

**Post-Conflict Corruption Regimes:
How Systemic Corruption has Derailed Economic Development
in Bosnia-Herzegovina and Kosovo**

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Abstract

The present thesis deals with the role of the international community in the corruption that often plagues post-war societies during periods of international mandate. Bosnia and Kosovo are the cases under study and their experiences show that the international community's lack of preparation, reliance on neo-liberal economic policies that allow for passivity, and a failure to dismantle the criminal-political networks of wartime elites have contributed to corruption. This study is limited to the opportunities for corruption that emerged in how the international community undertook physical reconstruction and privatization and the policies of internationals are shown to be the major factor in the perseverance of corruption and its debilitating effects for economies of societies recovering from civil conflict.

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Chapter One - Introduction

After the end of the Cold War the task of post-war reconstruction and economic development has fallen into the lap of the international community as states devastated by conflict struggle to rebuild and turn towards the future. Billions of dollars in aid flows into these countries once the violence stops, it is usually given by the major global donors and channeled through international financial institutions (IFIs) like the World Bank and IMF. Since the IFIs are pushing neo-liberal economic policies the general consensus among internationals working on peace-building seems to be to cede to this view and privatize and liberate markets as quickly as possible, trusting that relying on market forces is better than an intrusive state.¹ What is missing is a recognition of the realities of a post-war economy- that the wartime elites have created large monopolies and will continue to wield immense discretionary power over ordinary citizens for so long as the international community (in the absence of a functioning state) does nothing about this institutionalized corruption in the economy. The consequences of inaction and a failure to prevent corruption from day one are distorted markets, inefficiency, and a waste of the very donor money given to rebuild and allow ordinary people to return and recover.

Economic recovery is undeniably important and it may be especially so for countries recovering from ethnically based warfare that need to heal deep divisions and encourage refugee returns. A real economic turnaround, with a non-discriminatory focus on job creation, the development of small to medium enterprises, and investment into local communities would provide incentives for people to return and help in the rebuilding of their country in a way that could signify a sharp break with the past. While post-conflict societies are economically

¹ Joseph Stiglitz, *Globalization and its Discontents*, (London: Penguin Books, 2002).

devastated and characterized by negative growth of around -2.3% per year,² the rules of the game can easily change in the first few years of peace, particularly in places that are in the donor spotlight.

Some of the most egregious examples of post-war corruption have come from the Balkans after the wars in Bosnia-Herzegovina³ and Kosovo including the highly publicized discovery that Bosnia's leaders had pocketed almost \$1 billion in international aid, leading relief agencies and embassies debating whether or not to go public with the results of the audit "for fear of frightening away international donors."⁴ Bosnia and Kosovo become even more interesting cases of post-war reconstruction when you consider the role of the international community in the state-building process: that they were effectively running the show since day one and are still ruling these countries as quasi-protectorates. But instead of creating sustainable, equitable development and tailoring economic policies to best fit post-war transition societies the Washington Consensus prescriptions used in other Eastern European transitions were applied to both cases. Shock therapy versus gradualism and the merits of pushing neo-liberal economic policies before the necessary political institutions had taken root, among other debates; have been hotly debated over the past 20 years.⁵ Yet with respect to Bosnia and Kosovo a contribution can be made by reading between the lines and examining just why neo-liberal economic policies seem to have run counter to the needs of ordinary people. These reconstruction projects have been hijacked by an unholy alliance of nationalist politicians and the organized crime networks that ballooned during wartime. This unique post-war reality has translated into reconstruction

² Paul Collier, *The Bottom Billion*, (Oxford: Oxford University Press, 2007): 34.

³ Hereafter, "Bosnia."

⁴ Chris Hedges, "Leaders in Bosnia are said to Steal up to \$1 Billion," *The New York Times*, (August 17, 1999).

⁵ For a more comprehensive report of how these policies were used in Bosnia and the implications for the economy see: Timothy Donais, *The Political Economy of Peacebuilding in Post-Dayton Bosnia*, (London and New York: Routledge, 2005):16-46.

and development efforts rewarding the corrupt and connected - often the very people who sank the country into war in the first place – at the expense of the country as a whole and on the global donor community's dime.

The Puzzle

The central empirical puzzle guiding this study is why the reconstruction and development strategy used in Bosnia and Kosovo ran counter to the nation-building goals of the international community. To successfully promote refugee returns, political reconciliation and eventual accession to the European Union both political stability and a functioning economy are needed. It will be shown that systemic corruption has impeded these goals in both cases. When you consider the fact that the international community was running both places as quasi-protectorates it becomes even more puzzling that with all the resources and expertise pumped in to rebuild these societies the projects have been failures. Instead of independent, free market societies ready to take their place in Europe Bosnia and Kosovo are donor reliant statelets that are corrupt to the core. Why does the international community appear to have done more harm than good with all the resources invested in Balkan state-building?

Bosnia was the biggest reconstruction project the world had seen since the Marshall Plan, with around \$5 billion in aid donated in the first five years after the signing of the Dayton Peace Accords in 1995. Just four years later Kosovo became the “most intensive intervention ever, receiving more international money, staff and effort per local person than any mission before or since.”⁶ Yet even with a four year lag period between interventions and direct experience in the region (although the cases are very different), systemic corruption has prevented the international

⁶ Iain King and Whit Mason, *Peace at Any Price: How the World Failed Kosovo*, (London: Hurst and Company, 2006): x.

community from fulfilling its mandate. The more specific question to be answered is why post-war reconstruction projects appear to facilitate widespread corruption.

Corruption: What it is and Why it Matters

Part of the challenge of this study is that it does not deal specifically with one body of literature and theory. *Corruption* is the dependent variable under scrutiny and it will be examined in the context of why it is an outcome of post-war reconstruction. Post-war reconstruction (and related concepts - mediation, peace-building, state-building) is simply the setting in which corruption is taking place and it will be examined as to what conditions inherent in this setting bring about corruption. Corruption is of interest since it seems to be a mechanism through which the economic goals of international state-building projects fail. For this reason this study will be looking at two specific areas of post-war reconstruction and economic development that result in a massive waste of donor funds, inefficiency and the institutionalization of growth stifling economic practices when opportunities for corruption are permitted: the physical reconstruction of infrastructure and privatization.

First of all some clarification is needed about the definition of corruption used in this study. Corruption is defined as a government failure to balance the “relationship between private wealth and public power” when private profit seeking incentives override public goals.⁷ The most common definition is that of Transparency International, that corruption is “the misuse of entrusted power for private gain,”⁸ but the more lengthy Rose-Ackerman definition was chosen in order to underline the fact that this study is interested in corruption as a distorting mechanism

⁷ Susan Rose-Ackerman, “Governance and Corruption,” in *Global Crises, Global Solutions*, ed. Bjorn Lomborg, 301-344. (Cambridge: Cambridge University Press, 2004): 301.

⁸ Transparency International, “FAQ”, http://www.transparency.org/news_room/faq/corruption_faq

that impedes the public good and that it comes about as a government failure to promote transparency and accountability and reduce monopolies.⁹ It can primarily be detected in the form of bribes, pay offs, kickbacks, embezzlement, nepotism, influence peddling, fraud, and extortion. Corruption becomes institutionalized when bribery involves “systematic extortion by officials” and encourages over-regulation or dereliction of duty and when profiteering becomes routine through collusive networks.¹⁰

While corruption exists everywhere, from the most to least developed nations on earth,¹¹ systemic corruption has been found to be particularly crippling for post-communist transition countries,¹² and in this - case transition *and* post-war states. A thorough overview of the debilitating effects of corruption will be presented in Chapter Two, but in the meantime it must be said that “hard evidence has documented corruption’s detrimental effect on many aspects of economic development,” particularly regressions that have shown how high levels of corruption correlate with reduced growth rates.¹³ This is reflective of lower levels of investment due to risk, low levels of education spending (thanks to high levels of graft in corrupt bureaucracies), and income inequality.¹⁴ Weeding out corrupt actors in politics and government is said to be a priority because those who engage in it lose their credibility and cannot be expected to behave

⁹ Robert Klitgaard, Ronald MacLean-Abaroa and H. Lindsey Parris, *Corrupt Cities: A Practical Guide to Cure and Prevention*. (Oakland, CA: Institute for Contemporary Studies Press, 2000).

¹⁰ Rasma Karklins, “Typology of Post-Communist Corruption,” *Problems of Post-Communism* vol. 49, no. 4 (July/August 2002): 31.

¹¹ Johann Graf Lambsdorff, *The Institutional Economics of Corruption and Reform*, (Cambridge: Cambridge University Press, 2007): 235.

¹² Karklins, “Typology of Post-Communist Corruption.”

¹³ Seymour Martin Lipset and Gabriel Salman Lenz, “Corruption, Culture, and Markets.” In *Culture Matters*, Eds. Lawrence Harrison and Samuel Huntington, 112-124, (New York: Basic Books, 2000): 114.

¹⁴ *Ibid*, 114-115.

reputably, neither “honestly serving the public nor credibly promise reciprocity to their corrupt counterparts.”¹⁵

The Debate

In order to answer the central research question (what is it about post-war reconstruction that contributes to institutionalized corruption?) this study finds itself at the intersection of two fields of literature: corruption and military intervention/post-war reconstruction. In the corruption canon there are various arguments as to why it exists in the first place and what set of conditions contribute to its presence. For Robert Klitgaard the formula is very simple, corruption surfaces whenever the following situation exists: $C = M + D - A$ (Corruption equals monopoly power plus discretion by officials, minus accountability.)¹⁶ A concrete example of this formula in action can be provided by the corruption case against Bakir Izetbegovic, the son of former Bosnian President Alija Izetbegovic. Using his control of the City Development Institute (which determines occupancy rights for some 80,000 Sarajevo apartments) he allegedly gave the majority of homes that had housed Serbs and Croats before the war to members of the Muslim led Social Democratic Party (SDP), requiring outsiders who wanted an apartment to pay Mr. Izetbegovic \$2,000.¹⁷ Putting this formula in context shows how monopoly control and unchecked discretion - without accountability - breeds nepotism, graft, and discrimination. Susan Rose-Ackerman agrees that unchecked discretion brings on corruption, especially when combined with a lack of competition in the economy (the monopoly problem). The anti-corruption reforms she proposes focus on this factor:

¹⁵ Lambsdorff, xi.

¹⁶ Robert Klitgaard, Ronald MacLean-Abaroa and H. Lindsey Parris, *Corrupt Cities: A Practical Guide to Cure and Prevention*. (Oakland, CA: Institute for Contemporary Studies Press, 2000): 27.

¹⁷ Hedges, 3.

In general, any reform that increases the economy's competitiveness will help reduce incentives for corruption. Thus policies that lower controls on foreign trade, remove entry barriers for private industry, and privatize state firms in a way that assures competition will all contribute to the fight against corruption.¹⁸

While these common theories of corruption were not created to apply to countries undergoing international occupation and large scale nation-building, their focus on the dangers of monopolies, high levels of official discretion and lack of accountability makes them applicable to post-war nation building projects. In turning directly to occupation and nation building, the question becomes - why do occupying powers fail to exercise their authority in guaranteeing appropriate oversight and accountability in post-war reconstruction?

The literature on international occupation and post-war reconstruction has made it clear that the process is incredibly complex¹⁹ and notable contributions to this field have focused on why occupations succeed or fail.²⁰ Lately more attention has been paid to the implementation of peace agreements and the promotion of stable political and economic institutions through case study research.²¹ But even when the emphasis is on the economy²² direct mention of corruption, particularly its emergence and consequences, has been scarce until recently. Over the past two years academic interest in corruption and peacekeeping appears to be on the rise. In 2007 the Fletcher School at Tufts University hosted a colloquium on the nexus of corruption, conflict and

¹⁸ Rose-Ackerman, "The Political Economy of Corruption," in *Corruption and the Global Economy*, ed. Kimberly Ann Elliott, 31-60. (Washington DC: Institute for International Economics, 1997): 51.

¹⁹ Richard Caplan would argue that international administration and peacekeeping are in fact two distinct enterprises and it is a mistake to consider them one and the same. Richard Caplan, *International Governance of War Torn Territories: Rule and Reconstruction*. (Oxford: Oxford University Press, 2005): 12.

²⁰ David M. Edelstein, "Occupational Hazards: Why Occupations Succeed or Fail," *International Security* vol. 29, no. 1 (Summer 2004): 49-91.

²¹ Stephen John Stedman, Donald Rothchild and Elizabeth M. Cousens, *Ending Civil Wars: the Implementation of Peace Agreements*, (Boulder: Lynne Rienner, 2002); Roland Paris, *At War's End: Building Peace after Civil Conflict*, (Cambridge: Cambridge University Press, 2004).

