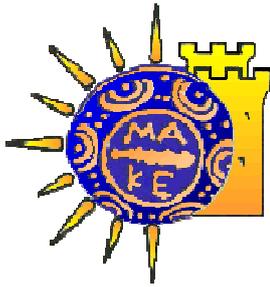


UNIVERSITY OF MACEDONIA



**DEPARTMENT OF BALKANS
SLAVIC AND ORIENTAL
STUDIES**

**The Politics of Institutional Reform in Bosnia and Herzegovina: The
Creation of the Central Bank and the Police Reform in a
Comparative Perspective**

Despoina Karamperidou

THESSALONIKI, GREECE

NOVEMBER 2011

**The Politics of Institutional Reform in Bosnia and Herzegovina: The Creation of
the Central Bank and the Police Reform in a Comparative Perspective**

By
Despoina Karamperidou

Thesis

Submitted to the Department of Balkan, Slavic and Oriental Studies
of the University of Macedonia at Thessaloniki, Greece
in Partial Fulfillment of the Requirements
for the Degree of

**MA in the Politics and Economics of Contemporary Eastern and Southeastern
Europe**

**Supervised by:
Ioannis Armakolas**

CONTENTS

Introduction

Objectives.....	1
Contents.....	2

Chapter 1	Literature Review	
1.1	Authority and Legitimacy.....	3
1.2	Local Ownership and Responsibility.....	5
1.3	Coordination.....	7
1.4	Commitment.....	8
Chapter 2	The evolution of state building practices in Bosnia and Herzegovina	
2.1	From peace building to hands on state building.....	9
2.2	From Dayton to Brussels.....	12
Chapter 3	The creation of the Central Bank of Bosnia and Herzegovina	
3.1	Initiation of the financial sector reform.....	15
3.2	Drafting the Central Bank Law.....	20
3.3	Reform implementation and institutional performance.....	23
3.4	Impact assessment of explanatory variables.....	25
3.4.1	Legitimacy.....	25
3.4.2	Coordination.....	26
3.4.3	Local Ownership.....	27
3.4.4	Commitment.....	28
Chapter 4	The Police Reform	
4.1	Police restructuring in the direct aftermath of the Bosnian war.....	30

4.2	The initiation of the Police Reform.....	31
4.3.	Drafting the Police Reform Law.....	32
4.4	Reform implementation and institutional performance.....	39
4.5	Impact assessment of explanatory variables.....	40
4.5.1	Legitimacy.....	40
4.5.2	Coordination.....	41
4.5.3	Local Ownership.....	42
4.5.4	Commitment.....	43

Chapter 5 Comparative Analysis

5.1	Can the two case studies be compared?.....	45
5.2	Comparative Analysis.....	47
5.2.1	Constant Variables.....	48
5.2.2	Fluctuating Variable.....	51

Concluding Remarks

	Summary of main findings.....	53
	Lessons Learned.....	55

INTRODUCTION

Objectives

This study explores and evaluates the international community’s role in institutional development and institutional reform within the BiH state building context. In particular, it seeks to identify the factors that have played a crucial role in shaping

the outcome of reform processes. Though this quest is not a novel one - in fact, it has gathered a lot of scholarly attention in the past, significant knowledge gaps, undermining the international community's efforts for sound institution building in situations of fragility, still exist. The present study, aims to make a contribution to this field of research and provide new insights, relevant to institutional reform processes in general, distilled out of Bosnia's respective experience. In particular it seeks to address the following question;

- Which are the general drivers of successful institutional reform in post-conflict environments?

To answer this question, the study engages in a comparative analysis of two particular aspects of institutional reform in BiH; i) the creation of the Central Bank of BiH (CBBH) and ii) the reform of the police. The rationale for the selection of the case studies is methodological. The study follows the "most different" approach to the comparative method according to which, examining two fundamentally different units of analysis, allows the clear identification of factors underpinning their variability. Indeed, the two selected reforms have yielded very different outcomes; the establishment of the CBBH has been, by general consensus, very successful in contrast to the police reform that has not produced substantial results.

Though the impetus for the selection is methodological, it offers the researcher the chance to investigate their seemingly paradoxical or at least non-intuitive end results, with respect to a very "visible" potential explanatory variable; the coercion capacity of the international community. In particular, during the period the establishment of the CBBH was carried out, the international community did not have hard power policy instruments at its disposal. Yet, the reform was a marked success. By contrast, the police reform was initiated at a time when the international administrators had almost unlimited power to impose reforms, even against the will of domestic elites. Nevertheless, the police reform produced, at best, limited results. This paradoxical observation, summarized and rearticulated below, forms the second puzzle this study seeks to solve:

- What can help explain the mismatch between means employed and results achieved in the two reforms processes?

Contents

Chapter 1 provides a review of the state building literature and focuses on the examination of factors that are systematically identified by scholars and practitioners as impacting the outcome (success or failure) of the international community's involvement in post-conflict reconstruction efforts. In particular, the theoretical discourse surrounding these variables namely - the legitimacy of the international community's involvement, the level of local ownership, the coordinating capacities and the commitment of the international community to strategic state building

objectives - is presented and analyzed.

Chapter 2 introduces the reader to the evolutionary trajectory of external state building in Bosnia. The different phases of the international community's involvement are identified, described and assessed for overall effectiveness. In particular, the analysis tracks down transformations in the magnitude and depth of external interventionism, with the purpose to present the general framework within which the central bank and the police reforms were initiated and implemented.

Chapters 3 and 4 provide the timeline of events that led to the initiation, drafting and implementation of the reforms under examination – the reform of central bank and the police force, respectively. The data presented, rely on primary source material such as reports published by international organizations engaged in the reform processes and on secondary source material, such as previous academic accounts on the two reform processes. The final section of each chapter tests the effect that the factors identified in the state building literature (and presented in Chapter 1) have had on their final outcome.

Finally, chapter 5 assesses the explanatory value of these factors across the sample by engaging in a comparative analysis of the two reforms, presents the main findings of the exercise and addresses the research questions.

CHAPTER 1

LITERATURE REVIEW

External state building has gathered a lot of attention from theoreticians and practitioners in the past twenty years and has fueled a fierce debate over a series of issues, concerning the soundness of policymaking practices and possible ways to

improve the international administrators' effectiveness in solidifying democratic and market principles in transitional environments. A pivotal aspect of these efforts is the introduction and domestication of effective and self-sustained institutions, as the new "rules of the game"¹. In what follows, four factors, systematically identified in the state building literature as being of importance for the relative success of state building strategies in general and for institution building in particular, are presented and the theoretical discourse surrounding them, analyzed.

1.1 Authority and Legitimacy

Legitimacy transforms power into unquestionable authority by attributing to governmental decisions, a binding character. It differs from legality in the sense that the latter is a necessary but not sufficient condition for a governing law or a regime to enjoy popular support. According to Heywood (2006), political philosophers treat legitimacy as an ethical principle, as the foundation upon which governments base their demand for citizen obedience and support. In this sense, the claim for legitimacy is more important than obedience itself and legitimacy is understood as a source rather than a constraint of power. However, political scientists examine the issue of legitimacy from a sociological standpoint – as the willing compliance to a system of power, irrespective of how this power was established. In this light, the faith in legitimacy becomes congruent with the faith in the right to exercise power and is often attached to concepts such as accountability, transparency, lack of corruption, institutional effectiveness and limits to state power (Steward, 2006). So, why does the legitimacy of international administrations matter?

According to Szewczyk (2010), whenever a political order or a decision is deemed illegitimate, there is a high probability that the order will be overthrown and the decision will be reversed. Thus, legitimacy is necessary for the strength and success of any order or decision over time. As Cooper (2003) observed, *"legitimacy serves to extent power over time as it is much a source of power as force"*.

Fukuyama's (2007) description of good governance stresses the importance of three fundamental prerequisites for legitimacy; constraint, accountability and consent. In his words, *"power should be constrained so that it is dispersed to localities, limited by the rule of law and ultimately subject to public accountability and popular consent"*. In liberal democracies the attributes of political legitimacy are ensured through the effective enforcement of the rule of law and a well-established network of mutual checks and balances, political party competition, the healthy succession of electoral cycles and the regular alternation of power, which is hypothesized to reflect the true will of the people. International administrations however, often fail to ensure legitimacy in a way that fosters good state-society relationships.

¹ Institutions were described by North (1990) as the "rules of the game" in a society i.e., humanly devised constraints that structure human interaction

On the issue of constraint as a condition for legitimacy for instance, Chandler (2007) argues that international bureaucracies often exceed the accepted limits of their power and seek to go beyond their legal mandates to an extent that what “*would be deemed unacceptable to many western countries*”. Steward (2006) on the other hand, identifies the lack of accountability as the most clearly absent characteristic of international administrations in post conflict societies. What is particularly problematic in her view is that since international administrations are not elected but are established by external institutions, they tend to have a very “distinct spatial identity” from the communities over which they govern and do not depend on any meaningful way on local consent or ownership. Chandler shares this view and stresses the fact that the absence of legal control constitutes yet another state building paradox since one of the aims of the international community is the establishment of democratically accountable institutions. Caplan (2006) however, argues that despite this fundamental contradiction lying at the heart of the international administration in post conflict societies, the administrations themselves are not fundamentally flawed. In his view, the lack of accountability to local stakeholders² can be justified on the grounds that emergency situations require extraordinary measures that may extent to temporary suspension of the norms of democratic governance.

Zaum (2007) also examines the legitimacy of the international community’s involvement in failed states. However, he does not focus on the conditions for it, but rather tries to identify its source. He concludes that the source of legitimacy is the source of power itself. In particular, he recognizes five sources of international administrative authority in failed states, after carefully examining Security Council resolutions and peace treaties. Two of them are what he calls, procedural; i) consent of the affected states to international administrations and ii) the delegation of authority to the administration (usually by the UN). The rest involve “*essential social purposes of the international community which are viewed to be under threat without the exercise of an international authority*”; iii) the maintenance of peace and security, iv) the protection and promotion of human rights and democracy and v) the need for governance in the light of absence of functioning political and administrative institutions. After engaging in an analytical presentation of his views, Zaum in the end opines that external interventions are indeed legitimate because firstly, their authority derives from an institutionalized procedure that is in accordance to international law provisions³ and secondly, the motives driving interventions are moral and ethical.

² International authorities are not directly accountable to the population whose territory they administer but they are accountable to the bodies that appoint them, to the media, to NGOs, etc. Therefore, it is not the absence of accountability that concerns Caplan’s analysis but rather, whether the existing systems of control and supervision are adequate to ensure against the misuse of international authority.

³ This view is very close to Weber’s ideal type of rational/legal legitimacy, according to which, legitimacy is derived from a system of institutional procedures, wherein government institutions establish and enforce law and order in the public interest. In this sense, it is the public trust that the

1.2 Local Ownership and Responsibility

Local ownership has gained the status of a “buzz word” in the post-conflict state building discourse. The term is used repeatedly in the vast “lessons learned” and “best practice” literature published by theoreticians and practitioners in recent years. It refers to “*the extent to which domestic actors control both the design and implementation of political processes*” (Donnais, 2009) and highlights the importance of local participation in and support for political and economic transformation, as a prerequisite for the latter’s success and sustainability. The rationale behind the argument in favor of enhanced local participation is based on the commonsense wisdom that if those who must carry out and sustain the reforms are excluded from the process of shaping and adopting them, resistance to implement, reluctance to conform and ultimately, failure to sustain change will be the end results of any reform initiative.

Despite the broad theoretical consensus around the necessity to increase local responsibility for governance and help domestic actors assume effective control over state institutions Tschirgi (2004) notes that, as empirical records suggest, state building in practice constitutes largely an externally driven exercise. Borrowing from Pugh’s terminology, in “new protectorates”, outsiders do more than participate in shaping the political agenda. On the contrary, they set the agenda, impose it and punish with sanctions local actors who refuse to implement it. Instead of making new institutions stronger by facilitating compromise and negotiation that is, excessive international involvement in post conflict societies removes policy making capacities from local actors, despite its declared intentions to achieve the opposite, and makes them superfluous to the development of policy and its implementation (Donnais, 2009).

The employment of these tactics by the international community may be useful in securing the passing of legislation and in promoting the implementation of peace agreements. However, they also tend to incubate dependency and political irresponsibility. Since local parties and politicians usually play a marginal role in the policy making process, their fight for power is based not on the merits of their political programs but on their effectiveness to represent their usually ethnic constituencies. In Chandler’s (2000) view, this approach impedes meaningful democratization. It polarizes the political process to such an extent that prevents politics from functioning as Foucault visualized it when he inverted Clausewitz’s famous phrase⁴ i.e. as “*the continuation of war by other means*”. On the contrary, ethicized political debate fuels controversy over issues that had led to violent

government will abide to the law that forms the source of its legitimacy. Along these lines, Zaum argues that international administrations enjoy the trust of the local and international public opinion since their actions are hypothesized to be in accordance to international law and to have the best interest of the people “in mind”

⁴ Clausewitz’s original aphorism; “*war is the continuation of politics by other means*”

societal disintegration in the first place. They therefore hinder post conflict communal healing, prevent national reconciliation and ultimately, contribute decisively to the deterioration of the state's outlook for peace sustainability. Political irresponsibility is manifested however, not only through the domestic political leaders' lack of commitment to peace but also through their reluctance to take blame for badly managed social and economic problems which are tactically passed on the international community or the institutions established by it (Papic, 2001)

While Chandler, Donnais, Papic and others, identify excessive external engagement in local politics as the root cause of irresponsible domestic leadership, fragile political stability and whither peace in post conflict environments, Paris in his 2004 work, attributes the same disturbing issues to the exact opposite reason; inadequate international involvement, and makes a case for tighter external management and control over domestic affairs.

Paris' argument comes from an ideological standpoint. He challenges the conceptual heart of externally driven state building namely, liberalism and investigates its limits as a remedy for conflict. In particular, Paris distinguishes between "liberalism" and "liberalization" by pointing out that the former is an institutionalized and consolidated "*modus operandi*" while the latter is the process of getting there. In this sense, he does not doubt liberalism's capacities for peace sustainability and growth promotion but rather questions what most analysts seem to take for granted; the smooth transition to liberalism. In particular, Paris argues that like every dynamic process, post-conflict liberalization involves a high degree of uncertainty and is therefore a rocky endeavor, one that gives rise to "pathologies" encouraging conflict and competition instead of moderating them⁵. In his view, regulating mechanisms are needed to address transitional shocks of this kind and argues that this can only be achieved if "institutionalization" (the creation of effective state institutions and governmental structures) precedes liberalization (the promotion of political and economic competition). As he puts it, "*the international community should limit political and economic freedoms in the short run in order to facilitate a less tumultuous transition to market democracy in the long run*". This line of reasoning challenges the argument advocating for the merits of increased local ownership early on and suggests that the limitations of state building are not due to the restricted inclusion of local actors in the transformation process but on the contrary, due to their excessive and premature involvement before an institutionalized framework for economic and political governance has been consolidated and internalized.

1.3 Coordination

Coordination, i.e. the capacity of the international community to streamline the diverse set of actions involved in post-conflict state building missions, has long been recognized in the literature as one of the most crucial factors that help tip the scale

⁵ Paris identified five pathologies; i) bad civil society, ii) ethnic entrepreneurs, iii) elections, iv) autocratic leaders and v) rapid marketization

in favour of reform success and sustainability. Analysts assessing the coordinating capacities of international actors do not focus only on operational and logistical matters but also, on the clarity of the messages the international community conveys to host states - regarding the leadership, the objectives and the conditions attached to distinct reconstruction schemes (GSDRC, 2010). On all grounds, however, empirical findings (Ghani 2005, Samuels 2004, Paris 2006 and Rubin 2006), concur that international actors operate poorly, often failing to accommodate their diverse mandates (political, security, humanitarian, developmental) and speak clearly and credibly, to their local counterparts, with “one voice”.

