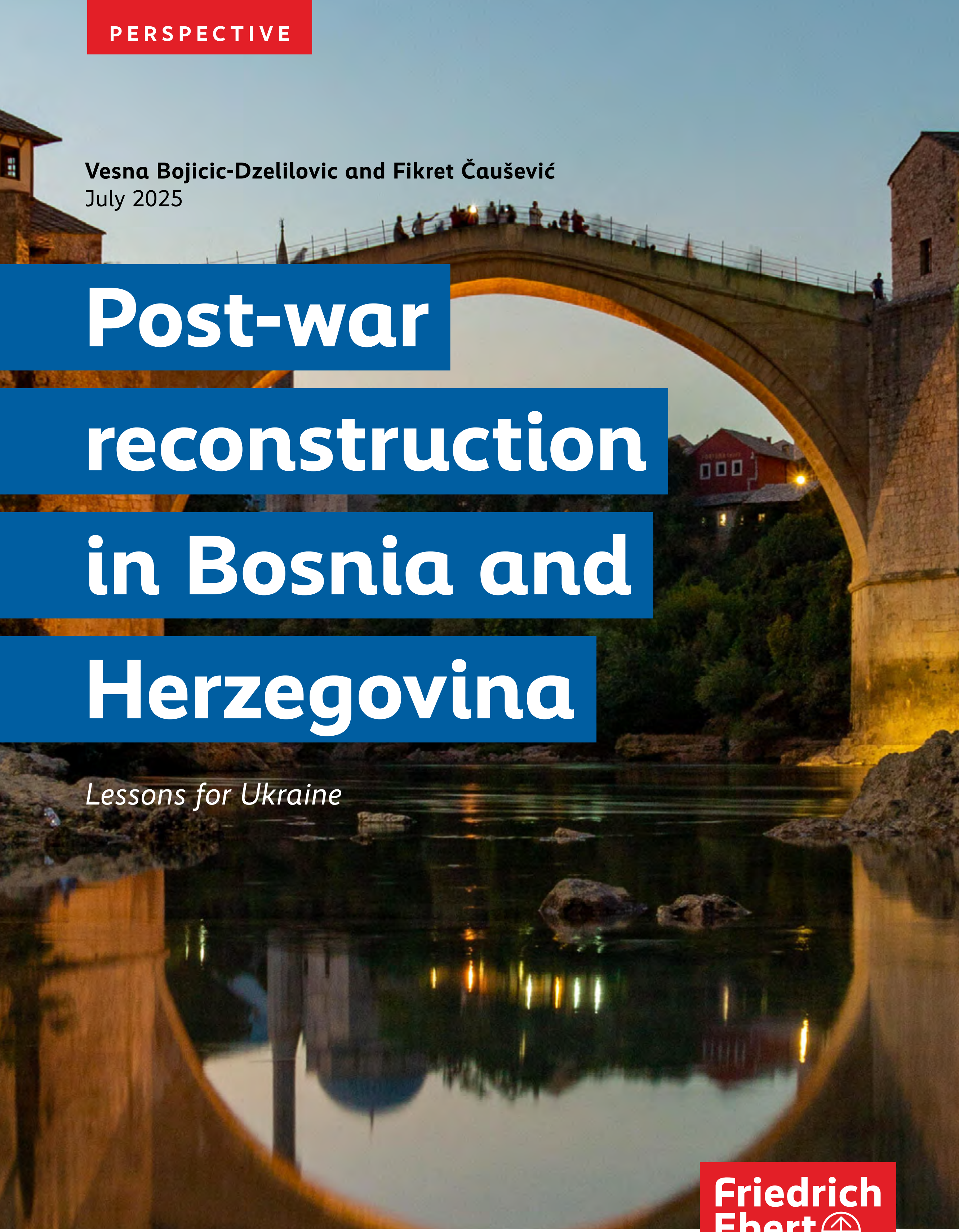

PERSPECTIVE

Vesna Bojicic-Dzelilovic and Fikret Čaušević
July 2025

Post-war reconstruction in Bosnia and Herzegovina

Lessons for Ukraine

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Content

Introduction

Nearly three decades since the Dayton Peace Agreement (DPA) ended the 42-month long war in Bosnia and Herzegovina (BH), the country is in a precarious situation. Ongoing challenges to the legitimacy of its national state institutions by the two major ethnonational political parties have recently escalated into open political crisis[1] and, in the changed geopolitical context, there is uncertainty about what course of action to take to resolve it. The presence of the European Union Force in Bosnia and Herzegovina (EUFORBH), deployed initially to oversee implementation of the military aspects of the peace agreement, is an important part of the overall security arrangements, designed to act as a deterrent to a return to armed violence. Economically, despite persistent political uncertainty, growth has been sustained, enabled by partial restoration of the country's productive capacity with international support. Given the scale of the human and physical losses from the fighting on its territory,[2] overall, Bosnia and Herzegovina's performance compares favourably to its regional peers, the successor countries to the former Yugoslavia, the sole exception being Slovenia. Specifically, economic growth has been achieved within a constrained economic policy framework mandated by the DPA,[3] macroeconomic stability has been maintained and the high levels of unemployment and poverty recorded in the early post-war years have been reduced. Despite these significant advances towards economic recovery, return to a pre-war GDP level has proven elusive.[4] Economic transformation triggered by the abrupt and excessive deindustrialisation under the combined impact of war, disintegration of the former Yugoslavia market and delayed company restructuring, has hindered a broad-based economic recovery that is needed to underpin robust and sustained long-term development. Job creation, provision of public services and financial obligations towards the population most affected by the war, remain causes for concern in terms of the state's capacity to respond comprehensively and effectively, and to ensure that economic recovery gains are translated into substantive improvements to the welfare of Bosnia and Herzegovina's citizens and strengthened societal cohesion.[5] While dependence on international assistance and strict conditionality have ensured government compliance with fiscal targets, this has been detrimental to the creation of a fiscal space for proactive policies to support sustained broad-based economic recovery. Lack of economic opportunities combined with an uncertain political outlook are fuelling strong outward migration. This demographic trend – which can be seen across the Western Balkans – is of particular concern in Bosnia and Herzegovina, given that refugee return has been accomplished only partially. There is a heightened risk of significant permanent population loss as some areas have already been emptied of people, with attendant economic, political and security consequences.

Since the mid-1990s, the international community has provided substantial support for the construction of effective democratic and market institutions as the foundation for stable long-term peace. It has also provided assistance in regenerating Bosnia and Herzegovina's physical and social infrastructures. Given that Bosnia and Herzegovina's statehood is contested by two of the three parties involved in the power sharing framework agreed under the terms of the DPA, implementing internationally supported policy reforms has encountered direct

1 The UN Security Council meeting on Bosnia and Herzegovina on 6 May 2025 stated that the country was going through an "extraordinary crisis with the constitutional order under attack". Available at: www.news.un.org.

2 Bosnia and Herzegovina's human capital losses were four times higher than the combined human capital losses of all the other former Yugoslav republics which became independent states after the country's break up.

3 Bosnia and Herzegovina's currency operates under a currency board regime and the exchange rate policy mechanism is not available.