²² Susan Woodward, "Economic Priorities for Successful Peace Implementation," in *Ending Civil Wars: The Implementation of Peace Agreements*, eds. Stephen John Stedman, Donald Rothchild and Elizabeth M. Cousens, 183-214. (Boulder: Lynne Rienner, 2002).

peacekeeping²³ and additionally, the journal **International Peacekeeping**²⁴ has planned an issue devoted to peacekeeping and corruption to be released in late 2008.

Of the available literature on the nexus of peacekeeping and corruption David Chandler and Fredrik Galtung have both made the argument that the international community may be hastening the problem by ignoring it, allowing opportunities for corruption to emerge unchecked in their reconstruction policies and they claim that this weakens both state and international institutions, institutionalizing *the corruption* rather than building rule of law and good governance at the local level.²⁵ Michael Pugh has applied this argument to economic policy making and details how the previously mentioned *opportunities* for corruption are enhanced through “the sequestration and redistribution of assets (including public/social assets), asset stripping, privatisation, decentralisation, sub-contracting, lack of employment policies and the absence of policing/judicial system.”²⁶ The culpability of the international community in this process is promoting a “lack of regulation and the legitimization of war elites,” crucial factors in explaining the systemic corruption that deprives these governments of much needed revenue and aid.²⁷ However this strain of literature does not answer the question of why the international community has gone this route, collaborating with and emboldening the corrupt in the first place.

Speaking to this point in broader terms, several authors have addressed the policies of rapid privatization and decentralization that create opportunities for corruption in post-war reconstruction on a larger scale. In studying fourteen peace-building operations of the 1990s Roland Paris found

23 For details and a series of thought papers visit: <http://fletcher.tufts.edu/corruptionconf/index.html>

24 <http://www.tandf.co.uk/journals/titles/13533312.asp>

25 David Chandler, “Anti-Corruption Strategies and Democratization in Bosnia-Herzegovina.” *Democratization* vol. 9, no. 2 (Summer 2002): 101-120; Fredrik Galtung, “The Corruption Dimension of Post-War Reconstruction,” *Corruption in post-Conflict Reconstruction: Confronting the Vicious Cycle*. <http://www.tiri.org>.

26 Michael Pugh, “A Political Economy Perspective on How Corruption Happens in Conflict & Peacebuilding,” *The Nexus: Corruption, Conflict, and Peacebuilding*, The Fletcher School, Tufts University, (April 12-13 2007): 7.

27 Ibid, 5.

rapid liberalization of politics and economies to be the common variable and that when this was done without prior institutionalization it had destabilizing effects, resulting in a more tenuous peace.²⁸ Tim Donais' study of the political economy of post-war Bosnia covers similar territory with his argument that the country's economic paralysis can be explained by the neo-liberal economic model's failure to address the realities of a post-war, post-socialist economy like Bosnia's.²⁹ According to Donais the mistake of the international community was not integrating the political and economic tracks as they carried out their mandate.³⁰ Although other authors have argued that the state has reemerged as the centrifugal force in the economic policy-making of post-war state building projects,³¹ the Paris and Donais argument about the primacy of neo-liberal policy making will be the overarching theory guiding this study. The contribution of this thesis will be made by expanding on this argument in a more direct way and explaining that the international community was complicit in the resulting economic corruption of Bosnian and Kosovo by being unprepared and failing to see the danger in allowing corrupt wartime elites to participate in the reconstruction project unabated. Participation by local elites may be cheaper and easier at the onset of reconstruction but the long term consequences of systemic corruption far outweigh the short term benefits of reconstructing quickly under the guise of local leadership.

The Argument

To contribute to this emerging debate the rest of this thesis will describe how the actions of the international community in carrying out post-conflict reconstruction³² have encouraged the

²⁸ Roland Paris, *At War's End: Building Peace after Civil Conflict*, (Cambridge: Cambridge University Press, 2004): 5-7.

²⁹ Donais, *The Political Economy of Peacebuilding in Post-Dayton Bosnia*.

³⁰ Ibid, 162.

³¹ James K Boyce and Madalene O'Donnell. *Peace and the Public Purse: Economic Policies for Post-War Statebuilding*. (Boulder: Lynne Rienner Publishers, 2007).

institutionalization of corruption. “Post-conflict reconstruction” does not simply refer to the physical reconstruction of infrastructure but includes economic development. The two are combined for this paper for practical reasons. Reconstruction to encourage refugee returns is one of the major goals of the international community in both cases, but what if homes and roads are fixed but the returnees come home to the reality of no electricity, clean water, or sanitation?³³ The need for a coordinated reconstruction and development strategy is a recurring theme of this paper as it folds into the main argument. The main argument presented in this study is that a failure to recognize the consequences of systemic corruption from the onset coupled with an adherence to policy prescriptions that “pass the buck” to market forces and wartime elites with little regard for transparency and accountability allow a culture of corruption to become institutionalized in post-war states under international guidance. The major mechanism allowing for this culture of corruption are the opportunities given to the criminal networks of wartime elites who are in a position (due to extensive funds, large personal networks/fiefdoms, etc.) to solidify their hold on post-war society when their power is left unchecked by the international officials tasked with rebuilding.

Bosnia and Kosovo’s experiences will show the complicity of the international community in corruption to be true, and an alternate course of action internalizing methods of anti-corruption reform and applying them to state-building, cold-bloodedly looking “for ways to reduce monopoly power, limit and clarify discretion, and increase transparency,”³⁴ will be presented in the policy perspectives section of the conclusion. In order to make this case Bosnia and Kosovo will be compared on the similar dependent variable of widespread systemic

³³ This was commonplace in central Bosnia even several years into the international mandate. Based on an interview with former RRTF official Jayson Taylor, Sarajevo, May 2008.

³⁴ Klitgaard, MacLean-Abaroa and Parris, 27.

corruption. The early years of international mandate are the time period under scrutiny and the this study will mainly be limiting itself to corruption in physical reconstruction and privatization since a waste of donor funds and stifling of economic growth are what I consider “derailing economic development” in each case. While corruption is notoriously difficult to measure,³⁵ the presence of large-scale corruption in both cases is clear from the number of articles and reports that make reference to it as well as original field research.³⁶ Concentrating on reconstruction practices and economic development strategies will shine a light on the strategic gaps and managerial failures in these processes that reduced transparency and gave wide discretionary power to individuals connected to the alliance of nationalist politicians and organized crime thugs, a post-conflict reality in both Bosnia and Kosovo.

The rapid marketization of state-building became a reality as neo-liberal style blanket prescriptions were used in the various peace-building projects of the past two decades. What has taken hold is the idea that policies promoting “liberalization” in the aftermath of civil conflict would help sustain peace, and that this should apply to the political and economic realms, introducing democracy and market capitalism as soon as possible. The major weakness of this strategy is that the peace-builders of the 1990s often failed to acknowledge the destabilizing consequences of these policies when applied blindly and without regard for the reality on the ground.³⁷ Part of post-war reality is the existence of parallel structures in society, remnants of the wartime political elite allied with those who made their fortunes in the illicit economy that may impede the efforts of the international community for their own gain. This often takes the form

³⁵ Susan Rose-Ackerman, “The Political Economy of Corruption,” 32.

³⁶ GAO, “Bosnia: Crime and Corruption Threaten Successful Implementation of the Dayton Peace Agreement,” Testimony before the Committee on International Relations, U.S. House of Representatives. (July 19, 2000); Muhamet Mustafa and Ekrem Beqiri, “Corruption in Kosovo: Features, Opinions and Challenges,” *The Anti-Corruption Plan: Social and Economic Necessity for Kosovo*, OSCE, (October, 2006).

³⁷ Paris, 5-7.

of corruption and the worst case scenario is when the international community is not just tolerating the presence of corrupt actors as a reality of post-conflict politics but actively colluding with them.³⁸ By arbitrarily extending contracts for reconstruction projects and accepting devaluation and all sorts of trickery in privatization tenders, the peace-builders are legitimizing corrupt dealings and institutionalizing a system of waste and bribery. One trait of reconstruction in particular is that there is a rush to spend a great deal of money in a short period of time to rebuild infrastructure and get the country up and running without much regard for waste and inefficiency.

Methods and Structure

Bosnia and Kosovo have been chosen for comparison due to their similar levels of corruption (the dependent variable) and the fact that post-war reconstruction was carried out by the international community ruling each place as a quasi-protectorate. Corruption is measured using the data of Transparency International which suggests that while Bosnia and Kosovo may not be among the most corrupt pockets on earth, corruption is a major stumbling block for the two cases in recovering from war.³⁹ This is backed up by investment surveys listing corruption as one of the main impediments to foreign investment in Kosovo.⁴⁰ The leadership role of the international community is the common independent variable. Additional variables that may explain corruption are the structure of the government and bureaucracy, concentrating on power-sharing and regulations. As befits this analysis method of agreement is used to make the

³⁸ David. Chandler, "Anti-Corruption Strategies and Democratization in Bosnia-Herzegovina." *Democratization* vol. 9, no. 2 (Summer 2002): 101-120; Fredrik Galtung, "The Corruption Dimension of Post-War Reconstruction," *Corruption in post-Conflict Reconstruction: Confronting the Vicious Cycle*. <http://www.tiri.org>.

³⁹ Transparency International, The Corruption Perception Study 2002. <http://www.ti-bih.org/Articles.aspx?ArticleID=6D18FA02-384C-4E7A-9E64-E33D6462A1CC>

⁴⁰ Muhamet. Sadiku, "The Impact of Corruption on Kosovo's Economy." Washington DC: Center for International Private Enterprise Feature, 2002, <http://www.cipe.org/pdf/publications/fs/article1e35.pdf>

argument that the similar roles of the international community are what caused the difference in the common outcome of systemic corruption, not the other factors where there is variation.

In order to demonstrate this, the present thesis is structured as follows. The next chapter presents the theoretical framework informing the study, of corruption the dependent variable. Chapter Three provides some historical background on corruption in past post-war reconstruction and the fourth chapter will present the applicable specifics of the two case studies, focusing on the mandates of the internationals in each. Chapter Five is the necessary walk-through of how physical reconstruction and privatization proceeded in each case, processes that will be scrutinized in terms of inherent opportunities for corruption in the next few chapters of empirical analysis. Chapter Six begins by examining the varied methods of power-sharing that differ between Bosnia and Kosovo and explains how this resulted in corruption during reconstruction and development. A short sub-section will discuss multi-layered bureaucracy and regulations that allow for corruption and have the net result of discouraging entrepreneurship and legitimate private enterprise. The common independent variable, the role of the international community, is the subject of Chapter Seven. This portion of the thesis will underscore the level of involvement by internationals and motivations for choosing to reconstruct Bosnia and Kosovo the way they did, presenting three explanations: a lack of preparation, a reluctance to take sovereign acts, and a failure to dismantle corrupt networks of wartime elites. In the conclusion the consequences of what systemic corruption has meant for Bosnia and Kosovo will be reiterated and will be followed by a recap of the main argument and brief speculation about how focusing on eliminating opportunities for corruption from the very beginning may have resulted in a different outcome. This study will end by presenting reforms that may help the international

community stave off widespread corruption in reconstruction and state-building projects yet to come.

Chapter Two - Corruption: Theoretical Frameworks

As this study stands at the intersection of two fields once again it is necessary to separate the two in order to present the theoretical frameworks. This chapter begins with an overview of corruption theory, concentrating on its implications and a typology that can be applied to post-conflict societies. The second portion focuses on international mediation after civil conflict.

Corruption

There is a wealth of information available on corruption theory, a subject that came in vogue over the past several decades partially due to the large scale corruption that exists in many parts of the developing world and the questions of how to best promote growth and development in societies with endemic corruption. While the argument for tolerating corruption (a relic of the 1970s and Samuel Huntington's work, among others) has largely been discredited⁴¹ by the amount of empirical studies that show it to be a cog in the wheel of sustainable development⁴² the plentiful attention paid to the issue is incredibly useful for drawing up a theoretical framework of corruption that can apply to post-conflict societies.

One mistake would be confusing corruption with simple bad governance because the two are not synonymous, but bad governance does lend itself to corruption. "Governments may be honest but inefficient because no one has an incentive to work productively and narrow elites may capture the state and exert influence on public policy."⁴³ This phenomenon of "state capture" is the most egregious form of corruption, when "the state itself can be characterized as

⁴¹ See Jonathan Hopkin, "States, markets and corruption: a review of some recent literature." *Review of International Political Economy* vol. 9, no. 3 (August 2002): 575-576.

⁴² For an overview of some of the best empirical studies see: Susan Rose-Ackerman, *Governance and Corruption*.

