will also have to prepare and implement a workable strategy to stimulate domestic production and foreign investment. And they will need to fight poverty and seek to bridge the ever-widening prosperity and growth gap between the Federation and the RS.

The governments to be elected in October cannot duck these challenges. Nor will they find it as easy as their predecessors to escape political responsibility for failing to do so. Recent public opinion polls are unambiguous in indicating that all Bosnians now place far greater priority on economic and social issues than on 'national' ones.⁹³ Whether the politicians heed this message or attempt to subvert it will, in large measure, define the campaign.

The election campaign started early. In effect, it began when the parties took up their positions on the 27 March 2002 Sarajevo Agreement. The Alliance hung together through this trial and achievement; but the decisions of the SDP and SBiH to ditch their allies and to run separately – and the subsequent failure of the smaller parties to interest each other in any cross-national compacts – marked its expiry as an effective political force. Nor did desultory efforts by the Americans to encourage the Croat parties to coalesce against the HDZ have any success. This means that all those parties whose names do not contain a nationally exclusive label will be fighting principally for support from the same Bosniak constituency that made the Alliance possible in the first place. It is among Bosniaks that persuadable voters are most numerous.

Although the SDP is a genuinely multinational party and can hope to win the votes of substantial numbers of Serbs, Croats and 'others', it is only among the latter (and now tiny) group that it can expect to triumph. Serbs will vote overwhelmingly for 'their' parties. It is largely a question of who finishes second or third to the SDS, and whether it wins an

absolute or relative majority. Croats will vote by a huge majority for the HDZ. The only issue is how many of the other Croat parties survive the new 3 per cent threshold. In these circumstances, the real race will be among the SDA, SBiH and SDP for Bosniak support. The SDA will claim Bosniak votes both by right and by virtue of its non-responsibility for the current state of affairs. The SBiH will rely on the star quality of Haris Silajdzic, the potency of which Lagumdžija has already acknowledged by declining to go head to head with him in the race for the Bosniak seat on the Presidency.⁹⁴ The SDP's dilemma will be over how far to go in making explicit appeals to Bosniak voters.

The ferocity and unscrupulousness of the competition for Bosniak votes is likely to be intense – and all the more so because of opinion polls testifying to the threat of massive abstention by the electorate.⁹⁵ Whether allegations of treachery, totalitarian tendencies, tax evasion, narcissism, double-occupancy, bribery and general crookedness are the means most likely to awaken citizens to their civic duty is doubtful, but that will not stop the politicians and a partisan press from trying.

For example, the Am-Sped affair in June looked initially as if it would besmirch only Nikola Grabovac. By 9 July 2002, it had expanded to embrace his party, the NHI, which was accused of accepting a KM 400,000 (approximately €200,000) 'donation' from Am-Sped in return for services rendered. Revelations the next day that Lagumdžija and Behmen had allegedly also been offered – but had rejected – bribes of KM 21 million *each* by Am-Sped's effective owner, Tino Bralo, took the story into realms that must have strained the credulity of even the most cynical Bosnian citizens. Yet there was more. On 13 July *Oslobodjenje* reported Bralo's denial that he had tried to bribe Lagumdžija and Behmen, but also his allegation that an associate of Silajdzic had solicited a KM 500,000

⁹³ According to the most recent NDI survey, the electorate in both entities is primarily concerned about employment. The second most troubling issue in the Federation is youth emigration, whereas in the RS social and health issues come second. See, National Democratic Institute for International Affairs (NDI) Survey of Voters Attitudes in BiH, 31 May 2002, www.ndi.ba. IDEA (the Swedish-based International Institute for Democracy and Electoral Assistance) made similar findings in its Balkan-wide poll. For BiH, the top issues were unemployment, corruption, poverty and crime. See IDEA's January – February Survey at www.idea.int/balkans.

⁹⁴ Izetbegovic recently averred that the time for heroes had passed, and that Bosnians would do better to vote for hard-working moderates like current SDA leader (and candidate for the Bosniak seat on the Presidency) Sulejman Tihic than for impatient 'poets' like Haris Silajdzic. 'Silajdzic ima harizmu vodje, ali je vrijeme vodja u Bosni proslo', *Oslobodjenje*, 2 July 2002.