4 Calculated in 2024 US dollars (US$), in 2027 Bosnia and Herzegovina will achieve the level of GDP recorded for 1990. Calculated in 1990 US dollars, Bosnia and Herzegovina's GDP recovered to its pre-war level in 2023, more than three decades later.

5 The UNDP considers a 'high human development index' score (https://hdr.undp.org/) to be related to the legacy of Bosnia and Herzegovina's development as part of the former Yugoslavia.

political obstruction. In the face of such sustained political subversion of its objectives, the international community's approach and the available instruments have proven ill-suited to effective engagement with the local political economy. As a result, institution-building has been undermined and structural reforms delayed and distorted, which has weakened potential economic recovery. Preserving peace still relies on the continuing external presence, both military (EUFOR) and civilian (Office of the High Representative – OHR).

Unconsolidated statehood, which has been of huge consequence for the process and outcomes of Bosnia and Herzegovina's post-war reconstruction, is by far the most important difference between this country and Ukraine. Ukraine's conflict, as an inter-state war caused by Russian aggression, is qualitatively different. The maintenance of a functioning government throughout active warfare means that Ukraine will not have to deal with this particular type of post-war transition and its associated problems. That said, the terms of the peace settlement, as well as Ukraine's distinctive political economy will have a bearing on the process of internationally supported post-war reconstruction and the example of Bosnia and Herzegovina is instructive with regard to the complexities involved in rebuilding an internationally competitive market economy. The war in Bosnia and Herzegovina was relatively short and it is very small compared with the population and economic size of Ukraine. Nevertheless, and despite having access to prolonged and substantial international assistance, it has struggled to overcome the legacy of war. Bosnia and Herzegovina remains a volatile spot on Europe's map and a likely source of instability in the region and in Europe more broadly in view of Russia's increasing interference. Ukraine will inevitably face a far more complex international aid setting than that of Bosnia and Herzegovina. Given Ukraine's size and economic and political clout, the consequences of ill-designed international assistance for its post-war recovery and transition could be far reaching and serious for both Ukraine and European security.

The purpose of the present study is to offer insights derived from experience of post-war economic recovery in Bosnia and Herzegovina after the 1992–1995 war for the preparation of post-war reconstruction activities in Ukraine. The paper begins with a brief overview of the domestic and international context of post-war reconstruction in Bosnia and Herzegovina, highlighting relevant similarities and differences with Ukraine. Section 2 discusses the main challenges and dilemmas related to post-war recovery in Bosnia and Herzegovina and examines the initial responses, in the form of the emergency reconstruction programme, which laid the foundations for launching its economic recovery. The subsequent sections provide a succinct selective analysis of how European Union (EU) Member State building has shaped the post-war reconstruction agenda and its priorities; examine the resulting economic outcomes; and outline the successes and shortcomings. The paper concludes with a short summary and some key lessons for Ukraine's post-war reconstruction.

The domestic and international context for post-war reconstruction

The armed conflict in 1992–1995 started because of the aggression against Bosnia and Herzegovina by its principal neighbours, Serbia and Croatia, in the context of the break-up of their common state, the former Yugoslavia. Serbia, as the largest of the former Yugoslav republics, opposed the independence of Bosnia and Herzegovina and intervened militarily to prevent it, under the pretext of protecting the Bosnian Serb minority against the Bosnian Muslim majority. Croatia used this same justification, but in terms of protecting the Bosnian Croat minority. The involvement of Serbia and Croatia escalated the situation in Bosnia and Herzegovina to a civil war among the three main ethnic groups. Three ethnically dominated "statelets" were created, each with its own government, army and currency. Under the DPA, Bosnia and Herzegovina was organised as an asymmetric confederation consisting of two entities, namely the Bosnian Muslim and Bosnian Croat dominated Federation of

Bosnia and Herzegovina (FBH) and the Bosnian Serb dominated Republika Srpska (RS), as well as an independent Brčko District that, after international arbitration, came under the jurisdiction of the national government. The implementation of the DPA entailed a state-building process that required that the parallel war-time governing structures be dismantled alongside a gradual unification of the country, both political and economic. The DPA vested decision-making in the two entities, assigning only minimal powers to the institutional framework of the national state. The very limited powers of the national government over the first seven post-war years were reflected in the state budget, which amounted to just €100 million in 2001–2002 compared with the budgets of the FBH (€700 million) and RS (€500 million).[6] Under the DPA, building a functioning state with a four-tier governing structure, organised along ethnic lines, required the consensual transfer of power from the entity to the national level. In practice, this complex ethnic and territorial power sharing worked to entrench ethnic divisions and to rekindle political tensions while leading to active obstruction of policy reforms by the three ethno-political elites, and aggravating institutional weakness.[7] A state-level government in the form of a Council of Ministers of Bosnia and Herzegovina, albeit without finance, industry and trade ministries, was finally established twelve months after the signing of the DPA. Thus, reconstruction was launched in the absence of the state institutions key to economic governance, including post-war industrial recovery and industrial policy.[8] As a small open economy, with a passive monetary policy[9] due to the imposition of the currency board [10] arrangement under DPA terms, fiscal policy is the only active economic policy segment in Bosnia and Herzegovina. Consequently, the weak position of the national state has been a significant constraint on effective economic policymaking. Furthermore, the lack of functioning institutions created a situation conducive to more intrusive engagement by international actors, including the choice of policy priorities and their sequencing. Hence the extent of proactive economic policymaking by the domestic authorities was limited, contrary to the principle of local ownership that is considered to be fundamental to effective aid.[11]

The main objective of the DPA was to stop the war. This was achieved by a strong international civilian and military presence in Bosnia and Herzegovina. The OHR, operating as the civil authority of last resort, was charged with overseeing implementation of the civilian aspects of the agreement. It was vested with the power to draft, impose and veto legislation, and to remove any public officials deemed to be undermining implementation of the DPA. The NATO Implementation Force (IFOR, later renamed the Stabilisation Force or SFOR), was entrusted with providing security and the United Nations peacekeeping mission, the UNMIBH, was deployed (1995–2002). They would later be replaced by, respectively, EUFOR and the EU Police Mission.

A further distinctive feature of post-war reconstruction in Bosnia and Herzegovina was its regional scope with regard to policy proposals and

6 The combined budgets of the 10 cantons, a lower administrative government unit of the FBH, were in excess of EUR 1 billion. Altair Assesores, LSE Enterprise, "Vertical Review of Economic Sector in Bosnia and Herzegovina", Sarajevo, 2004, the project financed by the European Commission, Resident Mission to Bosnia and Herzegovina.

7 Kreimer, A., Muscat, R., Elwam, A. and Arnold, M. (2000): *Bosnia and Herzegovina Post-conflict Reconstruction Country Study. Washington: The World Bank.*

8 Even when the first Council of Ministers was sworn in, the state lacked the capacity to develop or implement a country-wide economic recovery programme. Ultimately, the first relevant document, the Poverty Reduction Strategy Paper, the medium-term development strategy for Bosnia and Herzegovina, was designed under strong World Bank direction. But eventually implementation was abandoned.

9 Frenkel, J.A., Razin, A. (1987): *The Mundell-Fleming Modell: A Quarter Century Later, Working Paper No. 2321, National Bureau of Economic Research (July). Available at:* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=884792.

