

# **BALKANS OVERSIGHT I: CORRUPTION IN BOSNIA**

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## **HEARING BEFORE THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES**

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## CONTENTS

### WITNESSES

	Page
The Honorable Larry C. Napper, Coordinator, Support for Eastern European Assistance (SEED), U.S. Department of State .....	4
Mr. Craig Buck, Mission Director for Bosnia-Herzegovina, Kosovo and Montenegro, U.S. Agency for International Development .....	7
Mr. David B. Dlouhy, Special Advisor, Bosnia Implementation, U.S. Department of State .....	8

### APPENDIX

The Honorable Benjamin A. Gilman, a U.S. Representative in Congress from New York and Chairman, House Committee on International Relations .....	30
The Honorable Sam Gejdenson, a U.S. Representative in Congress from Connecticut .....	32
The Honorable George P. Radanovich, a U.S. Representative in Congress from California .....	34
The Honorable Larry C. Napper .....	35
Mr. Craig Buck .....	47
David B. Dlouhy .....	56

## **BALKANS OVERSIGHT I: CORRUPTION IN BOSNIA**

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**Wednesday, September 15, 1999**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, D.C.*

The Committee met, pursuant to call, at 10:05 a.m., in room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (Chairman of the Committee) presiding.

Chairman GILMAN. The Committee will come to order. Members will please take their seats.

Today we will focus on reports of wide-scale fraud and corruption in Bosnia that may have led to the diversion of up to \$1 billion in assistance to that country. Today's hearing is the first in a series of oversight hearings. Next week we plan to look at the situation in Kosovo.

I want to thank our witnesses who are here today. We will say a little more about them shortly.

On August 17th, a front page story by Chris Hedges of the *New York Times* reported that international donors to Bosnia may have lost \$1 billion since the signing of the Dayton Peace Plan in late 1995. Of the \$1 billion, the news article alleged that the U.S. share was at least \$20 million. Our Members will note on a per capita basis, Bosnia is one of the largest recipients of foreign aid on Earth. The international community has provided over \$1,000 for every man, woman and child in that country, totaling over \$5 billion. That assistance is not an entitlement, and will not last for long. The purpose of the assistance was to help rebuild a functioning multi-ethnic state within the Dayton Peace Accords. We have a vested interest in rebuilding that government because when our job is done, the 6,000 American men and women in the Bosnian peacekeeping force known as SFOR will be able to return home.

The *New York Times* later corrected parts of its story, but the underlying fact remains that there is a serious corruption problem today in Bosnia. There have been subsequent reports of wide-scale theft and corruption involving our assistance programs in Russia. Clearly the Clinton Administration should tighten up the accountability of our foreign assistance programs. While the U.S. and other European donors have not suffered losses so great as alleged, corruption does impede progress toward our major goals in Bosnia. Our exit strategy depends upon the creation of a viable government economy capable of sustaining peace and stability there.

After the *New York Times* published its report, I sent a staff team to Bosnia to investigate these allegations. They found that the collapse of the B-H Bank had put at risk approximately \$2 million in U.S. taxpayer money. We hope to get an update on our efforts to collect those funds from the owners of that bank.

Working with the anti-fraud unit of the Office of High Representative, our investigators also reviewed the finances of just one of the Bosnian Federation's 10 cantons, the Tuzla Canton, where U.S. forces are based. There we found vast paint supplies bought for schools with no heat, cars purchased at twice their retail price, loans given to ruling SDA party favorites that were never repaid, and medical supplies for over 700,000 people, all purchased from one company run out of an apartment.

In the most shocking revelation, we found that funds to provide gravestones for the victims at the Srebrenica Massacre were stolen by the canton's Prime Minister. Hundreds of millions of dollars were stolen in the various scams. Local investigators refused to prosecute, forcing the international community to fire the whole lot of them and replace the government in Tuzla.

We also found other scams. During the war, two obscure Bosnian officials managed a trade agreement with Croatia that avoided hundreds of millions of dollars in tax revenue. The loss equalled 20 percent of the government's total revenue. That would equal the theft of \$300 billion if it occurred in our nation. These minor officials did not act alone, and the investigation into this matter stretches to the highest level of the Bosnian Government.

We are also concerned about the murder of Bosnia's crusading Deputy Interior Minister who was about to uncover corruption in the Promdea Bank. In addition, we heard reports that the Renner Company is operating a huge stolen car market that international officials have known about for years, and reports that a prominent mayor in Sanski Most built his own race track with foreign aid dollars.

International officials who spoke to our staff were united in the view that Bosnia's current police and courts could not clean-up this mess. Vice President Ganic has publicly called on the international community to help Bosnia address its serious corruption problem.

It is my opinion that we should establish an Elliott Ness-style team of untouchable investigators and judges to clean-up Bosnia. It should be highly trained to try to remediate this mess. After spending \$5 billion in Bosnia, we can well afford to spend a few hundred thousand dollars to help Vice President Ganic and other officials clean-up this problem.

With that, I recognize our Ranking Minority Member, the gentleman from Connecticut, Mr. Gejdenson, for any remarks he may have.

Mr. GEJDENSON. Thank you very much, Mr. Chairman. I commend you for holding this hearing. We here are the trustees of the American confidence in our foreign assistance program. The people on this Committee in particular recognize where American foreign assistance has been successful in nurturing democracy, and if we are going to be able to continue to do that, we have to make sure that American dollars are spent properly.

Some of what we see here clearly will benefit from American involvement. American demand for transparency and reform of the police, court and government systems will make improvements.

There are some areas that, without any question in Bosnia, the standards that we believe in, and I think most countries believe in, have been met. My review is that American aid has had a far better record, not perfect, but far better record than most other nations in how they disburse assistance.

For those of us on this Committee, I think we have to do more than just simply repeat charges. We have to make sure we get to the facts, and we have the straight facts. Accusations with billion or multi-million dollar numbers make great headlines, but they do very little to achieve the kind of policy changes that I know you and I both believe in.

We have to take a look at what is real here—where the real problems are. In some instances, clearly what we have are similar problems that we faced just a short time ago in this country. As I understand the bank in question, the real issue is not that the loans were not being repaid, but that they were self-dealing. Members of the board lent money to family members.

Well, it wasn't that long ago that we had our own banking crisis here. Hopefully, from what we learned in our experience and how dangerous that is, we will be able to effect on the Bosnians and others.

So I commend you for holding this hearing. I hope that we focus on the facts and not just inflammatory charges, and that we work together to make the system better so that we can build American confidence in a foreign aid system that has made the world a better place, that has nurtured democracy on every corner of the globe.

Chairman GILMAN. Thank you, Mr. Gejdenson. Any other Members seeking recognition?

If not, again I want to thank our witnesses. Ambassador Larry Napper now serves as Coordinator of Assistance to Eastern Europe after a long career with the State Department. After service with our U.S. Army, Ambassador Napper served in several key positions at our Embassy in Moscow, as Deputy Chief of Mission at our Embassy in Romania, as Director of the Department's Office of Soviet Union Affairs, and as Ambassador to Latvia. Ambassador Napper has also had a taste of life here on the Hill, serving as Congressional Fellow with our former colleague on this Committee, Lee Hamilton, in 1983 and 1984.

Craig Buck has served as the Director of the AID Mission in Bosnia since its beginning in 1996. Numerous hospitals, schools, bridges, small businesses and community infrastructure projects in Bosnia bear Mr. Buck's imprimatur. He has bettered the lives of thousands of Bosnian citizens. Prior to his assignment in Bosnia, Mr. Buck served in Central Asia, in Latin America, and in Europe. I am told that his radio call sign is "opener," because he has opened more aid missions than anyone else in the agency.

David Dlouhy has served our nation in numerous posts overseas, in Africa, Latin America, and in Europe. The recipient of three Superior Honor Awards from the State Department, Mr. Dlouhy has served as Special Adviser for the implementation of the Dayton Accord since 1997.

Prior to that, he was Diplomat-in-Residence at the Thunderbird Graduate School for International Studies, where I understand he shared an office with former Vice President Dan Quayle.

All three of our witnesses are most welcome. We will begin with the testimony of Ambassador Napper. You may summarize your statement, which will be entered in full in the record, or replace the full statement of your testimony, whichever you may deem appropriate.

Mr. Napper.

**STATEMENT OF THE HON. LARRY C. NAPPER, COORDINATOR,  
SUPPORT FOR EASTERN EUROPEAN ASSISTANCE, U.S. DE-  
PARTMENT OF STATE**

Mr. NAPPER. Thank you very much, Mr. Chairman. I thank you and Mr. Gejdenson for your opening statements, which we greatly appreciate.

I appreciate also the recognition that you have given to Mr. Dlouhy and to Craig Buck. They are indeed valued colleagues of mine and of my office. I particularly wanted to join in your commendation of Craig, who is finishing his fourth year as our USAID Mission Director in Bosnia. He has done a terrific job. He is an opener. We are going to use his talents to help us open our operations in Kosovo. So we are going to keep Craig involved in the Balkan work.

Mr. Chairman, I would like to begin by addressing very briefly some of the specific allegations that were made in the August 17th *New York Times* article to which you have referred. Then I would like to again briefly place our views about the problem of crime and corruption in Bosnia into the context of our overall policy in that country. I would like to summarize my statement, and if you would agree, then the full statement will be put in the record.

Chairman GILMAN. Without objection.

Mr. NAPPER. Mr. Chairman, I want to start out by assuring you and this Committee that the U.S. Government and I personally are fully committed to the integrity of all USG assistance programs in Central and Eastern Europe. We employ strict controls against the loss or misuse of any U.S. funds in such programs, and when there are allegations that there may have been a loss or misuse of any funds in our assistance programs, we investigate any such allegations with great thoroughness.

That is what has happened in the case of the allegations that were raised in the August 17th *New York Times*. We have looked into these very carefully, and I would like to give you an update in particular on the question of the B-H Bank in Sarajevo and the U.S. funds in that bank.

This bank was one of the banks that was handling our business finance program in the country which makes loans available to private enterprises. The bank did not properly transfer to USAID \$520,000 in repayments from these loans.

The B-H Bank is currently under provisional administration by the Federation Banking Agency, and we are vigorously pursuing all avenues to ensure repayment of these U.S. funds.

In addition, the U.S. dollar equivalent of \$393,000 held in German marks in operating funds for USG agencies in Bosnia were

frozen in the B-H Bank when it went into liquidation. Again, we are vigorously pursuing the full repayment of all of these funds.

So, I think you can see that while there is an issue here with the B-H Bank, and again I want to underscore to you and this Committee that we will vigorously pursue the repayment of all these funds that were caught up in the liquidation of the bank or in its movement into provisional administration, there is no evidence of large scale misuse or loss of international funds on anything near the scale that was contained in the August 17th *New York Times* article. In fact, as you pointed out, the *Times* itself presented a correction to that effect on August 20th.

If I might now move then to the question of our overall policy in Bosnia and the role of our anti-corruption and anti-crime efforts in that policy. The U.S. has pledged just over \$1 billion to the World Bank's long-term reconstruction plan for Bosnia, approximately 18.5-percent of all international pledges within that reconstruction program. Our SEED request for Bosnia in Fiscal Year 2000 is \$175,000.

Now, there has been an enormous amount of progress made in Bosnia since the end of the war, the Dayton Accords and the beginning of our assistance program. Most especially, the war and the ethnic cleansing have been halted.

Voters in several elections throughout Bosnia have increasingly begun to turn to moderates and to reject the radical nationalists on all sides. Returns of minorities to areas previously denied to them or areas involved in ethnic cleansing, including some of the worst areas such as Mostar and Prijedor, have begun to increase. Our Embassy this year estimates as many as 80,000 refugees may return to these areas.

The joint institutions of the government of Bosnia-Herzegovina have been created and are functioning more regularly. This was demonstrated when the government was able to bring off the Sarajevo Summit of the Stability Pact. The infrastructure reconstruction program, the program for reconstruction of the infrastructure that was destroyed in the largest conflict in Europe since the end of World War II, has been largely restored and completed.

There remains a long way to go in Bosnia. The radical anti-Dayton parties continue to impede progress and ethnic reconciliation. There has been little headway in privatization in the Bosnian economy. The party control of enterprises and the continued functioning of the Yugoslavia era payments bureaux prevents the emergence of free markets.

Then there is the problem of crime and corruption. Crime and corruption, as you have pointed out, Mr. Chairman, have deep roots in Bosnia. There is a communist legacy in that country, a legacy of communist government, in which the government itself stole from the people and created a climate in which people resorted to corruption as a survival strategy.

With this legacy, the concept of conflict of interest and personal ethics has been slow to gain ground. The poverty of Bosnia continues to create fertile ground for corruption, especially among poorly paid civil servants. The Balkan Wars of the past decade have further impoverished the region, undermined the legitimacy



of governments, and created the chaos on which crime and corruption flourish.

These historic legacies do not make the corruption problem hopeless, but they do underscore its difficulty, and they underscore the necessity for supporting and insisting upon reforms.

We have put in place a broad anti-corruption effort, which has been implemented and will continue to be implemented in the future. We have made clear to Bosnians that an attack on crime and corruption is essential to their integration into Western institutions. We have warned them publicly and privately that corruption, if not aggressively checked, will jeopardize foreign assistance, drive away investors, and undermine Bosnia's efforts to join European and global institutions.

