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DEVELOPMENTS IN THE BALKANS

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DEVELOPMENTS IN THE BALKANS: KOSOVO

TUESDAY, APRIL 11, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice, at 3:05 p.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. We will be joined by our Members shortly, as many of them can get away from their other committees.

Today's hearing is the first opportunity this year for Members of our International Relations Committee to review the differences and the effectiveness of our policy in Kosovo with Administration officials. In view of last year's NATO strikes against Serbia, the current commitment of some 7,000 United States troops and the expenditure of approximately $2 billion of U.S. taxpayers' funds since last June to aid Kosovo, I can think of few areas of greater importance to our Nation's foreign policy.

Nevertheless, reports indicate that things are not progressing smoothly in Kosovo. The perception is we have won the war but we are losing the peace. Recent visits by Members of the House and our staff have revealed that achieving enduring peace and stability will be much more difficult and costly than we did in winning the air war over Serbia. Although we can and should be rightfully proud of that achievement and other significant contributions of our own men and women of our Armed Forces, we need also to be realistic with regard to the nature of the commitment that our own Nation has now entered into in yet another part of the Balkans.

Continuing ethnic violence plagues Kosovo. Reprisal attacks against the Serbs and other minorities have received much attention in the press, as has the situation in the divided town of Mitrovice where thousands of Albanian residents have not been able to return to their homes in the Serb-controlled part of that town. Difficulties in reestablishing public services such as water, sanitation, electricity and medical care have undermined the morale of the long-suffering Kosovar people. These difficulties are attributable to the failure of international donors in Europe to fulfill their pledges in a timely fashion.

The economy of Kosovo is also stagnant, prolonging unemployment among the large numbers of young people who, with no real hope for a better future, could turn to crime and violence.

The recent outbreak of violence and instability in Serbia, the heavily Albanian populated region just over the Kosovo boundary

and near our own forces, has also given rise to concern for the safety of our own troops. Will the conflict between Albanians and Serbs resume? Could our troops be brought into an armed confrontation with Serb forces in the next few weeks? These are serious questions that I hope we can try to answer this afternoon.

We will hear from several witnesses, including some from Kosovo who I hope will enlighten us about the challenges to bringing about a lasting peace in Kosovo.

Before turning to our first panel of witnesses, I would like to emphasize that although our hearing today is focused on Kosovo, we are also looking closely at Montenegro, where the administration or democratically elected President Djukanovic is being undermined by forces loyal to Serbian dictator Slobodan Milosevic. The crisis in Montenegro has the potential of threatening everything we are trying to accomplish in Montenegro.

The possibility of overthrow of President Djukanovic and the threat of serious violence instigated by Milosevic in Montenegro are matters of particular concern. I invite our witnesses to address that problem as well as the events in Kosovo itself.

Our first panel will be Ambassador James Pardew and Mr. James Swigert for the Department of State.

Ambassador Pardew has appeared before this Committee both in open public sessions and for private briefings on a number of occasions, for which we are grateful. He served in both of our Departments of Defense and State and brings a long-term expertise in Balkan affairs to our hearing this afternoon.

Mr. Swigert has also been involved in Yugoslav affairs for a number of years. He served in several capacities in the Bureau of European Affairs, actually wearing two hats, one as Deputy Adviser to the President and Secretary of State and one as Deputy Assistant of State for European Affairs.

Let me note that it is regrettable that our request for an Administration witness on this important issue took so long to fulfill, given this Committee's responsibility for oversight of our Nation's foreign policy.

And I now ask if our Ranking Committee Member, Mr. Gejdenson from Connecticut, has an opening statement.

Mr. GEJDENSON. Thank you, Mr. Chairman. I will be very brief.

I just want to say that I think you know we are in a very critical stage here obviously in the sense that, unlike during the Cold War when we undertook an engagement, the competitive nature and our fear of Soviet expansion kept the United States focused and engaged, and so for over half a century we could keep and continue to keep troops in Germany. For decades we could keep them in South Korea, and there was generally a bipartisan consensus in that manner.

Today, it is going to be much more difficult. The United States and its citizens feel no great threat from any single power. As individuals who are presenting America's policies, it is particularly important that you lay out for the Congress and the American people the facts that indicate constantly why we are there, the benefits of being there, the dangers of being there, the cost of being there and also the cost of not being there.

So what you do here is terribly important because it is much harder today than in the time of the Soviet empire to keep Americans focused and to keep Congress from giving you more headaches than you are getting in the field.

Thank you very much.

Chairman GILMAN. Thank you, Mr. Gejdenson.

Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman, for holding these hearings.

In the middle of February, I took a delegation of about 12 Members into Kosovo. These were Members who participate in the NATO Parliamentary Assembly, and who have been following with considerable interest what happens in the former Yugoslavia. We came away uniformly depressed by what we saw in Kosovo. Things are not going well. They are going very badly there in many respects.

The commitments of international police are not being met by the Europeans and others. Soldiers are doing things they are not supposed to do in order to fill that gap. The violence against Serbian ethnics in Kosovo continues unabated. If we aren't protecting the Serbian ethnics 24 hours a day, they are killed. We were trying to give the one Serbian Kosovar woman, left in the community of some 3,000 or 4,000, 24-hour protection, but somebody got through and slit her throat.

Across the border in Serbia, the reverse is happening—ethnic violence. It would appear, in fact, the KLA is condoning it in Kosovo. Whether or not the KLA changes its name and its uniforms, it is still not, of course, satisfied with autonomy. It never has been. There is no rule of law.

Things are very bad and getting worse in Kosovo. We are in a situation where it appears that, despite the best efforts of the men and women we have serving in the armed services and many very excellent military units from other NATO and non-NATO countries side by side with us, we are simply in an unattainable, unachievable kind of task in Kosovo. I think the situation is a very, very serious problem that the American people need to be made aware of. They need to know that things are going from bad to worse.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Bereuter.

Any other Members seeking recognition? If not, we will now proceed with our witnesses.

Ambassador Pardew, please proceed.

STATEMENT OF THE HONORABLE JAMES W. PARDEW, PRINCIPAL DEPUTY SPECIAL ADVISOR TO THE PRESIDENT AND SECRETARY OF STATE FOR KOSOVO AND DAYTON IMPLEMENTATION, U.S. DEPARTMENT OF STATE

Mr. PARDEW. Thank you, Mr. Chairman. Thanks again for this opportunity to update the Committee on the situation in Kosovo.

I wish to submit a formal statement for the record which reviews our interests and objectives in Kosovo, areas of progress in civil administration and reconstruction, current challenges and what we

are doing to overcome those challenges and the burden sharing of the international effort.

With your permission, I will submit a longer briefing for the record.

Chairman GILMAN. Without objection, your full statement will be made part of the record.

Mr. PARDEW. I would like to briefly summarize the formal statement, after which I will be followed by Deputy Assistant Secretary Swigert, who will update the Committee on Montenegro.

Our continuing engagement in Kosovo relates directly to our national security interests. We know from history that a stable Europe is vital to American security and that Europe is not stable if its southeastern corner is in turmoil. In the past 4 years, the United States and our allies have successfully contained, then subdued, conflicts in Croatia, Bosnia and Kosovo as the former Yugoslavia broke apart. But the area's stability remains at risk from the Milosevic regime and the fragility of States recovering from conflict. International military forces create a secure environment in Kosovo. However, long-term peace and stability in the region requires robust civilian, political, economic and reconstruction programs backed by sufficient resources to make a difference.

Our immediate civil implementation objectives are two. The first is to complete the establishment of an interim administration under which the people of Kosovo can enjoy substantial autonomy. The second is to develop local provisional democratic, self-governing institutions to ensure conditions for a peaceful and normal life for all inhabitants of Kosovo.

One year ago, the North Atlantic Treaty Organization was engaged in an intensive air campaign against the security forces of Slobodan Milosevic. Their purpose was to halt the brutal repression of the Serbian regime against the people of Kosovo and restore order in the region. In 78 days, the air campaign, supplemented by aggressive diplomacy, succeeded in driving Milosevic's forces from Kosovo. The military victory set the stage for the deployment to Kosovo of allied security forces and an international civilian administration. The NATO-led Kosovo force, or KFOR, and the U.N. Mission in Kosovo, UNMIK, remain the heart of the international effort in Kosovo today.

All of us would welcome faster progress for civil implementation in Kosovo—but remember the situation less than 1 year ago. The conditions encountered by UNMIK as it deployed and began to organize in Kosovo were desperate. Over 1 million people were dislocated and traumatized by war. There was no economy; there was no government; there was major destruction, including 120,000 homes damaged or destroyed. The civil infrastructure was either destroyed or neglected, and all of this was overlaid by a Communist legacy.

Today, the situation on the ground in Kosovo is dramatically better and continues to improve gradually day by day. More than a million refugees and internally displaced persons have returned to their homes. The KLA has demilitarized, a growing international police presence has been established, and training for local police is well under way. Humanitarian agencies have met basic shelter,

food and medical requirements and pulled the population through the winter.

Recently, we have made progress in restoring order in Mitrovice, increasing civilian police deployments, increasing Kosovo Police Service training, preparing the groundwork for municipal elections later this year, and securing Serb participation in UNMIK governing structures. Further, public and independent media are regaining their voices.

UNMIK and KFOR continue to face tough challenges, but they are not insurmountable. I would like to quickly run through programs that address these issues.

First, the strategic area of northern Kosovo around the city of Mitrovice. KFOR and UNMIK have developed a comprehensive strategy and have begun to implement that strategy. The United Nations has appointed a strong civil administrator for the region in American William Nash. The number of international civilian police is still short, but the United Nations has made progress in CIVPOL deployments recently with 2,757 regular police in-country—513 of those are Americans—out of an authorized 3,593. The United Nations has also begun to fill the 1,100 positions for special police units to help with crowd control.

In the area of local police, there are currently 451 Kosovo police in classroom training and 341 in the field. The police school will expand its capacity to 700 Kosovar students, up from 500 today, to reach the goal of graduating 3,600 police officers by February of next year.

The Kosovo Protection Corps [KPC], now has a total of 4,500 KPC candidates who have been selected for membership. And the International Organization for Migration has begun training for KPC field members in each of the six regional task organizations.

KFOR and UNMIK have established conditions with the KPC for disciplining those who violate the law or deviate from established norms for that organization.

Last, in the area of local government, last week moderate Kosovo Serb leaders announced they would participate in UNMIK-sponsored governing structures, particularly the Interim Administrative Council and Kosovo Transition Council.

We plan for local municipal elections later this year. Civil registration is to begin in April and to be completed by July in time for these elections to be held this fall.

The judicial system is also moving forward. UNMIK has sworn in 289 Kosovar judges and 42 prosecutors. Criminal trials have been recently completed in district courts in Prishtina, Prizren, Pec and Gnjilane; and to supplement these local judges UNMIK is assembling international judges for particularly sensitive areas such as Mitrovice.

With some of our key allies, we are developing a strategy to support the UNMIK international police effort to counter organized crime and to take effective action in that area.

And, finally, in the media sector, a variety of newspapers and magazines have appeared in kiosks all over the major towns, and public television and a number of radio stations are on the air, beginning to return the Albanian voice to the area.

On burden sharing, Mr. Chairman, the Europeans must lead the international effort in Kosovo and bear the lion's share of the assistance burden. Europe accepts this responsibility. Out of 45,000 KFOR troops in Kosovo, European Nations and Canada provide 72 percent of the forces. The U.S. contribution of troops comprises about 13 percent of the total.

In terms of civil implementation, the current total for all donors in 2000 is just over $1.2 billion. The U.S. share of $168 million is about 13.9 percent of the fiscal year 2000 spending on Kosovo revitalization. Our share of humanitarian assistance has been about 20 percent. Our cost for U.N. peacekeeping through UNMIK has been at the 25 percent level mandated by U.S. law; and costs for the U.S. share of peace activities through the Organization of Security and Cooperation in Europe [OSCE] have ranged from 10 to 16 percent.

Mr. Chairman, the Administration does not support initiatives in the Congress to place an arbitrary limit on U.S. spending for international efforts in Kosovo and the rest of southeast Europe. We believe that such legislation would be counterproductive. As Secretary Albright wrote in a recent New York Times op-ed piece, the day may come when a Kosovo-scale operation may be managed without the help of the United States, but it has not come yet. Proposals in the Congress to place a legal cap on U.S. expenditures would decrease our flexibility and harm, not help, our partnership with Europe in responding to future events.

Such limits do not take into account the European contributions in our hemisphere. For example, the Europeans provided more than 60 percent of the bilateral aid pledged in the wake of Hurricane Mitch, assumed 33 percent of the cost of establishing peace in El Salvador, and 34 percent in Guatemala.

I have just returned from Kosovo, and I can tell you that the people there have emerged from a difficult winter and are preparing to build a new future. Prishtina and the countryside are alive with activity. These are tough and enduring people and they are grateful for our help, but they are not sitting back and waiting for us to rebuild their homes and lives. They need some tools and they need guidance from us to get started, but they are eager to get on with the job.

I hope this gives you a clear idea of where we stand in Kosovo right now, and I will be happy to go into more detail in the question and answer session.

[The prepared statement of Ambassador Pardew appears in the appendix.]

Chairman GILMAN. Thank you.

We now turn to Deputy Assistant Secretary Jim Swigert.

STATEMENT OF JAMES W. SWIGERT, DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS AND DEPUTY SPECIAL ADVISOR TO THE PRESIDENT AND SECRETARY OF STATE FOR DAYTON AND KOSOVO IMPLEMENTATION, U.S. DEPARTMENT OF STATE

Mr. SWIGERT. Thank you, Mr. Chairman, for the opportunity to update the Committee on Montenegro. I would like to briefly describe the current situation, outline our strategy for advancing U.S.

interests and update you on our assistance efforts. I have prepared a written statement for the record which, with your permission, I would submit and then just give a brief oral summary.

Chairman GILMAN. Thank you. Without objection, your full statement is made a part of record. Please proceed.

Mr. SWIGERT. The prudent and forward-looking policies of the democratically elected government of President Djukanovic have made Montenegro a positive factor in the southeast European region. Montenegro opposed ethnic cleansing and supported a peaceful settlement in Kosovo. Montenegro pledged support for the International Criminal Tribunal for the former Yugoslavia and has provided shelter and assistance to refugees and internally displaced persons, no matter what their ethnic origin. The Djukanovic government has also increased efforts to counter smuggling and organized crime in the region and recently improved its police cooperation with Italy.

The Administration shares the concern of many Members of Congress about Milosevic regime's efforts to pressure the democratic reform government of President Djukanovic. The potential for aggression or serious violence provoked by Belgrade is real. An outbreak of violence in Montenegro could set back reform efforts throughout the region, produce more suffering and more refugees, and seriously jeopardize U.S. interests in the region. At the same time, Milosevic knows that such action would pose serious risks for his own regime.

Consequently, U.S. policy is focused on preventing a new Balkan conflict from erupting and on providing the necessary assistance to ensure Montenegro can continue to develop democracy in a market economy, and continue its positive force in the region.

We have made strengthening the Djukanovic government a priority—as something good in itself—but also as a step that decreases the chances of conflict by raising the cost to Milosevic of any aggression against a strong and popular leader. Milosevic is fully aware of the priority that we place on the security of the region and of Western capabilities to respond to any destabilizing actions.

Administration officials, including Secretary Albright, have reiterated over the last year our strong interest in the security of the region, including Montenegro; and NATO leaders have made clear the alliance is following developments there closely.

The fundamental problem for Montenegro, as for its neighbors, remains the lack of democracy in Serbia and the Milosevic regime. As part of the Federal Republic of Yugoslavia or the FRY, Montenegro is highly vulnerable to pressure from Milosevic, who is fundamentally hostile to the Djukanovic government and its democratic reform program. Promoting democracy in Belgrade is therefore a priority for the Administration, also, as part of its Montenegro policy. We believe that a democratic Serbia would enable the two republics to found a new constructive partnership.

During this winter, Montenegro endured additional pressures from Milosevic, including temporary closure of Montenegro's airports by Belgrade and blockade of Montenegro's trade with Serbia, which is ongoing.

We have worked closely with the Djukanovic government to try to mitigate these pressures. While tensions remain, the situation is calmer now than a few weeks ago. Rather than falling into Milosevic's trap of confrontation, the Montenegrin government is working with its Yugoslav army contacts to prevent security incidents and tensions from escalating. This prudent approach denies Milosevic and his supporters a pretext for violence or intervention.

Still, tensions could quickly rise again. The situation is fragile. Therefore, it is essential we maintain our support for the Djukanovic government.

We will continue to demonstrate our political backing by maintaining regular and high-level contacts with President Djukanovic and his government. President Djukanovic met twice with President Clinton this past year, Secretary Albright met with President Djukanovic last month, and we are in daily contact with his government.

An essential element to our strategy is to back up this political support with concrete economic assistance. After Montenegro took steps last fall to protect itself from hyper-inflation exported by Belgrade and made the Deutsche Mark a legal currency, we sent economic advisers to Montenegro to help implement critical economic reforms. In this fiscal year 2000 we are providing $26 million in SEED and $11 million in ESF economic support funds, as well as humanitarian and food aid to ease the pain of Belgrade's embargo against Montenegro; and last month we signed an OPIC agreement with Montenegro to help stimulate private sector investment there.

However, we expect our monetary assistance for fiscal year 2000 will not suffice, given that Montenegro's needs have risen due to Belgrade's trade embargo. Thus, we have requested an additional $34 million in SEED funding from the Congress in this fiscal year; and we appreciate the House's inclusion of this request in the supplemental bill passed on March 30 and hope the Senate will support it.

Western assistance serves four valuable purposes. First, it helps to mitigate the destabilizing effects of Belgrade's economic sanctions against Montenegro. Second, it allows President Djukanovic to show that his policies deliver concrete results to the people of Montenegro. Third, it reduces pressure from pro-independence groups within Montenegro on Djukanovic to take risky steps. And, fourth, it concretely demonstrates to Milosevic our strong interest in Montenegro and to the Serbian people that our differences are with Milosevic and his policies, not with Serbs or Montenegrins.

U.S. leadership and resources are essential, but we cannot meet all of Montenegro's needs alone nor should we do. Europe also has a strong interest in the success of Montenegro's reforms and an essential role to play, and the Administration has been working intensively at senior levels to encourage the European Union and others to deliver greater resources to Montenegro and to speed the delivery of those resources. The response has been encouraging recently.

This year, the European Commission doubled EU assistance to Montenegro for 2000 from 10 to 20 million euros. The European Council has directed the European Investment Bank to find ways to finance projects in Montenegro, and this could be very signifi-

cant. Last month, Stability Pact donors pledged funds toward a list of "Quick Start" infrastructure projects, which included $15 million of infrastructure projects in Montenegro; and EU members are moving to boost their bilateral assistance as well. Germany recently granted 40 million Deutsche Marks in investment credits, and the Netherlands has established a program of its own.

We will keep working with our European partners to get Montenegro the assistance it urgently needs.

In closing, let me thank you for the chance to discuss the situation in Montenegro and our policy. We consider the Djukanovic government's reform program both a model and a stimulus for democratization across the FRY. Montenegro is now moving down a road toward creating prosperity in cooperation with the international community that the people of Serbia could also travel were there democratic government in Serbia.

We appreciate the strong support of this Committee and other Members of Congress both for Montenegro and for the Administration's efforts to help the government of Montenegro remain a model for democratization.

Thank you.

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

Chairman GILMAN. Thank you very much, Assistant Secretary Swigert and Ambassador Pardew, for your testimony which helps us have a better insight on what is going on in that part of the world. Just a few questions, and then I will turn to my colleagues.

There have been a number of claims and counterclaims concerning amounts paid to Kosovo provided on the one hand by the United States and on the other by the European Union, including both contributions by individual EU members and by the EC. Can either one of you tell us how much respectively the United States and EU have been providing to Kosovo for humanitarian assistance, economic reconstruction and the cost of the KFOR mission?

Mr. PARDEW. Mr. Chairman, we always get into these financial discussions, and it is very easy to get off into apples and oranges. I would like to stay with the data which I provided in my statement which discussed burden sharing. For civil implementation in 2000, the U.S. share is 13.9 percent. Europe is paying the bulk of the remaining part of the $1.2 billion. Our share of humanitarian cost——

Chairman GILMAN. Is that the total being provided, $1.2 billion by everyone?

Mr. PARDEW. For civil implementation, sir?

Chairman GILMAN. By all parties?

Mr. PARDEW. Yes. This was committed at the donors conference last fall.

Chairman GILMAN. And we are providing 13 percent?

Mr. PARDEW. 13.9 percent. Our share of humanitarian assistance has been about 20 percent, and I don't have a total number, but I can get that for the Committee if you would like. Costs in the peacekeeping account have been about 25 percent of the UNMIK costs; and our OSCE share has ranged from 10 to 16.9 percent. The Europeans have picked up the bulk of the remainder of those costs, although there are non-European contributors as well, like Japan

and some others who have contributed, but the bulk of the burden was paid by the Europeans.

Chairman GILMAN. All of those costs you have just recited is $1.6 billion; is that right?

Mr. PARDEW. No, it would go well above that because of the humanitarian costs.

Chairman GILMAN. What are the total costs that have been invested?

Mr. PARDEW. Just a minute, sir while I look at the figures. The total cost for Kosovo—and I have civil costs here—$1.2 billion.

Chairman GILMAN. You mentioned before $1.6 billion. Does this figure you are giving us now include all of the funds that we have allocated for Kosovo?

Mr. PARDEW. The figure of funds that we have allocated for Kosovo for civil implementation to include reconstruction in fiscal year 2000 is $1.26 billion. Excuse me, that is in Bosnia. In Kosovo, the total is $1.227 billion for fiscal years 1999 and 2000. That includes money for stabilization, humanitarian, the U.N. costs, OSCE costs, and that is for fiscal years 1999 and 2000.

Chairman GILMAN. $1.27 billion?

Mr. PARDEW. For civilian assistance for fiscal year 1999 and 2000.

Chairman GILMAN. That leaves out the military costs?

Mr. PARDEW. That leaves out the military costs.

