Keynote Address by Principal Deputy HR Donald Hays at a Conference on “Lessons We Re-Learned in the Balkan Conflicts”

Ladies and Gentlemen,

Almost nine years after Dayton, Bosnia has secured a substantial degree of stability, and major State-level institution-building is now underway in a number of areas (Defense, Intelligence, Police, State Court, and Revenue Collection to name just a few). A US-led, multinational force has effectively provided the extended breathing space that was needed for the citizens of this country to come to terms with each other in their day to day lives. At the same time a coalition of 55 countries and international organizations has worked to rehabilitate this war ravaged country, and build essential institutions at the State level while reforming, as necessary, those at the lower levels of government.

The challenge now is how to consolidate economic and social stability in a country that is just beginning the transition to a free market and facing the overwhelming effects of organized crime and political corruption.

“Challenge” is the operative word here – this is a huge undertaking. Rehabilitating a country of four million people amid an atmosphere of deeply-rooted postwar mistrust is not something that can be accomplished at the drop of a hat – but it *is* something that *can* be done and it *is* something that will have direct positive dividends not only for the people of BiH but for their neighbors in Europe and for their partners

across the Atlantic. Henry David Thoreau, with characteristic common sense, noted that, “men hit only what they aim at. Therefore, they had better aim at something high.”

In BiH we have aimed high, and increasingly we are hitting our target.

What we are about in Bosnia is authentic nation building, and our progress to date indicates that, under the proper circumstances, nation building can work.

In Bosnia there has from the beginning been popular support for the leading role of the US in the international intervention: in other parts of the world this may not be as essential.

If nation-building exercises, such as those in Iraq, in Afghanistan, in Sudan or in Liberia, are to succeed they *must* have a serious commitment of time, energy, financial resources and political resolve.

Today we are asking ourselves whether we have the ability to resolve these dangerous global instabilities through a combination of military, political, economic and humanitarian intervention. I believe this alone makes a compelling reason for all of us to look at the case of Bosnia and Herzegovina , where the success of international intervention has been admittedly fitful, expensive, and often damn hard work – but where it is nonetheless now viewed as a success. If we accept the dictum that those who forget the past are condemned to relive it, then Bosnia and Herzegovina ’s recent history may be viewed as an indispensable lesson in rehabilitating a failed state. That lesson can and should be used to frame the debate over global engagement

Notice I say, “frame the debate”. I would be the first to admit that a policy that delivers success in one part of the world will not necessarily deliver success in another. There is no one-size-fits-all plan of action for such engagements,

or one nation-building model. I am not, therefore, presenting BiH as a paradigm for nation building. The lessons of rebuilding BiH cannot be grafted onto other countries – but they can and should serve as a basis for forging pragmatic solutions to future global engagements.

So let's focus on what has *worked* in BiH and what *might* work in other places.

Master the Chaos

A basic rule of the successful intervention in BiH has been to master the chaos – I don't mean in this case the chaos of a devastated postwar society. I mean the chaos within the International Community.

I assure you this isn't a glib observation; it is, to my mind, a key element in successful post-conflict engagement. In BiH today we have 15 or 20 active international organizations with their own reporting links, websites, mandates, procedures, spokespersons and bureaucratic priorities. In the immediate postwar period you could have multiplied that figure by five. In the five years after the war, international aid money poured into BiH – between five and six billion US dollars from myriad donors. This aid was manifested in a multiplicity of programs and projects, sometimes duplicating or overlapping each other and rarely if ever truly coordinated.

Significant effort and progress was made in rebuilding the country's war-devastated infrastructure – something we could not avoid addressing since the scale of physical damage was so immense. The variety of sources and the volume of funding, however, combined with weak government, and tainted judicial and police structures, helped stoke a variety of negative developments. Criminals and corrupt wartime politicians took advantage of the administrative confusion and lack of political accountability of the period, and extended their networks of drug trafficking, arms trafficking and people

trafficking; nationalist politicians secured resources with which to fund their obstructionist aims, continuing the war by other means while paying lip-service to the terms of the peace treaty; and any real economic reform was unfortunately deferred for years since BiH was able to tread water, courtesy of the economic aid that substituted for domestically sustained economic growth..

Today, the situation has begun to change. There are fewer international organizations on the ground, but more importantly, the Office of the High Representative has evolved, particularly with the introduction of the Bonn Powers in 1997, from being a lobbying agent for change in a war torn country to being, in effect, a regulatory agency. In parallel the International Community has restructured to a sufficient degree its operations, from the urgent but unmanageable free-for-all of 1996 into a more collaborative and coherent policy-implementation exercise.