We have provided assistance to a number of Bosnian partners who share our view of the problem of crime and corruption and are working to try to deal with it.

Our assistance has been crucial to the creation of the Central Bank of Bosnia and to bank supervision structures in both the Federation and the Republika Srpska. The United States and the European Union have worked with the Bosnian custom services to increase their capabilities.

We have worked to improve and to make more transparent the budget processes at canton and municipal levels so that ordinary citizens can participate in the budget process and can work to be sure that their funds are not misappropriated.

We have worked with the OHR, the Office of the High Representative in Bosnia, to put in place a comprehensive anti-corruption strategy, and the Bosnian authorities are beginning to act. In fact, you have mentioned the problems in Tuzla Canton. In fact, it is the Bosnian Federation Tax Police that have compiled the report on these activities in Tuzla Canton and are beginning to act aggressively to investigate them.

This is our bottom line, Mr. Chairman: We only need to remember the horrific images of the war, the four year conflict in Bosnia, to recall why the U.S. Government brokered the Dayton Agreement and why we are firmly committed to seeing through the process of bringing peace and prosperity to Bosnia. We believe that peace and prosperity in Bosnia is vital to the overall stability of the Balkan region and that in turn, we will not be able to achieve our overall objective of a Europe whole and free and at peace unless Southeast Europe is part of that process and unless we can transform and integrate Southeast Europe into the broader European mainstream.

As I pointed out, Bosnia has made progress, but it is essential to continue our efforts to combat crime and corruption as part of a coordinated strategy for reform. We will vigorously continue to protect the integrity of all USG assistance programs in Bosnia.

Finally, Mr. Chairman, I would like to announce this morning that in connection with our anti-corruption efforts, the Administration is forming a new task force headed by Ambassador Robert Frowick to lead in the work on the fight against crime and corruption in Bosnia. Ambassador Frowick and his team will work with Bosnian parties and the international community to identify and to attack the roots of crime and corruption in that country.

As you know, Ambassador Frowick is a senior American diplomat with extensive experience in the Balkans, having been the first representative of the OSCE in Bosnia, and later our Charge and Acting Chief of Mission in Albania.

Ambassador Frowick will begin his work with a visit to Bosnia next week. While he is on the road, we will begin the work here of putting together the task force and setting it in motion.

So, Mr. Chairman, thank you very much for allowing me to summarize my statement. I would like now to turn the floor to my colleagues.

[The prepared statement of Mr. Napper appears in the appendix.]

Chairman GILMAN. Thank you, Ambassador Napper. I want to commend you for forming the Frowick Task Force. We look forward to observing it closely and working with that task force in trying to resolve these issues.

Mr. Buck.

**STATEMENT OF CRAIG BUCK, MISSION DIRECTOR FOR BOSNIA-HERCEGOVINA, KOSOVO AND MONTENEGRO, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. BUCK. Chairman, since the Dayton Peace Accords were signed, we have seen a period of very large economic growth in Bosnia and Herzegovina, rates of growth of over 30 percent each year within the Federation. While this has been largely foreign fueled, we have seen significant domestic investment. Our business development program, which makes available business credit and consulting services, is responsible for a large part of this economic growth. In fact, a study that we have done, two separate studies, indicate that the United States program is responsible for between 20 and 25 percent of the economic growth that Bosnia-Herzegovina has seen since the Dayton Peace Accords were over, or signed. We have placed 425 loans in private and public businesses in Bosnia and Herzegovina. We have put 17,000 people back to work directly, and many thousands more indirectly.

The bulk of these loans are performing. They were made in a risky atmosphere, in an atmosphere of uncertainty, where trade patterns and technology had changed, and where new markets were beginning to emerge, but in an atmosphere in which business term lending was alien. But the bulk of these loans are performing.

We are not, however, without problems. We have had to foreclose on 25 loans because the recipients have failed to meet all of the loan conditions and failed to remain current. We have other loans that are past due. We have developed a loan workout unit to ensure that these loans are ultimately repaid.

To conclude, our program began in an atmosphere of uncertainty, yet we have protected the integrity of these resources and we will ensure that we will pursue all avenues to protect U.S. resources.

Thank you.

[The prepared statement of Mr. Buck appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Buck.

Mr. Dlouhy.

**STATEMENT OF DAVID DLOUHY, SPECIAL ADVISOR, BOSNIA  
IMPLEMENTATION, U.S. DEPARTMENT OF STATE**

Mr. DLOUHY. Thank you, Mr. Chairman. I welcome the opportunity to visit with the Committee this morning to talk about corruption in Bosnia, and with your concurrence, I would like to summarize my statement.

Chairman GILMAN. Without objection.

Mr. DLOUHY. For the past two years, Mr. Chairman, I have served as the United States Representative to the Steering Board of the Peace Implementation Council, the oversight body for the Dayton Peace Accords.

Some two years ago in the Fall of 1997, the Peace Implementation Council, which I will refer to as the PIC, formally incorporated fighting corruption as an integral implement of the Dayton implementation process. However, while we discussed this critical issue, it is important to keep in mind that it has not prevented recent positive developments in Bosnia related to refugee returns.

As the Committee is aware, some two million Bosnians were displaced by the horrific war there. Today, some four years later, 1.2 million Bosnians remain displaced. This includes 836,000 internally displaced persons, and about 450,000 outside of Bosnia.

By way of comparison, on April 20th of this year, there were 1.4 million displaced persons in Kosovo. Today we estimate there are about 100,000. While the situation in Kosovo has improved in terms of refugee return, this problem remains the number one issue in Bosnia. Up to now, we have seen marginal progress.

However, while the war was being fought in Kosovo, something significant seems to have happened in Bosnia this summer. In the first eight months of this year, in fact, SFOR has announced that minority returns are running 65 percent higher than last year. The number of minority returns this year who have registered with UNHCR is 10,000, and when one adds unregistered returns, the number is about 40,000. These returns include about 5,000 Serbs who have returned to Drvar in the Federation. If this war was fought by nationalists for a separate homeland for Serbs who oppose Bosnia's independence from Yugoslavia, the action by the Serbs returning to Drvar has shown that home and not a homeland is what matters most.

In the Republika Srpska, Bosnian families are returning to Prijedor in the west and to Gacko and Nevesinje in the east. Just yesterday, Mr. Chairman, 30 Bosnian families, totaling 87 people, returned to Pale. Croats account for 25 percent of all minority returns, and they are going back to central Bosnia.

Undeniably, however, barriers to minority returns remain and corruption plays a role in that. That is one reason why we have been working for the past two years, through the vehicle of the Peace Implementation Council as well as bilaterally, to address it.

The 4,000 pages of documentation on corruption in the Tuzla Canton case, produced by local Bosnian authorities and referred to in the August 17th *New York Times* article, is an encouraging result of our efforts over the past two years to push the Bosnians themselves to develop the political will to fight this issue, and to help them develop the institutional capability to do so.

Corruption is undeniably a fact in Bosnia, a country ravaged by war during which corruption flourished and burdened with well-entrenched vestiges of a communist economic system and mindset. Not surprisingly, democratic concepts of accountability to the public and transparency are not yet second nature to most Bosnians.

Moreover, during the war, the nationalist parties took advantage of the breakdown in government structure to gain control of large parts of the Bosnian economy. This economic power enabled, and continues to enable, the large mono-ethnic parties to sustain their party apparatus and exert their influence at all levels of society.

I would like to say a few words about the anti-fraud unit in the Office of the High Representative. Public recognition of this extensive corruption began during 1997, with a number of reports released by the European Commission's Customs and Fiscal Assistance Office. It was concern about corruption and its potential effect on assistance funds that pushed the PIC in the Fall of 1997 to highlight the problem of corruption and endorse the establishment of an anti-fraud unit.

Specifically, at the Bonn Ministerial meeting in December of 1997, the PIC endorsed the establishment of the anti-fraud unit. I would like to quote from that document: "The Council is deeply concerned by the potential for corruption and diversion of funds for unauthorized purposes as outlined in the two reports submitted by the European Commission's Customs and Fiscal Assistance Office. Corrective measures must be taken against corruption. Foreign aid must not be a substitute for diverted state resources. Donors have to protect their assistance funds from possible misuse as well as having to compensate for misappropriation."

In December 1998, the Madrid PIC again spoke out against corruption. In December 1997, the anti-fraud unit came into operation, and following the securement of personnel, the unit was fully operational by the Fall of 1998. In February of this year, the unit issued a comprehensive anti-corruption strategy, which was approved in March by the Steering Board of the Peace Implementation Council.

A copy of that report can be provided to the Committee.

To compliment this case-specific approach, the anti-fraud unit is also working on systemic changes. This second track has identified four strategic pillars to fight corruption in Bosnia: Eliminating opportunities; transparency and reporting; control and penalty; and education and awareness. It was in the context of this fourth pillar, public awareness, that the *New York Times* was invited to a briefing at the anti-fraud unit to discuss the results of the first large-scale Bosnian investigation of public corruption in Tuzla Canton.

Keying off these strategic pillars, the anti-fraud unit is working on four other areas: Public revenue; rule of law; institution building; and public education.

In addition to being one of the proponents of the creation of the anti-fraud unit, the United States is also working bilaterally through the Department of Treasury on budget and taxation reform, banking privatization, and reform of the payments bureaux.

As a counterpart to the anti-fraud anti-corruption strategy, the Peace Implementation Council also mandated a judicial reform strategy to compliment the anti-fraud strategy. Not surprisingly,

the judicial sector in Bosnia suffered tremendously from the war and is saddled by the habits of the communist past. Close party control of the budgets of, and appointments to, the judiciary crippled efforts to render justice. Both the anti-corruption and anti-fraud strategy documents mandated by the PIC form the basis for our operational efforts.

Finally, on another area with regard to police, which is another component of the overall anti-corruption efforts, the IPTF has been at the core of our efforts in Bosnia. The International Police Task Force has focused its efforts on the restructuring, retraining and democratization of the police force, whose pre-Dayton role had been to maintain control on behalf of an authoritarian regime. The United States continues to assist vigorously in all aspects of police reform through various U.S. Government programs, and training has been under way in both entities since 1996. All of these efforts must be continued. They seem to be bearing fruit, though significant challenges lie ahead.

As a result of the police investigations, indictments for corruption are expected to be handed down very soon for Tuzla Canton Prime Minister, Hazim Vikić. Directly related, Tuzla Minister of Interior Ferid Hodžić has been removed by the High Representative for attempting to block the investigation into corruption in Tuzla Canton. He is expected to be indicted as well. Police in the Federation and RS also have begun cooperating on stolen vehicle investigations and in dealing with organized crime, such as the joint effort which closed the Otoka Market in Una Sana Canton. Police in Stolac arrested the head of the Renner Market, and investigations there are continuing. This a particularly salient case, as the disappearance following the arrest of the principal accused seems to encapsulate the problem confronting Bosnia on links between political officials, Mafia members, politically intimidated corrupt judges, insufficient domestic law enforcement capacity and overall lack of political will.

Besides working multilaterally through the Office of the High Representative of the United States, the Embassy in Bosnia has been actively engaged in diplomatic efforts to generate political will to fight corruption. Since August 1998, we have deployed a full-time officer to the Embassy to coordinate with the international community's efforts on corruption in conjunction with SFOR. As recently as June 2nd of this year, the Embassy issued a press statement criticizing President Izetbegović for downplaying the seriousness of the corruption problem.

In sum, the problem of corruption is undeniably one of the prime obstacles to achieving the goals set forth in Dayton, and that is why we have made fighting corruption a central focus of Dayton implementation and will continue to do so.

Mr. Chairman, I thank you for the opportunity to discuss with you this problem of corruption in Bosnia, because the public recognition and discussion of the problem, both internationally and by the Bosnian people, is one of the most important steps in the battle against corruption. In this type of discourse, the press coverage and publicity that will flow from this Committee's attention to the problem will gradually encourage Bosnian society to develop into a true democracy where rule of law and not rule of nationalist party poli-

tics reigns. For this to happen, we hope that all Bosnian officials will see corruption as a major threat to the integrity of their country.

Thank you.

[The prepared statement of Mr. David B. Dlouhy appears in the appendix.]

Chairman GILMAN. Again, I thank our participants today. This is a serious problem for us as we address future funding for this region. The military implementation of the Dayton Accords was completed within months of its signing. The civil implementation of the Accords has languished now almost four years since its beginning. One of the keys to getting out of Bosnia is a strong economy, yet communist era institutions like the payments bureaux still remain, scaring off potential investors. While the abolition of the payments bureaux has been promised, it has not happened. The ruling ethnic parties in Bosnia will not let go of the power the bureaux gives them.

Should Congress condition further assistance to Bosnia on the elimination of such communist era institutions? I address that to all of the panelists. Ambassador Napper?

Mr. NAPPER. Mr. Chairman, first of all I think I misspoke in my statement. I said that the President's request for Fiscal Year 2000 for Bosnia is, I think I said \$175,000. I meant \$175 million.