Chairman GILMAN. And how much are the military costs?

Mr. PARDEW. The figure I have is for Kosovo, both again 1999 and 2000, is $5.157 billion from the 050 Defense Department accounts.

Chairman GILMAN. $5.157 billion. So we are talking roughly $6 to $7 billion altogether, is that right, altogether our costs in Kosovo?

Mr. PARDEW. That is correct. For fiscal year 1999 and 2000 our total costs for Kosovo, military and civilian, are $6.384 billion from the 150 Foreign Operations accounts and the 050 Defense accounts.

Chairman GILMAN. So we are paying in what percentage of all those costs? What does our average contribution amount to?

Mr. PARDEW. It varies from program to program, whether it is humanitarian, civil implementation or others.

Chairman GILMAN. You talked about 13 percent.

Mr. PARDEW. Thirteen percent of civil costs.

Chairman GILMAN. What about military?

Mr. PARDEW. I don't have the total military cost of the entire operation.

Chairman GILMAN. Can you provide that for our Committee?

Mr. PARDEW. I can try.

Chairman GILMAN. Thank you very much. We would welcome having it.

Chairman GILMAN. Why have the United States and EU accepted the de facto partition of Kosovska Mitrovice?

Mr. PARDEW. We have not accepted partition of Kosovo. In fact, we strongly oppose any action which would promote partition or be viewed as a partition of Kosovo.

Chairman GILMAN. What are we doing to allow displaced Albanians to return to their homes in safety in that area?

Mr. PARDEW. So far, in Mitrovice, there have been about 140 Albanians returned to their homes on the north side of the river. This is not an acceptable level.

Chairman GILMAN. One hundred forty out of how many?

Mr. PARDEW. Out of probably 2,000 or 3,000 north of the river.

Chairman GILMAN. Only 140 have been able to return? What is holding things up?

Mr. PARDEW. The situation in Mitrovice is extremely tense. The Serbs have dominated the northern side of the river, the Albanians the south. UNMIK had not established its authority firmly there.

Attempts to return Albanians across the river generated significant hostilities which KFOR had to deal with.

The United Nations and NATO have developed a comprehensive strategy for Mitrovice, but this is not something that can be solved immediately, Mr. Chairman. This is a very complex situation that has to do with continued influence by Belgrade in the north of the area. Extremists on both sides have exploited the situation there. We have just put a strong civil administrator in Mitrovice to improve the civil administration there. So this is an ongoing process, but it is not going to be solved immediately.

Chairman GILMAN. So, Ambassador Pardew, essentially until that is clarified there is a de facto partition in Mitrovice.

Mr. PARDEW. There is an unacceptable separation in Mitrovice.

Chairman GILMAN. Did our Nation agree to the deletion of a provision requiring Serbia to return Kosovar Albanian detainees from Kosovo by Serb forces for the military technical agreement negotiated with the Federal Republic of Yugoslavia at the end of NATO's air campaign? Did our Nation agree to the deletion of a provision that required them to return these detainees?

Mr. PARDEW. I am not aware of the details of the negotiation, Mr. Chairman, but I don't recall ever seeing anything agreeing that detainees would not be returned. In fact, we have worked very hard to pressure the regime in Belgrade to return Kosovars who are held prisoner in Serbia, and there are quite a number of them, probably up to 2,000. Some have been returned but not nearly enough.

Chairman GILMAN. So Serbia is mandated to return these detainees that were taken from Kosovo by the Serb forces?

Mr. PARDEW. We certainly demand that the Serb return Kosovars who were taken from Kosovo at the end of the conflict.

Chairman GILMAN. One last question. What is the status of the Trepca mine? Have Albanian workers been permitted to resume their work there and does Serbia receive any of the proceeds from the operations of that mine at the present time?

Mr. PARDEW. The Trepca mine is a strategic issue associated with Mitrovice in northern Kosovo. An international mining consortium is currently in negotiations with UNMIK to look at the potential to reopen that mine. The U.S. Agency for International Development has a team in Trepca as we speak looking at the environmental impact of the Trepca mine. The Trepca mine is part of the strategic plan for northern Kosovo that UNMIK is working on. We believe it should be reopened to the degree that it can become economically viable, and it should be staffed and operated by the people of Kosovo.

Chairman GILMAN. Mr. Ambassador, I understand that the workers would like to go back there. They are ready to go back to work there. All they need to do is pump out some of the water that has accumulated there and to assure safety of the workers; is that correct?

Mr. PARDEW. There is much more to it than that, Mr. Chairman. The mine has been neglected. It was poorly run by the administration that ran it up to now. Parts of it are still under the control of Belgrade.

Yes, certain parts of the mine are flooded, but other parts of the mine are a serious ecological problem. We will know more about how much of that mine can be reopened as soon as the USAID environmental team returns and when we have had a serious professional assessment of it.

Chairman GILMAN. I would hope that we could expedite that, since several thousand workers could be returned and several millions of dollars could be earned by the Albanians.

Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman. I think what you are sensing here is a number of crosswinds that are running through the Congress, and part of it I kind of referenced at the beginning is the post-Soviet-era impatience, and I think what you are going to find is there are going to be attempts to restrict your discretion to a greater and greater degree.

There is now legislation by the Chairman and Mr. Bereuter that would limit expenditures by the United States in southeastern Europe to 15 percent of the share of the EU.

It was interesting, you stated that in our hemisphere the hurricane response saw the EU putting in about 30 some percent, but I think there is no argument that the United States has historically paid the largest portion of many of these international operations. And I think what you are going to have to do is you are going to have to find a way to convince Members of Congress and the American public that this is, one, a solid investment that represents America's best interests; and part of that you can, I think, show from a historic perspective. I mean, obviously, if there had been the time pressures for results at the end of the Reichstag and the Nazis we would have probably been out of Germany sometime in early 1951, not having succeeded at accomplishing all of our goals and reconciliation in the area.

But I can tell you that between now and the election there is going to be continued pressure, and I would suggest that you go back and talk to the folks at the White House and State Department and say that you are going to need to help those of us who supported the Administration with a demonstration that I think is doable, that the Europeans are carrying their burden, and where they are not, we ought to work together to get them to carry that burden.

There is no question the United States rightly exercised the major portion of the military operation during the war in Kosovo because of our incredible ability, unmatched by any other country; and for that reason, frankly, I am a supporter of the Europeans having a European military strategy and a coordinated purchasing of equipment so they can play a more equal role in endeavors that

the United States and Europe feels are important. I think that we ought to enter a dialogue to make sure the Europeans pay their part. I think it will be easier to get continued American support.

And, you know, the pressure is going to continue from the majority in this Congress, and I think that you have got to come forward and help those of us who believe in what we are doing in Kosovo with the information that lets us work something out that will allow us to continue what I think is the best representation of America's involvement in foreign policy.

We are doing what is right. We are doing it for the right reasons. We are not simply doing something simple, that looks good or doing something like protecting an oil-producing country that represents our need of foreign crude.

So I admire what you have done and how you have done it there, and I think we need to make sure that we pull the information together that lets us come to a policy that will allow us to continue to take this leadership role in the world. And I thank you gentlemen for your testimony.

Chairman GILMAN. Thank you, Mr. Gejdenson.

Mr. Bereuter.

Mr. BEREUTER. Ambassador Pardew, Secretary Swigert, thank you for your testimony. I am having a hard time understanding how I am going to direct comments to you.

Ambassador Pardew, you have a very distinguished public service record as a civilian in DOD and as a military officer, and I know you are in a difficult position. But I do think that what you have presented here, in the way of written testimony and in your comments, do not give an accurate impression to the American people of the difficulties we are facing there and the fact that we have serious problems that are not being corrected. The situation is deteriorating.

Effectively, we have a partition in Bosnia. We are moving to a partition in Serbia, and in that part of it that is Kosovo. You say we have made progress in restoring order and then you go on to list several areas. But progress from point zero is about what we are talking about, so it is extremely slow. There is no confidence or credibility in the people that will be managing the judicial positions nor is there likely to be.

You saw how many votes, I imagine, that the Warner burden-sharing proposal, as advanced by a bipartisan group in the House, received. I voted against that because I didn't think it was a good idea in the way they had framed it. But the United States did bear a large majority of the costs for pursuit of the war over Kosovo—in the backyard of the Europeans. Europeans should be expected to do more. I think it is only fair, as a representative of the American people, that we need to expect them to come forth and share the costs.

The figures we have, for example, in international police is far less than requested in the first place, and the Europeans still haven't met what is now the downgraded number. I think it is reasonable to place not a dollar limit cap, but instead a percentage gap.

Mr. Gejdenson referred to an element in the legislation that Chairman Gilman has offered with the support of many of us, in-

cluding myself, and in that legislation, at least we do make it a percentage. It is at 15 percent, but I am quite willing to raise it to 18 percent because there is reason that it ought to be 18 percent. This is consistent with what the Administration has said at various times, although they would like to back away from that number now. Let us advance it from 15 percent to 18 percent. If the Europeans and the Canadians, since Canada is a NATO member, come up with much more, then the amount we have to spend—which I hope we would spend well—in the Balkans area will go up as well. It is not a dollar cap. It is a percentage cap that we ought to expect, and it can be adjusted to see if, in fact, the forces meet their goals from year to year by what, in fact, we are willing to spend the next year.

Just a minor correction, it is not just what the EU is spending. It is under our bill what the EU and NATO members are spending as contrasted with the United States. You have, for example, six European countries that are not members of the EU whose contributions would also be considered along with the 15 members of the EU plus, of course, Canada. If they can't come up with 82 percent of the costs in Kosovo today, then they are not pulling their fair share. I think we need to assure the American people that there is a limit on how much of the total amount we are going to provide in the reconstruction of and in the attempt somehow to restore civil order to Kosovo and also, for that matter, to Bosnia.

I welcome any comments you have, Ambassador or Mr. Swigert.

Mr. PARDEW. Well, thank you very much, sir.

I don't want to leave anyone with the impression that we have had raging success in Kosovo yet or that we don't have significant problems ahead of us.

You mentioned the police. The police are a problem. The international community is doing something with police that they have never done before. We have international police there with arrest authority and carrying weapons. At the same time we are trying to establish a judicial system. We are trying to establish a police and judicial system, first of all, with internationals, and then with locals.

I would go back to the point in my statement which reminds us that we came into an area which was devastated. There was no government. There were no police. Jails—there are no detention facilities. So I don't want to leave with you a presentation that implies Kosovo is a rosy picture. But I will say it is far better than anything that existed at the end of the bombing campaign. We have a long, uphill way to go, but we think that we can overcome all the items that are difficult today, and that we are making gradual progress. I do not believe, sir, that we are sliding backward.

Mr. SWIGERT. I might comment, if I could, on the question of European and Canadian and Japanese support. We certainly do see this as a necessity and a priority, and we are working very hard to ensure that Europeans follow through on their commitments and deliver the assistance that they promised in a timely fashion. This is an area in which we have had considerable discussion with the Europeans, and they have recognized that there is an issue here. At the latest meeting of the European Council in Lisbon, they undertook a number of steps to try and speed up the delivery of as-

sistance. So I think this is an area where all of us can do more, both in specific situations and with respect to Kosovo and also across the board in southeast Europe.

Mr. BEREUTER. Thank you. We will try to stiffen your backbone by giving you some requirement that they will have a percentage of it but no more than a percentage. We will see if they are going to meet their commitment.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Bereuter.

Mr. Hastings.

Mr. HASTINGS. Thank you very much, Mr. Chairman, and thank you for holding the hearing; and, gentlemen, thank you for your testimony.

If I could begin, Secretary Swigert, with you and refer to your testimony where you say we firmly believe the establishment of a democratic government in Belgrade would make it possible for Serbia and Montenegro to establish a new constructive relationship in which Montenegro could be a genuine partner with Serbia in a democratic Yugoslavia. I firmly believe that, too, but how realistic is the prospect of that happening?

Mr. SWIGERT. Well, you raise a very serious issue which is the presence in Belgrade of an antidemocratic regime, and I think that not just this Administration and the Congress but a number of countries around the world, our European partners, are all united in terms of working for democratization in Serbia. This is a priority for us, and it is a priority for Europe. We would like to see this happen sooner rather than later because of the drag that Serbia represents within the region and because of the additional suffering that the perpetuation of the Milosevic regime is bringing on the Serbian people.

We have been carrying out a very active policy along three tracks of putting increasing pressure on the Milosevic regime through selective sanctions in conjunction with the European Union and others, through isolation of the Milosevic regime diplomatically and through strong support for democratic forces in Serbia, as well as support for the democratic government in Montenegro.

The Montenegrin government of President Djukanovic has made clear that its priority is bringing about a different relationship with Serbia, not a break with Serbia but rather a new partnership; and in a number of the discussions we have had with representatives of the Serbian opposition, they have expressed support for that. So I believe that with democratic change in Serbia there can be a new arrangement reached between democratic forces in both republics.

I think the question of when democratic change comes about in Serbia is something that really depends upon the Serbian people themselves. If you look at the opinion polls, Mr. Congressman, we see that Milosevic is going down and the level of frustration is tremendous. The democratic opposition in Serbia will have a demonstration this week calling for free and fair elections at all levels. It remains to be seen whether that will be a turning point. It will be, I think, a struggle to put more pressure on Milosevic, and the strategy that we are following I think is one that we need to stick with. We have been encouraged that the European Union has moved recently to strengthen its financial sanctions and expand

the visa list that is directed against Milosevic's regime and his principal supporters.

Mr. HASTINGS. Thank you very much.

If I could turn to you, please, Ambassador Pardew, you cited Secretary Albright's recent New York Times op-ed in which she says, from your testimony, the day may come when a Kosovo-scale operation can be managed without the help of the United States, but it has not come yet. If I can share the frustration that I hear among my colleagues with you and first preface that by suggesting that, when I voted personally in favor of our intervention, I made a floor statement in which I clearly made understood that I did not expect this to be a limited operation by any stretch of the imagination. One can't quantify very easily the amount of time when theorists are talking about an end game in something as complex as the Balkans. To ask for that certainty is almost impossible.

At the very same time, when you hear my colleagues advancing with a great deal of seriousness the notion of capping the activity there, that comes about because we are feeling our pressure from our constituents saying, you know, we are spending a lot of money over there, you are telling us we don't have any money here to do certain things, and then we go home and face that. That said, is there any way that, with all of the things that are on the ground, that we can suggest to the American people that that day is going to happen, and even if we said 30 years, it might be better than leaving it to ambiguity all the time? Do I make myself clear?

Mr. PARDEW. Yes, Congressman, you do. And I would like to be able to give a date, but we learned from Bosnia that we really cannot set firm deadlines because our strategy needs to be based on the job that we have to do, and the missions that need to be accomplished. The answer to the length of our commitment in the Balkans is based on our interests; and, as I said in my statement, we have very powerful security interests in stability in the Balkans. And we have been engaged in this endeavor with our European allies much less overall than they have, but we have been involved because it is in our security interests to be involved.

Our strategy for leaving is based on implementation of U.N. Security Council Resolution 1244 which stipulates the conditions required for a sustainable peace. When we leave Kosovo, we need to leave it in a condition which is stable, which is oriented toward Europe, which is a partner among Europe democracies, with an economy that is integrated into the European system.

So I wish I could give a precise answer to a withdrawal date, but I can't. But I can say it is in our interests for us to be there, and it is in our interests to stay the course until such time as we have established the conditions for a long-lasting peace.

Mr. HASTINGS. Mr. Chairman, I recognize that my time has run, but I am particularly interested, as a former jurist, in the development of the judicial system; and if you would please have someone followup with me personally so that I can be briefed regarding where we are in that regard. I would also be interested in further elaboration of the demilitarization of the KLA, but at the very same time I recognize that there are time constraints, and I want to compliment you, Ambassador and Mr. Secretary, for your testimony here today.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Judge Hastings.

Mr. Sherman.

Mr. SHERMAN. Thank you, Mr. Chairman.

I would like to echo and amplify what so many of our colleagues have said, and that is, that when it comes to the burden sharing in not only Kosovo but also Bosnia that our foreign policy establishment has really let down the American taxpayer.

A week ago, we heard from the State Department with regard to Haiti, and I asked at that point, how are expenditures in the former Yugoslavia compared to European expenditures in trying to bring democracy, freedom and economic progress in Haiti? So far we don't have a response. I have always found that when people want to give me a response they are very quick. The message is very clear. When something goes wrong in Europe, the American taxpayer pays. When something goes wrong in the Americas, the European taxpayers pay virtually nothing.

We have heard testimony here that says the Europeans are doing more than the United States. Along with several of my colleagues, we saw what was going on during the war. Virtually all the effective fighting was done by the United States.

I don't always agree with the Governor of Texas, but he has put forward the theory that if the United States always has to be the peacemaker, that others should assume the duty of being peacekeeper. And yet here we are with no end in sight, doing the European work for them, not only doing what they couldn't do for themselves—in spite of their incredible wealth, in a population that is larger than ours, they couldn't deal with the military aspects of peacemaking. But now they clearly are capable of doing everything that needs to be done in Bosnia and Kosovo, and we are doing it instead.

I think that the question really is, do the Europeans think that Kosovo and Bosnia is important? And, if so, if we announce that within 1 year we were leaving, would they come through with the billions and billions of Euros necessary to assume this duty? Or would they decide that the former Yugoslavia just isn't worth very much of their money?

Mr. PARDEW. Well, our participation, as I have said before, is based on our interest, and we have interests there.

Mr. SHERMAN. Excuse me, I have a limited amount of time. I will ask you to focus on the question: If we stopped, giving the Europeans 12 months notice, would they step up to the plate? Or would they say, sorry, Kosovo and Bosnia are not very much in our interest, at least not enough to assume the full financial burden, and if they are not in your interest, so be it? I am not asking you whether Kosovo and Bosnia is in America's interest. I am asking you what would the Europeans do if we insisted they shouldered the entire load?

Mr. PARDEW. The Europeans would probably make the best of it.

Mr. SHERMAN. We could pull out and the Europeans would handle the problem?

Mr. PARDEW. I said that they would probably do the best they could with it. The question is, should we be there? The answer to that is——

Mr. SHERMAN. With all due respect, I am given 5 minutes of time where I am supposed to ask questions, and your response is to tell me the question is. I am very sorry. I am supposed to ask the questions. I know that you would prefer to be asked different questions, and perhaps one of my colleagues will come in and ask you the questions that you would like to answer.

Mr. PARDEW. Congressman, you have asked a very important and complex question. I would like to give you an adequate answer.

Mr. SHERMAN. If you could stick to the question I have asked, I would appreciate it.

Mr. PARDEW. The United States is participating with our European partners in an issue that is of vital interest to the Europeans and the United States. The question is not whether we should be there but to what degree.

Mr. SHERMAN. Excuse me, Ambassador, I will reclaim my time because, once again, you are saying what the question is. And it could very well be that that will be the question asked you by one of my colleagues, but I don't think that the question is whether—the degree to which we should be involved in the Balkans for 5 years, 10 years, 20 years. It looks very much as if we will be in the former Yugoslavia for at least as long as we have been in Korea. And, you know, Asia is a different circumstance, but here you have all of the wealth and power of Europe, which apparently is insufficient to deal with the problem in Europe, let alone grossly inadequate European contributions to that problem in Korea or East Timor or Columbia or Haiti.

So I realize that you would prefer that I ask you a different question, but, in fact, the question is whether we will show, as civilian leaders, the same kind of courage that our men and women in uniform showed. They stood up to Milosevic. We now have to stand up to Paris and to Berlin and say that European problems need to be financed, the solutions to those problems need to be financed by European taxpayers.

And you can say that we have an interest in former Yugoslavia. You could make an equal case that France or Britain or Germany should be concerned with the freedom and development of Haiti, and yet we are still waiting for those figures to come in. You can certainly say that Italy and Spain should care about the democracy and freedom of the people of South Korea, yet I am not aware of any European contribution on a significant scale.

So it seems that where there is a European concern about something in the Americas or Asia, we have no money at all from the Europeans. We may see a little bit of French help to Haiti, a former colony, whose problems today are a direct result of colonial exploitation by the French themselves, but we will see very little German help for Haiti, very little Italian or Spanish financing of the military in South Korea, an inadequate European response to East Timor, and the fact that we would then do the European job of convincing the American taxpayer that that is an acceptable circumstance that we contribute mightily to Europe and they do nothing outside of Europe is very frustrating.

Mr. Chairman, I yield back the balance of my time.

Chairman GILMAN. Thank you, Mr. Sherman.

Mr. Pomeroy. I am sorry, Mr. Rohrabacher just arrived.

Mr. Rohrabacher.

Mr. ROHRABACHER. Yes, I just did. I apologize. As you know, we have various hearings that we have responsibility to attend, and I was the chairman of the last one, and again I apologize if we are covering some ground—how much specifically have we spent in the Balkans for the last 5 years?

Mr. PARDEW. Mr. Rohrabacher, I knew you were going to ask me, and I have brought you an answer I hope will satisfy your question.

Mr. ROHRABACHER. All right.

Mr. PARDEW. The total cost to the United States since 1995 in developmental, humanitarian and military costs is roughly $17.8 billion.

Mr. ROHRABACHER. That includes?

Mr. PARDEW. That is Bosnia and Kosovo. U.S. Military and foreign assistance in fiscal year 1996 to fiscal year 2000 is $11.366 billion from accounts___ and ___. That is Bosnia.

Mr. ROHRABACHER. OK. Now hold on. First one was—$17 billion is the total?

Mr. PARDEW. $17.8 billion is the total.

Mr. ROHRABACHER. OK.

Mr. PARDEW. For Bosnia, that total is $11.366. That is fiscal year 1996 to 2000.

Mr. ROHRABACHER. OK.

Mr. PARDEW. And in Kosovo—that is fiscal years 1999 and 2000—the figure is $6.384 billion.

Now, let me break down the $17.8 billion one other way. Military costs are $15.257 billion, civilian costs $2.5 billion. So what I am saying is that the bulk of the U.S. funding has been military.

