

Good Intentions



CENTER ON
INTERNATIONAL
COOPERATION

Studies in Multilateralism

Good Intentions

Pledges of Aid for Postconflict Recovery

edited by
Shepard Forman
Stewart Patrick



BOULDER
LONDON

Published in the United States of America in 2000 by
 Lynne Rienner Publishers, Inc.
 1800 30th Street, Boulder, Colorado 80301
 www.rienner.com

and in the United Kingdom by
 Lynne Rienner Publishers, Inc.
 3 Henrietta Street, Covent Garden, London WC2E 8LU

© 2000 by Lynne Rienner Publishers, Inc. All rights reserved

Library of Congress Cataloging-in-Publication Data

Good intentions : pledges of aid for postconflict recovery /
 edited by Shepard Forman and Stewart Patrick.

p. cm. — (Center on International Cooperation studies in
 multilateralism)

Includes bibliographical references and index.

ISBN 1-55587-854-7 (alk. paper)

ISBN 1-55587-879-2 (pbk. : alk. paper)

1. Economic assistance. 2. Economic assistance—International
 cooperation. 3. Technical assistance—International cooperation.

I. Forman, Shepard, 1938–. II. Patrick, Stewart. III. Series.

HC60.G598 1999

338.91—dc21

99-38718

CIP

British Cataloguing in Publication Data

A Cataloguing in Publication record for this book
 is available from the British Library.

Printed and bound in the United States of America

Ⓢ The paper used in this publication meets the requirements
 of the American National Standard for Permanence of
 Paper for Printed Library Materials Z39.48-1984.

5 4 3 2 1

Contents

<i>Acknowledgments</i>	vii
1 Introduction <i>Shepard Forman and Stewart Patrick</i>	1
2 The Donor Community and the Challenge of Postconflict Recovery <i>Stewart Patrick</i>	35
3 Cambodia <i>Sorpong Peou, with Kenji Yamada</i>	67
4 El Salvador <i>Herman Rosa and Michael Foley</i>	113
5 Mozambique <i>Nicole Ball and Sam Barnes</i>	159
6 The Palestinian Territories <i>Rex Brynen, Hisham Awartani, and Clare Woodcraft</i>	205
7 South Africa <i>Michael Bratton and Chris Landsberg</i>	259
8 Bosnia and Herzegovina <i>Zlatko Hurić, Amela Šapćanin, and Susan L. Woodward</i>	315

138. AC, SA-Norway, 11/97, p. 4.
139. Interview, DANIDA, March 1998.
140. Interview, SIDA, March 1998.
141. AC, SA-Ireland, 12/96, pp. 3-4.
142. AC, SA-US, 4/98, p. 3. Against an indicative allocation of \$72.6 million for 1998, U.S. assistance was set to decline to U.S.\$50 million in 1999: "a clear indication of a rapidly declining funding curve."
143. AC, SA-UK, 2/98, pp. 2, 12. For targets see also OECD/DAC, *Shaping the 21st Century*, p. 2.
144. "Clinton Punts a US Partnership with SA," *Business Day*, March 27, 1998.
145. AC, SA-Germany, 10/96, p. 24.
146. AC, SA-Denmark, 11/97, p. 4.
147. AC, SA-UK, 2/98, p. 2.
148. AC, SA-Australia, 3/98, p. 2.
149. AC, SA-Switzerland, 9/97, p. 3.
150. "Mandela's Advice Shocks U.S. Officials," *The Independent on Saturday*, March 28, 1998.
151. "Mandela Champions Cause of Poor Nations," *Business Day*, May 20, 1998.
152. "Mbeki Broadly Supports Africa Bill," *Business Day*, August 28, 1998.
153. Both quotations are from Simkins, "Problems of Reconstruction," p. 84.
154. Alperson, *Foundations for a New Democracy*, p. 9.
155. Including Liberty Life, Anglo-American, Gencor JCI, Shell, Southern Life, and Standard Bank. *Ibid.*, p. 6.
156. *South Africa at a Glance, 1997-98*, p. 64.
157. Kornegay and Landsberg, "Phaphama iAfrica," p. 4.
158. AC, SA-Germany, 11/97, annex 2; Sweden, 11/97, p. 2; UK, 2/98, p. 1.
159. AC, SA-Sweden, 11/96, p. 2; Switzerland, 9/97, p. 6; Germany, 10/96, p. 24; Canada, 11/97, p. 5; UK, 3/96, p. 3; US, 11/96, p. 8.
160. "Regional Slant to Norway's Aid for SA," *Business Day*, July 15, 1998.
161. For example, Friedman, "Next Poll to Gauge Democracy's Support"; Mattes, "Votes Available."
162. Mattes and Thiel, "The Prospects for Democratic Consolidation in South Africa."
163. Annual bilateral disbursements averaged about \$300 million per annum in 1992 and 1993 and about \$600 million between May 1994 and May 1998.
164. Juan Linz and Alfred Stepan consider a transition to democracy to be complete when the state eliminates competing claims to its authority and major political interests agree on core constitutional procedures. See their *Problems of Democratic Transition and Consolidation*, p. 3.

8

Bosnia and Herzegovina

Zlatko Hertić, Amela Šapčanin
& Susan L. Woodward

IN THE SIX YEARS FOLLOWING THE START OF BOSNIA AND Herzegovina's war of independence in 1992, financial assistance to the country surpassed \$5 billion in multilateral pledges alone.¹ These included eight multilateral pledging conferences, three other voluntary arrangements, and two wartime precursors of subsequent multilateral peace implementation programs. The pledges had three goals: reconstruction of war damage, consolidation of cease-fire agreements and the implementation of a peace accord, and the transition to a market economy. This study examines their objectives, programs, sectoral allocation, coordination structure, and the methodological difficulties of assessing delivery and implementation.

In comparative context, the Bosnian case is a positive story of international interest, commitment, and delivery. The fact that it represents what donors can do when political will is present makes its experience, both good and bad, of particular importance for future cases. The timing of this study intersects the peace process and the reconstruction effort in mid-course—and when the transition process toward democracy and markets had only just begun. This makes its findings necessarily tentative. Significant obstacles to drawing definitive conclusions also exist in the quality and variety of available data: the existence of three official, contradictory databases; inconsistent and incomplete reporting; and deliberate donor efforts to conceal pledge gaps. The differences in these sources are so great, in fact, that estimates of the actual delivery and implementation of aid differed by more than \$1 billion. As a result of the difficulties this causes in evaluating pledged aid, we call upon the donor community to improve the accountability and transparency of its aid through reforms that could include standardizing the definition and reporting of actual aid flows.

The provisional explanations offered here for apparent gaps and delays between aid pledged and that actually delivered and implemented distinguish between donors and recipients. On the donor side are problems

in the coordination mechanisms, implementation capacity, and use of political conditionality in the allocation of aid. On the recipient side, continuing political disagreements about the goal of the peace accord, its cumbersome decisionmaking procedures, and insufficient transparency and accountability on the use of aid take prominence.

Country Context

Bosnia and Herzegovina was one of five independent states created out of the dissolution of the Socialist Federal Republic of Yugoslavia. According to the prewar census, the Bosnian population in 1991 was 4,366,000, inhabiting a country of 51,129 square kilometers (about one and a half times the size of Belgium). A multinational republic—some would say a “mini-Yugoslavia”—Bosnia was home to three constitutionally recognized national communities: Bosniacs, members of the Muslim community, were 43.7 percent of the population in 1991; Serbs, belonging to the Serbian Orthodox Church, were 31.4 percent; and Croats, of the Roman Catholic Church, were 17.3 percent. The remaining 7.6 percent of the prewar population declared their national identity as Yugoslav or another (minority) nationality.

Following its declaration of independence in March 1992, Bosnia and Herzegovina was engulfed in a four-year-long war launched by the opponents of its independence. These included segments of the Croat and Serb populations, remnants of the Yugoslav army, and Bosnia's two neighbors—Croatia on the north and west and Serbia on the east—who intervened to support the Bosnian-Croat and Bosnian-Serb armies in the country. More than one-half of the population of Bosnia and Herzegovina either lost their lives, were injured, were internally displaced, or took refuge abroad. According to initial World Bank estimates, productive capacity destroyed by the war was valued at \$15–20 billion.² Bosnian government authorities estimate the overall war damage, including loss of personal property, at \$50–70 billion. Industrial production fell by 90 percent from the prewar level, unemployment reached 90 percent, and 90 percent of the population relied on international humanitarian assistance for survival. Trade and supply infrastructure and relationships were in many cases completely severed, and access to credits dissolved. The government's budget depended on humanitarian, in-kind assistance or on goods financed by foreign aid, remittances, and the direct financial intervention of foreign governments.

The war also interrupted a process of transition from an open but socialist economic system (dominated by aging defense-oriented industries) to a market economy oriented toward exports. As a result of the economic crisis of the 1980s affecting all of Yugoslavia, Bosnia was already one of the poorer Yugoslav republics. The war accelerated its decline. In

1990, Bosnia's gross domestic product (GDP) was \$10.633 billion, or \$2,429 per capita. By the time the Dayton-Paris accords were signed in December 1995, GDP had fallen 80 percent to \$2.1 billion (or \$500 per capita in 1997).

There were some bright spots, however. The Bosnian economy, like that of Yugoslavia generally, had been far more open, market oriented, and diversified than that of other socialist countries. More than half of its exports had been sold to Western markets for hard currency. Moreover, Bosnia possessed a highly educated labor force, strong capacities in civil engineering, and a vigorous entrepreneurial class that produced complex goods such as aircraft and machine tools. More than half of output and employment was generated by the industrial sector, including energy, machinery, electrical equipment, textiles, leather, footwear, and raw materials (such as wood, coal, and bauxite). Almost 500 Bosnian engineering and construction companies operated abroad before the war, generating roughly 7 percent of GDP.

Programs of multilateral economic assistance to Bosnia and Herzegovina were organized initially in conjunction with international efforts to negotiate a peace from September 1992 to November 1995; subsequently, to cement several local ceasefires; and, ultimately, to support a comprehensive peace agreement, the Dayton General Framework Agreement for Peace (GFAP). These various aid initiatives have addressed three pressing challenges: the ongoing humanitarian emergency in Bosnia; the reconstruction of the nation's tattered infrastructure;³ and Bosnia's economic transition from a socialist system to a market economy.

The Dayton Peace Agreement

Most of the recovery aid to Bosnia and Herzegovina has been delivered in the context of the Dayton GFAP. This framework was designed to force formerly warring leaders to cooperate in creating the political and economic institutions of a newly sovereign, independent state under terms being implemented by international authorities. Unfortunately, all three of the warring parties were dissatisfied with major elements of the accord and regarded it as little more than a cease-fire. (Indeed, two of the parties—the Bosnian Serbs and the Bosnian Croats—were represented at the Dayton negotiations by neighboring states.) The difficult work of forming a post-war government began only after national elections in September 1996. Continuing political disagreements left the country without a central bank, a common currency, a telecommunications and postal sector, and other key institutions of an economy until early 1998.

To secure the tenuous peace in Bosnia, the international community assembled an Implementation Force (IFOR), composed of troops from

thirty-six countries and led by NATO, to implement the military terms of the Dayton agreement. Authorized initially for only twelve months, IFOR was extended another eighteen months and renamed the Stabilization Force (SFOR). In June 1998, NATO extended SFOR's mandate indefinitely. Meanwhile, an international civilian presence took nearly a year to be fully organized. Over the next two years, it gained increasing authority from the international community to make local decisions in the face of continuing disagreements among the parties, using largely economic instruments as leverage.

The Washington⁴ and Dayton accords created a decentralized governmental structure for Bosnia and Herzegovina, which was divided into a Bosniac and Bosnian Croat Federation and the Serb Republic (Republika Srpska), with the two linked by a central state government. The Federation, covering 51 percent of the territory of Bosnia and Herzegovina, is subdivided into ten cantons. Six are essentially Bosniac, two are Croat, and two are mixed. Each canton is subdivided into municipal governments. This intermediary unit (the canton) does not exist in Republika Srpska, which retains the administrative structure of former Yugoslavia, with local units called communes (*opštine*), or counties.

The Dayton constitution aimed to retain one unified—albeit very weak—state by granting maximal autonomy to the two entities, thus avoiding partition by calling upon parties to participate in a highly decentralized relationship. The *state government* retains exclusive responsibility for foreign policy; customs policy; monetary policy; immigration and asylum policies; air traffic control; payment of international financial obligations (incurred with the consent of both entities); enforcement of state-level legislation; and interentity transport, communications, and energy infrastructure. Decisionmaking power is shared between a three-member presidency (each representing one ethnic group) and the Council of Ministers. Lacking an independent source of revenue, the Bosnian state finances its activities entirely from transfers from the two entities, proportionally: two-thirds from the Federation, and one-third from the Republika Srpska.

The *entity governments* have exclusive responsibility in their territories over defense; internal affairs (including police); environmental policies; economic and social sector policies (such as agriculture, industry, education, and health); refugees and displaced persons; reconstruction programs; and justice, tax, and customs administration. To carry out these responsibilities, each entity controls the customs duties and excise taxes collected in its territory.⁵

Peace Implementation Structure

The Dayton peace agreement also established a structure for international community involvement in its implementation at the military, political, and

economic level. The North Atlantic Treaty Organization (NATO) was entrusted with leading the implementation of the military aspects of the peace agreement. At the political level, a six-nation contact group (France, Germany, Russia, the United States, the United Kingdom, and—since 1996—Italy) continues to assert overall international leadership on the settlement.

More broadly, a large group of states, international organizations, and agencies met in London on December 8–9, 1995, to create a Peace Implementation Council (PIC) that would oversee implementation of the Dayton accords. Between annual conferences of the entire PIC membership, decisions on peace implementation are taken by the PIC Steering Board, composed of representatives of the G8 countries, the presidency of the European Union, the European Commission, and the Organization of the Islamic Conference (OIC). With the agreement of the United Nations Security Council,⁶ the PIC Steering Board designates a High Representative (HR) to oversee the Bosnian parties' compliance with the peace accords, to coordinate the activities of all civilian international organizations and agencies, to report periodically to the international community, and to be final arbiter and interpreter of the civilian implementation of the peace agreement.⁷

Finally, the Dayton peace agreement was made contingent on a major international effort to reconstruct Bosnia and Herzegovina. The World Bank and the European Commission of the European Union (EU) have taken the lead in this undertaking, which has involved an array of bilateral and multilateral donors, nongovernmental organizations (NGOs), and implementing agencies. A complicated structure of coordination has emerged to help harmonize and reconcile the activities of various actors possessing different mandates and objectives.

The Donor Conferences and Associated Multilateral Assistance Mechanisms

The vast share of multilateral assistance to support postconflict reconstruction and economic transition in Bosnia and Herzegovina has been organized by the World Bank through a series of periodic pledging conferences. The Bank architects of this program held their first planning meeting with Bosnian officials in Warsaw in January 1995.⁸ The following October, the Bank used an informal donor meeting to generate support and recommendations for Bosnian reconstruction. The first formal pledging conference occurred in Brussels on December 21–22, 1995, when donors were asked to support a four-year, \$5.1 billion Priority Reconstruction and Recovery Program (PRRP), prepared by the government of Bosnia and Herzegovina with the aid of the World Bank, the EC, and the European Bank for Reconstruction and Development (EBRD).