Proposals on how to best tackle the issue abound, including effective division of labour, joint assessments, joint donor offices, multi-donor trust funds and common reporting systems, but still fall far behind from constituting a coherent strategy (OECD, 2007). Identifying the bases of non-coordination is therefore key to limiting strategic inconsistencies, such as effort duplications and cancelling out effects and indeed, a big bulk of the state building literature focuses on this issue. Rubin (2006) and Ghani et.al (2005) for instance, identify the absence of strong international leadership as the main “culprit” of organizational mismanagement and unsustainable post-conflict reconstruction. Rubin in particular, after assessing aid and assistance programmes in post-war environments, observes that; *“divisions, rivalries and fragmentation of authority in the international community, pose as many limitations to state building effectiveness, as division and incoherence, within host states do”*. In a 2010 briefing paper, the DFID confirms this observation and also notes that in cases of weak and fragmented international leadership, lack of coordination is amplified even further by the need for rapid disbursement of donor funds, *“particularly where donors have a relatively small in-country presence”*. Paris (2006) however, argues that the lack of coordination is a symptom of a greater, underlying issue; the lack of coordination of values and ideals. He therefore believes that it is too naive to just urge greater coordination, since the latter is indeed a real problem, but exists only because there is little agreement on state-building best practices. This lack of agreement, he goes on to argue, is not only because the numerous actors that comprise the international community have different approaches and interests but more importantly, because *“the entire enterprise is so uncertain, complex and politically sensitive”*.

1.4 Commitment

The international community’s commitment to state building activities is another issue that takes up much of the literature as a factor directly associated with and positively correlated to increased chances of successful and sustainable post-conflict recovery. Coordination, involves technical considerations that orbit primarily around two crucial questions; time and resource adequacy.

In particular, there is no doubt among experts, that state building is an extremely costly and lengthy process, if done appropriately. However, most donors fail to appreciate that. Both unrealistic donors programming on likely costs (manpower, military troops and financial aid) and “early exit” i.e. withdrawal of external support before sustainable reconstruction has been reached, are listed as key obstacles to progress in almost every case study of state building failure (Dodge, 2006 - Etzioni 2004). What’s more, the two are often linked, as misplaced optimism regarding the setting of resource levels is directly connected to over-optimism when setting the likely time-horizons of state building (OECD, 2007). The international community’s inability to accurately predict the duration of state building missions, is in turn attributed to two reasons; i) the fact that the initiatives they embark on are indeed, often of unidentified size and ii) their reluctance to upset electorates back home (GSDRC, 2010).

Acknowledging that early withdrawal fails to recognize the longer-term nature and requirements of post-war transition processes and undermines overall national efforts, the OECD (2007), as a rule of thumb, recommends international commitment in the order of 10 to 20 years. Lengthy and “hands on” involvement that is, is deemed necessary for achieving a series of key state building objectives that can only be realized in the long run; building human, institutional and material capacities and creating viable and sustainable institutions. As important as time and money are however, effective capacity building also depends on general strategic and operational matters of state building. In that respect, capacity building becomes relevant to the need for coordination and local ownership, analyzed previously. As the 2010 GSDRC report explains, effective coordination is required for estimating local capacity requirements and improving support delivery, while adherence to the principle of local ownership is necessary, to ensure that international involvement will not stand in competition with national restructuring efforts. Consequently, the international community when provisioning assistance must focus primarily on mobilizing national resources, including on preventing “brain drain” and refrain from creating parallel administrative structures, which may prevent national capacity development.

CHAPTER 2

THE EVOLUTION OF EXTERNAL STATE BUILDING PRACTICES IN BOSNIA AND HERZEGOVINA

This chapter serves as an introduction to the BiH state building context. Its purpose is to present the evolving character of the international community’s involvement in

Bosnia's post conflict reconstruction and to provide the general framework within which the institutional reforms - examined in subsequent chapters of this study - were initiated and implemented. In particular, it examines the reasons that compelled the international community to change its initial intentions with regards to the magnitude and the depth of its intervention and the policy instruments it employed to achieve that. Different phases of state building are consequently identified, described and assessed for overall effectiveness.

2.1 From peace building to "hands on" state building

In the direct aftermath of the Bosnian war, the international community concentrated its efforts on the execution of the military component of the Dayton Peace Agreement. Resuming authority from the UNPROFOR⁶, the NATO led implementation force (IFOR) was tasked with undertaking a set of actions oriented toward the reestablishment of a very basic level of security. As early as 1996, the implementation of the military aspects of the peace settlement was almost complete, following the successful disarmament of former warring troops, the demobilization of former combatants and the rebuilding of Bosnia's key public infrastructure. Once "negative peace" was consolidated, the international intervening actors moved on to implement the civilian component of Dayton. International intervention of this sort was originally designed to be short lived, lasting approximately for one year and having as its main aspect, the *"supervision of the country's post war transition to a democratic framework of governance"*. IFOR was replaced by the NATO Stabilization Force (SFOR), which aimed to *"stabilize the political environment and secure a stable society"* so that free and fair elections, planned for September 1996, could take place. To meet its objective, the SFOR cooperated with several other institutions that had incorporated a similar aim; the UN Police Task Force (IPTF), the UN High Commissioner for Refugees (UNHCR), the Organization for Security and Cooperation in Europe (OSCE) and the International Tribunal for the former Yugoslavia (ICTY)⁷. Overarching these institutions administratively, was the Office of the High Representative (OHR), provisioned in Annex 10 of Dayton and designed to serve as the international community's executive in the country, by *"mobilizing and as appropriate, coordinating the activities of the organizations and agencies involved in the civilian aspects of the peace settlement"*.

Initially, the High Representative was only empowered to monitor the implementation of the peace treaty, promote compliance with it and report on the

⁶ The United Nations Protection Force was the first United Nations peacekeeping force in Croatia and in Bosnia during the Yugoslav wars. It remained active from the beginning of the UN involvement in February 1992, until March 1995, through its restructuring into other forces (United Nations Preventive Deployment Force - UNPREDEP)

⁷ For a complete catalogue of the international actors involved in implementing the civilian part of Dayton and their specific mandates, see Zaum p. 83 and Balesic p. 43

local parties' progress to the PIC⁸ (Caplan, 2004). Direct intervention in domestic affairs was limited. The international community simply set the rough framework of the Bosnian political agenda, while the day-to-day political and administrative functions were trusted to domestic parties (Cox, 2001). To ensure domestic compliance with Dayton provisions, a wide array of "soft" diplomatic and political tools of persuasion were systematically employed. Pressure often took the form of letters, visits, and public condemnations (naming and blaming practices) and sometimes involved economic incentives (e.g. aid conditionalities). However, years into Bosnia's existence, signs of ethnic reintegration had yet to emerge. Ethnically induced obstructionism had consolidated itself as a systemic feature of local politics and incessantly undermined the creation of a viable state structure. As Szewczyk (2010) notes, in 1997, Bosnia was still lacking very basic symbolic elements of statehood such as a common passport, currency, flag, anthem and car registration plates. Non-intrusive external guidance, was thus clearly failing, inducing international actors to reach a paradoxical conclusion; *"Bosnia was in no need of democratic domestic governance and autonomous policy making, but government by international experts"* (ESI, 2003). Consequently, after the 1996 elections, marked by the return of wartime leaders to power as democratically elected representatives, the international transitional administration was prolonged for a further two year consolidation period and in December 1997, it was prolonged indefinitely (Chandler, 2007). Frustration over the "painfully" slow transition to effective statehood and the failure of democratic processes to function effectively also prompted a shift towards a much more invasive state building style. At the Sintra PIC meeting in May 1997, the HR was given the capacity to enact measures in the case of domestic non compliance⁹ and at the Bonn conference in December 1997, he was authorized to make interim decisions which would be binding on all parties¹⁰ (Chandler, 2005). Since 1998, these extended powers, colloquially called "Bonn powers", have been used repeatedly, whenever deemed beneficial for the population, establishing a sustained international trusteeship in the country.

As the deficiencies of the Bosnian institutional setup were becoming increasingly evident, in the end of the 1990's, the focus of the international community gradually shifted from implementing Dayton, to *"moving beyond the original Dayton framework"* (F. Bieber, 2006), i.e. to promoting a more integrated and self-sustained central state. The international authorities argued that the legal basis of institutional

⁸ The Peace Implementation Council is the international body charged with implementing the Dayton Peace Agreement, in the absence of direct UN involvement. The council, that provides political guidance to the HR, was established in London, on December 8 and 9, 1995 and is comprised of 55 countries and agencies

⁹ Such as visa restrictions on travel abroad for obstructive Bosnian politicians, suspension of media operation and economic sanctions

¹⁰ Such as overruling decisions of domestic political authorities and elected representatives, imposing legislation on them and removing them from office

reforms was Dayton itself, which in annex IV provisioned that *“the central state...shall assume responsibility for other matters as are agreed by the entities”*. Leading nationalist parties however, viewed the creation of new institutions as an upright violation of the constitution and an offence to the Bosnian peoples¹¹. Armed with his Bonn powers panoply, the HR responded to obstructionism aggressively, ultimately inducing, pushing and enforcing most reforms on the domestic political parties. Coercion was justified on the assumption that as joint state institutions would be growing in competence, this would also increase the incentives for local political players to participate in the joint decision making and make power sharing mechanisms operational (Recchia, 2007). Indeed, important amendments were gradually introduced and the central state of Bosnia and Herzegovina has grown substantially since 2000¹².

Undoubtedly, the Bonn powers have been very successful in preventing Bosnia’s nationalist political forces from pulling the country apart. In that respect, for some, the Bonn powers have functioned as *“the glue that held Bosnia together”* during the first difficult post war years. For others however, their persistent and often arbitrary use has turned them into *“a cancer on the Bosnian body politic”* (ISS, 2010) and has raised a series of concerns and ethical dilemmas. For instance, signs that the nationalist parties were preserving and hardening their nationalist stance - against initial anticipations - soon emerged. Wolfgang Petritsch, Bosnia’s third High Representative, was observing in 2002; *“local parties rely opportunistically on the political intervention of the HR, especially when it comes to unpopular measures. They can behave, despite being in government, as if they are in the opposition and defend their ethnonationalist goals without the need to compromise”* (cited in Caplan, 2004). Extreme interventionism that is, was incubating political dependency allowing elected representatives (marginalized from the political process) to enjoy the benefits of rational policy making, without having to engage into negotiation and political risk-taking. This state of affairs was sucking up the capacity of Bosnia’s political institutions and was undermining the legitimacy of the Bosnian state (Chandler, 2007). Consequently, not only was transition to effective Bosnian ownership hindered and postponed but the prospects for sustainable democratic governance in the long run, were also severely undermined.

2.2 From Dayton to Brussels

Faced with severe criticism over its state building practices, having made minimal headway in the front of national reconciliation and with its means of political coercion backfiring, the international community in the early 2000s was in search for

¹¹ Reform opposition emanated primarily from the Bosnian Serbs, who perceived the creation of a more integrated state of Bosnia as a threat to the preservation of the quasi – state status of the Republika Srpska

¹² Several new ministries have been established, powers that lied with the entities have been successfully transferred to the common state level and common administrative and judiciary institutions have been reinforced

a transitional alternative to international trusteeship. A fresh approach to state building, one that would provide the fighting ethnic groups with a strong incentive to facilitate political compromise and would induce the emergence of mature and responsible domestic leadership, had to be envisioned and put to the test urgently. This kind of thinking, brought to the forefront the EU, and its most successful foreign policy tool to that date; the EU enlargement. Already involved in the Bosnian state building process¹³, the relevance of the EU as an outside actor driving Bosnia's transformation, gradually increased since 2002, when the HR was double hated as the EU Special Representative (EUSR). This meant that the HR's powers could be used both for upholding the Dayton agreement and for facilitating the reforms required for EU membership (Chandler, 2007). In fact, Dayton gradually became subordinate to the requirements for eventual EU membership, as the mechanisms of post Dayton peace regulation shifted informally from the PIC to the EU and *"the discussion moved away from the exit strategies of the international community from Bosnia, towards the entry strategies of Bosnia into the international community in general and in Europe in particular"* (Carlv Bildt, Un Secretary General to the Balkans).

At the EU Thessaloniki summit in 2003, the EU member states asserted that *'the future of the Balkans is within the EU'*, offering Bosnia a golden opportunity; to become incorporated into the EU structures, corresponding to a cohesive geographical space with transcendent borders, a symbol of democracy, prosperity and solidarity, literally a "promise land" for the fragile and impoverished peripheral state. The EU accession "carrot" was served, but being as tempting as its was, it had very strong strings attached to it. In particular, from that point onward, it would not be *"Bosnia's performance in implementing its Dayton obligations that would dictate the pace of integration into the EU"* (1998 PIC meeting declaration) but the fulfillment of a different set of obligations towards its future EU partners. This not only required moving beyond Dayton but also, doing so voluntarily, without major pressure from the international intervening actors. Domestic compliance was important because in the conceptual heart of the renewed international involvement in Bosnia, lied the gradual phasing out of the controversial Bonn powers and the development of domestic governing capacities.

Despite initial fears and anxiety, the fresh strategy, did seem to work. In 2003, the BiH council of ministers made EU accession its first priority and it looked as if whatever hard imposition and coercion had failed to achieve up to that time, the EU prospect would. Bosnian nationalists could disagree with one another, but no one openly questioned that the interest of Bosnia lied in the EU. In fact, as soon as the HR/EUSR started to communicate the EU conditionality tool assertively and clearly linking it to the EU accession prospect, more efficient and effective decision making was promoted (Recchia, 2007). Most major institution and administrative reforms,

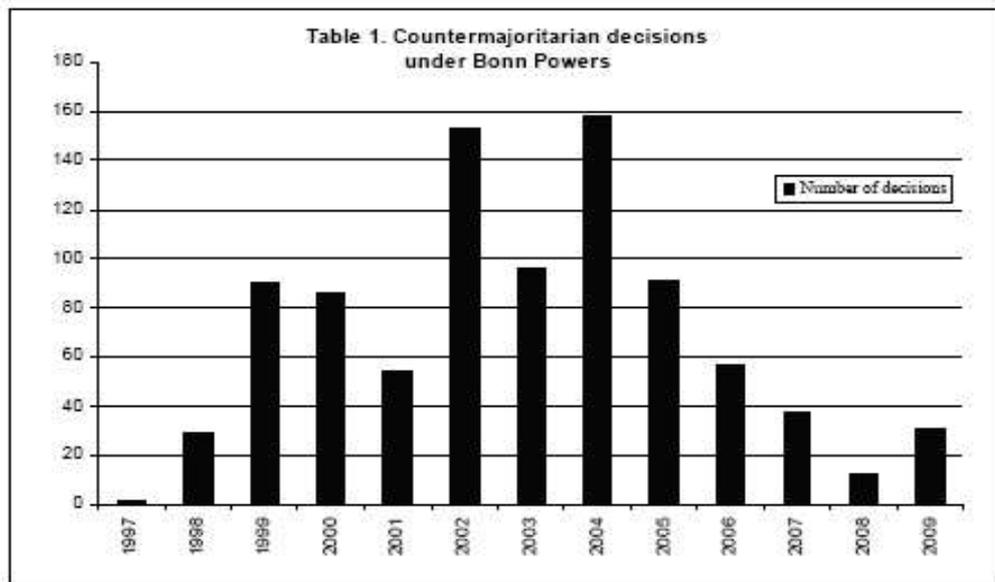
¹³ In June 1998 for instance, the EU, at its Council meeting declared the establishment of an EU/BiH task force with the aim of increasing cooperation in the areas of judicial reform, education, media, good governance and economic reform

laid out in the 2003 EU “feasibility study” as conditions for the opening of negotiations on a Stabilization and Association Agreement (SAA), were adopted without major external intervention (e.g. the law on indirect tax authority, the VAT law, the law on a state wide public broadcasting system, etc). Nevertheless, the HR continued to systematically impose technical amendments to the agreed upon legislation - to speed up the process. The continued use of the Bonn powers was indeed recognized as an anomaly to standard Europeanization processes, but their utilization within the SAA framework was not viewed as a factor prohibiting EU accession. In particular, the Bonn powers were granted acceptable on the basis that they would be “*declining in relevance and that their use would occur ever less in core SAA areas*” (Recchia, 2007). Finally, in 2006, the EU openly declared its intention to shut down the OHR permanently in a year’s time, leaving the EUSR as the sole agent of EU authority in charge of guiding Bosnia into EU accession (ISS, 2010).

However, crisis over failed negotiations of the constitutional and police reforms later that year and the subsequent postponement of the SAA, brought Bosnia’s reform process to a standstill. In an attempt to prevent political deadlock in the future, the HR renewed its assertiveness and coerced a transformation of the decision making process in the Bosnian legislative central institutions. After that, the crisis was deepened even further and the decision to shut down the OHR was extended indefinitely, left to be determined by the situation on the ground, which has nevertheless been deteriorating since. In its 2007 review the PIC steering board noted that “*the political situation in Bosnia is of grave concern*”. In 2008 it expressed its anxiety “*over actions and statements that challenge the constitutional order and the sovereignty of the country*” and in 2009 it targeted “*personal attacks and threats of legal action against the HR and his staff*”, deeming them unacceptable (ISS).