Mr. ROHRABACHER. Now you are saying that our military operation that brought the Serbs to their knees so they would agree to this peace plan in Kosovo cost us less than $15 billion, all this bombing?

Mr. PARDEW. The military outlays for Kosovo, $5.157 billion.

Mr. ROHRABACHER. That includes that whole——

Mr. PARDEW. That is the air campaign.

Mr. ROHRABACHER. How long was the air campaign?

Mr. PARDEW. Seventy-eight days.

Mr. ROHRABACHER. You are saying it is under $6 billion for that air campaign?

Mr. PARDEW. Right.

Mr. ROHRABACHER. That is phenomenal. I will just say that if I, being someone who is asked to look at the figures, that figure would jump out at me and say, look a little closer, that doesn't sound realistic.

Mr. PARDEW. Mr. Rohrabacher, unfortunately, I am not into the details of military cost sufficiently to answer a lot of detailed questions about them. These are figures that we received today from OMB and the Defense Department.

Mr. ROHRABACHER. OK. Well, you know, cost is something that we are supposed to look at very closely here, and, of course—so $17 billion, you are suggesting that $17 billion is what the cost was—now, I don't know what the cost to us would have been to the strategy which was our alternative, and one alternative was just to rec-

ognize that the Albanians and Kosovo had a right to their self-determination, recognizing them and maybe providing them with some support so they could defend themselves. That was another alternative that I was suggesting and that some others felt would have been a moral alternative to direct military intervention. Would you guesstimate the cost on something like that? Wouldn't that have been something like $2 or $3 billion at the most?

Mr. PARDEW. I couldn't put a cost figure on that. I was involved in looking at some of those options, and I can tell you what I believed at the time. I believe that there was no way that we could adequately create an organization that could defend itself in the short-run against the Serb army and police. That would have been a long-term solution, but a lot more people would have died had we gone down that trail.

Mr. ROHRABACHER. Let us note that the Kosovars were here and were asking not for American troops in the beginning but were asking instead for just our recognition of their human rights, to control their own destiny and some support, some help so that they could fight their own battle rather than having American military personnel there and having American military people put themselves and their lives in danger and having over $17 billion expended in Treasury, which is a considerable cost, even though I think that is low balling it, frankly, once I take a closer look.

And how much is our European allies then?

Mr. PARDEW. I don't have the total cost of the military campaign. I have the U.S. cost, but I do not have the 1995 to 2000 total international costs for the Balkans.

Mr. ROHRABACHER. It would be of interest to us when analyzing whether or not this is a cost-effective approach to foreign policy in the future to see whether or not an expenditure in the tens of billions of dollars by the United States actually stimulated our European allies to get more involved or whether what happened was what most of us on the other side suggested would happen, that if we end up spending the money the European allies will be less likely to commit their resources and less likely to buildup their own military forces.

So these are very pertinent issues, and I wish you success, and I yield back the balance of my time.

Chairman GILMAN. Thank you, Mr. Rohrabacher.

Mr. Pomeroy.

Mr. POMEROY. Thank you very much, Mr. Chairman.

I want to speak specifically to the cap proposal, and are we talking about the 15 percent cap, Mr. Chairman, or 18 percent cap? Will it be amended?

Chairman GILMAN. It is going to be amended. Mr. Bereuter is suggesting the possibility of increasing it to 18 percent.

Mr. POMEROY. I am familiar with the notion that over a longer term project, longer meaning more than 1 year, there is going to be an ebb and flow in terms of shifting costs. For example, as we respond to what relief in Grand Forks, North Dakota, to build a permanent flood protection device there, the local share is greater at the first phase of the project, the Federal share greater in the middle, local share greater at the end, to ultimately, over several

years, you have a 50/50 cost share, but that doesn't mean at any given point of time you have got a 50/50 cost share.

Now, my question, Mr. Ambassador, is whether the same might be true here and, in fact, you have an ebb and flow in participation. I am informed, for example, that one of the things the United States does best is respond to emergencies, disaster assistance. We might bear perhaps more of that cost than the countries in that phase less when we are in the longer term restructuring phase.

I would like to show a couple of pictures that I personally took when I toured Kosovo in December. This is a picture of a family living in a warm, dry room. Tens of thousands of Kosovars spent their winter in circumstances similar to this. Into a destroyed structure they take this warm, dry room kit, tiny little stove there for heating and then plastic sheeting on the ceiling and over the windows. Wholly inadequate housing, dangerous for the health of those living in here. They are not dying of exposure, but, obviously, we have got an enormous task in terms of still emergency housing reconstruction.

Another thing that I saw was extraordinary damage, I mean unbelievable damage to the countryside. I put this picture up because it illustrates, I think, two things: devastation which was commonly seen throughout the country in terms of structures as well as damage to the agricultural infrastructure. It destroyed every damn tractor they could find and made the prospects of getting on with the normal activities in a farming region very, very difficult to obtain.

Now, I use these photographs to point out perhaps it is not timely in any way to be talking caps yet because we are still very much in more of an emergency portion, disaster portion of the response, and what we see today isn't necessarily reflective of the longer term relationship that we will have with our European allies. By golly, they ought to carry more than 50 percent. They ought to carry way more of the costs of the long-term reconstruction than what we have invested to date, but it just seems to me that hard caps might interfere with the normal ebb and flow of things as you work toward getting this structure, even if we are all agreeing that 18 percent is an appropriate figure to be at.

If the Ambassador would respond.

Mr. PARDEW. I agree completely, Congressman. We think that any kind of cap limits our flexibility. It does not allow us to exploit some advantages that we have in the temporary circumstances you just described. In some cases, we can move a little quicker in meeting immediate humanitarian needs. In other places, such as reconstruction, the Europeans clearly should pay and, quite frankly, are willing to pay the vast majority of the costs. So we think that a hard cap absolutely limits our flexibility and sets up a precedent with our European allies which would not be helpful to us in areas where we might need their help.

Mr. POMEROY. The diplomatic dimension in terms of eliciting full European response, do you think they would respond well to this kind of activity out of Congress or might we actually set our own cause back, the objective being getting full European participation, reducing the U.S. participation, the 18 percent range? What is the best way to pursue that objective?

Mr. PARDEW. First, the President, the Secretary of State, and every senior Administration official I know who are involved in Kosovo and the Balkans have been working with our European allies to ensure that the message from Congress—that Europe must pay the lion's share—is understood by them. Europe is moving forward in this regard, some not fast enough. We believe however, that they accept their responsibility for the lion's share of the costs, and we believe that they accept responsibility for leadership. Therefore, we are confident that our European allies will, in fact, step up to the plate, as we say.

Now, as to their attitudes, I think it will damage our relationship if this kind of hard ceiling is put on our spending flexibility. We can expect to see some sort of reciprocal position from them. They accept their responsibilities, they accept their position of leadership, and for us to make demands on some things that they can't fix is unfair.

For example, their fiscal year is different than ours. We start in October. They start in January. So we have funding available in January that they can't match because they haven't gotten into their process. Those kinds of timing issues and technical issues make this even more difficult. So there are technical reasons not to set the cap. It will damage our relationship for sure, and I think it will hurt us in some other areas where we need their help.

Mr. POMEROY. In all of that, in developed Western Nations, we have got many—our relations with our allies are going to get through that, but who gets hit in the crossfire are these Kosovars again it seems to me.

And just for an example, this picture haunted me, haunted me for weeks after, and I asked AID personnel to go back and see how these little kids were doing, and they weren't doing very well at all, and they ended up being able to draw up on additional resources, come in, get clothing, get a better housing put in place. They did a lot of work in this particular situation here because I asked; and they saved, in my opinion, those children.

It would seem to me we could be getting ourselves in a situation—I think that might be kind of an analogy for what we might find—a situation that urgently required a response, but we are up against our cap, sorry, wait till the next fiscal year, wait till some headroom frees up and we will see what we can do.

These caps imposed here in town have got nothing to do with real-life circumstances on the ground. The people that get hurt are the most helpless folks that have already been totally devastated through war they didn't bring on but got brought upon them. We have to think about these things.

Thank you, Mr. Ambassador.

Mr. ROHRABACHER [presiding]. Thank you very much.

Let me just note for the record that what H.R. 4053 suggests, not only suggests but mandates, that in southeast Europe that the United States not provide more than 15 percent of the costs of the operations down there, humanitarian and military, starting next year. That is starting next year, so that the current fiscal year 2000 is not included.

And I understand that there are people in need all over the world, and those people are wonderful people that you just showed

us the picture of, and I certainly feel for them, but I will have to say that it is about time that our European allies do their part. And the more that they hear from Members of Congress who are not willing to be tough and set the guidelines, they will not step forward because they know that Uncle Sam is going to pick it up. And that is the history, and that is the way it is, because that is reality.

And I am sorry that our European allies, in fact as far as some of us are concerned, our European allies, southern Europe is their responsibility and not the responsibility of the United States, and the money that we have poured in is a tremendous cost. Anyway, the bill also says that the Secretary of State will certify to Congress that our goal of this cap of 15 percent is achieved and that the Europeans are certainly cooperating, and that is what this bill is all about.

Mr. POMEROY. Mr. Chairman, may I respond briefly?

Mr. ROHRABACHER. Wait one moment, and let me say I will be going to Kosovo over the Easter break, and we have people—you know, we have people down there that again for years came to us asking that they be permitted to defend themselves, and instead now we are deeply involved. And what I need to ask the Ambassador before I pay the courtesy of having my colleague answer some of the things I just mentioned, do we now recognize that Kosovo has a right to its own statehood or are we still—and if we don't, what is our exit policy? How are we ever going to get out of this unless we at least recognize the people of Kosovo's right to determine their own destiny?

Mr. PARDEW. As I have said, our exit strategy is based on implementation of those elements of U.N. Security Council Resolution 1244 which creates the conditions for a sustainable peace. The U.N. Mission in Kosovo is the first step in building peace in Kosovo, and the second is to establish elements of democratic self-government. Our exit strategy is therefore predicated on implementation on U.N. Security Council 1244 as a means of obtaining substantial and sustainable autonomy. We do not support independence for Kosovo.

Mr. ROHRABACHER. I would suggest this, that if we do not support that, then this is all a facade. I mean, the fact is there will never be a time when we can leave because we have not laid the foundation and been honest with everybody that we are involved and that our major goal is to protect these—these people have a right to control their own destiny. They are not going to give up on that. They are willing to live in horrible conditions like we have just seen in order to achieve their right to control their own destiny, and that is what we see here, brave, courageous people willing to do that, and that is not going to change. They are going to always demand that. And unless we have come down and been unambiguous about this, we are wasting everybody's time and money.

And, in fact, my belief is—and I am sorry to be so up front about this, but the fact is, that unless we are willing to be that demonstrable in our support, at least for the principle of self-determination, we shouldn't have gotten involved in this again, and we should—they came to us. That was their goal. They are willing to sacrifice. They are willing to go through this suffering in order to

achieve, as other nations have done, in order to achieve their independence, and if we would just walk away without recognizing that it won't last, then everything we have spent will be for nothing.

So it is just a thought, and I know you aren't making the policy right now. You are trying to do it the best you can, and I appreciate that. And I hope that when I go down there in a couple weeks—I know that you are doing your very best job in trying—in a very bad circumstance.

I do think that my colleague from North Dakota certainly should have a right to respond.

Mr. POMEROY. Thank you, Mr. Chairman.

I was going to respond briefly by saying that I don't think that, vis-a-vis our European friends, our diplomatic ends are best pursued by a punch in the nose. I think that having voices like yours in the debate are absolutely constructive and helpful. They ought to know there is a growing discord in terms of impatience about what is happening from the European participation side. I just hope that the U.S. Congress is a little more measured, a little more inclined to let the Secretary of State and the President advance the foreign policy of this Nation, rather than always trying to lead the President and the Administration, and that the debate is not about the 18 percent figure, the debate is about the means to get there, and that is why I have serious reservations about this legislation.

Thank you.

Chairman GILMAN [presiding]. We have two votes on the floor. We will briefly recess the Committee for about 10 minutes. The Committee is recessed.

I think we are finished with our panelists, and we thank you for your patience and your willingness to supply us with information. If you would provide the additional information we have requested.

The Committee is in recess.

[Recess.]

Chairman GILMAN. The Committee will come to order.

It is now my privilege to introduce a former colleague Joe DioGuardi. Former Congressman DioGuardi has been involved in educating the American public and the Congress about issues concerning the Albanian population in the Balkans for over a decade. As founder and President of the Albanian American Civic League, Joe DioGuardi has promoted involvement in public affairs of our ethnic Albanian citizens from the northeast and throughout the United States.

Joe and his good lady Shirley Cloyes have provided me and our staff with invaluable insights into the conflict in Kosovo since it flared up in 1998. In fairness to Joe, I should point out that he has warned us that Kosovo would be a serious flashpoint in the former Yugoslavia until justice was provided to its majority Albanian community. He first made that warning in 1989 soon after Milosevic had taken a step to strip Kosovo of its autonomy under the Yugoslav constitution.

I hope that Joe's prescience that he has demonstrated over the years will help guide us today in this hearing. Clearly our present policy has some significant problems, and we invite Joe now to help enlighten us as to how we may best correct them.

You may submit, Mr. DioGuardi, your entire statement for the record and summarize as you see fit without objection.

STATEMENT OF THE HONORABLE JOSEPH DIO GUARDI, VOLUNTEER PRESIDENT, THE ALBANIAN AMERICAN CIVIC LEAGUE

Mr. DIOGUARDI. Thank you, Mr. Chairman.

Thank you so much for all you have done in all these years. We started I guess in 1986 when we put the first resolution on the egregious human rights violations in Kosovo. I was a new Congressman back then and ethnic Albanians in my District came to see me, and I was shocked by what I heard from them about what was happening in the middle of Europe. And you and Tom Lantos and so many other good Congressmen and later Dana Rohrabacher joined with us.

You know, if it weren't for the vigilance of this Committee and the actions that it has taken since 1989, especially under your chairmanship, Congressman Gilman, today Kosovo would be like Chechnya, a wasteland with hundreds of thousands of bodies strewn about and nobody would care. I really feel sorry for the poor people of Chechnya who did not have a voice in this Congress, but that is what Kosovo would have been had it not been for people like you. And we really appreciate all that you and this Committee have done, but the job is not over.

I know you have to leave. You can pass the baton to Dana, and I will let you know the bottom line.

Chairman GILMAN. I sorely regret. I am being called to chair another meeting with the World Bank President. As you know, he is being challenged this weekend here in Washington, all kinds of demonstrations against the World Bank.

I am now going to ask Dana Rohrabacher, our distinguished senior Member of our Committee, to conduct this; and I will try to return as soon as we finish our other meeting. Thank you for being here, Congressman, and thank Shirley Cloyes for her interventions. Mr. Rohrabacher.

Mr. DIOGUARDI. What I would like to do Congressman, Mr. Chairman, is to basically summarize what I think are the key issues and the matrix we can use is, one, legal; two, economic, practical; and three, political.

What I will do is submit for the record a statement prepared by our Balkan Affairs Adviser Shirley Cloyes, my wife. She is a volunteer, by the way, as I am, and she prepared something that is probably the most complete analysis of what this body and the Administration has to do to win the peace. We know we won the war, but it looks like, as you have suggested, we are losing the peace.

Mr. ROHRABACHER [presiding]. Your statement will be included in the record.

Let me note that there will probably be another vote around 35 minutes from now, and if we could have your testimony and the testimony of the next panel, that is the way it is going to get done. Otherwise, somebody will get shortchanged. So if you could summarize your testimony and we get to the next panel, we will get everything on the record.

Mr. DIOGUARDI. We look forward to the meeting with you tomorrow so that we can help you on your trip to Kosovo and meet the fine people we have brought here, because it is important that you get all the information possible to bring back to this body.

So what I would like to do is start with the legal issue, and we have with us today one of the most prominent professors of international law in the Albanian world. He is a Professor of Law at the Universities of Prishtina and Tetova, Prishtina in Kosovo and the University of Tetova in Macedonia. He is Dr. Esad Stavileci. He is not able to speak today, but he did prepare a statement that is in English, and I would like to submit this for the record.

Mr. ROHRABACHER. The statement will be made a part of the record. So ordered.

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

Mr. DIOGUARDI. He has come to the same conclusion as Noel Malcolm has, the English scholar, the gentleman from Oxford who said that under international law Kosovo deserves its independence, as you have suggested. He has prepared a book on this. Dr. Stavileci has summarized that book in his statement, and basically the bottom line is that Yugoslavia is a confederation that is in the process of disintegration.

It is not only Albanians that are saying that, Mr. Chairman. You can turn to some well-known Slavs. One that I want to quote here is the Croatian scholar, Branka Magas. She stated in a speech to the Bosnian Institute in London on May 10, 1999: "Unless the process of dissolution of Yugoslavia is allowed to be completed and the Former Republic of Yugoslavia dissolved into its component parts, thus setting Kosovo on a path to independence, it will be impossible to build a peaceful and democratic state system in southeastern Europe."

Mr. DIOGUARDI. It can't be said any better than that, and this is not an Albanian speaking. It confirms what you said. What are our choices here? Our choices are to stay there for a long period of time or allow the Albanians to control their own destiny.

Let me go to the next phase, which is the economic and the practical. That is why we brought Dr. Muhamet Mustafa. He is an expert on the economy of Kosovo. He put together a group called the Riinvest Institute for Development Research. He is the chairman. He has many contacts in the United States. His papers have been quoted here in the newspapers in Washington and the bottom line is that Kosovo does have the resources to be economically independent. It has mines, the Trepca mines. It has many factories, many that are being occupied by the bloated bureaucracy called UNMIK right now, so that Albanians can't even reclaim the factories so that they can return to their own jobs.

Kosovo does not want to be another Bosnia. It doesn't want to be a ward of the United States and of the rest of the world. Bosnia, as you know, is an ethnically divided, carved-out enclave, totally dependent and going nowhere. It is very important to hear Dr. Mustafa's message.

Let me go on to the third phase, the political. This is where the rubber hits the road, Mr. Chairman. If we don't understand that it took a bold stroke by the United States to jump in and do what

we did—and it was costly, as you said. You should have asked your old buddy, Joe DioGuardi, the only certified public accountant ever elected to this body in 200-and-something years, and he could tell you why the Kosovo military campaign was more expensive than the figures indicate. But Ambassador Pardew couldn't explain this to you because government operatives don't understand their own accounting system. In effect, all the bombs that were dropped were part of some other budget in years past. We are not on an accrual system here. So every bomb, every plane they used, everything that was destroyed was already written off. The government doesn't consider that a cost. If you are in business and you used that system, you would be indicted if you had a publicly traded company. But that is the system we have here.

What you have to say to them is, wait, I want to know what we used during this war, not what you just put into this year's budget because you had to replace something and drop it. What did you use? And you will find out that the real cost is tens of billions of dollars for sure.

The political solution for Kosovo is going to be a tough one. You have the United Nations with a resolution that is bad law. We have had bad laws in this country. Remember the Dred Scott decision that black Americans were just property. We had to get rid of that law. It was bad. We had a Civil War over it.

U.N. Resolution 1244 is bad law. Let me tell you why. On the one hand it asserts the sovereignty of Serbia over Kosovo, and on the other hand it dismantles Serbia's sovereignty. You have created an ambiguity here that doesn't allow the Kosovars any ability to stand on their own feet. And you have got now a bureaucracy called UNMIK and OSCE and several others that are trying to work within this resolution.

The worst result is the situation in Mitrovice. That is why we brought the mayor of Mitrovice, Bajram Rexhepi. Bajram Rexhepi is a medical doctor. We also have here the former Albanian director of the Trepca mines. He can tell you how to put those mines back into service. They even have a pro forma where this year they can make money if you allowed them to do that, but they can't control their own mine. The problem is the United Nations It is trying to impose or trying to implement bad legislation, and we have got to do something about it.

Now, I am going to give you my last comment and this is where the conundrum is. How do you deal with it? If the United States hadn't taken the lead with NATO in stopping the genocide, there would have been a tremendous conflagration. We know that Greece and Turkey would have been at each other because of Macedonia being right there. We did the right thing. It is still in our vital interest to do the right thing. By the way, the paper that was prepared by Shirley Cloyes was delivered to the White House 2 weeks ago because we wanted the President to know. He has a chance to be bold again, and he is being too cautious.

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

Mr. ROHRABACHER. What is the right thing?

Mr. DIOGUARDI. The right thing right now is to look at the real villains. Villain one, Slobodan Milosevic, is still there doing dam-

age. I heard Congressman Bereuter complaining about how the Albanians are treating the Serbs so badly. He forgot what Slobodan Milosevic did, to kill Albanians, including pregnant women, to rape and torture them. Everything that we have seen in Nazi Germany was repeated. He didn't want to mention the resentment for some reason.

The point is you have Slobodan Milosevic. He has got to be picked up, just like we picked up Krajisnic last week or the week before. We have to get the French out of the way and bring this guy to justice. Without that, there will never be peace in the Balkans.

To get justice, you have two other problems. You have China and Russia. This is where the United Nations is not the place for the solution. As long as you look to the United Nations for the solution of Kosovo, you will never have the solution. Why? Russia has lost its influence all over the world. It is embarrassed now to retreat because it wants to find some place where it has some influence. Russians have their Serbian surrogates, their Serbian Communist regime. They are going to stay in the Balkans until we tell them, if you don't move, we are not going to give you the World Bank credits, the aid you need. So Mr. Putin, back off. We will work with you in some other areas.

And China, my God, what did the Chinese just do? Another Communist regime. They gave $300 million to Slobodan Milosevic. Is that kicking us in the head? They want us to give them Most Favored Nation status on a permanent basis, without conditions; but yet they give a war criminal that is trying to reassert his dominance in this area, that will kill the peace in the Balkans and Europe, they give him $300 million.

What is Slobodan Milosevic going to do with this money? Create jobs? No. He is going to pay his army and his police. So we have to back China off, and we have the leverage to do this. I hear people asking what are we going to do? It is going to take too long.

Mr. ROHRABACHER. Your solution is, No. 1, to make sure that Slobodan Milosevic is arrested as a war criminal.