This has not simply been a matter of facilitating inter-agency cooperation in Sarajevo . Core organizations, on what we call the Board of Principals, which the High Representative chairs every week – include delegations from the European Commission, the OSCE, the World Bank, and the IMF. However, these organizations report to head offices elsewhere and in their greater organizational perspective BiH may be but a modest cog in a very large machine. Likewise, their institutional thinking on BiH is likely to be influenced by, and vulnerable to, the often opaque and frequently shifting currents of global strategy.

The point is that coherent intervention in the field cannot be cobbled together solely by those *in* the field – it has to be built in Washington and London and Brussels with further support from our capitals.

If we had known then what we know now, the IC might well have taken the time immediately after the signing of the Dayton

Peace Agreement to develop *a comprehensive, multi-year plan*, with a robust administrative and political structure in order to *implement* that plan and with the full and coherent support of the international agencies and countries involved. This is something we need to calculate into our plans in future.

We *didn't* know then what we know now because *people* learn lessons, but *institutions* rarely do. This, I believe, is an inadequately understood strategic element in international intervention. There has been a damaging and costly tendency to reinvent the wheel with each new intervention, and with dispiriting regularity (every year or so) lessons have been learned and *re*learned *within* interventions, because reforms are not systematized and the means of implementing and maintaining those reforms are not institutionalised.

Much of our recent work in Bosnia has been aimed at systematizing and institutionalizing.

You Cannot Have Too Much Forward Planning

Interestingly, the military planning and execution were closer to the target. IFOR's mandate was clear – to maintain peace and security while the civilian authorities implemented the Dayton Peace Agreement – and, with an initial strength of 60,000 well-armed troops, it had the capacity to carry out its mandate. The politicians and people of BiH – including malcontents, criminals, and extremists – took serious note and, in the case of BiH, they responded to the display of resolve and the significant show of force.

On the civil implementation side, however, the International Community proceeded on a premise, that turned out to be false, namely that the politicians, who had prosecuted the war and signed the peace, would commit themselves, however reluctantly, to a mutually beneficial rebuilding process. Acting on that premise, all of us wasted time and a great deal of energy dealing with individuals who never had any intention

of doing more than the minimum necessary to meet the letter of the Dayton Agreement (often not even that). For a while we were helpless in the face of their obstructionist tactics.

The exceptional powers given to the High Representative at the Bonn Summit of the Peace Implementation Council in December 1997 corrected this imbalance. Since then, the High Representative has had the authority to enact legislation necessary to maintaining and advancing the peace process, and to dismiss officials deemed to be acting in a manner that hinders peace implementation.

This is an effective tool with which to remove obstacles quickly in order to consolidate peace and expedite reforms without which a viable democracy could not have been set in place. But it doesn't come without a cost. By transferring these powers from an unwilling state to the High Representative, you have removed a degree of responsibility from the local authorities.

This represents a unique political disposition – BiH is routinely characterized as a protectorate. (Outside of BiH, that description usually carries negative overtones. Inside, the country, by contrast, it is viewed by in large by the average citizen altogether more positively.) But BiH is *not* a protectorate – the International Community exerts an influence that is predicated on, and limited to, the terms of the Dayton Peace Agreement. This is not a legalistic distinction. BiH is authentically run by its rather rudimentary and imperfect governmental structures. (We all have to recognize that the compromises made at Dayton created a system that is grossly overextended and top-heavy with bureaucrats and political placeholders). Oddly enough the most common criticism of the International Community inside the country is that it has limited itself to implementing Dayton and not to creating a country that is free of corrupt politicians and organized crime.

War Distorts the Economy and Perverts the Public Sector: Be Prepared

The Office of the High Representative has a limited mandate and tries hard not to substitute its authority for that of the elected officials. We are in BiH to *rehabilitate* the country, to help build and *strengthen* State institutions, not to substitute for local authorities where and when they can or should be exercising their own responsibility.

So the authority of the High Representative has to be viewed in the context of limited time duration and limited scope. Ideally, it will diminish over time. It is a curious paradigm but it has been shown, particularly in recent years, to be capable of fostering significant institutional change.

The scope for action within these parameters is broad – some would argue too broad. For example, the peace process clearly cannot take root in an environment of endemic poverty, so economic development has to be viewed as a prerequisite of effective peace implementation. Because of this there is an ever-present danger that the OHR will succumb to temptation and overextend its area of responsibility. Of equal concern is any *perceived* overextension of responsibility that would limit the scope for action by local politicians and undermine their very fragile credibility, thus producing a mindset that asks, "why should we vote for someone who isn't in charge of anything".