Quite interestingly though, despite the growing political instability that would, in prior periods, have induced acts of extreme interventionism, the use of the Bonn powers has indeed been dramatically contained since 2006, as promised originally (see next figure). This confirmed the faith of the international community in the assumption that Euro Atlantic integration could facilitate the political maturity of local political actors and reaffirmed its commitment to the principle of local ownership. In fact, the growing concern of the EU towards the Bonn powers has been repeatedly communicated and can be summed in the recent (2009) Javier Solana’s statement according to which, “*the Bonn powers are not needed anymore... they were intended for a situation which is very different from the current one*” (ISS). However, as the momentum of the European prospect for Bosnia gradually reached a halt and initial optimism deflated, the shortcomings of the highly intrusive state building practices followed in previous years were made evident, manifested once more, through the lack of political compromise and consensus building. The sharp deterioration of Bosnia’s inter-ethnic state of affairs following the HR’s retreat, and its regression into extreme political fragility, has demonstrated in the most striking manner the magnitude of its domestic incapacity to lead its Europeanization process autonomously. Ultimately, in 2008, the EU distributed to its member state ambassadors a document recognizing that “*the eruption of the long simmering*

political crisis in Bosnia has painfully exposed the failure of the most intense effort ever at international supervised state building” (Chandler, 2007). As a response to that disturbing realization, in 2009 the decisions under Bonn powers more than doubled in comparison to the previous year (see figure).



Source: ISS 2010

CHAPTER 3

THE CREATION OF THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

3.1 Initiation of the financial sector reform

Reconstructing the financial system in countries affected by violent conflict has for some time been recognized by international organizations as crucial to successful and broad-based economic recovery. Banking crises have the potential to engender immense fiscal burdens on vulnerable, transitional economies and to threaten the effectiveness of development and poverty reduction schemes (i.e. threatening “post-

conflict” reconstruction itself). In light of this acknowledgement, a lot of energy, time and money have been devoted to laying the institutional and legal foundations required to support the creation and ensure the viability of a robust financial system, very early on, in contemporary post - conflict state building endeavours¹⁴. Addison et al. (2005), identify i) currency reform, ii) rebuilding (or creating) central banks, iii) revitalizing the banking sector and iv) strengthening prudential supervision and regulation, as the most important and urgent post-conflict financial sector rebuilding tasks. This chapter focuses on two Dayton-mandated aspects of the Bosnian financial sector reconstruction process; i) currency reform and ii) the establishment of the Central Bank of Bosnia and Herzegovina (CBBH) under a Currency Board Arrangement (CBA).

By the end of 1995, the most striking feature of the Bosnian economic space was fragmentation. An easily observable indication of this fragmentation and its ethnic impetus was currency pluralism. Four different currencies circulated simultaneously in post war Bosnia and ethnic groups conducted transactions in the currency issued and used by the neighbouring state with which they shared ethnic affiliations (Serbia and Croatia). While German Marks were in use throughout the Bosnian territory, the Croat majority area also used the Croat Kuna (HRK), the Serbian majority area used the (at the time) new Yugoslav Dinar (YUD) and the Bosniac majority area used the Bosnia and Herzegovina Dinar (BHD). The latter, was the only domestically issued currency, but was in poor condition and deteriorating. In fact, despite the diversity of currencies in circulation, none of them was particularly stable, with the exception of the Deutschmark. On the contrary, they were either “unstable, or very unstable” as Hanke (2007) notes. The economic fragmentation of post-war Bosnia was also obvious in the country’s nascent financial sector and very vividly reflected in the existence and parallel operation of three central banks. Before the war, the National Bank of Bosnia and Herzegovina (NBBH) was the only central bank in operation. During the three and a half year conflict however, the Serbian populated area established its own central bank called the National Bank of Republika Srpska (NBRS), which continued to function as a branch of the National Bank of Yugoslavia, after the war had ended. The Croat majority area had no distinct institutional structure to serve as a central bank and neither was it linked to the National Bank of Croatia. However, following a slightly different approach to financial disintegration, it established a separate payment system called ZAP (Zavod za Platni Promet), which according to Coats (2007), took on some “*quasi-central bank-like functions*”.

Overcoming economic fragmentation through the creation of a unified and efficient financial system was top of the international community’s agenda for Bosnia’s post conflict economic rejuvenation. In fact, the constellation of international actors

¹⁴ For a detailed account of the monetary and financial post conflict reconstruction in Kosovo and Afghanistan, please see; Coats, W., (2007 a.). For some interesting aspects of the financial sector reconstruction in Iraq, Rwanda, Somalia and East Timor see; Addison, T., et al. (2005)

involved in the financial reorganization of Bosnia (the IMF, the WB, USAID, etc)¹⁵, began discussing issues related to the design of institutional structures capable of satisfying the country's financial and payment requirements, as early as October 1995, that is, before the Dayton peace talks have officially begun. More specifically, on October 17, 1995, the G7 member countries (the US, Germany, Japan, the UK, France, Italy and Canada) requested the IMF to prepare a brief note, *"outlining the requirements of viable fiscal and monetary structures in the confederacies"*. This preliminary study had a two-fold objective; i) to assist Bosnia's economic transition i.e., liberalize its monetary and financial systems as prerequisites for overall economic revival and ii) to facilitate ethnic reintegration. Given the fragility of inter-ethnic relations in post war Bosnia, economic liberalization strategies were not conducted in isolation from the country's nation building requirements but were incorporated in the broader, overarching international vision for the country; *"to reconcile and rebuild Bosnia's historically multi ethnic character"*. Along these lines, the rationale behind the externally initiated financial sector reform can be more insightfully understood, as an endeavour expected to contribute not just to the integration of the economy but also to the integration of the country.

As soon as the IMF staff started working on the G7 commissioned report (November, 1995), consensus emerged around the idea that the dual objective of the reform would be best served by the creation of a unified monetary system in which everyone will use the same currency and money supply will be regulated by a single decision making authority. This plan was not without alternatives however, since the establishment of multiple monetary authorities (corresponding to the ethnic territorial divisions of the country) was not precluded as an option, provided that these would be kept bound by strict and non-discretionary rules¹⁶ that would link their activities together. The latter arrangement was deemed necessary, to ensure that the implementation of a single, state-wide monetary policy would not be disturbed. Such considerations led to the conceptualization of three strategies that the IMF felt were most suited to respond to Bosnia's need for monetary stability; i) "dollarization" i.e. using a foreign currency as the country's legal tender¹⁷, ii) the

¹⁵ These organizations and their contractors, all played very important roles in the financial reorganization of Bosnia. However, much of the analysis in this section focuses on the prominent role of the IMF and draws heavily on the personal accounts of Warren Coats, the man who led the IMF's technical assistance mission in Bosnia, as these are recorded in his book; *"one currency for Bosnia: creating the central bank of BiH"*, (2007)

¹⁶ Discretionary vs. Non-discretionary monetary policy: Discretionary policy is based on the ad hoc judgment of policymakers and refers to actions taken in response to changes in the economy as opposed to monetary policy set by predetermined rules. For instance, a central banker can make decisions on interest rates or money supply on a case by case basis instead of allowing a set rule, such as an interest rate rule (e.g. the Taylor rule), or a fixed exchange rule determine interest rates. Discretionary policies therefore, use subjective judgment to treat each situation in a unique manner whereas, non-discretionary policies follow predetermined rules and can thus be more credible, because they are more transparent and easier to anticipate.

¹⁷ Legal tender is a medium of payment allowed by law or recognized by a legal system to be valid for meeting a financial obligation

establishment of a national currency board and iii) the establishment of two or three regional currency boards with the same currency peg and exchange rate (Coats, 2007).

The first strategy was already partially in place since as mentioned previously, the Deutschmark was widely used as a means of transaction. “Dollarization” had the additional advantage of administrative simplicity. An institutional structure (a central bank or a currency board) to issue the currency and control its supply would not have to be established, a particularly convenient prospect for Bosnia, a country with a long tradition in centrally planned economic management that lacked the human capital required for the design and exercise of discretionary monetary policy. However, using a foreign currency as legal tender was not free of costs. It implied that the state would not receive seigniorage (profit from issuing money) which would instead be earned by Germany and the Bundesbank. On top of that, “dollarization” would prevent Bosnia from capitalizing on the nation-building properties of a domestically issued currency. According to Coats, people working for the IMF shared the firm belief that a new national currency would serve the long term objective of national reintegration, as effectively as a flag and a national hymn would (on a symbolic level) and valued greatly this prospect. Consequently, given dollarization’s crucial drawbacks, the strategy was quickly discarded and design efforts concentrated on the second and third strategies, both involving the establishment of a currency board regime.

A currency board is the next step beyond dollarization but not quite a central bank in terms of powers entrusted to it¹⁸. It prints and issues its own currency (thus earns seigniorage profits), which is nevertheless not allowed to fluctuate freely but is convertible into an anchor currency at a fixed rate (Gedeon 2010, Hanke 2002). Confidence in the domestic currency is established because the monetary authority is obliged to hold reserves to fully (100%) cover the quantity of the domestic currency that is being issued (Coats, 2007). In other words, currency boards “borrow” their credibility from the central bank that issues the currency to which the boards’ currency is fixed (e.g. the FED or the Bundesbank). In this sense, the value of the domestic currency is heavily dependent on the value of the foreign currency and monetary policy is conducted passively with the quantity of money supplied in the economy not determined directly by the domestic monetary authority, but through market mechanisms that adjust money supply to public demand (Hanke, 2007).

Given its passive mode of operation, a currency board is easier to set up and operate than a central bank. It requires a much simpler organizational structure since it involves a comparatively limited set of functions. In addition, the fact that the board has little discretion (if any at all) in determining monetary policy also implies that political interference is de facto precluded, as are the adverse effects of the

¹⁸ For a detailed description of the typical functions of a currency board as opposed to those of a central bank see table 2 in Hanke, S., (2002), p.90

authority's own misjudgements and miscalculations¹⁹. The board's political neutrality and effective (non-inflationary) operation is also protected from the fact that it does not function as a lender of the last resort and therefore does not lend to the government and commercial banks when tormented by low liquidity levels (unlike central banks)²⁰. In essence as Hanke (2007) notes, the sole disadvantage of adopting a currency board regime is giving up the ability to intervene and neutralize the disruptive effects of economic shocks, an argument that had underpinned the establishment of central banks in the first place, during the mid-1800s²¹.

Based on these considerations²², the IMF believed that a national or several regional currency boards (strategies 2 and 3) would fulfil equally well Bosnia's requirements for stable, non-discretionary monetary policy making and administrative efficiency. Between the two strategies however, the establishment of a national currency board was marginally the best scenario, since it involved setting up only one institution instead of several and was also expected to contribute to nation building more effectively. If successful, the currency board would strengthen the capacities of the central government and would thus increase public confidence in the state of BiH, allowing trust-building to commence. The attractiveness of the currency board option was further increased by the fact that, the BHD, the only currency issued in Bosnia was issued according to currency board rules. Consequently, as Coats (2007) notes, "*the discipline and stability provided by a currency board were already understood and appreciated*" by domestic monetary policymakers. However, the definitive factor that tipped the scale in favour of recommending the establishment of a currency board in Bosnia was the IMF's belief that unlike any other institutional settlement (e.g. a discretionary central bank) this one stood a fairly good chance of consolidation. Provided that the currency board would operate under very strict and rigid rules, guaranteeing political neutrality and the passivity of monetary policy making, Bosnia's warring ethnic factions were anticipated to have little incentive to

¹⁹ For instance, hyperinflation, which is often attributed to unsuccessful and untimely discretionary monetary policy in studies assessing central bank operational effectiveness in developed states

²⁰ With no lender of last resort a banking system that needs liquidity can sell foreign exchange or domestic assets to the central bank

²¹ The argument in favour of central bank intervention and anti-cyclical policy making is not very strong today however, due to the so called "implementation gap", an issue repeatedly pointed out in the literature as a major policy effectiveness spoiler; a time lag exists between 1) recognizing the need for monetary intervention, 2) designing and implementing a policy to mend the situation and 3) for the monetary policy to produce results. More often than not, market mechanisms have restored (at least partially) monetary imbalances by the time the manifestation of the monetary policy effects begins. Such untimely interventions have a harmful, rather than beneficial effect on the economy

²² Studies examining the effectiveness of currency board arrangements in developing countries around the world also support the operational supremacy of currency board arrangements over central banks. See Hanke, S., (2002), p.92 for evidence of increased comparative CBA effectiveness in achieving high growth rates, tackling inflationary spurts and keeping the size of fiscal deficits at manageable levels (panel data study - 98 developing countries examined over a 33 year period: 1950 - 1993)

refuse cooperation and obstruct the legal consolidation and actual implementation of the reform.

On October 25, 1995, the IMF delivered the requested Dayton background note to the US Treasury for use in the upcoming peace talks. The note presented all three strategies and outlined their strong and weak aspects. The Fund's suggestions were used by the Contact Group officials in negotiating the monetary arrangements of the new constitution. In the end, the idea of a single currency issued by a single central bank under currency board rules emerged as the most fitting option and become entrenched in Annex IV/Article VII of the Dayton Peace Accords (formally adopted in Paris on December 14, 1995) along with provisions for the central bank's functions and its governing board (see below).

Dayton Agreement/Annex IV

Article VII

Central Bank

There shall be a Central Bank of Bosnia and Herzegovina, which shall be the sole authority for issuing currency and for monetary policy through Bosnia and Herzegovina.

1. The Central Bank's responsibilities will be determined by the Parliamentary Assembly. For the first six years after the entry into force of this Constitution however, it may not extend credit by creating money, operating in this respect as a currency board; thereafter, the Parliamentary Assembly may give it that

authority.

2. The first Governing Board of the Central Bank shall consist of a Governor appointed by the International Monetary Fund, after consultation with the Presidency and three members appointed by the Presidency, two from the Federation (one Bosniac, one Croat who shall share one vote) and one from the Republika Srpska, all of whom shall serve a six-year term. The Governor, who shall not be a citizen of Bosnia and Herzegovina or any neighbouring state, may cast tie-breaking votes on the Governing Board.
3. Thereafter, the Governing Board of the Central of Bosnia and Herzegovina shall consist of five persons appointed by the Presidency for a term of six years. The Board shall appoint, from among its members, a Governor for a term of six years.

3.2 Drafting the Central Bank Law

The signing of the Dayton Accords marked the initiation of what proved to be a long and agonizing process; the transformation of the general constitutional monetary provisions into a detailed and coherent legislative text. The first phase of the central bank law drafting process began in Washington in early 1996, without the participation of Bosnian representatives. Crucial technical matters concerning the design, the structure and the monetary responsibilities of the currency board, all much debated in the literature on currency boards, were negotiated solely among IMF staff members. Two draft laws were eventually agreed upon in Washington and in July, 1996, the discussion and negotiation process resumed in war-shattered Bosnia, including this time around, local actors who acted on behalf of their respective ethnic constituencies. During this latter drafting phase, negotiation meetings aimed to prepare an agreed draft that could be presented to the joint Bosnian Presidency for adoption. Meetings were initially coerced upon the IMF's ethnic negotiation counterparts, primarily through the usage of aid conditionality. Nevertheless, rotating uncooperative behaviour, lack of trust and an atmosphere of hostility, prevented serious and meaningful discussions that could produce tangible results. Persistent foot-dragging led to little headway having been made until October 1996, when the first governing board of the central bank was appointed. Inter-entity meetings were facilitated after that and the whole process was somewhat speeded up. Nevertheless obstructionist behaviour was far from eliminated.

Interestingly enough, the issues that dominated the discussions and constituted the major points of disagreement and negotiation deadlock, were primarily political and symbolic in nature. Domestic actors did not seem to be concerned with the technical aspects of the reform. Issues of institutional design such as the monetary responsibilities of the currency board were barely touched upon in the negotiations

and were left almost entirely to the IMF staff to decide²³. On the contrary, i) the name and the note design of the new currency, ii) the powers entrusted to the entity branches of the central bank and iii) the vote sharing mechanism in the central bank's governing board, were the topics that monopolised the negotiation process. The struggle between the three ethnic groups over these issues reflected clearly the individual power concerns of each group. The Serbs wanted as much separation and autonomy as possible and were concerned with ensuring that the structures created would not prevent Republika Srpska from functioning separately in the event of separation, while the Bosniacs wanted the exact opposite; a stronger central state.