The payments bureaux do, in fact, represent a major impediment to the development of a genuine market economy in Bosnia, and we have worked hard with the IMF and the other international financial institutions to develop a substitute for the payments bureaux.

There has to be a banking system in place that is a reliable banking system so that when the payments bureaux are eliminated, there is in fact an alternative to the role that they play.

So, yes, we will continue to push and to press for the elimination of the payments bureaux in an orderly fashion over time so that their function can be assumed by a modern, genuine banking system.

As to conditioning assistance, we do condition our assistance in the sense that we work with the parties on the ground in Bosnia who share our values and our commitment to Dayton and our commitment also to the building of a market economy in that country.

We deny assistance to those parties, and individuals and entities in Bosnia who do not share those objectives and concerns. So we do make every effort as we go along to condition our assistance on that convergence of our objectives with those of the parties with whom we are working.

Chairman GILMAN. I believe our other panelists wanted to comment on that question. Mr. Buck?

Mr. BUCK. I will talk about the payments bureaux for a minute. We have an agreement with the government of the Federation and with the government of the Republika Srpska that the payments bureaux will be eliminated by the end of December of the Year 2000. This is a very complex issue.

Chairman GILMAN. That is over a year away.

Mr. BUCK. There are a number of functions that the payments bureaux perform that must be orderly transferred to other government entities or to the private sector.

For example, they perform tax collection and tax determination for all enterprises. We need to establish a separate mechanism so that people can have their taxes accurately determined and paid.

Second, they collect government statistics. We need to move that function to another agency.

Third, they function as the government treasury. We need to establish government treasury functions, not only in the state, but in the two entities. As Ambassador Napper mentioned, we need to ensure that banks can orderly transfer funds within banks and between banks, and we do have a comprehensive, internationally endorsed effort to totally eliminate the payments bureaux function by the end of next year.

Chairman GILMAN. It sounds like a good plan, but I hope you can accelerate it to make it less than a year away. With an institution creating so many problems, with millions of dollars at stake, it seems to me it needs a better expedited process.

Did you want to comment, Mr. Dlouhy?

Mr. DLOUHY. Mr. Chairman, the Peace Implementation Council has identified the payments bureaux as one of the key impediments of privatization in Bosnia, and there is an extensive plan laid out in the December Madrid Ministerial statement that forms the script for the plan that Mr. Buck is referring to.

It is noteworthy that in both Croatia and Slovenia the payments system, which is a vestige of the former Yugoslavia system, still functions. The problem in Bosnia is that the three ethnic groups have maintained control of the payments system for their own purposes. Whereas the system seems not to have been an impediment to privatization in Slovenia, it is in Bosnia.

Chairman GILMAN. As it is, as you say, a key impediment, again, I think more attention is needed to the removal of this institution and the replacement of it.

Our government placed heavy reliance on the success of the Bosnian businessman, Mr. Mirsad Delimustafic. This man is the son of one of Bosnia's top arms merchants and established a bank called B-H Bank that both USAID and the U.S. Treasury used extensively.

Mr. Buck, it is my understanding that your staff discovered problems with that bank and foreclosed USAID-funded loans there. Rumors of that action got out and started a run on the bank. It is my understanding that some USAID loan proceeds have not been repaid by this bank, and that the U.S. Treasury is also out some \$400,000 with the collapse of that bank.

Can you tell us a little more about this businessman's links to the Bosnian Government?

Mr. BUCK. Mr. Chairman, I am not aware of his links to the government itself.

Chairman GILMAN. You have no information about that?

Mr. BUCK. Correct. I have no information. I know that members of his family were—.

Chairman GILMAN. Isn't he the son of a top arms merchant in Bosnia?

Mr. BUCK. I know that one of the five brothers was a minister in the government at the time that the war started. I am not familiar with other ties to the government officials.

Chairman GILMAN. Do other panelists have any information?

Mr. NAPPER. There probably are, Mr. Chairman, some links between this individual and people within the Bosnian Government. I think what we would like to focus on is the recovery of these U.S. Government funds. They are the funds to which I referred in my statement. We, as I said, are using every appropriate means to recover these funds, including through the legal system in Bosnia and through the process of foreclosure rules as they exist in Bosnia. We will use our contacts with the Bosnian Government in that regard.

So I am not saying that these individuals' links to the government may not exist. What I am saying—is the question for us is what do we do about it—and what we do about it is, in the first instance, see to the recovery of our funds. I can assure you today we are doing that, and will continue to do it.

Chairman GILMAN. How much in funds are involved in this bank?

Mr. NAPPER. Just short of \$1 million. The figures that I went over with you a few minutes ago are as follows: In USAID funds, transfers from repayments of loans, \$520,000, and then \$393,000 in USG funds for the functioning of our various USG organizations, the Embassies, the aid mission in Bosnia.

Chairman GILMAN. What are the prospects of recovering any of those funds?

Mr. NAPPER. Well, we have a legal judgment saying that these funds are to be remitted from the bank to us. The bank is in provisional administration by the Federation authorities right now. We certainly will make every effort to recover these funds. We are committed to doing so. I am very hopeful and indeed optimistic we will be able to do so, but we are not in a position to guarantee that to you this morning, Mr. Chairman.

Chairman GILMAN. I have one other question. Our armed forces in Bosnia are based around the city of Tuzla. It is my understanding the Prime Minister of Tuzla, Mr. Vikalo, his interior minister and prosecutors all were involved in scams to steal hundreds of millions of dollars from the government, scams that I described in my opening statement, which included massive paint purchases for schools with no heat and stealing funds from massacre victims. I understand these corruption allegations totaling \$700 million came to light from the work of one brave Bosnian policeman, Officer Osman Osmanovic. This policeman has been threatened and no longer works on matters in his home city.

The international community should support the creation of Bosnian "Untouchables" like Chicago's federal agents of the depression to support officers like this. Should Congress earmark funds for a Bosnian "Untouchables" police corruption unit?

Mr. NAPPER. Well, Mr. Chairman, we will look into that as a possibility. I mean, we see your idea and we will certainly give it every consideration, and Ambassador Frowick and his task force that have been called in to look into this ought to give this idea very serious consideration.

It is worth noting in the Tuzla case that, as you point out, it was the Federation financial police who did the most work on this case and who compiled this 4,000 page document, as Mr. Dlouhy has



said, detailing these allegations. In fact, I think one of the most encouraging things to come out of this whole episode is that one now sees that the Bosnians themselves are beginning to develop the capability to do precisely what you want, which is to go after large-scale graft and corruption, even at the top. We do hope to see the indictments of these individuals in the Tuzla Canton who are responsible for this corruption.

David, do you want to add anything to that?

Chairman GILMAN. You are going to have to find a way to protect these kinds of officers that come forward, since he has been threatened and had to leave the community.

Mr. DLOUHY. Mr. Chairman, in conjunction with the restructuring and reform of the payments bureaux, there is a general review under way of what the structure ought to be for this type of function for the police. Currently there are 141 financial police in the Federation and approximately 100 judicial police.

One of the things that Ambassador Frowick could provide to the Committee afterwards is some view on what the proper role of those two institutions ought to be in a new alignment. That is currently being looked at. But I couldn't agree with you more that we need more people like Osman Osmanovic to get to the bottom of what has been going on. I think we need to help him personally and help his colleagues who are trying to do so.

Chairman GILMAN. Mr. Gejdenson.

Mr. GEJDENSON. Mr. Chairman, I am a little confused here. I have heard so many numbers this morning, maybe others are better at keeping up with it. Let me start at ground zero. How much American money is missing? What is the total dollar amount that American taxpayers gave to the government of the United States that we sent over there to help that is now in question? Is it \$1 billion? Is it \$700 million? Is it \$200 million? How much is it? What is the total? In every category, whether it is a bad loan that has not been paid off, or money that disappeared because they paid twice what they should have for paint?

Mr. NAPPER. Mr. Gejdenson, the figures that I have and that we are working with are as follows. Again, as I said earlier, we are talking about just short of \$1 million: \$520,000 in repayments from loans that were not properly remitted by the bank to USAID, and then \$393,000 in USG operating funds.

Mr. GEJDENSON. That is right. So the total of American taxpayer money that is in question is \$913,000, is that correct? I wasn't a math major. The money in question, whether in bad loans or losses in operating expenses, is \$913,000, yes or no?

Mr. NAPPER. \$913,000 in these two categories. There are also a number of loans, as Craig Buck has pointed out, made in the Bosnia business loan program, which are not current, which is a different category in the sense—

Mr. GEJDENSON. Not current means they are not being paid back?

Mr. NAPPER. Exactly.

Mr. GEJDENSON. How much is that?

Mr. BUCK. The 25 loans that are in foreclosure amount to \$11.6 million.

Mr. GEJDENSON. That is \$11.6 million.

Mr. BUCK. Right. I point out those are fully collateralized and we expect to collect these funds.

Mr. GEJDENSON. That is a normal banking transaction. These loans represent a percentage that is consistent with normal banking practices, that if you made these loans in an economically similar situation, it is not 100 percent of the loans that fail, these 25 in question.

Mr. BUCK. That is correct, 25 out of a total of 425 loans.

Mr. GEJDENSON. It is 25 out of 400 loans.

Mr. NAPPER. 425, Mr. Gejdenson.

Mr. GEJDENSON. 425 loans. You think that is totally collateralized. We are going to get that money back?

Mr. BUCK. I think we will collect a substantial amount.

Mr. GEJDENSON. We are back to my other figure. So there is \$913,000 that is in real question.

Mr. NAPPER. Yes.

Mr. GEJDENSON. That isn't because somebody made a mistake with the loan. That has happened here too on a couple of occasions.

Now, of the \$520,000, that is at the bank in question, B-I something?

Mr. NAPPER. Yes, this is the B-H Bank.

Mr. GEJDENSON. This \$520,000, these are loans that were given out to board members' relatives, is that correct?

Mr. BUCK. No, sir. These were loans that were made to 15 separate companies for which there was no question about the legitimacy of these loans. These were loans, repayments made to the B-H Bank, that B-H Bank failed to remit to our loan repayment account. In other words, it kept them aside.

Mr. GEJDENSON. So the companies that the money was lent to were legitimate loans made under legitimate banking practices. The bank itself then put the money in some other account?

Mr. BUCK. It retained it in its own account, correct.

Mr. GEJDENSON. Where is that money today? There was then a run on the bank when you guys complained.

Mr. BUCK. That money remains as part of the assets of B-H Bank that we have a court judgment that they must return.

Mr. GEJDENSON. Are there sufficient assets to pay back the \$520,000?

Mr. BUCK. There is a provisional administrator assigned by the Federation Banking Agency to deal with the problem of B-H Bank. Whether it is liquidated, whether it is recapitalized, whether somebody puts an investment in it, we don't know how that will end up. On the 24th of September, the provisional administrator may make a decision as to what the next steps in this will be, whether they close it out and pay the creditors.

Mr. GEJDENSON. Let's start out with they close it out. If they close it out, how many cents on the dollar do you think you will get?

Mr. BUCK. In a discussion with the provisional administrator, he indicated that if the bank were closed out immediately, people would get perhaps 40 cents on the dollar.

Mr. GEJDENSON. Forty cents on the dollar.

Mr. BUCK. The bank, according to the administrator, is technically solvent, but illiquid. There is the possibility, according to

the administrator, that if we were to wait for some period of time, the assets that the bank has could be sold off or could be applied to the bank and people would get paid off 100 cents on the dollar.

Mr. GEJDENSON. So that leaves us somewhere between, if your estimates are correct, that the worst case scenario is a total of somewhere around \$600,000, to possibly down to \$393,000.

Now, what is the \$393,000?

Mr. NAPPER. Mr. Gejdenson, when our Embassies or aid mission, or other USG organizations have to have cash in order to operate, what happens is our regional financial management center in Paris transfers to local banks all over Europe the cash that is necessary to conduct operations. What has happened is that this B-H bank was used for that purpose. When they transferred these operating funds into the bank, they got caught up in this freeze-up in the liquidation process.

Mr. GEJDENSON. This is the same bank?

Mr. NAPPER. Yes.

Mr. GEJDENSON. Basically you are telling me that the only problem with American taxpayer dollars is the dealings in this one bank, and that looks like an outside liability—if you look at the outside liability, you would get 40 cents on the dollar.

Mr. NAPPER. Yes.

Mr. GEJDENSON. So you are really closer somewhere around half a million dollar liability that we should be worried about here, which is something we ought to worry about. American taxpayers work hard to get us that portion of the money.

All right, so the American liability in what you consider to be in your professional estimate is a half million dollar liability.

Now, my friend the Chairman here goes on to talk about \$700 million worth of missing money or stolen money that you say the Bosnians took some action on their own in that area, and the *New York Times* talks about \$1 billion. Where is the \$1 billion? Even if you take the original estimate, you are only talking about less than \$1 million, which is a lot of money, of American money. But where is the rest of the \$1 billion?

Chairman GILMAN. If the gentleman will yield, let me just recite what the *New York Times* reporter said.

Mr. GEJDENSON. Mr. Chairman, if I could reclaim my time—Mr. Chairman, I let you go. You can cut me off if you want. You had a long time to ask your questions. I want to see if I can get from my simple point of view an answer from these three gentleman. I would love to have a conversation with you as soon as I get that.

