

The role of selected financial organizations in the reconstruction of Bosnia and Herzegovina after the Dayton Peace Agreement

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Abstract

The paper lists the major projects of international financial organizations in Bosnia and Herzegovina (BiH) after signing the Dayton Peace Agreement to explore the role of international financial organizations in post-Dayton BiH. It discusses the specific contribution and the role of these organizations in functioning of BiH, including financial assistance, credit means, various funds and projects, which have been supposed to lead to the stable functioning of BiH after the signing of the Dayton Peace Agreement. The paper explains the role and attentiveness of the Monetary Board in BiH with a focus on its impact on implementation of the international projects. The research question is: “From which sources did the largest funds in BiH come in the period from 1996 to 2020 and how were they related to GDP?”. The paper is based on publicly available data from international financial institutions and the Ministry of Civil Affairs of BiH. The results show that about 71.45 billion dollars entered BiH from international financial institutions through donations, grants, loans, and other various types of assistance. But the funded projects did not have the same priorities every year and in every area. In addition, international funds were used to finance numerous projects aimed at economic recovery and economic development. In the last few years, there has been a change in priorities, and significant funds have been directed to such projects as the judicial reform, institution building through strengthening the capacity of individual institutions, and the reform of particular areas and their approximation to the European Union standards.

Introduction

Bosnia and Herzegovina (hereinafter BiH) today, as a project of the international community confirmed by the Dayton Peace Agreement, is an independent state (Aćić, 2019, p. 25; Hartwell, 2019, p. 44). BiH ties the stability of its currency to the currency board system. The Central Bank of Bosnia and Herzegovina (CBBiH) began its operations on 11 August 1997 by the decisions made under Article 7 of the Dayton Peace Agreement (Vitomir, Lazić, 2021, p. 206; Vranješ, 2020, p. 81). In monetary terms, the crucial decision is the establishment of the Central Bank of Bosnia and Herzegovina according to the currency board model. Establishing a currency board arrangement was the best option to bring order and create confidence in the monetary sphere in the postwar country, as well as to bring macroeconomic stability. As part of that, one of the main levers is a stable currency (Gregović, Hodžić, 2017, p. 112). The CBBH does not create currency without cover, and may not lend funds to the government, nor give loans to commercial banks as a “lender of the last resort”. It is not allowed to operate on the open market and cannot use the exchange rate to remedy economic problems in the country (Jović, 2020, p. 9).

In 1999, BiH adopted a “currency board” system. This system brought excellent effects in reducing inflation in the country, made a significant contribution to settling the situation in the financial sector, and was an anchor that kept “BiH ship from wandering unnecessarily in the stormy sea of transition” (Grujić, 2018, p. 205). The described system ensures invariably fixed exchange rate¹, which implies the possession of foreign exchange reserves in a stable currency at the level necessary to cover the amount of printed and coined money. It also implies unlimited internal convertibility, i.e. the possibility of converting domestic funds into the reserve currency (and vice versa) at a fixed and predetermined exchange rate (Gregović, Hodžić, 2017, p. 114). At the same time, it guarantees the possibility of free export of that foreign currency from the country (external convertibility).

Due to these rules, the Central Bank of Bosnia and Herzegovina cannot print money without cover to lend it to the state, which is effective, since such loans are the most common cause of high inflation rates in the world. However, for the same reasons, the CBBH does not fundamentally determine the amount of money in the economy². It depends on the inflow of foreign exchange into the country³, so the significant advantage of this system can become its biggest drawback if the circumstances do not help. Despite all the above, the Central Bank of Bosnia and Herzegovina is not an “ordinary exchange office”. However, in the BiH currency board regime, it is possible to pursue a sovereign, discretionary, and efficient monetary and macroprudential policy and regulation. Economic decisionmakers in BiH should be aware of the effects of

¹ 1 euro is exchanged for 1.955830 convertible marks.