10 The currency board regime is based on the hard pegging of the KM to the euro. For an exposition of this choice for Bosnia and Herzegovina, see: Coats, W. (2007): *One Currency for Bosnia – Creating the Central Bank of Bosnia and Herzegovina, Washington DC (April). Available at:* https://sites.krieger.jhu.edu/iae/files/2017/06/One_Currency_for_Bosnia_Coats.pdf.

11 Woodward, D. (1998): *The IMF, the World Bank, and Economic Policy in Bosnia, London: Oxfam Working Paper, p. 22.*

interventions. These also included EU accession. Because the neighbouring countries of Serbia, Croatia and Montenegro had been directly involved in the Bosnian war and Serbia and Croatia were co-signatories of the DPA, the latter were granted special and parallel relations with the Bosnian Serbs and the Bosnian Croats. This provision has compounded the challenges of post-war reconstruction, most directly by undermining the institutional consolidation of the Bosnian and Herzegovinian state because of active interference by the two countries. This had a knock-on effect on the ability to implement coherent country-wide development policies.

Dilemmas of post-war economic recovery in a context of institutional weakness: emergency reconstruction

Although the war in Bosnia and Herzegovina was relatively short, the scale of the destruction was vast. An estimated 2.8 per cent of its pre-war population of 4.5 million were killed.[12] More than half the population were displaced from their homes; a quarter fled abroad. The loss of physical capital was substantial, estimated at US$ 30 billion–US$ 40 billion (in 1996 US dollars).[13] Around 80 per cent of the population received some form of regular food aid and more than a third of the housing stock was destroyed or seriously damaged.[14] GDP and industrial output fell to, respectively, 20 per cent and 10 per cent of pre-war levels[15] and, from being a middle-income country, Bosnia and Herzegovina regressed to developing-country status. The military strategy involved targeting infrastructure, production facilities and housing stock, especially in urban areas, because most towns and cities had been besieged by the Bosnian Serb military. Ethnic cleansing caused the population to move from rural to urban areas, severely reducing the capacity to provide public services or sustain productive economic activity. Such large-scale population displacement was consequential for economic recovery. It created a mismatch between available labour skills and the needs of local economies, while also curtailing production in, especially, agriculture and manufacturing. The presence of mines on some 4 per cent of the territory, and their costly and time-consuming clearance, hindered the revival of economic activity while presenting an ongoing hazard for humans and cattle. The slump in domestic production was accompanied by a huge rise in illegal and criminal economic activity, aimed at supplying basic consumer goods and, in some cases, supporting the few remaining legal economic activities. The expansion of the extra-legal economy during the war was facilitated by the direct involvement or tacit approval of the political and military leaderships of all three warring sides, as they were dependent on their links to regional and transnational (criminal) networks. The persistently high level of post-war corruption in Bosnia and Herzegovina is one manifestation of this toxic political economy, which accounts in no small measure for the difficulties encountered in restoring the rule of law and re-establishing legal markets.

In a context of weak domestic governance institutions, the World Bank and its Priority Reconstruction Programme (PRP) led international post-war reconstruction efforts during 1996–2000. The PRP had on four priorities: rebuilding infrastructure and housing; restoring basic public services; assisting the most vulnerable population; and supporting institution-building (especially for economic governance). Several unique aspects of the World Bank's engagement demonstrate a degree of responsiveness to the specific circumstances surrounding Bosnia and Herzegovina's early post-war recovery and arguably

12 Available at: https://www.icty.org/x/file/About/OTP/War_Demographics/en/bih_casualty_undercount_conf_paper_100201.pdf.

13 In 1990, Bosnian GDP was around US$ 11 billion.

14 Nedic, G. (2006): *Financial and Technical Assistance in the Reconstruction and Development of Pos-conflict Bosnia and Herzegovina. Vienna: WIIW. The WIIW Balkan Observatory WP 073.*

15 World Bank (2024): *Bosnia and Herzegovina Country memorandum. Washington: The World Bank.*

contributed to the PRP's success. Although Bosnia and Herzegovina was not part of the World Bank at the time, some 10 months before the DPA was signed, the Bank had begun preparations for the post-war recovery, mobilising domestic and international actors[16] and conducting damage assessment. Securing support from the World Bank leadership was particularly significant for ensuring early and strong representation at and the high visibility of the World Bank country office for Bosnia and Herzegovina within the World Bank. In response to the extraordinary lack of resources and institutional capacity, the World Bank Trust Fund for Bosnia and Herzegovina and the International Development Association (IDA) funded 16 projects, each including a component related to employment generation and institutional development.[17] Other adjustments were made to World Bank standard procedures, including waiving the requirement for local government co-financing, while approving larger than normal amounts for project preparation. The Bank initiated the process of clearing Bosnia and Herzegovina's international debt arrears which endowed the country with important advantages in managing the risk of foreign debt accumulation during the reconstruction process. This problem is likely to be much more severe for Ukraine. The first donor conference led by the World Bank and co-chaired by the European Commission secured firm pledges for US$ 600 million of the total estimated emergency reconstruction funding envelope of US$ 5.1 billion.

The emergency recovery programme included initiatives to jump-start the economic recovery and its implementation, as well as technical assistance and funding for institutional support. The largest share of funding under the PRP was provided in the form of grants. To kick-start investment, the Investment Guarantee Agency (IGA) was set up with the IDA to protect against political risk, securing $10 million of funding. With support from the International Finance Corporation (IFC), a venture capital fund was established to provide capital and technical assistance to small and medium-sized enterprises. The Local Initiative Project, a World Bank flagship initiative, included microcredit to support income-generating opportunities and laid the foundations for microcredit banking in Bosnia and Herzegovina. The World Bank also supported the establishment of an export enterprise facility that, eventually, was set up using USAID (the Guarantee Fund).

The emergency reconstruction programme had clear goals, a strong lead implementation agency and adequate funding. It managed to achieve its main objectives regarding infrastructure rehabilitation (electricity, water supply, telecommunications) and rebuilding of schools, hospitals and houses. Spending on these objectives exceeded 70 per cent of total outlay.[18] Infrastructure recovery received support also from the European Bank for Reconstruction and Development (EBRD) and numerous other donors. Other funding lines went to the government (for example, public finance reform credit, banking sector reform credit, tax administration support) and some individual sectors (such as emergency wood supply and forest management). The recovery of production capacity was muted, however, as the international assistance to the industrial sector was skewed towards small and medium-sized private companies, reflecting donors' reluctance to support socially owned enterprises.[19]

Sustained up by large-scale international assistance, GDP grew strongly during the emergency reconstruction phase, but in 2000 it was still

16 The Dutch government's contribution was especially important in providing initial funding for meetings between the World Bank and Bosnian and Herzegovinian officials, pilot projects and so on.