⁴³ Rose-Ackerman, *Governance and Corruption*, 301.

largely serving the interests of a narrow group of business people and politicians, sometimes with criminal elements mixed in.”⁴⁴ Most citizens are left out in this scenario of “grand” corruption since a small elite group has an unshakeable influence on public policy. At the other end of scale is another type of corruption, often called “petty” or “administrative” corruption in which bribery and favoritism are used to lower taxes, dodge regulations, and win contracts. The seriousness of one versus the other has been debated and the general consensus is that grand corruption is more of a concern (particularly in post-conflict situations) since top down efforts on behalf of the government can be undermined by the group who has captured the state.⁴⁵

But while grand corruption may capture the headlines and appear easier to target through high publicity anti-corruption campaigns that aim to indict the “big fish” I would argue that widespread petty corruption is just as important since it promulgates a culture of corruption⁴⁶, making it much more difficult for reforms targeting grand corruption to pass since people have become desensitized to the lower-scale corruption that is a presence in their daily lives. This routine bureaucratic corruption is also intolerable for more direct reasons. 1) Tolerating corrupt practices in major agencies can hasten its spread to others; 2) officials may start *creating* opportunities for corruption instead of just preying on the existing situation; 3) it creates an uncertain business climate, and tolerating it to meet short-term goals can impede long-term growth; 4) as already mentioned, it impedes further reform since those with a stake in the system

⁴⁴ Rose-Ackerman, *Governance and Corruption*, 305.

⁴⁵ Domnik Zaum, “‘Grand’ Corruption, ‘Petty’ Corruption and Violence after Conflict,” *The Nexus: Corruption, Conflict, and Peacebuilding*, The Fletcher School, Tufts University, (April 12-13 2007): 6.

⁴⁶ See William Miller, Ase Grodeland, and Tatyana Koshechkina,

will be reluctant to change, whether they are a high ranking official grafting millions or a low level bureaucrat supplementing his salary through bribes.⁴⁷

Implications of Corruption

Andrei Shleifer and Robert Vishny spelled out the two main reasons why corruption has negative implications for economic development. The first is the problem of “competing bureaucracies.” A weak central government allows for various government agencies and bureaucracies to work independently in their bribe taking, without collusion and coordination the level of bribes imposed on private actors simply gets higher and higher. When a potential investor is faced with the prospect of needing to bribe every agency he comes into contact with the cost and the hassle will eventually render the investment too costly and not worth it.⁴⁸ While there is significant investment into countries that have been corrupt in the past like Japan and South Korea, there corruption took a different form, that of one bribe with a guarantee, often known as “monopoly corruption.” In the “competing bureaucracies” model (Russia, Bosnia, Kosovo) there is less investment due to higher costs and uncertainty.

The second reason has to do with the necessary secrecy of systemic corruption and the inherent lack of transparency and access to information that contributes to the cycle. The actors holding monopolies will work to keep a high level of secrecy in order to maintain their control, limit entry into the market, and discourage innovation that would lead to the exposure of corruption. In a more direct fashion this also affects which projects are chosen for investment,

⁴⁷ Susan Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform*, (Cambridge: Cambridge University Press, 1999.): 16-17.

⁴⁸ Andrei Shleifer and Robert W. Vishny, “Corruption,” *The Quarterly Journal of Economics* vol. 108, no. 3 (August 1993): 615.

resulting in a shift from high value projects like education and health, “into potentially useless projects, such as defense and infrastructure, if the latter offer better opportunities for secret corruption.”⁴⁹ Rose-Ackerman also agrees with this, stating that:

Top officials may select projects and make purchases with little or no economic rationale. For example, if kickbacks are easier to obtain on capital investments and input purchases than on labor, rulers will favor capital-intensive projects irrespective of their economic justification.⁵⁰

This scenario has important implications for privatization, which, under neo-liberal economic policy making is said to wield positive results for the economy. But while privatization can ideally be seen as reducing corruption by getting major assets out of state hands (and away from corrupt officials with discretionary power), “the process of transferring assets to private ownership is fraught with corrupt opportunities.”⁵¹ The major opportunity is quite basic, that bidders bribe officials in order to gain favorable treatment and to restrict the total number of bidders. The incentives to engage in corruption during a tender are also fairly straightforward. In a society that lacks transparency and easy access to information there is no honest way to ascertain the actual value of large enterprises that are being privatized, allowing insiders to capitalize on this opportunity by devaluing the company.⁵² When corrupt individuals are in charge of the process they can also provide information to the public that makes the company look like a bad investment while “revealing to favored insiders that it is actually doing well.”⁵³ Lastly, just because a company is privatized does not mean that the old monopoly will be broken up or that the firm will be managed more efficiently just by virtue of belonging to the private sector. If a company can retain its monopoly power (making it more valuable) by keeping its

⁴⁹ Shleifer and Vishny, “Corruption,” 616.

⁵⁰ Rose-Ackerman, *Corruption and Government* 30.

⁵¹ *Ibid*, 35.

⁵² *Ibid*, 35-36.

⁵³ *Ibid*, 37.

avored position the state may only sell off a portion, retaining a large amount of control. In this situation an outside (potentially more efficient) bidder will generally lose out to the corrupt individual with ties to the state when the process is not conducted with accountability and transparency in mind.⁵⁴

Corrupt privatization schemes are reflective of classic rent seeking behavior, particularly redistribution “from the private sector to the government bureaucrats who affect the fortunes of the private sector.”⁵⁵ This can take shape as lobbying or straight up corruption, adversely affecting the economy by reducing output and innovation.⁵⁶ When corrupt private sector influence overpowers the government you have a “mafia-dominated state” in which state officials are weak and disorganized but there is a monopoly of power in the private sector. The corrupt monopoly controls the state and is able to buy the cooperation of government officials, yet the private group isn’t powerful enough to completely take over the state and buy the benefits it wants. What emerges is an inefficient state with officials who are competing amongst themselves for ways to cash in from the organized crime element and low private sector production since “the activities of the corrupt officials are like taxes on outputs or inputs that reduce the firm’s profit-maximizing level of output.”⁵⁷

⁵⁴ Rose-Ackerman, *Corruption and Government*, 37-38.

⁵⁵ Andrei Shleifer and Robert W. Vishny, *The Grabbing Hand: Government Pathologies and their Cures*, (Cambridge: Harvard University Press, 1999): 87.

⁵⁶ *Ibid*, 81-88.

⁵⁷ Rose-Ackerman, *Corruption and Government*, 123.

Chapter Three - Historical Insights on Post-War Reconstruction

At the end of war societies have an unprecedented opportunity for change, a chance “to rebuild their societies, politics, and economies and to embrace reforms that have been elusive in the past.”⁵⁸ This break with the past is dramatic, especially in economic terms, as countries recovering from civil war progress from the negative growth of wartime to a surge of donor funds entering the country to aid in its recovery.⁵⁹ This opportunity for change is not guaranteed to be positive since post-war situations are highly fluid, underscoring the importance of proper use of reconstruction aid in order to capitalize on the opportunity international support brings.⁶⁰

Successful examples of post-war reconstruction are Europe under the Marshall Plan as well as the rebuilding carried out in Japan and South Korea,⁶¹ but one commonality all states recovering from war share is the need to become economically self-sufficient as quickly as possible since “without growth peace is considerably more difficult.”⁶² But in order for this to happen post-conflict societies need large scale and sustained economic and technical support to rebuild, recover, and grow. One major impediment is that during transitions societies remain polarized and it can be tricky for governments to make the necessary decisions since their base and institutional legitimacy are often limited, keeping reform at bay.

In the case of the Marshall Plan policy-making paralysis at the local level was reduced due to the dire need for funding, conditionality, and the centralized nature of the project, which

⁵⁸ Krishna Kumar, *Rebuilding Societies after Civil War: Critical Roles for International Assistance*, (Boulder: Lynne Rienner Publishers, 1997): 1.

⁵⁹ Collier, 34.

⁶⁰ Ibid, 151.

⁶¹ Kumar, 1.

⁶² Collier, 37.

was administered by the Economic Cooperation Association (ECA) and implemented the Organization for European Economic Cooperation (later OECD).⁶³ From 1947 to 1951 around \$13 billion in reconstruction aid went to Western Europe (save Spain) to provide economic and technical assistance to a continent recovering from war. Its success not only improved the lives of aid recipients but signaled a new approach to how the global community would handle post-war reconstruction and development in the future.

To millions impoverished by World War II it meant food, tools, a chance to work, a source of new hope. Worried leaders in Western Europe saw it as an assurance of help on a scale that might enable them to cope with their most urgent recovery problems. To the governments of a number of war-torn nations outside Europe it meant assistance toward economic stability and new development.⁶⁴

Since the topic of this study is corruption in post-war reconstruction and development rather than the process itself it is necessary to address this issue in a historical context. As far as Western Europe and the Marshall Plan there is little academic work on the way reconstruction money may have gone directly into the hands of organized crime networks, furthering corruption. Parallels have been drawn between current corruption in conflict zones and the underground economy of Great Britain during and after World War II; blaming policies that created new opportunity structures for corruption that took the form of prostitution rackets, theft of military supplies by administrators, money laundering, forgery of ration coupons, and other activities typical of people cashing in on the uncertainty and chaos.⁶⁵ In the case of Italy there are allusions to soldiers and peacekeepers cutting deals with the Sicilian Mafia in the late 1940s in order to use their networks for aid delivery and reconstruction (in exchange for control of local government, of course) and graft

⁶³ For a thorough overview of the Marshall Plan see: Harry Bayard Price, *The Marshall Plan and its Meaning*, (Ithaca, NY: Cornell University Press, 1955).

⁶⁴ Ibid, 4.

⁶⁵ Donald Thomas, *An Underworld at War: Spivs, Deserters, Racketeers and Civilians in the Second World War*, (London: John Murray, 2004).

of reconstruction money by Mafiosi put in charge of various reconstruction projects, but it is difficult to accept as fact due to the sensational nature of most literature describing the history of the Mafia.⁶⁶

Recent history provides more explicit examples of corruption in peacekeeping and post-war reconstruction, by locals and international officials alike. The reconstruction of downtown Beirut after the Lebanese Civil War highlights the dangers of targeting aid at particular political constituencies and privatization processes that favor those with political connections. In that case reconstruction of the Central District was carried out by a company, Solidere, which counted the late Prime Minister Rafik Hariri and his associates as shareholders. This “prestige project” benefitted a small group at the expense of the greater population and exposed how “poor beneficiary targeting, incompetent or wasteful contractors, inappropriate infrastructure and economic assistance projects can all participate to major setbacks.”⁶⁷ Among those setbacks? That “the priority of the first Hariri government was not put on public services for the poor, but highly visible, prestige construction projects fanning the resentment of the have-nots and leaving the country with a staggering debt of US\$33 billion.”⁶⁸

Corruption in Iraq after the 2003 invasion has been particularly bold and well documented, even earning the title “the second insurgency” by the Special Inspector General for Iraq Reconstruction, citing a report that corruption costs the country \$4 billion annually.⁶⁹ Corruption in post-war Iraq has been institutionalized by internationals and locals alike, some recent examples of expat fuelled corruption are a Pentagon contract employee admitting to stealing \$2 million from the reconstruction fund, that over half of Kellogg, Brown and Root’s charges for oil

⁶⁶ John Dickie, *Cosa Nostra: A History of the Sicilian Mafia*, (New York: Palgrave Macmillan, 2005).

⁶⁷ Philippe Le Billon, “What is the Impact: Effects of Corruption in Post-Conflict,” Thought piece for The Nexus: Corruption, Conflict and Peacebuilding Colloquium, The Fletcher School, Tufts University, 2007, 3.

⁶⁸ Ibid, 3.

⁶⁹ Julian Borger and David Pallister quoting Stuart Bowen, “Corruption: the ‘second insurgency’ costing \$4bn a year,” *The Guardian*, December 2, 2006. <http://www.guardian.co.uk/world/2006/dec/02/usa.iraq>

infrastructure repair have gone to overhead (and the fact that the company overcharged the US military about \$ 60 million for fuel), and that another company finished only 6 of the 140 healthcare centers it was contracted for, yet was still paid in full.⁷⁰

An oft cited remedy for the problem of foreign contractors and international officials making off with unscrupulous reconstruction contracts or just hard currency⁷¹ is to make locals directly responsible for carrying out reconstruction in their own country. U.S. Congressman Henry Waxman has discussed this topic extensively as it relates to the wasted funds and corruption in Iraq's reconstruction, where many reconstruction contracts have gone to major U.S. enterprises like Kellogg, Brown and Root, Halliburton, and Bechtel.

... Major General David Petraeus, told a congressional delegation that included my staff that US engineers estimated that it would cost \$15mn to bring a cement plant in northern Iraq back to Western production standards. Because this estimate far exceeded the funds available to General Petraeus, he gave the project to local Iraqis, who were able to get the cement plant running again for just \$80,000.

According to [governor of Basra] Judge Abdul Latif [...] non-Iraqi contractors charged approximately \$25mn to refurbish 20 police stations in Basra by providing new doors, windows, paint, and furniture. Judge Abdul Latif contends that a qualified Iraqi company could have done the work for about \$5mn and that the remainder would have been enough to restore every government building in Basra.⁷²

While the numbers are convincing tasking new governments with weak post-war institutions to conduct reconstruction cheaply and efficiently – and free of corruption – is not as simple as it first appears. The problems with this strategy as carried out in Bosnia and Kosovo will become clear in the comparative analysis of the following chapters.