² The CBBiH does not affect the amount of paper and metal money, as it can only be printed based on purchased foreign exchange. But it can, to some extent, affect the ability of the commercial banks to generate giro money by changing the reserve requirement rate (the amount of money kept in the central bank which serves as a guarantee that the banks will be able at all times to return the received deposits to those who wish to withdraw them).

³ The monetary base depends on foreign exchange reserves, while higher monetary aggregates also depend on the population's tendency to save and the ability of commercial banks to place the collected funds.

monetary policy and its instruments and should insist on their further development, as well as on establishing the responsibility of the Central Bank of Bosnia and Herzegovina for the situation in the BiH economy. The CBBH can influence both actual and financial variables in the country with the instruments of monetary policy.

Despite that, it is necessary to point out the specific contribution of international financial organizations in the functioning of BiH. It was made through the financial assistance, credit, as well as other funds and projects, which were supposed to lead to the stable functioning of BiH after signing the Dayton Peace Agreement. The leading hypothesis is: “The amount based on donations, loans, grants, project financing and assistance from international financial institutions and countries each enters BiH, exceeds the annual Gross Domestic Product (hereinafter GDP) growth”.

The paper explains the role and attentiveness of the Monetary Board in BiH with a focus on its impact on international projects implementation. The research question is: “From which sources did the largest funds in BiH come in the period from 1996 to 2020, and how were they related to GDP?”.

Methodology

This paper analyses the major projects of international financial organizations in BiH after signing the Dayton Peace Agreement with the aim to explore the role of the international financial organizations in postDayton BiH. It indicates the specific contribution and the role of these organizations in the functioning of BiH, primarily through financial assistance, credit means, and other funds and projects, which were supposed to lead to the stable functioning of BiH after the signing of the Dayton Peace Agreement. Publicly available data from international financial institutions and the Ministry of Civil Affairs of BiH were analysed.

This paper reports the results of a descriptive and correlational research. The role and position are described of the most important financial institutions, international financial organizations and multilateral development banks in BiH. Relationships among various variables are explored with the aim to establish a causal connection between them. The paper presents the role and contribution of donations, grants, and loans from abroad to the GDP of BiH. Their indirect impact on the postwar recovery of BiH, but also on some segments of its further development, is presented. The paper emphasizes that in the period from 1996 to 2020, there was a medium-strong link between these investments and GDP.

The paper starts with explaining the role and position of the main international organizations, their history and role in the discussed processes. Then the main features of the currency board in BiH are described. Additionally, in order to more clearly indicate the areas in which individual IOs operate, a brief analysis is performed of the sectors and purposes of the projects undertaken in BiH.

Selected international organizations

International organizations (hereinafter IOs) have been gaining their significance, as subjects of international law, especially since the beginning of the 20th-century. Although attempts had been made to regulate at the regional or world level certain issues such as navigability of individual rivers or harmonizing postal services and tariffs, the IOs gained real significance only by establishing the League of Nations, the International Labor Organization, and especially, the United Nations Organization (Grant, 2010, pp. 36-38). Thus, the IOs were developing in „two basic directions. The first one was forming a unique organization at the world level that would handle the maintenance of security and peace. The second one was to create the IOs whose work would include the social activities across state borders” (Aćić, 2014, p. 165), especially in the areas of cross-border cooperation such as traffic and communications, health, trade, finance, etc. According to Avramov, all of the above inevitably indicates that “the meaning of the existence of international organizations does not lie in themselves but in the realization of the goals for which they were founded” (Avramov, Kreća, 2003, p. 174). Due to everything stated so far, we want to emphasize one common aspect defined by the goals of several different IOs and other similar organizations: financing and lending for postwar renewals of certain countries, in our case, BiH.

International financial assistance to BiH

Reconstruction programs in BiH after the war began in 1996. The Dayton Peace Agreement had two goals: to stop the war in BiH and to try to build a “sustainable BiH” (Pejanović, 2020, pp. 10-11). From the very beginning, the “Bosnian peace model” was specific in that its construction and implementation took place in the strong presence of the international community⁴. Numerous international financial organizations and their member states participated in the reconstruction of BiH.