Chairman GILMAN. The gentleman is focusing now only on the potential loss of our dollars. You are forgetting the rest of the problem.

Mr. GEJDENSON. Mr. Chairman, I am happy to have that discussion. I didn't try to interrupt you. I got very confused, frankly, with all the numbers that are out there. I have tried to deal with the American problem first. That is my first job as an American Member of Congress. We now recognize that it is somewhere between a half a million and \$913,000, if these gentleman are correct. Now I have asked them how do we get from \$913,000, worst case scenario, to \$1 billion. I was waiting for their answer.

Mr. NAPPER. Let me ask Mr. Dlouhy to address that question.

Mr. DLOUHY. Mr. Gejdenson, the \$1 billion number is impressionistic.

Mr. GEJDENSON. What does that mean?

Mr. DLOUHY. It means there are no hard numbers that one can add up to come up with that number.

Mr. GEJDENSON. What are the hard numbers in theft? I understand from my staff that in some cases we found that first the Germans trained their police and then the French trained their police, and then the U.N. trained their police. That is stupid, but that is not theft. We should stop stupidity. I want to know how much of the \$1 billion, which is a frightening number, is theft?

Mr. DLOUHY. The short answer to your question, Mr. Gejdenson, is we don't know. The number that was used was mixing up an estimate of loss of domestically generated revenue with international—

Mr. GEJDENSON. That means that taxes that weren't collected, the people who avoided or cheated their government.

Mr. DLOUHY. Both, money that was collected and ripped off, and money that was not collected through fraud.

Mr. GEJDENSON. How much is that?

Mr. DLOUHY. There is no hard number. In the Tuzla case, they were trying to put a number on the things that the Chairman enumerated, the paint, the medical supplies, the gravestones, which is outrageous, and they were trying to come up with some number. I think that was the process in which they started adding up numbers, and they got up to about \$700 million equivalent in local currency. But that is an impressionistic number. But you think it is in the ball park, and it is something the Bosnians need to deal with.

Mr. GEJDENSON. Mr. Chairman, I would be happy to hear your spin on it now.

Chairman GILMAN. Mr. Dlouhy, it is not my spin. The *New York Times* reported that the Federation financial police report documented waste, fraud and mismanagement of funds of more than \$200 million in 1997 and 1998 on purchasing huge quantities of material that was not needed and misappropriated. The Federation financial police report also implies an additional estimated amount of \$300,000 in other spending, subject to auditors' challenges. Then the report goes on that an additional \$200 million in internally generated revenue was collected but does not appear in the budget.

So it all adds up to close to \$1 billion, based on these figures. But that comes out of money for the Bosnian government. When it comes out of money for the Bosnian government, it is not just our money that is immediately not resolved, but we are also now facing a government with hollow finances that someone is going to have to meet in order to keep the Bosnian government afloat. That is why we are concerned, not only about the American loss, but also about the loss to the Bosnian government. If we don't have the Bosnian government stable, it means our troops are going to be committed there for a longer period of time than we would like to see.

Mr. NAPPER. Mr. Chairman, I agree with that analysis, and I agree with Mr. Gejdenson's point that we have two tasks here. The first task is to see to—the best possible way that we can—to the

protection of the U.S. taxpayers' funds, and we are doing that. Then the second task is to deal with the overall problem of crime and corruption in Bosnian society, which you both pointed to as being absolutely important. So we take both tasks with absolute seriousness and we will do our dead level best to continue the work and to improve it with the Bosnians on both counts.

Chairman GILMAN. Mr. Cooksey.

Mr. COOKSEY. Thank you, Mr. Chairman. In reviewing your resumes, your CV's, I have found some evidence that concerns me about the possibility of either a coincidence or a conspiracy. You are all three Texans. Is that a conspiracy on the part of the State of Texas?

Mr. DLOUHY. We made a commitment when we came up here not to talk Texan to you.

Mr. NAPPER. Not only that, but Mr. Buck and I are from Texas A&M University.

Mr. DLOUHY. I will not have anything to do with them.

Mr. COOKSEY. I have one of my degrees from the University of Texas and was at an alumni function this week.

Mr. Napper, you referred to the communist era payments bureaux. Will you explain that to me? I am not familiar with that.

Mr. NAPPER. The payments bureaux are essentially a way, in the former Yugoslavia and in many other communist countries, to control the economy by controlling the flow of cash in the economy. For instance, if you have an enterprise, if you have a hotel, that enterprise has to every night take the full cash on hand revenues to the payments bureaux where it is then taken, secured, and they go back the next day to get operating cash. It is the equivalent of a bank, but it is not a bank doing it, it is the government. So it gives, as Mr. Dlouhy pointed out, that payments bureaux an opportunity not only to control enterprises, but also to rip-off, to take a slice off the top of whatever is collected.

Mr. COOKSEY. Has this continued in some of these former communist governments since the end of the Cold War?

Mr. NAPPER. It has continued in some cases, and with particularly pernicious consequences in Bosnia, which is why we are trying to get rid of the payments bureaux at the earliest possible time. The problem is that you can't overnight decree that they are to go out of business, because some entity, if it is not the payments bureaux, then the banking system, has to control or has to provide cash management services in the economy. So you have got to have a functioning banking system to take over as the payments bureaux are eliminated.

Mr. COOKSEY. What are the responsibilities of the OHR that you alluded to, and what is its role?

Mr. NAPPER. The OHR is the international community's principal administrator in Bosnia, and I think Mr. Dlouhy is our resident expert on the OHR.

Mr. DLOUHY. Mr. Cooksey, annex 10 of the Dayton Peace Agreement established the Office of the High Representative. The High Representative then created an institution. It is unique. It is a stand-alone international organization not related to any other. It is created by the treaty signatories and supported by them. The international community selects an international person to be its

chief representative, and seconds personnel to his office. It now consists of about 700 people with headquarters in Sarajevo and regional offices throughout Bosnia. It is the chief institution for implementing the Dayton Peace Treaty.

Mr. COOKSEY. Good. Another question, does anyone have the number about the total amount of U.S. taxpayer dollars which have been put into Bosnia military USAID, and the whole term foreign aid? Just a quick, brief answer?

Mr. NAPPER. Our contribution on the civilian reconstruction side is roughly a billion dollars.

Just over a billion dollars from 1996 to 1999.

Mr. COOKSEY. Did you say civilian construction?

Mr. NAPPER. In other words, the civilian side. I don't have with me the cost of the SFOR commitment. We could try to get that for you, but that is a matter that the Pentagon would have to supply.

Mr. COOKSEY. That would be interesting to know. My question is directed toward the success or failure of the banks in Bosnia. How many banks have started in Bosnia since they started all over, and how many are still functioning?

The second question along those lines—is there a firewall between their banks and their government, because I know that in some of these former communist countries, the old communists have managed to move into the government structure and have created chaos in some of these other countries. Is there a firewall between government and business?

Mr. NAPPER. Mr. Buck lived with this for four years, and is in a good position to answer that question.

Mr. BUCK. When the Dayton Peace Accords were signed, there were 59 banks in the Federation, far more than that economy could sustain. The banks are going through a process of consolidation and privatization. There are now around 50 banks because a number of them have had their licenses revoked. Within the next 12 months we will probably see this number go down to perhaps 20 to 25, as banks have to meet new capital requirements of 5 million Deutschmarks in capital and as government banks are privatized.

Within our own business lending program at one point, we had a total of 33 banks that were qualified as agents. As we began to see problems emerge, as banks began to do things as B-H Bank has done, we have tightened up the qualification requirements, and we have reviewed all of them. We are now down to 19 banks that serve as agents.

Mr. COOKSEY. That is good to know.

I still don't know the answer about the conspiracy. Thank you, Mr. Chairman.

Mr. CROWLEY. Thank you, Mr. Chairman.

Ambassador, could you restate the amount you gave in terms of the civilian side?

Mr. NAPPER. Yes, just over a billion dollars.

Mr. CROWLEY. OK, just over a billion dollars.

So roughly—well, really a very small percentage at this point in time in terms of using Mr. Gejdenson's analysis.

Mr. NAPPER. If you use Mr. Gejdenson's analysis, you are right. It is infinitesimal when you compare the two.

Mr. CROWLEY. I look at U.S. aid and investment abroad, particularly in countries or regions like Bosnia, as investments by the American people to ensure the growth of democracy. That investment comes with some risk, sometimes considerable risk. Not to minimize or diminish the loss of U.S. taxpayer dollars in those regions, can you give me an assessment overall in terms of maybe similar—that you may be aware of—investments that we have made around the world in terms of loss or theft of American dollars? What would be your perception of this particular type of loss of U.S. investment?

Mr. NAPPER. I think Mr. Crowley, we talked here about a rate of nonpayment of loans made in a business environment like that, I would say in some cases in Central and Northern Europe and Poland and the Baltics, where I served, the nonpayment from USAID lending institutions is considerably less than that. In other words, we have had a better record in Central and Northern Europe than we have in Bosnia and in the Balkans. I think that reflects, in fact, the faster pace of reform in central and northern Europe as compared with that in the Balkans.

So in many cases, we have done better; and I suspect that there are cases in which we have done worse.

So perhaps Mr. Buck would like to address that, but that would be my sort of impressionistic answer to your question.

Mr. BUCK. I would like to say that any loss is really unacceptable. But I would say the amount of \$913,000 out of a billion dollars is indeed, as Ambassador Napper said, infinitesimal.

But with respect to the 425 loans that we have made, we have had to foreclose on 25 of them. There are other loans that are delinquent that we are having to work with to ensure payment. The bulk of our loans are being repaid, but I don't want to leave you with the impression that there are not problems. This was to be expected because of the emergence of a private sector, the change in modifications of trading patterns, et cetera. But we will be pursuing payment and trying to ensure that all loans are up to date.

Mr. CROWLEY. In reference to the *New York Times* article of October 17th, the American lead, anti-fraud unit is the unit that exposed the so-called billion dollar theft; is that correct? What would be the motivation, in your thoughts, as to why that was given to the *New York Times*?

Mr. NAPPER. Mr. Dlouhy will answer that question.

Mr. DLOUHY. The anti-fraud unit, as I mentioned in my opening remarks, was mandated by the Peace Implementation Council, and was created by the member states to address the issue of corruption.

One of the components of the strategy that we agreed to in the board, in March of this year, was public awareness and education. And frankly, the interview with the *New York Times* was done in order to force Bosnian officials to come to grips with this issue—to bring this issue out in the public and to generate a public reaction to those officials who have not taken corruption seriously.

The anti-fraud unit is led by a German national, and it has many investigators assigned to it, including American investigators. But specifically, the interview was done on background to provide infor-

mation on the first large-scale public corruption investigation conducted by Bosnian officials.

It was done to highlight the fact that they had conducted this investigation themselves.

Mr. NAPPER. There is a little bit of a paradox here. What in many ways is a positive thing—an investigation being carried out by Bosnians and aggressively pursued in that direction—has turned into a different spin, and that is that there is corruption. We knew that, but the problem is what do you do about it?

Mr. CROWLEY. Thank you.

Thank you, Mr. Chairman.

Chairman GILMAN. Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman.

One of the things that strikes me here and is of great concern is, not just in this area but almost in the entire Soviet Union, we are facing a crisis where you have gone from the police state that did very terrible things, but crime was low and if there was theft, it was organized theft by the government from the people.

We have tried to give them the benefits of democracy, and this is not the only place in the world that it is a tremendous challenge to build a government that serves the people and does not plunder and leave many of its citizens helpless and starving. I don't think that we have an instant answer. Clearly in our history, we have come to a point where we worry about corruption in matters outside of government. We have gone to the point where we review our officials for their own personal relationships and whether they fit the standards that society expects. It was not that long ago that Mayors and Senators and Governors and even Congressmen were being led away in handcuffs for taking bribes and stealing. Thank God we don't see much of that in this country.

Take these societies where there is no history of due process and independence of the judiciary and the police—what more can we do, not simply just to guard our own money when they are not collecting their own revenues? One of the problems in Russia today is that some of the wealthiest people are not paying taxes. Pensioners are going hungry. It is very hard to convince people that democracy is a great thing if they are hungry and cold.

I don't have a great answer here. I don't know how you do this. The Chairman is frustrated with your failure to get rid of this agency within a year's time and replace it with proper institutions to fulfill those duties of tax collection and bank transactions and changing institutions is difficult everywhere. Here we basically have countries with no democratic institutions.

Are there things that Congress can do that would help you in developing institutions within these countries, not just here in Bosnia but in Russia and in other countries? Some have done better. Some are actually starting to thrive. Some are still doing pretty badly. Albania is still a basket case. There are lots of countries where it is horrendous, and they are not able to provide orderly functions of basic government.

Aside from the specifics of recovering our funds and making sure that funds are not lost, stolen, or double counted, are there actions that we can take?



Even in Latin America, we see in places like Peru and Venezuela, questions about what is happening to democracy. Some may be that the democratic institutions there did not provide basic services for the people in that society, and now we may lose those democratic institutions. I think it is terribly critical that we find a way to help establish orderly democratic governments that can provide the fundamental functions that we expect government to do honestly. I am not sure that I have a great answer.