17 Kreimer et al. (2000). See n 7 above.

18 World Bank (1999): *Bosnia and Herzegovina – 1996–1998 Lessons and Accomplishments, Review of the Priority Reconstruction Programme and Looking Ahead Towards Sustainable Economic Development. Washington: World Bank.*

19 Under the World Bank programme, only those socially owned enterprises deemed to have "good privatisation potential" were eligible for support (Woodward 1998: 42).

below 40 per cent of its 1990 level. When implementation of the PRP began in 1996, the unemployment rate was estimated at close to 80 per cent; by 2000, it had almost halved.[20] However, most of the new jobs were not in business or sustainable, but were related to infrastructure rebuilding programmes and local initiatives, with a maximum duration extending to three years. The (consolidated) budget deficit and budgetary spending were at 20.4 per cent and 61 per cent of GDP, respectively. More than a quarter of the population were internally displaced and more than a fifth of the formally employed were effectively at nil or below poverty line income levels.[21]

Recovery of production activity

Recovery faced several interrelated obstacles. The fundamental barrier was the lack of a national macroeconomic management framework. The OHR thus had to intervene to implement legislative reforms related to building the monetary system, trade policy and foreign direct investment, as well as to establishing the Central Bank of Bosnia and Herzegovina and introducing a common currency (the convertible mark, KM). However, implementation of some of the relevant legislation was thwarted by the state and entity parliaments. This was the case with the Law on foreign direct investment, one of the key reforms to support the recovery of productive capacity advocated by international donors. The Law was ratified by the entity parliaments three years after it had been proposed because of Republika Srpska's insistence that the entities should be responsible for its implementation.

A further major constraint on business recovery was access to finance. Of the 70 local banks in operation immediately after the war, two-thirds were privately owned, insufficiently capitalised and lacking expertise. High interest rates, which averaged 55 per cent in 1998/1999, put borrowing out of reach of manufacturing businesses. The credit lines provided by donors, such as the World Bank and USAID, were small oases in a desert of unaffordable finance for businesses that had survived the war. The entry of foreign banks in the context of financial liberalisation, through privatisation,[22] helped to reduce the long-term interest rate to around 9 per cent in 2005. This sharp reduction was expected to enable better access to finance for real sector companies, especially manufacturers, and contribute to their gradual growth and increased export capacity.[23] But instead, for an extended period, bank lending was directed mainly at households. Legal uncertainty over ongoing privatisation meant that many businesses refrained from investing, while from the banks' perspective, lending to households, especially with the development of the mortgage market, was more profitable. The high volume of household credit was an important factor driving domestic demand-led growth up until the onset of the global financial crisis in 2008/2009. The financial crisis exposed the vulnerability of a Bosnia and Herzegovina banking sector owned almost entirely by European banks. The infected assets and parent banks' need to recapitalise caused them to drastically cut the money supply through credit lines, resulting in a contraction in lending to both households and companies and concomitant impacts on private sector development and economic growth.

For most companies, the loss of market access was another binding constraint alongside access to finance. The exceptions were companies located in the Bosnian Croat controlled areas adjacent to Croatia. Unlike the situation in Ukraine,

20 The unemployment data in this period should be treated with caution because of the tendency of Bosnian and Herzegovinian companies at the time to overreport the number of employees.

21 Those were workers put on so-called waiting lists. Although formally employed, they received no wages.

22 Integration into EU markets was facilitated by significant foreign investment in the banking system, starting with the Austrian Raiffeisen Bank's acquisition in December 2000 of a majority stake in the Market Bank Sarajevo. Other European banks followed suit, taking ownership of more than 95 per cent of all bank assets in Bosnia and Herzegovina.

23 Čaušević, F. (2005): *Money Market Development in Bosnia and Herzegovina, Economics Institute Sarajevo. Sarajevo.*

where a significant level of production capacity is being utilised despite the war, production in Bosnia and Herzegovina contracted sharply because of the physical destruction and extreme fragmentation of the economic space controlled by the different warring factions. For instance, before the war the United Metal Industry Sarajevo (UNIS) had been a major exporter, but its headquarters were in the capital, Sarajevo,[24] which was under siege by the Bosnian Serbs for the entire duration of the war. UNIS manufactured finished and semi-finished products (vehicles, bicycles, tools, bearings and other spare parts, and military equipment) and provided services (engineering, general consulting, tourism, vehicle rental). Before the war, it operated 88 plants and employed 50,000 workers. Of those, 61 survived in some form, but by 2000 there were only 5,000 registered employees.[25] The recovery of this and many other companies in different industries that had dominated the country's pre-war exports (aluminium, steel, wood processing, food) was contingent on the course of privatisation. Privatisation in the post-socialist transition was disrupted by the onset of war, as a result of which unresolved property rights curtailed companies' restructuring and investment.

The economic model fostered by international assistance was based on private sector export-led growth, foreign direct investment and a conducive business environment under the effective and minimal regulatory role of the state. The policy reform priorities supported by international donors were selected accordingly. Crucially, donors expected privatisation to be fast and efficient and to pave the way for a business restructuring that would attract foreign direct investment. Privatisation was implemented at the entity level, which opened the door to abuses by the three ethnonational political elites, which seized the opportunity to capture assets and reinforce their economic power bases. The mass privatisation model, chosen on the grounds of its supposed effectiveness, failed to have the expected impact on the scale of business recovery. Many state-owned companies were privatised through exchanges of certificates. However, without a legal obligation for the new owners to invest, develop new markets or increase employment, private ownership led to asset stripping and/or closures, accompanied by massive job losses. Foreign investors were banned from participation in the voucher scheme. At the insistence of the German, Austrian and Italian embassies in Bosnia and Herzegovina and in cooperation with the OHR, however, in 2000 a Rulebook on Tender Privatisation was drawn up that allowed foreign companies to participate in privatisations in both entities. By providing a route for foreign direct investment, tender privatisation had consequences for the partial recovery of the manufacturing sector and attracted international companies such as the Mann Hummel Gruppe, Meggle Group, Heidelberg Materials, ALAS International, Arcelor Mittal, Kastamonu Entegre, Prevent Group and Kolektor Mobility, among others. This provided access to fresh capital, new knowledge and markets and paved the way to restructuring, upgrading of existing knowledge and increased employment in those companies. Other measures intended to attract foreign investors, including the establishment of special economic zones and the Foreign Investment Promotion Agency, were less effective – some of the biggest and most successful foreign investment that galvanised exports materialised through privatisation.

Trade liberalisation, another pillar of the economic reconstruction model implemented in Bosnia and Herzegovina, took off in the absence of state border services, an institution that controls cross-border flows of goods and people. Smuggling was rife and subjected local producers to unfair competition, while legal trade also disadvantaged domestic producers. Trade liberalisation caused a surge in imported goods (especially agricultural

24 In the 1980s, the largest car factory in the Balkans, a joint venture between UNIS and Volkswagen, was located in Sarajevo.