The PRRP, by far the largest donor effort to reconstruct Bosnia, built on two preceding multilateral programs to support partial cease-fire agreements in the country. In June 1994, donors had pledged \$95 million for the Action Plan to Restore Public Services in Sarajevo. Similarly, the European Union Administration of Mostar, June 1994–June 1996, was supported by reconstruction assistance from the EU budget in the amount of ECU 144 million (approximately \$162 million). In addition, beginning in 1992, United Nations humanitarian agencies—including the UN High Commissioner for Refugees (UNHCR), World Food Programme (WFP), International Organization on Migration (IOM), Food and Agriculture Organization (FAO), World Health Organization (WHO), and others—had mobilized significant funds through annual UN Consolidated Inter-Agency Appeals (or CAPs). Pledging conferences have also been utilized to support various peace implementation activities.

Restoring Life to Sarajevo⁹

On March 4, 1994, the UN Security Council adopted Resolution 900, mandating a restoration of essential public services in Sarajevo, as a first multilateral effort to address Bosnian recovery and to take advantage of a cease-fire agreement for the city. William Eagleton, former head of the United Nations Relief and Works Agency (UNRWA), was appointed senior civilian official with the task of drafting and supervising the implementation of the program's action plan. At a Coordination Conference in Vienna on May 24–25, 1994, Eagleton presented this plan to more than thirty potential donor countries and many UN agencies and NGOs, appealing for contributions to an international trust fund, which had been set up for this purpose. Based on the work of a joint U.S.-UK team that visited the city in March 1994 and close cooperation with both the Bosnian government and the Bosnian Serbs, the action plan provided a comprehensive overview of needs, priorities, and costs in fourteen essential sectors: electricity, water, gas, solid waste disposal, public transport, airport, railways, roads and bridges, telecommunications, public health, education, housing and heating, urbanism, and essential production.

Although focusing on emergency aid, the Sarajevo Action Plan was intended to be a starting point (and model) for the long-term reconstruction of the entire country. In its design and in the problems it confronted, it foreshadowed the subsequent effort led by the World Bank and the EU. The donors envisioned two stages: during the first (emergency) phase, they would exploit the cease-fire and "weapons exclusion zone" around Sarajevo to repair the city's infrastructure; during the second (transition) phase, they hoped to use the city's recovery as an incentive for peace. At Vienna, Eagleton presented a request for \$253 million to finance the emergency

phase and another \$278 million for the transition phase. While acknowledging that donor fatigue would make it difficult to achieve these figures, Eagleton argued that "Sarajevo is a symbol and many people are interested in it, including in those parts of the world that have not contributed to some of the humanitarian programs."

At a pledging conference in New York in June 1994, twenty-seven donor states pledged \$95 million for the Action Plan, including more than \$20 million for the UN Trust Fund. Of those pledged funds, \$18.1 million were deposited in the Trust Fund, with some \$3.2 million that remained outstanding. That is, the pledges were less than requested for the first phase by \$158 million, and the gap in delivery of aid pledged was \$76.9 million.

Special Coordinator Eagleton opened an office in Sarajevo and began to coordinate a restoration program through "action groups" reporting to a committee that included Sarajevo authorities. Regular meetings of the coordination committee brought together government and municipal officials and donor representatives, as well as UN agencies and NGOs actively involved in emergency reconstruction. Participants gained awareness of the need for strong donor coordination, for maintaining dialogue among concerned parties, for creating a focal point to assist agencies in designating priorities, and for involving local authorities who would eventually assume responsibility for the initiative.

Despite rapid initial progress, the Sarajevo initiative was undermined by a deteriorating security situation and the Bosnian Serbs' rejection of a peace plan proposed by the Contact Group in July 1994. Air and land routes into the city were blocked for extended periods, and water and electricity supplies were subject to protracted interruptions. These factors, which persisted until the signing of the Dayton agreement, rather than a shortage of funds, were the main obstacle to implementing the Action Plan.¹⁰

The special coordinator continued to mobilize donor resources and technical expertise to address the most immediate emergency problems stemming from the continued siege of the city.

Implementation accelerated significantly after the Dayton peace accords, when a large-scale international reconstruction effort for the country began. The responsibilities of the special coordinator were quickly transferred to the Office of the Special Representative of the Secretary-General (SRSG) and Coordinator of the United Nations Mission in Bosnia and Herzegovina (UNMIBH). As of April 15, 1996, nearly \$100 million had been made available for 285 projects. Nations contributing troops to the UN effort provided an additional \$30 million in in-kind aid, mainly for emergency repairs to utilities installations, roads, and bridges. Another large part of the Action Plan was also financed through bilateral agreements.

The final report of the special coordinator emphasizes the importance of effective financial control mechanisms and accountability to facilitate

faster disbursement of funds for the urgent needs of such programs. To meet these needs, a small unit was established in UNMIBH to manage the Trust Fund and to provide regular information on its activities.

The European Union Administration of Mostar

The European Union Administration of Mostar (EUAM) emerged following the Washington Agreement of March 1994, which created a federation between the Bosnian government (Bosniac) and Bosnian Croat forces. Having lost out to the United States in a competition for the coordinator's position in Sarajevo, the European Union took similar responsibility for the second largest city of the Bosnian Federation. The EU appointed Hans Koschnick, former mayor of Bremen, as chief administrator in Mostar. Koschnick insisted on sufficient resources—contributed from the EU budget rather than individually allocated by the member states—and demanded the authority to spend these funds as he saw fit. The EUAM began operations in July 1994 for a planned mandate of two years. Its design and objective—to cement the cease-fire and reconciliation between the two parties through economic reconstruction—foreshadowed the programs that would follow the Dayton accords.

Mostar was a city divided by the war into Croat (West Mostar) and Bosniac (East Mostar) parts. Its eastern side was much more thoroughly destroyed by artillery shells and mortar attacks than was Sarajevo. The EU viewed reconstruction simultaneously as a task of peace building within the federation and a major step toward ending the wider war.¹¹

Crucial to the effectiveness of this effort was delegation of authority to the field—a lesson ignored in the subsequent EU assistance programs in support of the Dayton accords. The administrator in Mostar had full powers to make decisions related to reconstruction, including management and procurement. Of a total EUAM budget of ECU 144 million (approximately \$162 million), some 90 percent was spent for reconstruction. Project activities covered most sectors, including housing, administrative buildings, hospitals, water supply, waste management, and the repair of bridges. The EUAM directed DM 86 million (about \$53 million) to an Investment Support Program (ISP) to support large public companies and to a Small Enterprise Program (SEP), which supported 399 projects and created 800 jobs in its two years.

The principle guiding EUAM assistance was a belief that reconstruction would directly contribute to peace by creating joint projects and fostering political cooperation. Every project was expected either to further the goal of reconciliation or to sustain the viability of the city or, preferably, both. But the goal of reconstruction also meant that money would be spent according to need. Thus, for example, 90 percent of the housing budget went to Mostar East, where most of the housing damage was, while

the majority of funds for water and electricity was spent in Mostar West, where the major facilities were located. Moreover, Bosnian Croat hard-liners, who opposed reintegration and who had independent economic ties to neighboring Croatia, including direct budgetary support from the Croatian government, chose to accept the aid but to obstruct the political process. The fact that approximately 60 percent was spent in East Mostar and 40 percent in West Mostar, for example, led them to accuse Koschnick of a percentage principle favoring Bosniacs. Koschnick's efforts to counteract the nationalist position were constrained by the EU's two-year time limit, by the lack of international cooperation in pressuring Croatia, and by the blatant lack of political support from donor capitals at critical moments of political decision.¹²

Municipal elections on June 30, 1996, were intended to crown the results of this assistance effort. Instead, Bosnian Croat hard-liners in West Mostar refused to accept the results, which handed over control of the city council to the opposing Bosniac-Serb coalition. The response of the EU administrators was to threaten an end to their presence and financial support of Mostar, but the ultimatum came too late in the aid program. EUAM had already spent more than \$160 million, and the EU had pledged only a further \$5 million, hardly an incentive to separatist hard-liners who had obtained significant resources without cooperating politically and who would welcome EUAM's withdrawal as a recognition of the de facto division of Mostar.

Five years after the Washington Agreement, Mostar remained divided, but the EUAM could claim some success in guaranteeing the viability of East Mostar and placing its population in a position of approximate equality in political dialogue with West Mostar. As one of the members of the EU team recollects, "The primary success [of the EUAM] was to provide some normalcy to the city's citizenry and to keep the political debate on the table and not on the confrontation line. If we had not had the money, we probably would not have had even that much success."¹³

Humanitarian Assistance:

The UN Consolidated Inter-Agency Appeals Process

On December 3, 1991, several agencies of the United Nations, including UNHCR, WFP, UNICEF (United Nations Children's Fund), and WHO, issued a joint appeal for funds to address the escalating conflict in the former Yugoslavia. Soon thereafter, other UN and international agencies, NGOs, and governments joined in what would become one of the largest humanitarian operations of the decade.

The role of the UN humanitarian effort changed dramatically with the peace agreement and shift from wartime relief to peace building. In particular, Annex 7 of the Dayton accords entrusted to UNHCR the lead role in the repatriation of refugees and the right to return home of internally

displaced persons (IDPs). The 1996 CAP requested \$823 million for Bosnia, Croatia, and Yugoslavia, of which \$500.97 million was allocated for Bosnia and Herzegovina to finance the activities of UNHCR (\$197 million) and WFP (\$194 million) as well as UNICEF, WHO, FAO, the United Nations Development Programme (UNDP), the United Nations Educational, Scientific, and Cultural Organization (UNESCO), the United Nations High Commissioner for Human Rights (UNHCHR), United Nations Volunteers (UNV), IOM, and the Department of Humanitarian Affairs (DHA). Although carryover funds from 1995 allowed the target for Bosnia to shrink to \$423 million, the 1996 CAP collected only 50 percent of its target. This forced UNHCR to revise its planning figures for Bosnia and Herzegovina to approximately \$156 million and to abandon plans to expand its shelter project for repatriation.

The UN's assistance strategy for 1997 was formulated in a more positive environment. Relations among countries in the region had begun to normalize, and the international community had replaced its initial, twelve-month commitment with an additional eighteenth-month "stabilization period" that included a continuing military presence. The humanitarian community now concentrated on programs for the return, repatriation, and reintegration of IDPs and refugees, on assistance to the most vulnerable population groups, and on the phaseout of relief during the stabilization period by promoting sustainability and the smooth transfer of responsibility to local authorities. UN agencies also sought to enhance coordination among themselves in areas of reconstruction, employment, and human rights.

The CAP for 1997 estimated Bosnia's requirements at \$372.5 million—more than two-thirds of the budget for the whole region.¹⁴ (UNHCR's portion was \$125.3 million and WFP's was \$109.2 million.) As of February 3, 1998, 94 percent of CAP requirements had been met through contributions.¹⁵ The 1998 CAP for Bosnia requested another \$263.3 million (with \$87 million to cover UNHCR needs). Reflecting the change in needs and in aid policy, these programs focused not only on relief but also on durable solutions for refugees and IDPs, capacity-building activities, and rehabilitation, while the UNDP assistance assumed the lead (up from \$12 million in 1997 to \$89.9 million in 1998), and the WFP and IOM declined, respectively, to \$30.6 million and to \$13.6 million.¹⁶

The Priority Reconstruction and Recovery Program

The primary, multilateral, postconflict reconstruction and transition initiative for Bosnia and Herzegovina has been the PRRP. Organized by the World Bank, in coordination with the Bosnian government and other major donors such as the European Commission and EBRD, its planning had begun as early as January 1995, ten months before the Dayton negotiations. Meeting in Warsaw in the spring of 1995 with the representatives of

the government in Sarajevo, the World Bank architects of this project began to generate support and recommendations for Bosnian reconstruction officially at an informal donor meeting in October 1995, using the opportunity of the annual World Bank and International Monetary Fund (IMF) meeting in Washington. An assessment of war damages and transition costs produced a three-to-four-year multisectoral program of \$5.1 billion—the PRRP (see Table 8.1).¹⁷ Its key objectives were to initiate a broad-based rehabilitation process that would jump-start economic recovery and growth, strengthen government institutions, and support transition to a market economy.

The first formal pledging conference, held in Brussels on December 21–22, 1995, was charged with financing the PRRP's most urgent needs.¹⁸ The meeting designated the World Bank and the EU as lead agencies and outlined basic principles for donor coordination. Fifty countries and twenty-seven international organizations pledged \$615 million, *exceeding the conference's target of \$518 million by \$97 million*. The Brussels meeting was succeeded by a Sectoral Technical meeting in Paris in January 1996 and a donor information conference in Sarajevo in March 1996. A second pledging conference took place in Brussels on April 12–13, 1996. Fifty-two countries and twenty international organizations pledged another \$1.23 billion, *exceeding the conference's target of \$1.2 billion by \$30 million*.¹⁹

Table 8.1 External Financing Requirements for the Priority Reconstruction and Recovery Program (U.S.\$ millions)

Sector	Revised Priority Reconstruction and Recovery Program	Firm Commitments 1996–1997	1998 Sector Allocations/Requirements
Agriculture	260	126	40
Education	275	173	45
Employment generation	225	109	50
Energy	789	456	170
Heating and natural gas	166	90	30
Electric power and coal	623	366	140
Fiscal and social support	712	339	196
Health	340	172	50
Housing	710	451	148
Industry and finance	593	344	97
Land mine clearance	170	74	32
Telecommunications	134	40	50
Transport	542	308	70
Water and waste management	350	171	68
Subtotal		2,763	1,016
Support to peace implementation		243	
Security			72
Total	5,100	3,006	1,088

Source: European Commission and World Bank, "Bosnia and Herzegovina."

On January 9–10, 1997, the World Bank and the EU organized a second donor information conference to provide the international community an update on reconstruction needs for 1997. And on July 23, 1997, after substantial delays, the World Bank and the EU sponsored a third pledging conference in Brussels, attended by forty-eight countries and thirty international organizations. This gathering emphasized the need to move gradually from reconstruction to sustainable recovery and growth through institution building and policy reforms. The conference mobilized \$1.1 billion, *failing to reach the conference's target of \$1.4 billion, short \$300 million.*²⁰

A fourth Brussels pledging conference was held on May 7–8, 1998, after a number of delays and uncertainty about the date, due to the precondition that an agreement with the IMF be negotiated and approved by the Council of Ministers. The most feasible target for 1998 was estimated at \$1 billion, of which \$520 million would be used to reintegrate refugees and displaced persons. The conference mobilized \$1.25 billion, *thus exceeding the conference's target by \$250 million.* Of this amount, \$867.3 million was allocated to reconstruction, \$228.8 million to balance of payments support, and \$140.5 million to peace implementation activities.²¹

Peace Implementation Activities and Democratic Transition

Most donor activity has focused on reviving Bosnia's economy. Architects of the PRRP admitted much later that the program should have included funds for peace implementation activities from the start, but when they added this category to the request in 1998, they did so reluctantly, fearing a reduction in donor support for priority infrastructure.²² Nonetheless, other pledging conferences and voluntary appeals have sought funding for important postconflict and transition initiatives, such as police reform, election supervision and monitoring, independent mass media, democratization, human rights promotion and monitoring, and military training and modernization.

The United Nations

International Police Task Force and Police Reform

The International Police Task Force (IPTF) was established by the Dayton agreement within the framework of the UNMIBH to monitor police force activities on human rights practices and to restructure and reform the civilian police. Together the IPTF and the two entity governments designed a police restructuring plan and convened a donor conference at Dublin on September 30–October 2, 1996, to request \$106 million over two years. Later requests were made at subsequent Brussels conferences. Donors

have also channeled cash and equipment through a UN trust fund for the Police Assistance Program as well as directly to the IPTF or entity governments.