Mr. DIOGUARDI. Absolutely. You have to do something more than just wish it.

Mr. ROHRABACHER. No. 2 is to get Russia and China out of the way.

Mr. DIOGUARDI. They need our trade and our economy. They need our aid, and we have to assert that.

Mr. ROHRABACHER. Do you have another point to make? Otherwise, I think we need to get onto the panel.

Mr. DIOGUARDI. There is a reason to do it. This will prevent another Balkan war. If we don't do this, you are heading for another Balkan war. I know the Albanian people. They are certainly not going to go back under Serbian sovereignty. So we need to find a solution. I have pointed the way. You guys have to find a resolution.

Mr. ROHRABACHER. May we put the next panel up, because we are going to have a vote in 20 minutes.

Mr. DIOGUARDI. Thank you for the hearing.

Mr. ROHRABACHER. Thank you. You are making sure that your entre is used for righteous causes.

We are proceeding now with the second panel. We have Ms. Linda Dana. She is from a town in the center of most of the heavy fighting, and she is a former medical student and will testify about her family's and her own personal experiences during the war. I am grateful to Mr. Pomeroy who has actually arranged for Ms. Dana's appearance here today. Would you like to say a few words in introduction?

Mr. POMEROY. I met Linda Dana when I had my trip in December. She is in the United States at this point in time acting as a medical interpreter for two children who are undergoing medical procedures in Cleveland. So it was very fortunate, I believe, for us that she happens to be in the country at the time of this important hearing, and the Chairman was very kind to acquiesce to my request that she testify.

Mr. ROHRABACHER. If you have a written statement for the record, if you can put that in the record. If you can summarize in just a couple of minutes for your testimony, then we will have everyone summarize and come back for questions for everyone on the panel. We want to make sure that everyone gets heard.

STATEMENT OF LINDA DANA, INSTITUTIONAL CONTRACTOR IN KOSOVO, INTERNATIONAL ORGANIZATION FOR MIGRATION

Ms. DANA. Thank you, Mr. Chairman, Members of the Committee, and Congressman Pomeroy. My name is Linda Dana. I am from Gjakova in the western region of Kosovo. I am happy and grateful to have the opportunity to speak with you today about missing and imprisoned people, an issue that touches many Albanian families in Kosovo, including mine. It is estimated that 4,500 Kosovar Albanians are imprisoned in Serbia and are still unaccounted for. To date, Serb authorities have not been forthcoming with any information. Until we know the fate of our family members and fellow citizens, the war will not be over for us. I am here today to ask the U.S. Government to help us find out what happened to these people.

Today, I speak for the people of my city, prisoners and missing persons. Before the war, I was a medical student. I was born and grew up in Gjakova, the third largest municipality in Kosovo. Gjakova was both a cultural and industrial center. The prewar population of the city and surrounding villages was approximately 141,000 residents; 2 percent were Serbs.

Kosovar Albanians were not free. At best we are second class citizens. We could not hold jobs in state-supported enterprises, attend state secondary schools and universities, or travel freely. We were forced to live in a parallel system, but we survived.

The war came to Dukagjini region in western Kosovo in the summer of 1998, long before NATO bombing. The city of Gjakova was almost totally blockaded. Travel in and out of the city was dangerous if not impossible. There was continual heavy fighting in villages around Gjakova between Serb military forces, the KLA and civilians. On March 24, 1999, Serb military and paramilitary forces burned the historical sections of Gjakova to the ground in an act of revenge. For 450 years Old Town was built, and after one night it is gone. The burning of Old Town marked the beginning of terror for us because it was a symbol of pride of this community.

During the next 2½ months, many people were forced to leave the city. Of the almost 60 percent that stayed, 1,500 people were either killed or captured by Serb forces. Some are known prisoners, but the fate of many other remains unknown.

In the city, paramilitary forces went from home to home, sometimes torturing, looting, or rounding up men and boys. There are stories of people being killed who refused to open their doors to police. Civilians were forced to hide in their homes. As many as 30 people gathered in one house, posted lookouts and waited for Serb police.

On the night of April 1, my neighborhood was in flames. I was alone with my mother and father because my brothers had been on the run for 5 days. I don't know how we survived. On the morning of April 2, we were forced to leave our home with thousands of people.

I left with my childhood memories, with my youth songs, but without my brothers. In the hope that we would find my brothers among the lines of people, we walked for 9 hours to get to the Albanian border and stood there for 2 rainy nights until we reached Kukes.

But my brothers never came. They never passed the border of hope; rather, they are forced to stay in the city of hell and be threatened every minute with death.

After 72 long days the war was finished, but not my suffering and the suffering of many Albanian families. I had lost my home, and my second brother was missing in town, together with thousands of people all over from Kosovo.

Between May 7 and May 15, 300 people were taken from their homes. At 8:30 a.m., on May 10, paramilitary forces entered the street Asim Vokshi, at my uncles's house where my brother was staying. They separated men and boys from women. Then they beat an old lady who refused to let go of her sons. They forced the other women to leave the streets. According to eyewitness accounts, 30 men, including my brother and 9 members of my large family were taken into the street where the police checked documents, beat some of them and shot the others. The bodies were later removed. Witnesses also claim that they saw some men forced into a police van which was driven away. We don't know who the men in the van were.

My story is not unique. It is just one of the stories that people have to tell. It just happens that I am here and telling the story. It is hard to go back and to face your destroyed town and face your friends and relatives. The story of my hometown remains painful and unfinished. The drama continues. Every Friday people stop working for an hour and they protest with photos of their loved ones.

A citizens' organization from Gjakova, the Office for Information on Detainees and Missing People, has been working with national and international organizations to gather information about missing, detained and imprisoned persons. It is known that when Serb forces retreated, they transferred prisoners from Kosovo to Serbia. According to the records, 370 people from the municipality of Gjakova are in Serbian prisons; 703 people fate is still unknown. Local organizations and the newly appointed Gjakova municipal

commission are working closely with the Kosovar Transition Council's Commission on Prisoners and Detainees and the International Committee of the Red Cross to bring this issue to the attention of international community. They have called upon the former Republic of Yugoslavia and Serb authorities to provide a full accounting of known dead and persons currently detained and imprisoned in Serbia as well as immediate release and return of prisoners and detainees. They have also requested that the Secretary General of the United Nations appoint a special envoy to address the issue of missing persons. On their behalf, I am asking the U.S. Government to support these efforts.

I know that in the recent weeks representatives from the U.S. Government and the governments of western Europe have expressed concern about incidents of ethnic violence directed at Serbs and other minorities in Kosovo. We too want the violence to end because until it does, the conflict in Kosovo will not be over. It is also true that until we know what happened to the members of our families, we will not be free to build a better future for all Kosovars.

In closing, I want to say on behalf of all Albanian Kosovars, I want to express our sincerest gratitude to the American people, President Clinton, the Congress of the United States and all of the NATO allies. It is because of you we are free, because of you we are alive and we have human dignity back, and our eyes look forward to the future.

The task of rebuilding our lives and communities is well underway. I have seen firsthand the impact of the United States assistance to Kosovo as an employee of the USAID Office of Transition Initiatives. I have worked in partnership with communities throughout Kosovo to provide emergency relief, rebuild homes, schools, and repair water and electrical networks. With continuing support of the United States and the European allies, we will build a better future. Please do not lose faith in us. I hope that my voice has conveyed the clear message of gratitude and appreciation of all Kosovar people and I thank you today.

Mr. ROHRABACHER. Thank you very much for your testimony.

Ms. DANA. Thank you for listening to me.

[The prepared statement of Ms. Dana appears in the appendix.]

Mr. ROHRABACHER. We appreciate your colleague from North Dakota to make sure your message got out. We will make sure that whatever issues take place, that the issue of missing people will be high on the list of priorities.

The next witness that I have down is Dr. Bajram Rexhepi. Dr. Rexhepi is a medical doctor and he has been very actively involved in Albania, and frankly he has focused attention of ethnic lines between northern and southern sectors.

You may proceed. I would suggest that when that bell goes off for a vote, we have very little time left. We have 10–15 minutes to get all of the testimony in, if you can summarize.

STATEMENT OF BAJRAM REXHEPI, M.D., CHAIRMAN OF THE COMMUNE MITROVICE

Dr. REXHEPI. I am pleased, Mr. Chairman, that Mr. Gilman has invited me to present testimony to your Committee regarding the

city of Mitrovice which has been illegally divided. I will focus on the problems that are obstacles to resolving the Mitrovice issue and that thereby prevent the establishment of peace and stability in postwar Kosovo.

I want to begin with the roots of the problem. The following factors contribute greatly to the crisis in Mitrovice:

First, Milosevic has created a system of parallel Serbian institutions with Serbian agents from Belgrade acting in Mitrovice in an unrestrained way.

Second, the Serbian regime has created executive councils in the Serbian areas of Mitrovice to implement Serbian control in violation of U.N. Resolution 1244.

Third, undercover Serbian police masquerade as civilians, while they in fact operate with sophisticated communications equipment and weapons.

Fourth, parallel courts operate in a continuation of Serbian prewar trials.

Fifth, even local services, such as elementary schools, high schools, the universities, and the hospitals, are provided by a parallel system of local institutions and communes.

The current reality in postwar Kosovo is that, Albanians have always been cooperative, with the aim of creating, as soon as possible, joint organs of local administration. The Serbian side has been marked by a lack of cooperation, intentional obstruction of efforts to create a joint administration, and outright acts of violence. This behavior belies the reality of what is happening inside the Serbian population at the local level. Many Serbs are actually ready and willing to cooperate, but they have been prevented from doing so by extremists who have threatened them and their relatives with death.

I will try to be short. Serbia wants to divide Mitrovice and have control of the Trepca mines. In order to keep the mineral wealth of Trepca in his hands, Milosevic must dominate the political dynamics in the region. He is trying to create a geographical and ethnic connection between Serbia and the northwestern part of Kosovo. The populations of Peposaviq and Zubinpotok, for example, are now 90 percent Serbian and 10 percent Albanian. With the ethnic cleansing of the northern part of Mitrovice, the city is now divided by the Iber River between Serbians in the north and an Albanian majority in the southern part.

The northern sector is, as I stated earlier, a haven for Serbian war criminals, gangs, and members of organized criminal syndicates. Their unrestrained movement between Serbia and Kosovo and their stockpiling of weapons has been very visible. It is becoming increasingly apparent that Milosevic wants to control the northwestern part of Kosovo as the first step in a strategy to destabilize or attack Montenegro, the Sandzak, and Kosovo. The principal source of provocation and new conflict is the continuing existence of Milosevic's regime.

In order to prevent the permanent partitioning of Mitrovice, the multinational KFOR forces must control the flow of arms and use of covert communication devices on both sides of the city. The border between Serbia and Kosovo must be controlled. Under U.N.

Resolution 1244, Serbian troops and nonresidents of Kosovo must remain 5 kilometers behind the border.

The U.N. police must play an active professional role in the life of the city. The arrest of criminals and the removal of troublemakers will lower tensions and make it possible to begin the path to peaceful coexistence between Albanians and Serbs. All residents of Mitrovice should be assisted in returning to their homes and buildings on both sides of the city. Schools that have been occupied by Serbs must be released, so that students may return to their classrooms. Steps must be taken to reactivate the economy with an emphasis on the stimulation of small- and medium-sized businesses. This cannot happen unless joint institutions and a local administration are established immediately.

Regarding the latter, the existing measures set forth by the Transitional Council of Kosovo to ensure freedom of movement throughout Mitrovice, while not ideal, should nevertheless be implemented as soon as possible. There is a pressing need to increase the efficiency of UNMIK's civilian administration. This could be accomplished, in part, through closer and more complete collaboration between UNMIK, the police, and KFOR and greater engagement with the local population.

I want to close with a word of thanks. In spite of all of the problems that Mitrovice continues to face, the NATO intervention in Kosovo stopped Milosevic from implementing full-scale genocide, created the possibilities for the return of the Albanian population, and provided a path that ultimately will enable us to create conditions for a normal life. Without this action by the West, especially by the United States, with the constructive commitment of the Congress, the world would have abandoned us and itself to barbarism.

Thank you.

I would like to present some documentation about the structural nature of the population because before the war, it was 62 percent Albanian, and there has been much ethnic cleansing.

Mr. ROHRABACHER. We are happy to put that into the record.

[The prepared statement and additional documentation of Dr. Rexhepi appears in the appendix.]

Mr. ROHRABACHER. We are now joined by Congressman Engel from New York who has been a real hero in this effort over the years and we recognize not only his good heart, but his tremendous energy that he has put out in this part of the world to try to save people's lives and bring about peace in that area.

We will have a couple more testimonies, and then questions and answers. The next witness is Dr. Muhamet Mustafa, and he is from an economic think tank that is focused on some of the requirements that are necessary for the Kosovar economy to become independent and for Kosovo to become a real and legitimate country, and we are very interested in your analysis. You may proceed.

STATEMENT OF MUHAMET MUSTAFA, PRESIDENT, RIINVEST INSTITUTE FOR DEVELOPMENT RESEARCH

Mr. MUSTAFA. Thank you, Mr. Chairman, Members of the Committee, ladies and gentlemen, it is a great honor and unique privi-

lege for me to have the opportunity to address you during these challenging times for Kosovo.

I will stress only some points in my speech because we are behind schedule, it seems.

My organization has conducted several surveys to identify the impact of the war on Kosovo, which I would like to share with you today in order to illustrate our challenges. During the war, about 88 percent of the Albanian population was deported out of Kosovo or displaced from their residences in Kosovo. Families' incomes were reduced by 70 percent; 70 to 80 percent of household goods were destroyed or looted. The private housing stock was reduced by 40 percent.

In commercial life, 90 percent of private companies suffered some form of damage. Livestock and farming equipment levels were reduced by 50 percent. The situation in our socially owned companies and public companies was compounded by technical degeneration from the last 10 years of rule by the Serbian regime. Our unemployment rate immediately prewar was 74 percent. When we consider the systematic destruction of the Milosevic regime in interethnic relations during the last 10 years and the terrible social and psychological consequences of the war for thousands of families and individuals in Kosovo, we have a more complete picture of the devastation in postwar Kosovo.

However, there is good news to share. We estimate that about 95 percent of the deported and displaced population have returned in or near to their previous residences, and are showing their interest in rebuilding their lives. Family businesses such as shops, restaurants, handicrafts, and services have been reactivated. Around 70 percent of small and medium enterprises have restarted and increased their turnover by 40 percent. Employment increased by 27 percent and salaries 64 percent compared to 1998. Farming and land cultivation lags behind due to the large-scale devastation of the villages.

Public services and utilities have been reactivated but with significant problems due to the consequences of the decade of neglect and current inefficiencies in developing central and municipal administrative structures.

The U.N. administration has made significant efforts to establish the basic legal framework for a market economy. However, the participation of Kosovars in this administration and the reconstruction process needs to be advanced. There is a need for more direct Kosovar input in a process that will bring a sense of ownership in it and in policymaking. This is essential for public support and the strengthening of the rule of law and a sustainable public finance system.

There is a feeling that the U.N. administration is being built more under the influence of the political spectrum rather than working to include and strengthen civil society capacities and technical resources. Shifting from emergency to a sustainable phase of reconstruction strategy should include building up economic independence with an open economy and regional and European integration. Kosovo's advantages are human capital, entrepreneurial spirit and energy, a positive attitude to transitional reforms, nat-

ural resources, optimism, and the people's strong determination to rebuild their country.

Kosovo is a post-colonial country with heavy war consequences. When Kosovo had broad autonomy during the seventies, its economic viability substantially improved, and during 10 years of peaceful resistance Kosovars survived within their own institutions. In today's postwar environment, they are exhibiting an impressive readiness to rebuild their society. Technical and financial assistance needs to capture this energy and should be focused on increasing development capacities according to modern development concepts based on entrepreneurship rather than the creation of yet another aid economy.

The quality of economic viability not only of Kosovo but also the other countries in the region will depend on the outcome of the current efforts within the Stability Pact and other initiatives.

Mr. Chairman, the stance respectively of this House and the U.S. Administration toward the Kosovar issue was essential for our hope in the hard times that we have just passed through, and it is of key importance not only from the perspective of building up a democratic society in Kosovo, but for the transformation of the Balkans into a region of cooperation free from the burdens of the past and history. From their perspective, Kosovars believe in European values and they understand the importance of the role of the European Union in the postwar period, but we believe also that the role of the United States in Kosovo and in this whole, sensitive region is crucial. For it provides the most effective channel to overcome the historical burdens that plague the Balkans and to promote the values of openness in this new era of globalization.

Mr. Chairman, Members of the Committee, let me express my gratitude toward our [Riinvest] American partners, the Office for International Private Enterprises, the National Endowment for Democracy, USAID, and Freedom House. These organizations have assisted in the growth and development of Riinvest, the private think tank in Kosovo that I represent, and who work closely with us in enhancing Kosovar capacities for economic and social development and democracy. Also I thank very much the American Albanian Civic League for bringing here the reality of Kosovo. Thank you very much.

Mr. ROHRABACHER. It is very good to hear that the National Endowment for Democracy has been investing in this type of long-term approach and analysis. We appreciate your testimony.

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

Mr. ROHRABACHER. Next, if I pronounce it correctly, is Ilir Zherka, Executive Director, National Albanian American Council, which is a nonprofit organization which fosters a better understanding of Albanian issues and promoting peace, human rights and development in the Balkans.

STATEMENT OF ILIR ZHERKA, EXECUTIVE DIRECTOR, NATIONAL ALBANIAN AMERICAN COUNCIL

Mr. ZHERKA. Thank you, very much, Mr. Chairman. I will submit my full statement for the record. You know, I think that the international community has had a mixed record in postwar Kosovo.

There have been some successes and some failures. But the answer to winning the peace is more U.S. leadership, not less. I think the American people understand this. There was a poll conducted last month that showed that two-thirds of the American people think that the U.S. military should stay in Kosovo until we finish the job, the transition to democracy and also protecting the people. That poll, Mr. Chairman, you will be happy to know, also showed that 79 percent, close to 80 percent of the American people, support a proposal to create a democratic, independent Kosovo.

Getting back to our involvement, I think that the American people support it and it is critical here, but in order for us to win the peace, we have to maintain our flexibility and our focus, and I think that H.R. 4053 unfortunately limits that flexibility and diverts some of our focus.

On the question of flexibility, we need to be in there, we need to be doing the right thing. And, sure, the Europeans ought to be paying the bulk of the expenses on reconstruction, and they are. This policy is working and I think the Administration has gotten the message, but I think a hard cap sends a bad message that we are willing, if the Europeans reduce their spending by 50 percent, to follow in suit, which a hard cap would result in. I think it also would be very difficult to administer. You would have the Administration looking over its back to figure out where they are in relationship to the Europeans, and that is not what we want them to do.

It would also take away one of our strengths in the postwar Kosovo. Again, if you are having to look over your shoulder and figure out what you are spending in relationship to other people who are pledging one thing today and delivering something else later, I think it makes it difficult. That is the first issue.

The second is the question of our focus, and I think that another thing that is unfortunate about the bill is not only that we set this spending cap, but then we protect money to Montenegro, Macedonia and Serbia against a cap. Although this bill doesn't limit aid to Kosovo and Albania, I think the message is that Macedonia shall be a priority for funding. The message is that these other places are a priority and maybe Albania and Kosovo are not.

We haven't won the peace in Kosovo, and we need to be more engaged, not less. We need to be focused on winning the peace there. As all of us know, the Albanian people are staunch, pro-Americans. They believe that they have a special relationship with this country that started with Woodrow Wilson and continues on to today. We should cultivate that relationship and finish the job in Kosovo and we should have a regional approach to aid that emphasizes burden sharing by the Europeans at a much larger level than ours but that treats the region fairly and adequately.

And I think if we are going to have a priority in the region, Kosovo ought to be it. It is the most dangerous place there, and it continues to be the most dangerous place. I would say that this bill—although I understand the intention of the sponsors of the bill, I think it sends a mixed message to the region—would limit the flexibility of the Administration and also would focus our energy, we believe, at the National American Albanian Council where we ought not be going.

That is a summary of my testimony.

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

Mr. ZHERKA. I wanted to offer the results of the poll that I mentioned to add to the record.

Mr. ROHRABACHER. Without objection, so ordered.

We appreciate your summarizing your testimony. It was forceful and direct, and we thank you for that. I will now—let me just say a couple of words and then I will turn it over to my colleagues.

About 8 years ago now, my attention was first drawn to the Balkans, and most Americans didn't pay much attention to the Balkans until all of this happened. Let me just note that I don't believe that what has happened there is something that was mandated by history and by the underlying animosities between races and ethnic groups and religions which went on. I think the U.S. Government, not just starting with this Administration but starting with the Bush Administration, blew a chance for peace in the Balkans. I think our problem in the Balkans stems back to a speech given by Secretary of State Jim Baker in Belgrade when he gave the impression to Milosevic and his crew that stability was America's No. 1 goal in the Balkans and that they would be the instrument for stability. Shortly after that, Milosevic sent his tanks into the neighboring countries.

That was very sad because I think before that time if the stress would have been on freedom and free trade and enterprise and opportunity and justice, which is what—frankly, which is what Ronald Reagan stressed compared to George Bush, his successor—a free system could have been established in which people wouldn't have felt so threatened. If there would have been democracy in Serbia and a more democratic system there, people could have, I think, cooperated.

It is one of the true tragedies of our time that what evolved wasn't a more peaceful evolution into a better world after the Cold War ended in the Balkans but instead devolved into this mess. As I say, I think the policy of the United States Government—when you do not stand for freedom and you talk about stability, in the end you don't have stability or freedom. Needless to say, another to way to put it, pragmatism just doesn't work. And I know that sounds rather ironic, but if one is trying to be pragmatic instead of principle-based, it doesn't work in the long run.

Nowhere was that brought home more to me than the fact that Croatia has had—people say, who are the bad guys; they are all bad guys. Well, I am afraid that is just not the case. Croatia has had a democratic election, and in that democratic election, the party that was in power has been removed and a new party has been put in its place; and Croatia has a relatively free system now, and Serbia still has the same old dictatorship and same old click, and there is no more reason to think that the people of Kosovo should be less free than the Croatians or Albanians or any of the others. And yet our government still insists on calling Serbia Yugoslavia.