25 Poschl, J. (2002): *Bosnia and Herzegovina after Five Years of Reconstruction. Vienna: WIIW. WIIW Country Analysis and Profiles No 15.*

products), from countries that were providing export subsidies, including neighbouring Serbia and Croatia, which were unavailable to producers in Bosnia and Herzegovina. In a context of repeated decimation of the local economy and absent functional institutions, trade liberalisation boosted trade but suppressed recovery of production capacity. Reconstruction was overwhelmingly reliant on imports, and only a small fraction of the goods needed were sourced locally. Even construction materials, fundamental for the reconstruction of physical infrastructure and housing, were largely imported. This continued the damage inflicted on the domestic construction sector, which, before the war, had been well developed and active in international markets. Demand for imports was boosted also by spending by foreign staff stationed in Bosnia and Herzegovina and members of the local population who benefited from the strong inflows of remittances[26] (estimated at 30 per cent of GDP during this period). At the same time the recovery of domestic production had lagged behind, and attracting substantial foreign investment into manufacturing was slow. The IGA, the institution set up with international assistance to support exports, struggled to generate funds and was unable to support the export contracts in which the government was interested.[27] Weak export performance coupled with huge import volumes led to trade deficits averaging 50 per cent of GDP in 1996–1999. Trade deficits were the main driver, during this period, of the large current account deficits, which were to remain a persistent feature of post-war economic recovery for another 10 years.

The unfavourable business environment had a major effect on business recovery and business competitiveness. The international community insisted that related reforms be included among the top priorities on the reconstruction agenda. The main emphasis has been on implementing legislative and regulatory reforms intended to reduce the administrative barriers to business and lower transaction costs, galvanising private sector growth. Significant progress was made in building institutional frameworks. But a variety of constraints continued to hamper robust private sector development. They included a lack of affordable finance, skills shortages, underdeveloped entrepreneurial culture and, later on, ineffective competition policy. All this, combined with the weak rule of law and political tensions,[28] contributed to unpredictability in the business environment.

Transitioning from emergency reconstruction to sustainable economic recovery under the same model

The core economic model advanced under the PRP, led by the World Bank and supported by other international financial institutions (notably the International Monetary Fund) and donors, serves as point of reference for the economic reform agenda Bosnia and Herzegovina is required to implement under the EU accession agenda. Transforming Bosnia and Herzegovina into the single economic space required by the EU's *acquis communautaire,* has been the overarching framework for reforms supported by EU financial and technical assistance since 2005. The thrust of the process is convergence with EU criteria, which requires a massive development of institutional capacity. In Bosnia and Herzegovina, institution-building, which is inevitably a time-consuming process, has been impaired significantly by a combination of factors related to domestic politics and the EU's internal problems. Among the latter, lack of a unified stance to-

26 Data on remittances are incomplete because informal cash channels were used, besides inflows through the banking system. In the early stages of Bosnia and Herzegovina's recovery, remittances were estimated to outstrip international assistance threefold. They were critical to foreign account sustainability and alleviation of household income constraints. However, neither the domestic government nor international donors exploited their potential to support productive activities.

27 To compensate for the lack of funds, the IGA turned to the private insurance market and reinsurance companies in Europe, which, after conducting risk assessments, declined to approve contracts. See BH Ministry of Foreign Trade and Economic Relations (2003): *Strategy of Foreign Trade Policy and Support to Exports.*

28 A 2023 enterprise survey identifies political instability, an inadequately educated labour force and tax rates as the three top business environment constraints in Bosnia and Herzegovina.

wards the political process in Bosnia and Herzegovina has been by far the most damaging. More specifically, different EU Member States both openly and tacitly support different ethnic leaders in Bosnia and Herzegovina. This has not only been destructive politically but has also directly undermined important development projects. Bosnia and Herzegovina was not granted EU candidate status until December 2022, six years after applying and 22 years after the EU proposed the Stabilisation and Association Process (SAP) approach, designed to support EU accession of the group of countries affected by the wars related to Yugoslavia's succession and Albania. This prolonged transition to EU candidate status and the EU's perceived unprincipled position, have worked to compromise the credibility of the EU project in Bosnia and Herzegovina[29] and have contributed to the ethnic parties' grip on power, which sustains political instability.

The Stabilisation and Association Agreement (SAA) has given Bosnia and Herzegovina privileged access to the EU market through autonomous trade measures. Furthermore, bilateral free trade agreements have been signed with all south-east European countries. Goods originating in Bosnia and Herzegovina were granted customs- and tariff-free access to the EU market and, with the exception of a small number of products, subject to compliance with technical and technological requirements (standardisation, sanitary and phytosanitary measures, and so on) and quotas. One problem, however, which was to remain in place beyond the initial phase of trade liberalisation with the EU, was that the institutions (such as those dealing with phytosanitary measures and standardisation) needed to certify that regulations were being met, were either dysfunctional or non-existent. For small producers, in particular, this made it impossible to exploit this free market access, which undercut its potential positive impact on the recovery of domestic production capacity. Another issue was the list of essential exports, which excluded some goods from the EU market in which Bosnia and Herzegovina had a comparative advantage (such as veal or textiles[30]). Another aspect of trade liberalisation which impacted production recovery was that trade liberalisation removed customs duties on final consumer goods, but maintained them on capital goods.

The SAA's free trade provisions allowed for the gradual establishment of a bilateral free trade area over a period of up to five years, during which time customs tariffs and quotas would be reduced or removed on goods from both the EU and Bosnia and Herzegovina. Trade liberalisation did help to boost trade with both the EU and the other Western Balkan countries. It was a major contributor to the EU becoming Bosnia and Herzegovina's main export and import trade partner and tied Bosnia and Herzegovina's export performance to EU market dynamics. For some time Bosnia and Herzegovina had a high trade deficit[31] with the EU (49.6 per cent of GDP in 2005; 27.7 per cent in 2015), by 2020 this had been reduced to 15.9 per cent as its export competitiveness improved.[32]

Given the extent of the government's commitments in the post-war economy and the heavy and costly administrative apparatus created by the DPA, fiscal consolidation has proven difficult

29 Bonomi, M., Hackaj, A. and Reljić, D. (2020): *Avoiding the Trap – Another Paper Exercise: Why the Western Balkans Need a Human Development Centred EU Enlargement Model. Rome: Instituto Affari Internazionali; Richter, S. and Wunsch, N. (2020): "Money, Power, Glory: The Linkages between EU Conditionality and State Capture in the Western Balkans", in: Journal of European Public Policy 27(1): 41–62.*

30 Restrictions on textiles were lifted in 2001.

31 Prior to the outbreak of the war, Bosnia and Herzegovina ran a trade surplus with the EEA.

32 Bosnia and Herzegovina Statistics Agency, *National Accounts, Thematic Bulletin 1, December 2005. The Central Bank of Bosnia and Herzegovina. Annual Report 2005, Sarajevo. The World Bank database – Bosnia and Herzegovina,* https://data.worldbank.org/country/bosnia-and-herzegovina. The International Monetary Fund, *Bosnia and Herzegovina: 2007 Article IV Consultation – Staff Report, IMF Country Report No. 07/268 (August),* https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Bosnia-and-Herzegovina-2007-Article-IV-Consultation-Staff-Report-Public-Information-Notice-21243m; *IMF Public Information Notice No. 10/154 (December 3, 2010),* https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn10154; *IMF Press Release No. 15/481 (October 28, 2015),* https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr154841; *Bosnia and Herzegovina – 2024 Article IV Consultation, IMF Country Report No. 24/175 (June 2024),* https://www.imf.org/en/Publications/CR/Issues/2024/06/18/Bosnia-and-Herzegovina-2024-Article-IV-Consultation-Press-Release-Staff-Report-550641.

both economically and politically. Since 1996, Bosnia and Herzegovina has had four stand-by and one extended fund facility arrangements with the IMF. All of these arrangements were disrupted, at various points, by the emergence of domestic political and administrative problems. Upgrading the pension and welfare systems and introducing labour market reforms were particularly contentious and were opposed by both political actors and the public. Because of the power asymmetry inherent in Bosnia and Herzegovina's dependence on external finance, the country ultimately had to conform to the aid conditions. The issuance of government bonds as a source of long-term financial resources that would smooth macro cash-flow management and secure funds for faster and targeted financing of both soft and hard infrastructure (as well as preparing for the green transition in the current phase of Bosnia and Herzegovina's development) was blocked by Republika Srpska politicians. The entity governments, as well as some of the Federation cantons, however, issue bonds regularly to bridge the budgetary gaps.