By mid-1998, total pledges amounted to an estimated \$61.5 million, or *\$43 million less than requested at donor conferences.* The United States alone had pledged some \$30 million, but \$15 million of this was blocked by the Lautenberg legislation, which prohibited aid to the Republika Srpska.²³ Neither the \$10 million pledged by the EU nor the \$17 million for the UN Trust Fund had been delivered. IPTF officials assessed the value of the trust fund mechanism as limited because of difficulties in gaining access to its monies, donor restrictions on disbursement, and cumbersome preparation of cost plans.²⁴

Peace Implementation Activities:

Human Rights, Media, Democratization, Arms Control

Donors had allocated an estimated \$200–250 million in aid to peace implementation activities as of December 1997. They pledged an additional \$140.5 million at the fourth donor conference in May 1998. The largest sums have been devoted to the development of independent, local media through support for an Open Broadcast Network (OBN). The EU, USA, Sweden, and Japan granted an initial \$10.2 million to OBN, with additional contributions made by Canada, the Czech Republic, Germany, Great Britain, Ireland, the Netherlands, and the Soros Open Society Fund, and a second pledging phase of \$6 million. In late 1997, an international trust for OBN was set up to attract corporate investment and to manage the project as a business concern. Other pledged aid has gone to support human rights projects such as human rights observers, the International Criminal Tribunal for the former Yugoslavia (ICTY), and the human rights office within the Office of the High Representative (OHR).

Primary financing for democratization and elections support, however, has not come from pledging conferences but from a core budget of the Organization for Security and Cooperation in Europe (OSCE), the primary implementing agency in this field.²⁵ Some of its activities are fully funded, such as its democratization projects, the Human Rights Chamber, and the international ombudsperson, but commitments lagged for others, such as the organization of state, entity, and municipal elections and related activities (including out-of-country voting, the maintenance of a radio network, media monitoring, and activities related to the Armaments Reduction Agreement).²⁶ The OSCE also established a Fund for Voluntary Contributions to support the OSCE Action for Peace, Democracy, and Stability in Bosnia and Herzegovina. By February 13, 1998, pledges of voluntary contributions, confirmed in writing, were about \$34 million, with a *delivery gap outstanding of \$4.7 million.*

The Donor Conference for Brčko

The mechanism of a pledging conference was also used to obtain resources and discuss strategies for the strategically located town of Brčko, placed under temporary international administration pending an arbitration decision on its final status that the peace negotiations could not resolve. On November 4–5, 1997, representatives of more than twenty countries and ten international organizations met in Brčko and focused on three areas: reconstruction of municipal infrastructure, development of small business and microcredit, and creation of second-destination housing for displaced Serbs occupying homes of potential returnees. The first commitments of aid were announced on April 8, 1998, when the EC pledged more than DM 12 million (about \$7.5 million) to facilitate the return of refugees and IDPs to the city.²⁷

Military Assistance: The "Train and Equip" Program

The donor community used another pledging conference to raise funds to equip and train the joint army of the Bosniac and Bosnian Croat Federation. The Dayton negotiators made the commitment to the Bosniac leadership to win their support for the accords and to seal the agreement with a military balance between the armies of the two entities and a deterrent against the Bosnian Serb army. An assessment of needs commissioned by the U.S. Department of Defense proposed a budget of \$740–860 million in equipment; this amount was later reduced to \$570–670 million.²⁸ At a multilateral meeting in Ankara, the United States pledged \$100 million in used, refurbished equipment,²⁹ and Turkey pledged \$2 million in training assistance; but the anticipated aid from other Islamic countries did not materialize. After a follow-up mission by Clinton administration official Mack McLarty, Kuwait, Saudi Arabia, and the United Arab Emirates contributed \$100 million. Subsequent contributions by Malaysia and Brunei brought the total pledged to \$155 million, nearly all of which—some \$152 million—was delivered. The estimated value of the Train and Equip program is \$400 million (cash, equipment, and training provisions), but its pledges and expenditures are not included in the databases on aid to Bosnia.

Assessing the Gap: Methodological Issues

Of the approximately \$5 billion pledged in humanitarian, peace implementation, and postconflict reconstruction assistance to Bosnia and Herzegovina, the overwhelming preponderance, an estimated \$4.2 billion, has been pledged at the four Brussels pledging conferences to support the PRRP. From the outset, both donors and the Bosnian government stressed the need for transparency in tracking the commitment, allocation, and disbursement

of pledged funds—and the importance of accountability to constituencies in donor countries and to the recipient, Bosnia and Herzegovina, as well.

While there is general agreement as to the amounts pledged at the Brussels meetings, there are major difficulties in identifying actual commitments and disbursements. No assessment of pledging gaps can be made without analyzing the availability and quality of data and evaluating related accounting practices. One of the main challenges in tracking aid flows to Bosnia and Herzegovina is the existence of several, often inconsistent databases. Such discrepancies, and the lack of uniform reporting guidelines, make it nearly impossible to determine the exact amount of aid currently implemented (whether defined as the firm allocation by sector or by actual indicators of delivery—disbursement, expenditure, or stage of completion).

Databases on Donor Activities in Bosnia and Herzegovina

We analyzed three primary sources of data: (1) the Donor Data Base (DDB), maintained by the World Bank and EC, (2) the Reconstruction Contract Module (RCM) and Project Information Monitoring System (PIMS), maintained by the International Management Group (IMG), and (3) Bosnian authorities' databases. A number of other offices, agencies, and Project Implementation Units (PIUs) maintain database modules on activities within a specific sector, which are not analyzed here. Because these sources of information vary in their purpose and design and their comparison reveals significant discrepancies in estimates of total aid flows, any assessment requires a comparison of the methodologies of data collection and classification each employs.

Donor Data Base. The DDB, maintained by the World Bank in conjunction with the European Commission and in cooperation with the authorities of Bosnia and Herzegovina, records all types of donor funds, based on donor information as the sole source of data.³⁰ Its purpose is to provide the donor community with a general financial overview of all the funds it has pledged, committed, disbursed, and expended toward Bosnian reconstruction and rehabilitation.

Nonetheless, the semiannual World Bank and EC reports recognize certain deficiencies in the process of collecting data and advise that figures should be taken as best estimates. To gauge better the amounts actually spent on projects (i.e., "funds expended"), donors were asked to provide estimates of the unused portions of such advances. Approximately 15 percent of the overall disbursement figures are based on such estimates. The last published report, dated December 1997,³¹ provided figures on aggregate delivery of donor aid (see Table 8.2).

The database records flows according to several accounting benchmarks: amounts pledged, amounts committed, amounts transferred to international

Table 8.2 Status Report to the Donor Community from the European Commission and the World Bank, December 1998^a

Donor	Total Pledges				Total Commitments ^b				Transfers to International Agency Trust Funds ^c	Under Implementation	Disbursed ^d	Funds Expended
	1996	1997	1998	1996-1998	1996	1997	1998	1996-1998				
Albania	0.02	—	—	0.02	0.02	—	—	0.02	—	0.02	0.02	0.02
Australia	1.13	—	—	1.13	1.13	—	—	1.13	—	1.13	1.13	1.13
Austria	11.50	8.40	8.00	27.90	25.08	7.99	10.41	43.48	1.1	43.49	38.51	36.51
Belgium	7.57	2.80	2.70	13.07	6.52	0.99	2.76	10.27	—	7.43	5.39	5.39
Brunei	2.00	—	—	2.00	18.70	4.42	0.00	23.12	—	19.47	19.47	19.47
Bulgaria	0.01	—	—	0.01	0.03	—	0.00	0.03	—	0.03	0.03	0.03
Canada	25.44	14.60	11.40	51.44	23.27	16.21	13.15	52.63	7.0	50.00	44.08	44.08
Croatia	0.50	10.60	—	11.10	14.29	10.61	0.00	24.90	—	22.87	14.29	14.14
Czech Republic	6.00	0.50	0.70	7.20	6.42	0.55	0.00	6.97	—	6.33	6.33	6.33
Denmark	5.10	10.60	4.40	20.10	9.63	8.94	—	15.57	—	14.11	12.90	11.82
Egypt	1.00	2.60	1.00	4.60	1.03	3.33	4.17	8.53	—	5.41	1.37	1.37
Estonia	0.07	—	0.10	0.17	0.07	—	0.01	0.08	—	0.07	0.07	0.07
Finland	5.00	5.50	6.00	16.50	8.94	10.54	—	19.47	—	15.27	10.47	9.55
Federal Republic of Yugoslavia	10.00	10.00	10.00	30.00	11.70	10.00	2.40	24.10	—	24.10	14.10	14.10
F. Y. R. Macedonia	0.10	—	—	0.10	0.10	0.05	—	0.15	—	0.16	0.16	0.16
France	9.29	10.14	12.50	31.93	13.19	3.81	—	17.00	—	15.23	15.23	11.48
Germany	39.25	12.20	25.80	77.25	55.00	25.20	26.13	106.33	—	97.78	88.07	88.07
Greece	7.00	10.00	8.00	25.00	7.00	9.95	8.00	24.95	—	16.95	16.95	16.95
Hungary	1.00	—	—	1.00	1.00	—	0.45	1.45	—	1.45	1.45	1.45
Iceland	1.60	—	—	1.60	0.85	—	0.75	1.60	0.9	0.85	0.65	0.65
Indonesia	2.10	—	—	2.10	2.08	1.00	—	3.08	—	3.06	3.06	3.08
Ireland	6.00	2.00	2.00	10.00	6.20	3.01	2.57	11.78	1.4	11.43	11.08	11.08
Italy ^e	63.65	34.80	15.60	114.05	67.09	37.01	8.98	113.08	48.4	51.09	44.30	44.30
Japan	136.70	130.00	120.00	386.70	100.67	106.11	78.83	285.61	92.7	115.49	114.32	89.29

(continues)

Table 8.2 continued

Donor	Total Pledges				Total Commitments ^b				Transfers to International Agency Trust Funds ^c	Under Implementation	Disbursed ^d	Funds Expended
	1996	1997	1998	1996-1998	1996	1997	1998	1996-1998				
Jordan	1.37	—	—	1.37	—	1.37	—	1.37	—	1.23	—	—
Kuwait	35.00	12.70	—	47.70	21.15	26.40	—	47.55	—	1.15	—	—
Latvia	0.09	—	—	0.09	0.11	—	—	0.11	—	0.11	0.11	0.11
Lithuania	0.07	—	0.10	0.17	0.07	—	0.07	0.14	—	0.07	0.07	0.07
Luxembourg	3.23	2.80	1.50	7.53	2.50	2.33	3.27	8.10	0.8	7.32	7.08	7.08
Malaysia	12.00	12.30	—	24.30	12.00	14.94	0.27	27.21	—	14.97	13.41	13.41
Netherlands ^e	100.02	75.00	70.00	245.02	106.56	100.96	77.57	285.19	154.0	235.77	202.20	202.2
Norway ^e	40.76	27.00	45.00	112.76	42.63	38.54	26.82	107.79	11.5	78.29	78.29	74.05
Poland	2.90	—	—	2.90	2.90	—	3.00	5.90	—	5.85	—	—
Portugal	1.00	—	—	1.00	—	—	—	0.00	—	—	—	—
Qatar	5.00	—	2.00	7.00	5.00	4.31	—	9.31	—	7.84	3.80	3.80
Republic of Korea	1.00	0.80	—	1.80	1.00	0.80	0.35	2.15	—	1.80	1.80	1.80
Romania	0.21	—	—	0.21	2.09	6.56	—	8.65	—	8.65	8.65	8.65
Russia	50.00	—	—	50.00	—	—	—	0.00	—	—	—	—
San Marino	0.14	—	—	0.14	0.23	—	—	0.23	—	0.23	0.23	0.23
Saudi Arabia	50.00	25.00	—	75.00	43.00	32.00	0.00	75.00	—	40.40	37.42	37.42
Slovakia	1.50	1.50	—	3.00	1.50	1.50	—	3.00	—	1.50	1.50	1.50
Slovenia	2.89	3.00	3.00	8.69	3.70	2.27	13.00	18.97	—	15.39	13.42	13.42
Spain	17.50	21.20	7.00	45.70	16.46	21.01	3.02	40.49	2.1	10.92	19.92	19.92
Sweden	30.40	25.00	46.20	101.60	36.88	28.01	27.90	92.79	3.1	82.07	75.69	75.69
Switzerland ^e	33.50	35.30	36.04	104.84	36.56	34.19	58.62	129.37	15.5	127.16	110.24	110.24
Turkey	26.50	—	20.00	46.50	12.20	—	67.80	80.00	—	12.70	12.70	12.70
United Kingdom	39.70	27.50	17.53	84.73	57.75	26.69	—	84.44	6.4	81.01	65.47	65.47
United States	281.70	242.10	242.75	756.55	294.67	260.36	202.77	757.80	2.8	687.08	592.47	592.47

(continues)

Table 8.2 continued

Donor	Total Pledges				Total Commitments ^b				Transfers to International Agency Trust Funds ^c		Under Implementation	Funds Expended
	1996	1997	1998	1996-1998	1996	1997	1998	1996-1998	Trust Funds ^c	Disbursed ^d		Expended
International Institutions												
CE Soc. Dev. Fund	5.00	—	1.50	6.50	6.50	—	—	6.50	—	2.00	2.00	2.00
EB RD	80.21	—	—	80.21	35.57	61.40	—	96.97	—	47.35	19.36	19.36
European Commission	367.10	306.10	—	1,007.10	452.29	267.43	307.06	1,026.78	—	856.69	517.09	517.10
IsDB	15.00	—	1.10	16.10	19.00	—	1.26	20.26	—	19.00	14.28	14.28
ICRC ^f	1.50	—	—	1.50	1.50	—	—	1.50	—	1.50	1.50	1.50
IFAD	7.30	—	—	7.30	7.32	14.00	—	21.32	—	7.32	6.72	6.72
IFC	0.00	—	—	0.00	0.00	6.81	22.07	28.88	—	11.94	11.94	11.94
IMF	0.00	—	—	0.00	—	—	80.60	80.60	—	80.60	33.00	33.00
OIC	3.00	—	—	3.00	3.00	—	—	3.00	—	3.00	3.00	3.00
Soros Foundation	5.00	—	—	5.00	5.96	—	—	5.96	—	0.61	0.26	0.26
UNDP ^g	2.00	—	—	2.00	8.99	4.68	1.42	15.09	—	15.09	12.33	12.33
WHO ^f	1.18	—	—	1.18	1.88	—	—	1.88	—	1.88	1.88	1.88
World Bank	330.00	160.00	100.00	590.00	357.60	165.00	91.00	613.60	—	477.83	458.88	454.83
Totals ^g	1,895.80	1,242.04	1,235.56	4,374.40	1,978.58	1,381.28	1,146.37	4,506.23	347.6	3,478.58	2,791.16	2,751.94

Source: World Bank and EU, *Donor Data Base Report* (Washington, D.C.: World Bank, 1998).