The basic problem I see is that we have not been willing to insist that the fundamentals are spelled out and that we instead made a principled stand. And the most important principled stand is that ballots and not bullets should determine people's future, and the

people of Kosovo have a right, just like everyone else, to have ballots determine their future rather than bullets, especially if those are bullets are from guns from Serbians and people intent on forcing their control over a much larger population, as it is in Kosovo.

So I appreciate your testimony today. Let me just say we do have a real hero. I tried to be helpful and Joe has been here working over the years to draw our attention. One of the true heroes of your effort has been Eliot who has just earned our respect. I would like to ask if Eliot has some questions, and then we will go to Mr. Pomeroy.

Mr. POMEROY. I think it appropriate we yield to a hero and just get back to a Member later.

Mr. ROHRABACHER. Thank you.

Mr. ENGEL. Thank you. Now that my colleagues have swelled my head, I want to thank them both for their kind remarks. They are both very kind because both of them have been stalwarts in the fight for freedom, particularly in the Balkans. I know Mr. Rohrabacher is going to be there within the next couple of weeks, and I know that he will come back and report on what he saw. He has been one of the most engaged Members on the issue of Kosovo and the Balkans and really believes in what he says in terms of freedom. We disagree very little regarding the way that things ought to be in the Balkans.

Earl Pomeroy represents a district in the heartland of America, and you would think that he wouldn't be concerned with things that happen overseas, and he is as concerned as anybody else.

Mr. Rexhepi, I saw you Sunday night in New York. It is good to see you again.

Dr. Mustafa, we have had an opportunity to meet. Ms. Dana, we met yesterday, and that was a pleasure. Mr. Zherka and I have gone to Kosovo together numerous times and is a good personal friend of mine.

Rather than ask questions, I want to emphasize a few things. Dana, Mr. Rohrabacher, said it very well. The only solution, in my estimation, long term for Kosovo is independence; self-determination. There is no other solution. It is ridiculous to think that the Serbs could ever again run or control Kosovo or that Kosovo could be autonomous within Serbia. It is ridiculous. Ten years ago, 12 years ago, sure, that would have been possible. It would have been welcomed. Twelve years ago I would have thought a third republic would have been a solution within Yugoslavia. It is not a solution now. It is ludicrous.

What makes it difficult is that we entered this war, we won the war, and now we have to win the peace. We seem to have adopted conflicting goals. While we have driven the Serb army out of Kosovo, oppressive force is not what the Serb population wants. I believe everyone has a right to live in Kosovo. We have driven Milosevic and his miserable people who practice apartheid and genocide and ethnic cleansing out of Kosovo. They can never come back in. And as Mr. Rohrabacher pointed out, people here who oppose Kosovo independence say it is not a good idea to have countries break up. If we allow each ethnic group to form their own country, you would have hundreds and hundreds of ethnic groups

from all over the world breaking countries apart and forming their own country.

Well, that might be true if Yugoslavia still existed, but Yugoslavia doesn't exist anymore, as Mr. Rohrabacher pointed out. It is just Serbia and Montenegro, and the Montenegrans want out, and so it is ludicrous to call it Yugoslavia. The Bosnians and the Croats and the Macedonians all had the right to self-determination and independence, and all had the right to form their own nation, the people of Kosovo have the same right, and the people of Montenegro have the same right as far as I can see.

Unless NATO or the United Nations or the West wants to make Kosovo a protectorate forever, and I don't think that is the solution, then we ought to be looking at independence and looking at ways to achieve that independence. I think the quickest way to achieve that, and it is the best way, is to make sure that democracy establishes itself quickly in Kosovo, we should have elections even on the municipal and local level as quickly as possible, and then on the national level so that the people of Kosovo can run their own nation and be a democratic nation.

Therefore, I think the logical conclusion for the world would be that they deserve to have their independence. I think that is an issue that I am going to keep fighting for. It is good for Kosovo and it is good for the United States, freedom and democracy. It makes the most sense.

As Mr. Zherka pointed out, nearly 80 percent of Americans support independence for Kosovo. We should not stay there any longer than we have to, but we shouldn't leave 1 day earlier than we have to, and we shouldn't leave until independence is solidified.

I wanted to also highlight the issue of the prisoners, at least 5,000 of them, Albanians who have been taken back to Belgrade and Serbia when Milosevic and his people retreated. We must continue to urge the release of the Kosovars who are illegally imprisoned by Milosevic. We need to constantly raise that issue and constantly force that issue.

Those are really the statements that I wanted to make. I just wanted to throw out to the panel what you see, if anyone would care to comment, as the most important thing that can be done right now. I tell all my friends back in Kosovo that it is really important to work together. Everyone in Kosovo agrees on the same thing, and that is independence. There may be differences on how best to achieve it, but everyone agrees that independence is the only solution.

I would like to ask what we ought to be doing that we are not doing in the United States. What do you think are the issues that we ought to emphasize in meetings with Dr. Kouchner? He is very frustrated that the European nations have not come forward with the aid, the police or the things that are needed. What do you see are the most important things, and what can we do right now in the Congress to solidify that?

Mr. ENGEL. And, Mr. Mayor, let me just quickly—I talked too long, but I want to just mention one other issue that is dear to your heart, and that is the division of your city. We cannot, I believe, continue to stand idly by and allow Mitrovice to be partitioned because the partitioning, the division of Mitrovice, is the effective

partition of Kosovo. We cannot allow the partition of Kosovo from the bridge north through the mines and then up through Serbia. So, I want to you to know that your struggle is our struggle because we must not allow that continued division of your city.

Dr. REXHEPI. Any kind of division of Mitrovice and partition of Kosovo is unacceptable. I tried to say, very shortly, that I think the best solution for stability in the Balkans is the independence of Kosovo. I think Professor Stavileci gave in written form one project about that, and it represents my way.

Mr. MUSTAFA. May I add something? I think that the most important thing is to channel the determination and energy of Kosovars to fully participate in reconstruction and in building up institutions, municipal elections, the parliamentary and other elections, and to assist Kosovars to inject this energy in building up a democratic society. And that in economics, we just need an open system of market economy. We need technical assistance to engage our population, which is young and which is ready to accept new technological challenge. So we need to stimulate private sector small- and medium-size enterprises. We need to stimulate family businesses and to urge them toward a market economy.

We need to avoid the confusion that was created about the ownership of socially-owned companies. The ownership of socially-owned companies of Kosovo is the same as ownership of socially-owned companies in Slovenia and in other parts of Europe. So there is no necessity, there is no reason to make a confusion that we do not need and that which doesn't exist.

Mr. ROHRABACHER. Thank you very much.

Mr. MUSTAFA. Thank you. Mr. Chairman, I am submitting several documents for the record.

Mr. ROHRABACHER. We will be very happy to put that in the record.

Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman, and I thank you for your conduct of the hearing, letting all the witnesses go, and driving us right to the vote which has now been called. I think you have facilitated a full discussion this afternoon. I appreciate it very much and appreciate Eliot's comments as well.

A couple of points. First, relative to the missing persons—clearly Ms. Dana, you have made a compelling statement today—let us know the personal impact as well as the importance really in terms of the recovery of the region, and I think that you have certainly refocused this Committee on the imperative of a full accounting of missing persons and release of prisoners of war by Serbia, before any sanctions can be lifted, as one of the utmost priorities with which we hold the continuation of sanctions. We will need to continue to press as hard as we can on this question.

More broadly, I want to ask the panel about what might be the Kosovar perception of the legislation under consideration to cap the United States' participation in the recovery. You have indicated, I think each of you, the tremendous appreciation of the role, the leadership role the United States has played in bringing things to where they are to date. This isn't aimed at you, it is aimed at our European allies, and we want their full participation. But would there be a perception of the people of Kosovo that we are walking

away, we are diminishing our role, and what would be the psychological dimensions that this bill would have for the people there?

Mr. ZHERKA. If I can start off, and then we can turn to the other witnesses, I think there has already been a little bit of that signal. And certainly people up here on the Hill are frustrated with the responsiveness or the nonresponsiveness of our allies, but in the recent action here in the Congress, you had Administration requests for supplemental spending for Kosovo drastically reduced. The request was for about $150-some-odd million. The allocation was for 12.5. Last week there was a vote in the House on the Kasich amendment, and of course now there is this bill, not to compare this bill to those actions certainly, but I think there is a message that is coming from the Congress that there is frustration here and I think that that is understood.

This bill represents yet another signal, I think, of people of getting the message. But we have on this bill supporters of the Albanian people who have been there, like the Chairman and others in the past, and so I guess the message to our supporters who are on this bill is that the cap puts a limit on flexibility where it probably ought not—it doesn't need to be there.

Mr. POMEROY. It seems to me, we have got to roll here, you know; we have got these folks, they are facing unbelievably difficult circumstances in the rebuilding. I have seen it. The devastation is unbelievable. They are dealing with personal grief circumstances, virtually everyone, in some measure, and it would seem to me that if our frustration is the Europeans, this deals with the Europeans. But for Congress to move this legislation is going to kick the very people who are down and we don't intend to kick at a time when the United States has been there. We are the people that have brought them freedom today. We are the people that are almost—that are very important to them in terms of a feeling of hope and promise in the future. And without feeling that things are going to get better tomorrow, I don't know how in the world they can confront the terribly difficult rebuilding challenges that face them right now.

And so I just think that this would have unintended consequences. No one on this Committee means to send that signal, but I think it is inescapably drawn from this action.

Ms. Dana, do you have a comment on that?

Ms. DANA. Yeah. I would like to add here we have a big responsibility ourselves, too, on establishing a civil society, and we know that. We still have to say that we have a great people, and which half of them are youth. That is good to have, smart young people. But what I was hearing these days is like we are a kid that just started walking, and pushing a kid that has started walking not to walk as fast as he needs to walk and he is willing to walk is the same that is doing Kosovars today. Freedom has brought to us a big energy. We know that, but we have a long way to walk. It is going to be bumpy, it is going to be hard. We still need your support on that, and my words are words of ordinary people. I am facing these people every day in the field, and just saying to them that I am an employee of USAID, which is a governmental organization, I see a big smile. I am defending that smile today here in front of you. I wish I can do it and you can see it. Thank you.

Mr. POMEROY. Beautifully said.

Mr. ROHRABACHER. Thank you very much. I think we should close on that. I appreciate all the hard work that Joe has put into this and all of you. I appreciate you coming halfway around the world here to talk to us. We are the United States of America. If we don't stand for freedom we don't stand for anything, and we are very proud that the people of Albania want to have democratic government and have the courage and strength to stand up to tyranny, and we are on your side. So God bless you, and this hearing is now adjourned.

[Whereupon, at 6:10 p.m., the Committee was adjourned.]

DEVELOPMENTS IN THE BALKANS: CRIME AND CORRUPTION IN BOSNIA

WEDNESDAY, JULY 19, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice, at 10:13 a.m. in room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (Chairman of the Committee) presiding.

Chairman GILMAN. The hearing will come to order. This morning's hearing focuses on a distressing problem that threatens to undermine our accomplishments in Bosnia and perhaps elsewhere in the Balkans. Pervasive crime and corruption has tainted all levels of Bosnia's society, particularly its political institutions and its economy, and is now jeopardizing the basic peace framework that was mandated by the Dayton Peace Accord.

This is a principal finding by our General Accounting Office pursuant to a study they conducted that was requested by our Ranking Democratic Member, Mr. Gejdenson; our Committee Vice Chairman, Mr. Bereuter; and myself last September. Because this finding has such profound implications for our goals in Bosnia and perhaps lessons for our mission in Kosovo, I have convened this hearing in order to allow our Members of our International Relations Committee to have the opportunity to review and question the GAO authors of this report and also to hear our State Department's response to the report.

I am informed that during a review of the GAO's draft by all interested agencies in our government no one challenged the essential finding concerning the impact of endemic crime and corruption in Bosnia. Given that fact, I am anxious to hear, as I am sure my colleagues are, of just what we are doing to confront this important issue. I am also informed that our good Ambassador, Tom Miller, who has been in charge in Sarajevo since last August, has made it his top priority to root out and resolve difficulties that have impeded the Bosnian economy.

Ambassador Miller is focused on the problem of privatization and has withheld U.S. funds that would go to supporting the budgets of our two main entities in Bosnia, the Federation and the Republika Srpska, until the appropriate measures are put in place by the local political leaders that will ensure a fair and effective privatization of the publicly held assets in Bosnia.

To be fair to the Bosnian people and the situation itself, we should note that Bosnia is not only a post- conflict situation where a devastating war raged for nearly 4 years, forced nearly have of

Bosnia's citizens to become refugees or internally displaced persons, killing thousands more in the massive distribution of problem, but is also a post-communist society which has not had the benefit of functioning Democratic institutions nor the experience of a free-market-based economy.

Our purpose today is not to be engaged in the blame game, but to determine what needs to be done in order to salvage our policy in Bosnia. We have spent a billion dollars in providing assistance in Bosnia since 1995 and billions more for troops serving there as part of the NATO peacekeeping mission.

Clearly, our investment is huge, and we can neither ignore this problem or simply walk away from our effort. We hope that our witnesses today, therefore, can provide us with some incites and some suggestions as to what we need to do to make our Bosnian policy a success.

We are joined today by Harold Johnson, who is the Associate Director of GAO's International Relations and Trade Issues; Mr. James Shafer, the Assistant Director of that office; and David Bruno, who is the Evaluator in Charge of this study. Subsequently, we will here from Ambassador James Pardew from the State Department, who is the principal Deputy Special Advisor to the President and the Secretary of State for Dayton implementation and Kosovo.

I now would ask if our Ranking Minority Member of the Committee, the gentleman from Connecticut, Mr. Gejdenson, has any opening statement. Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman, and, I think, all of us who believe in a dynamic American foreign policy have to be vigilant when it comes to looking at what happens to American resources. And while the vast majority of American resources got to where they were supposed to go and did apparently much better than any of our allies, any time money is not achieving the targeted effect, it obviously is something we need to focus on. So I think there is obviously good news here as well as some small areas of major concern, I think, for many of our European allies.

One of the things that I have worked on this year is legislation dealing with fighting corruption, and if we look at the crises around the globe in many of the most impoverished nations, we can often look to decades of corruption and thievery by the elected leaders. Clearly, in a case like Nigeria, the newly elected democratic government faces a very daunting task as a result of the theft of billions of dollars in what should be a very rich country.

So this is an important hearing, and I think that figuring out ways to help establish practices that fight corruption and bribery is something the United States ought to take a leadership role in. I think we can commend the people involved in America's AID program for generally doing a very good job, and we want to work with them to make that even more successful. Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Gejdenson. If there are no other Members seeking recognition, I now invite Harold Johnson. Mr. Johnson has served as director of the International Relations and Trade Issues at the General Accounting Office since 1996, and prior to that he served in a number of senior positions at GAO, in-

cluding director of international affairs issues, foreign economic-assistance issues, and military manpower issues. He has been a recipient of many awards during his career, such as the Distinguished Service Award.

Mr. Johnson is joined today by his deputy, James Shafer, who has also served as assistant director of GAO's European office, and he has been the assistant director of acquisitions in the GAO's Army group and previously led numerous reviews of military and international issues.

We are also pleased to have with us David Bruno, who is the evaluator in charge of the report that is the subject of today's hearing, and Mr. Bruno has participated in or directed evaluations of United States and the United Nations' foreign affairs and assistance programs for over 10 years, including U.S. agricultural-credit programs for the Soviet Union, USAID business-development programs in Russia, child-survival programs in Africa, and counterdrug assistance in Latin America.

Gentlemen, we welcome our entire panel. We appreciate your good work on this report. Mr. Johnson, you may now proceed, and you may summarize your statement, which will be entered in full in the record, whichever you may deem appropriate. Please proceed.

STATEMENT OF HAROLD JOHNSON, ASSOCIATE DIRECTOR, INTERNATIONAL RELATIONS AND TRADE ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. JOHNSON. Thank you very much, Mr. Chairman. We are pleased to be here today to discuss the report we completed at your request and the request of Congressmen Gejdenson and Bereuter on the impact of crime and corruption on the implementation of the Dayton Agreements. The agreement, which was signed in December 1995, created the Bosnian National Government and recognized two entities that were created during the war, the Bosnian-Croat Federation and the Republika Srpska.

During the past 4 years, from 1996 through 1999, the international community has provided about $4 billion to finance the civil aspects of the agreement. About $1 billion of that is from the United States—slightly over $1 billion is from the United States. More importantly, as of March this year, U.S. military costs to support the agreement have totaled over $10 billion.

The United States, NATO, and the Peace Implementation Council have developed conditions often called "benchmarks" to help determine when military forces can be withdrawn from Bosnia. Several of these conditions relate to reducing corruption.

Our report focused on three areas: First, how crime and public-sector corruption have affected implementation of the Dayton Peace Agreement; second, what the international community has done to improve Bosnia's law enforcement and judicial systems; and, third, how assistance resources are being safeguarded and whether such assistance is being used in Bosnia in place of domestic revenues lost to crime and corruption.

I would like to note at the outset that in doing our work we did not conduct independent investigations of specific, corruption-re-

lated cases. Instead, we examined studies, reports, and other documents published by NATO, the Department of State, the Agency for International Development [USAID], the United Nations, and many other international organizations. The evidence and conclusions presented in these documents are based on analysis and investigations of corruption in Bosnia.

We also interviewed an extensive list of more than 40 top officials, both governmental and nongovernmental, responsible for and knowledgeable about programs and activities in Bosnia. We based our conclusions and recommendations on this extensive documentation coupled with the first-hand experience and judgment of high-level, international officials in Bosnia.

Very briefly, we found a near consensus opinion among officials that we interviewed that crime and corruption in Bosnia is endemic and that it is threatening the successful implementation of the Dayton Peace Agreement and that until this situation is satisfactorily addressed, the conditions that would allow for the withdrawal of NATO-led forces cannot be met.

Although clearly some progress has been made and some of the benchmark conditions have been met, progress in implementing the conditions is not yet self-sustaining. Bosnia's law-enforcement and judicial systems are inadequate and institutionally incapable of prosecuting cases of corruption or administering justice. Bosnian, international, and U.S. efforts to correct weaknesses in these systems have achieved only limited success and have not measurably reduced political influence over the judiciary or the economy.

We found that international assistance, including U.S. assistance, is generally not being lost to fraud and corruption and that except for some budget support, such assistance has been protected by numerous internal controls. However, we did find incidents of corruption in the international-assistance effort.

More importantly, however, this assistance provided by the international community could supplant the hundreds of millions of dollars the Bosnian Government loses each year to customs fraud and tax evasion. Moreover, the Bosnians spend a large percentage of their revenues maintaining three competing militaries that are primarily designed to fight each other. According to the High Representative, the size and structure of these forces are incompatible with the defense needs of Bosnia and are financially unsustainable.

The international community has provided about $407 million in budget support to cover Bosnia's budget deficits, and most of this support has not been controlled or audited. The exception is the support provided by the United States.

I would like to expand just briefly on each of the three points that we looked at. Pervasive illegal activity is negatively affecting the progress of reforming Bosnia's legal, judicial, and economic systems; achieving U.S. policy objectives in Bosnia; and attaining the Dayton Peace Agreement's ultimate goal of self-sustaining peace. Unless Bosnian officials make concerted efforts to address this problem, the benchmarks that would allow for the withdrawal of NATO-led forces cannot be met. According to U.S. and international organization officials, to date, Bosnian leaders have not demonstrated sufficient political will to reform.

Bosnia's nationalistic political parties continue to control all aspects of the government, the judiciary, and the economy. Thus, they maintain the personal and financial power over their members and authoritarian control over the country. We were told that Bosnian leaders from all ethnic groups may have little incentive to combat corruption, since curbing corruption may reduce their ability to maintain control.

War-time, underground networks have turned into political/criminal networks involving massive smuggling, tax evasion, and trafficking in such things as women and stolen cars, and other things. Investigations have shown that certain smuggling operations have been successful only with the participation of customs officials.

According to the State Department, criminal elements involved in narcotics trafficking have been credibly linked to public officials. The proceeds of this narcotics trade are widely believed to support illegal, parallel institutions maintained by ethnic extremists.

Numerous reports show, and international organization officials confirm, that Bosnian law enforcement officers' allegiance is often to the ethnic, political parties rather than to the public. For example, police in some areas work for local party officials and protect the business interests of the officials, intimidate citizens, and prevent return of refugees.

Similarly, political officials are involved at many stages in the judicial process. The selection of judges in Bosnia is a product of political patronage. Judges' salaries are controlled by political-party structures.

We were told that there are good and honest individuals throughout the judicial system. However, criminal leaders, many of whom are closely linked to ruling political parties, are ready to threaten judges, prosecutors, police officers, lawyers, witnesses, with violence, even death, to act in a particular way. Such influence over the courts often prevents cases involving organized crime and corruption from being heard.

Bosnian, international, and U.S. anticorruption and judicial-reform efforts have been initiated over the past 4 years, but they have achieved only limited success in reducing crime, corruption, and political influence.

While international efforts could correct weaknesses in Bosnia's legal and judicial system and provide needed supporting structures for the rule of law, Bosnian government efforts have primarily resulted in the creation of committees and commissions that have failed to become operational or measurably reduce crime and corruption. The Office of the High Representative has developed a strategy for coordinating international anticorruption efforts. However, the strategy essentially is a recitation of existing international efforts, and although the work of the international community is collegial, it is not truly coordinated.

Despite the lack of a truly coordinated effort, the international organizations, including the European Commission, NATO, and the United Nations, have implemented a number of anticorruption and judicial-reform efforts. I will cite a few examples.

The European Commission's Customs Assistance Office has established an anticorruption program that is considered the most

successful effort. The office has assisted in establishing customs legislation and customs services at the entity level. Investigations conducted and systems put in place by the office have identified incidents of corruption and illegal activities that have resulted in the loss of millions of dollars in customs duties and tax revenues. In addition, customs officials perpetrating illegal activities have been exposed.