Coats (2007) in his detailed account of the events that preceded the ratification of the Bosnian central bank law, justified the painstaking consensus building process around the design of the currency, on the account that the agreed upon currency would (once in circulation) be the most tangible and visible symbol of Bosnia as an integrated country. This was precisely why all three ethnic groups deliberately stalled the process, though none as vigorously as the Bosnian Serbs. Republic Srpska wanted its own version of the currency that could be issued by its branch of the central bank but would be legal tender through out the country and fully interchangeable with the federation's version. For the Serbs, such an arrangement (single currency with two design versions) was consistent with the IMF's requirements for a single monetary area and backed their argument by claiming that *"in order to gain public acceptance for the new central bank and its currency, each ethnic group would have to see them as their own to some extent"*. Coats confesses, that the claims of the Bosnian Serbs were seen as a mixture of symbolism and substance and the Fund's representatives found themselves feeling sympathetic towards claims opting for the public's attachment to the reform. However, the Serb position was in the end deemed unacceptable and each entity was asked, in November 1996, to submit its designs so that the selection process could begin. In a spirit of non cooperation, most of the designs were particularly provocative and some were completely detached from the Bosnian history²⁴. After years-long controversies and numerous unfruitful meetings during which the internationals gradually used up their quiver of diplomatic and "soft" political persuasion tools, a final decision had still not been reached in early 1998 (that is, after the central bank law was ratified, see next section).

The Serbs' obstructionism was also manifested against the IMF's vision of a single monetary authority established in the country. The Republika Srpska's initial stance was a very rigid one, opting for the establishment of two separate central banks in the two entities. As discussions went on, this fixation was relaxed but the Serb

²³ Issues such as deciding what kind of liquidity management instruments to provide the central bank with, agreeing on the bank's reserve requirements, setting the framework for the bank's government and IMF deposits, building the foreign borrowing mechanism, etc, were debated entirely among IMF members. See Coats (2007), p. 37-42 for a detailed discussion

²⁴ Such as the decision of the Serbian side to depict the retreat of the Serbian army from Kosovo (that is not even in Bosnia), an event that preceded the land mark battle of Kosovo Polje in 1389

representatives continued to push for the preservation of as much autonomy as possible for the entities, by assigning important powers to the branches of the central bank that were to be established in each entity and insisting that the Republika Srpska branch be named a central bank even if it was to be subordinate to its headquarters in Sarajevo. The IMF strongly resisted. The choice of a single currency board was already included in the Dayton Peace agreement and was not negotiable. The law finally adopted, established one nation wide central bank and two entity-based main units (branches), clearly subordinate to that single central bank.

The most complicated issue however, one that became the object of considerable discussion (primarily due to its direct political implications) concerned the legal framework that would regulate the operation of the Bank's governing board. Some of the relevant constitutional provisions were worded in an ambiguous manner and left considerable room to alternative interpretations. In particular, according to Article VII, paragraph 2 (see above), the federation board members were to share one vote. Under this arrangement, in the cases where no agreement would be reached, this could either mean that no federation vote would be cast or that opposing half votes would be cast. In any case, this constituted a serious violation of the consociational democracy and ethnic power sharing principles that conceptually underpinned the design of the central bank. What's more, the Dayton Agreement specifically stated the ethnicity of the two federation members (one Bosniac and one Croat) but did not do so for the Republika Srpska member. The Bosnian Serb side perceived this differential treatment as a direct attack to its ethnic interests and again, a violation of the power sharing model of governance. In the central bank law that was finally adopted, this asymmetry was ignored and equal voting power was given to the three ethnic groups. Another point of controversy was whether the members of the board should have executive powers or whether their role should be limited to approving monetary policy and oversight its implementation. This concern was according to Coats view, not part of the board members' ethnic agenda, but reflected their personal preferences for full time employment that would bump up their financial compensation. Nevertheless, given the fact that all board members retained close ties to their political leaders the IMF was determined to protect the autonomy and subsequently the credibility of the newly established central bank and thus refused to grant any executive powers to the governing board, thus retaining the passivity of monetary policy making and prevented clashes over conflict of interests.

The name of the currency was among the last issues that were agreed upon, just before the submission of the approved draft law to the joint Presidency (in mid 1997). The process dragged on between November 1996 and May 1997. During this period, each ethnic member of the board had made several name suggestions but political unwillingness and lack of commitment to move forward, led to the vetoing of every proposal as unacceptable on historical and cultural grounds. When the deadline for the agreement to be achieved was running out, a US treasury representative suggested the pedestrian but descriptive term, Convertible Marka,

which was immediately accepted.

Finally, on May 29, 1997, a draft law was approved by the central bank's board and was presented to the joint presidency for endorsement. The law was ratified by the state parliamentary assembly on June 20, 1997 and was put into force in June 28²⁵.

3.3 Reform implementation and institutional performance

The incorporation of the central bank law in the Bosnian legal order was from a political perspective, a marked success. In fact, the central bank started its operation soon afterwards, on August 11, 1997. Reform consolidation however, was far from ensured. Months into the central bank's operation, the single currency had still not been introduced. Domestic support for the reform was at very low levels and political resistance manifested itself with a refusal to agree upon a common note design for the new currency. The designs were finally imposed on the Joint Presidency by the High Representative in January 18, 1998 and the new currency was introduced into circulation in July 1998, tied to the Deutsche mark (DM) at a fixed exchange rate of 1:1²⁶ (BIS Papers, No 17 59). By hardening its stance, the international community, proved its commitment to the project and continued to do so, by remaining actively involved in the operation of the institution long after its establishment.

In a spirit of ensuring self-sustainability and with long term institutional effectiveness and own management as its main objectives, the IMF, provided technical training to the local staff and assisted the development of operating procedures and management systems. As a result, the locals took over the operation of the central bank relatively quickly and as early as 2001, out of the 170 staff, only 3 were foreigners (Cox). Local ownership of monetary policy making was fully resumed in 2004, when the international management of the central bank was terminated and a Bosnian Muslim was voted Governor. Sufficient resources have also been allocated to support the start up and operating costs of the central bank. The IMF provided the first DM 25 million in reserve capital that completely covered the institution's initial operating costs. In a short period of time, the central bank was able to meet its operating costs from regular operations.

Finally, the development of the central bank was complemented by the dismantling of parallel, extra constitutional structures that challenged its authority as a legitimate state institution. Despite domestic reluctance, entity level monetary authorities (the National Bank of Bosnia and Herzegovina and the National Bank of Republika Srpska) were liquidated in 1998 (under the strong pressure of the IMF and

²⁵ The law on the Central Bank of Bosnia and Herzegovina can be accessed here; <http://www.lexadin.nl/wlg/legis/nofr/eur/arch/bos/Law%20on%20Central%20Bank.pdf>

²⁶ Since the euro was introduced in January 1999, the KM has been tied to it, at the same rate as the Deutsche mark (1.95583 per euro)

the OHR) and their assets were passed on to the central bank. In addition while the international community was working on the establishment of the central bank, a parallel struggle to dismantle the fragmented payment system²⁷ of the country was taking place. The payment bureaux, institutional residuals of the socialist Yugoslav payment system, were identified by the Macroeconomic Assistance Programme initiated by USAID in 1998 as “*a source of corruption and illegitimate finance for the parties that control them*” and were targeted as one of the main obstacles to the development of a free market economy and a threat to the viability and soundness of the financial system²⁸. The transfer of the payment mechanism to commercial banks, supervised by the central bank, largely improved the environment within which the latter was operating.

Ultimately, despite strong opposition from nationalist leaders, both the new currency and the central bank were rapidly domesticated and have proven extremely stable and sustainable. The KM quickly attracted widespread public support. People value a stable currency and since the KM was anchored to very strong currencies (the German Mark and later the Euro), the former has gained some of their credibility. Trust toward the new currency was reflected in the fact that the exchange of all other currencies in (parallel) circulation for the KM was complete very early on. Trust building toward the new currency was assisted greatly by the OHR, which encouraged all payments to be conducted in KM, resulting in a rapid increase in the demand for it, as reflected in the growth in foreign reserves (see next table). The central bank also carried out its mandate very effectively and during the first decade of its operation, Bosnia had experienced sustained economic growth and relatively low and stable inflation rates²⁹.

²⁷ Payment System: Any system used for transferring money. Usually commercial banks conduct the payments in the economy through numerous channels and instruments; electronic funds transfers, direct credits, direct debits, internet banking debit cards, credit cards and e-commerce payment systems. In Bosnia, all transactions were compulsorily conducted through three ethnically based payments bureaux, that helped political elites maintain a high degree of central control of the economy and slowed down economic activity

²⁸ See Zaum (2005), “*Economic reform and the transformation of the payment bureau*”, for a full account of the reform process

²⁹ The latest available figure for the inflation rate (2010) is 2.5% (IMF)

YEAR	REAL GDP GROWTH	CPI INFLATION	FOREIGN RESERVES (\$ MILLIONS)
1997	29.90%	5.60%	80.42
1998	17.60%	-0.40%	174.55
1999	9.50%	3.00%	452.35
2000	5.20%	5.10%	496.58
2001	3.60%	3.20%	1221.16
2002	5.00%	0.30%	1321.37
2003	4.10%	0.60%	1795.58
2004	5.80%	0.30%	2407.92
2005	5.00%	1.90%	2530.86
2006	6.00%	6.00%	3371.64

Source: IMF, world economic outlook database (2007)

3.4 Impact assessment of explanatory variables on the CBBH reform

3.4.1 Legitimacy

The legitimacy of the international community's involvement in the creation of the CBBH had been systematically doubted by the local elements involved in the process. Much of the stalling and obstructionism the IMF was faced with, such as the reluctance of their local counterparts to participate in meetings (particularly during the first stages of the drafting process) and their subsequent unwillingness (after the law was formally adopted) to implement legal provisions, stemmed from the domestically held perception that the OHR and the IFIs driving the process of Bosnia's financial transformation, lacked legitimacy. This was in turn, directly linked to a wider issue, the legitimacy of the Dayton Peace Agreement, which stipulated both the establishment of the OHR and the involvement of the IMF in the creation of the CBBH. The legitimacy of the Dayton Accords was seriously questioned, on the grounds that ethnic parties that were supposed to have formal ownership of the agreement, in reality had very little control over its content and were practically coerced to consent to it (Chandler, 2007). Furthermore, no translation of the DPA in the local language was ever made and it was never submitted to the Bosnian parliament for ratification. Consequently, to the obstructionists' view, any step taken

toward the materialization of Dayton-mandated reforms, was the effort of international actors lacking legitimacy, to enforce upon them a state structure lacking popular domestic consent³⁰.

Conclusively, the perceived legitimacy of the international community's involvement in the establishment of the CBBH, was a factor that impacted negatively on the legal consolidation of the reform - slowing down its pace decisively - and endangered its implementation.

3.4.2 Coordination

The establishment of the CBBH was only one aspect of the general restructuring of Bosnia's financial system. Consequently, the IMF had to cooperate and coordinate its actions with a number of different international actors, each in charge of specific but interconnected parts of Bosnia's financial reorganization.

A highly successful example of coordination of work was the dismantling of the payment bureaux that took place parallel to the setting up of the central bank. Though relatively efficient from a technical standpoint, the payment bureaux were powerful instruments of political control of the economy and were thought to be slowing down economic reform and financial integration (Zaum, 2005). They undercut the development of commercial banks which provide the payment services in most countries and thus, interfered with the operation of the central bank. Many donors were eager to contribute to the effort; the WB, the EU, USAID, the US treasury and others. Consequently, identifying leadership was important for effective labour division and more importantly for shaping a coherent strategy on how to proceed.

The IMF took the leadership to prepare a draft strategy document which specified the basic elements of the future payment systems and the means for developing them while dismantling the existing payment bureaux. The document was discussed among the donors and revised accordingly (Coats, 2007). With an agreed donor position it was further discussed in a series of meetings with the BiH Payment System Council in which ethnic representatives were included. Once a general agreement was reached, individual donors were assigned specific responsibilities. The locals (the CBHH, the three existing payment bureaux and the entity ministries of finance) were in charge of the project. The dismantling of the payment system was assigned to the CBBH and the IMF. Other donors were assigned to reform the payment system with respect to its organizational structure and functions (USAID). An International Advisory Group (IAG) was established to coordinate this set of actions, undertaken simultaneously (Zaum 2005, Coats 2007).

³⁰ For a different view on the DPA and HR legitimacy see Bain (cited in Chandler 2007) and Caplan (2004), respectively. Bain argues that Dayton was legitimized by the principle of consent while Caplan, argues that the legitimacy of the HR was "unquestionable"

In the end, a very high degree of coordination was achieved. The donors never added “noise” to the message delivered to domestic politicians that was at all times clear and coherent; the financial sector had to be reconstructed and unified within specific deadlines and in an explicitly defined manner. International actors never exposed any policy differences that could leave room for manoeuvre to local elites, resisting the reform, to obstruct the process and made the demands of the international community appear less credible. By 2001, the process was successfully complete and the CBBH launched a Giro clearinghouse that took over the payment bureaux’ functions, facilitating its overall operation (Coats, 2007). Consequently, the high degree of coordination exhibited by the international community in dismantling parallel, unconstitutional structures that challenged the central bank’s authority as a legitimate state constitution, decisively contributed to the latter’s success and sustainability.

3.4.3 Local Ownership

With no air strikes on the table during the drafting of the CBBH law, the international community had no tools of hard power in its quiver. To promote the reform, the IMF had to closely cooperate with its local counterparts from an early stage, placing only “soft” pressure on them – informally, through letters, visits, and conversations and formally, through conditionalities attached to financial aid. Domestic agents were not enormously hastened or forced to reach a compromise, but were, in general, allowed enough time to reach a reasonable level of agreement under gentle international prodding. This strategy resulted in a frustratingly slow pace of progress but was deemed necessary since, *“other than purely technical matters, reforms are difficult to implement without local understanding and support and less likely to take roots and survive”* (Coats, 2007). Indeed, acknowledging the importance of domestic political support for the success of the reform, the IMF never pushed a vote during the drafting phase, and in the end, the law of the CBBH was adopted by the Bosnian parliament, without external imposition. That was itself, a major political accomplishment, given the high level of inter-ethnic bitterness at the time.

Consequently, at first glance, it seems that Bosnian ownership of the CBBH creation was high. At closer inspection however, one cannot disregard the fact that the entire process was predominately driven by the political will of the international community. For starters, it was the US Treasury that initiated the reform, when prior to the Dayton peace negotiations it identified the structure of the Bosnian financial sector, as a major obstacle to economic liberalization and requested the IMF to make suggestions for its improvement. In addition, the first phase of the drafting process, during which important decisions regarding the central bank’s structure and functions were taken, was conducted without the participation of Bosnian representatives. In fact, even during the second phase of the drafting process in which representatives from the RS and the Federation were very actively involved, the IMF did not accept extensive changes to its initial draft. It did exhibit a concern for catering to all sides’ needs and accommodating their conflicting agendas, but ultimately, firmly stood its ground on almost every aspect of the reform, at times,

against the will of Bosnian elites. For instance, it did not succumb to the RS's demand to have its own version of the currency and an autonomous branch of the central bank, or the Board's members request to be granted with executive powers, thus preserving its original intentions to create a single monetary area, a single monetary authority and ensure the passivity of monetary policy-making in Bosnia.

Ultimately, it could be argued, that the drafting of the CBBH law was an exercise in patience, during which, the most important game changer was time. In essence, the international community having limited coercion capacity, out-waited Bosnian obstructionist elements, until the latter were ready to relax their initially rigid stance and come around its views, once sufficient trust-building had emerged. However, as soon as the international community felt it was running out of time, it did not hesitate to impose some decisions by decree, under the HR's recently acquired Bonn powers –to speed up the implementation process - such as the common note design for the joint currency, on January 19, 1998.

To conclude, even though Bosnian ownership of the CBBH creation was low – in the sense that Bosnian elites neither initiated the reform, nor conducted much of the drafting work, a combination of factors during the negotiation process, seem to have contributed significantly to the ultimate success of the endeavour; i) the active participation of local actors in the second stage of the drafting process and ii) the relatively non-coercive strategy followed by the international community, at least, up until the law was ratified by the Bosnian parliament. Both resulted in slowing down the whole process, which nevertheless had a “pedagogical” aspect entrenched in it, that proved extremely beneficial to the final outcome of the reform; as local actors were patiently introduced to consensus building and diligently guided to “inch their own way” towards monetary stability, the chances that the central bank would be able to run on own capacities and be sustained in the long run, substantially increased.