Notes: a. Information on commitments and status of implementation as of December 31, 1998 is not available for the following countries/institutions: Albania, Australia, Brunei, Bulgaria, Council of Europe, Czech Republic, Denmark, F.Y.R. Macedonia, Finland, ICRC, Kuwait, France, ICRC, Lithuania, Norway, OIC, Poland, Portugal, San Marino, Soros Foundation, Spain, Slovakia, United Kingdom, and WHO.

b. Includes both indicative and firm commitments and reflects, where applicable, retroactive adjustments reported by donors.

c. Several donors have transferred part of their contributions to trust funds administered by international agencies, including international financial institutions. This column shows the amounts actually transferred by these donors. Donors who have placed grant funds to Bosnia and Herzegovina in a trust fund with the World Bank include: Austria US\$1.1 million; Canada US\$4.5 million; Iceland US\$0.9 million; Italy US\$46.4 million; Japan US\$48.6 million (as part of a US\$50 million contribution Japan transferred to a World Bank administered trust fund for postconflict countries; Luxembourg US\$0.5 million; the Netherlands US\$154.0 million; Norway US\$7.8 million; Sweden US\$ 3.1 million; Switzerland US\$13.6 million; the United Kingdom US\$6.4 million. These funds are considered to be under implementation or disbursed once actual work contracts are under way or payments made.

d. Included an estimated total of US\$39.2 million in advance for future payments to suppliers; this amount has been subtracted to reach "funds expended."

e. Donors who contribute to resolution of arrears with IBRD are as follows: Italy US\$15 million; the Netherlands US\$6.5 million; Norway US\$1.5 million; Switzerland US\$2 million. These amounts are not included in the reconstruction pledges shown.

f. ICRC, UNDP, and WHO implement various programs on behalf of bilateral donors, in addition to carrying out programs funded by pledges made at donors' conferences.

g. Uncommitted pledges totaling US\$356.0 million are not included. Total commitments plus uncommitted pledges add up to more than the 1996-1998 pledged amounts because several donors have committed funds over and above their total 1996-1998 pledges in order to continue ongoing activities.

agency trust funds, amounts under implementation, amounts disbursed, and amounts expended. Implementation is measured according to financial benchmarks rather than impact.³²

RCM and PIMS. The Reconstruction Contract Module tracks the implementation of aid projects in Bosnia and Herzegovina. Maintained by the IMG,³³ under the auspices of the Economic Task Force (ETF)³⁴ and with technical support from the World Bank, it records data provided by the implementing agencies themselves and only after final contracts have been signed.³⁵ This procedure is designed to prevent the inclusion of projects that may later be canceled, as well as to provide current, detailed information on all funds spent directly on concrete projects and programs in the country.

However, the database requires an extensive level of information on actual contracts that many donors were often not willing to provide or in some cases were unable to provide. This is often the case with NGOs whose accounting practices are not uniform. "A huge trade-off was made between the quality of data and willingness of donors to provide such information," said one of the officials involved in the early stages of its design. Early attempts to merge the World Bank/EC database (as a database that monitors aggregates) and the RCM module (which focuses on the final implementation stage) never materialized. In mid-1997, IMG took over the database from its original sponsor, the World Bank. In 1998, a number of changes were made to make it more of an economic database. The aim is an instrument that would eventually provide a comprehensive overview of all ongoing and completed and income-generating projects in Bosnia and Herzegovina and enable a better assessment of the viability and sustainability effects of the programs. In mid-1998, it contained data on about 2,000 contracts in "nonreconstruction" sectors totaling DM 1 billion (\$620 million):³⁶ agriculture, industry and industrial finance (including all major credit lines), finance and trade, external debt service, government institution building, social support, peace implementation activities, and land mine clearing.

The Project Information Monitoring System collects detailed data only on infrastructure projects currently in preparation, under way, or completed. It covers the following sectors of "reconstruction": education, energy, health, housing, telecommunications, transport, water, and sanitation. Information for the PIMS is gathered regionally by IMG field offices and nationally by IMG's sector units. Updates are supposed to be provided monthly to the IMG Sarajevo office, where the final version of the global PIMS database is produced.

In combination, the RCM and PIMS figures yield the data shown in Table 8.3.

Table 8.3 RCM Plus PIMS, August 1998

In Millions of Currency Units	Completed 1995 and before	Completed 1996	Completed 1997	Completed 1998	Ongoing	Total
1. RCM	0	277.75	128.81	3.92	477.16	937.64
2. PIMS	32.36	441.30	660.13	49.57	1,094.23	2,477.58
Total DM 1+2	32.36	719.05	788.94	303.49	1,571.39	3,415.22
Total 1 + 2 in U.S.\$ millions (DM 1.62: \$1)	\$22.58	\$477.83	\$455.01	\$168.14	\$870.58	\$2,109.20

Source: OHR, *Economic Task Force Secretariat*, 1998.

The viability of IMG's databases and the accuracy of the group's reporting (in terms of the extent to which the data capture the actual flow of funds) have frequently been contested. One frequent criticism is that IMG data capture no more than 60 to 65 percent of the actual flow of funds and that IMG is not properly staffed for such an ambitious effort. Nonetheless, the Office of the High Representative and its Economic Task Force secretariat rely primarily on this source in the publication of monthly newsletters on general economic developments, progress in reconstruction, and contract information.³⁷

The Bosnian authorities as a source. The Department for Reconstruction of the Foreign Ministry maintains a database that relies on information from donors, implementing agencies, government institutions, and World Bank reports.³⁸ The strength of this database rests on its coverage of bilateral channels of aid, which are tracked up to the implementation stage. This is helpful in examining the performance of countries that prefer bilateral aid commitments to pledging within multilateral contexts. For example, many Islamic countries prefer to implement their aid in coordination with Bosnian agencies and maintain a good reporting relationship with the government.

However, the overall quality of the information in this database has come into question, partly because donors often neglect requests for information from the Bosnian government. The EC has been particularly reluctant to provide information in the early stages. Many donors, particularly the larger ones, had not provided data by the end of 1998 for that year's update report. Local deficiencies have also complicated the task of obtaining accurate figures.

At the entity levels, both the Federation government and a reconstruction cabinet of the Serb entity have committed themselves to collect data to

monitor the delivery of aid to their respective entities. However, resistance from Republika Srpska authorities and incomplete Federation data have made it difficult to verify implementation figures for the entity level.

Because they rely upon a variety of data sources and adopt various approaches to defining and classifying this information, both state and entity state level figures should also be considered as best estimates.

Explaining Differences in Financial Figures Among the Databases

The need to maintain different databases to improve monitoring of aid delivery by enhancing transparency has been fully recognized by all major players in the reconstruction effort. But the differences in coverage and in data collection methods, the overall lack of uniform accounting practices, the multiplication of effort, and even instances of organizational rivalry do raise questions. Many implementing organizations complain that the multiple requests for data represent an added burden of time and money on their operation, because reports requested often need to be tailored to the specific database format and information required. (Their resistance can be illustrated by the fact that as of October 1998, reliable data for a 1998 progress report were not yet available.) The differences in database designs and purposes and in the success of data collection impede quantitative comparisons among them as well as any global assessment of aid delivery. The following findings illustrate the complexity of this effort, much beyond mere quantitative discrepancies.

Different definitions being used. The general problem is the difference in what is counted as "under implementation" or "completed" and which stages of contracts and their figures are included and which are not. For example, the RCM utilizes categories such as "in implementation" for signed contracts only; "completed" for contracts completed only; and "unspecified" for contracts that are either completed or in implementation but for which the status could not be determined due to incomplete information. In contrast, the DDB utilizes "under implementation" for firmly committed funds for which contracts have been tendered, signed, or completed; "funds expended" for (1) fiscal/balance of payments support, (2) actual expenditures made against works, goods, and service contracts, and (3) value of assistance delivered in-kind; and "disbursed" for funds (1) transferred to a Bosnian account or disbursement agency in Bosnia and Herzegovina, (2) funds expended, and (3) advance payments to implementing agencies. Since these categories in the DDB are generally broader in definition, the total financial aggregate presented in the DDB is higher than that in the

RCM. For example, a large part of the funds "disbursed" in the DDB will not appear in the RCM because the actual work or final transfers to beneficiaries have not begun.

Time lags and project cycle. Definitional differences create time lags in the entry of data. For example, a project in the tendering phase is entered in the DDB as "under implementation," but it is not included at all in the RCM. In addition, the project cycle is longer for larger and nonemergency projects; thus, as reconstruction assistance moves into later phases, the disbursement of new tranches will take longer.

Different sources of data, methods of collection, and regularity of update. The collection process for the DDB is considerably less complex and time consuming than that for the RCM or PIMS. DDB works with only fifty-nine sources, which is the total number of donors that have committed funds for Bosnia and Herzegovina, and is updated semiannually. RCM works with hundreds of sources, namely, implementing agencies that work directly in the field and are the only source able to provide data on actual progress and payments that are made on an almost daily basis with a high degree of accuracy and detail. However, due to the complexity of the data collection process (insufficient staff, extent of the detail required, varying accounting systems among organizations, in particular the NGOs), at any given moment the total value of projects in the DDB would be higher than in the RCM. This poses a serious challenge to the ability of the RCM to keep up-to-date. Finally, the RCM depends on the willingness of its many sources to provide such detailed information. As a result, not all contracts may get reported to the RCM.

Operating costs. The DDB by definition keeps data on the grand total of funds that are committed by donor countries to Bosnia and Herzegovina. However, a portion of the total is not necessarily spent on concrete programs or projects, but used to cover the operating costs of the reconstruction and rehabilitation effort. This includes, for example, the administrative budgets of agencies, including salaries for international staff, operating costs of implementing agencies, or administrative costs for Bosnia and Herzegovina-related activities in home countries. Estimates of how much has been spent so far on these indirect expenses as a proportion of the pledged total for Bosnia and Herzegovina are hard to get. No more than a fraction of these "indirect" donor funds are recorded by the RCM, because they are in most cases not directly related to one single project or contract. They also are not reported to the database staff in Bosnia and Herzegovina.

Home services. Research reveals that donors occasionally require external expertise to prepare and implement projects, particularly for larger projects. Often these services are contracted with companies from the donor country. As the cost of these services for projects in Bosnia and Herzegovina are actual expenses for the donor, these amounts will be reported by the donor to the DDB, while they remain invisible and unrecorded by the RCM, because in many cases such contracts are made outside Bosnia and Herzegovina.

Donor contribution for SFOR-implemented projects. Finally, donor states also contributing troops to the NATO-led Stabilization Force channeled part of their pledges to support reconstruction activities conducted by their troops, such as bridge reconstruction, road repair, school building, and hospital rehabilitation. The databases are not clear how such important contributions by the military are treated.

The Muddy Definition of "Assistance"

In the end, any assessment of the actual extent and quality of aid pledged, delivered, and implemented will depend on how "assistance" is defined. The public character and peer pressure of pledging conferences pushes donors to pad their pledges or to avoid specifying projects so as to retain flexibility in expenditures (or to include expenditures not normally considered part of an aid package). Double counting or muddying the distinction among aid delivered for humanitarian assistance, reconstruction, peace implementation, and economic transition also occurs.

In the Bosnian case, pledges have included commercial loans (EBRD, Turkey, Iran) and an IMF standby arrangement;³⁹ in-kind assistance, often valued at much higher prices than commercial goods or local products and delivered at the expense of the recipient country; technical assistance, which the recipient did not always request or appear to need (a preliminary estimate of \$120 million in mid-1998); tied aid, an obligation to purchase goods originating from the country that has pledged funds calculated under less competitive prices; and contributions to international organizations in the peace operation (such as to UNHCR programs, the OHR, ICTY, or OSCE, and to IFOR/SFOR troops).⁴⁰ Duplication and repetition of pledges across various donor conferences and emergency appeals⁴¹ have also obscured the overlap in categories of humanitarian, reconstruction, peace implementation, and transition assistance. Also troubling is a lack of reliable NGO data,⁴² considering their role as one of the main channels for delivering humanitarian assistance and implementing reconstruction and peace-building projects. One effect of the above double counting is that the financing gaps are probably much greater than the current databases suggest.

The Record of Implementation

With some notable exceptions, the commitment of aid pledged by donors to the reconstruction of Bosnia and Herzegovina is an impressive record when compared to other cases in this book.⁴³ Implementation has been less successful than this record would suggest, with substantial delays occurring as a result of the state structure created by the peace agreement; the need for donors to create implementation capacity and ongoing disagreements over coordination and policy; and the politics of aid aimed at implementing a peace agreement on the part of both the donor community and the recipient governments.

Dayton Agreement—Decentralized Structure

The Dayton agreement mandated an unusually decentralized political system for Bosnia and Herzegovina, handing most powers to its two entities and creating a very weak common government. In the economic sphere, the state enjoys clear authority only over monetary policy, foreign trade, customs policy, debt servicing, and interentity transport, energy, and communication. Lacking any substantial, independent sources of budgetary revenue, the state depends fully on contributions from the two entities. Moreover, the three Bosnian communities have continued to hold divergent interpretations of the Dayton agreement. The Bosniacs have pressed consistently for a strong state, whereas the Croats and Serbs have held out for maximal decentralization to the entities or even (in the Federation) to the cantons. This conflict played out in the construction of the new state, including the institutions necessary for the absorption of aid.

Thus, for example, obstruction from Bosnian Croat and Serb parties delayed critical decisions on the creation of a common currency and central bank as well as the implementation of major aid projects. The unwillingness of the entities to pay regularly their share of the state budget also jeopardized the central government's efforts to service its foreign debt. This complicated and delayed implementation of pledges from the international financial institutions (IFIs), as the regular servicing of the pre-war debt was the precondition for their implementation. It also hindered the effectiveness of the central institutions as the payment of salaries to the central administration has been irregular. With the future of the Bosnian state uncertain, donors feared difficulty in mobilizing new pledges before skeptical parliaments and began in the spring of 1997 to pressure for more determined implementation of the peace agreement. The six major powers overseeing the process within the Contact Group responded by strengthening the powers of the High Representative to arbitrate and even impose decisions on the authorities when they were unable to do so themselves.⁴⁴

This step was not universally welcomed, however, for some donors feared that this would undermine the sense of Bosnian "ownership" that they considered essential to lasting peace and economic reform.

Donor Coordination

Given the size and complexity of the PRRP and the large number of donors helping to implement it, success would seem to require close aid coordination among the donors and with the government. Coordination was indeed a preoccupation during 1995–1996 of the largest donors: the World Bank, the EC, the G7 countries, and the Netherlands. Their deliberations produced an elaborate and evolving structure to coordinate assistance to Bosnia and Herzegovina.

At first, donors reached consensus only on the lead role of the World Bank and the EC in convening pledging conferences. They continued to disagree profoundly on the mechanisms of aid coordination. The World Bank, supported by most of the G7 countries, the Netherlands, and the government of Bosnia and Herzegovina, proposed periodic meetings to mobilize financial support; creation of an external "aid coordination board" (designated by the donor community); and appointment of a small, highly professional "reconstruction task force," to be located in Bosnia and Herzegovina. The World Bank also sought to include Islamic donors in the aid coordination mechanism, in recognition of the country's large Muslim population and in the hope of spreading the costs of Bosnian recovery.

Meanwhile, the United States, the leading diplomatic actor in the peace negotiations, drafted its own three-tiered coordination mechanism: a political Steering Board of the Peace Implementation Council (first tier), to be chaired by the High Representative as the link between that external political guidance and operational responsibility for implementation of the peace agreement (second tier), and an Economic Task Force (third tier) composed of representatives of the World Bank and IMF, EC, EBRD, bilateral donor agencies, NGOs, and UN agencies to communicate and coordinate activities in the field. The World Bank expressed considerable concern about the U.S.-proposed "superstructure," which would give the High Representative a significant role in coordinating reconstruction. The Bank's Articles of Agreement stipulate that only its board of directors can guide its lending operations. In addition, World Bank officials were sensitive to the prospect that the High Representative, the United States, and other donors would try to apply "political conditionality" to the disbursement of aid. Such a strategy would not only delay the reconstruction program, but it would also enmesh the Bank in the consideration of "political" criteria outside the economic mandate also set forth in its Articles of Agreement.