The NATO-led, Stabilization Force helped the entity armed forces establish an office of inspector general to help eliminate fraud and corruption in the entity armed forces. The office's investigations have led to the removal, reassignment, or suspension of noncompliant personnel.

Finally, the U.N.'s International Police Task Force, the IPTF, has focused on restructuring, retraining, and democratizing local police. The task force has established a certification process through which each police officer is evaluated against specific criteria, including whether they were involved in human-rights abuses during the war.

In addition, the task force has created specialized units to train Bosnian police in public-security issues such as organized crime, drug-related activities, corruption, and terrorism. Some progress has been made, but the linkages between the police and the political parties has not been broken.

The international community has implemented a number of efforts to make Bosnia's weak and politically influenced judiciary more independent and professional. The Office of the High Representative, for example, has imposed laws to expand the jurisdiction of the Federation Supreme Court and the Federation Prosecutor's Office and provided special witness identity protection. In addition, the United Nations established the Judicial System Assessment Program in 1998 to monitor and assess the judicial system in Bosnia. However, these and other efforts have had only minimal impact on the problem, partly because high-level Bosnian officials have not demonstrated a sufficient commitment to fighting crime and corruption.

U.S. anticorruption efforts, led by the Agency for International Development, seek to curtail corruption through the elimination of the communist-era financial-control systems, primarily the payment bureaus, and by privatization of state-owned enterprises. Experience has shown that the best and possibly the only way to accelerate the establishment of a sound and competitive, commercial banking system is to attract reputable foreign banks. Although efforts to establish a private banking system in Bosnia are progressing, the U.S. Government and the international community have had little success in attracting prime-rated, international banks to come to Bosnia.

Privatization has encountered problems, and corruption is a concern. According to the United Nations and other experts, the privatization process is another opportunity for government and party officials to profit through corrupt activities. For example, officials may solicit bribes from those interested in obtaining assets or sell assets to themselves below value. Further privatization could legitimize political factions' ownership of companies.

The documentation required to privatize Bosnian companies, including opening balance sheets and privatization plans, is being provided by the enterprise managers who may themselves bid on the companies, clearly a conflict of interest. Several officials told the Agency for International Development that they were depressing the value of their firms so that they could purchase them for less than their true value. Also, the Office of the High Representative publicly stated in April of this year that a majority of the already privatized companies now belong to the nationalist political parties.

Finally, you asked about controls over international aid and whether assistance supplants Bosnian funds. As I mentioned, the United States and other international donors have established procedures for safeguarding assistance to Bosnia, and we found no evidence that assistance has been lost on a large scale because of fraud or corruption.

Most of the $4 billion supported Bosnia's physical reconstruction, which has been largely successfully completed. However, we did find instances of corruption within the international assistance effort. I will cite three examples.

The United States still has not recovered the approximately $935,000 of U.S. Embassy operating funds and AID Business Development Program loan payments deposited in a bank that was involved in corrupt activities and is now bankrupt, but the recovery process is underway. In July 1998, AID's Business Development Program manager, a Foreign Service national, was terminated for receiving payments for helping a loan applicant.

And the final example is about $340,000 in World Bank-provided funds lost as a result of a procurement scheme perpetrated with fraudulent documents. As of May, no arrests had occurred. There may be other examples, but those are illustrative.

Despite the international community's success at controlling the use of assistance funds, such assistance has supplanted millions of dollars the Bosnian governments lose every year to corrupt activities such as customs fraud and tax evasion. Determining the total amount of revenue lost because of corrupt practices would be difficult, and the international community has not systematically attempted to make such a determination.

However, evidence gathered during successful customs investigations and a partial analysis by the Office of the High Representative showed that losses total hundreds of millions of dollars annually. For example, the Office of the High Representative concluded that a moderate estimate of revenue lost to tax evasion in the Republika Srpska is about $136 million, or 46 percent of the entity's annual budget.

Due to shortfalls in revenue, partly because of corrupt practices noted above, the entity governments incur budget deficits which are then funded through direct budget support; that is, moneys that are provided and not earmarked for a specific purpose. Most of the $470 million committed by the international donor community for general budget support is not controlled or audited, although the $27 million committed by the United States has been controlled and audited.

Meanwhile, the Federation and Republika Srpska budgeted about 41 and 20 percent, respectively, of their average annual, domestic, financial revenues on military expenditures from 1997 through 2000, despite the High Representative's opinion that sustaining three large, separate armies primarily designed to fight each other, is not financially feasible.

If the Bosnian governments strengthened the rule of law and identified ways to collect some or all of the hundreds of millions of dollars lost annually as a result of widespread tax and customs-duty evasion, the amount of budget support being provided might not be needed.

Our report recommended that the Secretary of State take the lead in a reassessment of U.S. strategy for assisting Bosnia. We believe that such a reassessment is necessary because without it the United States and other donors may continue to fund initiatives that have little hope of resulting in a self-sustaining, democratic government and market economy based on the rule of law, and thus allow for the withdrawal of NATO-led forces.

In particular, we believe State should consider whether supporting the provision of direct budget support is an appropriate form of assistance in the current environment in Bosnia, and second, how it can support those political leaders in Bosnia whose goals for addressing the corruption problem are consistent with the goals of the United States and the rest of the international community.

We also suggested in our report that Congress may wish to require the State Department to certify that the Bosnian governments have taken concrete and measurable steps to implement anticorruption programs and improve their ability to control smuggling and tax evasion. State disagreed with our recommendation. According to the Department of State, by 1998, it had undertaken a broad reassessment of the strategy for Bosnia, and it continually reassesses assistance priorities in Bosnia. However, we found no evidence that State's reassessment or its current strategy addressed the underlying causes of corruption and the lack of reform, namely, the continued obstructionist behavior of hard-line, nationalist, political leaders. Mr. Chairman, that concludes my prepared statement.

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

Chairman GILMAN. Thank you very much, Mr. Johnson. Do your colleagues wish to make any opening remarks? All right. We welcome having you here, and I am sure there may be some questions.

Mr. Johnson, you stated that the USAID-led anticorruption activity of reforming the political-party-based payment bureaus is one of the more important, major actions taken by a U.S. entity.

Mr. JOHNSON. Yes.

Chairman GILMAN. Could you elaborate further on the specific transfers of responsibility from the bureaus to other government ministries and banks other than tax collection, and is the process to eliminate the payment bureaus on track to be completed by December of the Year 2000?

Mr. JOHNSON. We were told that the process is on track. It is a little difficult for us to accept that because they still do not have

a banking system in place that will accommodate the banking function that the payment bureaus currently perform. That is an essential element of the whole process and a key critical point.

I would like to ask Dave Bruno to elaborate on that a little bit because he has looked into this in some detail.

Chairman GILMAN. Mr. Bruno.

STATEMENT OF DAVID BRUNO, EVALUATOR IN CHARGE, U.S. GENERAL ACCOUNTING OFFICE

Mr. BRUNO. Thank you, Mr. Chairman.

Chairman GILMAN. Could you put the mike a little closer to you, please?

Mr. BRUNO. Well, currently, as you alluded to, some of the functions of the payment bureaus are being moved to other ministries—tax collection, statistics, that type of thing. The key function of the payments bureau is to facilitate payments between enterprises and individuals. The bureau basically served as a bank under the former socialist system in place in Yugoslavia. Until there is a transparent banking system in Bosnia, the key functions of the payment bureaus cannot be replaced.

There have been some laws passed or imposed which have allowed certain payment transactions to be made through banks, banks currently in Bosnia, but until there is an open and transparent banking system to replace the payment bureaus, large-scale, foreign investment is unlikely.

As we mentioned in our report, corruption is one of the main reasons why investments, foreign investment, and even domestic investment by private entrepreneurs, has not accelerated and, in fact, taken the place of assistance. Until a banking system is in place, the economy won't be revived because there will be no investment.

Chairman GILMAN. Thank you. According to the GAO and USAID, the only way to establish a sound, competitive, commercial-banking system that fulfills key market functions is the entry of reputable foreign banks. But as you maintained earlier, investment in Bosnia, post-1995, has been greatly deterred by the systemic corruption that takes place in the Bosnian economy.

That said, how can our nation persuade a strong financial institution to get involved with such risks being present? If ending corruption is contingent upon attracting foreign banks while investment is contingent upon ending corruption, don't we have a case of the chicken and the egg here?

Mr. JOHNSON. There is a bit of a catch–22 there, but that is not from lack of trying to get international banks, a reputable international bank, to come in. It is our understanding that there have been discussions with a Turkish bank, which is maybe not a Bank of America or Citibank, but one that would probably be interested.

Chairman GILMAN. Does that look promising?

Mr. JOHNSON. From what we were told, there are discussions under way. What the status of those discussions are, I am not sure. Ambassador Pardew could probably respond to that better than I can.

Chairman GILMAN. Aside from that interest, have any other banks shown any?

Mr. JOHNSON. No.

Chairman GILMAN. Critics of the Dayton Peace Agreement point out that because the DPA provides for only a very weak national government, it is the DPA itself that limits the ability of the Bosnian government to forge the anticorruption institutions at the national level where they are most necessary, and it leaves it to the leaders of the two entities, where nationalist pressures are most easy to bring to bear. What is your response to that kind of criticism?

Mr. JOHNSON. The peace agreement did create a weak, national government, and there are problems related to that, and one of the problems that is probably most pronounced is that there is not strong support for the departments and institutions already being created at the national level. It leaves them in a rather weak position, but I do not want to imply that it is not workable.

I think it is the system that we have, and it needs to be pursued, the system in place is apparently the best that could be gotten in 1995 when they negotiated the agreement, and so it is what we have to live with.

Chairman GILMAN. Thank you. Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman. Let me first say any money that is American taxpayer money that is lost is something that troubles all of us. How much money do you think was lost as a result of corruption here? We have seen numbers across the board in the newspapers. What's your estimate?

Mr. JOHNSON. U.S. money lost to corruption?

Mr. GEJDENSON. U.S. money.

Mr. JOHNSON. Well, the money that we know about is basically the money that is involved with the BH Banka situation that you are aware of.

Mr. GEJDENSON. And how much is that?

Mr. JOHNSON. And that is about $935,000.

Mr. GEJDENSON. So $900,000 out of how much?

Mr. JOHNSON. Well, over a billion dollars, a small percentage.

Mr. GEJDENSON. Over $1 billion.

Mr. JOHNSON. Yes.

Mr. GEJDENSON. And so that is 1 percent. Is that correct?

Mr. JOHNSON. About.

Mr. GEJDENSON. About 1 percent.

Mr. JOHNSON. Excuse me.

Mr. GEJDENSON. No. Go right ahead.

Mr. JOHNSON. I think it is important, the amount of U.S. money that would be lost, but I think the more important issue is whether or not the problem in Bosnia will unravel the entire process, and that is what we tried to focus on. I think the international organizations have basically done a good job of trying to control the money that we provide. There is not a debate about that.

Mr. GEJDENSON. And there is some pressure here in Congress to try and press our allies to rapidly disperse their funds so that they will meet certain targets, or they want us to pull out. Now, I guess what I would say is, is there a mechanism in place that would allow this to happen without actually just losing more money?

Mr. JOHNSON. Well, there has definitely been a criticism of our allies throughout the Balkans, but in Bosnia in particular, about

the slow disbursement rate. And when we talk to Bosnian officials or even AID officials, we hear this criticism that the European Union is very slow in disbursal. They could be more rapid in disbursing money and still maintain the controls, is the general perception.

Mr. GEJDENSON. You know, it may be human nature, but you get the sense that at the beginning of a crisis or the end of a war there is this inclination in Congress, and the public that Congress reflects, to have a significant response. And so, in a sense, are we front loading too much of the money? Is the money available only at the beginning when oftentimes there are not the systems in place, and would we be better off trying to get Congress to commit the money over a longer period of time with some more flexibility here?

Mr. JOHNSON. Well, I think as a general proposition, you are probably correct. I think in the case of Bosnia the money was put up front and was needed up front for reconstruction.

Mr. GEJDENSON. Uh-huh.

Mr. JOHNSON. I do not think there was unwarranted front loading in the case of Bosnia. That criticism, I think, is more applicable to some other situations in Eastern Europe.

Mr. GEJDENSON. And, you know, money is fungible.

Mr. JOHNSON. Sure.

Mr. GEJDENSON. And so when you sit here and you are looking at these factions having larger military-police units than they ought to have, and, of course, the problem is always what do you do with them if you disband them. These people need salaries. You are creating political problems on the ground and what have you. But how do you look at these situations and say, well, we are going to take U.S. assistance and use it for good causes because the government is using its money for military forces they really do not need.

Mr. JOHNSON. That certainly is a dilemma. The international community does have some leverage, however, that it probably has not used as much as it could. The High Representative has a lot of authority to influence the Bosnian governments, both the Federation and the Republika Srpska, as to the size and function of their military. And clearly, up to this point both of those entities have received support from outside for their militaries. So that is a problem that can be addressed probably more readily than it has been.

Mr. GEJDENSON. Let me ask you one last question. What would be the most important change you would desire that Congress would execute in how we deal with these situations? What could we do that is most helpful in changing the way we operate?

Mr. JOHNSON. I do not know that I would recommend necessarily a change. I think that we have—over the past 4 or 5 years GAO has looked at the program in Bosnia and evaluated the progress, and we have generally been supportive of the program that has been put in place. There are obviously glitches along the way.

I think the fact that this hearing is taking place, that light is being focused on this problem, is a helpful thing. I think we need to signal to the rest of the world that corruption is not something that we can tolerate in programs that we are participating in, and

it is not just the money that we provide bilaterally. We spend a lot of money on the IMF as well as the World Bank and have considerable resources at stake. So I think efforts like this to focus attention on the problem is a very helpful thing.

Mr. GEJDENSON. If I could indulge the Chairman just one more question, and you do not have to give me the entire answer here now, but on the issue of corruption, I have seen some progress in recent years from our G–7, G–8 partners, but some of them still allow for bribery to be a deductible tax expense. Is that correct?

Mr. JOHNSON. It is my understanding that this occurs, although the OECD in Paris has reached an agreement——

Mr. GEJDENSON [continuing]. To end that.

Mr. JOHNSON [continuing]. To end that.

Mr. GEJDENSON. Well, it seems to me that that is terribly important because if the most important industrial nations in the world accept bribery as a price of doing business, to turn around to these fledgling nations and expect them to be policing themselves is a little bit unrealistic. And if European and other partners of ours think it is OK to go in and bribe governments for contracts, it is a little hard for us to then come back and say, "Gee, we want to fight corruption."

So I certainly hope that you will give me any advice that we can strengthen our fight against bribery and corruption because, I think, when you look around the world at the failures we have had, a lot of it ends up going back to that particular problem.

Mr. JOHNSON. That is right.

Mr. GEJDENSON. Thank you.

Chairman GILMAN. Thank you, Mr. Gejdenson. Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. My understanding of your statement here this morning is that the government is losing a lot of their own resources to crime and corruption and many other things, which obviously should not be going on. You are saying the resource that we are directly losing, our aid, is somewhat minimal. But our resources going to them are relieving perhaps the necessity for them to seriously confront the reforms that they need to carry out, such as cutting down the corruption and actually collecting the taxes they are owed, and things of that nature. Is that correct?

Mr. JOHNSON. That is correct. Yes.

Mr. CHABOT. And I guess the logical followup is that some portion of our aid there is counterproductive, that we are essentially subsidizing behavior that over the long term may actually hurt the government and the people that we are trying to help. Is that correct?

Mr. JOHNSON. I do not know if I would characterize it as counterproductive necessarily, but there is a contradiction there that we need to address, and the Bosnian government needs to address, and that is one of the reasons we made the recommendation to the State Department that it reassess the strategy because that is something that needs to be looked at by the people who run a program, whether or not there is a way to squeeze on that.

Now, the United States does not provide very much budget support, so the amount of leverage, direct leverage, that the United States has is minimal, but the United States, through the World

Bank, does provide a substantial amount of budget support, and working through the executive director's office at the bank, that problem could be addressed, we believe, in a more forthright way.

Mr. CHABOT. Using taxes as an example, I think your testimony was that they have a pretty ineffective way of collecting taxes.

Mr. JOHNSON. Yes. And their tax law is so convoluted that people just cannot pay.

Mr. CHABOT. Right. I would argue that our tax system is pretty convoluted as well, but nonetheless it is relatively effective. I think our government is pretty good at collecting what it is owed, or pretty bad, however you want to put it. We collect a whole lot of money here very effectively, and we are shifting some of those resources over to countries which have not gotten their act together and are not collecting their taxes. I would argue from the American taxpayer's point of view, that this is not a very good deal, but let me move on.

As far as how long we are in Bosnia, many of us were very skeptical of the President when he suggested early on that we would be there a year and that our cost would be ball-park $2 billion. That year obviously has extended far beyond that. It has been 4 or 5 years and we have spent, in your testimony I think, over $10 billion, so we are way over what we were told in length and in cost. But how long we are in Bosnia, to some degree, depends upon how quickly they get their act together, how quickly they have an independent judiciary, a workable government, a system of collecting taxes.

But since we are subsidizing by giving them money, we are making it so that they do not reach the crisis that sometimes you have to reach before you actually take action. We are dragging the day of reckoning out even further. Therefore, we may be there a heck of a lot longer even than the President might suggest that we be there. So I just wonder whether our policy makes much sense at all.

One final point. Mr. Gejdenson mentioned the one case of the bank where, I think, we know $935,000 was lost——

Mr. JOHNSON. We are still negotiating to get some of that back, and I think they will get a large share of it back.

Mr. CHABOT. OK. I think, Mr. Gejdenson said important words when he said that is a million dollars or so out of a billion. I mean, that is that we know of. And as far as how many dollars have been directly lost, we really do not know, but the fact is we are spending an awful lot of money over there. The thing that concerns me is that we may be subsidizing dependency and irresponsible behavior and putting off the actual reforms that need to take place. I thank you for your testimony here this morning.

Mr. JOHNSON. I think you have expressed a legitimate concern. One of the things that we tried to keep in mind when we did this work was exactly what you have talked about. The peacekeeping operation in Cyprus has been there for many years, and the situation in Bosnia—I think it would not be in our interest to have a peacekeeping mission in Bosnia for the length of time that we have had the U.N. peacekeeping operation in Cyprus.

Mr. CHABOT. Thank you very much. I certainly share that point of view. I would hope that the Bosnia peacekeeping mission would be much, much shorter than Cyprus. Thank you.

Chairman GILMAN. Thank you, Mr. Chabot. Mr. Sherman.

Mr. SHERMAN. Thank you. I would simply observe that I do not see any facts in play now that would cause our peacekeeping operation in Bosnia to be shorter than that in Cyprus.

Mr. JOHNSON. That is right.

Mr. SHERMAN. Certainly, the level of ethnic opposition and tension is at least as high as in Cyprus, and one cannot point to any trends that would make peacekeeping there unnecessary.

Mr. JOHNSON. You are right.

Mr. SHERMAN. Our decision to insist that Bosnia be a multi-ethnic state made up of ethnicities who have shown a tendency to kill each other over the last several hundred years ensures that there will be a multi-ethnic state of people with a tendency to kill each other, and that we will have to be there for a long time preventing those deaths.

I want to pick up on Mr. Gejdenson's remarks about the deductibility of bribery, and I realize that is a little step or two away from the purpose of these hearings, but I am picking up on the Ranking Member's comments. We have the largest trade deficit this month, or rather last month—the report just came out today—the largest monthly trade deficit in the history of human kind, period, largest ever in a month. And it is relatively nonremarkable because the month before that we also set a record, and we have been setting records each month.

I do not think there is any way to quantify how much of that trade deficit is due to the fact that our competitors pay bribes and we do not. There was a declaration several years ago by the other OECD countries that they would embrace a concept similar to the Foreign Corrupt Practices Act. Perhaps you gentlemen could indicate whether that has gone beyond the principle stage.

Mr. JOHNSON. I would hesitate to comment on that at this point. I am not quite up to date on where they stand on that, but I can get that information to you.

Mr. SHERMAN. I can only assume that in those countries where bribes are tax deductible they are not illegal, and I realize you may not have come here prepared to focus on that, but Mr. Gejdenson at least pointed that out. Do any of the other panelists have a further comment on that?

Mr. SHAFER. No.

Mr. SHERMAN. The other thing I would like to point out is there is only one reason we are in Bosnia—Bosnia is in Europe. I mean, the human rights violations there were terrible, but not nearly as bad as what had happened in several places in Africa and what is happening today in Sudan.

So we were told Bosnia is different because it is in Europe, and Europe is vital because Europe is rich, powerful, and technological. That is why I have got to wonder why for a problem in Europe, America does the lion's share of the fighting, pays the lion's share of the defense cost, provides the lion's share of the strategic backup. When I say "Bosnia," I am including Kosovo. They are two very related problems here. And at the same time, when there are

problems in this hemisphere, Europe does almost nothing with regard to solving many of the problems in this hemisphere—a little contribution toward Colombia, a little contribution toward Haiti.

I think, while we can and have lost money due to theft, and you do point out the $900,000 at issue that is the focus of these hearings, that we lose an awful lot more because we decide that where something is important to the Europeans, it means we have to pay the lion's share of the cost, and that is not just $900,000. So thank you, Mr. Chairman.

Chairman GILMAN. Mr. Tancredo. Thank you, Mr. Sherman.

Mr. TANCREDO. Thank you, Mr. Chairman. Just one quick question, because I was late, and I apologize. I just wonder if you would agree with the feeling that I have gotten from your presentation, certainly among many other things, that the problems in the area are systemic. The problems with corruption are systemic and are not necessarily personality driven. That is to say that even if we were able to incarcerate people, Krajisnic and others, that would not change the situation all that much because the problem is, in fact, systemic.

Mr. JOHNSON. The problem is systemic. You are absolutely right. In fact, when you look at who is involved in the corrupt activities and the linkages between those involved in corrupt activities, the judiciary, and government officials, you see linkages.