3.4.4 Commitment

The establishment of the CBBH is a noticeable example of strong international commitment to post-war restructuring since all inputs identified in the state building literature as necessary for the creation of viable and sustainable institutions (i.e. time, money and technical support), were provided generously.

More precisely, after the necessary legal basis for the new institution had been established, the IMF did not withdraw its support to its Bosnian counterparts but for years, remained actively involved in the actual setting up of the central bank - until the first signs of self-sustainability had emerged. The Fund offered technical support through the provision of equipment, the drafting of internal operating processes (the bank's decision making and management systems) and the mobilization (among national human resources) and training of employees. A transitional multimillion budgetary support in reserve capital was also provided to cover the first operating costs of the institution, until these could be funded through the bank's normal

operating cycle. This intensive approach to institution building accelerated the central bank's "Bosnization" i.e., its effective operation based solely on national capacities. Had support not been provided, the institution would have remained little more than an empty shell lacking the capacity to fulfil the functions assigned to it and having very grim prospects for sustainability. Consequently, the high level of international commitment to the creation of the CBBH is a factor that can definitely help explain the latter's ultimate success.

CHAPTER 4

THE POLICE REFORM

4.1 Police restructuring in the direct aftermath of the Bosnian war

In most societies emerging from intra-state conflict, the police were prior to, during and after the conflict period, operating in a manner that deviated markedly from the norms of democratic policing and operational efficiency. Bosnia was no exception. During the war, three separate police forces (Bosniac, Serb and Croat) were formed, each with its own jurisdiction. In RS, a generally centralized entity, a unified police body, subdivided regionally was established. In the Federation, the Bosnian and Croat police have merged, at least nominally, at the federal level but different ethnically based police forces were preserved at the cantonal level (10 in total) (ICG 2005, CEP 2008). Coordination between police elements was almost nonexistent as different legal frameworks underpinned their operation that was in turn, placed under the strict control of their “*war-time masters*” (Muehlmann, 2007). This dysfunctional and fragmented system not only constituted the establishment of a single security area impossible, but also reinforced ethnic divisions and discrimination. To make matters worse, police officers involved in war atrocities³¹ continued to remain active in the post-war police structures and participated in support networks for war criminals. Additionally, the police was overstaffed and constituted an unsustainable financial burden that raised fears of bankruptcy at the state and entity level (Muehlmann 2007, Eralp 2009).

Recognizing the negative implications of ineffective and biased policing for the sustainability of peace, good governance and economic development, the international community had anchored police reform in the Dayton Accords. In particular, Annex ten of the DPA, established the UN international police task force (IPTF), mandated to “*help restore law and order in BiH through the close monitoring and considerable control of the police forces*”. The mission focused primarily on professional and technical aspects and employed a wide range of strategies, such as vetting police officers and providing training and equipment to help restore police integrity at the individual and organization level. After seven years of mandate implementation (1996-2002), substantial progress was made; the police force was downsized significantly (from 44,000 serving officers to 15,800), basic democratic standards of policing were met (UNMIBH, 2002) and big organizational improvements were achieved such as, sufficient access to resources and efficient police department management (King, et.al., 2002). Furthermore, a 2001 victimization study revealed that 75% of the population was feeling safe (Lindvall, 2009).

Despite significantly improving the overall security situation in Bosnia, the work of the IPTF was not free of criticism and in certain matters, it constituted a subject of

³¹ During the 1992-1995 conflict, the police were an instrument of ethnic cleansing, employed to create ethnically homogeneous spaces in RS and some Croatian parts of the Federation (ICG, 2005)

embarrassment for the international community. The ability of police officers serving in the mission to handle the complex tasks assigned to them (primarily due to lack of credentials) was seriously doubted and their often inappropriate individual code of conduct³² received international condemnation. (Lindvall, 2009). Perhaps more importantly however, the mission did not reach its full potential both in preventing mass human fleeing and facilitating refugee return. Its greatest failure was its inability to prevent the exodus of some 100,000 Serbs from the Sarajevo area at the end of 1996 and to prevent harassment and attacks against returnees during the first post war years. Lindvall (2009) provides statistical proof; in 1998, 30 cases of harassment were reported monthly and in 2001, 316 similar cases were reported in the RS alone.

Acknowledging these deficiencies, the 2002 UN Security Council resolution (1396) declared that substantial reforms were still required and paved the way for the IPTF replacement by a smaller, follow-on mission led by the EU - the European Union Police Mission (EUPM). The EUPM became operational on January 1, 2003 (Kikic, 2007) and was originally mandated to carry on the UN mission's organizational objectives by assisting local police in technical areas. Following a startling course of events however, driven primarily by the then HR, Paddy Ashdown, the EUPM, gradually steered its restructuring efforts away from meeting mere technical standards, towards combating the "*essence of the problem*" namely, political control and institutional fragmentation (ICG, 2005).

4.2 The initiation of the Police Reform

Following the 2003 Thessaloniki Summit, the EU commission conducted a feasibility study to assess Bosnia's readiness for EU integration. The study identified several areas in which significant progress still had to be made, before SAA negotiations could begin³³. Crime fighting was one of them. In particular, institutional fragmentation and structural complexity were criticized for duplicating the costs of training and equipment and for complicating coordination and effectiveness in fighting ordinary and organized crime (Lindvall, 2009). The study put forward a number of technical suggestions for enhancing the counter-crime capacities of Bosnian authorities, such as the creation of a single information system and the right of the police forces in one entity to "hot-pursuit" into the other (Venneri, 2009). Nevertheless, it did not explicitly call for the centralization of the police structure.

³² The greatest scandal of the IPTF mission concerned the frequent visits of its police officers to brothels and their alleged profit making from illicit activities linked to prostitution and female trafficking (Lidvall, 2009)

³³ These were the following: compliance with existing conditionality and international obligations; more effective governance; more effective public administration; European integration; effective human rights provisions; effective judiciary; tackling crime, especially organised crime; managing asylum and migration; customs and taxation reform; budget legislation; budget practice; reliable statistics; consistent trade policy; integrated energy market; BiH single economic space and public broadcasting (EU website)

On July 2, 2004, High Representative, Paddy Ashdown, established the Police Restructuring Commission (PRC)³⁴ to investigate the suggestions of the EU feasibility study. Even though arguments on efficiency were prioritized in the mandate of the PRC, much in line with the EU findings, the HR decided to open a more political confrontation with Bosnian elites. As Lindvall (2009) notes, he transformed the general criticism contained in the EU Commission's study, into a concrete requirement for the Bosnian political establishment; *"to review the police and propose a single structure of policing...involving if required, amendments to constitutions"*³⁵ (ICG, 2005). Consequently, as many analysts remark, the HR linked the police reform to the overall strategy of his term in office i.e., *"centralization, no matter what policy"*³⁶ (Venneri 2009, Lindvall, 2009). With this decision, Ashdown, in essence, "fathered" the police reform project, initiating the process at a time that the idea of systematic police restructuring had not yet been crystallized into a formal EU policy.

4.3 Drafting the Police Reform Law

On July 22, 2004, the PRC began its work on preparing the necessary legislation, having as a starting point a reform proposal developed by the EUPM in May, 2004. The latter, suggested establishing a police director to be supervised by the state-level Ministry of Security and mapped five police regions³⁷ that crossed entity and cantonal boundary lines, based on five processional criteria; 1) population, 2) geographical size, 3) crime intensity, 4) traffic and economic patterns and 5) the capacity to cooperate with other law enforcing agencies (Muehlmann, 2007).

Despite the fact that PRC discussions were very "business-like", it soon became evident that differences in the agendas of the major ethnic players would be hard to bridge. In particular, the Bosniacs were enthusiastically in favour of police unification and supported the HR's vision for the institution and the EUPM proposal. The Croats were also supportive of the reform, at least in principle, but were diffident about consenting to the abolition of cantonal police in Croat majority cantons. In the end

³⁴ The commission was chaired by Wilfried Martens, former PM of Belgium. Representatives from the three Bosnian ethnic groups participated as regular and associate members

³⁵ Under the constitution, authority over the police belongs to the entity governments, unless explicitly granted to the central government. This requires a resolution of the BiH parliament with a two-thirds majority in the lower house

³⁶ Ashdown's general strategy for Bosnia was centralization. His general aim was to build the central government and undermine the country's sub sovereign political units by pushing the entities to agree to transfer new powers to the central government. To achieve that he extensively employed the Bonn powers. His activism was focused on three key centralizing moves; i) reorganize the judicial system, ii) complete the reunification of the army and iii) tax reform (Venneri, 2009)

³⁷ According to the EUPM, too few regions would fail achieve the goal of effective policing, while too many, would cause coordination difficulties. Banja Luka, Sarajevo, Mostar, Tuzla and Zenica were chosen as administrative centres of the five police regions it eventually proposed

however, the Federation members approved the EUPM reform draft and proposed only minor changes to the regional borders. The Serbs on the other hand, openly challenged the PRC's authority to propose constitutional changes. Nevertheless, at the time, the RS was faced with international criticism over war crimes indictees, that had already caused Bosnia's rejection as a candidate member for the NATO Partnership for Peace program (June 2004) and did not want to come across as obstructing the reform (Vandermoortele, 2011). It therefore agreed to delegate some minor competencies to state institutions that would facilitate central political supervision but insisted on the preservation of ethnopolitical criteria for police jurisdiction and completely rejected the inter entity line crossing requirement of the EUPM proposal.

As the PRC's work was drawing to an end, in late October 2004, and the RS continued to maintain its rigid stance, the HR brought pressure to bear. Realizing that strong leverage was required to break the deadlock, Ashdown, used his private connections with the EU High Representative for Foreign Relations, Chris Patten, asking him to weigh in and endorse three police reform principles (chosen by the OHR) as EU policy (Lindvall, 2009); i) exclusive competence (including legislative and budgetary) for all police matters at the state level, ii) no political interference in policing and iii) Local Police Areas (regions) designed on the basis of technical policing considerations, rather than politics (ICG, 2005 - Vantermootele, 2011). Patten consented and in November 2004 sent a letter to the BiH PM Terzic, officially linking Bosnia's SAA negotiations to the fulfilment of the three principles. From that point onwards, these principles became the basis and focus of subsequent negotiation meetings.

Ashdown's decision to instrumentally link police reform to the SAA became subject to severe criticism. According to Lindvall (2009), it altered the substance and nature of the reform, in a way that drastically impeded consensus building; as the focus shifted from increasing police effectiveness through technical and organizational ameliorations to the transformation of the Dayton structure of power sharing, the room for compromise significantly restricted. Along the same lines, Muehlemman (2008) notes that for the first time, the need to move beyond Dayton entered official negotiations, opening the "Pandora's box"³⁸. However, the politicizing effect of the EU conditionality on the police reform was only one aspect of the general criticism. The selection of the three principles was also targeted as being arbitrary, with no clear reference to the general *acquis communautaire* or to "*common denominators*" in the field on law enforcement in European member states (CEP, 2008). In fact, several EU ambassadors (including the French and Spanish ambassadors) were upset and allegedly, reluctant to support them (Lindvall, 2009). In its defence, the OHR argued that those principles were not supposed to be

³⁸ Previous reforms were made with partial and light amendments of the constitution, but never on aspects as crucial as the structure of power sharing e.g., judicial, military and tax reforms

understood as EU standards but as a set of necessary elements identified in the specific Bosnian context. In this logic, police reform and other EU driven reforms in Bosnia need not reflect the European *acquis* but rather, what the EU recognized as necessary for the creation of a functioning state, since EU integration in Bosnia was still in the phase of state building (Lindvall, 2009).

Despite internal divisions and lack of agreement on the very role and rationale of the EU conditionality, in November 2004, the EU appeared united. Javier Solana, the EU's foreign policy chief, delivered a direct message to the Bosnian political elites as the PRC was getting ready for its final meeting; *"the job of the PRC is not to hide behind the current constitution, but to establish a functional model of police for BiH...I know that your constitution does not exclude such a possibility. It actually provides foundations for such activities"* (ICG, 2005).

With EU pressure mounting, the PRC started its last meeting on December 12, with the aim to reach a final compromise that would incorporate the three EU principles. Three alternative reform options were presented to the participants; i) the original EUPM 5 regions model, ii) a "9 + 1" regions model, provisioning the creation of nine regions cross cutting entity lines in addition to the Sarajevo Metropolitan Area and iii) a "10 + 1" regions model, stipulating ten regions and the Sarajevo Metropolitan Area (Muehlmann). The PRC officially ended its work on December 15, having reached, according to its Chairman, *"an accepted level of professional consensus"* on the police regions and state competencies but without deciding which future structure would be the most suitable. This decision was left to the HR who after reviewing the Commission's final report on January 13, 2005, came out in favour of the "9+1" regions option (ICG 2005, Lippman 2007).

Ashdown's choice was once again, met with mixed reactions. International analysts noted that it constituted a *"significant concession to politics"* (ICG, 2005), chosen because it had the best odds of being accepted by all ethnic factions. The Bosniacs expressed their dissatisfaction over the non-selection of the best (according to professional standards) five regions model. The Croats initially expressed positive views through their minister of security, Barisa Colak, but increased pressure from within the Croatian Democratic Union of BiH (HDZ) over fears of losing police control at the cantonal level, gradually toned down Croat support. In the RS, all political forces denied that a preliminary consensus had ever been reached, faulted Ashdown's proposal for reflecting only Bosniac and Croat views (Muehlmann, 2007) and repeated their reluctance to abide by first and third EU principles.

The Serb's justified their obstructionism on two grounds; i) the fact that the RS already had a centralized police structure and consequently, any problems with the structure of policing in the country lied with the Federation and ii) the fact that no EU member state followed the proposed policing standards closely (in fact, most did not even have a centralized police structure) (Muehlmann, 2007). For the Serbs therefore, the HR did not have a strong case for the need of police restructuring and the reform was increasingly being perceived as an attempt to dismantle RS by

stealth. As tensions climaxed, a number of senior Serb politicians, including the RS PM Dragan Milkerevic and his government, resigned from office to demonstrate their strong disapproval and the RS President, Dragan Cavic, warned that *“attempts to abolish RS will lead to a referendum on its status within Bosnia”* (ICG., 2005).

In an attempt to appease the RS's worries that police reform was a proxy for constitutional change, the PIC, at its meeting on April 7, 2005, stressed the technical nature of the reform and stated that *“the existence of the entities is guaranteed under Dayton and is not in question...police restructuring is simply about giving the people of BiH effective crime fighting police”* (ICG, 2005). A new deadline to reach an agreement by the end of May was set and talks resumed in Vlasic, on April 24, having as a starting point the PRC's final report (Muehlmann, 2007). Instead of reviewing the report however, discussions concentrated on what kind of compromises the international community could make to gain the RS's support. Ultimately, a new, “watered-down” proposal emerged. An additional layer of bureaucracy was incorporated into the initial PRC model to ensure multilevel entity representation and influence. In particular, entity police representatives were to have a consultative role in the state-level police board as well as in the community oversight councils and they could also be involved in the work of local police commissioners. Concerns that these arrangements were violating the EU's first principle - the removal of entity control - were raised, but the OHR and the EU insisted that the new proposal was in line with the principle and had the additional advantage of increasing popular legitimacy (Vandemoortele, 2011). When the Vlasic meeting took a short break on April 27 for the orthodox Easter, it seemed that a provisional agreement had finally been reached. The only issue still pending was drawing the boundaries of the police regions. However, when the talks resumed, on May 16, the Serb representatives refrained from engaging into discussions over the geographical aspects of the reform, on the grounds that they *“did not have a mandate from the RS national assembly to discuss anything that would violate the inter entity boundary line”* (ICG, 2005). The High Representative declared the negotiations a failure.

In a series of unfruitful meetings that took place over the summer, Cavic was placed under extreme international pressure to favour the proposed police reforms and urge the Republika Srpska National Assembly (RSNA) to approve them. For instance, on June 24, the PIC warned that *“if the RS continues to choose isolation over integration, the consequences of this will be grave”* (ICG, 2005) and on July 1, the European Commission declared police reform the single remaining obstacle to initiating the SAA negotiations (Muehlmann, 2007).