This conflict between the lead agencies responsible for mobilizing donor resources (primarily the World Bank) and the lead diplomatic actors responsible for implementing the peace agreement (primarily the United States government and the High Representative) was resolved when the impending elections for the first nationwide government, in September 1996, led to general concern about the effect on voters of delays in assistance and its "peace dividend" (primarily jobs). Asserting their political role in the peace process and donors' goal of political progress, the United States and the OHR won the day, obtaining their preferred aid coordination structure and the principle that international assistance be used as an instrument for implementing the peace agreement. Nonetheless, the donor conferences—including both pledging and informational meetings—also served as an effective framework for the donors and the Bosnian government to share knowledge, to identify and prioritize needs, to mobilize resources, to plan joint projects, and to implement new policies. Within the context of these conferences, donors convened the economic task force, chaired jointly by the World Bank and the EC; briefed the High Representative (who had no direct role in donor coordination); and created sector task forces to exchange information and collaborate in particular spheres of recovery. The standard World Bank/government management structure, the PIUs staffed by locals, also have been adopted.

Today, the main instruments for donor coordination are the PIC Steering Board, the ETF, and the sector task forces. The Steering Board, chaired by the High Representative, gives guidance for the implementation of the peace agreement, which includes the reconstruction of Bosnia and Herzegovina. The ETF, also chaired by the High Representative, coordinates the operational aspects of economic reconstruction as well as discussing the economic policy and other measures being jointly recommended to the Bosnian state, Federation, and Republika Srpska authorities.⁴⁵

The issue of membership in both the PIC Steering Board and the ETF has been controversial, leading to disagreements between the OHR and some bilateral donors and NGOs. It is unclear why, for example, the World Bank has never been invited to serve as a member of the PIC Steering Board, nor even to participate as an observer when reconstruction issues are discussed; this seems particularly odd given that the other major aid player, the European Union, is a member. Likewise, the composition of the ETF has caused friction. The United States⁴⁶ has been present at all of its meetings, whereas other major donors like Japan and the Netherlands were not regularly invited. In reaction to their protests, some bilateral donors have been invited to attend ETF meetings as observers. However, the NGO community continues to question why its only representative at these meetings is the IMG, and also why the EBRD, although very slow in its delivery of pledges, has been granted full membership. Hasan Muratović,

a former Bosnian prime minister, speculates that the OHR designed the PIC board to skirt a World Bank role in donor coordination—and thus to permit the use of political conditionality.⁴⁷

These decisions on membership were particularly significant in the case of Islamic donors. Thanks to good coordination between the Bosnian government and the World Bank, Muslim donors made a strong showing at the first and second donor pledging conferences, accounting for 15 percent of total pledges. At its ministerial meeting in September 1995, the Organization of Islamic Countries formed the Assistance Mobilization Group for Bosnia and Herzegovina (AMG/OIC), composed of fifteen leading Islamic donors who meet three to four times a year. At its meeting in Sarajevo on March 15, 1996, the AMG/OIC asked the High Representative to admit one of its members as a permanent member of ETF.⁴⁸ The OHR failed even to reply to this request. In response, Islamic donors have reduced their contributions to the multilateral aid program. At the third donors' conference held in Brussels on July 23, 1997, AMG/OIC countries contributed only 6 percent of the total amount pledged, and their contribution was even smaller at the fourth donor conference in May 1998.

Finally, the third tier in the current donor coordination mechanism are eleven operational, sector task forces. Unlike the ETF, which consists solely of international actors, these bodies include Bosnian representation. The chair of each varies according to sector. IMG chairs separate task forces on power, coal mining, housing, transport, and water and waste management. The U.S. Agency for International Development (USAID) manages one on industry, and Britain's Overseas Development Association (ODA, now the Department for International Development [DFID]) chairs another on natural gas and district heating. The International Labour Organization (ILO) chairs a task force on employment and training issues; UNESCO, on education and cultural activities; WHO, on public health and the social safety net; and UNMIBH, on de-mining. Finally, the World Bank and the IMF cochair a task force on economic policy. Collectively, the task forces have reduced contradictions, duplication, and overlap among donor activities, but their overall success in full implementation of coordinated programs on the ground has been limited.

The World Bank and the EC have taken the lead in drafting the guidelines and program for Bosnian reconstruction and in procuring and coordinating external resources for the recovery effort. Coordination between the World Bank and the Bosnian government has been very close. In contrast, Bosnian authorities express much dissatisfaction with the performance of the EC in aid coordination. UN agencies are heavily involved in the sector task forces, and UNHCR, in partnership with SFOR and the International Center for Migration Policy Development (ICMPD), provides the donor community with information on potential returnees and physical conditions in their hometowns and villages.⁴⁹ Although about \$200–300 million (or

10–15 percent of reconstruction funds) are being implemented by 400 NGOs operating in Bosnia and Herzegovina (three-quarters of them exclusively within the Federation), they have not participated substantially in the task forces and have little interaction with the government. In some cases, local authorities are completely unaware of NGO activities.

The Bosnian government has also played an important role in donor coordination. At the second pledging conference in April 1996, donors recommended that it establish a mechanism to facilitate the exchange of timely and valuable information with the donor community, with funds specified for the purpose from the Netherlands, the World Bank, the EC, Japan, and UNDP. Two months earlier, in mid-February 1996, the government created a Reconstruction Cabinet, composed of fifteen members of the state and entity governments and chaired by the prime minister, to help manage the PRRP. This structure and that of the World Bank and European Commission worked very closely to prepare all donor meetings, including the first donor information conference in Sarajevo in March 1996, while the Bosnian government alone has coordinated the activities of several major bilateral donors.

Nonetheless, the government's overall coordination mechanism has been severely hampered by political quarrels over the state's structure. Ministers from Republika Srpska opted not to participate in the donor meetings prior to the September elections, and the international community treated the wartime government (primarily Bosniacs by 1995)—which the Serbs refused to acknowledge as legitimate—as its interlocutor until then. In the meantime, the Federation established its own coordination board and cabinet minister for reconstruction, and Republika Srpska established an aid coordination unit within the economic ministry. Immediately after the elections, the High Representative abolished the transitional government before new structures were in place and provided no alternative to fill the void while quarrels over its formation played out. The government of Republika Srpska has never joined the state-level coordination structure, and efforts to coordinate aid within the Serb entity have been hampered by weak governmental capacity and geographic dislocation of ministries between two competing centers, Pale and Banja Luka. Likewise, coordination within the Federation government has suffered from a lack of consensus and confidence between Bosniacs and Croats on many issues.⁵⁰ Even after state institutions were established in February 1997, state-level coordination of reconstruction remained nonexistent.

Implementation Capacity: Donors

The postconflict reconstruction of Bosnia and Herzegovina is notable for the quick response by the donor community. The World Bank played a

particularly productive role, beginning dialogue with the government in January 1995, long before the cease-fire and the Dayton negotiations. The Bank also established an early field presence, opening a Resident Mission shortly after the Dayton agreement, staffing it well, and delegating many operational authorities from its headquarters in Washington, aimed at decentralizing the program's implementation. The Bank simplified and streamlined procedures (especially in the area of procurement) and accelerated the execution of projects. The Netherlands also helped jump-start the recovery effort by providing special funds to prepare projects and (even earlier) by extending a bridging loan to clear Bosnia's arrears to the IMF. This step enabled Bosnia and Herzegovina to join the Fund, a precondition of World Bank membership.

The record was not uniform, however. The other leading donor, the European Union, reversed its innovations in the EUAM, which had streamlined procedures, delegated operational authority to the field, and decentralized procurement processes. Although the EU opened an office in Sarajevo even before the World Bank, its approach to Dayton implementation reverted to standard procedures for planning, approval, and procurement, which were extremely cumbersome and slow. It also reverted to centralized operations in Brussels, delaying the delivery of funds and the implementation of projects and engendering criticism from many sides, not least from the Bosnian authorities. Despite appeals from the Bosnian government that it cofinance World Bank projects (in underfunded areas like energy and education⁵¹), the EU clung to bilateral channels, arguing that it had doubts about the transparency and effectiveness of the Bosnian government's implementation structure.

The EC did, however, attempt to adjust. In late 1996, in light of difficulties encountered in the import supply programs and the extended procedures for aid disbursement, the EC concluded that it would not be able to spend the funds budgeted for 1996. It responded by reallocating some funds from emergency supplies to long-term reconstruction projects; extending the deadlines of other projects by twenty-four months; and channeling other projects through the World Bank programs. These adjustments, however, slowed disbursement for 1997 and added confusion to the aid program by tying pledged budget lines to the EU fiscal year, which differed from Bosnia's. By the spring of 1998, the criticism of EC delays was so great that the EC changed its approach to implementation. Apparently using the USAID approach as a model, it began to channel funds and implementation through NGOs in the field and to shift from large-scale, long-term infrastructure projects to smaller projects that could be delivered rapidly. This new approach did not reduce costs, however, and it generated new criticisms from Bosnian authorities dissatisfied with the role of NGOs in the recovery effort.

Implementation delays characterized other donors as well. While the UNHCR was considered very efficient by Bosnian authorities, they viewed UNDP and the United Nations Industrial Development Organization (UNIDO) as very slow. The EBRD established a field presence, but its management apparently considered political risks too high to begin serious involvement in the country. The OHR, as primary coordinator, required six months to one year after the Dayton signing to set up shop and establish field offices, while its key role in the U.S.-initiated coordinating structure did not begin until nine months into the Dayton implementation.

Among bilateral donors, the Netherlands was particularly quick to deliver on its aid commitments by cofinancing World Bank projects. USAID was also able to move quickly in implementation by adapting its internal mechanisms to give field officers greater autonomy. Germany, Austria, the Nordic countries, Great Britain, Malaysia, Switzerland, and Saudi Arabia also have strong aid implementation records. In contrast, Bosnian authorities have expressed concern with slow and complicated mechanisms for delivery of aid from Japan and Italy. Other major donors, like Turkey, have implemented very small amounts of pledged commitments; still others have not fulfilled their pledges at all (Russia, Iran, Kuwait, and Romania).

Disagreements about the proper coordination structure also influenced implementation. In particular, many donors were reluctant to use the PIU structure preferred by the World Bank and the Bosnian government for implementing PRRP sectoral projects. Many of them preferred to use their own implementation structure, while others judged the government's implementation capacity to be weak (or suspected corruption). Some, like the European Union, preferred to bypass the Bank/government structures in order to apply political conditionality more directly.⁵² The Bank countered that the PIUs accelerated the pace of implementation of the PRRP significantly, while reducing operational costs because of the lower compensation scale for local staff.

Staffing issues also directly affect implementation, and they demonstrate in particular the close relation between the implementation capacity of donors and that of the recipient government. The number of foreign consultants engaged in Bosnia and Herzegovina has been very large, as has the amount of technical assistance extended. While the number of employees of most of the international agencies has been stable, the OHR increased its size from 300 in 1997 to 700 in 1998. These consultants, irrespective of quality, and international staff are paid out of pledged aid, reducing thereby the monies for local employment. Equally if not more hazardous to the long-term quality of implementation is the competition between local authorities and international agencies for staff; the best-trained staff naturally gravitate toward the higher salaries paid by international agencies—

about 10,000 local staff in 1998—leaving local authorities who cannot pay such salaries with older and less-qualified applicants.

Absorption and Implementation Capacity—Recipients

Explanations for Bosnian contributions to delays and gaps in the delivery of pledged funds tend to focus on the lack of local capacity (particularly structures of implementation and human capital) and on corruption. Closer analysis suggests, however, that local capacity is stronger than generally asserted, but recognized only belatedly by donors, and that the issue of corruption is far more complicated and political than portrayed by media exposés. Far more significant complications have arisen from political disagreements among the Bosnian parties, between the parties and the donors, and over the structure of the Dayton-defined constitution.

Economic indicators of success were clearly visible within a few years of the Dayton signing, at least in most parts of the Federation entity. Economic growth increased by 50 percent in 1996, before slowing to 30 percent in 1997, and 20 percent in 1998. Much of this growth, obviously, reflects the large influx of external assistance.⁵³ The current account deficit in 1998, \$1.2 billion, was largely covered by foreign aid. Major roads, railways, bridges, and airports had been repaired, and electric power production had been restored. Unemployment fell from 90 percent to around 40 percent. The Croat areas of the Federation, which escaped the worst war damage, achieved the highest level of recovery.

In the Republika Srpska, by contrast, economic improvement was visible only in selected areas. GDP per capita lagged seriously, reaching in 1998 less than a quarter of the Federation's figure for 1996. Not until the first quarter of 1997 did growth suggest the beginnings of a modest recovery, and Republika Srpska's absorptive capacity remains far behind that of the Federation. The transition to a market economy was even slower.⁵⁴

Judging from the Federation's performance, there is reason to think that Bosnia and Herzegovina possesses a relatively high capacity to absorb economic aid. World Bank officials evaluate project implementation as "good" and praise the government's role in coordinating donors and conferences. With a disbursement ratio of Bank-funded or Bank-managed projects well above 60 percent, the country is a success story among International Development Association (IDA) recipients.

Political problems and ambiguities arising from the Dayton agreement, however, did cause reconstruction and economic reform in many areas to lag well behind schedule. Because donors depended on functioning state institutions, the delays in forming a government at the state level until February 1997, continuing delays in the creation of a common administration, and lack of cooperation between the entities directly slowed

the delivery of assistance. Regular contacts between entity governments began only in mid-1998, although economic relations then took priority. The lack of consensus and confidence between Bosniacs and Croats in the Federation led to the maintenance, and growth, of parallel administrative arrangements while Croats refused to dismantle institutions that were illegal according to the Dayton accords.⁵⁵ Weak administrative capacity in the Republika Srpska was exacerbated by the geographical dispersal of ministries and by profound political disagreement over aid policies and cooperation with the Dayton accords and international officials between a moderate Western part and an uncooperative Eastern part.

The complex Dayton constitution encouraged decisionmaking gridlock, and the very fact of annual elections, encouraged by the international community to obtain new leaders who would cooperate with the Dayton accords, put a political drag on the policy reforms that donors considered essential to sustainability but that politicians knew would be politically unpopular. Similarly, the parties' different legal interpretations of the peace agreement, such as over the legal status of public enterprises, delayed projects and economic reforms, while reducing donor contributions in critical areas such as railways and telecommunications. Disagreements about the responsibilities of different levels of government delayed the creation of mechanisms to regulate privatization and the disbursement of \$100 million from the World Bank to support economic reforms, public finance management, and privatization.

In addition to these causes of delay, early postwar politics led ethnic criteria to dominate over need assessments in the distribution of international assistance. Depriving poorer areas, or ones that were more affected by the war but that had less political influence within their own ethnic groups, of needed aid created significant gaps in project completion and in distribution countrywide. Noncooperation directly affected the mobilization of pledges, as in the requirement that legislation indispensable to an IMF standby agreement be approved first. Agreement on five loans requested by the IMF (the quick-start package) was reached only after seven months of negotiations. Since the approval of this package was a condition for convening the third donor conference, the conference was postponed from February until July 1997. That conference fell short of its financial target by \$300 million. The cost of refusal to cooperate can be illustrated as well with a water project in Goražde (Federation entity). Pledges of \$5 million by Saudi Arabia and Malaysia were allocated to build a water system because the neighboring Čajniče (in Republika Srpska) would not agree to joint use of existing facilities. Despite intervention by the OHR, Serb intransigence won out; finances were redirected from a revolving fund set up to restart industry, thus creating a financing gap in that sector in order to ensure a permanent and regular water supply to Goražde.

The Dayton constitution also permitted endless obstruction of the whole recovery process. Legally, approval of all loans required consensus of the three-person presidency and ratification by Parliament (and by the Council of Ministers in the case of grants). Using the complex levels of jurisdiction and procedures for approval to block initiatives, the Bosnian Serbs and Bosnian Croats conditioned approval of foreign aid on their communities' receipt of certain percentages of assistance. The consequences can be seen clearly between 1996—before the Dayton institutions were formed, when sixteen World Bank projects were approved—and fiscal year 1997, when only eight projects were approved and the process took much longer.⁵⁶ Some donors responded to these delays by postponing or abandoning the implementation of their pledges.⁵⁷ Others reacted to the multiethnic-signature system by shifting attention to local authorities, thus weakening government ownership over reconstruction coordination. Even where state-level policy decisions are made, the constitutional arrangements give jurisdiction over implementation to the entities, which often have opposing views on the same subject—particularly regarding trade and fiscal issues.