⁹⁵ According to a recently released poll by UNDP, almost 50 per cent of Serbs, 40 per cent of Bosniaks and 30 per cent of Croats do not intend to vote in October. 'Gotovo pola Srba za priključenje Srbiji, a trećina Hrvata bi svoj entitet', *Oslobodjenje*, 4 July 2002.

bribe to sort out Am-Sped's problems. *Dnevni avaz* sprang to Silajdzic's defence with a front-page headline proclaiming the existence of 'A Big Plot against Silajdzic' orchestrated by the 'famously anti-Bosniak' Zagreb newspaper, *Jutarnji list*. This story will run and run. But there will no doubt be many others.⁹⁶

As the Am-Sped case has shown, mud slinging and scandal mongering have unpredictable consequences. All parties suffer collateral damage when the political system itself is brought into disrepute. A better-targeted and shrewder move in the struggle for Bosniak votes was the effective defection in May of SDP founder, former president and current Vice-President Nijaz Durakovic to the SBiH. Durakovic will head the list of SBiH candidates for the state parliament. Not only is the bibulous Durakovic a political heavyweight in his own right, but his past clashes with Lagumdžija over the latter's supposedly authoritarian style of party management may serve to attract other disgruntled SDP members and voters to the SBiH. The seduction of Durakovic is also clever because it allows the SBiH to enhance its Bosniak nationalist credentials without seeming to do so, more especially as Durakovic has proclaimed his continuing devotion to social democracy and opposition to ethno-politics.⁹⁷

Barring a whole series of miracles, the campaign will be entirely negative, with the accent on threats to 'our' nation and accusations of betrayal of 'our' national interests alternating with more or less veiled imprecations against the others and attempts to derive maximum benefit from every passing

revelation of sin. In their likely and separate acceptance of this agenda, the (former) Alliance parties will sacrifice the best things they have going for them collectively: their mould-breaking period of non-nationalist government and record of at least modest achievement. Instead, the ex-partners will work against one another, reinforcing the public's conviction that all politicians are vain, incompetent, corrupt and unworthy. Even the eventual 'winners' will be diminished. This will make it more difficult to put together a viable and credible coalition on the morrow of 5 October, more especially as the arithmetic could decree a combination far more unnatural than was the Alliance for Change.⁹⁸

The Alliance has done much to change the political atmosphere and to create a climate favourable to reform in Bosnia & Herzegovina, but nothing to alter the country's political culture. It has had neither the time, nor the ability, nor even the inclination to do so. Political decision-making has remained the prerogative of the leaders of the dominant coalition partners, owing little either to formal Alliance structures or to democratic interplay between the executive, the legislature and the public. The negotiation of the 27 March Sarajevo Agreement on constitutional amendments was a striking example of this extra-governmental, extra-parliamentary and non-transparent practice – abetted in this instance by the High Representative.⁹⁹

⁹⁶ For the unfolding drama, see the run of 'exclusives' in the pro-SDP *Oslobodjenje* and the reactions of the pro-SBiH *Dnevni avaz*, 9-13 July 2002. As noted above, *Dani* is hostile to Lagumdžija personally, while the other serious Sarajevo weekly, *Slobodna Bosna*, is favourable. Other customs and tax fraud scandals with national-political overtones include that of the Lijanovic meat products firm from Siroki Brijeg, the owners of which back the party Radom za boljitak (Work for Betterment). See 'Zbog utaje 32 miliona KM odgovarace i direktor "Lijanovica" Jakov Alpeza', *Oslobodjenje*, 22 June 2002. For a breathless summary of the myriad cases of corruption and tax evasion, see 'Dani otkrivaju ko vodi ekonomski rat protiv BiH', *Dani*, 19 July 2002; and for another example of anti-SDP reporting, see 'Lagumdžiju ne ruse mediji, vec citav niz kompromitantnih afera', *Dnevni avaz*, 22 July 2002.

⁹⁷ Senad Pecanin, 'Laumdžijin demokratski staljinizam', *Dani*, 3 May 2002, and 'Nijaz nosilac liste SBiH, Haris kandidat za clana Predsjedništva', *Dani*, 7 June 2002.

⁹⁸ According a poll carried out on behalf of the NDI in May, the only party set to increase its share of the vote is the SDA. Undecided voters are also on the rise, particularly among Bosniaks, Croats and young people. See National Democratic Institute for International Affairs (NDI) Survey of Voters' Attitudes in BiH, 31 May 2002, www.ndi.ba. On the other hand, the UNDP/Prism poll noted a *fall* in SDA support in the Federation (from 17 to 10 per cent) between April and June, and rises in SDP (from 14 to 19 per cent) and SBiH (from 8 to 10 per cent) support. Polling in BiH, however, is no exact science.