Mr. NAPPER. But you certainly have a good analysis of the problem, Mr. Gejdenson, and I agree with it in virtually every respect.

One of the things to look at is the track record of what we have accomplished in our efforts in Central and Eastern Europe. The SEED program has now graduated eight countries from the program. So if you look at the Czech Republic, Poland, Hungary, the Baltic countries, these are places where the original goals of SEED in terms of democracy, market economics, and the rule of law have been established. They are not perfect, just like our country is not perfect. But there is that establishment of institutions that function in a working democracy.

I guess my approach to this is that there ought to be no reason *a priori* why we cannot accomplish the same thing in southeastern Europe with more time. It is going to take more time and more perseverance, but there is no reason *a priori* why we should not be able to help these countries achieve what has been achieved in Central and Northern Europe, and that is what we are trying to accomplish in our SEED assistance program.

What Members of Congress can do, and I don't mean this as a commercial for additional funding for SEED, but we do need a continued understanding here on a bipartisan basis that it is important to maintain this program and see that it has the resources to do the job.

I also think that in many of these countries the weakest part of the government structure is the legislature, the parliament, and there is no oversight and no means to see that officials are called to account for their stewardship of the public funds. I think it is important for Members to visit these countries and to welcome exchanges of parliamentarians from these countries to see how our Congress does its job. That is a very important contribution that the Congress can make.

Mr. GEJDENSON. Thank you. I visited Lithuania in 1982, and I was there again in 1999. It is astounding the change that has occurred there and in Poland, which I didn't visit, but my parents came from Poland, Lithuania and Belarus. I also went into Belarus to see that it is a place that is even worse than when it was under the Soviet control. They have not implemented political and social reform, and their crisis is worsening. A lot of people are worse.

In Lithuania, you didn't need to do a lot of extensive research to get a sense of what has happened. The change in the economy is very exciting. We forget often the places where we have had success.

That is the great part of America, once we have success, we want to move on to new challenges and not sit around saying how great we did there. We don't want to be discouraged from continuing these efforts because we run into some challenges. It is difficult, as

the Chairman knows, in getting our colleagues to meet with foreign legislators. Even when they are here in the Capitol, the Chairman often is running from one to another to get our colleagues to come visit and have some of these very serious discussions with foreign legislators. Most of us are domestically focused first, but this is an important part for an economy like ours which is so interwoven with the rest of the world, and it is a big challenge.

Mr. DLOUHY. Mr. Gejdenson, while you were talking, I was looking at my talking points here about the details on what you can do. You planted an idea that I think we ought to follow-up on, and Ambassador Napper mentioned it also. That is the question of Congressional oversight. The one thing that is not included on my tick list here is what should be the proper role of the three levels of parliament in Bosnia, the national level and the Federal level and the RS.

It seems to me that it would be appropriate to communicate with your counterparts in Bosnia to explain to them what their proper role should be in oversight of these funds and how they should hold these people to account, and we cannot do that for them. But instilling that sense of their responsibility to ensure the well-being of their own funds is something that has to be an integral part of an anti-corruption strategy, and I would welcome Congressional involvement in that process to help us with your counterparts in Bosnia.

Chairman GILMAN. I think that is an idea worthwhile pursuing further.

Mr. Gejdenson, any other questions?

Mr. GEJDENSON. No.

Chairman GILMAN. Gentlemen, I understand that \$20 million was stolen from the Promdea Bank and the Bosnian Interior Minister, Mr. Leotard, was investigating that crime. Leotard was killed in a massive car bomb explosion. Our FBI investigated that crime. What has happened with the investigation of his murder? Were Croatian intelligence officials responsible, and what has happened with the corruption investigation of the Promdea Bank?

Mr. DLOUHY. Mr. Chairman, I have been involved with Promdea Bank for almost a year and a half, including diversion of EC funds destined for housing reconstruction. The principal involved in that bank was killed as well. The facts of the Leotard assassination are not clear at this point. We don't know the answer. I can't give you the details today. I would say, though, that the Administration is extremely concerned about the delay in finding the culprits, and there is a sense that the trail is going cold and that we are not going to get to the bottom of this.

But as recently as a few weeks ago, the department communicated with the Embassy and reiterated that the Leotard investigation has to be a top priority and that we need to continue to devote resources from U.S. Government agencies to assist in that investigation.

As you know, Mr. Chairman, the FBI was also deployed to help with the forensics in that case. But the answer to your question is that we don't know, and we are very concerned about where we are.

Chairman GILMAN. Was any of the \$20 million involved in that bank part of U.S. funds?

Mr. DLOUHY. No, sir, they were not.

Chairman GILMAN. What is the Croatian Government doing to enhance this investigation? Are they doing anything? Are they co-operative?

Mr. DLOUHY. I believe that they are cooperating in the investigation.

Chairman GILMAN. Has the Croatian Government been helpful regarding the problems that we are uncovering here and regarding corruption?

Mr. DLOUHY. Generally, yes. Foreign Minister Granic has been receptive to our expressions of concern. In November of last year, Ambassador Montgomery and I raised with government officials, including the President's special adviser, the issue of the Promdea Bank and asked the Croatian Government to directly address the theft of EU funds. That concern was raised directly with President Tudjman, and we had subsequent discussions with Foreign Minister Granic.

Chairman GILMAN. Gentlemen, I understand that Mr. Yeoso Peric runs a vast market for stolen cars from inside of Bosnia. The cars are stolen and sold under a vast criminal enterprise known as the Renner Company. Why is that operation still running, and how can we shut down such an infamous operation?

Mr. NAPPER. This operation is a major concern to us and it has—

Chairman GILMAN. Is a major concern?

Mr. NAPPER. It has been and is a concern for us. We have noted that there have been some efforts to move against the Renner market in recent days, and perhaps David can provide a little more detail on that.

Mr. DLOUHY. Mr. Chairman, the question of why refugee returns to the Stolac area were so difficult lead to an investigation of the police military mafia structure in the region that then focused on Yeoso Peric and his conglomerate of companies that collectively go by the name of Renner. It also includes hotels, transport companies, and the infamous stolen car market, probably the largest in Europe.

We began approximately one year ago, and in my opening remarks I referred to the statement of a U.S. official to the U.S. Embassy to coordinate anti-corruption efforts, and that individual has been working with the international community on this problem to try to regain control of the Stolac area.

The initial attempt to arrest Mr. Peric failed. He was arrested. He was then released. He was rearrested and released, and has since fled.

The efforts to dismantle this mafia structure in Stolac are ongoing. It has the full attention of the international community and of SFOR. It is one of our top priorities in the law enforcement area in Bosnia.

Chairman GILMAN. The international crisis group has identified the following international investors that failed to succeed in Bosnia: Aluveneto, Italy's biggest aluminum company; AES Cargo, a U.S. freight forwarding company; Gluck Norm, Germany's largest PVC manufacturer; Pilkington, Britain's biggest glass company;

Volkswagen, Germany's largest automaker; Coca-Cola; Prohigy, Slovenia's largest detergent maker; and Plena, Europe's biggest cement maker. Based on this kind of a record of international investment failure, will we ever be able to get out of Bosnia, or will the economy depend on dwindling aid from the West?

Mr. NAPPER. You put your finger on a vitally important problem, Mr. Chairman. Bosnia has not succeeded to date in creating an investment climate that is attractive to foreign investors. That is why the foreign investment is so low there.

It is a huge problem and one which we continue to discuss at every level with the Bosnians. This was a point made again by Ambassador Holbrook when he was out there. We have made clear to them that foreign assistance is not an entitlement. That it will diminish over time, and that foreign assistance to Bosnia will become more consistent with what we are doing elsewhere in the region. In other words, it will not be so much larger than the rest of our assistance programs. And the same is true of the rest of the international community.

So unless there is a growth of private enterprise and foreign investment to take up that slack, you are right, the prospects for the Bosnian economy in the future are dim. We use every opportunity to press them and take the steps that are necessary to create an environment that is attractive to foreign investment.

Chairman GILMAN. What steps are you recommending to improve the economic climate?

Mr. NAPPER. We have referred to elimination of the payments bureaux. I think one thing that really bugs foreign investors and makes it seem unattractive to come to Bosnia is the existence of the payments bureaux, and you have pointed out the importance of that.

The other aspects are to streamline and make more predictable the tax environment, and to streamline what it takes to set up a private enterprise in Bosnia. There are a whole range of factors, and maybe Mr. Buck could add a couple of points in this regard. Again, the models are there in Central and Northern Europe. Bosnia needs to get privatization going, to begin to move economic productive assets out of the hands of government and out of the control of political parties, and into the hands of entrepreneurs and people who will run this as a market enterprise.

I think what needs to be done is fairly apparent. What has not been available or present up to now has been the political will to go ahead and take some of these difficult steps.

Chairman GILMAN. To have all of these leading companies fail should be a glaring concern to the government in that area. If they are ever going to pull themselves out by their boot straps, they had better find a way to improve the economic climate or they are going to be left in an even greater dire situation.

Mr. NAPPER. You are exactly right, Mr. Chairman. All of these decisions by major internationals not to invest in Bosnia are a very clear signal of what the problem is and its intractability up to now.

Chairman GILMAN. What lessons are we learning from Bosnia that we are applying to Kosovo?

Mr. NAPPER. I think the situation is quite different in Kosovo. In Bosnia the entities that signed the Dayton Agreement—the Bos-

nian Federation and the Republic of Srpska—were in existence prior to the Dayton Agreement, therefore there was much less control as it were by the international community over what happened next.

We do have the OHR and there is a structure. We have used that structure. The OHR has acted to remove politicians that were anti-Dayton and to take other steps to move the process forward.

In Kosovo, the situation is different in the sense that according to U.N. Security Council Resolution 1244, the United Nations Security Council is the legitimate authority in Kosovo, and it will have the capability to act to establish the institutions of a government and of a market economy in a way that the tools were not quite as readily available to us in Bosnia. We hope that we can learn from that experience and that will happen.

Mr. BUCK. Mr. Chairman, I would just point out that regarding the barriers to foreign investment, Ambassador Napper pointed out, the payments bureaux elimination is really key. I understand your frustration of our being put off until the end of the Year 2000, and we have accelerated this schedule considerably with the international community, which was going to drag this on to the Year 2002.

In the meantime, a number of the elements of the payments bureaux will be spun off so the process will be totally completed by the end of the Year 2002. A number of the elements of a market economy that will facilitate foreign investments are areas where we are working, such as developing an enterprise law for the rapid entry and exit of businesses, developing of laws on collateral, developing commercial laws and contract law, setting up a securities commission, setting up a securities registrar—all of the elements needed for proper corporate governance are the components we are working on and that are needed to facilitate foreign investment.

Chairman GILMAN. The Bosnian finance ministry has estimated that of their 880 million Deutsche Mark budget, 250 million Deutsche Marks are missing due to corruption. I guess that amounts to close to 500 million. The total is about 125 million still missing. Do you agree with that estimate? What are we doing to try to help them collect those funds?

Mr. NAPPER. That is an estimate, Mr. Chairman. We don't think that it is out of the ballpark, but it is very difficult to have much precision on some of this, especially when it involves income foregone because of failure to collect taxes or other kinds of failure to, as I say, forgo income that would otherwise be available to the government.

We are working in a range of ways to help the ministry of finance. We have a number of advisory services in the tax area that we are making available to them to more effectively collect taxes.

Chairman GILMAN. This was not tax collection, they say it was due to corruption, the missing 250 million Deutsche Marks that were missing.

Mr. NAPPER. Again, I don't find that figure to be implausible, although I cannot personally corroborate it.

What I would reiterate is that we have, all three of us, described a range of anti-corruption measures that we are taking at all lev-

els, including the central and local levels of the government in Bosnia, and we will continue to do so.

Ambassador Frowick has his mandate to take a fresh look at this and see if there is anything more that we can do that has not occurred to us already. All I can do today is assure you that we will continue what we are doing. We will take a fresh look at it through Ambassador Frowick's task force, and we will come back and let you know what further steps we think can be taken. We would like to maintain a dialogue with you on this question.

Chairman GILMAN. We welcome that. I have a current rundown on what you are doing.

I have one last question. Despite the Congress offering a \$5 million reward for the arrest of some of the top Bosnian war criminals, such as Radovan Karadzic and Ratko Mladic, we have failed to capture any of them. Can you give us an update on the arresting of persons indicted for war crimes in that region?

Mr. NAPPER. I certainly can, Mr. Chairman. It is very important to apprehend these war criminals. We are committed to doing so, and we have made progress in getting those publicly indicted for war crimes turned over to the Hague. In January 1997, only eight Bosnian war criminals were in custody. Today, 39 are in the Hague; 18 of these were voluntary surrenders, many of which were encouraged and/or abetted by the moderate government of the Republic of Srpska. In other cases, it was SFOR that apprehended these individuals. Some 25 publicly indicted war criminals are still at large in Bosnia, most all of them are holed-up in the Republic of Srpska or in Serbia itself. We continue to believe that these individuals must be apprehended and must go to the Hague. We will do everything in our power to see that that comes about. There has been considerable progress, but not yet enough.

Chairman GILMAN. Again, I want to thank our witnesses for taking the time to be with us. We hope that you will keep this Committee informed of any progress in cleaning up the corruption and trying to provide a better economic climate in that part of the world. Thank you, gentlemen.