Especially damaging to reconstruction was the failure for more than two years after Dayton of both government and donors to establish an effective mechanism for land mine clearance, because it postponed a number of infrastructure projects as well as creating gaps in the implementation of pledges.⁵⁸ The lack of coordination, effort, and funding for demining activities in areas of refugee return remains a major concern.

Political Conditionality

At least as important in explaining delays in the delivery of pledged aid is the use of multilateral economic assistance as an instrument to achieve the political objectives of the Dayton peace agreement. For donors these goals center primarily on the restoration of a single, multiethnic Bosnia and Herzegovina through the execution of the specific annexes of the peace accord, particularly those concerning the repatriation of refugees; the right to return to prewar homes of IDPs and refugees; and full cooperation with the International Criminal Tribunal for the former Yugoslavia.⁵⁹ To these were added, in 1997–1998, the creation, for the protection of returnees, of multiethnic police forces at the local level.

Apart from the economic conditionality that always accompanies loans from the international financial institutions, donors emphasized during the Dayton negotiations and at the first London conference on civilian implementation in December 1996 that they intended to employ political conditionality. Recognizing that the future of economic development in Bosnia and Herzegovina required international support, the PIC proclaimed that

such support will be forthcoming during the consolidation period on condition that the authorities in Bosnia and Herzegovina comply fully with the provisions of the peace agreement, as well as the commitments on economic development, established at this conference.⁶⁰ The principle has been repeated at all pledging conferences and PIC meetings. The Sintra meeting of the PIC Steering Board on May 30, 1997, chose to intensify international commitment to the principle ("that international assistance with economic reconstruction should be conditioned upon full compliance with the Peace Agreement").⁶¹ At the PIC meeting in Bonn, on December 10, 1997, and in Madrid, on December 16–17, 1998, the council chose to "remind" the authorities in Bosnia and Herzegovina that economic assistance by the international community remains strictly conditional upon compliance with the peace agreement and subsequent obligations.⁶² The primary tool of this commitment has been the ETF, where the High Representative could provide donors with a framework for political conditionality. The High Representative has also used the occasion of donors' pledging conferences to request assistance in conditioning economic aid.⁶³

The primary result of political conditionality was to prevent reconstruction aid to Republika Srpska, which received only 2 percent of total assistance in 1996 and hardly more in 1997. At first, the international community refused to lift its wartime economic sanctions on Bosnian Serbs until they fulfilled the terms of the demilitarization Annex 1-A in October 1996. Their economic isolation continued, however, when they refused to attend the first donor conference as part of the Bosnian government delegation, as required by the High Representative, before elections had created a postwar government. By 1997, the cause was their hindrances to the return of refugees and IDPs and to the apprehension of indicted war criminals. When the extraordinary Republika Srpska parliamentary elections of November 1997 brought a change of power to a prime minister who declared commitment to the Dayton accords, the international community reversed its course. Donors, including the United States, began to provide a significant amount of reconstruction aid to the western part of Republika Srpska, but not to the eastern half or to individual communities accused of harboring indicted war criminals.⁶⁴ From 1995–1997, Republika Srpska had received only DM 113 million out of DM 1.5 billion spent in Bosnia and Herzegovina. In the first six months of 1998, Republika Srpska received DM 400 million of the DM 2.1 billion of ongoing or completed projects.⁶⁵

Political conditionality: donors' inconsistencies. Nonetheless, applying the principle of political conditionality was less simple than declaring it. Disagreements among donors about the principle itself slowed the delivery of pledged funds. In the first year of Dayton's implementation, many of the quarrels over coordination structures and policy authority between the

OHR, the EC, and the United States, on the one hand, and the World Bank, on the other, reflected different attitudes toward political conditionality. World Bank opposition went beyond the prohibitions of its charter to the negative effects on economic reconstruction if projects were to be stopped and started at will (often not practically possible, in any event). In addition, the EC applied its own set of political conditions independent of the Dayton accords, covering human rights practices, independent media, and a commitment to democracy, according to the criteria it applied to all countries of the region (called its "regional approach") for access to autonomous trade preferences, Phare aid, and eventual opening of contractual negotiations with the EU.

Disagreements on the principle also led many donors to channel more of their pledged aid away from multilateral and toward bilateral programs. This was the case both for donors who preferred stronger use of political conditionality, such as the United States and the EC, and those who were uneasy about conditioned aid and preferred economic rationales alone, such as Great Britain, Japan, Canada, Spain, Germany, and France.⁶⁶ By allowing donors to rely on their own variable interpretations of compliance with the GFAP, however, increased bilateralism not only sent conflicting messages to the Bosnian parties but also reduced coordination, with attendant delays in implementation. Some donors even provided reconstruction aid in the guise of humanitarian assistance, which is generally not conditioned, to avoid the requirement of political conditionality.

Donors showed considerable inconsistency in applying political conditionality. While they withheld aid when Republika Srpska refused to cooperate on refugee return and the ICTY, the majority of donors (except the United States and the Netherlands) delivered assistance unconditionally on the other side of the interentity boundary line in 1996, even though the Bosnian Croat community failed to cooperate on indicted war criminals or refugee return. Moreover, the Bosnian Croats did not lose any aid when their delegation failed to appear at the fourth donor conference, in May 1998. Similarly, in November 1997, the international community channeled aid to the western part of Republika Srpska, in support of President Plavšić and the moderates who backed her, even though there had been few results on indicted war criminals or the return home of refugees and IDPs in areas where they would be the minority.⁶⁷

The conflict between political conditionality and the goal of economic assistance did lead donors to change tactics in some cases. To facilitate refugee return, for example, the UNHCR and the United States launched an Open Cities initiative, encouraging municipalities to declare publicly their willingness to allow the return of minority refugees—whereupon they would be rewarded directly with foreign assistance. This change in policy from a "black list" to a "white list" uses positive rather than negative

incentives as a form of aid conditionality closer to proponents of peace conditionality and more acceptable to those donors concerned about the economic distortions of withholding aid. This initiative reflected a more general trend among donors, including the EC with its new Obnova program,⁶⁸ to have more control over beneficiaries by going to localities, adapting their procedures to be able to negotiate municipal aid agreements. But municipal leaders were not necessarily more accountable than national leaders, and the rapid turnover of most foreigners, usually on six-month contracts, meant that local politicians who failed to gain aid in one period could simply wait out their departure and try again rather than alter behavior. To counteract this lack of accountability over time, the OHR began in late 1998 to devise a separate database for donors and international officials that would record all official relations with a municipality and create a picture of compliance or noncompliance.

Even the World Bank was pressured to subordinate its reconstruction program to the political goals of the Dayton implementers. Its forestry project waited eight months for board approval because the U.S. representative objected that the project could benefit some indicted war criminals who controlled the wood sector industry in Republika Srpska. In December 1997, approval of a \$17 million, major reconstruction assistance program for Republika Srpska was delayed and reduced when NGOs and several major donors protested the inclusion of assistance to Foča, a town in eastern Republika Srpska where several indicted war criminals reside.

Economic conditionality. Economic conditionality has also been applied to aid by the IMF and World Bank; for example, a key precondition for reconstruction assistance was the prior negotiation and implementation of an IMF standby arrangement. While most donors supported the principle of economic conditionality, early disputes over when to move from food donations to fees that would initiate cost-recovery principles were particularly intense. Despite unusually low requirements for the IMF standby, Bosnian authorities and some key donors accused the IMF of being insufficiently flexible in its insistence on a normal standby (credit under commercial terms) instead of a highly concessional Enhanced Structural Adjustment Facility (ESAF), for which it was eligible—a policy that added another cause of significant delay in the delivery of pledges.

Corruption and Transparency

The failure of pledged aid to show visible results on the ground also led to charges (and countercharges) of corruption in the use of funds. These allegations, which have gained substantial media attention both in Bosnia and internationally, have constituted a primary justification for donor

delays in aid delivery. The strongest accusations came from the British foreign minister, Robin Cook, in his capacity as revolving president of the European Union, during his visit to the country in August 1997. High Representative Bildt also made public allegations on several occasions. While these charges have generated substantial media attention, their timing and the fact that the loudest voices represent the EC suggest that these allegations may have in part been intended to deflect criticism away from donors for their slowness in delivering on pledges.

The issue of corruption is more complex than it first appears, and that includes the politics of donors.⁶⁹ Neither the independent Bosnian parliamentary commission, established shortly after the visit of Foreign Minister Cook, nor international audits have found any large evidence to support these charges. The World Bank has several times announced publicly⁷⁰ that there is no corruption in Bank-financed projects, meaning that aid officials have known at all times exactly where the money is. Alija Izetbegović, chair of the state collective presidency, observed repeatedly that donor assistance could hardly be subject to Bosnian government corruption because almost 70 percent of the total assistance is implemented by foreign organizations. These are usually managed by nationals of the donor countries themselves and rarely transfer actual funds to government accounts.⁷¹ It is true that Bosnian authorities have more freedom with bilateral assistance (such as that coming from Islamic countries), but these donors have not complained. And while some cases of highly publicized scandal may have justified attention, donor efforts to circumvent quarrels at the center by working directly with municipalities may, some suggest, have increased the incidence of corruption—particularly the classic kind, such as kickbacks in construction contracts and informal accounting methods in local banks.

Because allegations of corruption from the donor side, whether true or not, can tighten scrutiny to the point of harming the ability to mobilize future funds and risking the loss of pledged funds, the subject must be handled carefully. The charges raise several issues. One is the need for better data on the actual aid effort on the ground so as to counter wild accusations spread through the mass media. World Bank officials promote the PIU structure as not only speeding implementation but also avoiding a cycle of accusations between government and donors; but it also reduces the opportunity to apply political conditionality. The OHR has formed an Anti-Fraud Unit (AFU) to assist the authorities in identifying illegal activities and helping to draft anticorruption legislation.⁷² The World Bank and the Bosnian government have established a joint Procurement and Auditing Unit to monitor the World Bank's projects. Moreover, the Bosnian authorities have invited an international NGO, Transparency International, to help them in fighting fraud and corruption. But the issue of accountability

applies to donors as well as the recipient. The solution to unsubstantiated accusations is better monitoring, prompt correction of potential delays that may occur in delivery, and precise identification of the source of impediments to delivery.

A second issue is the nature of corruption itself in the transition from war to peace and from a collapsed socialist state to an only partially institutionalized, functioning democratic state and an entirely new system of accounting and economic organization. As the head of the OHR unit on corruption argues, this is a structural problem far more than individual cases of the misuse of funds or private enrichment. Corruption is therefore a matter of political reform and systemic transformation, developing the restraints and enforcement powers of a democratic state, including the clear separation between a professional civil service and political authorities. A "global strategy" devised by the unit in the fall of 1998 was presented to the PIC meeting at Madrid in December 1998. At the same time, individual temptation is in part an artifact of the international approach to peace in Bosnia and Herzegovina. By committing the international presence in a series of short-time segments, a year or eighteen months at a time, combined with an infusion of aid in quantities never before seen in the country, donors encourage individuals who must think long term about providing for families and friends to take advantage while the monies are available.

To the extent that economic corruption is acknowledged on all sides, moreover, the misuse has far less to do with foreign aid than with domestic revenues. The serious lack of transparency with respect to collecting and spending customs and tax revenues is due in part to the underdevelopment of the fiscal system and in part to the political contest arising from the Dayton accords over the proper jurisdiction of economic authority.⁷³ In Republika Srpska, for example, most of the revenues collected in 1996 (before election of the first postwar government) were not deposited to the budget accounts. Since the establishment of a new government in November 1997, however, the performance of Republika Srpska has been better than that of the Federation, where the lack of political agreement and parallel customs and tax administrations have allowed both the Bosniacs and Bosnian Croats to misuse revenues.⁷⁴ Throughout Bosnia and Herzegovina, corruption and evasion of taxes and customs increased dramatically in 1996–1998. As the Dayton agreement did not regulate the control of state borders, the possibilities for smuggling are widespread.⁷⁵ At the same time, the OHR, SFOR, IPTF, and some donors helped to establish and continue to tolerate several illegal open marketplaces at the interentity boundary line as a success indicator of their goal of freedom of movement throughout the country and, in bringing people from both entities into regular trading contact, of reconciliation and reintegration. They thus refuse

repeated government efforts to close them down because no taxes are paid. Moreover, the international (both civilian and military) employers of approximately 10,000 Bosnian citizens do not pay the local income taxes due the government. Nonetheless, such corruption in taxes and trade does hit at the heart of aid policy, which is intended to be only a temporary substitute for domestic resources.⁷⁶

Other Factors Contributing to Delays in Pledged Assistance

While the factors contributing to delays in the delivery and implementation of aid in the Bosnian case have parallels in other cases, there are significant particularities of the case that cannot be ignored, especially those arising from the breakup of its former state.

Foreign Debt

Bosnia's prewar debt, valued at \$630 million in 1996, represents a heavy financial burden on a war-torn economy. Although the World Bank reprogrammed the debt in 1996, the arrangement, in the view of the Bosnian government, will not enable the country to repay it without significant IDA assistance after the year 2000. For example, the country is obliged to repay around \$200 million in interest arrears accrued during the war. The result of the debt, in fact, is an overall positive net transfer of aid from the Bank to the country that is almost insignificant (around \$50 million), leading the government to consider the \$670 million already committed for reconstruction as insufficient.⁷⁷ Similarly, the government considers the agreement with Paris Club creditors finally concluded in 1998 to be based on overly optimistic economic projections presented by the IMF and a resulting 67 percent debt reduction instead of 80 percent.⁷⁸

In addition, government ownership over foreign debt management will be very weak for some time. Due to late payments to the World Bank, the country lost an interest waiver and around \$2 million. The decentralized structure of the Dayton constitution, which also affects debt management, enabled some of the parties to "blackmail" each other and the IFIs by conditioning their approval of regular repayments of the prewar debt on donors' readiness to invest in certain projects, to the benefit of one national group and areas with no war damage. As such repayments are a condition for new investment, the IFIs chose a pragmatic approach and conceded to these demands for ethnonational criteria in place of assessed need and war damage.

Foreign Trade

According to the Dayton constitution, formal trade relations with other countries are the sole prerogative of the state government. Nonetheless, the government of Republika Srpska and the Croat part of the Federation Customs Administration have been granted preferential trade treatment by neighboring Yugoslavia and Croatia, respectively. Although these are in violation of the State Customs Law adopted in 1998, and the Madrid PIC final document requests both entities to abolish these practices immediately,⁷⁹ no action has resulted. The entity budgets continue to lose significant customs revenues, and substantial amounts of international assistance in the form of trade ends up in the coffers of Croatia or Yugoslavia. The resulting sizable imports from these neighboring countries also hinder the transition and sustainability sought by donors by creating unfair competition for domestic production and slowing growth in employment.⁸⁰ By significantly decreasing the country's ability to service its foreign debt, it could also complicate delivery of IFI assistance.