Among the largest donor countries and lenders in BiH since the signing of the Dayton Peace Agreement are Germany, Italy, Switzerland, Japan, Canada, the Netherlands, the United States, Norway, Sweden, and Spain. Also, through donations and loans, BiH was supported by the most important international financial organizations: the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), United Nations Development Program (UNDP), the World Bank (WP), the International Monetary Fund (IMF), and the European Development Bank (EDB).

Not all the funded projects implemented in particular areas had the same priority during the first years after the signing of the Dayton Peace Agreement and later. At the beginning of the reconstruction of BiH, mainly financed were projects for the reconstruction of the facilities (housing, institutions) and infrastructure (roads, electricity networks, telecommunication networks, water infrastructure, gas pipelines, wastewater systems, etc.). Financed were also projects

⁴ See <http://siteresources.worldbank.org/INTCONFLICT/Resources/BosniaFinal.pdf> (24.04.2022).

for building a multiethnic society through the support of return and self-employment (so-called “sustainable return”).

In addition, the international funds financed numerous projects aimed at economic recovery and economic development. Those were projects intended to support the development of small and medium enterprises, as well as the loans under special conditions whose aim was to provide favorable credit lines, stimulating agricultural production and rural development, employment support projects, etc. These sources later began to finance projects in the field of environmental protection, energy efficiency, renewable energy sources, modernization and expansion of electricity distribution and telecommunications networks, construction of new transport networks (e.g. Corridor Vc), institution building projects at the state and entity levels, modernization of border crossings, laboratories, and labor market reform.

In recent years, as we have already mentioned, there has been a change in priorities. Significant funds have been directed to the following projects: judicial reform, institution building through strengthening the capacity of individual institutions (e.g. introduction of e-systems in the judiciary, Chartered Institute of Procurement and Supply (CIPS) project, biometric passports, equipment for medical-radiological examinations), reform of particular areas and their approximation to European Union standards such as labor market reform, higher education, education of farmers, government institutions and non-governmental organizations aimed at using the Instruments for Pre-Accession Assistance (IPA) funds, meeting the standards for membership in the European Energy Community, realization of BiH liabilities arising from the Stabilization and Association Agreement (SAA), and other.

It should be mentioned that there is a significant difference between the purposes of projects funded by the IOs and projects funded by the states. The IOs were more focused on financing projects in certain areas (energy, environmental protection, privatereal sector, judiciary, telecommunications, highway construction and modernization projects, railway infrastructure, providing favorable credit lines to encourage micro, small and medium enterprises, and other). Through their donations and loans, the states financed projects for determined purposes (schools, local infrastructure projects such as the construction of water supply, sewerage, renovation of spa centers, and other). Some organizations, such as the US Agency for International Development (USAID), will “use a strengthened private sector to focus its impact on the wider area and sustainability. Supporting more extensive and open forms of fiscal transparency will enable secure and stable growth of industry, thus greater involvement of the private sector in community development” (USAID, 2020, p. 29).

Establishment of domestic currency and its stability as a precondition for the realization of international projects

The Currency Board is a specific monetary arrangement that is considered one of the options for solving economic problems (currency and exchange rate instability, high inflation, banking crises, and other) in countries with small and open economies. Their financial markets are still

in their infancy, and they want to increase their international credibility or to join a broader trade or monetary union (Gregović, Hodžić, 2017, p. 111).

Three main features of the currency board in BiH are: fixed exchange rate defined by the regulation, full coverage of foreign exchange reserves for all monetary liabilities, and full convertibility of financial debts into “anchor currency”. The monetary liabilities of the CBBH should be covered in 100% by convertible foreign currency assets because the Law on the CBBH stipulates that the total amount of its monetary liabilities may not exceed its net foreign assets. Cash liabilities under the CBBH Law consist of cash in circulation and deposits of domestic banks and other resident clients (Vladušić, 2013, pp. 93-99). The CBBH does not place loans in the banking sector, other legal entities, and the state, nor does it conduct open market operations. It is not possible to place extraordinary contingents of money in circulation since there is a ban on lending to all sectors. It can be considered an advantage, as the inflation is kept low and prevents the emergence of inflationary pressure. On the other hand, it can be a limiting factor of economic development. A convertible mark achieves convertibility based on its 100% coverage in euros. It is the main feature of this arrangement, according to which the CBBH can create a maximum amount of KM as much as it has held foreign exchange reserves.