A fresh round of talks began on September 12, 2005, this time in Banja Luka, where the High Representative presented a “softened” version of the preliminary Vlasic agreement. Two important new compromises were introduced; i) a prolonged implementation period that could range from three to five years and ii) inter-entity boundary line crossing in three regions only, without necessitating the confirmation of the exact borders. Faced with persistent Serb opposition, further concessions were build in the reform proposal, extending both the implementation timeline and

the time required for the RS government to pass the reform in the RSNA. Additionally, transitional competencies were granted to the entities. When the RSNA turned down the proposal on September 14, Ashdown decided it was high time to “show some teeth” (Muehlmann, 2007). He chose to target the Serb Democratic Party (SDS) funds, instructing that all transactions would go through a central bank account and forced the party to pay back money it had received illegally. The HR’s aggressiveness soon paid off. On October 6, Cavic put before the RSNA a new proposal. This was an even further “watered down” version of Ashdown’s latest agreement draft. It tactically refrained from making explicit mention to the entity line crossing issue and postponed all decisions on the design of police regions to be taken at a later stage. In the end, the proposal was accepted by the RSNA, much to the international community’s relief. Within a matter of days, the legislative bodies of the Federation and the central state, followed suit and the agreement was confirmed at all levels of government by October 18, 2005 (Lippman, 2007).

Despite the extremely vague content of the framework agreement and its significant deviations from the international community’s original aims, on November 7, the European Council “welcomed the significant progress made” and set November 25 as the start date of official SAA negotiations (Muehlmann, 2007). Nevertheless, the EU explicitly stated that Bosnia’s progress through the various accession stages would depend on the speed of the police reform implementation and urged political actors to start working towards the finalization of a draft police reform law immediately. However, given the fact that the agreement was effectively coerced upon local political elites and thus, failed to reflect true political will, some analysts predicted that its speedy and successful implementation would be an enormous challenge (ICG 2005, Muehlmann 2007). Indeed, when discussions resumed in early 2006, they soon reached a deadlock. Due to the upcoming general elections, programmed for October 2006, the technical character of the reform that the international community had so diligently and persistently communicated was completely disregarded. Police restructuring was turned into an inherently political, deeply divisive and extremely publicised object of pre-electoral debate. Given the extreme polarization around the issue, no party wanted to appear weak by making any compromise and ultimately, the whole process took a “one year break” (Muehlmann, 2007).

Discussions restarted in September 2007³⁹. As Bosnia’s governing coalition (comprised of six political parties) prepared for a new vote, Miroslav Lajcak, Bosnia’s new High Representative, alerted that non-approval would entail “difficult consequences” for the country (Lippman, 2007). Despite warnings, Milorad Dodik

³⁹ In the meantime, parallel work on a constitutional reform package, had failed in April 2006, polarizing even further the political atmosphere and deteriorating the general social mood. Ashdown’s successor Schwarz-Schilling, resigned over subsequent constitutional reform failures. As soon as Miroslav Lajcak took office as Bosnia’s new HR, discussions over the constitutional reform were abandoned and the police reform resurfaced as an absolute priority for Bosnia’s SAA signing

(SNSD⁴⁰), the new President of the RS, who had come to power after taking advantage of the weakened position of the Serbian Democratic Party (SDS) on the issue of the police reform, opposed a priori any constitutional change, causing Lajcak to express his “*bitter disappointment over the immaturity of the political leadership*” (Venneri, 2009). This development triggered a chain of negative events that led to the worst governmental crisis since Dayton during which, scenarios of political disintegration and fears of war re-emerged.

It all started with Lascar’s ground-breaking approach to Serb obstructionism. Instead of removing the offending politicians, like many of his predecessors had done before him, Lajcak, on October 19, 2007, proposed two procedural changes that redefined voting quotas in the state-level council of Ministers and the Bosnian parliament. These reforms were designed to streamline decision making in the central government and prevent future obstructionism through veto by boycott – a strategy particularly popular among Serb politicians – without eliminating however, ethnically based veto power. Attendance in the Council of Ministers was ensured by the stipulation that sessions could be held when the majority of members are present and that (some) decisions could be made by the majority of those attending. In the same spirit, laws could be passed in the Bosnian parliament as long as the majority voting included at least one-third of the representatives from each entity⁴¹ (Lippman, 2007).

A strict deadline was set to the government for adopting the reforms (December 1, 2007) along with the warning that if it failed, the HR would exercise his power of decree to put them into effect (Lippman, 2007). The threat of using impositions as punishment was severally criticised by Serbian politicians. Dodik told Bosnian reporters that the measures were unconstitutional and that they “*would not be accepted in the Republika Srpska*” (Chandler, 2007). Threats of mass resignations if Lajcak did not withdraw his proposals were also put forward. Lajcak however, who on October 13 received a confirmation of the PIC’s support, did not back down and adopted “*manu sua*” the reform for the voting procedure in the Council of Ministers (Venneri, 2009). On October 14, the Serb PM at the state level, Nicola Spiric, announced his resignation and declared his indignation through the following statement; “*Bosnia and Herzegovina is absurd. If the international community always supports the High Representative and not the institutions of Bosnia and Herzegovina, then it doesn’t matter if I am the Head of state, or Bart Simpson*” (Mac Donald, 2007 – cited in Chandler, 2007).

Parallel to the political drama, social unrest was building up. In late October it reached a peak when recurrent mass street demonstrations in Banja Luka and other RS towns, voiced the popular Serb demand for an independent RS. By November, the crisis had deepened so sharply, that the UN secretary general Ban Ki-Moon

⁴⁰ Alliance of Independent Social Democrats Party

⁴¹ See DPA, Annex IV, Articles 5 & 6 for prior decision making processes

expressed his *“serious concerns”* and the European military stability force confirmed its *“readiness and ability to respond to any violent provocation”* (Lippman, 2007). Much to the surprise of international organizations however, a roller coaster of events led to a speedy resolution of Lajcak’s proposed changes for the voting procedure in the Bosnian government that brought governmental instability back to manageable levels.

In the final days of November 2007, a Bosnian parliamentary commission began negotiating a draft law that would incorporate Lajcak’s proposals. The Serbs initially put forward a watered-down version which was dismissed by the Bosniacs. In the end, legal advisors of the Serb parties reached a compromise with the OHR. In essence, the Serbs relaxed their rigid stance and accepted the bulk of the reform, securing however *“ameliorating language designed to prevent ethnic outvoting”* (Lippman, 2007). Soon afterwards, the law was ratified by the Bosnian Parliament. Even more remarkably, the six governing parties announced that they had finalized an action plan for police reform implementation. The plan was based on the latest agreement local and international actors had reached, on the form and substance of the reform, during a series of informal negotiations in Mostar (October, 2007). The signatories (Bosnia’s top political parties) agreed to assume all of the necessary obligations of the reform in keeping with EU principles, though no further details were discussed. In essence, what Bosnia’s political leaders agreed to was their mutual willingness to readdress the EU conditions in subsequent legislative procedures. Consequently, what led to *“sealing the deal”* was not some breakthrough compromise but rather, the decision to conveniently postpone negotiations over the three EU conditions, until after key constitutional changes have been made (Vandemoortele, 2011).

In essence, the political aspect of police restructuring was abandoned indefinitely. However, some progress was made in the technical part of the reform. Two new technical laws on policing - provisioned in the action plan - were adopted without much hassle in April 2008; the *“Law on Directorate for Coordination of Police Bodies and on Agencies for Support to Police Structure of Bosnia and Herzegovina”* and the *“Law on Independent and Supervisory Bodies of Police Structure of Bosnia and Herzegovina”* (Venneri, 2007 - CEP, 2008). These laws stipulated the setting up of seven new state-level police coordination and supervision bodies, without affecting however, the autonomy of the two forces directly. Consequently, the laws were in line - at least in principle - with the EU centralization requirements but did not challenge the current institutional setup of the country (CEP, 2008).

Being in desperate need for any *“face-saving”* development, the EU welcomed the small technical steps and on June 16, 2008, Bosnia’s SAA was signed. This gesture was interpreted by international commentators as a way to reduce tensions more than anything else, since it reflected neither the effectiveness of the EU conditionality tool, nor the maturity of the Bosnian political elite. In fact, the qualitative deviation of the laws finally adopted from the conditionality that the EU had maintained for four years is repeatedly pointed out in the literature, leading

most analysts to conclude that the police reform was in fact a failure. As Venneri (2007) argues, *“it barely touched upon the massive iceberg of changes needed to streamline the way the police service is run and indeed added new layers of agencies to an already complex system”*. Eventually, the EU itself acknowledged the shortcomings of the reforms adopted. In a progress report issued in November 2008, the Commission admitted that the laws *“might have increased the institutional chaos affecting the Bosnian police”* and expressed its general disappointment (Venneri, 2007).

4.4 Reform implementation and institutional performance

The two police laws ratified in April 2008, provisioned the establishment of a series of state-level institutions, most importantly, a Directorate for Coordination of Police Bodies (DCP). Among the other new bodies were a police training agency and a public complaints bureau. The setting up of the institutions and the full implementation of other key elements of the laws, concerning primarily the improvement of cooperation in data exchange between police forces, have been slow and difficult. Nevertheless, some notable progress has been made.

In 2009, the Council of Ministers decided on the headquarters of the agencies and allocated budgets, which were assessed as sufficient for effective capacity development and joint capability by the EU Commission⁴². Directors and deputies were appointed to all institutions and an agreement on cooperation in data exchange from police and prosecutor's records was adopted. In 2010, the DCP was fully staffed with police officers and rulebooks for the agencies of forensic examinations, of education and training and of police support were adopted⁴³. Additionally, laws on police officials were harmonised and further improved across cantons, the entities and the state. In 2011, the DCP was regularly reinforced and amendments to the state-level law on police officials were adopted, including extension of the transitional provisions for recruitment of active police officers to state-level police bodies. This allowed the DCP to recruit high-ranking police officers from other police agencies. In general, the EU Commission reported⁴⁴ that the implementation of the police reform laws was slowly advancing and police reform agencies and boards have started to be operational.

⁴² EU Commission Progress Report for BiH 2009

http://ec.europa.eu/enlargement/pdf/key_documents/2009/ba_rapport_2009_en.pdf

⁴³ EU Commission Progress Report for BiH 2010

http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/ba_rapport_2010_en.pdf

⁴⁴ EU Commission Progress Report for BiH 2011

http://www.ecoi.net/file_upload/1788_1318854424_ba-rapport-2011-en.pdf1

However, Bosnia and Herzegovina's advancements in the police field remains at an early stage. Institutions created by the police reform laws have indeed been established but efforts to strengthen their overall capacities and their cooperation in the exchange of information need to be intensified.

4.5 Impact assessment of explanatory variables on the police reform

4.5.1 Legitimacy

Domestically raised doubts over the legitimacy of the international community's involvement in police restructuring, lingered throughout the process and were often used to rationalize local opposition to the endeavor. In the early stages of the reform, much of the criticism focused on the legal capacity of the HR to push a structural reform as this not only exceeded but directly contradicted his mandate to safeguard the DPA-stipulated state structure. Severe criticism was also placed on the means utilized by the HR to ensure the legal consolidation of the reform namely, the Bonn powers. Bosnian political elites had never consented to the extension of the HR's institutional authority - a decision taken for them by their international guardians - and hence, perceived their employment as undemocratic and illegitimate.

The more interventionist role of the EU in the latter phase of the reform seemed to alleviate theoretical controversies over the international community's legitimacy deficit; as Bosnia would make commitments to EU institutions and take steps towards EU integration voluntary, the sustained external involvement in its reform processes would be more relevant. Key to the success of the new incentive-based strategy was EU conditionality. A far more "sophisticated" tool of persuasion than the Bonn powers, EU conditionality enjoys a high degree of perceived legitimacy which stems from the fact that conditions are not open to political negotiation but are imposed impartially and applied equally to all aspiring member states (CEP, 2008). Nevertheless, the EU police reform conditionality in Bosnia was compromised in two important ways; i) the three EU principles for police reform were not derived from the existing EU acquis but emerged arbitrarily - chosen not by Brussels but by the HR - to tackle Bosnian specific policing and structural inefficiencies and iii) the HR resorted to coercive measures (sanctions in the SDS financing) in order to facilitate the implementation of European conditions and the reverse; European conditions were used as an instrument for imminent imposition of reforms.

In essence, the conceptual bases of the EU conditionality - impartiality and consent - have been skewed in the case of Bosnia, weakening its perceived legitimacy and consequently, its capacity to break political deadlock. Police reform was directed by the OHR against the backdrop of the SAA process and EU conditionality, with a state building strategy often at odds with the EU accession methodology (CEP, 2008). This led to a perception of political bias; the police reform and the overarching EU project

were suspected as a hidden agenda, being used as a means to another end; state centralization. This can in turn, help explain the lack of domestic compliance to the EU conditionality and the disappointing outcome of the police reform.

4.5.2 Coordination

Many international actors became actively involved in restructuring the Bosnian police; the HR/EUSR, the EU Commission, the EUPM and the EU and PCI governments, to name just a few. Consequently, establishing leadership and streamlining competing institutional interests, priorities and objectives to shape a harmonized, coherent reform agenda had been a colossal challenge, to which the international community responded poorly.

What started during the first post war years as a technical project, improving the training and performance of police officers and organizations, later moved toward a much more ambitious political objective; strengthening the capacities of the central state. This startling contextual transformation however, had been unofficial, initiated arbitrarily by the HR, Paddy Ashdown. Consequently, it did not reflect a common international vision for the structure of the police but rather, Ashdown's own agenda for the country, focused on "*undermining Bosnia's sub-sovereign political units*" (Venneri, 2009). Since the HR was bound by his institutional obligation to safeguard the Dayton-mandated state structure, he engaged the EU - previously not too keen - and without a specific plan for reform, to adopt his vision as its own and as a requirement for EU accession. As the EU was instrumentally and disorderly "dragged" into the reform however, several individual member states, expressed their lack of approval and let their doubts over the necessity of the reform and the legitimacy of the conditions attached to it, be known to their counter parts in Bosnia. This lack of unity undermined the international community's credibility and exacerbated domestic obstructionism - which was rationalized on grounds, shared by the drivers of the reform themselves - thus decisively reducing the prospects for the reform's success.

Ultimately, it could be argued that the lack of coordination and the credibility deficit this engenders for the international community in Bosnia, stems directly from the fact that the EU takes up simultaneously two different roles - each corresponding to a different challenge i) assisting Bosnia with its conflict management within the state building process under way and ii) facilitating Bosnia's EU accession through the SAA (CEP, 2008). These strategic objectives naturally overlap but since the EU is still not the only international actor driving Bosnia's democratization, the complementarity in strategic ends generates contradictions in the means employed to achieve them, hence the complication in the EU conditionality. This perplexity becomes evident and is reinforced further, through institutional inconsistencies, such as the confusing double hated HR/EUSR arrangement that often prohibits effective coordination in defining priorities and objectives and reduces the clarity and credibility of the messages the international community conveys to its local interlocutors (Chandler,

2007).

4.5.3 Local Ownership

Bosnian ownership of the police reform varied between different phases of the process. What started as an externally imposed discussion on an agenda fitting international proponents, was gradually transformed into a domestically owned process, both in terms of substance and pace, following a startling transformation of general conditions on the ground, some of which were induced by developments linked to the reform itself.

The reform was initiated in 2004 by HR Paddy Ashdown and was, during his tenure, pushed forward and coercively driven, with visible gaps and weaknesses in local ownership. The agenda of the reform, involving both technical and political aspects, was set arbitrarily by the OHR, without preceding domestic and international consultation. It involved a strict set of conditions that touched upon highly sensitive - almost taboo - issues for the Bosnian political establishment, at a time when minimum support for dealing with them existed locally and internationally. Even though representatives from all ethnic groups participated in the drafting process from an early stage, their political will was often not reflected in the police structure models, developed eventually. Ashdown did make several concessions to the Bosnian Serbs - the main obstructing faction - to secure their cooperation but in essence, never relaxed the strict EU conditionality he had attached to the reform, which was maintained and defended until his time in office expired. Ultimately, the absence of domestic consensus and the HR's rigid stance, brought the politicised and overburdened police reform to a standstill, after a number of "agreements without an agreement" had been reached (Vlasic & Banja Luka, 2005).