In this respect a dynamic and effective OHR can be a victim of its own success, visibly demonstrating greater competence and initiative than the domestic authorities. It is therefore necessary to build a very active partnership with the government and the civil service to buttress their capacity and their credibility.

In one notable area it can be argued that the rigid adherence of the International Community to its Dayton mandate has been

counterproductive and this is with regard to the apprehension of persons indicted for war crimes. The Dayton Peace Agreement prescribes that peacekeepers will arrest such individuals if they come across them in the course of their duties. Some elements in SFOR have been vigorous in "coming across" PIFWICs in the course of their duties and consequently have detained and transferred to the ICTY a number of wanted individuals. Others have studiously avoided contact. Yet the continuing liberty of some high-profile war criminals has fostered a pervasive belief in secret agreements and a pernicious ability on the part of some individuals to act with impunity, and this in turn has undermined at times our efforts to bring about lasting reintegration of the refugee population. It is impossible to imagine the conclusive consolidation of democracy in BiH as long as the two most wanted, Radovan Karadžić and Ratko Mladić, remain at large with or without the assistance of Serb authorities in either Bosnia or Serbia.

Lay Down the Law

Because of the early focus on emergency recovery and the need for political trade-offs, the IC paid far too little attention to the structure of the State and the urgent need for reforming and strengthening the judicial system.

This proved to be fatal for the rule of law. You can train as many police as you want but if the judiciary is intimidated or corrupt then the law cannot be served.

A lesson we learned late in the process in BiH is that you won't get political, economic or social progress until citizens assume that most judges cannot be bought and that most politicians and wealthy businesspeople are not above the law.

In the case of BiH this required a wholesale overhaul of the system; drafting and introducing new civil and criminal

procedure codes and training and vetting the police and judiciary, and weeding out the most corrupt, criminal and politically compromised officials.

The UN's International Police Task Force completed the process of demilitarising and significantly depoliticizing the police during a process that took over five years (with international police officers operating in the remotest police stations). The transition is not over even now, since we an EU Police Mission, more than 600 strong, now monitoring and training police personnel in their transition to a normal policing regime.

The Independent Judicial Commission, established by the High Representative in November 2000, and the High Judicial and Prosecutorial Councils, established by the High Representative in May 2002, have performed the same task with regard to the judiciary. Every judge and prosecutor was obliged to reapply for his or her job, and each post was opened up to competitive selection by an independent review body free of party-political influence. The results are still not in, since most of the judges on the bench were those placed there originally by the political figures either during the war or shortly thereafter.

From Aid to Trade – the Need to Go Beyond Infrastructure Development

For years, the aid flow – together with the International Community's focus on political rather than economic consolidation – meant that necessary but difficult economic reforms were postponed. This, inevitably, is a temptation to which most interventions are subject. Faced with a devastated infrastructure, a traumatized and substantially displaced populace, and entrenched and antagonistic political groupings, the first thoughts of a provisional administration is not to prioritize the establishment of a tax office or secure the urgent introduction of VAT.

Yet, creating a sustainable economy – as opposed to an aid-driven economic lifeline – is as important, over the long term, as depoliticizing the police and getting honest judges on the bench.

The introduction of the Euro-pegged Convertible Mark (administered by a Currency Board) in January 1998 gave BiH – almost overnight – the most stable currency in the Balkans. Banking reform (eliminating the old socialist-era payment bureaux) in 2000 and 2001 freed up domestic capital markets so that the banking sector could begin to finance a domestic business recovery. These two reforms have created an overarching structure into which other reforms can be slotted. A fractured, Entity-based customs system was losing hundreds of millions of KM in annual revenue until efforts began to consolidate it as a State-level administration earlier this year. The customs services are now being merged and will be run by the Indirect Taxation Administration, the body that will also administer the VAT, scheduled to be levied from the beginning of 2006.

Work *With* Not *For* Your Partners

When this coherent vision is in place it has to be implemented in a manner that does not undermine and debilitate the domestic institutions.

This is perhaps the most mercurial conundrum of nation building. It is one that we are only now beginning to resolve in BiH, but one that has confounded a series of international envoys for years.

Where it has shown itself to be effective, the International Community has routinely acted in a way that sidelined its BiH partners. In the first years of peace implementation, the IC was backed by an aid budget that was modest by global standards but vast by those of the bankrupt and dysfunctional country in which it was operating. As a result, BiH citizens

and their leaders quickly realized that if you wanted practical help you turned to the foreigners – those who held the purse strings and had the ability to sideline politics. This compounded the political problem of having ministries run by often incompetent and routinely corrupt political hacks, because it undermined the very fledgling democratic institutions that international aid was supposed to be consolidating – those in these agencies had little, if any, authority because they had few practical resources of their own.