External Shocks

While delays in aid delivery cannot be attributed directly to events over which donors and the government have no immediate influence, three external influences indirectly burden the aid process in significant ways. Most directly is the pressure from some European countries, mainly Germany, to send refugees back home to Bosnia in an uncontrolled fashion and before conditions in the political and security environment and in housing reconstruction are ready. Yet donors' assessment of progress on peace implementation, on which they based decisions about continuing assistance, focused particularly on refugee return. Simultaneously, judgments on economic transition took little account of the additional economic burden on public expenditures of additional pensioners and unemployed from returning refugees.⁸¹ Second, the global financial crisis began to threaten the mobilization and delivery of the last stage of pledges for the PRRP in 1998.⁸² And third, the peace process and economic transition cannot be isolated from the other parts of the former Yugoslavia and their resolution. Yet the peace negotiators and the donors, with some exceptions, prefer to treat Bosnia independently, within the bounds of sovereignty. Moreover, continuing instability in the neighborhood, such as the war that began in the Serbian province of Kosovo in the spring of 1998, creates competing demands for donors' aid, probable delays in delivering on existing pledges, and further delays in normalization that could attract foreign investment and the transition from aid to sustainability.⁸³

Conclusion and Lessons to Be Learned

Timing of the Effort, Early Planning, and Political Importance of a Case

One of the most important lessons of the Bosnian experience is the importance of early planning and involvement of multilateral organizations. Partial cease-fires, around Sarajevo in February 1994 and in the Federation after March 1994, made it possible for donors to consider assistance and to begin planning long before the peace accords. The Sarajevo restoration effort provided an early, systematic assessment of conditions and needs and a comprehensive view of reconstruction. Early planning in late 1994 and early 1995 by the World Bank enabled a speedy mobilization of donors and assistance, particularly in the first year after the accords. Early funding of project preparation, made possible by contributions from the Netherlands, was indispensable. So too was the streamlining of normal Bank procedures and an early and strong field presence with discretion over implementation, including procurement.

Behind this speed in mobilizing funds, however, was firm political support by the most relevant international actors. As one Bank official noted, this provided the Bank with additional "wind in the back" in the crucial first year. The critical role of Dutch loans to clear arrears with the IMF demonstrates the need for a standing international instrument for other cases, along the lines of other specialized funds for postconflict circumstances that have been created at the World Bank and elsewhere.

Political and Security Framework

At the same time, reconstruction assistance cannot meet the financing needs of the country, nor can it lead to economic recovery, without the prior establishment of a necessary minimum political framework for institutional cooperation within the country. As Nicole Ball writes in a recent study of the Bosnian program, Bosnia and Herzegovina thus reinforces a lesson that has been observed in previous peace processes, namely, that economic reconstruction cannot occur in a political vacuum. Some degree of political normalization is essential for economic recovery.⁸⁴

The political and security framework is also essential to sustain donor interest. Throughout the reconstruction effort following the Dayton agreement, donors stressed refugee return as their priority goal. Yet, while economic assistance is crucial for the successful reintegration of refugees, it had little influence on the decision of people to return to their place of origin.⁸⁵ Surveys conducted by the Commission for Real Property Claims of Displaced Persons and Refugees (CRPC) indicate that security guarantees

from local authorities and the return of former neighbors ranked much higher on the scale of importance (47 percent) for returns to areas where they would be in the minority than did prospects for job opportunities (16 percent) or housing reconstruction (12 percent). The fact that 93 percent of 1997 returns were to areas where they would be in the majority, with only 10,000 "minority returns" that year, seemed to be reinforcing "donor fatigue" in 1998.

A further critical element of the political framework is the peace agreement itself. Ambiguities in the Dayton agreement contributed significantly to delays in the realization and mobilization of pledges. The result was to create new powers for the High Representative responsible for coordinating international activities in Bosnia and Herzegovina that would permit him to intervene and impose an interim or arbitration decision when the decisionmaking procedures of the peace agreement allowed the parties to stall or even avoid making decisions on their own. But these powers did not dissolve the hindrances built into the agreement itself or work toward local ownership of the process.

Donor Conferences

Donor conferences are clearly the main instruments for mobilizing support for the reconstruction effort. Their timing is often used as an incentive to build consensus within the country or to accelerate the reconstruction effort in general. Among their many benefits were centralization of the lobbying effort by the Bosnian government, identification of priorities, and setting up of coordination structures and channels for information exchange. The first meeting of the two entity governments, for example, occurred at a donor conference. The coordination at donor conferences may help—although not fully resolve—the extent of overlap of donor efforts on the ground and the overfunding of areas with high "media visibility" for home consumption of donor publics. In the Bosnian experience, this mechanism was of huge importance in mobilizing large amounts of assistance, which was forthcoming in some cases as a result of perceived peer pressure. The size of the pledge becomes in some cases almost a matter of prestige.

On the other side of the story lies the danger that expectations are raised unnaturally, particularly in the recipient country, with respect to the speed and actual value of aid that follows. Verbal pledges are made before they are approved by legislatures. Between a pledge and the release and expenditure of funds on the ground and the result in a visible impact in the country, much time may elapse. The structure of such legislative procedures in donor countries can also dilute pledges in the process—and in certain cases, even fail to produce any aid at all. The long time between a

pledge and a commitment alone suggests that to be effective, pledging conferences should be held early in the year, when the construction season is dormant and planning can begin. Optimal scheduling is not possible, however, if the timing of conferences is itself an instrument of conditionality used by donors to gain leverage over parties' behavior in implementation of a peace agreement or prescribed elements of an economic transition.

Triple Transition

Economic reconstruction does not occur in a vacuum, and donors had three separate objectives in giving aid: supporting the transition from humanitarian emergency to reconstruction, from war to peace, and from socialism to a market economy in a manner that permitted sustainable recovery. Assessing donor preferences and gaps among types of aid is difficult, however, because countries report their aid in global form, not always distinguishing strictly between aid and nonaid expenditures, rarely distinguishing between funds for reconstruction and funds for market transition and economic reform, and using peace implementation as a residual category for all expenditures not explicitly "economic" (lumping assistance to the IPTF, UNHCR, the ICTY, and NGOs together). In practical terms, many activities often overlap, so the donor's intentions are difficult to discern. But this also reflects the fact that donors often perceive all instruments of the "triple transition" as proceeding in parallel in the postconflict situation.

Sequencing does matter, however, in the efficiency and effectiveness of the transition process. Yet the organizational basis for aid programs, in which each implementing organization has its own mandate and specialization and its jealously guarded autonomy, makes it nearly impossible for donors to confer and agree on a strategy for transition. Their choice of priorities and pace, despite the creation of task forces for coordination, was driven far more by politics in their home countries and institutions, by organizational mandates, and by the preference for *visible* contributions in place of institutional development or political reform. Donor interests in repatriating Bosnian refugees placed overwhelming priority on housing construction. Despite rhetorical emphasis on the contribution of employment to peace, employment creation lagged.

Despite recognition that they had not paid enough attention in the early stages to the political aspects of the transition, World Bank officials, along with the EU, IMF, and EBRD, continued to place priority and resources on infrastructural reconstruction and orthodox approaches to economic transition. But even then, the policy reforms—such as in banking, property rights, long-term supply and payments frameworks, cost recovery, and taxation—were continually delayed, with direct consequences for delays in assistance. And the special needs of peace building were not addressed

except by efforts to speed procedures, decentralize operations (to the country and then later within the country), and use aid as a weapon to enforce the peace agreement.

Donor quarrels over the best structures for coordination dominated over genuine disagreements about aid strategy and policy. Those quarrels over strategy and aid priorities led donors to defect from multilateral programs to bilateral aid; deadlock at the state level led donors to municipalities; and difficulties in implementation (on both donor and recipient sides) led to more channeling of aid through foreign NGOs. Participation matters: donors want a say over how monies are spent, and the recipients are far more likely to "misuse" funds if they are not included in decisions. Although disagreements about the use of political conditionality continue, the control over funds for political influence was sufficiently strong to delay most assistance to an entire half of the country for more than two years and to introduce specific delays in pledges and interruptions in programs throughout the period analyzed here. Changes in strategy for the use of aid and in programs that would meet the needs of postconflict conditions have received minimal attention.

Accountability and Transparency

Accountability is an important concern in the effectiveness of aid pledges, both for the donor community and for the recipient country and target beneficiaries. In his remarks at the donors information conference in Brussels on January 9, 1997, Carl Bildt, then the High Representative for Bosnia and Herzegovina, stressed: "We need to have honest numbers and more rapid efforts if we are to be successful. There is always a tendency towards creative accounting when it comes to governments making pledges. But such attempts backfire sooner or later. We should no longer tolerate such attempts but make certain that we have honest figures and honest commitments."⁸⁶

Economists working in the field operation in Bosnia and Herzegovina stress the difficulty of quantifying the pledge gap because definitions vary among the databases, operating costs (often very large) are not specified, updates are infrequent, and inaccuracies or duplication in the databases cannot be easily checked because they are not readily accessible to the public. Despite their rhetorical emphasis on transparency, donors and IFIs do not commit monies for monitoring. The assessment of gaps between pledges and delivery is seriously hampered by the quality and nature of the data. At least three major (and two lesser) databases exist; data within them are only estimates; and unclear reporting guidelines create doubts, inconsistencies, and overlaps in the data.

Therefore, one proposal for consideration and discussion with the major participants involved in this process would be to recognize the need

for improved tracking of actual aid delivery figures on the ground and for strengthened cooperation to avoid a duplication of effort. In effect, both donors and the recipient government need to create proper and uniform accounting practices. This would help measure the impact of assistance on the target country, and show the use of funds for operating costs in delivering aid, for the implementing agencies, for technical assistance, and so forth. Another proposal, made by OHR in Sarajevo, is to publish the data on the internet or to merge various databases into a sort of "live database" module that would be accessible to all agencies involved. Particularly because of the large number of donors and the frequent turnover in field personnel, such a publicly open database could reduce duplication, be an incentive to donors to provide information regularly, and provide a check on the progress of projects and the need for correction. The best check against corruption, the misappropriation of funds, or wasted aid is a policy of transparency and consistency in the reporting of both donors and recipient countries.

Implementation

Finally, much of the pledge gap in Bosnia and Herzegovina reflected delays in delivery and implementation, not nonfeasance or default. Causes of these delays could be found on both the donor side, where inexperience created heavy start-up costs, and the recipient side, where host-government procedures were woefully underdeveloped. Delay was exacerbated by the decisionmaking procedures of the peace agreement itself, by the dominant role of political conditionality in the use of aid, and by the complex coordination problems of so large an operation as the "Dayton" mission.

Notes

1. This is less than one-tenth of the total spent by the international community in Bosnia since 1992, estimates of which vary from \$49 billion to \$70 billion over those seven years, 1992–1998, largely for the presence of international organizations on the ground, particularly the stationing of military forces to assist the peace after the peace accord was signed in November 1995.

2. World Bank (Central Europe Department) and European Bank for Reconstruction and Development, "Bosnia and Herzegovina."

3. The war had damaged or destroyed most of the country's bridges; large sections of its electric power grid; several hundred miles of roads, railways, and telecommunications networks; and more than half of the housing stock, schools, health facilities, and commercial buildings. The conflict had also left an estimated half a million land mines (mostly uncharted) throughout the country.

4. The Washington Agreement—ending a year of fighting between the Bosniacs and hard-line Croats who had set up a parastate, "Herzeg Bosnia," with support

from Croatia proper—was signed in March 1994 as a result of U.S. diplomatic initiative. It created a Federation of Bosnia and Herzegovina, which was to include all areas of Bosnia and Herzegovina outside Serb control, and set up a “confederal” link with Croatia.

5. At a lower level, the canton governments in the Federation are responsible for all other matters not granted explicitly to the Federation government. These include education, culture, housing, public services, local land use, and social transfer expenditures. To finance these activities, the cantons are given ownership of sales, income, and property taxes, as well as the fees charged for public services. The municipal governments are granted “self-rule on local matters,” including those delegated to them by the canton. But when the majority population of the municipality is different from that of the canton in which it is located, the cantonal government is obliged to grant that municipality self-rule on all normally cantonal responsibilities.

6. UN Security Council Resolution 1031.

7. Dayton peace agreement, annex 10.

8. Held at the Bank’s resident mission in Warsaw for reasons of security, this was a working-level meeting between the Bank’s country officer and country economist and three Bosnian officials from the ministry of foreign affairs and the Central Bank, and it followed months of planning by the Bosnia and Herzegovina Working Group at headquarters working closely with the Bank’s executive director for Bosnia, from the Netherlands.

9. United Nations, UN SG General Reports to the Security Council, *Status of Implementation of the Plan of Action as of 15 April 1996*; Action Plan for Sarajevo; and newspaper interviews with Thomas Eagleton.

10. UN Doc S/1996/381, May 28, 1996.

11. See Koschnick and Schneider, *Brücke über die Neretva*.

12. One such occasion was Germany’s rejection (as a result of Croatian pressure) of Koschnick’s plan for a unified central district in Mostar at the March 1996 PIC meeting in Rome.

13. Interview by Amela Šapćanin.

14. United Nations, Consolidated Inter-Agency Appeal for Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, Former Yugoslav Republic of Macedonia, January–December 1997 (New York and Geneva: United Nations Department of Humanitarian Affairs, November 1996).

15. UNHCR Funding Overview 1997.

16. United Nations Consolidated Inter-Agency Appeal for Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, Former Yugoslav Republic of Macedonia, January–December 1998 (New York and Geneva: United Nations Department of Humanitarian Affairs, November 1997).

17. European Commission World Bank, “Bosnia and Herzegovina—The Priority Reconstruction Program.”

18. These included rehabilitation of transport and gas; agriculture and key infrastructure, telecommunications, social sectors, and mine clearance equipment; recurrent support for education and health; support to key government institutions; establishment of a social fund; provision of working capital to jump-start production in small and medium enterprises; and reserves for a central bank. “Chairman’s Conclusions,” First Donors Conference on the Reconstruction of Bosnia and Herzegovina.

19. The objectives of the PRRP included rehabilitation of key infrastructure and social sectors to jump-start production and ensure improved access to basic

services and housing to facilitate the return of displaced persons and refugees; implementation of projects in support of employment generation and demobilization of soldiers; strengthening of key government institutions and establishment of basic economic institutions of the two entities and the state, including a new central bank, as called for under the Dayton-Paris peace agreement; continuation of efforts toward macroeconomic stabilization; and implementation of the de-mining project as an important prerequisite for physical implementation of other projects. “Chairman’s Conclusions,” Second Donor Conference on the Reconstruction of Bosnia and Herzegovina.

20. Priority areas included programs to facilitate refugee return (including housing, jobs, and basic social services); continued reconstruction of war-devastated infrastructure (including energy, transport, and telecommunications); rehabilitation of social sectors; employment creation through private and financial sector development; and institution building and policy reforms to facilitate the country’s transition to a market economy. “Chairman’s Conclusions,” Third Donor Conference on the Reconstruction of Bosnia and Herzegovina.

21. Official results as of June 3, 1998, obtained by request from the World Bank.

22. Interviews by Susan Woodward.

23. Senator Frank Lautenberg (DNJ) sponsored the War Crimes Prosecution Facilitation Act of 1997 (S804, May 23, 1997), which restricts U.S. bilateral assistance and instructs the U.S. executive director to the international financial institutions (specified as the IMF, IBRD, IDA, IFC, MIGA, and EBRD) to oppose and vote against any aid or grants to countries, entities, or cantons providing sanctuary to indicted war criminals who are sought for prosecution before the International Criminal Tribunal for the Former Yugoslavia (can be seen on website <http://Thomas.LOC.gov>); it was incorporated into the Foreign Operations Appropriations Act for 1998, Section 573 of HR 2159, and became law on November 12, 1997.

24. See David Kriskovich, *Restructuring Progress in Bosnia/Herzegovina*.

25. “General Information—Budget,” from OSCE website (www.osceprag.cz/info/budget/budget97.htm).

26. OSCE Report on Voluntary Contributions, February 13, 1998.

27. This is a part of a DM 126 million (approximately \$78 million) commitment from the European Commission awarded in seventeen contracts to NGOs to facilitate the return of refugees and displaced persons to Bosnia and Herzegovina.