⁹⁹ Chivvied by agendas and deadlines set by OHR – and constrained by minutes of previous 'decisions' produced by OHR – the leaders or representatives of the eight big parties from both entities were herded towards agreed constitutional changes after the entities' constitutional commissions failed either to reach a consensus (in the RS) or to satisfy the political leaderships (in the Federation). Although six of the eight parties signed on in the end (albeit with reservations by the three RS parties), the SDA and the HDZ opted out. This meant that the High Representative had to impose the amendments in the Federation, where SDA and HDZ opposition denied them the required two-thirds majority in the lower house. The RS avoided a full-fledged imposition thanks to last-minute and personal negotiations between

B. CONSTRUCTING A GOVERNMENT

Given the nature of Bosnia's multiple polities, no single party will be able to form a majority government at entity or state level or in many of the Federation's ten cantons after the 5 October elections. They will thus usher in a probably extended period of coalition building on all levels of government. Although pre-election coalitions of more than a handful of minor parties have proved impossible to construct in the current atmosphere of recrimination, exculpation and rampant egotism, post-election coalitions will inevitably follow, and could unite some very strange bedfellows. This likelihood will make it even more difficult to mobilise support for the painful and thoroughgoing reforms necessary to put Bosnia on its feet. The agenda, however, is pretty much set. What are *not* are the extent to which urgently required reforms will in fact be embraced and the pace at which they will then be implemented.

Perpetuation of the status quo will no longer be an option for governments possessing a four-year mandate or for international bodies conscious that their own time is running out. BiH has come a long way in the transition from war to peace, but has made less progress in the other transitions it must make: from a failed model of socialism to a functional form of capitalism, from the politics of national patronage to that of civil society, and from partial justice to the rule of law. Such transitions demand much of the political class. They require politicians to forsake tangible, short-term interests for the sake of elusive, long-term ones – and to carry their constituents with them. They mean breaking the habit of proclaiming every issue a life or death question for one's own nation. They mean renouncing crime even within the fold. And, perhaps most all, they demand responsibility rather than rhetoric.

In prevailing circumstances, the shape of the new government after the elections is difficult to predict. Since virtually any combination of parties is

conceivable in the coalition(s) that will result, it is incumbent upon the citizens of Bosnia & Herzegovina to make it plain where their priorities lie. The 2000 elections broke the mould of biennial censuses by making it possible to form the Alliance for Change. The likelihood of further normalisation of BiH politics will be the greater if voters insist on the primacy of bread and butter issues and, by doing so, disarm the purveyors of fear and division. The whole can be more successful than the sum of its parts if Bosnians so decide.

C. THE ROLE OF THE INTERNATIONAL COMMUNITY

The international community can and should help them do so by emphasising the reform agenda, by ensuring the democratic rules are observed and, if need be, by lending a hand in post-election coalition building.

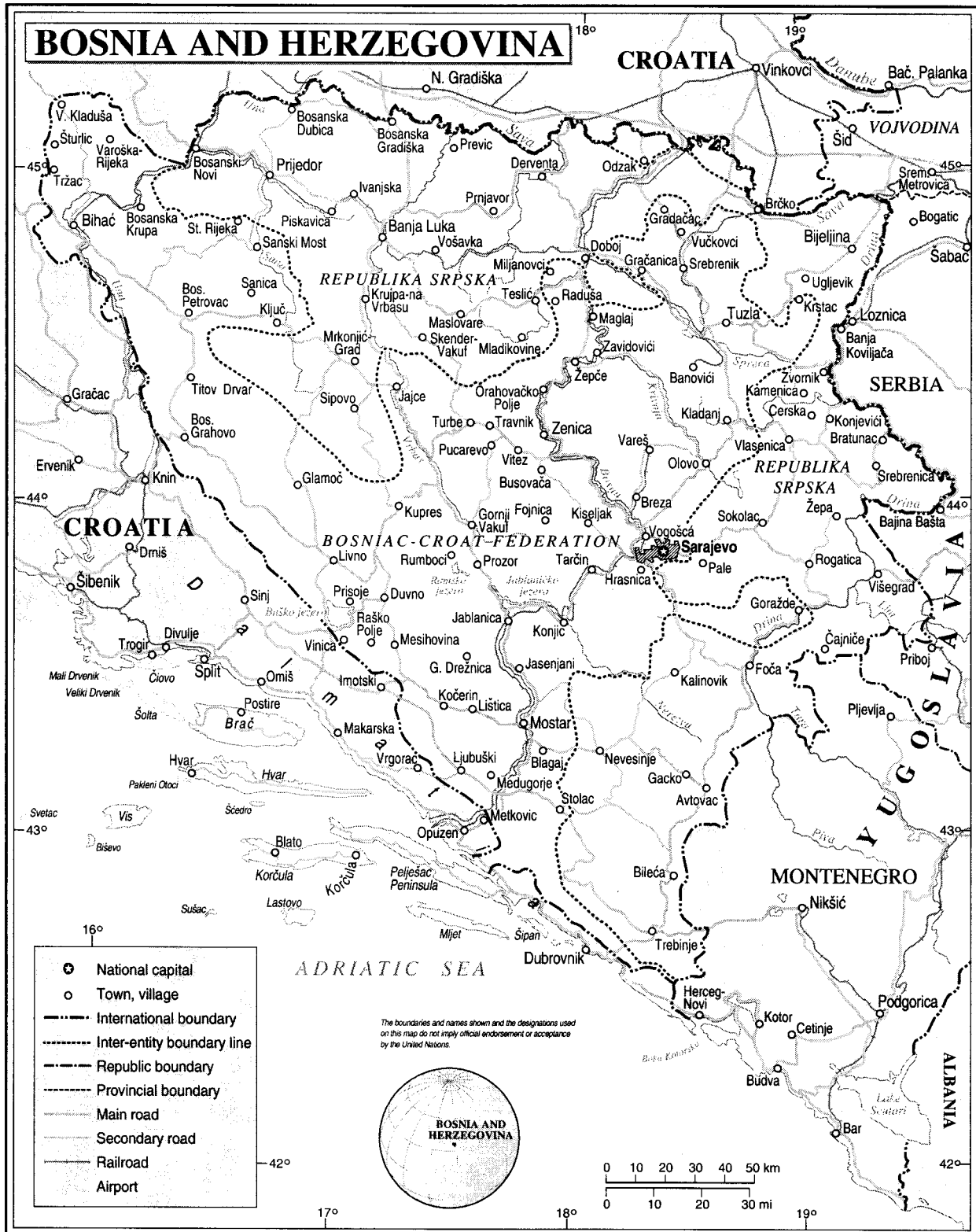
International organisations, civil society groups and the Bosnian media must press the political parties to acknowledge and take positions on the most important economic and political challenges facing BiH. In particular the political parties should be invited to sign a pre-election compact (or social contract) committing to plans for resolving the economic and social crisis confronting BiH.