Mr. NAPPER. Thank you, Mr. Chairman.

Chairman GILMAN. The hearing stands adjourned.

[Whereupon, at 11:50 a.m., the Committee was adjourned.]



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## **A P P E N D I X**

SEPTEMBER 15, 1999

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**Congressman Benjamin A. Gilman  
Opening Statement  
Hearing on Corruption in Bosnia  
September 15, 1999**

"Today we will focus on reports of wide-scale fraud and corruption in Bosnia that may have led to the diversion of up to \$1 billion in assistance for that country. Today's hearing is the first in a series of oversight hearings. Next week we will look at the situation in Kosovo.

"On August 17, a front page article by Chris Hedges in the New York Times reported that international donors to Bosnia may have lost \$1 billion since the signing of the Dayton Peace Plan in late 1995. Of the \$1 billion, the news article alleged the U.S. share to be at least \$20 million.

"Members will note that, on a per capita basis, Bosnia is one of the largest recipients of foreign aid on earth. The International Community has provided over \$1,000 for every man woman and child in the country - totaling over five billion dollars. That assistance is not an entitlement and it will not last for long. The purpose of the assistance was to help rebuild a functioning multi-ethnic state within the Dayton Peace Accords. We have a vested interest in rebuilding that government because when our job is done, the 6,000 American men and women in the Bosnian peacekeeping force, known as SFOR, will be able to return home.

"The New York Times later corrected parts of its story, but the underlying fact remains -- there is a serious corruption problem in Bosnia. There have been subsequent reports of wide-scale theft and corruption involving our assistance programs in Russia. Clearly, the Clinton Administration should tighten up the accountability of our foreign assistance programs.

"While the U.S. and other European donors have not suffered losses so great as alleged, corruption impedes progress towards our major goals in Bosnia. Our exit strategy depends on the creation of a viable government economy capable of sustaining peace and stability.

"After the New York Times published its report, I sent a staff team to Bosnia to investigate these allegations. They found that the collapse of the "B-H Bank" had put at risk approximately two million dollars in U.S. taxpayer money. We hope to get an update on our efforts to collect those funds from the owners of that bank.

"Working with the Anti-Fraud Unit of the Office of the High Representative, our investigators also reviewed the finances of just one of the Bosnian Federation's 10 cantons - Tuzla Canton where U.S. forces are based. There we found:

1. Vast paint supplies bought for schools with no heat;
2. Cars purchased at twice the retail price;
3. Loans given to ruling SDA party favorites that were never repaid; and
4. Medical supplies for 700,000 people, all purchased from one company run out of an apartment.

(more)

"In the most shocking revelation, we found that funds to provide gravestones for the victims of the Srebrenica massacre were stolen by the Canton's Prime Minister. Hundreds of millions of dollars were stolen in these various scams. Local investigators refused to prosecute, forcing the International Community to fire the whole lot of them and replace the government in Tuzla.

"We also found other scams. During the war, two obscure Bosnian officials managed a trade agreement with Croatia that avoided hundreds of millions of dollars in tax revenue - a loss that equaled 20% of the government's total revenue. That would equal the theft of \$300 billion if it occurred in our nation. These minor officials did not act alone and the investigation into this matter stretches to the highest level of the Bosnian government.

"We are also concerned about the murder of Bosnia's crusading Deputy Interior Minister, Jozo Leutar, who was about to uncover corruption in the Promdea Bank. In addition, we heard reports about the Renner Company operating a huge stolen car market that international officials have known about for years and reports that a prominent Mayor in Sanski Most built his own racetrack with foreign aid dollars.

"International officials who spoke to our staff were united in the view that Bosnia's current police and courts could not clean up this mess. Vice President Ganic has publically called on the International Community to help Bosnia address its serious corruption problem.

"I believe that we should establish an Elliot-Ness style team of 'untouchable' investigators and judges to clean up Bosnia. They should be highly trained to remediate this mess. After spending \$5 billion in Bosnia, we can well afford to spend a few hundred thousand dollars to help Vice President Ganic and other officials clean this up."

*Witnesses appearing before the committee were: the Honorable **Larry C. Napper**, Coordinator, Support for Eastern European Assistance (SEED), U.S. Department of State; Mr. **Craig Buck**, Mission Director for Bosnia-Herzegovina, Kosovo and Montenegro, U.S. Agency for International Development; Mr. **David Dlouhy**, Special Advisor, Bosnia Implementation, U.S. Department of State.*

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**Statement of Rep. Sam Gejdenson**  
**Ranking Democratic Member, House International Relations Committee**  
**on Corruption in Bosnia**  
**September 15, 1999**

As a committee and a Congress, we must remain vigilant in our oversight of aid going to Bosnia. The media and non-governmental organizations also play a key role in this monitoring. Without question, fighting corruption must continue to be an integral component of our assistance to Bosnia. We owe it to American taxpayers, to our soldiers serving in Bosnia, to our international allies, and to the memories of the thousands who were killed because of ethnic hatred.

But along with this obligation to monitor developments in Bosnia and around the globe comes the necessity to provide *responsible* oversight. Exaggerated guesstimates of corruption figures and misidentified reports do little to inform the American people and this Congress about the situation in Bosnia.

Corruption is a serious impediment for Bosnia on its road towards economic self-sustainability and eventually membership in a greater political and economic Europe. The remnants of a Communist economic system hamstring economic progress in Bosnia and across Eastern Europe. We need transparent public budgets in Bosnia that shed light on wasteful expenditures at the local level and modern financial and legal structures which pave the way for economic growth.

American and international officials working in tandem with Bosnian investigators continue to push Bosnia to accept the highest standards of accountability. While progress is being made in Bosnia, the international community and members of both sides of the aisle demand that all leaders in Bosnia do more and do more now to root out corruption at all levels.

American aid to Bosnia can help provide an antidote and alternative to local corruption in Bosnia. USAID's Bosnian Business Development Program (BBDP) has a rigorous loan review process and a thorough audit by the AID Office of the Inspector General. As a result, this program has distributed loans worth \$141 million which are expected to provide employment to 17,029 Bosnians.

Our monitoring of AID's lending program at the BiH bank in Bosnia exposed lending irregularities and contributed to a chain of events that have temporarily closed down the bank and placed it under investigation. We are working to recover 1.1 million dollars tied up in this bank investigation. We have a good aggressive team in Bosnia led by our tenacious Ambassador Tom Miller who are working hard to recover this money. Officials over there believe that they can recover most if not all of these funds.

As well as noting controversy in Bosnia we also should be able to point to progress such as the July announcement of reduction of NATO forces by half (US forces would lower from 6,200 to 4,000) because of a continuing improvement in the security situation. This announcement went relatively unnoticed on Capitol Hill.

As we hold this hearing, we are seeing evidence of the ground moving in Bosnia. Reports from the region indicate that displaced citizens and refugees are gaining new confidence in the security situation and are starting to return to their former homes in Bosnia in numbers that no one thought possible even at the beginning of this year. Now more than ever they need a political and economic system that can sustain this momentum.

Recent national polls indicate that the American people continue to support our efforts in Bosnia, contrary to some assertions in Washington. A May 1999 survey found that 63% of respondents were either strongly or somewhat in favor of our peacekeeping operations in Bosnia. This level of support has remained strong despite the remarkable fact that 56 percent of Americans incorrectly believed that Americans soldiers have been killed by hostile fire over the last year in Bosnia -- with the median estimate being 20 killed in battle. The actual figure is that no American soldier has been killed by hostile fire since American peacekeepers arrived almost four years ago.

Nonetheless, patience in Congress and with the American people for helping Bosnia is not infinite. They demand that progress on all fronts in Bosnia continues. Stories such as the *New York Times* front page story can damage confidence in our effort in Bosnia. We need responsible oversight here in Washington and responsible leaders in Bosnia to step to the fore to fight the corruption that could cloud Bosnia's future.

Contact: Jason Gross  
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*Opening Statement of  
George Radanovich*

International Relations Committee Hearing on Balkans Oversight:  
Corruption in Bosnia

Mr. Chairman, I want to thank you for holding this important hearing today on corruption in Bosnia. I know that you dispatched a fact-finding team last month to find out what has happened to the \$5.1 billion in international assistance funneled to Bosnia since 1995. I also understand that your team came back with the news that hundreds of millions of dollars provided to the Bosnia government has already been stolen. Worse yet, I understand that even the public funds earmarked to pay for tombstones for nearly 7,000 victims of the Srebrenica massacre have vanished. If there was ever any question that Bosnia's corruption problem is severely hindering its transition to normalcy and economic and political stability – there can no longer be. We know that corruption has always been a problem in this part of the world due to its history, tradition and political system, the war and sanctions – but this type of large-scale corruption is sure to be an impediment to the entire region. We clearly need to turn our attention to long-term political as well as economic change in this region. Toward that end, I thank you Mr. Chairman for your good leadership on this issue, and I look forward to hearing from our witnesses today.

**Ambassador Larry Napper**

**“Corruption in Bosnia”  
Testimony Before the House  
International Relations Committee**



**SEPTEMBER 15, 1999**

**HIRC Testimony  
Ambassador Larry C. Napper  
September 15, 1999**

Mr. Chairman, thank you for the opportunity to discuss the role of our SEED assistance programs in Bosnia and Herzegovina, and our efforts to attack crime and corruption in that country. I know that this hearing has been called in part to examine recent reports, most notably in the New York Times, concerning the very real damage done by crime and corruption in Bosnia. There have also been allegations -- in our view largely unsubstantiated and misinformed -- concerning the misuse or loss of U.S. and other international assistance funds. We are prepared to address these allegations and to reassure you and your constituents that American assistance funds are properly programmed, disbursed, and accounted for. I hope that we can also use this hearing to renew our dialogue with you on the broad purposes and perspectives of our SEED assistance program in Bosnia. Let me first address the specific allegations of corruption involving USAID funds and then turn to the future of our assistance program in Bosnia.

On August 17, the New York Times published an article alleging that \$1 billion had disappeared from public funds or been stolen from international assistance projects in Bosnia. The article suggested that there had been significant losses of U.S. Government assistance funds. It also left the impression of an effort to cover up the problem of corruption in order to prevent donor assistance from being curtailed. Let me briefly address a couple of these allegations.

- The BH Banka in Sarajevo was one of the banks handling our business finance program to make loans available to private enterprises. The bank did not properly transfer to USAID \$520,000 in repayments from these loans. The BH bank is currently under provisional administration by the Federation Banking Agency, and we are vigorously pursuing all avenues to ensure repayment of U.S. funds.
- The USD equivalent of \$393,000, held in German Marks, in operating funds for USG agencies in Bosnia were frozen in the BH Banka when it went into liquidation. Again we are vigorously



pursuing legal action to ensure repayment of these funds.

Mr. Chairman, I want to assure this committee that we are fully committed to the integrity of all USG assistance programs. USAID and other USG assistance programs in Bosnia maintain strict procedures and controls to ensure against loss or misuse of U.S. assistance funds. Nevertheless, we take any allegation of loss or compromise of U.S. funds very seriously. We have looked into the allegations in the Times article and can find no evidence of large-scale misuse or loss of U.S. or international assistance funds. The Times itself printed a correction to this effect on August 20. The Times article and other studies of the problem of corruption in Bosnia have, however, accurately pointed to the danger of crime and corruption to Bosnia's reforms and thus to its profound challenge to U.S. policy objectives in that country.

Since 1995, the United States has pledged \$1.007 billion to the Priority Reconstruction Program for Bosnia and Herzegovina, which amounts to approximately 18.5% of all international donor pledges to that country. The President's SEED budget request for Bosnia in FY 2000 is

\$175 million. While substantially reduced over previous years, our Bosnia request remains a significant percentage of our overall SEED assistance budget. It is entirely appropriate to ask what we have gotten for our money in Bosnia and where we go from here.

Bosnia has in fact made impressive progress with the assistance of the United States and the international community. First and foremost, war and the horrors of ethnic cleansing have not resumed, despite the continuing efforts of the Milosevic regime in Belgrade to foment conflict and exploit ethnic tensions in Bosnia, as well as Kosovo. In successive elections, voters throughout Bosnia have shown an encouraging tendency to reject hardline nationalists in favor of more moderate leaders. Recent significant increases in refugee returns to minority areas, including former centers of ethnic cleansing like Mostar and Prijedor, have provided fresh hope that the awful legacy of wartime ethnic cleansing may eventually be overcome. In particular, over the last couple of months we have seen a dramatic increase in the number of spontaneous returns. Our Embassy in Sarajevo believes the figure could reach as high as 80,000 returns this year, twice the level reported last year. (This includes estimates of

spontaneous returns and those who have not fully registered.)

Joint institutions have been created and are beginning to function more regularly. The resumption of basic public services and rebuilding of essential power, water, and transportation infrastructure destroyed in the worst European conflict since World War II have been largely completed. We can take considerable satisfaction from the vital contributions that our assistance programs have made to progress in each of these areas.