28. Woehrel, “Bosnia: U.S.-Led Train-and-Equip Program,” p. CRS-2.

29. The goods provided under this “draw-down authority” were later discovered to be worth only \$85 million, leaving \$15 million in draw-down that would be used for ammunition, spare parts, and reconditioning of other excess defense articles. Balkan Institute, “Arm-and-Train: A Status Report.”

30. Nedeljko Despotović, Minister in the Federation government in charge of reconstruction, has often expressed his dissatisfaction with the implementation and disbursement figures as provided by the donors, charging that they are often inflated and do not reflect the reality on the ground (interview by Zlatko Hurtić).

31. Due to difficulties in obtaining the data on the 1998 progress report from a number of larger donors, a more recent update was not available at the time of this study.

32. According to World Bank definitions, (1) a *pledge* is an expression of intent to mobilize funds for which an approximate sum is indicated; (2) a *firm commitment* is a pledge that has been (a) approved by a national legislative body or multilateral board and (b) allocated to a specific sectoral program or project; (3)

amounts *under implementation* are those firmly committed funds for which contracts have been tendered, signed, or completed; (4) *disbursed funds* are those transferred to an account in the name of a Bosnian agency or a disbursement agency (foreign or local) in Bosnia and include expenditures made against works, goods, and service contracts and for fiscal or balance of payments support (in-kind assistance is considered disbursed once provided); (5) *funds expended* represent (a) actual expenditures made against works, goods, and service contracts, (b) the value of assistance delivered in kind, and (c) fiscal or balance of payment support; the definition of funds expended does not include advances made to implementing agencies for future payments to suppliers. European Commission and World Bank, "Bosnia and Herzegovina—Implementation of Priority Reconstruction Program."

33. IMG, an intergovernmental organization focused on the infrastructure reconstruction and recovery of Bosnia and Herzegovina, was officially established at the London Conference on the Former Yugoslavia in August 1993. In November 1994, it became an autonomous organization with a managing board that determines the organization's strategy and budget and contracts technical experts. IMG's main function remains the assessment of war damage of infrastructure and needs assessment in energy transmission and distribution, housing, school and medical equipment, transport, telecommunications, water supply and waste management, irrigation, etc.

34. The Economic Task Force was established within the OHR and is chaired by the High Representative. It consists of the World Bank, the IMF, the European Commission, the IMG, and the EBRD.

35. In the RCM database, a contract is defined as a signed agreement between the implementing agency and the final supplier of the work, goods, or services.

36. The distinction between reconstruction and nonreconstruction sectors is found in the monthly newsletter of the Economic Task Force Secretariat, OHR, vol. 1, no. 5, July 1998, although it is not quite clear why this division among the sectors was made.

37. These newsletters can also be viewed on <http://www.ohr.int>.

38. The categories applied in the collection process include: amounts *indicated*—potential amount pledged but no signed implementation documents exist; amounts *confirmed*—participating amounts as indicated by the signed documents of implementation or other confirmed documents; amounts *in implementation*—participating amounts for which contracts have been signed, the procurement is under way, tenders have been published, work is in progress, or work is completed; amounts *unallocated*—unspecified sources of information for potential pledge amounts; and *totals*—amounts indicated, confirmed, and in implementation according to an earlier report from 1996 Bulletin of the Department for Reconstruction, Ministry of Foreign Affairs.

39. The amount of the IMF loan to the government of Bosnia and Herzegovina was included in the overall pledging figures at the fourth donors conference, under the balance of payments support category. It is questionable whether this should be classified as reconstruction assistance.

40. Even Sweden, a large aid donor, for example, counts "disbursements" to UNESCO as a part of its "Balkan effort," even though those expenditures are not in Bosnia; others include the salaries of seconded diplomats or SFOR soldiers, or the computers and cars used by OHR staff (interviews with OHR staff by Susan Woodward).

41. This was the case particularly with the first donor conference in Brussels, which did include, under the amounts pledged at the time, some portions of funds that had been previously put to use for the ongoing activities under various NGO

or UN programs prior to the signing of the peace accords, but also the fourth donor conference in 1998. Staff present in May 1998 report that it was impossible to tell at the conference itself what was being pledged, "repledged," or "reallocated," and that in the final \$5.1 billion program, some aid had been pledged two and three times over (interviews by Susan Woodward in Sarajevo).

42. For example, NGOs tend to record programs, not projects—for instance, the purchase of 20 tons of wheat flour or books would be recorded but not contributions to specific projects or villages; their bookkeeping procedures are different from those of the IMG or World Bank (interviews by Susan Woodward).

43. World Bank, *The World Bank's Experience with Post-conflict Reconstruction*, vol. 2.

44. These powers were discussed at a meeting of the Peace Implementation Conference at Sintra, Portugal, in May 1997, and were agreed on definitively in the official conclusions of its meeting at Bonn, Germany, in December 1997 (hence the label the "Bonn Powers" of the High Representative). According to the Dayton agreement, the three wartime currencies were to be replaced by a single currency for the entire country. Because it did not establish the currency's design, however, disagreements (mainly between Bosniacs who preferred a single design for the currency and Serbs who insisted on different designs for the Federation and the Republika Srpska) went on for about a year until the High Representative, in spring 1998, finally made the decision himself. This significantly delayed approval of the IMF standby arrangement and the World Bank's adjustment operation, as well as the holding of the fourth pledging conference for Bosnia and Herzegovina.

45. OHR, "OHR and Reconstruction."

46. The special envoy of the president of the United States, Richard Sklar, succeeded by Claude Ganz, was deputy chairman of the ETF.

47. Interview with Zlatko Hurić.

48. "Chairman's Conclusions," AMG/OIC meeting, March 15, 1996.

49. The Refugee Return Task Force (RRTF) is placed within the OHR and chaired by one of the High Representative's deputies. Other members of the RRTF are the European Commission Humanitarian Office (ECHO), the World Bank, and the IMG. In addition, IFAD plays an important role in the agricultural sector, through cofinancing, development, and coordination activities with the World Bank.

50. Many times the Croat (or Bosniac) deputy minister did not have information about the activities of his Bosniac (or Croat) minister.

51. The EC also failed to deliver already committed funds for the operational costs of the PIU for the Bank's forestry project.

52. The EC's failure to provide already committed funds for the operational costs of the PIU, for example, by delaying the implementation of the Bank's forestry project.

53. European Commission and World Bank, "Bosnia and Herzegovina—The Priority Reconstruction Program."

54. OHR RRTF Report, December 1997.

55. Many times, the Croat or Bosniac deputy minister would not have information about the activities of a Bosniac or Croat counterpart.

56. Three of the World Bank projects (Education II, IGA, and Essential Hospital Aid) were on hold for five months to be approved by the presidency because the Bosnian Croat and Bosnian Serb members were not satisfied with the amount of assistance allocated to the Croat-controlled area in the Federation and to Republika Srpska. It took an additional two months for these projects to be ratified by the National Assembly before implementation could start.

57. The reconstruction grant assistance of Poland was on hold for some six months before it was approved by the Council of Ministers. Similarly, the U.S. government decided to withdraw the concessional credit in food to Bosnia and Herzegovina because the Croat side refused to approve the operation on the grounds that it was scheduled to be implemented at the state level, not at the entity level, as they preferred.

58. The Council of Ministers signed a Memorandum of Understanding and Agreed Principles for De-mining only on October 30, 1997, to become effective after January 1, 1998. Entity governments were obliged to set up their own Mine Action Centers by March 31, 1998. OHR, "Bosnia and Herzegovina 1998: Self-sustaining Structures: Conclusions," Bonn Peace Implementation Conference, December 10, 1997 (document of OHR, Sarajevo, on website <http://www.ohr.int/docu/d971210a.htm#07>), pp. 15-16.

59. "Conclusions of the Peace Implementation Conference," London, December 8-9, 1995.

60. The London Peace Implementation Conference, December 4-5, 1996, documents.

61. In particular, "The Steering Board supported the High Representative's recommendation to deny new economic assistance to municipalities continuing to tolerate indicted persons working in a public capacity and would follow this up." "Summary of Points in the Sintra Declaration: 30 May 1997," OHR Fax, May 30, 1997.

62. OHR, "Bosnia and Herzegovina 1998: Self-sustaining Structures: Conclusions" (see note 58).

63. Statement by the High Representative, the Donor Conference for Bosnia and Herzegovina, Brussels, July 10, 1997.

64. In December 1997, the World Bank was supposed to approve a major project for Republika Srpska called Reconstruction Assistance to Republika Srpska (\$17 million). Originally, the project was to include assistance to Foca, a town in the eastern part of Republika Srpska, where several indicted war criminals continue to reside without hindrance. As a result of objections from NGOs and several major donors, the Foca project was removed.

65. Much of this increase, from DM 28 million in the first six months of 1996 and 1997 to DM 400 million in 1998, was largely spent, however, on cross-entity projects, not in Republika Srpska alone. The increase showed up only by mid-1998, despite the change in November 1997, however, because the process of lifting the High Representative ban on Republika Srpska, of decisionmaking, tendering, starting a project, government decisionmaking within the RS, and the donor conference all took more than six months to yield aid (interviews at the OHR with Susan Woodward). In other words, this discrepancy in aid between the two entities reflects the consequences of political conditionality, delays in implementation, and the consequences of political decisions on the part of the Republika Srpska government in Pale (until late 1997), which paid the price in aid forgone for their refusal to participate in the first donor conference and then to sign aid agreements through the Sarajevo government because they were, in their view, fighting a contest over sovereignty. Weighing the relative consequences of each is difficult to do. The complex domestic politics of conditionality—for example, in the United States—and its effect on programs of multilateral institutions is a separate subject in itself.

66. Legislation in the United States enhanced its political use of aid; for example, the Lautenberg law. Among other major donors, the Netherlands also has been consistent in conditioning its reconstruction assistance on the apprehension of indicted war criminals and the return of refugees.

67. Similarly, in 1998, the OHR and major donors organized a conference in Sarajevo to establish the principles for refugee return to large cities; when the conference declaration did not show any results in Sarajevo by August, economic assistance was withheld only from the Bosniac authorities.

68. *Obnova* is the Bosnian word for reconstruction or renewal. The program was established to enable the EC to work with local authorities and reward particular regions or localities in an entity without rewarding those who did not meet political conditions. This was accompanied by significant decentralization of EC operations, beginning effectively in August 1998.

69. There is some evidence that the EU may well have trumped up charges of corruption in Mostar in order to revoke the special fast procedure for adopting projects in the post-Dayton environment, replacing it with political conditionality. The High Representative, also, had few tools over the parties except economic resources, and in the campaign against the World Bank's opposition to political use of reconstruction aid, he is said to have used charges of corruption.

70. Rory O'Sullivan, resident representative of the World Bank in Sarajevo, in his statement at the donor information meeting (Brussels, January 10, 1997), even remarked that the level of corruption in Bosnia and Herzegovina may be less than in any other European country.

71. Izetbegović invited the OHR and donors to form a joint commission to investigate charges against possible corruption in the implementation of donor pledges. Only the United States, however, expressed a wish to be directly involved in its work.

72. See Section VII, paragraph 4, "Corruption and Diversion of Funds," in Conclusions to Bonn meeting of the PIC, December 10, 1997, pp. 12-13.

73. The European Commission's Customs and Fiscal Assistance Office (CAFAO) did an extensive investigation in Bosnia and Herzegovina and issued a report that accused both entity governments of a lack of transparency in the collection and expenditure of public revenues.

74. The vast corruption within the tax administration led former prime minister, Hasan Muratović, to initiate abolition of the customs as a revenue source and their replacement with a sales tax.

75. The EU-financed office for customs monitoring in Bosnia and Herzegovina (CAFAO) has reported several times that there are over 400 ways to enter the country illegally, while there are only thirty border crossings and those have hardly any controls. This led the 1998 PIC meeting at Madrid to request in its final document that the entities and the state form special police units for the country's border crossings. At the same time, Federation prime minister Edhem Bićakčić has publicly accused members of the NATO-led military forces (SFOR) of smuggling cigarettes into the country and of selling at illegal open markets.

76. Several donors told Bosnian authorities that the implementation of "their taxpayers' money" would be dramatically slowed down unless the country established a more effective system in the collection and use of "its own taxpayers' money."

77. Mirsad Kurtović, minister for foreign trade and economy, interviewed by Zlatko Hurić.

78. The request for 80 percent was made by Neven Tomić, cochair of the Bosnia and Herzegovina Council of Ministers, during the first round of negotiations with the Paris Club (July 1998), by contesting the relevance of the IMF projections.

79. High Representative Carlos Westendorp, in a letter to both entities in December 1998, requested that both start implementing the State Customs Law. As

of February 1999, the Republika Srpska government had refused. The Federation prime minister did issue an order to the Federation Customs Administration to begin implementation, but this was rejected by the Croat part of the Federation government, which, unlike the Bosniac part, continued to apply preferential trade treatment to goods imported from Croatia. Both Serb and Croat governments, because of their control over the borders, can use preferential trade treatment to smuggle goods and thus resist abolishing it.

80. According to the entities' statistical bureaus, imports from the Federal Republic of Yugoslavia and the Republic of Croatia to Bosnia and Herzegovina in 1998 amounted to DM 1.2 billion, while exports were less than DM 200 million.

81. In an interview with Zlatko Hurić, Rasim Kadić, minister for refugees and social affairs in the Federation government, noted that around 200,000 refugees, mainly from Germany, were forced to return to Bosnia in 1997–1998.

82. For example, there are serious signs that Japan and Malaysia will not be able to realize their pledges due to the current financial crisis.

83. In 1998, some of the larger donors, such as the EU and Canada, announced plans to redirect Bosnian aid funds to Kosovo should the crisis continue. By early 1999, senior German official Hans Koschnick warned that 25 percent of the EU assistance intended for Bosnia and Herzegovina may be reallocated to reconstruction in Kosovo (Reuters, February 16, 1999). In addition, refugees from Kosovo began to flood into Bosnia in the summer of 1998—some 20,000 by August—adding directly to the burden of humanitarian assistance in Bosnia.

84. Ball, "Lessons for International Actors," p. 23.

85. Reconstruction and Return Task Force, "An Action Plan in Support of the Return of Refugees."

86. OHR, "Statement of High Representative," January 9, 1997.

9

Beyond Good Intentions: External Assistance and Peace Building

James K. Boyce

EXTERNAL ASSISTANCE HAS POLITICAL AS WELL AS ECONOMIC impacts: aid affects not only the size of the economic pie and how it is sliced, but also the balance of power among competing actors and the rules of the game by which they compete. In postconflict societies, particularly those where the conflict ends in a negotiated settlement rather than a winner-take-all victory, the political impacts of aid can help to decide whether the peace endures or war resumes.

The "good intentions" of this book's title refer to an explicitly political aim: the building of peace. To be sure, external assistance in postconflict settings has less noble motivations, too—among them, geopolitical rivalries and commercial interests. Yet the consolidation of peace certainly ranks high among the objectives of most donors in postconflict settings, and most citizens in the donor countries probably agree that it should be the overriding goal.

Translating this objective into practice is not a straightforward matter, as the essays in this volume make clear. Aid is not like water, which sprayed on the flames or embers of conflict invariably helps to extinguish them. Indeed, it can be more like oil. Appropriate aid can diminish the risks of conflict, but inappropriate aid can fuel it. External assistance can support a country's adjustment toward peace, but it can also impede that adjustment if it deepens the fault lines of conflict, or if it tilts power balances in favor of those still willing to return to war.

The net impact of aid depends, first, on whether the donors truly make peace building their overriding objective and, second, on how effectively