With regard to its fiscal balance, Bosnia and Herzegovina has consistently outperformed its regional peers, although compliance with structural reform–related conditions – one of the factors that has impacted the pace and scope of economic recovery – has been weaker. Pursuit of this policy objective has resulted in Bosnia and Herzegovina maintaining low levels of public debt per capita compared with its regional peers, while recording significantly lower levels of GDP per capita (Table 1).

Clearly, maintaining control of public debt in a context of substantial external financing requirements is an important policy objective. The principal drawback of this, however, are the effects of fiscal adjustment on limiting the fiscal space needed for more interventionist policy action to promote resource mobilisation, facilitate development of productive capacity and ensure broader-based growth, so that public services can be provided and the varied welfare needs of the war-affected population met. These aspects are of the utmost importance for a country emerg-

Table 1

Public debt and GDP per capita in the former Yugoslav states in 2023

Country	Public debt per capita at current US$	GDP per capita at current US$
Slovenia	23,550	32,610
Croatia	13,930	21,870
Montenegro	9,780	12,220
Serbia	6,790	12,280
North Macedonia	4,430	8,620
Bosnia and Herzegovina	2,680	8,640
Kosovo	1,560	5,960

Sources: For GDP per capita see https://data.worldbank.org/indicator/NY.GDP.PCAP.CD; public debt per capita calculated from the IMF country reports of the countries included in this table, available at: https://www.imf.org/en/Countries.

ing from war and hoping for an international assistance–driven recovery that supports sustained and inclusive growth. In the Bosnia and Herzegovina as fiscal policy is the only active macroeconomic policy lever, they cannot be overemphasised.

Indirect tax revenue is the national government's main source of budget revenue and the buoyancy of post-war consumer demand has ensured strong revenue streams. However, the capacity for capital investment has remained below what is required for dynamic and more sustainable long-term economic growth. A further strain on public finance stems from the requirements of harmonisation with the EU's legislative and regulatory architecture, which requires the building of new and the upgrading of existing institutions. Ultimately, this limited policy space and inadequate institutional capacity have combined to create an inauspicious context for active industrial policy in supporting the recovery of productive capacity.

The lasting imprint of international reconstruction assistance on Bosnia and Herzegovina's post-war economic performance

The most prominent features of Bosnia and Herzegovina's post-war economic performance have been the macroeconomic stability and fairly moderate growth that followed the strong rebound of the emergency reconstruction phase. As already noted, Bosnia and Herzegovina is the top regional performer in terms of fiscal deficit

Table 2

Bosnia and Herzegovina: selected economic indicators, 2000–2023

	2000	2005	2010	2015	2020	2023
Consolidated budget balance (% GDP)	−20.4	+1.0	−4.5	−1.6	−4.6	−1.7
Budget expendi-tures (% GDP)	60.9	47.8	50.4	48.1	45.4	42.5
Budget revenues (% GDP)	45.5	48.8	45.9	46.5	40.8	40.8
Gross public debt (% GDP)	75.3	37.5	39.1	45.5	37.1	32.2
External debt (% GDP)	68.9	56.4	52.0	55.1	63.9	49.5
Current account balance (% GDP)	−21.2	−21.7	−5.5	−7.9	−2.8	−2.8
Trade balance (% GDP)	−55.4	−49.6	−21.7	−23.0	−13.4	−12.8
Unemployment rate	25.2	30.2	27.3	27.7	15.9	10.7

Sources: Agency for Statistics of Bosnia and Herzegovina, *National Accounts, Thematic Bulletin 1, December 2005; Central Bank of BH, Annual Report 2005, Sarajevo, 2005; World Bank database – Bosnia and Herzegovina,* https://data.worldbank.org/country/bosnia-and-herzegovina ; International Monetary Fund (2007), *Bosnia and Herzegovina: 2007 Article IV Consultation – Staff Report, IMF Country Report No. 07/268 (August),* https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Bosnia-and-Herzegovina-2007-Article-IV-Consultation-Staff-Report-Public-Information-Notice-21243m ; International Monetary Fund (2010), *IMF Public Information Notice No. 10/154 (3 December),* https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn10154 ; International Monetary Fund (2015), *IMF Press Release No.15/481 (28 October),* https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr154841 ; IMF (2024), *Bosnia and Herzegovina – 2024 Article IV Consultation, IMF Country Report No. 24/175 (June),* https://www.imf.org/en/Publications/CR/Issues/2024/06/18/Bosnia-and-Herzegovina-2024-Article-IV-Consultation-Press-Release-Staff-Report-550641.

outturn, inflation and public debt. It has succeeded in improving its current account balance by significantly reducing its foreign merchandise trade deficit. This outcome seemingly is defying the frequent observations of analysts and international institutions and their concerns about Bosnia and Herzegovina's macroeconomic sustainability over the years.

Not to downplay the important progress made by Bosnia and Herzegovina with international support, several features of the post-war reconstruction and recovery effort deserve to be highlighted in terms of their role in sustaining long-term peace and development, which are the intended goals of post-war reconstruction.

The obvious starting point is the country's unemployment levels, which have remained stubbornly high, despite sustained economic growth. The fall in the unemployment rate from an extremely high level at the end of the war is, in part, a statistical effect due to the shrinking of the population caused by outward migration and changes to the recording of statistics over the years. The economic consequences of outward migration have been substantial and, on average, correspond to a 1 percentage point annual loss in GDP between 2014 to 2019.[33] The long-term unemployment rate (80 per cent of the registered unemployed in 2023) and the inactivity rate (over 43 per cent of the working-age population not in employment, education or training)[34] are indicative of a failure to create jobs, one of the key aims in the post-war economy. In addition, most jobs are in services (primarily wholesale and retail sales), which is now the dominant economic sector in Bosnia and Herzegovina (66 per cent of GDP and 58 per cent[35] of total employment in 2023) and concentrated in urban areas. Wholesale and retail sales account for a larger share than industry-oriented services and are the largest source of employment in Bosnia and Herzegovina. Another characteristic of structural change since the war, is the significant decline in the industry sector share and moderate decline in the share of agriculture. The structural change that has occurred under post-war reconstruction is consistent with a general trend towards deindustrialisation in the former Yugoslavia successor countries, including those with no comparable experience of war in their territories. What is different is the abrupt and huge contraction in industrial output caused by the war in a key pre-war economic sector. The impact of the war has been compounded by the low level of (capital) investment in the context of policy priorities mandated under internationally supported reconstruction, which failed to stimulate adequate levels of aggregate demand. The profile of registered job seekers, split evenly between low-skilled and those with secondary and higher education, highlights the shortcomings of the standard set of policy prescriptions in so far as the recovery of production capacity was limited and productive diversification lacking.