The second phase of the police reform (2007-2008) took place against the backdrop of significant transformations in the leadership and the overall state building strategy of the international community. As soon as Christian Schwarz-Schilling assumed his duties as Bosnia's HR in May 2006, the previous highly intrusive strategy, based upon hard coercion and imposition, gave its way to a hands-off approach, more in line with Bosnia's EU accession requirements. Though the police reform was frozen at the time, the employment of the Bonn powers was generally significantly restricted attesting the credibility of the EU's frequently communicated intension to shut down the OHR. The softened invasiveness of the HR exerted a major psychological impact on the Bosnian political elites, nonetheless, to the exact opposite direction from the one the international community had hoped for; instead of enhancing responsibility and facilitating consensus building, it encouraged obstructionism as political leaders took advantage of the international power vacuum to solidify their ethnically based rigidity. Repeated failures in the constitutional reform process in 2006 and 2007, that induced Schwarz-Schilling resignation, served as early indications of domestic immaturity to handle own affairs.

These were later confirmed when Miroslav Lajcak took over the OHR and reinitiated

the police reform. Faced with continued obstructionism, he decided to reinstate the Bonn powers, unleashing unprecedented political and social turmoil. The severity of the crisis cleared any illusions the international community might have had over the effectiveness of the EU conditionality. The latter, had clearly failed and threatened to lead not just to the failure of the police reform but to the collapse of the entire Bosnian state building project. This realization ultimately induced external actors to withdraw from the main stage of the confrontation and allow domestic politicians to take over the reform agenda. In particular, the October 2007 Mostar agreement that paved the way toward political normalization, was the outcome of informal, domestically driven discussions between Bosnian political leaders, in which the HR participated as little more than a bystander. Domestic actors set the agenda that deviated markedly from the one originally pushed by the international community. The repeated requests on meeting the EU conditions under a strict deadline were abandoned indefinitely and the EU was forced to desert its “no reform-no SAA” mantra (Venneri, 2009). In fact, even though none of the conditions had been met, Bosnia was “rewarded” with an SAA and the outcome of the reform, though extremely poor, was celebrated by the EU.

Conclusively, as soon as local ownership emerged as an emergency alternative strategy to the failure of the EU conditionality, the true political will of the Bosnian elites, and in particular, the lack of the RS to carry out the reform, was clearly reflected in the latter’s poor outcome. In short, the reinstatement of local ownership at a latter phase of the reform process - which was up until then driven by external actors with significant gaps in local consent - proved the limits of the international community’s coercive capacity and demonstrated the need for domestic consultation in setting reform agendas.

4.5.4 Commitment

The technical aspect of the police reform i.e., the restructuring of the police forces that was initiated in the direct aftermath of the Bosnian war, had been solidly supported by the international community, both in terms of strong political will for it and in terms of resources dedicated to its successful execution. The process was initiated by the United Nations International Police Task Force (IPTF, 1996-2002), which at its peak had about 2,000 international experts and enjoyed executive powers (ICG, 2005). Despite its documented shortfalls, the mission has made significant headway in changing Bosnian policing with respect to organizational and operational matters. The subsequent EU police mission in BiH (EUPM), tasked to continue the work of the IPTF, had its mandate extended twice and received multimillion dollar financial support (\$122.31 million - 2002-2009) in assisting the local police acquire mentalities, institutions and practices in line with European norms and standards and establish a sustainable, professional and multiethnic police service. Apart from designing and implementing capacity building programs (more than 120, relevant to seven institutional and operational policing issues), the mission also focused on reforms that aimed at upgrading the capacity of the local police to combat organised crime (Muehlmann, 2007). It has also contributed to joint police-

prosecutor training and provided advice on how to adjust legislation and procedures so as to enhance cooperation between law enforcement agents and the judiciary. Despite the progress however, most analysts today conclude that law enforcement in Bosnia, still faces serious structural problems and that police restructuring remains incomplete. On this issue, the limits of technical reform are repeatedly pointed out in relevant progress reports and mission assessments. In essence, what is being argued is that the underlying problems of ineffective policing can only be tackled through the further political and economic development of Bosnia (Lindvall, 2009).

CHAPTER 5

COMPARATIVE ANALYSIS

5.1 Can the two case studies be compared?

Before diving into the qualitative comparison of the two reforms, an important question, concerning the validity of the whole endeavour, needs to be addressed; can the two case studies really be compared? In other words, is this a rational and worthwhile effort, able to draw robust conclusions about the general drivers of institutional reform success?

At first glance, the two reforms seem too dissimilar to stand a meaningful cross evaluation, for a number of reasons:

- The restructuring of Bosnia's monetary sector, part of which, was the establishment of the CBBH, was an economic reform, while the restructuring of the police sector fell under a different category of reforms, that of the security sector.
- The establishment of the CBBH was one of the first reforms undertaken in post war Bosnia, within the framework of implementing Dayton's institutional provisions, while the police reform was one of the latest, initiated 15 years into consolidated peace and attached to a different set of the country's international obligations; not towards its external guardians and signatories of the peace treaty, but towards the EU, as an aspiring member state.
- The two reforms differ strikingly with respect to their final outcome. There is general consensus that the reform of the monetary system was a marked success. In fact, the central bank is often described as Bosnia's most effectively functioning joint institution and has contributed positively to ethnic reintegration. By contrast, the reform of the police is generally perceived as a failure and has been a divisive issue that stood at the epicentre of Bosnia's latest socio-political crisis.

Naturally, the aforementioned differences in the substance, the timing and the outcome of the two case studies raise concerns over their degree of comparability that need to be tackled for the validity of the study and its resulting findings, to be secured. In particular, the following questions have to be addressed:

- Would an inter-sectoral comparison make sense, given the different theoretical implications that economic and security reforms engender on domestic political actors?
- How can reforms standing so far apart in terms of time be compared, given the dramatically different context within which they were undertaken?
- How can one ensure that the resulting findings will not be exposed to selection bias, given that the outcome of the reforms was known upon sample selection?

Before addressing the first question, we need to reiterate the pattern of institutional

reform in Bosnia. Reform by definition, is fundamentally about change but in the Bosnian context this change is focused on a very specific objective; the transfer of entity powers to the central state. The argument that engaging into a comparative analysis of reforms belonging to different sectors would be problematic, is based on the assumption that Bosnia's sub-national governments are more reluctant to allow the delegation of certain powers than others. In other words, it is the difference in the level of resistance that renders such a comparison unrealistic. In this light, giving up the control of the police is bound to face more resistance than giving up monetary policy making, as the former is a far more visible attribute of state sovereignty. This assertion seems valid from a theoretical standpoint. However, it does not suggest that the two reforms cannot and ought not to be compared. In fact, as already shown, the RS authorities were not in favour of losing control over the entity police, just as at one point they were reluctant to lose control over their monetary authority (NBRS) and the capacity to issue and control their own currency. Besides, sovereignty is not simply about preserving territory but more importantly, about possessing the control over everything that makes power meaningful. Consequently, even if there is a discrepancy between the level of willingness to give up one power over another, ultimately, the transfer of any power means redefining politics and is resisted, proving that all reforms in Bosnia are ultimately, political in nature.

Turning to the second question, the fact that the two reforms stand almost ten years apart raises the concern of whether disparities in the general context, within which the reforms have been initiated and carried out, are too big to allow a meaningful comparison. Indeed, the selected case studies, belong to different "waves" of reforms, each corresponding to a different broad state building strategy. Having as a milestone the introduction of the Bonn powers, the creation of the CBBH was a "first generation" reform, kicked off and almost completed before the latter were introduced, pushed almost exclusively by aid conditionalities. The police reform on the other hand, lied at the other end of the Bosnian state building continuum. It was initiated at a time when external interventionism was at its absolute peak. However, upon closer inspection, in the end, the Bonn powers played only a marginal role in driving the reform. In fact, they were never used to impose legislation by decree or remove obstructing officials. What's more, any threats to employ them did not concern the reform requirements per se, but peripheral matters that could add stress on obstructing domestic actors. Though this certainly constitutes an intrusive practice, the fact remains; the police reform was ultimately, a conditionality driven reform. Consequently, the two case studies are more similar than meets the eye. In both cases, the international community employed low intensity tools to push for their legal consolidation. In the first case, out of necessity (tools of hard coercion were not available) and in the second case, as part of a fresh strategy for Bosnia, in line with the wider requirements for its EU accession. Finally, any disparities between the tools employed in each case, such as differences in the nature of the conditionalities (aid vs. EU conditionality) and their level of credibility, does not preclude the two reforms from being compared but can actually be explored as

explanatory variables for the differences in the outcome.

What’s more, the Bosnian dimension remained remarkably unaltered. Despite the passage of time, not much has changed in the domestic socio-political conditions that could have transformed the dynamics of inter-ethnic negotiations. The agendas of the major ethnic players in both reforms were identical and conflicting, reflecting the contradicting trajectories that the two entities envision for the Bosnian state; centralization vs. ethnic autonomy. The lingering duality in domestically held aspirations for the state, has sustained ethically based zero-sum politics and has established sovereignty struggle as a structural feature of the Bosnian political establishment. Consequently, any noteworthy reform had been made difficult, in any time framework. This is vividly reflected in the similarity of the patterns of obstructionism exhibited in the drafting phase of the reforms under examination; ethnic parties in both cases, fought the political and symbolic aspects of the reforms, not the technical ones, which also serves as confirmation that in Bosnia every reform is, at heart, political in nature.

In response to the third question, this study makes a case for comparing two extreme cases based on the argument that by examining reforms so fundamentally different in terms of outcome (success or failure), the factors facilitating and hindering reform, will be more clearly identified. In particular, the analysis of the reform processes on a comparative basis will help identify which of the explanatory variables were constant in both cases, and which clearly varied between the reforms. Assuming that these variables hold the key to answering our research question, these will be further examined to determine whether and to what extent they are actually capable of explaining the difference in the outcome of the reforms.

5.2 Comparative analysis

In previous chapters (Chapters 3 & 4) four factors, highlighted in the state building literature as being relevant to the international community’s efforts related to institutional reforms in post-conflict societies, were tested with reference to two Bosnian specific institution building exercises and were assessed for their impact on the latter’s final outcome. The following table summarizes these findings.

	LEGITIMACY	COMMITMENT	LOCAL OWNERSHIP	COORDINATION
CENTRAL BANK	LOW	HIGH	LOW	HIGH

POLICE	LOW	HIGH (but varied)*	LOW (but varied)*	LOW
---------------	------------	-------------------------------	------------------------------	------------

This section explores the performance of the explanatory variables across the sample, with the aim to identify those that have systematically impacted positively on reform consolidation and those that have hindered it. Assuming that these findings can be extrapolated and transferred, this exercise could potentially contribute to the establishment of a generalized blueprint for successful institutional reform, applicable to different reform contexts (other sectors and/or countries). Given the restricted size of the sample however, the degree of generalizability of the resulting findings and their ability to control for rival explanations, is expected to be small. In any case, the study will provide useful insights on the “dos and don’ts” of institution building in fragile environments.

To serve the purpose of the comparative analysis, the four explanatory variables will be separated into two distinct groups; i) variables that remained constant across the sample and ii) variables that clearly varied between the reforms. Given the disparate outcome of the reforms both set of variables will be further examined, as the answer to what tips the scale in favour of institutional reform success, lies with them.

5.2.1 Constant variables

Three factors have been constant in both the creation of the CBBH and the police reform; i) the domestically perceived legitimacy of the international community’s involvement, ii) the commitment of the international community to the reforms and iii) the level of Bosnian ownership of the reforms. The latter two however, exhibited a small degree of variability that can help explain, to a certain degree, the difference in the final outcomes of the reforms.

Legitimacy

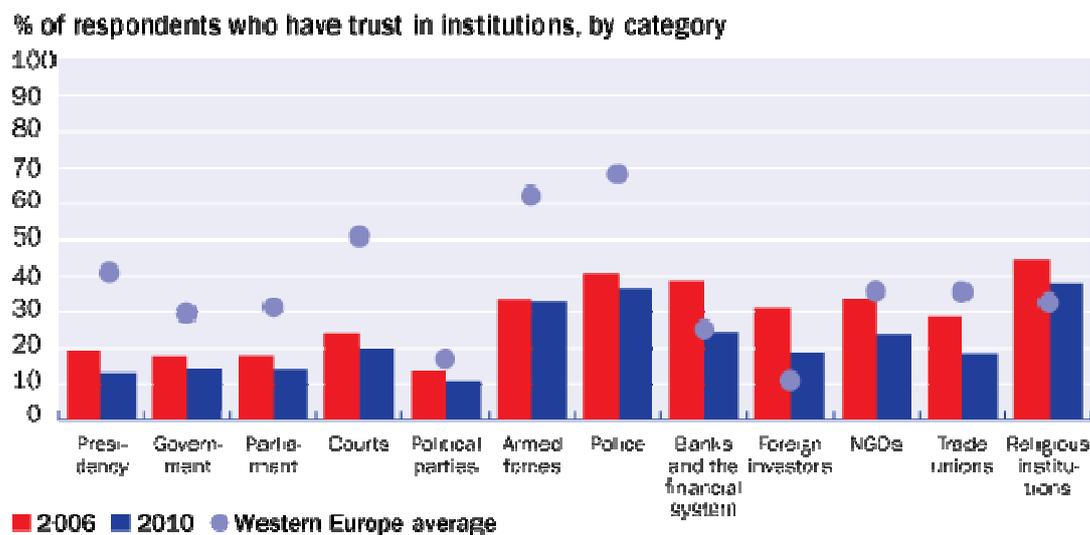
The legitimacy issue is an enduring one. It has been raised systematically and persistently ever since the signing of the DPA by domestic elements that do not favour institutional transformations. The theoretical grounds on which obstructionists base their doubts over the capacity of external actors to initiate, drive and ultimately, impose reforms, changes slightly between different time frameworks but overall, constitutes a fixed feature of reform negotiation processes. Consequently, given that the domestically held perception of the legitimacy of external interventions has been low and constant across all institutional reforms in Bosnia, this factor does not contribute to explaining why the two reforms under examination turned out so differently.

Commitment

The commitment of the international community to the reforms was high. Both were identified as high-priority post-war actions, aimed at achieving very basic state building objectives; laying the tracks of economic development and re-establishing human security. Accordingly, they were initiated and pushed by strong international political will and supported with affluent resources. Time, energy and money were generously provided to ensure domestic capacity development and institutional sustainability. Indeed, in both cases, the technical aspects of the reforms were executed in full, resulting in (comparatively) high levels of public trust in both institutions (see next graph).

This said, it is imperative to stress the fact that the observation regarding the strong political will of the international community to initiate the reform, refers to the restructuring of the police force, at the direct aftermath of the war. The level of international commitment to the initiation of a more politicized reform later on, varied between international intervening actors. As mentioned previously, several individual EU member states, did not share the same level of confidence with the HR in the necessity of the reform initially, but soon afterwards, the EU Commission officially espoused the HR’s vision and pushed the reform passionately and persistently, through the conditionality mantra - “no police reform, means no EU”. As a result, the conclusion that overall commitment to the reform was high is not severely distorted, though it did engender negative implications on the credibility of the EU that can help account for the variability in the final outcome of the reforms (see below).

Trust in institutions is slightly down since 2006



Source: EBRD, Life in transition survey (2010)

Local ownership

The level of local ownership in both reforms was generally low. In both cases, the reforms were initiated and pushed by the international community, against the political will of domestic elites (primarily against the will of the RS leadership). Ethnic representatives participated in the drafting processes but the resulting legal frameworks did not reflect domestic aspirations on key aspects of the reforms. Overall, the negotiation discussions failed to secure the consent of all ethnic fractions and to generate the minimum degree of commitment to the reforms, required for the latter's sustainability. As the relevant state building literature explains (Chandler 2004, Zaum 2005), building institutions entails political choices that impinge on the distribution of resources and power and involves the weighing of different political concerns against each other. Consequently, new institutions can potentially benefit one group more than others and if local elites do not actively and effectively participate in the decision making process, they are unlikely to accept them, complicating and endangering the implementation process.

The abovementioned observation, gives rise to a valid question; since domestic ownership in both reforms was low, what can help explain the relative success of the central bank and the relative failure of the police reform?

The answer hinges on the nature of the reform (technical vs. political). The central bank and other subsequent reforms have been successfully implemented, despite the fierce opposition put forward by the RS leadership. They have been overcome through financial conditionalities, sanctions and the Bonn powers, all used to add leverage to what were internationally communicated and domestically perceived as technical reforms. In fact, technocratism is itself, a tool for progress and a valuable instrument in overcoming conflict and domestic resistance. This strategy may be slow to induce political developments but creates a "functionalist effect" where small technical steps forward, taken one at a time, can in due course of time give rise to major political breakthroughs, once sufficient trust has been built. Indeed, in Bosnia too, presenting technical "to-do lists" has often been a way to unblock crucial political and institutional deadlocks that prevented the state from functioning efficiently. Such was the case of the creation of the CBBH.