The CBBH is prohibited from placing loans by issuing money *ex nihilo* (‘out of nothing’), as the typical central banks can. It can place loans only based on increasing its foreign exchange reserves. That is why the stability of the convertible mark is the primary goal of the Central Bank of Bosnia and Herzegovina. Currency stability directly affects price stability, establishing a balance in public finances and eliminating inflation. All this affected the achievement and maintenance of public opinion confidence in the convertible mark, and thus fulfilled the crucial mandate for a central bank, and at the same time the most important condition for building an economic system.

The most important financial aspects of postwar reconstruction in BiH

In order to more clearly indicate the areas in which individual IOs operated, we will further try to describe in more detail the areas and aims of projects undertaken in BiH by the IOs and some countries. Analysing the extensive database on financing various projects in BiH through donations and support from IOs, primarily multilateral banks, financial institutions and governments, we want to approximate the size of data and the value of funds that have entered BiH since 1996.

Donations and aid came to BiH from the governments of the following countries: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Hungary, Norway, Spain, Sweden, Switzerland, the United Kingdom, Slovenia, Croatia, the Czech Republic, and the USA. In addition, IOs that have donated funds or financed certain projects are European Bank for Reconstruction and Development (EBRD), European Commission, European Investment Bank (EIB), International Development Association (IDA), International Fund for Agricultural Development (IFAD), United Nations Development Program (UNDP),

United Nations Population Fund (UNFPA), United Nations High Commissioner for Refugees (UNHCR), United Nations Children’s Fund (UNICEF), United Nations Technical Assistance (UNTA) and World Bank (WB). Only a few of the most important and influential foreign financiers will be covered below.

The role of the European Bank for Reconstruction and Development (EBRD)

The EBRD is one of the specific financial institutions that have been engaged in assisting BiH in the implementation of the projects since 1996 (European Bank for Reconstruction and Development, 2020). According to the bank’s website, the EBRD has financed the following programs: reconstruction of the wartorn electricity, road, and telecommunications infrastructure, construction of water supply and sewerage, reconstruction of the vital railway network (Pan European Corridor V), reconstruction of interrupted telecommunications services, construction of gas pipelines, building and modernization of central heating systems in cities, rehabilitation of wastewater, expansion of cold storage capacity (strengthening of agriculture), strengthening of the private sector (service and production), an extension of mobile and fixed telecommunications network (EUR 30 million loans to Telekom Srpske for infrastructure strengthening before privatization), providing credit lines under more favorable conditions for domestic entrepreneurs through domestic banks (development of primarily micro and small enterprises), construction of part of the highway Banja Luka – Doboj (section Doboj – Prnjavor). Besides these, the EBRD has been involved in projects financed through the IPA programs. The IPA funded the following: the project of the wastewater system in Bijeljina (phases I and II), the bypass in Brčko, the construction of the road Foča – Han, corridor Vc, the improvement of the regional road infrastructure network in BiH, Mahovljanska loop, and other. Since 2015, the EBRD has invested in the capital of three companies in BiH. These are investments in the companies Manja and Energoprojekt and the European Voluntary Pension Fund⁵. Total investments and approved loans so far exceed 600 million euros.