⁷⁰ Borger and Pallister.

⁷¹ A 2008 BBC documentary detailed UN corruption in peacekeeping missions and reconstruction contracting. "Policing the UN," BBC News Documentary. First broadcast April 28, 2008. http://www.bbc.co.uk/worldservice/documentaries/2008/04/080424_panorama_un.shtml; the New York Times editorial page also picked up the story: Matthias Basanisi, "Who Will Watch the Peacekeepers?" The New York Times, (May 23, 2008): <http://www.nytimes.com/2008/05/23/opinion/23basanisi.html>.

⁷² Henry Waxman, "Evidence of Waste of US Taxpayers' Dollars in Iraq Contracts," *Middle East Economic Review*, vol. XLVI, no 40 (2003).

Chapter Four - Post-War Bosnia and Kosovo: Protectorates under International Mandate

As the most casual observer would know, the country of Bosnia and Herzegovina faces problems that should intimidate even the most resolute. It has not only just emerged from a bloody conflict with its physical infrastructure quite literally shattered and with the legacy of bitterness and distrust which the inter-communal violence has spawned, but also with a peace process that is not yet assured. Further compounding this was the rampant corruption and profiteering which had flourished during the war, creating criminal centers of power and influence - smuggling organisations and links throughout the region that remain intact and busy today....These would be difficult enough to cope with. However, Bosnia and Herzegovina has also all the deep-seated problems it inherited from the communist regime and a style of government that was essential[ly] top-down, with "rule of party" rather than "rule of law," and an absence of accountability and transparency let alone a culture of consultation and consultation and consensus building.⁷³

That quote, in a nutshell, lays out the problems Bosnia faced when the international community took on the responsibility of implementing the Dayton Peace Accords and creating a liberal democracy in Bosnia. The Bosnia strategy was seen as a testing ground for how the international community would deal with civil conflict and post-war reconstruction in the future, yet the strategy was replicated in Kosovo just four years later when the pitfalls of Dayton style state-building should already have been clear.⁷⁴ The wars of Yugoslav secession, particularly Bosnia's civil war and the Kosovo conflict, have been covered extensively ever since Yugoslavia began its bloody collapse in 1990.⁷⁵ As each conflict has been well chronicled by academics and journalists alike there is no need to reiterate the events that led up to war and the details of the wars themselves. The next two sections provide the minimum necessary information about each conflict and then detail the peace settlements and post-war arrangements to provide the necessary background for the rest of this study.

⁷³ David Dlouhy citing a 1998 Transparency International report on corruption in Bosnia: David Dlouhy, "Corruption in Bosnia, Statement before International Relations Committee, U.S. House of Representatives. Washington DC, September 15, 1999, *Trends in Organized Crime* (Fall 1999): 99.

⁷⁴ ESI, "Lessons from Bosnia for Kosovo: A Real Life Story of Private Sector Growth in Bosnia." (February 13, 2002).

⁷⁵ For detailed historical analysis see: Sabrina Ramet, *Balkan Babel*, (New York: Westview Press, 2002); Laura Silber and Allan Little, *Yugoslavia: Death of a Nation*, (New York: Penguin Books, 1997); Susan Woodward, *Balkan Tragedy: Chaos and Dissolution after the Cold War*, (Washington D.C.: The Brookings Institution, 1995).

Bosnia

Over the course of the Bosnian war from 1992-1995, 200,000 Bosnians lost their lives and over 2 million were displaced either internally or abroad. This left only half of the pre-war population (over 4 million) undisturbed.⁷⁶ This large scale population movements fundamentally changed the character of Bosnia and the current political system reflects post-war divisions with a loose consociational system broken up into two entities (the Bosniak-Croat Federation and Republika Sprska),⁷⁷ reflecting the settlement at Dayton which gave 51% of the country to FBiH and 49% to RS. More details about the specific nature of Bosnia's political power sharing system will be given in the chapter devoted to that variable; but suffice it to say the cease fire turned constitutional blueprint institutionalized at Dayton has caused a great deal of legislative paralysis on crucial matters like refugee return and land restitution, as well as igniting debates about partition.⁷⁸

Complicating matters is the role of the international community and its principal agent, the Office of the High Representative (OHR). OHR's mandate is to oversee the implementation of the Dayton Accords as dictated by the Peace Implementation Council (PIC), a committee of 55 countries and agencies that play a role in the peace process. The international presence in Bosnia is fairly open-ended, with the vague endpoint being a time when Bosnia has been declared politically and democratically stable, as well as self-sustainable. Since 1995 the international community's authority has become more like a trusteeship with the High Representative willing to take decisive actions like removing local Mayors seen as "anti-Dayton"

⁷⁶ Elizabeth M. Cousens, *Towards Peace in Bosnia: Implementing the Dayton Peace Accords*, (Boulder: Lynne Rienner, 2001): 21.

⁷⁷ FBiH and RS, respectively.

⁷⁸ Sumantra Bose, *Bosnia After Dayton: Nationalist Partition and International Intervention*, (London: Hurst and Company, 2002).

and even dismissing the democratically elected President of RS for obstructing the peace process.⁷⁹ OHR has also taken singular action when the three parties fail to agree on issues like choosing a state flag, national anthem, and instituting a system of common license plates.⁸⁰

The overarching purpose of the peace-building process in Bosnia is to turn the country into a liberal democracy with the belief that doing so will reduce the likelihood of future violence. However early national elections in 1996, while declared free and fair, brought back to power the nationalist political parties that had an interest in keeping Bosnia divided rather than promoting reconciliation. As a result of this development and a tenuous few years of infighting among nationalist politicians in RS the international community waded even further into electoral politics, not just ensuring elections were legitimate, but intervening on behalf of moderate candidates that supported the Dayton process.⁸¹ Generally the Bosniaks have the most vested interests in the Dayton process while the Croat and Serb communities have been harder to convince, making this one of the key struggles of state-building in Bosnia, even as moderates have done better at the polls since 2001.⁸²

As far as the economic catastrophe left by war, the World Bank estimates that around one half of the country's capital stock was lost; 412,000 homes were damaged or destroyed; and the four year period of isolation from markets, theft and destruction of equipment, and disputes over ownership of capital property left Bosnia's industrial sector operating at only 10 percent of its

⁷⁹ Roberto Belloni, "Civil Society and Peacebuilding in Bosnia and Herzegovina," *Journal of Peace Research* vol. 38, no. 2 (2001): 172.

⁸⁰ Ibid, 172.

⁸¹ Paris, 105.

⁸² Bose, 31.

pre-war level when evaluated in 1996.⁸³ This grim picture does not even take into account the fact that Bosnia was not only a country recovering from war but one undergoing a post-communist transition as well. The peculiarities of a post-war and post-community reality saddled the country with a legacy of “outdated technology, excess capacity, oversized workforces, and enterprise debt whose origins stretch well back before the war.”⁸⁴ Lately the economy has shown signs of improvement, with growth above 5 percent from 2003-2007, though unemployment remains high at 45 percent (estimates accounting for the large grey economy place it between 25-30 percent) and GDP per capita is low for the region, at only \$6,600.⁸⁵ Recent efforts to stabilize the economy have been High Representative Paddy Ashdown’s “Bulldozer Initiative”⁸⁶ to remove impediments to starting businesses and the 2006 introduction of the value-added tax regime. Of the two reforms the VAT has garnered more praise from outside observers.⁸⁷

Kosovo

In the 1990s the Kosovo Liberation Army (KLA), Kosovo’s guerilla fighting force took up the cause of Kosovar independence with attacks on the Serbs who had infringed on their rights and autonomy since Slobodan Milosevic came to power. The conflict came to a head in 1998-99 and was finally resolved with a NATO bombing campaign and the passing of United Nations Security Council (UNSC) Resolution 1244.⁸⁸ The estimated number of deaths in the

⁸³ World Bank, “From Aid Dependency to Fiscal Self-Reliance: A Public Expenditure and Institutional Review,” (October 2002): 9.

⁸⁴ ESI, “Governance and Democracy in Bosnia and Herzegovina: Post-Industrial Society and the Authoritarian Temptation,” (2004):15.

⁸⁵ CIA World Factbook, “Bosnia and Herzegovina,” <https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html#Econ>.

⁸⁶ OHR, Bulldozer Initiative, Economic Transition Unit, <http://www.ohr.int/ohr-dept/econ/bulldozer-initiative/>

⁸⁷ CEE Market Watch, “Bosnia and Herzegovina Profile,” http://www.ceemarketwatch.com/?goto=country_profiles&country_code=BA

⁸⁸ For more details on the Kosovo conflict see *The Kosovo Report: The Independent International Commission on Kosovo*. (Oxford: Oxford University Press, 2000); King and Mason, *Peace at Any Price*.

conflict is around 10,000 and 848,000 people were displaced over its course.⁸⁹ Legally Kosovo remained a part of Serbia (until February 2008 when it declared independence) although it continues to be run by internationals.

UNSC Resolution 1244 established UNMIK, the United Nations Mission in Kosovo and gave this new mission the mandate “to carry out all aspects of civil administration, establish democratic institutions required for substantial self-government and create the basis for eventually resolving Kosovo’s disputed political status.”⁹⁰ The mission in Kosovo was structured as a system of “four Pillars” to be managed and funded by different international organizations. Pillar I went to UNHCR to deal with humanitarian aid, Pillar II sees direct guidance of the UN in matters of civil administration, Pillar III is headed by OSCE and deals with institution building, and Pillar IV tasks the European Union to handle matters of reconstruction and economic development. UNMIK as a whole is headed up by the Special Representative to the Secretary General (SRSG), an appointment made (obviously) by the Secretary General of the United Nations. The major responsibilities of the SRSG are to “supervise the international civil presence and coordinate its activities with the operations of the military security presence under the overall command of NATO.”⁹¹ Some of the earliest projects UNMIK faced were the demilitarization of the KLA, ensuring the safe return of refugees, and setting in place an appropriate political framework for the eventual resolution of Kosovo’s final status.

The mission in Kosovo has become the most well funded post-war reconstruction project in modern history. From 1999 to 2008 the UN spent an estimated \$53 billion on its mission in Kosovo, translating into \$2,800 per capita annually, and giving Kosovo around 160 times the

⁸⁹ The Kosovo Report, 119.

⁹⁰ King and Mason, 49.

⁹¹ Ibid, 99.

“average yearly per capita aid for all developing countries combined.”⁹² But even with this unprecedented level of support Kosovo’s economic situation is grim. “Officially, close to half of Kosovo's residents live on less than €3 (\$4.80) a day. Kosovo's per capita gross national product is lower than that of North Korea or Papua New Guinea. It has one of the worst balances of trade worldwide and Europe's highest fertility rate. Youth unemployment hovers at 75 percent.”⁹³ Whether or not the situation will improve in the newly independent Kosovo is not clear at this point in time and systemic corruption is considered one of the major impediments to foreign direct investment (FDI) into Kosovo.⁹⁴

⁹² Walter Mayr, “Confusion and Corruption in Kosovo: The Slow Birth of a Nation,” *Der Spiegel*. (April 24, 2008).

⁹³ Ibid.

⁹⁴ OSCE, *The Anti-Corruption Plan: Social and Economic Necessity for Kosovo*, (October, 2006).

Chapter Five - Economic Reconstruction and Privatization

By focusing on opportunities for corruption in post-war reconstruction it is absolutely necessary to detail the two major mechanisms through which this occurs that this study is limiting its scope to: policies of economic reconstruction (physical infrastructure, etc.) and privatization. This chapter outlines how these processes were undertaken in Bosnia and Kosovo and the next several chapters will highlight why corruption was the end result in each case by examining the variables of power sharing, refugee returns and the leadership role of the international community.

Reconstruction in Bosnia

The first major reconstruction program in Bosnia was the Priority Reconstruction Program (PRP). It was carried out jointly by the World Bank and the European Commission and they were responsible for dispersing the over \$5 billion of aid that flowed into Bosnia in the first five years after Dayton. By 1999 the program had repaired a third of the damaged housing stock, and most urban infrastructure was back to pre-war standards, including telecommunications, electrical power, water, and schools.⁹⁵ The PRP had little time to carry out its mandate and political considerations took the back seat to simply getting Bosnia's infrastructure repaired as quickly as possible. Even so, the failure of RS to turn over indicted war criminals and cooperate with the Dayton process resulted in the withholding of aid for two years, while reconstruction in

⁹⁵ European Commission and World Bank, 1996-1998 Lessons and Accomplishments: Review of the Priority Reconstruction Program, (May 1999).