I guess a good way to look at the problem is that corrupt activities are being pursued in Bosnia as another means to continue the war aims that the parties had throughout the period of the war. They want to continue separation. They want to continue having ethnically pure entities, ethnically pure cantons, within the Federation part of the country, and a lot of the corrupt activities support those war aims. So it is a very systemic problem and not one easily fixed. This is not garden-variety corruption that is taking place in Bosnia.

Mr. TANCREDO. Thanks very much. I have nothing else, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Tancredo. I have just one more question for our panel. How do you assess the anticorruption efforts of the Office of the High Representative? Do you agree with the critics who maintain that that office actually is preventing more effective programs initiated by the United States and the World Bank?

Mr. JOHNSON. I do not know about preventing. I would like to turn to Mr. Shafer to respond to that.

Chairman GILMAN. Mr. Shafer.

Mr. SHAFER. I would not characterize the Office of the High Representative's efforts as preventing progress in this area. As Mr. Johnson has pointed out, this is an extremely difficult problem that is not easily solvable by any one person or series of actions. In fact, recently, the Office of the High Representative has gotten much more active, for example, in eliminating key cantonal officials and ministers for various corrupt activities, and that is a positive step in and of itself. They have established a number of efforts to bring together the international community, and it is going to take a long time, I think, before we can see any results from the antifraud unit within the Office of the High Representative.

Chairman GILMAN. Any other comments by the panelists before we conclude? Mr. Bruno.

Mr. BRUNO. I would like to elaborate on that a little bit. Although there are a lot of individual efforts conducted by or somewhat coordinated by the Office of the High Representative, there are some other nuts-and-bolts types of things that have not been done by the High Representative, the World Bank, or others. As we point out in our report, there has been no analysis of the revenue loss, no systematic analysis. There are some estimates but no systematic analysis.

There has been no audit of expenditures of the entity governments to see where our budget support is going, "ours" meaning the international community, and how those funds may support illegal parallel institutions or the political parties. There has also not been a review of the actions taken by the financial police to see exactly what they are doing to fight corruption and what they need in terms of assistance.

And as my colleague stated, the High Representative has removed officials, high-level officials, but removing them does not always remove their power, and it is not enough to remove them. It would be better if there was an example made of those individuals. If they have abused their power and it is an infraction of the law, then an investigation should follow and not simply just the removal of that official.

Chairman GILMAN. Well, I want to thank our GAO representatives for being here today and for your extensive report, which is most helpful to us, and we will be passing it on to some of the other people who will be doing some work in that part of the world. We appreciate your time and your effort. Thank you, gentlemen.

ALL. Thank you.

Chairman GILMAN. We will now move on to our second panel. Ambassador Jim Pardew is no stranger to our Committee. He has appeared both in open and public sessions and private briefings with us on a number of occasions. He has served in both our Departments of Defense and State, brings to us a long period of expertise in Balkan affairs, and we welcome you to our hearing this morning. In a sense, Ambassador Pardew has become the institutional memory for our Balkan policy due to his long-term involvement in U.S. policy in that region during the past decade.

We are grateful for your willingness, Ambassador, to appear today, and we welcome your testimony, which you may summarize without objection. Your full statement will be entered into the record. Please proceed, Mr. Ambassador.

STATEMENT OF AMBASSADOR JAMES W. PARDEW, PRINCIPAL DEPUTY SPECIAL ADVISOR TO THE PRESIDENT AND SECRETARY OF STATE FOR DEMOCRACY IN THE BALKANS, U.S. DEPARTMENT OF STATE

Mr. PARDEW. Mr. Chairman, I welcome the opportunity to again appear before the Committee to discuss our programs and strategies for addressing crime and corruption in Bosnia, and I take note of the new technical developments of the Committee since I was here last. The next time I appear before the Committee I would

like to use the new capability to perhaps make my presentation a little better.

I will update the Committee this morning on the nature of corruption in Bosnia and our strategy for dealing with it. I will also respond to the specific points raised in the GAO report. With your permission, I will summarize a more detailed statement, which I submit for the record.

The problem of corruption and crime in Bosnia should be considered in the context of what has been achieved there since the war. Great strides have been made in security, reconstruction, refugee return, and other critical elements of Dayton implementation. That said, we agree with the basic thrust of the GAO report, that corruption and crime are endemic problems in Bosnia. Crime and corruption seriously inhibit Dayton implementation and economic and political development.

The political environment in Bosnia is a direct legacy of the war and the communist political past in which transparency and accountability were of no concern. The inclination of the current political leadership is to continue to do business as usual. There are, however, democratic, reform-minded leaders in Bosnia, and we want to work with them.

And our message to the people of Bosnia in the run up to the parliamentary elections this November is that they often deserve better leadership and should use the elections in November as an opportunity for change.

Let me briefly review our investment in Bosnia and how the focus of our assistance program has shifted. We pledged and disbursed $1.007 billion from 1996 to 1999, primarily for critical, postwar requirements. This represented 18.5 percent of the $5.4 billion total, international, civil program for Bosnia. Beginning with a reassessment in 1998, our focus shifted to helping Bosnia begin to reform itself as a stable, peaceful, free-market democracy that can function without heavy engagement of the international community.

This year, we are spending $100 million in SEED, or Support to European Democracy, funding and about $40 million in peacekeeping-operations funding in Bosnia.

Fighting corruption and crime requires action in two general areas. The first is reform of the political and economic structure. The second is establishing the rule of law with effective enforcement. Bosnia must achieve major progress in both of these areas if it is to counter current levels of corruption and crime.

I would point out that USAID has been a leader in the anticorruption effort in Bosnia, and I would like to submit for our record a summary of their anticorruption program.

Chairman GILMAN. Without objection, it will be made part of the record.

Mr. PARDEW. I have already mentioned upcoming elections as a potential road to political reform. Successful reform also requires a new and transparent legal and structural framework. The international community has identified over a dozen pieces of specific legislation and administrative actions to restructure the Bosnian government, many of its functions, and the economy.

The most important of these laws and actions will accomplish the following: Formation of an adequately paid, well-trained, professional civil service; the establishment of modern, effective, impartial, and professional law enforcement and judicial bodies; the establishment of a strong, central treasury. Within a year we expect to see the state treasury established and significant progress on overhauling the civil service and judicial and law- enforcement bodies. Judicial and law-enforcement reform is already under way.

Other high-priority tasks include the following: The abolition of the payments bureaus, which were discussed earlier this morning. These are a major source of funding for the nationalist parties, and the process is on schedule for closure of these bureaus by the end of the year. Next is the creation of strong, central, regulatory authorities for the financial, telecom, and power sectors. Progress is underway in establishing an effective banking supervisory agency and regulatory framework for the financial sector. We expect movement soon on establishing an effective, central-regulatory body for the energy sector.

Privatization of key industries is another major area of reform. This is intended to break control of key businesses by the nationalist parties. The United States is leading the effort to move quickly on large-scale privatization of over 100 key business entities.

Another area is the establishment of effective auditing organizations to search out and deal with fraud and corruption. We are providing $1.3 million in funding for auditors and specialists to support this effort.

The second part of our anticorruption strategy is the enforcement framework, which I subdivide into police enforcement and judicial reform. Until recently, the police lacked even the most basic law-enforcement tools for policing in a democracy. We are helping restructure, downsize, train, and equip the Bosnian police to give them the basic tools to function. We are also working with them on more complex challenges such as fighting organized crime.

Let me quickly cover our new initiatives. The International Police Task Force recently established a joint task force operating in both entities that can monitor high-profile investigations. It has handled approximately 30 cases in 1999. It is currently overseeing 120 cases, and has assisted INTERPOL with an additional 50 cases. We have provided two FBI agents to assist the Bosnians in several high-profile investigations and help them further their anti-organized-crime capacities. Later this year, we will give specialized training for the Bosnian police in major case management, public corruption, and transnational money laundering. We also are funding an organized-crime adviser to begin duties later this year.

We are working with police in both entities to establish professional-standards units that both conduct internal investigations and promulgate codes of ethics. So far, these units have investigated over 380 cases of misconduct by the police, and these have resulted in dismissals of several policemen.

We also support the work of the IPTF's noncompliance unit, which audits the practices of local police organizations and investigates reports of misconduct or anti-Dayton actions by local police. We recently donated $1.95 million to aid and development of multiethnic border service, which began initial operations in the Sara-

jevo Airport last month. The border police is the first armed, joint institution in Bosnia and will greatly increase the ability of the Bosnian government to secure its own borders and will help prevent the trade in illegal goods and disrupt trafficking of persons.

This month, we transferred $1 million to expand operations of the antifraud unit in the Office of the High Representative. With the antifraud unit's increased activity, our funding will be used to hire additional investigators and prosecutors.

Bosnia's judicial system needs a major overhaul. Through the American Bar Association's Central and East European Legal Initiative and others, we are working with Bosnia to establish a politically independent, professional, and effective legal system. Primary activity includes vetting and training judges in establishing the security of courts, the court police, and other measures.

In July last year, the Office of the High Representative produced a comprehensive, judicial-reform strategy that includes specific action plans to effect reforms. A judicial-reform law will be adopted shortly that will replace current party controls over the appointment of judges.

In May, we approved a $1.75 million Department of Justice allocation for expanded programs to strengthen prosecutors' offices and begin ground work for establishing a vetted investigative strike force.

Turning to the GAO report, it made three specific recommendations to combat crime and corruption: that we use more conditionality, that we end direct budget support, and that we reassess our assistance program.

We agree with serious conditionality, although we need to make sure that conditionality supports our objectives. Our aid is increasingly focused on supporting minority returns and forcing the pace of judicial structural reforms. The threat of denial of such aid is not an effective lever.

The most effective form of conditionality currently is through the international financial institutions, which continue to provide significant amounts of investment project credits and budget-adjustment lending. We are working closely with the World Bank, the IMF, and the EBRD to strengthen conditionality.

We coordinate closely with the international community and OHR to supply as much leverage as possible to overcome resistance by the Bosnian leadership to implement the change necessary to undercut corruption.

We also agree with moving away from direct budgetary support. We have already terminated such support bilaterally, and we do not envision resuming bilateral budget support. We continue to believe, however, that such support should be provided by the international financial institutions based on strict conditionality. IFI adjustment lending provides an important incentive for structural and economic reform and reinforces our anticorruption program by requiring greater budget transparency, improved expenditure control, and government-audit requirements.

On the third recommendation, we do not see the need to reassess our assistance programs at this time. We made a fundamental shift in 1998 based on the completion of the most urgent funding needs. We are fully on track with our reform priorities, including stem-

ming corruption and crime problems. As we implement our programs, we are continuously fine tuning our strategy and tactics based on developments on the ground.

In closing, Mr. Chairman, the program to reduce crime and corruption in Bosnia is very ambitious. It cuts across all elements of Dayton implementation, and we need to be in it for the long term if we expect to help bring democracy and prosperity to Bosnia.

Unfortunately, attacking crime and corruption is not a short-term problem. It is a never-ending struggle even in advanced democracies, but in Bosnia there is good news as well. The international community is in agreement on the high priority of stemming corruption and crime. They are now the very high priority of the Office of the High Representative, and we are starting to make headway in all of them. Thank you, Mr. Chairman.

[The prepared statement of Mr. Pardew and USAID Anti-Corruption Efforts appear in the appendix.]

Chairman GILMAN. Thank you, Mr. Ambassador. The GAO has recommended that the Congress condition further aid on Bosnian political leaders taking specific steps to demonstrate their commitment to the anticorruption effort.

Mr. Ambassador, what is your view of that recommendation, and how much of United States-provided assistance to Bosnia would be appropriate to use as leverage for this issue?

Mr. PARDEW. Mr. Chairman, we will always gladly take a look at the specific recommendations of the Congress, and I would have to do that before I would make a final determination on how we might view a particular proposal. But I pointed out previously that anticorruption and anticrime are major initiatives of the Administration and of the High Representative. And so before the Congress acts, I think we should very carefully review the programs that we have in place and avoid unnecessary restrictions.

Chairman GILMAN. Should we condition our assistance on their cleaning up the corruption?

Mr. PARDEW. We are conditioning our assistance on cleaning up corruption. Everything that we are providing right now has some type of conditionality on it, and crime and corruption are very high on our agenda. I do not think at this point it is necessary for the Congress to assist, but we will certainly take a careful look at anything you might propose.

Chairman GILMAN. And what is our nation doing to bring together the EU and other donors to work with us to confront this problem that we have?

Mr. PARDEW. This problem was a discussion topic at the recent Peace Implementation Council ministerial. It is always on the agenda of the Peace Implementation Steering Group. We use all forums that oversee the international effort, and we also stress this bilaterally. It is a very high-priority program at this time.

Chairman GILMAN. And, Mr. Ambassador, how difficult would it be to revise and modify the Dayton framework so as to strengthen the national government to better enable it to confront crime and corruption throughout Bosnia?

Mr. PARDEW. Mr. Chairman, as I have testified before, the issue of strengthening central institutions, first of all, it is a high-priority issue and needs to be done. It is largely a matter of the will of the

leadership. I do not think we need to reopen the Dayton Agreement in order to strengthen the national government.

Chairman GILMAN. Thank you very much. Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman. You paint a pretty rosy picture here. You think it is going to be that good, huh?

Mr. PARDEW. I think we are doing a lot, Congressman. I do not want to overdramatize success. As I have said, this is a major problem, and it does hinder our overall efforts in Bosnia. I think corruption and crime have to be looked at in the context of what has been done since the Dayton Agreement was signed. I can point to improvements of the security situation and the reconstruction that have been dramatic. We are gaining ground in the return of refugees, the Brcko, creation of central institutions, and I can go on and on. The point is that crime and corruption must be put in the context of a number of good things that have happened.

Mr. GEJDENSON. It is good to get an optimistic note. Our colleagues on the other side of the aisle here are constantly seeing the end of the world approaching.

Let me ask you a couple of questions here. With the end of these Soviet-era payment bureaus, are the private banks going to come in on their own? Is there a sense that somebody is going to step up to the plate and see an opportunity to make money here and not get shaken down, or is there something else that is going to need to happen? Are we going to need, like, an OPIC guarantee system, or will it happen without us?

Mr. PARDEW. Closing the payments bureau is one of the most critical structural reforms that needs to take place. Closing them is on track to end this year, and that will be a major step toward creating a banking system. There is already a functioning central bank in Bosnia, and it is working very well under international leadership.

Creating a banking system in Bosnia has been a long, uphill struggle. The situation is not as bad as was presented earlier, in my view. At least one Austrian full-service bank is, I believe, about to open for business. A Turkish bank is there operating already. We have encouraged U.S. banks to go there as well, but, quite frankly, Bosnia is a small market for some of the big, international banks.

In addition, the Office of the High Representative [OHR] has a banking agency. That banking agency is trying to clean up the local banks. There are over 12 banks now being closed to try to clean up and make economically viable the existing banking system as we try to bring in international banks.

Mr. GEJDENSON. And you mentioned the refugee return and the increased numbers of refugees that are returning. They have come from western countries in many instances. They have got to be a pressure point for change as well, and it seems to me an almost good news/bad news scenario in a number of these places around the world that as information is spread through society about the alternatives out there, there is going to be a heightened demand for improvements in people's, situations. And are these governments going to be able to deliver a better standard of living, improvements in the people's living situations, sense of security economically?

Mr. PARDEW. Bosnia must change. As you point out, there are refugees who are returning, and they are returning from more advanced western democracies in some cases, and they have high expectations about the economic structure. They are simply not going to accept on a long term this old communist economic system.

I think young people are another factor. If Bosnia wants to keep their young people in Bosnia, they must have to have economic opportunities for them, and those opportunities must be based on a conventional, western, transparent, market economy.

Mr. GEJDENSON. Well, thank you very much. I hope you keep us informed.

I think an important part of this is a dialogue with the Congress because often our colleagues are left with bits and pieces of information, headlines that leave a misimpression. Many of our colleagues do not fully understand the magnitude of the European participation, and we always jump to the conclusion that we are providing the most troops, the most money. In almost every category that seems to be not case. Could you just, in my final moment here, run through again what portion we are paying and what portion the Europeans are providing in this?

Mr. PARDEW. In Bosnia our total funding on the civil side is about 18 percent. The Europeans have paid most of the rest, although there are some non-European donors. I think U.S. troop levels are about 20 percent. The bulk of the troops are being provided by the Europeans.

Mr. GEJDENSON. That is really an astounding situation, when you take a look at the historic portion that America has given in almost any other effort, that the idea that the United States is participating at about a fifth or less is a real statement that the Europeans are stepping forward, as they ought to. And we want to thank you for the work you are doing, and stay in communication with us. Thank you very much.

Mr. TANCREDO [presiding]. Thank you, Mr. Gejdenson. I just have a couple of things, in a way a followup on the question I posed to the panel before, and that is with regard to what hope there can be that we can take from the possibility of incarcerating some of the people there with higher visibility I suppose, and what hope do we have that something like that, if we were able to, incorporate Mr. Krajisnic or others that we would oftentimes like to see incarcerated, and which we certainly do now want to see incarcerated, what hope do we have that that would actually change the situation, especially with regard to corruption in Bosnia?

Mr. PARDEW. The war criminal issue has a powerful, symbolic effect. First of all, we have made significant progress over time on bringing indictees to justice. We started, obviously, with zero. We are now 49 of the people who have been indicted by the ICTY have gone to The Hague. However, the two most significant indictees, Krajisnic and Milosevic, are not there yet. They have simply evaded capture, either by the local police or SFOR.

It would be a tremendous psychological boost to the whole area, if these prominent war criminals were brought to justice. The arrest of Mr. Krajisnik, who was head of the Parliament was significant. He was a corrupt official, and bringing him to justice also helps create an atmosphere that corruption will not be tolerated.

Mr. GEJDENSON. You heard the testimony of the panel before you, and one of the individuals indicated that beyond just removing people from office some other action has to be taken. Do you agree with that, and what specific action would you propose?

Mr. PARDEW. Absolutely. People who are found to be in violation of the anticorruption or other laws need to be brought to justice. We have to do many things at once, though. We have to strengthen the judicial system, and many of the other things I addressed in my testimony. In some cases, I am not sure they are ready for some of the more sophisticated anti-crime activities, but we are working on them.

But those who violate the laws need to be brought to justice, and officials in Bosnia need to be held accountable for their actions. This is the structural changing that I was talking about. In the old system, leaders were not accountable, and the current situation is a carry over from the old days. We have to change the structure as well as take the proper measures against individuals.

Mr. TANCREDO. Yes. Well, changing the structure is certainly an enormous undertaking that one can, I guess, understand, or we can rationalize in the amount of time that we have spent and that we probably will be spending there, but it is nonetheless quite frustrating for Members of Congress and, I am sure, members of the general public, when you really can never see an end to the tunnel.

Let me ask you, can the goals of the Dayton Agreement be achieved in the near future, and with such emphasis on aiding the economy of Bosnia, are prospects dimmed by the fact that in a time of great economic prosperity in the world little progress has been actually realized? Somewhat of the same vein, same question.

Mr. PARDEW. I think the goals of Dayton implementation can be achieved, but it certainly has not been, nor will it be, easy, and I cannot put a specific timeframe on it. We have a set of benchmarks which we are working toward. We have made progress in a number of those benchmarks.

The benchmarks have been sent to the Congress along with our report on their status, but implementation is difficult, and it is long term. I think we have some tough sledding ahead of us to make these fundamental changes that we were seeking.

Mr. TANCREDO. Thank you, Mr. Ambassador. I appreciate your testimony.

Mr. PARDEW. Mr. Chairman.

Mr. TANCREDO. Yes.

Mr. PARDEW. Could I make one point for the record.

Mr. TANCREDO. Of course.

Mr. PARDEW . In the earlier testimony today they talked about the United States loss of money in this BH Banka. I would like to set the record straight on that, if I could?

First of all, we are very heartened by the GAO's report that recognizes that the United States and international donors have established procedures for safeguarding assistance to Bosnia and that there is no evidence that that assistance is being lost. The BH Banka case, there is $900 million——

Mr. TANCREDO. $900 million?

Mr. PARDEW [continuing]. $900,000—I am sorry. Did I say $900 million? I do not want to set that record today. I just increased the

problem significantly. We have not given up on that money. That money is not lost. We are working with the Office of the High Representative and the Federation to get the $900,000. We will take whatever legal measures are necessary to ensure that our money is recovered. So we do not consider that money lost, and we will stay on this.

Mr. TANCREDO. Thank you, Mr. Ambassador. We appreciate your testimony here today, and the Committee is adjourned.

[Whereupon, at 11:37 a.m., the Committee was adjourned to reconvene subject to the call of the Chair.]

A P P E N D I X

April 11 and July 19, 2000

APRIL 11, 2000

Opening Statement of Congressman Benjamin A. Gilman
Hearing on Recent Developments in Kosovo
April 11, 2000

Today's hearing is the first opportunity this year for members of our Committee to review the effectiveness of our policy in Kosovo with administration officials.

In view of last year's NATO strikes against Serbia, the current commitment of some 7,000 U.S. troops and the expenditure of approximately two billion dollars of U.S. taxpayers funds since last June to aid Kosovo, I can think of few areas of greater importance to our nation's foreign policy.

Nevertheless, reports indicate that things are not progressing smoothly in Kosovo. Recent visits by members of the House and our staff have revealed that achieving enduring peace and stability will be much more difficult and costly than winning the air war over Serbia.

Although we can and should be rightfully proud of that achievement and of the significant contribution of our own men and women of our armed forces, we need also to be realistic as to the nature of the commitment our nation has now entered into in yet another part of the Balkans.

Continuing ethnic violence plagues Kosovo. Reprisal attacks against Serbs and other minorities have received much attention in the press, as has the situation in the divided town of Mitrovice (MEET-RO-VEE-SE), where thousands of Albanian residents have not been able to return to their homes in the Serb controlled part of the town.

Difficulties in re-establishing public services such as water, sanitation, electricity, and medical care have undermined the morale of the long-suffering Kosovar people. These difficulties are attributable to the failure of international donors in Europe to fulfill their pledges in a timely fashion. The economy of Kosovo is also stagnant, prolonging unemployment among the large numbers of young people who, with no real hope for a better future, will turn to crime and violence.