World Bank (WB) contribution to project financing in BiH

The World Bank has approved more than 2,107 million euros in financial support to BiH since 1996, financing projects in various fields. According to the data from the website of this bank, the projects financed from the World Bank funds had different purposes. The World Bank began its engagement in BiH after the war ended with the “Emergency Recovery Project” (World Bank, 2004). It is the first major international aid project for BiH since the end of the war. It was adopted in February 1996 and was one of the 16 World Bank “emergency” projects called “emergency operations”. The value of the project was 45 million US dollars. Financing the project was

⁵ This is the first capital investment in BiH. Until then, loans and investments are like quasi-equity. The European Bank for Reconstruction and Development (EBRD) / Enterprise Expansion Fund (ENEF) helped with policy dialogue with the Government of the Republic of Srpska on improving the regulatory framework for voluntary pension funds, which did not exist before. EBRD / ENEF nominated a supervisory board member.

provided from the funds and resources of the International Development Agency (IDA). The United States, Canada, Switzerland, Great Britain, the EU, the Netherlands, Luxembourg, and other countries participated in providing funds for realization of this project. The purpose of this project was to provide a quick financial “injection” with maximum effect on critical points: agriculture, transport, energy, support to key state institutions, loans for small and medium enterprises, and the establishment of an “emergency social fund” to help the poorest. Through the projects of financial assistance of this international financial institution, other projects were financed, such as the project of reconstruction of water supply and sewerage infrastructure, solid waste management, strengthening of agricultural production with an emphasis on the development of small commercial farms, water supply, and flood protection projects. Within the projects of importance for the development of society financed are projects in the field of education, culture, urban infrastructure, employment, projects to strengthen social security, health. It should be stated that in 2007, a project for preventing bird flu was funded from these sources. It was a significant global health problem at the time. Among other things, the World Bank funds financed BiH financial support projects with loans to support the development of small and medium enterprises, strengthen the investment climate, support the development of the private sector. They were aimed at creating a sustainable economy and rebuilding the domestic economy.

International Monetary Fund as a financier of reforms and projects in BiH

The International Monetary Fund (IMF) has so far cooperated with BiH mainly through special arrangements. From 1998 until today, the IMF has approved four standby arrangements for BiH. According to the IMF website, the total value of the stand-by⁶ arrangement is 4.1m euros. Of the approved funds, BiH used EUR 1.9 million (Table 1).

⁶ In Bosnia and Herzegovina focus was and still is on supporting restructuring and expansion of the local private sector, forging closer linkages with wider regional markets, and promoting more efficient and sustainable use of resources whilst continuing to coordinate the EBRD’s activities with the EU and international financial institutions. The essence of these arrangements is that the IMF approves them to the member states due to their balance of payments difficulties. Funds for these purposes are provided from General Resources Account (GRA). The negotiation system implies that the Fund agrees on the conditions with the Member State under which the arrangement is approved and which are set out in the Letter of Intent. The funds are paid in installments, the so-called tranches, and the Member State shall repay each tranche in eight equal quarterly installments. Before the disbursement of the agreed tranches, the Fund shall monitor the implementation of the conditions to which the Member State has committed itself when negotiating the arrangement.

Table 1. Overview of the standby arrangements approved for BiH

Arrangement	Date of arrangement	Expiration date	Approved amount (million SDRs)	Amount withdrawn (SDR million)	EUR	Approved amount (EUR million)	Withdrawn amount (EUR million)
I	29 May 1998	29 May 2001	94.42	80.43	0.582	162,233,677	138,195,876
II	2 Aug 2002	29 Feb 2004	67.6	55.6	0.426	158,685,446	130,516,432
III	8 Jul 2009	7 Jul 2012	1014.6	67.6	0.41	2,474,634,146	164,878,049
IV	26 Sep 2012	30 Jun 2015	558.03	422.75	0.423	1,319,219,858	999,408,983
EFF arrangement 2016-19	9 Sep 2016	31 Aug 2019	443.042	126.825	0.804	551,321,553	157,821,055
RFI arrangement	22 Apr 2020	22 Apr 2020	265.2	265.2	0.7935	334,215,501	334,215,501
						5,000,310,181	1,925,035,897

Source: Central Bank of Bosnia and Herzegovina, 2021, <https://www.cbbh.ba/home/GetTableAttachment?contentId=fab35f66-c332-43a4-b056-9ca342f7f922&lang=hr> (8.09.2021).