FBiH came with no such conditionality. “The World Bank entered Bosnia on the basis of a post-natural disaster operational policy, which explicitly excludes institution-building objectives.”⁹⁶

While PRP was used to fund the rebuilding of a fair amount of homes, as well as larger scale reconstruction projects like roads, bridges, and the infrastructure of necessary utilities like electricity, water, and sanitation; a slightly more centralized approach was taken when it came to the next phase of international mandate - encouraging refugee returns. In 1997 OHR created the Return and Reconstruction Task Force (RRTF), effectively merging the goals of reconstruction and returns since the political goals of Dayton were linked to re-creating the multi-ethnic nature of Bosnia that existed prior to the outbreak of war and ethnic cleansing.⁹⁷ RRTF operated for six years, until it was closed in 2003. After that the tasks of return and reconstruction went to the domestic authorities with oversight provided by the United Nations Development Program (UNDP).⁹⁸

A sad reality of post-war reconstruction is that the rural population often suffers as urban infrastructure is generally repaired first, partially due to the fact that the peacekeepers are based there and need roads, headquarters, electricity and water in order to run their operations. But in Bosnia one interesting development has been a willingness of locals to pick up the tab in their own municipalities when they see a clear benefit.⁹⁹ In the case of municipalities that did not receive enough donor aid or have enough governmental funding to make repairs, the town of

⁹⁶ Cox, 11.

⁹⁷ Jayson Taylor interview.

⁹⁸ Interview with Mark Bowen, former RRTF official, currently with the Political Affairs Department, OHR; Mostar, May 2008.

⁹⁹ This goes back to a Yugoslav tradition of raising money for construction funds by collecting “voluntary” contributions from SOE employees. After the war the collapse of the SOEs meant that municipal service providers were low on funds and forced to cut services to cope with the situation. ESI, “Lessons from Bosnia for Kosovo: A Real Life Story of Private Sector Growth in Bosnia.” (February 13, 2002).

Kalesija in Tuzla Canton is one example of local initiative and grassroots funding fuelling reconstruction to the tune of DM 1.8 million to improve roads. A similar effort was made to repair the local telephone network without the help of donors or the state telecom company.¹⁰⁰

Privatization in Bosnia

In examining how privatization proceeded in Bosnia two major problems become apparent: that the process was very fragmented, carried out through a weak governmental structure with the companies devalued as they were broken into pieces; and the troublesome method of voucher privatization.¹⁰¹ The first problem deals with non-voucher privatization, the sale of Socially Owned Enterprises (SOEs) to private investors. The privatization process was supervised by USAID and remained separate from OHR's economic reform process. But although USAID was supposed to be handling the process it was not coordinated and was led largely by locals, with separate privatization offices cropping up at the entity and canton levels. much privatization happened in the first few years after Dayton, but the process began gathering steam in the late 1990s when the High Representative introduced the first state-level framework law on privatization and the settlement of property issues (one of the Dayton benchmarks) began to attract more attention.¹⁰²

The second problem of privatization in Bosnia has to do with the way small and medium enterprises were handled: using voucher schemes. Like the unsuccessful voucher privatizations of Russia and the Czech Republic vouchers were given to all the citizens based on different

¹⁰⁰ ESI, "Lessons from Bosnia for Kosovo," 13-14.

¹⁰¹ Interview with Orhan Niksic, Senior Economist with the World Bank, formerly with OHR and UNMIK, Sarajevo, May 2008.

¹⁰² Interview with Jayson Taylor, Sarajevo.

factors (such as higher value vouchers for soldiers) to then be used to purchase shares in public companies or to buy and sell them for cash. Several privatization funds emerged and purchased the vouchers with a lack of transparency in the transactions. For example the privatization funds bought vouchers at a rate of 3% and then bought companies at the nominal value. Additionally, a lot of people gaining control of the privatized companies these schemes were interested in asset stripping, not sustainable development.¹⁰³

It would be mistaken to give the impression that international involvement in the privatization process remained at arm's length. After the disastrous privatization of Sarajevo's Holiday Inn in 2000, OHR's approach to privatization changed. An international advisory group was created with the purpose of monitoring the privatization process and more involvement was seen by OHR's economic officers. While privatization is still carried out by multiple agencies at the entity and canton levels, over 100 "strategic" enterprises were set aside for international investors and international consultants were assigned to each file to improve transparency.¹⁰⁴

Overall the multilayered and unregulated privatization process has presented countless opportunities for corruption, the UN and other experts are in agreement that "the privatization process is another opportunity for government and party officials to profit through corrupt activities."¹⁰⁵ The entire process presents clear conflicts of interest, as opening balance sheets and details of privatization plans are easily put into the hands of enterprise managers who are then allowed to bid, giving them the ability to devalue the company by putting in a low bid when

¹⁰³ Interview with Orhan Niksic, Sarajevo.

¹⁰⁴ Donais, 123.

¹⁰⁵ GAO, "Bosnia: Crime and Corruption Threaten Successful Implementation of the Dayton Peace Agreement." Testimony before the Committee on International Relations, U.S. House of Representatives, (July 19, 2000): 6.

they have the insider information to know the real price is much higher.¹⁰⁶ Like the reconstruction process, major beneficiaries tend to be nationalist politicians and their parties.

Reconstruction in Kosovo

In Kosovo property issues were an immediate priority of UNMIK due to the events of the 1990s in which countless Kosovar Albanians lost their socially owned property under the discriminatory policies of the Milosevic regime.¹⁰⁷ But the international approach was divided, building on the Bosnian experience with residential property issues they created a “Housing and Property Directorate” in November of 1999 to resolve disputes, but industrial and commercial property was much less organized, and “lacking a legal framework or clear precedent to follow, UNMIK has moved far less robustly toward resolving fundamental issues.”¹⁰⁸ Commercial enterprises were placed under Pillar IV but there was a division among officials as to how to handle this part of the reconstruction program. The EU Pillar and large donors wanted to privatize Kosovo’s 350 SOEs rapidly while the UN Civil Administration Pillar was uneasy about stepping directly into a mess of property issues since they felt this was outside of their mandate.¹⁰⁹ Needless to say the process stalled and Kosovo saw “grassroots privatization” as the SOEs were rented out as commercial spaces to entrepreneurs. This evolved into asset stripping and a so called “pirate economy” where the unauthorized rents and sales went into private hands and funded political parties. The failure to regulate privatization and set clear parameters led countless “entrepreneurs” emerged from the shadows to take part with often dubious motives.¹¹⁰

¹⁰⁶ GAO, 6.

¹⁰⁷ Interview with Naim Rashiti, International Crisis Group, Pristina, May 2008.

¹⁰⁸ Dana Eyre and Andreas Wittkowsky, “The Political Economy of Consolidating Kosovo: Property Rights, Political Conflict and Stability,” (Bonn: Friedrichm Ebert, Stiftung, May 2002): 8.

¹⁰⁹ Ibid, 10-11.

¹¹⁰ Ibid, 13.

This uncertainty was not restricted to privatization; it bled into the way reconstruction was handled, as in the case of Trasing, a Pristina based construction company. Trasing took part in donor funded road reconstruction projects and seeing a profit incentive for control of rock (due to the construction boom) a group of employees took control of the Glogovac quarry and began competing for reconstruction contracts as an independent company. This illegal offshoot received UNMIK money as a separate company until UNMIK's legal office was finally convinced to step in and seize the company to formally determine ownership.¹¹¹ While this situation was eventually resolved to the benefit of the company's original workers, countless other schemes were carried out in the uncertainty of the early 2000s without repercussions.

Another problem of corruption in the post-war reconstruction phase was that of illegal construction. One significant difference between Bosnia and Kosovo was the amount of independent reconstruction happening in the years after 1999, for every building or home rebuilt through official channels with donor funds another was rebuilt without donor assistance. While this does not appear to be an outright problem, the lack of regulation of new construction led to disputes over who owned which parcel of land, unsafe developments built without respect for codes and zoning, and the illegal demolition of historical sites. This legal vacuum presented countless opportunities for corruption, and in fact when Pristina's leading urban planner, Rexhep Luci, held a workshop to announce a plan to stop illegal construction and revitalize the capital he was assassinated as he headed home that very evening.¹¹²

¹¹¹ Eyre and Wittkowsky, 16.

¹¹² ESI, "Utopian Visions: Governance failures in Kosovo's capital," Discussion Paper, (June 8, 2006): 3.

Privatization in Kosovo

Privatization in Kosovo was much better managed and the problems of Bosnia were avoided by centralizing the enterprise and avoiding voucher schemes by selling companies directly for cash, which brought in more money for the state and gave the government much needed liquidity. Some potential pitfalls of this process were that it may have been a bit rushed and that in some reconstruction prior to sale may have been wiser.¹¹³

Even so, privatization was not a priority in the first few years of UNMIK mandate (like in Bosnia) and did not begin in earnest until 2002.¹¹⁴ The privatization that did occur in the early years followed the first two steps of a three part process. The earliest privatizations were done primarily to raise revenue through with the commercialization of SOEs in the form of ten year leases. The UN legal office was against this and the disorganized process contributed to the “pirate economy” described earlier, with lots of asset stripping.¹¹⁵ Another feature of early privatization in the form of sales of land was that it tended to be used for ethnic cleansing. “UNMIK observed that when Albanians managed to buy one or two pieces of property in an area that had been homogenously Serb, further property sales tended to follow in a torrent.”¹¹⁶ These land sales were not monitored and when allegations of corruption and discrimination surfaced UNMIK issued Regulation 2001/17 “which required the sale of property in predominantly minority areas to be vetted by the local municipal administrator before finally being approved by the local court.”¹¹⁷ Around this time the second phase of privatization began, with the conversion of SOEs into Joint Stock Companies (this followed the early privatization model of Ante

¹¹³ Interview with Orhan Niksic (former Economic Policy Adviser at UNMIK), Sarajevo.

¹¹⁴ Interview with Naim Rashiti, Pristina.

¹¹⁵ Reference to asset stripping, Ibid.

¹¹⁶ King and Mason, 113.

¹¹⁷ Ibid, 113.

Markovic in 1989, through which 60-70 percent of shares went to the workers and the remainder sold to investors). However the Joint Stock approach did not last long and in 2003 the Kosovo Trust Agency (KTA) was launched to handle all further privatizations using its signature “spin-off” model.¹¹⁸

Spin-offs¹¹⁹, as practiced at KTA entailed using the assets of SOEs to set up subsidiary companies and then selling shares of the subsidiaries without judging the ownership of the original SOE. The subsidiaries were given 99 year leases and KTA’s immediate work saw two waves of privatization before the process was halted for 18 months and then re-launched under a new law in 2004. As of May 2008 441 enterprises have been sold and KTA places a premium on transparency and ensuring that the actors involved in the privatization process do not have conflicts of interest that could lead to corruption.¹²⁰ For more details on KTA’s privatization process in terms of best practices in post-war reconstruction and development please refer to Annex One.

¹¹⁸ Riinvest Institute, “Privatization in Kosova: Forwards and Backwards,” Forumi 2015, (Pristina, March 9, 2004): 17-19.

¹¹⁹ The purpose behind the spin-off system was to get around issues of sovereignty and status. Rather than a permanent transfer of land or property, using a 99 year transferable user right law allowed UNMIK to avoid defining “social property” and the ownership rights that would give Serbia, of which Kosovo was legally a part of, (until 2008) though under UN administration. Kirk Adams, “The Kosovo Trust Agency Privatization Program: An Example of How to Adopt Best Practice in a Post-Conflict Environment,” KTA, (January 24, 2008).

¹²⁰ From an interview with Kirk Adams, Director of Privatisation, KTA; Pristina, May 2008.

Chapter Six - Power Sharing and Bureaucracy

If we take Robert Klitgaard at his word that corruption loves “multiple and complex regulations with ample and uncheckable official discretion”¹²¹ what does this imply about the governmental structure of Bosnia as opposed to Kosovo? The very obstacles to state-building in Bosnia also contribute to a confusing regulatory climate and arbitrary discretion: the decentralized constitutional structure, the continued strength of the wartime power structures, and weak governance in the country itself.¹²² Since this study is operating on the assumption that opportunities for corruption are more likely in decentralized states with little central oversight over the bureaucracy it is necessary to compare Bosnia and Kosovo on this measure due to their different post-war power sharing arrangements.

Post-War Power Sharing

Bosnia and Kosovo both entered the post-conflict phase with very different governmental structures and guidelines for relations between ethnic groups. But one commonality was that although they were effectively protectorates subject to the overriding decision making power of the international authorities, the old domestic power structures did not dissipate. In the case of Bosnia national elections held just one year after the war allowed the old nationalist parties to officially recapture their respective leadership positions in state politics, even though many remained opposed to the peace process itself. This is said to be one of the risks of elections held too soon after civil war, that “leadership tends to derive its strength from ethnic, religious, or

¹²¹ Klitgaard, MacLean-Abaroa and Parris, 26.