Based on the conclusions of the Peace Implementation Council, the post-accession requirements of the Council of Europe and the various international credit and stand-by arrangements to which BiH governments are committed, the donor countries and other friends of BiH should assist those parties willing to cooperate to draw up manifestos for reform that set out clearly defined goals and identify agents of change in the economic, social, legal, fiscal and refugee-return sectors. They should also publicise fully the cooperation or non-cooperation of individual parties and use such manifestos for establishment of benchmarks against which to measure the performance of post-election governments and to push for further reforms.

Sarajevo /Brussels, 2 August 2002

High Representative Wolfgang Petritsch and RS National Assembly President (and SDS leader) Dragan Kalinic. This meant that the RSNA was effectively bypassed, the pretence being maintained that merely 'technical corrections' to the amendments already passed by the assembly were at issue. For the background, see ICG Balkans Report N°128, *Implementing Equality: The 'Constituent People's Decision in Bosnia and Herzegovina*, 16 April 2002.

APPENDIX A
 MAP OF BOSNIA



APPENDIX B

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is a private, multinational organisation committed to strengthening the capacity of the international community to anticipate, understand and act to prevent and contain conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are at Brussels, with advocacy offices in Washington DC, New York and Paris and a media liaison office in

London. The organisation currently operates eleven field offices with analysts working in nearly 30 crisis-affected countries and territories and across four continents.

In *Africa*, those locations include Burundi, Rwanda, the Democratic Republic of Congo, Sierra Leone-Liberia-Guinea, Somalia, Sudan and Zimbabwe; in *Asia*, Indonesia, Myanmar, Kyrgyzstan, Tajikistan, Uzbekistan, Pakistan and Afghanistan; in *Europe*, Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia; in the *Middle East*, Algeria and the whole region from Egypt to Iran; and in *Latin America*, Colombia.

ICG raises funds from governments, charitable foundations, companies and individual donors. The following governments currently provide funding: Australia, Canada, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Norway, the Republic of China (Taiwan), Sweden, Switzerland and the United Kingdom.

Foundation and private sector donors include The Ansary Foundation, The Atlantic Philanthropies, Bill and Melinda Gates Foundation, Carnegie Corporation of New York, Charles Stewart Mott Foundation, Ford Foundation, John D. and Catherine T. MacArthur Foundation, John Merck Fund, Open Society Institute, Ploughshares Fund, Ruben and Elisabeth Rausing Trust, Sasakawa Peace Foundation, and William and Flora Hewlett Foundation.

August 2002

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* The Algeria project was transferred from the Africa Program in January 2002.

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