Council of Europe Development Bank in support of the reconstruction of BiH after the Dayton Peace Agreement

In addition to the European Bank for Reconstruction and Development (EBRD), BiH has cooperated with the European Development Bank (EDB) in various projects. The Council of the European Development Bank has approved the financing of projects for BiH for many purposes: institution building, local infrastructure, environmental protection, support to small and medium enterprises. EDB funds were directed to the public and private sectors. Funds from the European Development Bank have been partly used to finance projects approved by the World Bank and for IPA funds projects, especially when funding the public sector (institution building and local infrastructure). Following are the projects financed by the EDB: support for persons housed in collective centers in BiH, support for sports and cultural projects, the State Prison project, support for the development of small and medium enterprises, startup credit line for small

and medium enterprises, support for technological development, strengthening competitiveness, cofinancing of local capital investments, as well as part of projects in the field of health.

USAID's role in approving and implementing financial projects in BiH

We will also discuss USAID's contribution here, although it could not be classified as a classic international financial organization. USAID⁷ has spent over \$ 1.6 billion on funding various projects in BiH since 1994. In BiH, USAID has or has had several different assistance programs. These are the postwar reconstruction and development projects that USAID started in 1996, primarily financing programs for restarting businesses and helping citizens to provide conditions for a sustainable economic existence after returning to prewar homes. One of the most significant USAID projects in BiH is the reconstruction of the Thermal Power Plant in Kakanj, worth 43 million US dollars (USAID, 2020).

Since 1998, USAID has provided more targeted funding for specific projects: water utilities, schools, health facilities, roads, and energy. Of these categories, \$ 372 million in financial assistance was spent on road infrastructure. Grants and credit lines were provided through USAID, and it is believed that it directly helped the return of over 100,000 refugees and displaced persons.

Among several particularly significant ones, the next in our analysis is the USAID's Business Development Program (BDP). This loan program is aimed at assisting in starting business activities. The program existed seven years, and nearly 600 loans were realized, the value of which amounted to 162 million US dollars. Through this program, over 11 million US dollars were invested in agriculture and 8 million US dollars were assigned as support to microcredit organizations. More than 16,000 people were employed through this program, 3.4 million US dollars were invested in the development of cooperatives through grants, 13.5 million were invested in FIMS – The Financial Information Management Systems, a new budget system at the cantonal, entity, and state levels. The counseling and financial assistance from these funds enabled to carry out reforms in the entity banking agencies. The State Deposit Insurance Agency was established, and the state Payment Services were closed, paving the way for the development of commercial banking. Judicial and legislative reforms were funded. As of the end of 2003, this program no longer existed in BiH because, in the opinion of donors, the banking system was already sufficiently strengthened to further support economic development (USAID, 2020, p. 29).

In the field of democracy and the rule of law the following projects were funded: judicial reform in the Federation, adoption of the Law on Freedom of Access to Information, the establishment of the High Judicial and Prosecutorial Council to achieve judicial independence, assistance for 32 courts in BiH, assistance for 41 onestop shops system, assistance to the NGO sector through the Demnet program (closed in 2004, \$ 7.6 million was spent under this program),

⁷ The US Agency for International Development (USAID) is one of the primary agencies of the US Government, operating in more than 100 countries worldwide as an independent government agency. It was founded in 1961 and aims to promote the development of a democratic society as a basis for the development of every country.

assistance to state and entity parliaments in increasing the efficiency of parliamentary clubs and parliamentary committees by improvements to the Rules of Procedure. Within this area, USAID spent \$ 38 million on media programs⁸.

Results and discussion: Effects of help and support from international organizations

So far, about 71.45 billion US dollars have entered BiH from international financial institutions. The research shows that the total amount of donations, grants, loans, and other types of assistance ranges from 115.88% of GDP in 1996 to 12.84% in 2020. Regression analysis shows a medium-strong relationship of 42.44% between the amount that entered BiH and the amount of GDP (Figure 1). Therefore, with 99% certainty we cannot reject the hypothesis that inflows on this basis have no impact on GDP. In other words, there is a significant relationship between these two observed variables. The multiple correlation coefficient (R) is 0.651449, which means that there is a medium direct relationship between the independent and dependent variables. At this point, we can offer arguments for a cause and effect relationship in both directions for both variables (Table 2). For example, these inflows create conditions for GDP growth, and higher GDP attracts new investment.