This can produce a debilitating psychology where the OHR is perceived to be shaping the key strategic agenda, placing the domestic authorities in a position where they cannot seize the initiative. Furthermore, it feeds on itself, since we in the IC are "doing everything", why even try to involve the locals.

An effective strategy for breaking out of this vicious circle has been to build from the inside. It takes longer but the results are longer lasting and infinitely more satisfactory. By building from the inside, I mean resisting the impulse to hire the best and the brightest and pay them salaries disproportionately greater than the country norm, but instead fund positions inside ministries, which are competitively rewarded (to keep talented people in the country and in the public sector) but not exorbitantly so (to maintain organizational cohesion in the civil service).

This, again, is a lesson we have learned the hard way in BiH, where the IC has become the employer of choice for most of the talented, ambitious and resourceful professionals, and where those professionals who can't find positions with international organizations using their particular skills are prepared to work as drivers and security guards for the same organizations for salaries three times as high as professional positions in the domestic economy.

Today, eight and a half years after Dayton, downsizing the IC

in BiH – OHR will have reduced the size of its staff by 50 percent by the end of this year from the highwater mark reached three years ago – means sending BiH professionals back into the domestic job market, which has been deprived of their skills for too long but which is barely able to absorb them and to a government service that views them with suspicion.

Had we known then what we know now, we would have funded and trained personnel inside domestic structures, at competitive domestic rates, working with them and thus building government capacity instead of IC capacity.

Sometimes it's not even a matter of money. Simply by pointing the authorities in the direction of optimising their own human resources, the IC, drawing on the experience of more sophisticated bureaucracies, can exert a beneficial influence. For example, the Emergency Reform Units established as part of the Bulldozer Initiative give promising civil servants fast-track access to power brokers. These ERUs are made up of young bureaucrats who have the energy and the administrative know-how to guide reforms through the process of enactment and implementation, but who would not normally have much political leverage. Under a Bulldozer-brokered agreement, the prime ministers committed themselves to working with these civil servants, giving them a degree of access that would otherwise be unthinkable, in a creative effort to harness dynamism that is more usually swallowed up by bureaucratic entropy.

The Bulldozer Initiative was launched at the end of 2002. It got its name from a comment made by Paddy Ashdown to the effect that BiH should "bulldoze" away the pointless bureaucracy and job-destroying, socialist-era legislation that was inhibiting investment. It began as a modest proposal aimed at getting businesspeople to promote reform, and it quickly took on a life of its own.

The first phase of Bulldozer mentored businesspeople and their government interlocutors through fifty reforms. The

businesspeople made very specific proposals, sometimes amounting to amending a paragraph in a law – and the politicians quickly realized that there was more political capital to be earned from enacting ready-made reforms than there was to be earned from knee-jerk opposition to change.

After the Bulldozer's initial success – the 50 reforms were enacted in 180 days – a sense of real ownership was created and six Bulldozer Commissions sprang up all over the country. The initiative required IC support in the beginning, but more and more it is *their* voice and *their* participation that makes the difference. But even here you have to stay with it, and help it transform from an ad hoc institution to one that fits in the post-conflict society.

Civil Society

Bulldozer offers a model for injecting dynamism into economic and political reform by bringing stakeholders into the decision-making process, and this model can be applied in other areas. In this respect Bulldozer may be viewed as a mechanism that can be used to expand and strengthen the role of civil society in national building and transition to democracy. The World Bank and USAID are now doing exactly that.

I think, perhaps, I should repeat that last sentence. It rolls of the tongue easily and it fits nicely into the catalogue of economic, political and judicial measures that I have so far described, but when you consider its implications you begin to get an idea of the scale of the task. Expanding and strengthening the role of civil society in nation building and transition means going to work on the very fabric of a country – it means changing attitudes, altering cultural perceptions, engineering change so profound that it makes itself apparent on game shows and at football matches (the TV commentator at a recent BiH soccer international noted that the High Representative was watching at home and took advantage of the

opportunity to thank him for “the things he is doing for our country”). This is not an undertaking that can be encompassed in a six-month action plan or a one-year commitment of funds and personnel. It is not something you can craft neatly around a timeline and benchmarks. You need to approach such efforts with a more sustained commitment. In other words – we need “an end state, not an end date mentality.”

How long does this kind of thing take?

The answer to that question has to be clearly understood from day one – and it is not an answer that many politicians in donor countries, or their constituents, want to hear.