Despite these positive signs, Bosnia has a long way to go to complete its transformation into a modern, multi-ethnic democracy, with a modern market economy, and the rule of law. The continuing influence of radical, anti-Dayton political parties impedes the effective functioning of democratic institutions and complicates cooperation across ethnic lines. Despite progress in putting in place the legislative basis of a market economy, little headway has been made to date in privatization of enterprises. The control of economic assets by political parties and the stifling functioning of the Communist-era "payments bureaus" prevent the emergence of genuinely free markets.

Crime and corruption represent an especially serious impediment to democratic and market reform and thus to the achievement of fundamental U.S. policy objectives in Bosnia.

Crime and corruption have deep and complex roots in Bosnia and elsewhere in Southeast Europe. These countries for generations endured communist systems in which political leaders systematically stole from the state and the people, thereby giving ordinary citizens every incentive to adopt corruption as a survival strategy. Notions of conflict of interest have been slow to gain ground. The relative poverty of Bosnia and other Southeast European countries provides fertile ground for corruption, especially among poorly paid civil servants. Finally, the Balkan wars of the past decade have further impoverished the region, undermined the legitimacy of governments, and created chaos in which criminality and corruption flourish. These historical legacies do not make the problem hopeless, but they do increase the difficulty, even as they underscore the necessity for supporting, and insisting upon such reforms.

We have made clear to the Bosnian authorities that a concerted attack on crime and corruption is essential to their integration into Western institutions. Our Embassy in Sarajevo made the issue a centerpiece of the U.S. dialogue with Bosnia and Herzegovina. Visiting American officials at every level, including most recently Ambassador Richard Holbrooke, have followed up by publicly warning Bosnian officials that corruption, if not aggressively checked, would jeopardize foreign assistance, drive away investors, and undermine Bosnia's efforts to join European and global institutions, such as the World Trade Organization and the European Union. This linkage has been underscored by the decision of the signatories of the new Stability Pact for Southeast Europe that one of the Pact's working tables will focus on the fight against crime and corruption. The message is clear -- those who engage in or condone crime and corruption will forge their own isolation.

We are also aggressively using our assistance programs to strengthen the Bosnian Government's capacity to build honest financial institutions, increase transparency at all levels, and attack crime and corruption. Let me briefly cite a few examples.

- USAID took the lead in helping to form the Central Bank of Bosnia and Herzegovina and in developing a solid bank supervision capability in both the Bosnia Federation and the Republika Srpska (RS). By helping Bosnia to acquire the building blocks of a modern banking system, we are contributing to the reduction and exposure of money laundering, insider lending, and other corrupt practices.
- The U.S. and the EU are working together to reform and modernize the customs services in both the Federation and the RS. Because of chronically deficient salaries, poor training, and low morale, the customs services are especially vulnerable to corruption. The U.S./EU efforts have trained over a thousand customs officers, some of whom will themselves train other customs personnel. Since 1996, the Federation's customs revenues have increased by more than 50%, while time spent waiting at the border (a major risk factor for corruption) has been cut in half.

- A USAID-funded team based in Federation and cantonal ministries of finance worked to strengthen financial management at canton and municipal levels.

Authorities in all 10 Federation cantons and their subordinate municipalities standardized their budget and accounting practices in line with international norms. Public budget hearings have been held in six cantons and five municipalities, allowing citizen input into decision making and making misappropriation of public funds more difficult.

- In February 1999, the Office of the High Representative (OHR) launched a comprehensive anti-corruption strategy, with benchmarks and timelines, developed with substantial input from the U.S. Embassy and USAID. The Anti-Fraud unit of the OHR is working with Bosnian authorities to investigate the misuse of public funds and failure to collect taxes by local governments. We are encouraged that Bosnia authorities are beginning to play a key role in assisting the international community to root out corruption in public life. For example, the Bosnian Federation tax police have cooperated closely with

OHR in investigation of financial abuses and corruption in Tuzla Canton.

Mr. Chairman, we need only remember the horrific images of four years of war in Bosnia to recall why the United States brokered the Dayton Agreement and why we must continue to support Bosnia's efforts to build a sustainable democracy, a market economy and the rule of law. While Bosnia has made considerable progress, we believe it is essential to continue our efforts to assist Bosnia in combating crime and corruption, as part of a coordinated strategy to achieve needed economic and judicial reforms. At the same time, we will vigorously protect the integrity of all USG assistance programs in Bosnia.

In this connection, the Administration has designated Ambassador Robert Frowick to lead an inter-agency task force on Bosnia. Ambassador Frowick and this group will work with the Bosnian parties and the international community, including the Anti-Fraud Unit of the Office of the High Representative in Bosnia, to intensify the attack on crime and corruption and to further implementation of the Dayton Accords. Ambassador Frowick is a senior American diplomat with extensive experience in



Bosnia as the first OSCE Head of Mission, and in Albania as Acting Chief of Mission. Ambassador Frowick will begin his work with a visit to Bosnia next week.

Statement by Craig Buck  
USAID Mission Director Bosnia-Herzegovina  
House International Relations Committee  
September 14, 1999

Mr. Chairman, it is an honor for me to be here today to outline the accomplishments of the USAID program that I have overseen in Bosnia-Herzegovina since the Dayton Accords were signed in November 1995. I also want to present the measures we have instituted to ensure the protection of public funds in our assistance program in Bosnia-Herzegovina. It is a pleasure to be here with my State Department colleagues, Ambassador Larry Napper, the SEED Coordinator, and Mr. David Dlouhy of the Bosnia Implementation Unit.

I have been honored to serve as the Mission Director of the USAID program in Bosnia-Herzegovina since shortly before the Dayton Peace Accords were signed. This has been a most challenging assignment and the people of the United States have much to be proud about what their tax dollars have accomplished. However, in spite of the successes, we all share a sense of frustration with the lack of political will - or even understanding -- on the part of many of our

Bosnian counterparts to tackle some of the systemic problems that have been inherited from the socialist era and the war. These are problems and practices that result in corruption, that obscure transparency, and that keep Bosnian citizens uninformed about what their Government is doing with the resources they have contributed through taxes, customs and fees.

For almost four years, we in USAID along with our colleagues from State and other agencies, have worked with the Governments of Bosnia-Herzegovina as well as with private sector and NGO organizations on the national, entity and local levels. Our goal has been to stabilize the country by transforming Bosnian society to one based upon internationally recognized democratic principles, on the rule of law, and a strong and transparent market economy.

Let me just take a minute to quickly update you on what we have achieved with the resources you have helped make available.

Since the Dayton Accords were signed in late 1995:

- the unemployment rate in Bosnia which had soared to around 90% during the war, has dropped to slightly over 30%;

- Wages have increased more than four times in the Federation and are rising quickly in the Republika Srpska; and
- Basic infrastructure - water, sewage, electricity, transportation - has been restored to most Bosnian communities.
- Economic recovery has been phenomenal -- even greater than in Germany after World War II.
- Economic growth in the Federation has averaged well over 30% each year since Dayton;
- GDP per capita is now close to half of what it was when the war started. By the end of next year, Bosnia's GDP should be around 2/3 of where it was when the war broke out.

Two separate studies attribute 20-25% of this robust growth to USAID's program. Additionally, this has been accomplished within a framework in which there has been virtually no inflation and no budget deficit. That is, both the Federation and the Republika Srpska spend no more than they have in available income.

**Anti-Corruption as a key element of Policy Reform**

One of the most important aspects of Bosnia-Herzegovina's recovery that we want to discuss today is the

anti-corruption efforts underway in the country. We need to remind ourselves that Bosnia-Herzegovina just recently emerged after 50 years of socialism and a devastating 4 year conflict. Corruption was a form of survival and, while we have made progress in modifying this behavior, we still have a long way to go.

USAID has focused on an institutional approach to fighting corruption rather than a case-by-case attack, taking advantage of the linkages between our economic reform and democracy building portfolios, and their capacity to identify and help root out corrupt practices.

Our strategy helps address the weaknesses in governmental budgeting, taxation, accounting, debt management, payments, treasury and auditing functions. Our aim is to ensure that adequate checks and balances are built into these processes so that the entire function becomes transparent and accountable to the public and deters waste, fraud, abuse, and mismanagement of public resources.

Beginning in 1996, USAID began to support the development of federation, canton, and municipal budgets and financial management systems that meet international standards. By increasing transparency and accountability in the budgeting system, USAID has worked to root out

corruption, or the potential for corruption, at these lower levels of government.

Likewise, publicizing the corrupt acts of individuals and institutions should encourage the emergence of political reformists who are focused more on institutionalizing democratic practices and free-market reforms than on preserving personal power and privileges associated with the old socialist system. I would like to highlight some of the examples of our anti-corruption efforts:

**Anti-Corruption Elements of Economic Reform**

- USAID has been the lead donor in the area of bank supervision, working to create prudential regulations that serve to minimize opportunities for corruption and increase public confidence. USAID helped establish the Federation Banking Agency (FBA) and its counterpart the Banking Agency of the Republika Srpska (BARS). Three full-time American advisors, funded by USAID, are helping both agencies to develop their ability to provide prudential oversight and licensing for the banks under their respective jurisdiction.
- USAID's Business Development Program's (BDP) bank training program helps local banks to develop their commercial lending capabilities and institutionally

improve the banking system. In this way, USAID is helping to reinforce impartial commercial lending and transparency concepts. Over 2,600 bankers have benefited from this program and hundreds of Bosnian bankers are receiving assistance in practicing modern commercial lending practices.

- Concentration of so many government functions within the Payments Bureaus makes transparency difficult. USAID is heading up a group of international donors to transform the Payments Bureaus and shift their functions to more appropriate agencies such as tax administration, the treasury, and commercial banks.
- USAID has been at the forefront in ensuring that the privatization process is carried out in a manner that is transparent and fair to all citizens. Among other things, USAID advisors have provided training and education to government officials and Privatization Agency staff in both entities on how to prevent fraud, collusion, and improper auctioning and tendering.
- USAID assistance is helping to establish effective supervision of capital markets in both the Federation and the Republika Srpska. The formation of Securities Commissions and Securities Registrars are vital to preventing corruption, which could cause instability

during the period of enterprise privatization and restructuring.

- USAID fiscal federalism activities (completed in September 1998) helped strengthen the Federation by inducing Bosniak and Croat Finance Ministry officials at the cantonal and municipal levels to work together on making the budgeting process more effective and transparent. USAID advisors worked in all ten Federation cantons and helped organize the first public budget hearings in Bosnia-Herzegovina in 1997.
- USAID is actively pursuing court action against borrowers who fail to pay back their loans. Several favorable judgements against defaulters have already been rendered, and the auctioning of collateral is in process. These actions are proving that corruption can be fought successfully through the Bosnian court system.

**Anti-Corruption as an Element of Democracy Building**

- USAID's judicial reform programs are helping improve court procedures, accelerating the pace of the efficiency with which cases are pursued and tried and assuring that testimony is recorded properly and not manipulated.
- USAID's advocacy programs are effecting better enforcement of judgements by administrative and executive officials who often refuse to enforce court rulings.



Successful advocacy efforts include requiring officials to enforce the return of housing to returnees, as well as helping women obtain their employment benefits during pregnancy.

- Working through the media and local NGOs, USAID's Office of Transition Initiatives (OTI) is supporting efforts to raise public awareness of corruption and to initiate civic discussion and action on the most efficient methods of prevention. Public debates and radio, television and newspaper accounts target specific examples of the corruption including those linked to high-level politicians, the judiciary, police, tax collection, and the allocation of housing.
- USAID's media assistance program provides technical assistance, training, and grants to support the development of investigative reporting. This initiative has resulted in articles on local government corruption, missing public funds, and human rights violations among others.

In conclusion Mr. Chairman I am pleased with the impact that USAID has had on Bosnia's strong economic recovery. Our programs have made a major contribution to this in a manner that protects the integrity of US government funds. At the same time, we are contributing to a systematic

reform of Bosnian institutions and practices that will ultimately lead to a more accountable and transparent economic and governance system.

Statement by David B. Dlouhy  
Director, Office of Bosnia Implementation  
on Corruption in BiH  
House International Relations Committee  
Wednesday, September 15, 1999

Thank you for the opportunity to speak to you today about corruption in Bosnia. The fight against corruption continues to be one of our highest priorities in the context of Dayton Implementation. Some two years ago, in the Fall of 1997 the Peace Implementation Council (the PIC) formally incorporated fighting corruption as an integral element of the Dayton implementation process.

However, while we discuss this critical issue, it is important to keep in mind that it has not prevented the recent positive developments in Bosnia related to refugee returns. As you are aware, some 2 million Bosnians were displaced by the war. Today, 1.2 million Bosnians remain displaced nearly four years after the war. This includes 836,000 internally displaced and 450,000 outside Bosnia. By way of comparison, on April 20 of this year

there were 1.4 million displaced persons in Kosovo. Today we estimate there are about 100,000 refugees outside Kosovo.