That said, over a period of more than four investment cycles since the end of the war, Bosnia and Herzegovina's industrial structure has begun to change. Until 2013/2014, the sector was dominated by low value-added products (base metals, wood processing). Thereafter, the share of higher value-added products has increased, which explains Bosnia and Herzegovina's improved export performance (Table 4).

The improving composition of manufacturing is evidence of a degree of reindustrialisation. According to the Harvard Growth Lab's Economic Complexity Index,[36] which is based on export capabilities relative to size, in terms of the number of products from different industries exported to trade partners, Bosnia and Herzegovina's ranking has risen from 62nd in 2000 through 51st in 2015, to 39th in 2023 (the most recent availa-

33 World Bank (2024): Bosnia and Herzegovina Country Memorandum. Washington: The World Bank.

34 Ibid.

35 Source: UNECE database.

36 Harvard Growth Lab, Country & Product Complexity Rankings, available at: https://atlas.hks.harvard.edu/rankings.

Table 3

Bosnia and Herzegovina: GDP structure – expenditure approach

GDP	2005–2014 (average in % GDP)	2015–2023 (average in % GDP)
Final household consumption	81.5	69.5
Gross investments	19.4	23.5
Government expenditures	21.3	19.2
Net exports	−22.2	−14.2

Sources: Agency for Statistics of Bosnia and Herzegovina (2015), *Gross Domestic Product by Production, Income, and Expenditure Approach, Thematic Bulletin 01, https://bhas.gov.ba/data/Publikacije/Bilteni/2016/NAC_00_2014_TB_1_BS.pdf. Idem (2023) Gross Domestic Product by Production, Income, and Expenditure Approach, Thematic Bulletin 01,* https://bhas.gov.ba/data/Publikacije/Bilteni/2025/NAC_00_2023_TB_1_HR.pdf.

Table 4

The most important product groups among exports, Bosnia and Herzegovina (% total exports)

Group of export-ed products	2005	2015	2020	2023
Machines and equipment	5.2	14.5	15.0	15.6
Footwear and clothing	6.6	11.3	10.6	9.4
Fabricated metal products	5.9	6.3	9.6	10.3
Chemicals	3.4	5.7	7.8	8.1
Furniture	5.8	10.0	8.6	6.6
Base metals	16.6	10.5	5.0	6.3
Electricity	3.9	3.2	4.7	6.3
Wood products excluding furni-ture	9.2	5.8	6.8	4.0
Food and bever-ages	7.4	5.2	3.1	4.7
Motor vehicles	2.4	3.5	3.3	3.6
Total exports in bn of BAM (1 EUR=1.95583BAM)	3,783	8,987	10,515	16,700

Source: Agency for Statistics of Bosnia and Herzegovina, *Merchandise trade of BiH with foreign countries, Bulletins for 2005, 2015, 2020, and 2023,* https://bhas.gov.ba/Calendar/Category?id=11&page=2&statGroup=11&tabId=0.

ble ranking). The companies producing and exporting more complex products and the best performers in terms of export growth are in the following sectors: pharmaceuticals (60 per cent), electrical machinery and equipment (54 per cent), industrial machinery (40 per cent), glass and glassware (36 per cent), and plastics (29 per cent). (The percentages in brackets indicate the increase in exports between 2018 and 2023.)[37] Initially, these data might seem puzzling, given the overall modest performance of the industrial sector for much of the post-war period. It is notable that this positive shift is related to restructuring in sectors that were able to build on the industrial development that took place in Bosnia and Herzegovina when it was still part of (the former) Yugoslavia through joint ventures with foreign companies. This industrial development legacy includes accumulated manufacturing-sector knowledge and skills that enabled the companies that survived the war to restructure and (re)gain international competitiveness.[38] During the war, some were able to continue operating at a fraction of capacity and in some cases by adjusting to the needs of the military sector.

Perhaps the most beneficial type of assistance for such businesses is direct and targeted. Policies aimed at improving general competitiveness are far less useful, even though they are often considered to be one of the principal vehicles for private sector development and are pushed under the aegis of international assistance, including within the EU accession framework. The EBRD and the IFC have put money into the provision of technical support to promising companies. The latter already have a good stock of human capital or an evident ability to learn quickly and adopt the new skills and knowledge required for new industries (such as information technology). These institutions have helped to re-establish or upgrade existing knowledge and to connect companies with younger workforce to relevant markets and peers. In combination with the factors already described, EBRD and IFC funds have allowed medium-sized companies to grow into large firms and small companies to become medium-sized. The EBRD, the EIB and the United States Agency for International Development (USAID) have provided financial and technical support for the development of clusters in agribusiness, wood processing and tourism. Another sector that has benefited from sustained human capital formation is the arms sector, which was a well-developed industry before the war. The Federation government provided part funding for its consolidation, underpinned by a special agreement between Bosnia and Herzegovina and the NATO Alliance. This has allowed arms manufacturers to regain competitiveness and become important exporters. The so-called “new economy” related to IT is populated by a group of companies that did not exist before the war and have been growing strongly over the past 20 years or so.

In summary, a more substantial recovery in Bosnia and Herzegovina’s export capacity took approximately 20 years post-war, but remains limited to a small number of major companies. It is also still lacking in terms of diversification and thus falls short of the sustained recovery needed for an economy to withstand the competitive pressures of full EU market inclusion, the ultimate goal of the EU accession process.

Summary and lessons for Ukraine

Bosnia and Herzegovina’s experiences of post-war reconstruction have been distinctive because of its status as an international semi-protectorate with a mandate to facilitate state-building. The policy advice by international partners, which drew on experiences of more peaceful and stable contexts, has proved insufficient for the reconstruction and modernisation of the production base and for tackling the vast developmental

37 The Atlas of Economic Complexities, data for BiH: https://atlas.hks.harvard.edu/countries/70/growth-dynamics

38 Bojičić-Dželilović et al. (2024).

needs of an economy requiring both reconstruction and structural transformation. Bosnia and Herzegovina is now a small, open economy, integrated in the EU market, but fragile and overly dependent on the EU (specifically on six Member States as export partners). The informal economy, which accounted for between 23 and 35 per cent of GDP in 2024, remains close to developing-country level. This undercuts competition, deprives the state budget of revenues and maintains job precarity. The country faces skills shortages because of the exodus of young and educated people and is lagging behind the other Yugoslav successor states in terms of convergence with EU living standards.