It takes years.

In BiH, we are starting to see significant dividends only eight and a half years on.

We began thinking in terms of months; this quickly stretched to a couple of years. Today, we are engaged in a phased and orderly transition.

Ask Yourself the Other Relevant Questions

Is a mission that began with a mandate measured in months and is winding down nearly a decade later absurdly overextended?

Well, this is what it takes to get the job done so it won’t unravel when we leave. The initial thinking of months was politically dictated and would never have produced the results we were all committed to.

What are the benefits of such a long-term commitment?

First and foremost, it is what it takes to produce meaningful results. You can do failure in a year, but success takes time. I remember a saying we had in Washington , when I was serving there – “you never have time to do it right, but you always have time to do it over again. Infrastructure

rebuilding is relatively easy – but you also have to build institutions; you have to foster the growth of civil society; you have to bring the next generation of political leaders and you have to train a new generation of soldiers and civil servants.

Is that really our job? Is it what we are willing to do?

If we believe in the necessity of intervention, yes, absolutely, that really *is* our job.

If we, in order to transform a failed state into a productive and cooperative member of the International Community, are prepared to occupy that country at a cost – in the case of Iraq, for example, of $ 177 million a day – then we should be prepared to follow through with the essential task of social, economic, political and military transition that is necessary to effect the transformation we want and need to see – and over a five-year period, for example, you will find that the investment is very much more modest than the figures involved in military action. (In Bosnia SFOR cost on average over $1 billion per year, OHR cost under Euros 25 million.)

What's in it for us? No intervention should be undertaken without answering this question

What's in it for us is a workable response to a problem of international relations that has left our foreign-policy-makers dangerously bewildered since the end of the Cold War – how to deal with the failed states which can threaten, like drunks at a dinner party, to wreak havoc with the bright hopes that once attended the emergence of the new global community. I am reminded of an old adage – pay now or pay later. Paying later is always more expensive.

That's what's in it for us.

The idea of "Dynamic Stability" has some currency in the business field. Its basic premise is that companies have to

change constantly in order to stay competitive but the trick is to manage that change in such a way that core elements of the corporate profile – the firm's performance, its brand reputation and its personnel – are protected and fostered in the midst of flux. Dynamic Stability is proving elusive to US foreign policy. The case of Bosnia and Herzegovina may begin to address that elusiveness; it may offer an insight on how to secure Dynamic Stability through international intervention. The rehabilitation of Bosnia and Herzegovina has demonstrated that intervention can be dynamic, deep, long-lasting and backed with force – and (this is the key) that it can be accomplished *without* riding roughshod over the core elements in a country's composition or the aspirations and sensibilities of its people.

The US is the only country that can project this Dynamic Stability, but to do so effectively it must engage beyond its borders with the kind of combination – of force, finance, sophistication, collaborationand persistence – that it has shown in Bosnia and Herzegovina.

When President Kennedy vowed that our country would "pay any price, bear any burden, meet any hardship, support any friend, oppose any foe, in order to assure the survival and the success of liberty" he was using Cold War rhetoric that required decisive global US military engagement. Today, the United States and the world face a different kind of global confrontation, one in which military engagement is clearly only a part of the answer. If we are to assure the survival and the success of liberty, we *must* come to grips with the basic instability of nations and the mechanics of rehabilitating failed states – that means understanding the causes of grievance, responding to particular administrative and cultural requirements, and institutionalizing and systematizing those responses so that intervention produces complete recovery and not just partial remission.

The projection of our resources around the globe made sense in

1961 and it makes sense today. This projection serves our interests and serves the interests of our allies and our friends – it is not without cost, but properly applied, it brings with it an enormous pay-off in terms of global stability and – no less importance – in terms of freedom and democracy.

To sum up – the basic requirements of successful nation building are

- **credible deployment of military force, in order to establish a viable operating climate for the country's rehabilitation**
- **money, a significant amount, though the bill will be seen to be modest when set against the cost of military intervention**
- **cohesion on the part of the International Community, (which means securing agreement in principle at the level of capitals and securing a coherent operating structure for all the players in the field);**
- **focus on regenerating institutions from the inside, rather than simply buying performance and compliance with money and might**
- **focus on identifying and then fostering the authentic voice of civil society**
- **time – operationally indispensable if politically disagreeable – you have to be prepared to spend a decade, fully and responsibly engaged.**

None of this is easy, but what the experience of Bosnia and Herzegovina shows is that it is doable. In the context of nation-building efforts in various parts of the world today, that fact alone is worth keeping to the fore.

Thank you