¹²² Marcus Cox, “State Building and Post-Conflict Reconstruction: Lessons from Bosnia,” Cluster of Competence, *The Rehabilitation of War-torn Societies*. Centre for Applied Studies in International Negotiation (CASIN), (Geneva, January 2001).

regional loyalties and therefore exploits these ascriptive affiliations to get votes.”¹²³ As for Kosovo elections came a bit later (in 2001) and UNMIK has a much more explicit role in running the country, but throughout the time of their mandate they have had to compete with the freedom fighters turned politicians (namely Ibrahim Rugova, Hashim Thaci, and Ramush Haradinaj) that made ran Kosovo’s parallel structures when the former Serbian province was under effective apartheid in the 1990s

Bosnia

The Dayton Accords not only ended Bosnia’s war but set the country up with a new constitution (Annex 4 of the DPA)¹²⁴. It created the country as a decentralized consociation system “based on a conception of diffuse, layered sovereignty and citizenship.”¹²⁵ Significant powers are reserved for the entities, including the ability to develop close parallel relationships with neighboring states (this implied Serbia and Croatia who turned out to be major economic partners of RS and FBiH, respectively). It is not necessary to detail every branch of government at every level,¹²⁶ but simply to give weight to the fact that the entities (and within FBiH the Cantons) have a great deal of autonomy and power, which was a necessary concession to get the warring sides to come together at Dayton. The two entities each have their own constitution and different structures, with RS having no intermediary layer between the “state” and the municipalities as FBiH does with its Cantonal structure. In RS the responsibility of construction, maintenance and use of public facilities falls to the municipality¹²⁷ while in FBiH the chain of responsibility takes into account the Cantons. The Cantonal position is elevated, giving them

¹²³ Kumar, *Rebuilding Societies after Civil War*.

¹²⁴ See OHR, “The General Framework Agreement for Peace in Bosnia and Herzegovina,” December 14, 1995. http://www.ohr.int/dpa/default.asp?content_id=380

¹²⁵ Bose, 62.

¹²⁶ For a thorough explanation of Bosnia’s governmental structure see: *Ibid*, 61-87.

¹²⁷ Bose, 73.

jurisdiction and implementation control over important fields like public housing, land use, and business regulations; leaving municipalities and Federation level structures relatively weak.¹²⁸

But what does this really mean for reconstruction and development? The problem is not just a confusing governmental structure, but that this very structure affords the political class a great deal of leeway in blocking legislation, stalling projects, and essentially acting as “spoilers.”¹²⁹ Even the rise of political moderates has not changed this system of self interest, continuing the chain of corruption, with a senior Transparency International official in Bosnia claiming that increased opportunities for corruption were given to political moderates the international community was propping up who “were often encouraged through a more intensive delivery of aid, in order to depress popular support for the nationalist parties, at the further expense of the country’s institutions and sustainable development.”¹³⁰

The political divisions in Bosnia have resulted in efforts to unify failing because this political class has a vested interest in keeping the country divided.¹³¹ Utilities are an excellent example of this: while the electric grid was repaired rather quickly (at least in urban areas) inter-entity connections have been delayed not due to technical obstacles, but bureaucratic ones. Even modern technology like cellular telecommunications are a source of division, not unity as “cellular fiefdoms” cropped up in Bosnian Croat areas long before the rest of the country when Croatian companies made targeted investments in Croat heavy areas.¹³² The elevated position of

¹²⁸ Bose, 80.

¹²⁹ Cabaravdic and Mojsilovic interview, Breza.

¹³⁰ Boris Divjak, “Corruption in post-conflict reconstruction: Bosnia and Herzegovina Case Study,” Transparency International.

¹³¹ Cousens and Carter, 90.

¹³² Ibid, 90.

Croatia in Bosnia's economic development is a repercussion of the constitutional provisions for "special relationships" between the entities and neighboring countries.¹³³

Kosovo

In Kosovo a less complicated structuring of domestic institutions and clarity of international mandate allowed the then province to avoid the issues that plagued Bosnia. After the NATO bombing campaign against Serbia and Slobodan Milosevic's retreat from the area UNMIK was able to go in with their mandate spelled out in UNSC Resolution 1244¹³⁴ and use the Four Pillars structure described in Chapter Four to delegate responsibilities to other stakeholders. But even with clear mandates for the other international organizations involved the UN was still officially tasked with the civilian implementation of 1244, which in theory meant that Kosovo would be able to avoid the international infighting of Bosnia where clear responsibilities for the implementing partners of the PIC were not set in stone from the beginning.¹³⁵ A clearly visible chain of command and division of responsibilities matters.

Another difference in Kosovo's post-war governmental structure is that locals were essentially shut out at the beginning. Since they were not signatories of UNSC Resolution 1244 and their cooperation was not sought, there was less need to search for compromise in the agreement and implementation.¹³⁶ Still, the internationals sought to give locals more of a say and co-opt them by bringing them into the system rather than allowing them to play by their own rules as parallel institutions, intensifying a power struggle between international and domestic

¹³³ Mojsilovic and Cabaradovic interview, Breza.

¹³⁴ *United Nations Security Council Resolution 1244*. June 10, 1999, <http://daccessdds.un.org/doc/UNDOC/GEN/N99/172/89/PDF/N9917289.pdf?OpenElement>

¹³⁵ Hanson, "Warnings from Bosnia: The Dayton Agreement and the Implementation of Human Rights."

¹³⁶ *Ibid*, 100.

actors.¹³⁷ In the first few years of the mission a few shell bodies were created to give the impression that locals had some control over what was happening in Kosovo, but they were largely ceremonial. In 2001 more formal arrangements were set out in the Constitutional Framework which set out the blueprint for the future government, including seats in the parliamentary Assembly to be reserved for minorities.¹³⁸ The issue of power sharing between ethnic groups with no clear majority is the problem in Bosnia, but in Kosovo with its large Albanian majority (of around 90 percent) wielding most domestic political power the Serb minority is not as much of a player on the national scene, but controls the areas of Kosovo that are mostly Serb, like the north and the enclaves in the rest of the country. This situation is actually the cause of a great deal of Kosovo's *political* corruption. The Albanian majority has a lock on national power and corrupt elites are able to maintain their positions even when there is a change in leadership at the top. Through the years of armed struggle the KLA allegedly sustained itself through corrupt practices, particularly the illegal drug trade,¹³⁹ and the dominance of ex-KLA leaders in the current government (for example current Prime Minister Hasim Thaci) does not bode well for a corruption free independent Kosovo that would allow the Serb community the same economic opportunities as the politicians' Albanian constituents.

As far as equality in donor funding, while donor coordination in Kosovo was thought to be better than in Bosnia problems still surfaced. The European Agency for Reconstruction (EAR) was responsible for spending around half of all donor funding for Kosovo and "it tended to move more slowly than bilateral agencies, and often went through two levels of sub-contractors, each

¹³⁷ Marcus Brand, "The Development of Kosovo Institutions and the Transition of Authority from UNMIK to Local Self-Government," *The Rehabilitation of War-Torn Societies*. Centre for Applied Studies in International Negotiations. (Geneva, January 2003): 6.

¹³⁸ King and Mason, 117.

¹³⁹ The Kosovo Report, 51-52.

of whom would take a substantial cut, to get work done.”¹⁴⁰ In contrast, The United States Agency for International Development (USAID) used its smaller budget on high-profile projects and moved much faster and more directly. Additionally, donors were allowed to target their funds where they pleased, with bilateral donors tending to target the “municipalities where their nationals held senior appointments.”¹⁴¹ Massive funding did not translate into political loyalty or moderation of the Kosovo Serbs. UNMIK’s authority in the north and the Serb enclaves was already tenuous with the part of the population loyal to Serbia and the Kosovo Serbs effectively “refused to be bought,” refusing investment or simply ignoring it while collecting funds from Serbia proper.¹⁴²

Bureaucratic Webs and Regulation

A related idea to the effect of power-sharing structures on corruption is that of a tangled bureaucratic system with nonsensical regulations that feeds opportunities for corruption and discourages innovation and investment into the economy. In Bosnia the state’s constitution created impediments to growth by “establishing multiple levels of government and bureaucracy.”¹⁴³ For example a potential investor has to deal with 5 layers of bureaucracy in order to register a business, at the level of state, entity, canton, city, and municipality. As of 2001 the International Crisis Group claimed 14 visits to government agencies were necessary to set up a business in Bosnia. This murky process presents numerous opportunities for corruption and often domestic officials halt paperwork until a bribe is offered.¹⁴⁴ Growth is being

¹⁴⁰ King and Mason, 91.

¹⁴¹ Ibid, 91.

¹⁴² Ibid, 91.

¹⁴³ Caplan, 147.

¹⁴⁴ ICG, “Bosnia’s Precarious Economy: Still Not Open for Business.”(August 7, 2001): 10.

constrained by this poor business environment fuelled by the web of regulations impeding entrepreneurship and investment.¹⁴⁵

An entrepreneur in Zenica-Doboj Canton affirmed this sentiment, explaining that it was much easier for him to get his business started in the post-war chaos of 1997 than it is for his contemporaries today. Currently the extensive web of (often arbitrary) regulations and bureaucratic hurdles discourages potential entrepreneurs from even wading into the waters. Local politicians with the capacity to change this system in the wake of international initiatives to reduce corruption and create a more welcoming environment for business (namely Paddy Ashdown's Bulldozer Initiative) fail to do so, and when Mr. Ahmedspahio attempted to increase transparency in the process by floating the idea of a brochure carefully spelling out the process of starting a business and the necessary local regulations his proposal was dismissed.¹⁴⁶ It must also be said that cronies of the politicians benefit from the process and do get around the web of regulations, such as skipping "mandatory" inspections.¹⁴⁷ These inspections can create even more blatant opportunities for corruption as "unscrupulous businessmen or political foes can take advantage of government's hunger for fees and fines, inspectors' turpitude and their own connections to punish their competitors or enemies by reporting alleged violations to the authorities."¹⁴⁸

This situation is not unique to Bosnia, although it is better documented than in Kosovo. In Kosovo a tradition of small to medium enterprises (SMEs) has flourished for decades and

¹⁴⁵ Orhan Niksic interview, Sarajevo.

¹⁴⁶ Interview with Berzad Ahmedspahio, Entrepreneur and Small Business Owner, "Ahmedspahio," Breza, May 2008.

¹⁴⁷ Ibid.

¹⁴⁸ ICG, 11.

these businesses are mainly family run. But the presence of a flourishing SME sector doesn't mean that the culture of corruption has dissipated. Many of these businesses practice nepotism and a reliance on personal connections, favors and (now) bribery is strong. In terms of simple bureaucratic transactions bribes are necessary to collect a drivers license and there are many licensing scams such was with fuel importing licenses, where one buys an annual license with the understanding that a renewal will only be 50 euros, yet when it comes time to renew this agreement is not kept and the importer is forced to buy a whole new license.¹⁴⁹

These examples of opportunities for corruption presenting themselves in the bureaucratic quirks and confusing regulations of post-war Bosnia and Kosovo may not seem to be an obvious result of the reconstruction and privatization policies used by the international community, but it is relevant when you consider that this petty corruption takes a toll on the entire economy. If successfully restoring the economies of Bosnia and Kosovo was a priority it is not imprudent to wonder why more of an effort was not made to ensure accountability and oversight of simple procedures that nevertheless have important implications for growth and investment.

¹⁴⁹ Naim Rashiti interview, Pristina.

Chapter Seven - The Role of the International Community

The common variable in the experiences of Bosnia and Kosovo is that since the end of each respective conflict the international community been in charge, taking more of an executive role and more sovereign acts the longer they stay.¹⁵⁰ In economic matters the major IFIs have implemented the neo-liberal market based approach used in earlier post-communist transitions that had become the “only game in town” in the 1990s. These neo-liberal economic policies combined with a lack of preparation and passivity, resulting in a reliance on wartime parallel structures. With no direct oversight these wartime elites and criminal elements managed to play large roles in reconstruction and development and corruption was tolerated, allowing them to institutionalize these practices and their role in society. This chapter will examine each of these three aspects of the international presence with respect to corruption, beginning with the lack of preparation, the question of whether neo-liberal economic policies were used as an excuse for passivity, and the collaboration between internationals and the (generally corrupt) parallel structures that continued to play a role post-conflict.

Lack of Preparation

One common theme that surfaced in interviews with locals conducted in Bosnia and Kosovo was that the international community appeared to come into each situation unprepared for the civilian implementation of their mandate, or even unsure of what the mandate really meant in concrete terms.¹⁵¹ This sentiment is backed up by accounts of UNMIK’s arrival in

¹⁵⁰ Examples of sovereign acts: unilateral decisions to remove politicians, creating the KTA and taking charge of privatization in Kosovo.

¹⁵¹ Mojsilovic and Cabaradovic interview, Breza; Naim Rashiti interview, Pristina.