While ultimately Bosnia and Herzegovina's post-war reconstruction must be assessed overall as mixed in terms of creating the foundations for greater stability and more sustained economic growth, in this paper we have shown that, since around 2013, a group of companies have successfully engaged in import substitution, have exported to some of the most demanding international markets and have managed to integrate into European value chains. The process has been unnecessarily protracted because of a lack of more responsive, better calibrated and consistent international support. Much of the progress observed in the recovery of the production capacity supporting the structural transformation of the economy is the result of a fertile combination of inherited and accumulated pre-war human capital in some industries/sectors (automotive, machinery, pharmaceuticals, metallurgy, arms, wood-processing), proactive engagement of local managers and experts, and well organised and well-designed financial and technical support from leading EU and US institutions. The role of the state across the different levels of government in actively promoting business recovery has been limited, not to mention skewed towards attracting foreign direct investment through privatisation and horizontal measures aimed at improving the general competitiveness primarily of small and medium-sized private companies. The upshot has been only a partial reversal of the impact of deindustrialisation, reflected in the narrow production base on which economic growth relies. Ultimately, the impact has been felt in government revenue-raising, with budgets stretched when it comes to funding public services and massive welfare needs. The failure to improve living standards is fuelling outward migration, as well as a deterrent to the return of the displaced population.

Lessons for Ukraine

In light of the findings of this study, the following lessons can be drawn for the post-war reconstruction of Ukraine.

→ Rebuilding and transforming an economy after a war in order to ensure sustained growth rests on two main pillars:

  (i) domestic political consensus and a commitment to implementing the required policy reforms;

  (ii) institutional capacity and sound economic governance.

→ Implementation of a recovery strategy must begin while the war is still happening. Crucially, it should be designed to tap into the existing strengths in the private sector, industries and industrial structures, and expand based on these advantages to utilise internal sources of growth effectively.

→ Achieving the recovery of private sector activity requires active support. Horizontal measures championed by internationally supported policy reforms are not enough to address the complexities of business recovery in the aftermath of a war. Industrial policies that target sectors with growth potential as well as extend to firm-level, should be pursued with appropriate international support to address the negative impacts of deindustrialisation on Ukraine's production capacity due to war.

- → Ukraine should consider a very targeted FDI policy aimed at attracting foreign investment to the manufacturing sector, in which the country already has a human capital stock capable of increasing the country's competitiveness.

- → Pursuing active industrial and other policies requires supporting institutions and adequate government capacity. Direct support that reflects local needs is required for economic management, improved fiscal governance and resource mobilisation as part of building and upgrading the institutions needed to support business recovery after the war.

- → Effective support for the private sector requires careful consideration of and attention to the regional level and the impact of wartime economic dislocation on local entrepreneurial ecosystems. It is important to include businesses in designing industrial policies and not just their implementation, working collaboratively with government, civil society and local communities.

- → Business-to-business collaboration and strategic co-investment with European companies should be actively supported by donor countries while the fighting is still going on.

- → Effective fiscal institutions are important to ensure inclusive economic recovery and for rebuilding and strengthening social cohesion, which has been impacted by war-related demographic and political changes. Early improvement in social welfare is essential to bring about a peace dividend and tackle the demographic impact of war by supporting refugee returns and stemming potential post-war outward migration.

- → Good governance and the rule of law are essential for economic recovery based on private sector revival, and should be at the core of the conditionalities attached to international assistance. Both domestic actors and donors must carefully consider the dynamics of the domestic political economy.

- → Preserving and rebuilding human capital must be a top priority during post-war reconstruction. The government should take the initiative in identifying national needs for specific types of skills and training, and implement necessary education system reforms.

- → Managing cash flows at the macro level over the long term is necessary in order to avoid dependence on aid and to secure long-term funding for reconstruction. To that end, we propose a financial innovation in the form of an EU Guarantee Fund for the Western Balkan Countries.[39] The core idea is to use the cash flows and assets of large public sector companies (such as telecommunications and power generation) to issue bonds denominated in domestic currency and guaranteed by the EU through its Guarantee Fund. The Fund would involve a guarantee/equity swap and its representatives would have the "golden share" in voting rights in the management structures of the participating public companies. The proposal, developed initially for Bosnia and Herzegovina and the Western Balkans, was extended to developing countries with natural resources used to assure issuance of financial assets.[40] We refer to this proposal and advocate the exploration of a similar idea to support the post-war recovery of Ukraine, based on Ukraine's relatively abundant natural resources. These resources could act as security for the issue of government bonds, guaranteed, in this case, by an EU Guarantee Fund

39 Čaušević, F. (2015): "Fiscal policies in the European Union, the United States, and the Western Balkans in the age of global crisis", in: F. Čaušević, *Globalization, Southeastern Europe, and the World Economy, Routledge, Routledge Studies in the European Economy, London and New York. Also: "Euro-Balkan bonds and the New Deal for the Western Balkans"; available at:* https://www.taylorfrancis.com/chapters/mono/10.4324/9781315737201-9/fiscal-policies-european-union-united-states-western-balkans-age-global-crisis-fikret-%C4%8Dau%C5%A1evi%C4%87?context=ubx&refId=53008adf-accb-43e0-ae68-98af7711c22c.

40 See Čaušević, F. (2017): "A Proposal for the Issuance of Safe Assets in Developing Economies", in: F. Čaušević, *A Study into Financial Globalization, Economic Growth and (In)Equality. London: Palgrave Macmillan, pp. 109–112.*

for Ukraine. This would serve to protect the country's natural resources and ensure that they are used efficiently during the post-war recovery and macroeconomic management processes. This will necessarily include making progress towards the green transition and programmes to support the return of refugees.

List of abbreviations

BH	Bosnia and Herzegovina
DPA	Dayton Peace Agreement
EU	European Union
EUFOR	European Union Force
EUFORBH	European Union Force in Bosnia and Herzegovina
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FBH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFOR	Implementation Force (NATO)
IMF	International Monetary Fund
IGA	Investment Guarantee Agency
KM	Convertible mark (konvertibilna marka)
NATO	North Atlantic Treaty Organization
OHR	Office of the High Representative
PRP	Priority reconstruction programme
RS	Republika Srpska
SAA	Stabilisation and association agreement
SAP	Stabilisation and association process
SFOR	Stabilisation Force (NATO)
SME	Small and medium-sized enterprises
UN	United Nations
UNMIBH	United Nations Mission in Bosnia and Herzegovina
USAID	United States Agency for International Development
WB	Western Balkans

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Post-war reconstruction in Bosnia and Herzegovina

The study examines the process of post-war reconstruction in Bosnia and Herzegovina (BH). It highlights the challenges of rebuilding a war-torn economy within a fragmented political and institutional framework imposed by the Dayton Peace Agreement. It explores how international interventions, led initially by the World Bank and later shaped by EU accession conditionalities, prioritised macroeconomic stabilisation, trade liberalisation and rapid privatisation, often at the expense of sustainable economic recovery and industrial revitalisation. Despite significant international aid and strong early improvements in infrastructure, as well as integration into the EU single market, Bosnia and Herzegovina's recovery has been marked by high long-term unemployment, insufficient private sector growth, persistent trade deficits and limited industrial capacity. The paper underscores the critical role of institutional weaknesses, which in Bosnia and Herzegovina are augmented by the domestic political economy and externally driven policy prescription priorities, in hampering strong long-term development. Drawing lessons for Ukraine, it emphasises the importance of political consensus, strong governance, tailored support for private sector recovery and fostering human capital to ensure a more inclusive and resilient post-war economic transformation.

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