While the situation in Kosovo has improved in terms of refugee return, this remains the number one problem in Bosnia. Up to now we have seen marginal progress. However, while the war was being fought in Kosovo, something significant seems to have happened in Bosnia. In the first eight months of this year, in fact, SFOR announced that minority returns are running 65% higher than last year. The number of minority returns so far this year who have registered with UNHCR is 10,000 and when one adds those who have returned without registration, it is estimated at 40,000. These returns include over 5,000 Serbs who have returned to Drvar in the Federation. If this war was fought by nationalists for a separate homeland for Serbs who opposed Bosnia's independence from Yugoslavia, the action by Serbs in Drvar has shown that home, not a homeland, is what matters most. In the Republika Srpska, Bosniak families are returning to Prijedor in the west and to Gacko and Nevesinje in the east. Just yesterday, 30 Bosniak families, 87 people, returned to Pale. Croats account for 25 percent of all minority returnees and are going back to Central Bosnia.

Undeniably, however barriers to minority returns remain and corruption plays a role in that, which is why we have been working for the

past two years through the vehicle of the PIC, as well as bilaterally, to address it. The 4,000 pages of documentation on corruption in the Tuzla canton produced by local Bosnian authorities and referred to in the August 17, 1999, New York Times article, is an encouraging result of our efforts over the past two years to push the Bosnians themselves to develop the political will to fight this issue and to help them to develop the institutional capability to do so.

Corruption is undeniably a fact in Bosnia, a country ravaged by war during which corruption flourished, and burdened with well entrenched vestiges of a communist economic system and mind set. Not surprisingly, democratic concepts of accountability to the public and transparency are not yet second nature to most Bosnians.

Moreover, during the war, the nationalist warring parties took advantage of the breakdown in governmental structures to gain control of large parts of the Bosnian economy. This economic power enabled, and continues to enable, the large mono-ethnic parties to sustain their party apparatus and exert their influence at all levels in society.

This situation was summarized in a Transparency International Report in March 1998, which read:

"As the most casual observer would know, the country of Bosnia and Herzegovina faces problems that should intimidate even the most resolute. It has not only just emerged from a bloody conflict with its physical infrastructure quite literally shattered and with the legacy of bitterness and distrust which the inter-communal violence has spawned, but also with a peace process that is not yet assured. Further compounding this was the rampant corruption and profiteering which had flourished during the war, creating criminal centers of power and influence - smuggling organisations and links throughout the region that remain intact and busy today....These would be difficult enough to cope with. However, Bosnia and Herzegovina has also all the deep-seated problems it inherited from the communist regime and a style of government that was essential[ly] top-down, with "rule of party" rather than "rule of law", and an absence of accountability and transparency let alone a culture of consultation and consultation and consensus building."

## **ANTI-FRAUD UNIT**

Public recognition of this extensive corruption began during 1997, with a number of reports released by the European Commission's Customs and Fiscal Assistance office (CAFAO). It was concern about corruption and its potential effect on assistance funds, that pushed the PIC in Fall 1997 to highlight the problem of corruption and endorse the establishment an Anti-Fraud Unit in the Office of the High Representative (OHR).

Specifically, in Bonn, in December 1997, the PIC endorsed the establishment of the Anti-Fraud unit stating that:

"The Council is deeply concerned by the potential for corruption and diversion of funds for unauthorised purposes as outlined in the two reports submitted by the European Commission's Customs and Fiscal Assistance Office.... Corrective measure should be taken against corruption. Foreign aid must not be a substitute for diverted state resources. Donors have to protect their assistance funds from possible misuse, as well as from having to compensate for misappropriation."

A year later, in December 1998 in Madrid the PIC spoke out again clearly on this issue stating:

"The Council expresses deep concern about continuing corruption and evasion of public funds. It welcomes the High Representative's development of a comprehensive anti-corruption strategy...The High Representative will take the lead in co-ordination International Community efforts aimed at eliminating opportunities for corruption, tax evasion and diversion of public revenue; ensuring transparency in all phases of governmental operations; strengthening the legal system and the judiciary; and implementing control mechanisms with appropriate penalties to ensure compliance....The Council emphasis again that it will not allow the impact of funds expended by donors to be diminished by corruption and fiscal evasion of domestic revenue."

To carry out this work, OHR formally established an Anti-Fraud Unit to identify illegal activity and coordinate international technical assistance in December 1997. Following secondment of international personnel and fund raising for the budget, the Unit became fully operational in Fall 1998. The Unit's structure and operations were reviewed by the Ministerial meeting of the PIC meeting in Madrid December 15, 1998. In February



1999, the Unit issued a comprehensive anti-corruption strategy which was approved by the Peace Implementation Council Steering Board as the agreed international community strategy for combating corruption. Working closely with others members of the international community, in particular EC CAFAO, the World Bank, U.S. Treasury and USAID, the Anti-Fraud unit works on a two-track approach. Its first track is to work with the local authorities in the investigation and prosecution of significant fraud and corruption cases.

To complement this case-specific approach, the Anti-Fraud Unit has developed a second track of work involving systemic changes. This second track is described in detailed in OHR's "Comprehensive Anti-Corruption Strategy" which was issued last February. In this second track, AFU has identified four strategic pillars to fight corruption. They are: eliminating opportunities; transparency and reporting; control and penalties; and education and public awareness. It was in the context of this fourth pillar, public awareness, that the New York Times was invited to a briefing by the Anti-fraud Unit at OHR for the purpose of highlighting the Unit's work and the results of the first large-scale public corruption investigation conducted by Bosnian authorities.

Keying off of these strategic pillars, the strategy describes four major sectors in which reform is being taken or is planned. These four sections are: (1) the *Public Revenue* sector, under which tax simplification, revenue collection reform, establishment of a treasury function, reform of the payment bureaus and review of aid institution are addressed; (2) the *Rule of Law* sector, under which anti-corruption laws, task forces and training are discussed; (3) the *Institutional* sector, under which the need for a border service, parliamentary commissions, the creation of a Supreme Audit Institution and Transparency Offices are described as well as reform of the civil service and government regulations; and (4) the *Public Awareness* sector under which the need to educate society at the costs and effects of corruption and to raise public awareness and intolerance for abuse of public office are set forth.

In addition to having been one of the main proponents of the establishment of the Anti-Fraud unit, the United States conducts programs that contribute to these efforts. The U.S. Treasury, for example, assists in the areas of: budget and taxation reform, banking privatization, and reform of the payments bureau.

Additionally, the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) in cooperation with the American Bar Association's Central and Eastern European Law Initiative (ABA/CEELI), has been training judges, prosecutors and police in reformed criminal laws recently adopted in the Federation which they helped draft. In fact, OPDAT has just received further SEED funding to conduct training in fighting organized crime and investigating and prosecuting public corruption. Also, the U.S. Customs service has just received funding to conduct training in money laundering control in Bosnia.

#### **JUDICIAL REFORM**

In addition to these anti-corruption specific activities, the international community has also focussed on the problem of Bosnia's weak and politically influenced judiciary, that is too often incapable or unwilling to try corruption cases. Sadly, but not surprisingly, the judicial sector in Bosnia also suffered tremendously from the war and is saddled by the habits of its communist past. During the war, many qualified legal professionals fled or were killed, leaving many vacancies. These vacancies were often filled by

poorly trained judges and prosecutors, many of whom were selected because of their loyalty to the large nationalist parties. Today, the judiciary still suffers from lack of political independence, lack of training and resources, and all too often ethnic bias. As with economic assets, close party control of the budgets of, and appointments to, the judiciary cripple efforts to render justice.

Recognizing this, the Peace Implementation Council in 1997, as part of the overall implementation strategy which created the Anti-Fraud Unit, also called on OHR to coordinate international efforts to reform the judicial sector. Additionally, in November 1998, the United Nations launched a Judicial System Assessment Program, expected to run about two years, to monitor and assess the court system in Bosnia as part of legal reform under the OHR. This assessment process is now underway, with reports provided to the Judicial Reform Coordinator at OHR.

As a result of these international efforts, a code of ethics for judges and prosecutors in both entities has been adopted by judges' and prosecutors' associations in both entities. A first phase of criminal law reform has taken place in the Federation and is underway in the RS. Training and legal

materials are being provided to legal professionals. To address the dual problem of political party dependency and low judicial salaries (which inescapably renders judicial officials more susceptible to bribes) new judicial selection laws have been drafted. In addition to raising judicial salaries, these laws would de-politicize the process for appointing judges and prosecutors and set a 1-year process to re-evaluate the qualification of sitting judges. These laws, being prepared by the OHR, the Council of Europe and others, in close coordination with the Bosnian authorities, are expected to be adopted by both entities this year.

The United States is a strong partner in these judicial reform activities. Through SEED, the U.S. provides funding for a 4-person ABA/CEELI office in Sarajevo and Banja Luka to work on programs to strengthen the independence and efficiency of the judiciary. We have also seconded an American to assist in spearheading OHR's the judicial reform coordination efforts.

Both the anti-corruption and judicial reform strategy documents, mandated by the PIC, which form the basis for our operational efforts, can be made available to the Committee for further review.

## **POLICE**

Finally, as you are well aware, police reform has been at the core of Dayton implementation since the end of war pursuant to the Dayton accords which established the United Nations' International Police Task Force (IPTF). IPTF has focussed its efforts on restructuring, retraining and democratizing a police force whose pre-Dayton role had been to maintain control on behalf of an authoritarian regime. The police force moreover became ethnically divided during the war and fought on behalf of the warring nationalist parties. Just as with the judiciary, training such police officers to serve on behalf of the people and pursue criminal corruption cases against the political authorities is a difficult task.

To achieve such reforms, IPTF established a successful "certification" process whereby each individual police officer is evaluated against specific criteria. This certification process includes mandatory training and screening by the International Criminal Tribunal for the former Yugoslavia. Officers who fail to meet the test are de-certified and thereby disqualified from being police officers. This de-certification tool has also been used very effectively to get rid of corrupt or obstructionist police officers.

Another component of the restructuring has been to obtain the commitment of both the Federation and RS Governments to achieve multi-ethnic police forces to provide a secure environment for all ethnicities throughout Bosnia. Thanks to the efforts of the international community, training for police from both entities is now taking place in newly established police academies in both the Federation and the RS.

The U.S. continues to assist vigorously in all aspects of police reform primarily through the Department of Justice's International Criminal Investigation Training and Assistance Program (ICITAP) which has been involved in training police in both entities since 1996. Amongst other things, ICITAP has a full-time adviser at the Federation Police Academy and is working closely with the cantonal ministries and the RS on the development of standardized policies and procedures manuals that, amongst other things, provide for the establishment of internal affairs units to pursue allegations of police wrongdoing. The U.S. has also provided urgently needed police equipment, much of which was damaged during the war.

All of these efforts, which must be continued, seem to be bearing fruit, though significant challenges still lie ahead. Local police have shown they can successfully investigate high-level corruption. As the result of police investigations, indictments for corruption are expected to be handed down very soon for Tuzla Canton Prime Minister Hazim Vikalo. Directly related, Tuzla Minister of Interior Ferid Hodzic has been removed by OHR for attempting to bloc the investigation, and is expected to be indicted as well. Police in the Federation and RS also have begun cooperating on stolen vehicle investigations, and in dealing with organized crime, such as the joint effort which closed the Otoka Market in Una Sana Canton. Police in Stolac arrested the head of the Renner Market, and investigations are continuing. This is a particularly salient case as the disappearance following release of the principal accused seems to encapsulate the problem confronting Bosnia of links between political officials, mafia members, politically intimidated or corrupt judges, insufficient domestic law enforcement capacity and overall lack of political will to address the problem.

#### **BILATERAL EFFORTS**



Besides working multilaterally through the Office of the High Representative, the United States Embassy in Bosnia has been actively engaged in diplomatic efforts to generate political will to fight corruption. Since August 1998, we have deployed a full-time officer to the Embassy to coordinate with the international community's efforts on corruption, in conjunction with SFOR. On June 2 of this year, the Embassy issued a press statement criticizing President Izetbegovic for downplaying the seriousness of the corruption problem. On June 10 our Ambassador gave a public address entitled "Corruption, Ethics and Civil Society." In meetings with senior government officials throughout the summer, the Embassy called on them to launch a political initiative against crime and corruption. While they have not responded appropriately, there are courageous officials at levels of government who are appalled by the current situation and who are willing to address it with the support of the international community. That is the message from the Tuzla Canton investigation and from the Sanski Most municipality investigation.

## **CONCLUSION**

In sum, the problem of corruption is undeniably one of the prime obstacles to achieving the goals set forth at Dayton. That is why we have made fighting corruption a central focus of Dayton implementation and will continue to do so.

However, corruption is a fact in Bosnia today because of a confluence of factors. Some of these include: nationalist party structures that took root during the war, Bosnian mind-sets formed by years of autocratic and communist rule, and lack of adequate laws and judicial institutions to combat corruption. All of these factors must be tackled and will require continued assistance by the international community to do so. As the members of the panel emphasize, U.S. taxpayers funds are well protected. We are aware of and have taken steps to protect ourselves from the system we seek to change.

I thank you for the opportunity to discuss with you the problem of corruption in Bosnia because public recognition and discussion of this problem, both internationally and by the Bosnian people, is one of the most important steps in the battle against corruption. It is this type of discourse, the press coverage and publicity that will flow from this Committee's

attention to the problem, that I hope will gradually allow Bosnian society to develop into a true democracy where rule of law and not rule of nationalist party politics reigns. For this to happen, we hope that all officials in Bosnia will see corruption as a major threat to the integrity of the country.