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From war zones to work zones

What Ukraine (and the EU) can learn from three decades of post-war reconstruction in Bosnia and Herzegovina

The flurry of activities to help Ukraine recover from the impact of the Russian invasion has reopened the debate about the scope of international assistance and its impact in conflict-affected countries.

In the mid- 1990s, in response to an increase in armed conflicts worldwide, a growing number of voices argued that these countries faced specific challenges and therefore required targeted support. However, this perspective has not led to a significant change in international aid practices. Rather, the approach remains firmly grounded in the neoliberal vision of peace and development, despite ample evidence, including from Bosnia and Herzegovina (BiH), that this approach does not work. Given the scale of the reconstruction effort in Ukraine, there is an urgent need to rethink the international assistance approach to conflict-affected countries.

Differences and similarities

The starting point for post-war reconstruction in Bosnia and Herzegovina in the early 1990s differs in many ways from today's situation in Ukraine. Bosnia and Herzegovina, with its 4 million people at the time, was tiny in terms of population; its economy was small and export-oriented; its geostrategic relevance pale in comparison to that of Ukraine. Most importantly, the nature of the armed conflict was different in that Bosnia and Herzegovina was subjected to aggression from its neighbours Serbia and Croatia, which triggered a civil war. The 1992-1995 civil war left in its wake a contested statehood that defined the terms of engagement with the international donors and shaped post-war economic governance. Ukraine, on the other hand, has enjoyed continuity of domestic government and leadership.

Differences aside, Bosnia and Herzegovina shares with Ukraine a legacy of post-totalitarian transition and war, as well as an aspiration to join the European Union. Both countries face the problem of excessive deindustrialisation. In Bosnia and Herzegovina, deindustrialisation was a

consequence of war-inflicted destruction, while in Ukraine, it is the result of a three-decade-long economic transition from a centrally planned economy. In both countries, therefore, post-war reconstruction is essentially a question of economic transformation and structural change in order to revive competitiveness and achieve sustained economic recovery.

These objectives are being pursued in the context of the European Union accession process. The EU will inevitably be the key external actor, and to some extent is already playing this role through the EU Ukraine Facility and Ukraine's 'Reform Matrix' programme for the Ukraine Recovery Conference process. This means that a thorough and honest discussion is now needed on whether the EU's policy approach to the development challenge facing conflict-affected countries is fit for purpose.

Lessons from BiH

Thirty years after the signing of the peace agreement ending the war in Bosnia and Herzegovina, the country remains on edge politically, economically and socially. Economic performance is subdued and volatile, trade imbalances persist, and unemployment rates remain stubbornly high. Lack of economic opportunity and political instability are driving a mass exodus of people, described as a 'depopulation disaster', which has reduced the population to less than three million.

The outcome of economic restructuring pursued according to externally designed agendas and priorities is an economy dominated by services (64.4 per cent of GDP), while its productive base has shrunk. The latter reflects the impact of deindustrialisation, which was only partially reversed during the post-war reconstruction (manufacturing accounts for 13.9 per cent of GDP). A reduced production base causes a narrow fiscal base, which limits the provision of public services that are both large as well as specific as a consequence of the war (high welfare spending for a war-affected population being a notable example).

International aid was initially provided in the context of an international protectorate, with the internationally appointed High Representative holding the ultimate executive powers. But the potential of accession to the EU became the dominant external force shaping policies at the domestic level. The aid was originally designed on the principle of applying strict political conditionality for economic reform. However, political obstruction led to selective and partial implementation, impacting economic restructuring and, in some cases, provoking tensions among some sections of the population.

Privatisation in the context of Bosnia and Herzegovina has first and foremost served to protect the economic interests of the political elites. It has also allowed the government to avoid a difficult restructuring process.

In 2015, the government adopted the Economic Reform Agenda 2015-2018 in line with the EU acquis, the key economic reform roadmap for the membership application. However, its implementation led to failures in the privatisation of some of Bosnia and Herzegovina's largest companies and the adoption of a non-transparent system of war veteran entitlements. This experience is indicative of a lack of conflict sensitivity on the part of the donors.

Privatisation in the context of Bosnia and Herzegovina has first and foremost served to protect the economic interests of the political elites. But it has also allowed the government to avoid a difficult restructuring process and, therefore, the responsibility for the social costs that it would entail. Welfare reforms were deeply political, as war veterans were the key constituency for the ethno-national political parties in Bosnia and Herzegovina. Both reforms were prioritised within the economic reform agenda on the grounds of fiscal and debt sustainability, while the broader development and social implications were downplayed.

In terms of context, insufficient attention was paid to specific war-related problems in BiH, including the scale and nature of economic damage and dislocation, extensive physical destruction of productive facilities and infrastructure, demographic change due to massive population displacement and outward migration, and the progressive decay of economic, political and social institutions, cultural norms and value systems. As research shows, an internationally supported economic restructuring model and its priorities leave limited policy space for an alternative economic policy response, a problem that was exacerbated in Bosnia and Herzegovina by weak post-war governance.

What has worked

Across the subdued economic landscape of post-war Bosnia and Herzegovina, there are pockets of vibrant local economic recovery. These are places where a degree of productive capacity was maintained throughout the war, either by redirecting the production for military purposes, preserving the skeleton of previous production or simply protecting equipment from decay and damage.

Mobilising the existing local knowledge, expertise and skills on the business side was crucial, as was engaging with local government and civil

society groups working on economic issues. These partnerships were instrumental in selectively engaging with the opportunities available through international assistance that met the local economy's needs. For example, with international support, local development agencies were set up, providing access to business and development opportunities, and opportunities to benefit from technical assistance tailored to local needs. This dynamic differs sharply from the national-level discussion of policy priorities between donors and their Bosnian and Herzegovinian interlocutors among the ranks of the ethno-national parties.

The EU would be well advised that whatever it does now in support of Ukraine, it should do so in the context of the likely political settlement to end the war and its implications for Ukraine's economic and security status.

For reconstruction to be successful, it is vital that the Ukrainian government, business and civil society build and sustain partnerships at the local level while the war is still ongoing, work on a shared economic vision of what the reconstruction should achieve, and develop the capacity and competence to implement that vision with international support. Building on local strengths in the business sector is the crucial part of this strategy. The Ukrainian government should draw lessons from the experience of other former socialist countries that have joined the European Union, namely that the accession process can support economic growth for a period of time. But, post-war economic recovery and international competitiveness will require determined domestic action and leadership over an extended period of time, for which support from external partners will need to be carefully and strategically negotiated.

For its part, the European Union would be well advised that whatever it does now in support of Ukraine, it should do so in the context of the likely political settlement to end the war and its implications for Ukraine's economic and security status. If Ukraine is to become a member of the EU, how will the policy of economic reform affect Ukraine's economic status, and how will this affect the European Union as a result? It should be a sobering experience for the EU and the wider international community that it took Russian aggression to jolt the Union into action to expedite the accession process of Bosnia and Herzegovina 30 years after the war. The EU must show more conflict sensitivity in its approach to Ukraine's problems and needs, and work from Ukraine's strength and in a timely manner to ensure that the support for post-war reconstruction is effective.



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