The case of the police reform was different however. For the first time, the need to move beyond the Dayton political power structure entered officially the negotiations. The "technocratic" argument was in this case too, put forward, but with limited success. It was introduced via conditional ties that were presented as technical when in reality, were clearly encompassing complex political changes. Of course, it is possible that some of the international proponents of the reform had looked at the reform from a purely policing perspective, genuinely desiring to improve policing through technically driven changes. The RS however, dismissed the

technical basis of and the rationale for the reform on a number of grounds⁴⁵ and felt that the sole purpose of the proposed changes was to transform the fundamentals of the delicate power sharing status quo. International agents knew that consensus on such a sensitive area would have been difficult to achieve but the degree of RS's ferocity in resisting the reform was clearly unanticipated. Once the whole process almost reached a 'breaking point', the reform agenda was trusted in the hands of domestic elites, as a means of scaling down inter-ethnic tension i.e., local ownership was introduced as a second best strategy to the failed EU conditionality. Soon afterwards however, the reform was effectively abandoned, proving the limits of external coercion. This development nevertheless, does not serve as proof of the limited capacity of domestic ownership to secure the success of reforms, but rather of the reverse; the need for intrinsic consultation with local elements in shaping reform agendas from an early stage.

5.2.2. Fluctuating variable

Given the similarities of the reforms with respect to the legitimacy, commitment and local ownership variables, their disparate outcome can be more clearly explicated by focusing on the remaining factor that varied significantly between the reform processes; the international community's capacity to streamline its priorities, objectives and actions.

Coordination

The international actors involved in the creation of the CBBH, exhibited a remarkable level of coordination, both in organizing the diverse set of actions that had to be taken simultaneously to liberalize Bosnia's centralized financial system and in communicating their objectives to their local interlocutors with clarity and consistency. Despite the fact that the tools of political persuasion used to push the reform were of a low coercion capacity (financial conditionities), they were employed timely and credibly. As a result, they managed to generate the external momentum and pressure required to curb domestic obstructionism and secure the legal consolidation of the reform. The police reform however, was a victim of bad international coordination. A series of misunderstandings, interest clashes, and disagreements - all relevant to the international community, severely undermined the success of the endeavour. Ultimately, the police reform is a story of failed EU conditionality, caused by internal divisions over the necessity of the reform, the nature and the legitimacy of the conditions attached to it, the poor design of the general state building strategy employed at the time and the lack of a commonly

⁴⁵ These were the following: i) the structure of the police was already centralized in the Republic ii) no European "best practice" norm existed to call for a centralized police structure at the state level, iii) the police already enjoyed a high degree of public support and iv) according to studies, its ordinary crime fighting capacities were not much inferior to the European average

shared vision - not just for the reform itself but more importantly, for Bosnia's future. Even though the international community had at its disposal an assembly of powerful tools comprised of very strong conditionalities, supplemented with the Bonn powers, their credibility and leverage were undermined by the fact that the form and substance of the reform did not reflect the aggregate political will of the international intervening actors who, naturally failed to convince their domestic counterparts for the merits of the reform. Consequently, the coordination factor clearly accounts for the disparity in the reform outcomes.

CONCLUDING REMARKS

Summary of Main Findings

Factors accounting for the success of the CBBH

The creation of the Central Bank of Bosnia and Herzegovina has been a successful reform in the context of the Bosnian state building, both in terms of liberalizing the country's financial sector and improving overall macroeconomic performance. Despite the visible gaps in domestic ownership and the domestically held doubts concerning the legitimacy of the international community's involvement in the establishment of the institution, four aspects of the reform process seem to have contributed to its success:

- The high degree of coordination the international organizations achieved in

designing and implementing the reform.

- The effective use of international authority. The close coordination meant that the international community could effectively use its authority to promote the reform by employing every mean of political persuasion at its disposal, credibly and at its maximum leverage producing capacity.
- The availability of sufficient resources dedicated to the establishment of the institution and the enhancement of domestic capacities.
- The technical character of the reform. The international community did not overburden domestic elites with far-reaching and unrealistic demands for political integration but focused on technical aspects that could facilitate consensus building and pave the way towards increased inter-ethnic cooperation.

Factors accounting for the failure of the police reform

The police reform has been, by general consensus, a relative failure. Even though the restructuring of the police force has produced positive results in terms of enhanced organizational and individual capacities, primarily due to the high commitment of the international community to the task, the latter phase of the reform (2004-2008) had made little headway in achieving its main objective i.e., institutional integration. Three aspects of the reform process have been identified as the principal reform “spoilers”:

- The low degree of coordination between the major international actors driving the reform. This reflected the lack of a common vision for Bosnia and the inconsistencies in the broader state building strategy that had - in the post Ashdown era and in the midst of the reform - transitioned overnight from a highly intrusive to a more “hands off” approach.
- The credibility deficit of the international community caused by the lack of coordination which in turn, undermined the effectiveness of the policy instruments used and led to the failure of the EU conditionality. This not only contributed to the collapse of the reform but also threatened to “hurt” Bosnia’s European prospect and the EU’s image as a successful foreign policy broker.
- The untimely politicization of the reform. Inherently political issues entered the police reform agenda at a time of reduced international assertiveness. In essence that is, immature and politically dependent domestic elites were expected to reach a far-ended agreement on a divisive reform, within a vacuum of international power on the ground. This proved to be a poor strategy for success.

Overall, this study has confirmed the findings of the state building literature, concerning the capacity of the explanatory variables examined, to exert significant effects on the outcome of reforms. More specifically, both resulting institutions benefited from the high commitment of the international actors involved in their creation/technical restructuring and have come a long way in terms of operational efficiency. By contrast, their legal consolidation and subsequent sustainability were endangered by the limited Bosnian input in the effort. Nonetheless, in the case of the central bank, the lack of local ownership was compensated by the high level of coordination exhibited by the international community, a variable that was missing in the case of the police reform and can thus help account for its limited success.

The study also argued that what is important to the success of reforms is not the coercive capacity of the policy instruments employed by external actors, but the credibility attached to them. In this light, the relative success of the central bank, a reform driven solely by soft means of political and diplomatic persuasion can be explained against the relative failure of the police reform. In the latter case too, the policy instruments and the general strategy employed by the international community were less intrusive, compared to reforms imposed by decree in preceding periods, yet they had additional leverage attached to them; the prospect of EU accession that was supplemented with threats to reinstate the Bonn powers. Evidently however, the deficit in the credibility of the EU, augmented by the politicized character of the reform, dramatically reduced the capacity of the international community to successfully further its ends.

Lessons Learned / Recommendations

The study also entails a range of lessons, especially with regards to the method of policymaking by international administrators in Bosnia, which can nevertheless be applied to different contexts. These are the following:

- No method of coercion - soft or hard - can drive top down reforms which do not have a basis of support within the Bosnian elites and society. The active participation of domestic political actors in the reform process from an early stage is thus imperative to guarantee institutional sustainability. However, local ownership entails much more than securing the consensus of political elites. A strategy of public debate, civic engagement and grassroots campaigns, designed to inform on the merits of reforms, is also required to increase internal pressure on politicians and help improve the reforms' success prospects.
- Unless a common vision for Bosnia is shaped and a preliminary agreement on

key policy choices is reached within the international community, reform endeavors will continue to be tormented by insufficient coordination and produce incomplete results. This means that the international community will have to define, as soon as possible, the exact timing of the OHR's complete closure and the subsequent transfer of powers - the nature and extent of which will also have to be decided - to the EUSR.

- Changes in the structure of power sharing require a change in the political culture and understandings, something that cannot be achieved overnight. No matter how hard external coercion is, it is not without limits. The international community can only push a reform so hard, until the whole process "blows up in its face". Consequently, reforms should not be overburdened with sensitive political issues, until the conditions for this are truly ripe (e.g. after the reform of the constitution and the consolidation of the Bosnian political structure). Till then, it is advisable to focus on technicalities.

BIBLIOGRAPHY

- Addison, T., Geda, A. & Billon, L. (2005), Development Reconstructing and Reforming the Financial System in Conflict and "Post-Conflict" Economies, *Public Policy Research*, pp.37-41
- Arvanitopoulos, C. (2008), "Implementing reforms in Bosnia and Herzegovina: the challenge of the constitutional process", *European View*, Vol. 7
- Balesic, A. (2006), "Democracy Building in Bosnia and Herzegovina: Interaction between the international Community and the local authorities", Master's Thesis, Universiteit Utrecht
- Basic, S. (2005), "Currency board arrangement and transition: The issues, controversies and the experience of Bosnia", *International Journal of Applied Econometrics and Quantitative Studies*, Vol. 2

- Caplan, R. (2005), "Who guards the guardians? International accountability in Bosnia and Herzegovina", *International Peacekeeping*, Vol. 12, No. 3
- Caplan, R. (2004), "International authority and state building: The case of Bosnia and Herzegovina", *Global Governance*, Vol. 10
- Castilo, G. (2008), *Rebuilding war torn states: the challenge of post-conflict economic reconstruction*, New York: OUP
- Central Bank of Bosnia and Herzegovina Annual Report 2010.
- Centre for European Perspective, (2008), Seminar on police reform in Bosnia and Herzegovina, Security Sector Reform and the Stabilization and Association Process, Sarajevo 4-6, June 2008
- Chandler, D. (2010), "The EU and Southeastern Europe: The rise of post-liberal governance", *Third World Quarterly*, Vol. 31, No.1
- Chandler, D. (2007), "EU state building: Securing the liberal peace through EU enlargement", *Global Security*, Vol. 21, No. 4
- Chandler, D. (2005), "Peace without politics?", *International Peacekeeping*, Vol. 12, No.3
- Chandler, D., (2005), "From Dayton to Europe", *International Peacekeeping*, Vol. 12, No.3
- Chandler, D. (2001), "Bosnia: the democracy paradox", *Current History*, Vol 100, No, 644
- Chandler, D. (2004), "The state building dilemma: Good governance or democratic government", Draft paper presented at Roundtable on Development, under development and armed conflict, Military center for strategic studies, Rome, October 2004
- Coats, W. (2007), "Monetary issues in post conflict economies", A project of the New York University's Center on International Cooperation (CIC).
- Coats, W. (2007), *One currency for Bosnia; creating the Central Bank of Bosnia and Herzegovina*, New York: Jameson Books
- Coats, W. (2003), "The Early History of the Central Bank of Bosnia and Herzegovina", *Exchange Organizational Behaviour Teaching Journal*
- Cox, M., (2001), "State building and post conflict reconstruction: Lessons from Bosnia", Centre for applied studies in international negotiations (CASIN)
- Cox, M., (1998), "Strategic approaches to international intervention in Bosnia and Herzegovina", Centre for applied studies in international negotiations

(CASIN)

- DFID, (2010), "Building peaceful states and societies", accessed at: <http://www.gsdrc.org/docs/open/CON75.pdf>
- Donais, T., (2009), "Empowerment or imposition? Dilemmas of local ownership in post-conflict peace building processes", *Peace and Change*, Vol. 14, No.1
- Donais, T. (2003), "The political economy of stalemate: Organized crime, corruption and economic deformation in post Dayton Bosnia", *Conflict, Security and Development*, Vol.3, No.3
- Eralp, U. (2007), "The police reform in Bosnia and Herzegovina: the way to move forward into the EU", Paper presented on the 9th annual Kokkalis graduate student workshop, February 2.
- ESI, (2007), "The worst in class: How the international protectorate hurts the European future of Bosnia and Herzegovina"
- ESI, (2001), "In search of politics: the evolving international role in Bosnia and Herzegovina"
- Fukuyama, F. (2007), "Liberalism versus state building", *Journal of Democracy*, Vol. 18, No. 3
- Gedeon, J. (2010), "Monetary and stabilization policy under the currency board regime in Bosnia and Herzegovina", IREX scholar research brief, accessed at:
<http://www.irex.org/sites/default/files/Gedeon%20Research%20Brief%202009-2010.pdf>
- Ghani, A. (2005), "Closing the sovereignty gap: an approach to state building", Overseas Development Institute, working paper 253
- GSDRC (2010), Literature review on state building, accessed at: <http://www.gsdrc.org/docs/open/HD528.pdf>
- Hanke, S. (2002), "On dollarization and currency boards: Error and deception", *Journal of Policy Reform*, Vol. 5, No.4
- Hanke, S. (1997), "Bulgaria and Bosnia after ten years", *Applied Economics*
- Heywood, A., (2006), *Εισαγωγή στην πολιτική*, Αθήνα: Εκδόσεις Πόλις
- ICG, (2005), "Bosnia's stalled police reform: No progress, no EU", Europe Report No. 164
- ICG, (2002), "Policing the police in Bosnia: A further reform agenda", Balkans

report No. 130

- ICG, (1998), "Whither Bosnia", Balkans Report No. 43
- Juncos, A. (2011), "Europeanization by decree? The case of police reform in Bosnia", *Journal of Common Market Studies*, Vol.49, Number 2
- Knaus, G., Martin, F. (2003), "Lessons from Bosnia and Herzegovina; Travails of the European Raj", *Journal of Democracy*, Vol. 14
- King, J., Dorn, W. (2002), "An unprecedented experiment: Security sector reform in Bosnia and Herzegovina", Saferworld, accessed at:
http://walterdorn.org/pdf/UnprecedentedExperiment_Dorn-King_Sept2002.pdf
- Lindvall, D., (2009), *The limits of the European vision in Bosnia and Herzegovina: An analysis of the police reform negotiation*, Doctoral Thesis in Sociology at Stockholm university, Sweden
- Lippman, P., (2007), Crisis and reform: a turnaround in Bosnia? Article, accessed at:
http://www.opendemocracy.net/article/crisis_and_reform_a_turnaround_in_bosnia
- Muehleemann, T. (2007), "Police restructuring in Bosnia and Herzegovina: Problems of internationally led security sector reform", *Journal of intervention and state building*, Vol. 1
- OECD (2007), "Principles for good international engagements in fragile states and situations", <http://www.oecd.org/dataoecd/61/45/38368714.pdf>
- O'Neill, W. (2005), "Police reform in post-conflict societies: What we need to know and what we still need to know", International Peace Academy, <http://www.ipacademy.org/media/pdf/publications/polreferpt.pdf>
- Paris, R. (2006), "Understanding the 'Co-ordination Problem' in Post-war State-building", RPPS, accessed at:
http://aix1.uottawa.ca/~rparis/Paris_DRAFT.pdf
- Paris, R. (2004), *At wars end: Building peace after civil conflict*, New York: CUP
- Recchia, S. (2007), "Beyond international trusteeship: EU peace building in Bosnia and Herzegovina", Institute for Security Studies, Occasional Paper No 66
- Rubin, B. (2006), "Peace Building and State-Building in Afghanistan: constructing sovereignty for whose security?" *Third World Quarterly*, Vol. 47,

No. 1

- Samuels, K., (2005), "Sustainability and peace building: a key challenge", *Development in Practice*, Vol. 15, No. 6
- Steward, A. (2006), "The international community in Bosnia: Enduring questions of legitimacy", *Chinese Journal of International Law*, Vol. 5. No. 3
- Szewczyk, B. (2010), "The EU in Bosnia and Herzegovina: powers, decisions and legitimacy", European Union Institute for Security Studies, Occasional paper No. 83
- Vandemoortele, A., (2011), "Police and justice in the aftermath of war: The European Union and institutional change in the Democratic Republic of Congo and Bosnia", Paper presented at EUSA 12th Biennial International Conference, Boston, March 3-5
- Venneri, G. (2009), "Conquered" vs. "Octroyee" ownership: Police reform, conditionality and the EU's member state building in Bosnia and Herzegovina", *Journal of intervention and state building*
- Venneri, G. (2007), "Turning Sarajevo into a European Capital? Trajectories of sovereignty in the reorganization of Bosnia and Herzegovina", paper prepared for the sixth pan-European international relations conference European consortium for political research (ECPR)
- Wenzel, H. (2003), "Regional currency areas and the use of foreign currencies", BIS Papers, No. 17
- Zaum, D. (2007), *The sovereignty paradox: the norms and politics of international state building*, New York: OUP
- Zaum, D. (2005), "Economic reform and the transformation of the payment bureau", *International peace keeping*, Vol.12, No.3