Kosovo under the late Sergio Vieira de Mello as temporary SRSG. His biography details the way the first UNMIK team was making things up as they went along with minimal staff (initially eight people) and resources, and later a team of expatriate political and economic officers ill suited to the gargantuan task at hand, which ranged from organizing garbage collection to repairing the electricity grid.¹⁵² Even the acronym “UNMIK” did not appear to be thought through in advance, once the early team was on the ground they learned that the name of their mission had a close resemblance to the Albanian word for “enemy,” *anmik*.

With respect to Bosnia the country had a strong NGO and human rights presence for the entire war, but this extensive on the ground experience still did not help the internationals in charge of strategic planning for the mission. In the first few years of civilian implementation of the Dayton the international community did not even have nationwide coverage, by 1997 they did but they still did not have enough manpower for individual representatives in each municipality.¹⁵³ The positive experience of RRTF as an interagency body (OSCE, UNHCR, OHR, donors, and NGOs) gives credence to the view that even without clear planning at the start, coordination and responsiveness can help make up for lost time. The way RRTF operated was that although each agency had a different mandate the task force pooled the strengths of all involved, sharing information and flagging problems in other areas so that the appropriate agency could respond. This type of coordination was said to have been possible the very start and a necessity to avoid bad, uneven results. Even the success of the major player in the

¹⁵² Samantha Power, *Chasing the Flame: Sergio Vieira de Mello and the Fight to Save the World*. (New York: Penguin Press, 2008): 265-285.

¹⁵³ Jayson Taylor interview, Sarajevo.

international mandate depends on this, as former RRTF official Jayson Taylor said: “OHR is only as strong as its ability to monitor and respond collectively with its international partners.”¹⁵⁴

While it has yet to be proven if the lessons of Bosnia and Kosovo will be applied to future international missions more attention has been paid to the shortcomings of these cases, with the International Crisis Group citing Bosnia’s quick turnover of international consultants and “lack of transparency and accountability” as factors that impede reform.¹⁵⁵ In terms of preparedness at the beginning of missions and early reforms, “the international community’s approach to economic reform has been mostly reactive, seeking quick fixes that too often later prove to be inadequate or even counterproductive.”¹⁵⁶

The Neo-Liberal Economic Approach: An Excuse for Passivity?

When economist Jeffrey Sachs was questioned about the use of shock therapy neo-liberal economic policies in Russia’s transformation the economist shrugged off the suggestion that the decision was motivated by free-market ideology, instead he replied that it was marked by “sheer laziness” and was amazed by “the absence of serious research and debate informing monumental decisions.”¹⁵⁷ While his answer does not deal directly with either Bosnia or Kosovo or in fact, corruption, the idea that the economic policies that have given rise to corruption and asset stripping during privatization may have been “phoned in” rather than the result of serious ideological fervor adds a new dimension to this thesis. It also helps answer the

¹⁵⁴ This entire paragraph: Jayson Taylor interview, Sarajevo.

¹⁵⁵ ICG, “Bosnia’s Precarious Economy: Still Not Open for Business,” (August 7, 2001): 17. http://www.crisisgroup.org/library/documents/report_archive/A400375_07082001.pdf

¹⁵⁶ Bosnia’s privatization law was given as an example of the international community not using their power to the state’s long term advantage, the lesson being the need to take a country’s unique circumstances into account in early reforms to avoid becoming one of the country’s problems, not the solution: Ibid, 17.

¹⁵⁷ Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism*. (London: Allen Lane, Penguin Group, 2007): 250.

question of why these policies were used in Bosnia and Kosovo when they had been proven to lead to widespread corruption when handled incorrectly in places like Russia that weren't even recovering from war on top of the post-communist transition. According to Heather Marquette the role of the IFIs is what matters since the trademark of the World Bank in particular is to take a depoliticized stance to its lending.¹⁵⁸ The fact that reconstruction in Bosnia was handled directly by the World Bank (the PRP program) may explain why reducing opportunities for corruption in the reconstruction project wasn't taken into account. While anti-corruption has become a trend in donor policies that use political conditionality to promote good governance, the World Bank remains committed to keeping economics and politics separate in its policy making, rendering it unlikely that they would have taken sides in post-war Bosnia to keep reconstruction money and lucrative privatizations out of the hands of nationalist politicians and their cronies.

Relying on the market also allowed the international community a measure of distance from the reconstruction and development projects they were implementing in the Balkans. The reluctance to take sovereign acts in the early years and risk looking like overbearing colonial administrators can seem justified and natural if the economic ideology guiding the project prioritizes the market over state (or international) interference. In the case of Bosnia nothing signed at Dayton mandated that privatization needed to be handled in the fragmented fashion it was, this decision was made later on, by the international community. Local politicians like Haris Silajdzic were even advocating for a centralized authority to handle privatization but the

¹⁵⁸ Heather Marquette, "Corruption, Democracy and the World Bank," *Crime, Law and Social Change* no. 36 (2001): 395-407.

proposal was rejected. Along those same lines, Annex 10 of the DPA even states that public companies be regulated at the state level, but this was interpreted narrowly after the war.¹⁵⁹

As the cases of Bosnia and Kosovo have shown, a failure to maintain oversight and screen out corrupt actors allowed these individuals to take advantage of the opportunities for corruption when they were involved in reconstruction and development. This is exacerbated by the massive amounts of aid that flow into post-war states. The relationship between aid and corruption has been analyzed and it was discovered that there is a “voracity effect” of foreign aid, that “when a recipient country obtains a foreign aid windfall, lobbying and redistribution efforts are heightened and corruption worsens. As a result the windfall turns into a social loss.”¹⁶⁰ It also entrenches the status quo and inhibits reform, something conditionality may not remedy due to the “pro-disbursing incentives of donor agencies.”¹⁶¹ This entrenched status quo has been *the* major obstacle in post-war Bosnia and Kosovo and the final section will discuss how the international community may have contributed to its entrenchment through its reconstruction and development policies.

Reliance on Wartime Elites: The Problem of Parallel Structures

*The international community and its representatives in Kosovo bear a significant share of responsibility for the alarming proliferation of Mafia-like structures in Kosovo. As a result of their open support for leading political and criminal figures, they have harmed the credibility of international institutions in numerous ways.*¹⁶²

The reality of post-war Bosnia and Kosovo was that the years of conflict had created a wartime economy based on survival, institutionalizing the types of skills and supply lines necessary to break arms

¹⁵⁹ Orhan Niksic interview, Sarajevo.

¹⁶⁰ Robert Keleher and Jim Saxton, “Can IMF Lending Promote Corruption?” Joint Economic Committee Study, United States Congress. (December 1999): 4.

¹⁶¹ Ibid, 4.

¹⁶² Mayr, citing a study by the Institute for European Politics in Berlin, completed for the German military, the Bundeswehr, in 2007.

embargoes and get around sanctions. It would be foolish to assume peace would simply erase this and in fact peace brought out a hybrid economy of pre and wartime clientelism fused with the market principles imposed by the international actors. This legacy proved very hard to break and it became even more of a factor due to the legitimization of those old elites in elections and their considerable economic power. In Kosovo the issue of how to utilize the former rebel force, the KLA, was a major problem. Rather than bringing them into the process from the beginning and attempting to neutralize their power, the group was able to remain a parallel force, competing with UNMIK for influence and setting up their own institutions. In the early years this was exemplified by Hasim Thaci's 21 member all-Albanian cabinet and his discretion in appointing Mayors in almost all municipalities without the consent or approval of UNMIK.¹⁶³ In the reconstruction phase in Bosnia this meant skipping over constitutional structures and dealing with whomever had control over physical infrastructure. This enabled local warlords to benefit from reconstruction as the process had no centralized oversight power dictating which locals potentially should have been excluded from the process due to nationalist political alliances and ties to organized crime. These local characters were not only able to get their hands on construction materials and intercept the supply chain, but were given the discretionary power to designate the beneficiaries of international aid.¹⁶⁴

The process of funding reconstruction projects also offered opportunities for corruption. Funds essentially went from a donor to the implementing partners (generally NGOs) who were responsible for distributing them. This presents two opportunities for corruption: in the selection

¹⁶³ Power, 281.

¹⁶⁴ Cox, 11.

of local contractors and the selection of beneficiaries.¹⁶⁵ Examples of corruption in contracting include paying bribes to gain a favorable position on the list of contractors, ministers practicing nepotism, price fixing in the purchase of construction materials, and shipping building materials in from the opposite end of the country resulting in transport costs that are higher than the materials themselves.¹⁶⁶ As local actors became part of the selection process RRTF saw situations like a Federal minister giving contracts to his own companies.¹⁶⁷

The failure to co-opt networks of wartime elites also resulted in corrupt privatizations an example of which comes from the RS town of Dobož and the Trudbenik firm. Its faulty privatization was typical for Bosnia, the first tender was held ten years after the DPA, in 2005, and no one bid, it went through several tenders without interest and finally attracted potential investors in 2007. Throughout this period the company was devalued. The reason privatization was delayed? The government of RS declared it “a company of strategic value.”¹⁶⁸ In the Croat heavy parts of FBiH privatization has proceeded a bit differently but results in discriminatory hiring and nepotism once the company is sold. Aluminum Mostar is the best example of this. Majority ownership was transferred from the Bosnian state to the company’s Croat employees with investment from Croatia proper and senior management is full of elite members of the Croat nationalist party HDZ. It goes without saying that the company’s employees are now almost exclusively Croat.¹⁶⁹

¹⁶⁵ Mark Bowen interview, Mostar.

¹⁶⁶ Jayson Taylor interview, Sarajevo.

¹⁶⁷ Mark Bowen interview, Mostar.

¹⁶⁸ ESI, “A Bosnian Fortress” Return, energy, and the future of Republika Srpska.” (December 19, 2007).

¹⁶⁹ Donais, 119, 131.

Even something as innocuous as giving soldiers higher value vouchers created opportunities for corruption. OHR signaled their awareness of this possible outcome when they warned FBiH authorities against overvaluing the military vouchers for fear of favoritism and allowing soldiers to emerge as the major beneficiaries of privatization. But FBiH politicians did not take heed and valued the soldier designated vouchers at KM 7.7 billion (around KM 3 billion more than OHR thought reasonable) and as a result there was a “disproportionate distribution of vouchers to the core constituencies of each of the Federation’s ruling nationalist parties.”¹⁷⁰ From the perspective of ordinary citizens the voucher scheme was incredibly confusing and difficult to negotiate, and that privatization as a whole was overly politicized.¹⁷¹ The entire process benefits only those who have the resources to take advantage, generally the old wartime elites whose networks were left undisturbed by the internationals supposedly running the countries.

A theory as to why the internationals remain passive at the beginning of missions and give unwise concessions to (potentially corrupt) local actors is that both the international community and the local actors refuse to admit that the states are actually operating as protectorates.¹⁷² Acceptable behavior is using paternalistic rules to guide countries thought to be unable to run their affairs- this is reflected in the actions and policies of the international institutions. Michael Pugh goes as far as to say that the “spoils of peace legitimized the war”

¹⁷⁰ Donais, 120-121.

¹⁷¹ These statement reflect their interviews with locals in Zenica-Doboj Canton at the time. Interview with Edin Cabaravdic and Despot Mojsilovic, Breza.

¹⁷² Pugh, “Protectorates and spoils of peace: Political Economy in south-east Europe,” 47.

with the local wartime elites consolidating their hold on the economy after the end of hostilities.¹⁷³

What has allowed them to consolidate their hold on the economy in the first place is that they were relied on in reconstruction projects and allowed to capitalize on corrupt opportunities without any consequence. While they may have been the best equipped to run reconstruction projects and the only ones with enough cash to take advantage of privatization, handling reconstruction and development in a way that favors wartime elites over ordinary citizens by allowing opportunities for corruption to exist unchecked should have been flagged as antithetical to the mission of the international community in both Bosnia and Kosovo. What happened in these two cases is a failure to provide accountability which would have served the common good.¹⁷⁴ Although anti-corruption did eventually become a priority in Bosnia and Kosovo in each case this happened two years into the international mandate, at which point the damage was already done.

A Side Note: International Corruption

This study has focused on opportunities for corruption left open by the state-building policies of the international community in how they undertook reconstruction and privatization. This does not imply that internationals themselves have not engaged in corruption directly. There have been dismissals of international officials accused of taking bribes in Bosnia¹⁷⁵ but the most egregious sins by internationals have been in Kosovo. The biggest example of corruption on the part of the international community has been the 2002 case of Jo Trutschler, the former head of

¹⁷³ Pugh, "Protectorates and spoils of peace: Political Economy in south-east Europe," 47.

¹⁷⁴ Ibid, 53.

¹⁷⁵ GAO, 7.

the public utilities department at KEK. Trutschler was accused of stealing more than 4 million Euros in donor funds that he transferred from the KEK coffers directly to his personal bank account. He was subsequently arrested and convicted by his home country of Germany, but the Italian anti-corruption unit brought in by UNMIK chief Michael Steiner found the Trutschler case to be unique in its excess.¹⁷⁶

¹⁷⁶ King and Mason, 187-188.