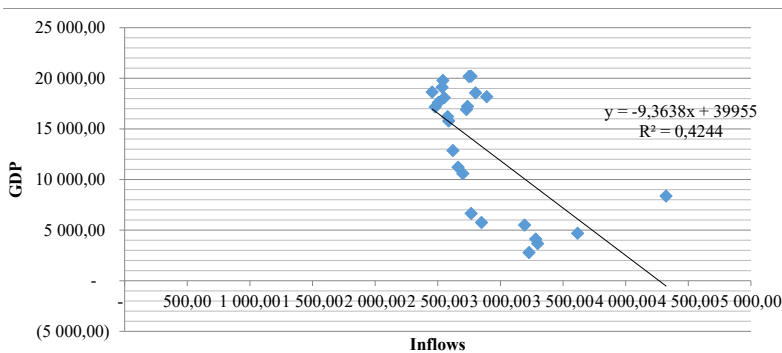


Figure 1. Regression analysis

⁸ USAID’s democracy and governance work in BiH focuses on accountable institutions that meet the citizens’ needs. The Agency’s economic growth work focuses on a competitive, market-oriented economy that provides better opportunities for all.

Table 2. Causeandeffect relationship between foreign investments and GDP

Year	Total amount of donations and help	Absolute change of GDP
1997	3.297,52	885,77
1998	3.281,54	444,88
1999	3.616,41	569,03
2000	3.193,21	820,15
2001	2.848,56	243,11
2002	2.766,78	902,11
2003	4.322,29	1.718,77
2004	2.699,75	2.226,33
2005	2.661,93	626,75
2006	2.621,14	1.641,66
2007	2.587,17	2.914,16
2008	2.534,77	3.333,97
2009	2.504,99	- 1.498,90
2010	2.479,50	-437,05
2011	2.455,43	1.467,94
2012	2.737,18	- 1.417,87
2013	2.891,38	951,65
2014	2.801,79	379,84
2015	2.578,92	- 2.346,80
2016	2.728,32	701,79
2017	2.551,90	1.166,79
2018	2.749,27	2.103,39
2019	2.765,74	18,97
2020	2.541,26	-414,06

Source: Author's calculation.

Conclusion

The paper discusses the role and contribution of donations, grants, and loans from abroad to the GDP of BiH. Their indirect impact has been presented on the postwar recovery of BiH, but also on some segments of its further development. The paper emphasizes that in the period from 1996 to 2020, there was a medium-strong link between these investments and GDP. The work is based on publicly available data from international financial institutions and the Ministry of Civil Affairs of BiH. The research proves that the most substantial donor countries and lenders

in BiH since the Dayton Peace Agreement are: Austria, France, Germany, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United States. BiH was also supported with the donations and loans by the most important international financial organizations: the European Bank for Reconstruction and Development, the European Investment Bank, United Nations Development Program, the World Bank, the International Monetary Fund, and the European Development Bank. The funded projects did not have the same priorities every year and in every area. From 1996, financed were mainly projects for the reconstruction of facilities and infrastructure. Furthermore, projects for building a multiethnic society through supporting the return and self-employment were funded. In addition to the above, international fundings have financed numerous projects aimed at economic recovery and economic development. In recent years, there has been a change in priorities, and notable funds have been directed to such projects as: judicial reform, institution building through strengthening the capacity of individual institutions, and the reform of particular areas and their approximation to European Union standards.

The results confirm the basic hypothesis. Regression analysis shows a medium-strong relationship of 42.44% between the amount of money that entered BiH and the amount of the GDP. Therefore, with 99% certainty we cannot reject the hypothesis that inflows on this basis have no impact on GDP. In other words, there is a significant relationship between these two observed variables. The multiple correlation coefficient (R) is 0.651449, which means that there is a medium-direct relationship between the independent and dependent variables.

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