Chapter Eight - Concluding Thoughts and Policy Implications

Corruption may take a toll on the daily lives of Bosnians and Kosovars but it has serious repercussions for a developing economy as a whole. For most businesses “corruption is a coping mechanism, a means of getting by within a largely unreformed regulatory environment that is decidedly unfriendly to business.”¹⁷⁷ Getting to the root of the problem means targeting that unreformed regulatory climate that allows corrupt opportunities to emerge. In Bosnia a country wide inspections racket “sustained by a complex and intrusive maze of business regulations” gives politically connected inspectors wide discretionary power, including the ability to shut a business down on the spot and using their inspections as a political tool to harass competitors and punish straying party members.¹⁷⁸

Aside from international aid Kosovo relies on the small and medium enterprises that make up the bulk of its economy, as well as remittances from the diaspora. But while some have taken a very positive view of Kosovo’s economic potential,¹⁷⁹ the transfer-driven growth of aid and remittances is not necessarily sustainable and the ability to attract FDI will be crucial for Kosovo to succeed as an independent state. So far around 20 percent of KTA’s privatizations have gone to foreigners¹⁸⁰ and the factors keeping this percentage relatively low all stem from corruption. The main barriers to FDI in Kosovo are corruption itself and the lack of investment guarantees, and to a lesser degree nuisances like unreliable utilities (particularly electricity

¹⁷⁷ Donais, 77.

¹⁷⁸ Ibid, 77.

¹⁷⁹ Henry H. Perritt Jr., “Would Kosova survive economically as an independent state?” In *The Case for Kosova : Passage to Independence*, ed. Anna Di Lelli, 165-171, (London: Anthem Press, 2006).

¹⁸⁰ Kirk Adams interview, Pristina.

provided by state owned KEK) which subject the population to rely on costly generators, even in Pristina.¹⁸¹

The fact that the international community did not override these obstacles and work to reduce opportunities for corruption by institutionalizing transparency and oversight at all levels seems to have come out of the push toward neo-liberalism. This ideological push had the unintended consequences of reinforcing the corrupt elites and essentially privatizing government¹⁸² by moving the assets from social ownership into the hands of the nationalist-organized crime networks. One reason calls for anti-corruption reform may be dim is that the nexus between politicians and economics has become entrenched as a fact in the minds of ordinary people¹⁸³ even though handing discretionary power to corrupt-leaning politicians can derail appropriate use of much needed reconstruction aid. Another problem on the international level has to do with how local elites factor into the state-building process. It has been shown that allowing them to keep their hold on local communities through control of the economy and ties to politicians presents opportunities for corruption when left unchecked. But some authors still advise that international administrations can be seen as more legitimate in the eyes of the community by co-opting the local elites and making it seem that locals have more of a role in the process.¹⁸⁴ This was said to be successful in Kosovo with bodies like the Provisional Institutions of Self Government (PISG) and the Interim Administration Council (IAC) but this study has

¹⁸¹ Pantelis Sklias and Spyros Roukanas, "Development in Post-Conflict Kosovo," *South-Eastern Europe Journal of Economics* no. 2 (2007): 274.

¹⁸² Pugh, "Protectorates and spoils of peace: Political Economy in south-east Europe," 54

¹⁸³ When asked whether or not delaying Bosnia's first national elections would have kept wartime elites from returning to power journalists from Zenica-Doboj Canton said that there is a general feeling that politics and economics were always together and that the ties between politicians and organized crime would have been incredibly difficult to break. Mojsilovic and Cabaradovic interview, Breza.

¹⁸⁴ Besnik Pula, "The UN in Kosova: Administering Democratization," In *Understanding the War in Kosovo*, eds. Florian Bieber and Zidas Daskalovski, (London and Portland: Frank Cass, 2003): 205-206.

shown the negative economic consequences of bringing locals into the process and giving them free reign in certain areas (like reconstruction and privatization). The trick then becomes: how do you co-opt local elites while getting them to play by the rules?

What this study hopefully demonstrated is that there *is* a relationship between reconstruction and corruption in post-conflict states and that in the cases of Bosnia and Kosovo opportunities for corruption emerged in the international community's reconstruction and privatization plans themselves and the way they were implemented. Decentralization and a lack of oversight and transparency all offer opportunities to corrupt actors. When this is the norm early in a mission these practices become institutionalized and the graft, nepotism and bribery that may have been tolerated in order to "grease the wheels" just rewards corrupt elites and legitimizes their actions, often those responsible for the conflict in the first place.

In proposing policy prescriptions that may remedy this situation there is, of course, the gift of hindsight. But while the following ideas for reform have Bosnia and Kosovo in mind (i.e. how things could have been done differently) they can also apply to other, hypothetical post-war protectorates being run by the international community. One potential flash point is that a greater executive decision making role for the international community is recommended. This is not due to any colonial leanings or fascist desires to make the trains run on time but a preference for shorter missions that can get the occupied state on the right track as quickly as possible, rather than delegating important duties to locals in the very early stages when wartime animosities may still be strong and result in political deadlock and exclusionary and corrupt economic practices.

Reforms for Future Success?

One of the most basic features of a successful international administration that could limit corruption in reconstruction and development is statewide coverage and executive international leadership on the ground. There is a clear need to have an effective and obvious civilian administration at the outset of each mission. The international presence should not be limited to capital cities leaving local municipalities reliant on wartime elites in the immediate post-war period. Such a scenario just allows those responsible for the country's demise to solidify their hold in a new system by acting as service providers for local communities and making constituents reliant on them.

The presence of a competent district administrator or precinct captain in every municipality would not only put a human face on the international administration in rural communities but would also help diffuse the wartime economic networks. There would be direct oversight over the activities of the local elites and their stranglehold on the community would be broken by the presence of an alternate service provider responding to the needs of the community in a tenuous time. It goes without saying that these precinct captains would report to the central authority of the international administration and have enough autonomy to make decisions appropriate to the day to day situation in their community. Using this model may also help promote good governance. Rather than investing resources into civil society programs years after the conflict local citizens would be able to see good governance in action and the tangible benefits it can wield. This would serve as a model for efficient local administration after the end of international mandate and may break the hold ineffective nationalist politicians have on their

communities going forward as responsible and non-corrupt locals are brought into the process by the precinct captain.

Rather than hiring longtime international bureaucrats for this job an effort should be made to target people who can “get things done” in the manner of Rudy Giuliani, Richard Riordan, Cory Booker, and Bill Bratton. This would imply creating a database of competent municipal managers, former mayors, and entrepreneurs who would be willing to devote a year or two to public service abroad. While “international experience” is an incredibly important requirement to work at the United Nations and other organizations participating in state-building projects there is a need for other skills in post-war reconstruction and development. Tapping into the ideas of people who have reduced gang violence in their neighborhoods, turned around a failing school system, boosted economic development in formerly depressed neighborhoods, or started a successful business chain could play an important role in making these international missions more flexible, innovative and successful.

A related reform may be instituting a zero tolerance policy on corruption at the onset of state-building projects. This would entail putting in place a monitoring system for funds transfers and using the district administrators to look after the use of funds and contracting in reconstruction projects. Instead of allowing countless NGOs, locals and donors a hand in the process on the ground the district administrator would have the responsibility of finding contractors and buying materials. If corruption still surfaces this person can be held directly responsible and removed from the position. Such a scenario is preferable to tolerating corruption on the part of local actors for years and then removing politicians from power years later in an effort to “get tough.” That way of doing things seems a bit self defeating and may just inspire

resentment from the locals. If the internationals take more direct responsibility and a stronger hand at the beginning this may not be the case and the country could see a much shorter period of international mandate than has been the case in Bosnia and Kosovo.

Still, the idea of international administrators acting as “benevolent despots” may be difficult for many to accept, especially since many of those staffing the higher ranks of international organizations were inspired to service by the decolonization movement of the mid-20th Century. The late Sergio Vieira de Mello touched on this conundrum in a short paper written after his experiences in Kosovo and East Timor and it seems to come down to a choice between governance and democracy with no clear answer as to “how the UN can exercise fair governance with absolute powers in societies recovering from war and oppression.”¹⁸⁵ When you consider the debilitating effects of corruption for post-war economies struggling to attract investment and become self-sufficient and how this impedes fulfillment of international mandate and eventual sovereignty leaning in favor of “governance” is not that shocking. Tackling corruption from day one through a stronger international presence (and reducing the influence of wartime elites) would have much more of an impact on post-war societies than simply saving a little reconstruction money; it could promote good governance at the domestic level and perhaps even shorten the period of international rule.

¹⁸⁵ Sergio Vieira de Mello, “How Not to Run a Country: Lessons for the UN from Kosovo and East Timor.”

Annex 1 - Privatization in Kosovo: An Overview for Best Practices in Post-Conflict Reconstruction

The Kosovo Trust Agency (KTA)'s privatization program is widely hailed a success, it is now on its 31st wave and 441 enterprises have been sold as of May 2008, including many large ones. Workers from the newly privatized company are not left out of the process either, as they receive 20 percent of any spin off sales from the original enterprise. A major reason for KTA's achievements seems to be the fact that lessons learned from other privatization programs (both good and bad) taken into consideration and the agency focuses on transparency, balancing interest group politics, and guaranteeing the selection of qualified managers.¹⁸⁶ The bid process outlined below is an example of this works in practice, reducing opportunities for corruption at every turn.

A typical privatization takes about 60 days in order for KTA to do its due diligence, although it takes longer for larger companies. Prospective bidders need to register with KTA and are vetted. Once they are in the system they may receive a background check, this becomes mandatory for successful bidders. KTA has two bid rooms, one in Pristina and the other in Mitrovica in order to encourage minorities to bid in a comfortable environment. Officials present at each bid are a legal officer, a lawyer, a privatization official and an international auditor. The bid times are very short and done anonymously by assigning each bidder a "p number"¹⁸⁷ for identification. Each bid amount (entered on a standard form) is placed in a double sealed envelope along with the bidder's p number, registration certificate, a bank letter and statement,

¹⁸⁶ "The Kosovo Trust Agency Privatization Program: An Example of How to Adopt Best Practice in a Post-Conflict Environment,"

¹⁸⁷ The 'p number' system represents a zero tolerance policy against corruption, it prevents collusion and the only people who have access to the database are Kirk Adams and KTA's head of marketing (both internationals who are neutral). From an interview with Kirk Adams, Director of Privatisation, KTA; Pristina, May 2008.

an agreement of legal tender and proof of the bid deposit. At the end of two hours they seal the bid box and move it by armed guard to the UNMIK theater where the bids are opened in a public ceremony broadcast live on state television.¹⁸⁸

This centralized and standardized process prevents bid tampering and keeps things clean, the highest price wins and there are no opportunities for corruption. Once a provisional winner is announced they undergo a thorough background check from UNMIK and Interpol and KTA does not accept money from blacklisted banks. Some major differences from Bosnia are that international experts are directly involved in the process and management is selected to avoid conflicts of interest (i.e. internationals whose salaries are not affected by politics, for example Mr. Adams is paid by USAID). This does not mean corrupt individuals have no hopes of entering the process. Around two bids per tender are rejected, sometimes due to money coming from questionable sources and around ten waves in there was collusion in the form of ring bidding. Those involved were banned from participating in the future.¹⁸⁹

A USAID study on corruption in Kosovo expressed some trepidation about how KTA's privatization process would turn out when it was first being developed. The agency emphasized that without proper screening of bidders and tracing funding sources there would be "unfortunate potential for the privatization process to become a de facto money laundering operation."¹⁹⁰ However this was when KTA's tender model was still being developed, as it was presented to the author by Mr. Adams the process as it exists today appears to eliminate such opportunities for corruption.

¹⁸⁸ Kirk Adams interview, Pristina.

¹⁸⁹ Ibid.

¹⁹⁰ Spector, Winbourne, and Beck, 19.

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List of Interviewees

Adams, Kirk, Director of Privatisation, Kosovo Trust Agency; Pristina, May 2008

Ahmedspahio, Berzad, Entrepreneur and Small Business Owner, Ahmedspahio, Breza, May 2008

Bowen, Mark, Political Affairs Department, Office of the High Representative; Mostar, May 2008

Cabaravdic, Edin, Manager and Journalist, Radio Breza, Breza, May 2008

Mojsilovic, Despot, Manager and Journalist, Radio Breza; Breza, May 2008

Niksic, Orhan, Senior Economist, The World Bank Country Office in BiH; Sarajevo, May 2008

Rashiti, Naim, Researcher and Manager, International Crisis Group; Pristina, May 2008

Taylor, Jayson, Deputy Head of the Legal Department, Office of the High Representative; Sarajevo, May 2008

Vracic, Alida, Director, Populari (a think tank based in Sarajevo); Sarajevo, May 2008