A recent outbreak of violence and instability in Serbia in a heavily Albanian populated region just over the Kosovo boundary and near our own forces has also given rise to concern for the safety of our troops. Will the conflict between Albanians and Serbs resume? Could our troops be brought into an armed confrontation with Serb forces in the next few weeks? These are questions that I hope we can try to answer this afternoon.

We will hear from several witnesses, including some from Kosovo who I hope will enlighten us about the challenges to bringing about a lasting peace in Kosovo.

Before turning to our first panel of witnesses, I would like to emphasize that although our hearing today is focused on Kosovo, we are also looking closely at Montenegro, where the administration of democratically-elected President Djukanovich is being undermined by forces loyal to Serbian dictator Slobodan Milosevic. The crisis in Montenegro has the potential to threaten everything we are trying to accomplish in Kosovo.

The possible overthrow of President Djukanovich and the threat of serious violence instigated by Milosevic in Montenegro are matters of high concern. I would invite our witnesses to address this problem, as well as events in Kosovo itself.

Our first panel is Ambassador James Pardew and Mr. James Swigert from the Department of State. Ambassador Pardew has appeared before this Committee, both in open public sessions and for private briefings on a number of occasions. He has served in both our Departments of Defense and State, and brings a long-term expertise in Balkan affairs to our hearing this afternoon.

Mr. Swigert has also been involved in Yugoslav affairs for a number of years. He has served in several capacities in the Bureau of European Affairs. He actually wears two hats -- one as Deputy Advisor to the President and Secretary of State and one as Deputy Assistant of State for European Affairs.

Let me note that it is regrettable that our request for Administration witnesses on this important issue took so long to fulfill given this Committee's responsibility for oversight of our nation's foreign policy.

I now invite our Administration witnesses, Ambassador Pardew and Mr. Swigert, to make their opening statements. Gentlemen, without objection, you may summarize your testimony and your full statements will be included in the record.

It is now my privilege to introduce a former colleague, Joseph DioGuardi. Former Congressman DioGuardi has been involved in educating the American public and the Congress about issues concerning the Albanian population in the Balkans for over a decade. As founder and President of the Albanian American Civic League Joe has promoted the involvement in public affairs of our ethnic Albanian citizens from the northeast and throughout the United States.

Joe and his good lady, Shirley Cloyes, have provided me and our staff with invaluable insights into the conflict in Kosovo since it flared up in 1998. In fairness to Joe, I should point out that he has warned us that Kosovo would be a serious flash-point in the former Yugoslavia until justice was provided to its majority Albanian community. Joe first made this warning in 1989, soon after Milosevic had taken the step to strip Kosovo of its autonomy under the Yugoslav constitution.

I hope that prescience Joe has demonstrated over the years will help guide us today. Clearly our present policy has some significant problems and we invite Joe now to help enlighten us as to how we may correct them. You may submit your entire statement for the record and summarize as you see fit, without objection.

I now invite our witnesses on our third panel to be seated. Dr Bajram Rexhepi is a medical doctor who has now become active in the politics of the municipality of Mitrovice. Mitrovice has been the focus of much attention in recent months as the divisions alon ethnic lines between its northern and southern sectors are now one of the flashpoints of Kosovo.

Dr. Rexhepi has been on the frontline of the problems that have arisen in Kosovo since Milosevic revoked Kosovo's constitutional autonomy in 1989. He has continued to serve the people of Kosovo despite Serbian attempts to arrest him during the conflict.

We are also pleased to have Dr. Muhamet Mustafa with us this afternoon. Dr. Mustafa is President of Reinvest, an economics think tank that has focused on the reuirements for Kosovo to develop a self-sustaining economy. During the 1980s Dr. Mustafa served ina number of official positions in Kosovo and in the former Yugoslav government. He has led three projects in Kosovo during the past two years: "Economic Activities and the Democratic Development of Kosova," "The Postwar Reconstruction of Kosova: Strategies and Policies," and Business Education Network in Kosova."

Mr. Ilir Zherka is Executive Director of the National Albanian American Council which is a non-profit organization dedicated to fostering in the United States a better understanding of Albanian issues, and to promoting peace, human rights, and economic development in the Balkans. NAAC is also committed to helping build democratic institutions and providing humanitarian assistance to people recovering from the after-effects of war.
Mr. Zherka has served in the Department of Labor and as a Congressional staffer.

Ms. Linda Dana is from the town of Djakova the center of the heaviest fighting during the war. A former medical student, Ms. Dana will testify about her and her family's personal experiences during the war, and how the problem of accounting properly for the missing of Kosovo hampers the prospects for closure and peace. I am grateful to our colleague Mr. Earl Pomeroy for helping to arrange Ms. Dana's appearance this afternoon.

Lady and Gentlemen your testimony is most welcome. Dr. Rexhepi, you may proceed. Without objection, your entire statement will be entered in our record, and you may summarize it as you wish.

PREPARED STATEMENT OF AMBASSADOR JAMES W. PARDEW, JR., PRINCIPAL DEPUTY SPECIAL ADVISOR TO THE PRESIDENT AND SECRETARY OF STATE FOR KOSOVO AND DAYTON IMPLEMENTATION, U.S. DEPARTMENT OF STATE BEFORE THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

APRIL 11, 2000

Mr. Chairman, thank you for the opportunity to update the Committee on the situation in Kosovo. This presentation will review our interests and objectives, areas of progress in civil administration and reconstruction, current challenges, what we are doing to overcome them, and sharing the burden of the international effort.

Our continuing engagement in Kosovo relates directly to our national security interests. We know from history that a stable Europe is vital to American security, and that Europe is not stable if its southeastern corner is in turmoil. In the past four years, the U.S. and our allies have successfully contained, then subdued, conflicts in Croatia, Bosnia, and Kosovo as the former Yugoslavia broke apart. But the area's stability remains at risk from the Milosevic regime and the fragility of states recovering from conflict. International military forces are critical to creating a secure environment in Kosovo. However, sustaining the peace and establishing the conditions for long-term stability in the region require robust political, economic, and reconstruction programs backed by sufficient resources to make a difference.

There are two immediate civil implementation objectives in Kosovo. The first is to complete the establishment of an interim international administration under which the people can enjoy substantial autonomy. The second is to develop local, provisional, democratic, self-governing institutions to ensure conditions for a peaceful and normal life for all inhabitants of Kosovo.

One year ago, the North Atlantic Treaty Organization was engaged in an intensive air campaign to halt Milosevic's brutal repression of the people of Kosovo and restore order in the region. In 78 days the air campaign, supplemented by intensive diplomacy, succeeded in driving Milosevic's forces from Kosovo. The success of the NATO campaign set the stage for the deployment to Kosovo of the international security force and the international civilian administration organization. The NATO-led Kosovo Force (KFOR) and the UN Mission in Kosovo (UNMIK) remain the heart of the international effort in Kosovo today.

All of us would welcome faster progress for civilian implementation in Kosovo, but remember the situation ten months ago when Serb forces began withdrawing from Kosovo. The conditions encountered by UNMIK as it deployed and began to organize in Kosovo were desperate:

- Over one million people dislocated and traumatized by war.
- No economy; no government.
- Major destruction, including 120,000 homes damaged or destroyed.
- Infrastructure either destroyed or neglected.
- A communist legacy.

Today, the situation on the ground in Kosovo is dramatically better and continues to improve gradually day by day. International efforts have returned more than one million refugees and internally displaced persons (IDPs) to their homes, demilitarized the KLA, established a growing international police presence, and begun training local police. Humanitarian agencies have met basic shelter, food and medical requirements and pulled the population through the winter. Recently, UNMIK and KFOR have made progress in restoring order in Mitrovica, increasing CIVPOL deployment, increasing Kosovo Police Service training, preparing the groundwork for municipal elections this year, and securing Serb participation in UNMIK governing structures. Further, public and independent media are regaining their voices.

As NATO Secretary General Robertson pointed out recently, any Kosovar child can tell you how life has improved since the arrival of UNMIK and KFOR. Children have begun to attend school again, even if in tents. Many ethnic Albanians are studying in their own language for the first time in 10 years.

UNMIK, we must remember, has been on the ground for only about 10 months. The International Community's post-conflict task of repairing years of damage wrought by the Milosevic regime is extremely complex; many challenges remain. Ethnic tensions continue at an unacceptable level. The chronic problems in the divided city of Mitrovica will resume without an aggressive, sustained effort on the part of UNMIK and KFOR. FRY forces and ethnic Albanian insurgents confront each other in the Presevo Valley region of southern Serbia, where we face a tough challenge in preventing potential violence there from destabilizing the situation in Kosovo. The economy needs to be rebuilt and organized crime suppressed. UNMIK and KFOR must continue to improve security for Serb and other minority refugees and displaced persons so that they can return to their homes. In addition, we con-

tinue to see the need for countries to provide police up to the higher authorized level, an improved judicial system, and more complete staffing of UNMIK.

These are tough challenges, but they are not insurmountable. I would like to update you on programs to address these issues. Let me start with one of the most difficult problems—Mitrovica. Despite significant opposition from extremists opposed to the International Community's efforts, KFOR and UNMIK have developed a comprehensive strategy addressing the issues of Mitrovica. The UN has appointed a strong administrator for the region in American William Nash. KFOR and UNMIK have already returned more than 140 displaced Albanians to homes north of the Ibar River and KFOR has established and expanded "Zones of Confidence" in key problem areas around two bridges and one neighborhood. An international judge and an international prosecutor are in place in Mitrovica, and several more are planned. Economic development in the area is another factor of the strategy.

The UN remains short of civilian police, but it has made recent progress in CIVPOL deployments, with 2,757 regular police in country (513 Americans), out of an authorized 3,593. The UN has also begun to fill the 1,125 positions for special police units, which will assist in riot and crowd control. So far, 129 personnel have deployed, including a 114-member unit from Pakistan that will be assigned to Mitrovica. UNMIK is expecting two Jordanian units totaling 230 officers to arrive around April 18, and is working with other nations, including Spain and India, on further special police deployments in the near future.

The development of the Kosovo Police Service (KPS) is also progressing. There are currently 451 KPS in classroom training, with the fourth class having started March 27, and 341 in field training. The police academy director just verified that the school in Vucitrn can now accommodate as many as 700 Kosovar students, up from the previous limit of 500, in two classes with staggered semesters. This will prove to be a cost-effective way to reach the goal of graduating 3,600 officers by February 2001, toward a total KPS force of 4,000.

The Kosovo Protection Corps (KPC) is also progressing as an organization. A total of 4,500 KPC candidates have been selected, out of a ceiling of 5,000. The International Organization for Migration has begun training for field members in each of the six Regional Task Groups. The KPC is the most important element of a broad program to provide employment for KLA veterans. During this development phase, we are urging NGOs in Kosovo to utilize KPC for public works projects during periods when KPC members are not otherwise occupied.

We are keenly aware of the possibility that some demobilized members of the former KLA, including those who have joined the KPC, may act inappropriately. KFOR retains high standards for participation in the organization and are enforcing a zero tolerance policy regarding illicit activities. On March 1, KFOR and UNMIK put into force the KPC Disciplinary Code (DC), which constitutes the formal mechanism for enforcement of the rules for compliance and disciplinary action against offenders. The DC applies to all KPC members and provides the legal basis for the commander of the KPC to take disciplinary action against non-compliant members. On March 17, UNMIK and KFOR signed the Compliance Enforcement Framework Document, which assigns responsibility for investigating criminal actions to UNMIK, administrative discipline to KPC, and compliance violations to KFOR.

UNMIK has made progress in the creation of interim governing structures. On April 2, moderate Kosovo Serb leaders announced that they would participate in UNMIK-sponsored governing structures, particularly the Interim Administrative Council (IAC) and Kosovo Transitional Council. This was a direct result of Secretary Albright's dialogue with Bishop Artemije, who led this politically courageous change of policy. The Serbs will attend meetings as observers at first, but we hope and expect that this will quickly lead to full participation. Serb involvement in these joint institutions is vital to UNMIK's mission and it affirms the right of all Kosovo residents to play a meaningful role in their own governance.

Elections will be the next major step in the process of establishing provisional self-government in Kosovo. Civil registration, the key to developing a voter registry, is set to begin in April and be completed in July, in time for municipal elections to be held this fall. UNMIK is reportedly close to issuing the regulation creating the Central Election Commission, which will be responsible for setting election rules, overseeing the conduct and supervision of the election, and certifying the results.

As I noted earlier, Mitrovica and southern Serbia continue to be potential flashpoints. Ethnic Albanian insurgents in the Presevo region had pledged to reject the use of violence and seek a political solution, but we know that their insurgency actions continue. We will continue to warn extremists on both sides of the border that provocation and violence will not be tolerated. Additionally, KFOR and UNMIK are monitoring the situation carefully.

We are concerned that UNMIK does not have enough administrators and staff with specialized technical skills. We are working with the UN Headquarters and UNMIK to identify specific personnel needs and will work with allies to further increase the numbers and skills of the UNMIK staff.

An effective judicial system is a critical requirement in Kosovo. UNMIK has sworn in 289 Kosovar judges and 42 prosecutors. Criminal trials have recently begun in the district courts of Pristina, Prizren, Pec, and Gnjilane. The OSCE-established Kosovo Judicial Institute has begun training sessions for the newly appointed judiciary. However, qualifications, low pay, and intimidation remain significant obstacles to a working judiciary. A U.S. interagency judicial assessment team recently reviewed the state of the judicial system procedures and physical infrastructure. Its findings and recommendations will provide the basis to press for international support to rebuild the judicial system. We continue to work to further increase the number of judicial personnel and provide the basic equipment the court system needs.

Another focus area is the suppression of organized crime, which as in any post-conflict environment is a problem for re-establishing the rule of law and as a potential security threat. The exact magnitude of the problem is not known, but it seems clear that opportunists and professional criminals from both inside and outside Kosovo are operating in the province and could be using it as a transshipment point for illicit goods. Together with some of our key allies, we are developing a strategy to support the UNMIK International Police efforts to identify and take action against organized criminal elements. We were disappointed to see that funding for this effort was not included in the supplemental passed by the House.

The Kosovo media, which had been essentially silenced by Milosevic, has made a remarkable recovery following the cessation of hostilities in mid-June. Albanian-language newspapers and magazines are in Kiosks all over the major towns and a number of radio and TV stations have come on the air.

The U.S. has major interests in Kosovo and therefore participates significantly in the international effort there. However, the Europeans must lead the international effort and bear the lion's share of the assistance burden. Europe accepts this responsibility. Out of about 45,000 KFOR troops in Kosovo, European nations and Canada provide about 72 percent of KFOR forces (80 percent if you include Russia.) The U.S. contribution of troops comprises about 13 percent of the total.

In terms of civil implementation, the current total for all donors in fiscal year 2000 is just over $1.2 billion. The U.S. share of $168 million is thus estimated at 13.9 percent of FY 2000 spending on Kosovo revitalization. Our share of humanitarian assistance has been about 20 percent. Our costs for UN peacekeeping through UNMIK have been at the 25 percent level mandated by U.S. law, and costs for the U.S. share of peacekeeping through the Organization for Security and Cooperation in Europe have ranged from 10.1 percent (FY 99) to 16.9 percent (FY 00).

There are initiatives in Congress that propose an arbitrary limit on U.S. spending to support the international effort in Kosovo and the rest of southeast Europe. We believe that such legislation would be counterproductive. As Secretary Albright wrote in a recent New York Times op-ed piece, the day may come when a Kosovo-scale operation can be managed without the help of the United States, but it has not come yet. Proposals in the Congress to place a legal cap on U.S. expenditures would decrease our flexibility and harm, not help, our partnership with Europe in responding to future events. Such limits also do not take into account European contributions in our hemisphere. For example, the Europeans provided more than 60 percent of the bilateral aid pledged in the wake of Hurricane Mitch, assumed 33 per cent of the cost of establishing peace in El Salvador, and 34 percent in Guatemala.

Having just returned from Kosovo, I can tell you that the people there have emerged from a difficult winter and are preparing to build a new future. Pristina and the countryside are alive with activity. Everywhere you look you see examples of construction and commercial activity that represent the height of human perseverance and ingenuity. These are tough, resourceful people. They are grateful for our help, but they are not sitting back and waiting for us to rebuild their homes and lives. They need some tools and guidance from us to get started, but they are eager and able to do the job.

I hope this gives you a clearer idea of where we stand in Kosovo right now. I would be happy to answer any questions you might have. Thank you.

PREPARED STATEMENT OF JAMES W. SWIGERT, DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS AND DEPUTY SPECIAL ADVISOR TO THE PRESIDENT AND SECRETARY OF STATE FOR DAYTON AND KOSOVO IMPLEMENTATION, U.S. DEPARTMENT OF STATE BEFORE THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

APRIL 11, 2000

Mr. Chairman, thank you for the opportunity to testify on U.S. policy toward Montenegro. I will begin by describing our view of the current situation, outline our strategy for advancing U.S. interests, and update you on our efforts to assist the reform government of Montenegro.

President Djukanovic's prudent and forward-looking policies have made Montenegro a positive factor in the region. Montenegro opposed ethnic cleansing and supported a peaceful settlement in Kosovo; pledged support for the International Criminal Tribunal for the former Yugoslavia (ICTY); and has provided shelter and assistance to refugees and internally displaced persons. The Djukanovic government has also increased efforts to counter smuggling and organized crime and recently improved its police cooperation with Italy.

We share the concern of many Members of Congress about the situation in Montenegro and in particular, the efforts of the Milosevic regime in Belgrade to pressure the pro-democracy government of President Djukanovic. The potential for aggression or serious violence provoked by Belgrade is real. An outbreak of violence in Montenegro could set back reform efforts in the region, produce more suffering and more refugees, and seriously jeopardize U.S. interests in the region. At the same time, Milosevic is aware that such action carries serious risks for his own regime.

Consequently, U.S. policy is focused on preventing a new conflict from erupting and on providing the necessary assistance to ensure Montenegro can continue to develop democracy and a market economy. We have made strengthening the Djukanovic government, its base of support, and its ability to govern a priority—something good in itself—but we also see it as a proactive measure to decrease the chances of conflict by raising the costs to Milosevic of aggression against Montenegro's democratic movement.

We and our allies have made it abundantly clear to Milosevic that we are watching the situation in Montenegro and Serbia very closely. Secretary Albright has reiterated over the last year, most recently in Sarajevo last month, our strong interest in the security of Southeast Europe, including Montenegro. SACEUR General Clark has repeatedly stated, most recently in March, that NATO is watching the situation very closely. Last October NATO Secretary General Robertson assured President Djukanovic of the continued support of the Allies for his government and its efforts to promote political and economic reforms. A year ago NATO Heads of State and Government reaffirmed their strong support for the democratically-elected government of Montenegro. In December NATO Ministers stated they were concerned about continued tensions between Belgrade and the democratically-elected government of Montenegro and called on both sides to resolve their differences in a peaceful and pragmatic way. NATO ministers have also repeatedly called on both sides to refrain from any destabilizing measures. By now, Milosevic is fully aware of the priority we place on the security of the region and of Western capabilities to respond to any destabilizing actions.

The fundamental problem for Montenegro, as for its neighbors, remains the lack of democracy in Serbia. Because of its status as sister republic to Serbia in the Federal Republic of Yugoslavia (FRY), Montenegro is particularly vulnerable to pressure from Milosevic, who is fundamentally hostile to the Djukanovic government and its reform program. The Milosevic regime has routinely ignored or trampled on Montenegro's rights under the Yugoslav constitution.

During this winter, Montenegro was subjected to additional pressures:

- The temporary closure of the civilian airport in Tivat and the civilian-military airport near Podgorica.
- A build-up of Yugoslav Army presence at and interference with newly-opened border crossing points.
- The initiation of illegal television broadcasts of Milosevic propaganda from Yugoslav Army installations in Montenegro.
- An embargo slapped on by Belgrade to block trade with its fellow Yugoslav republic.

We have worked closely with the Djukanovic government to help it overcome these pressures. While tensions remain, and the embargo has raised costs to Montenegro of basic goods and medicines—also depriving Serbia of natural markets—the situation is calmer now than it was a few weeks ago. Rather than falling into Milosevic's trap of confrontation, the Montenegrin government is working with its

Yugoslav Army contacts to prevent security incidents from escalating. The prudent approach taken by the Djukanovic government denies Milosevic and his supporters any pretext for violence or intervention.

At the same time, we recognize that tensions could spike upward again and do so quickly, given Milosevic's hostility to Podgorica. Therefore, it is essential we maintain our support for the Djukanovic government and continue to actively promote a democratic transformation in Serbia. We firmly believe the establishment of a democratic government in Belgrade would make it possible for Serbia and Montenegro to establish a new, constructive relationship in which Montenegro could be a genuine partner with Serbia in a democratic Yugoslavia.

The reform program of the Djukanovic government is already acting as a model and a stimulus for democratization throughout Yugoslavia. Today, Montenegro is moving down a road toward greater prosperity that the people of Serbia could also travel, were their government democratic and willing to cooperate with the International Community. The Montenegrin government has worked actively with us and the EU in our dialogue with the Serbian opposition on promoting democratization throughout the FRY.

President Djukanovic has kept Montenegro on the path of peace and reform. His government, a multi-ethnic coalition of three democratic parties, has committed itself to building democracy and a market economy. Montenegro has progressed, thanks in large part to the strong, pragmatic leadership President Djukanovic has provided. His careful and steady approach has enabled Montenegro to provide a more tolerant and prosperous society, despite tremendous pressure from the Milosevic regime to fall in line.

Recognizing the constructive approach the new Montenegro government was taking, the U.S., and increasingly, the European Union, have supported the Government of Montenegro politically and with economic assistance.

Western assistance serves four valuable purposes. First, it helps to mitigate the destabilizing effects of Belgrade's economic sanctions against Montenegro. Second, it allows Djukanovic to show that his policies deliver concrete benefits to the people of Montenegro. Third, it reduces pressure from pro-independence groups on Djukanovic to take risky steps. Fourth, it concretely demonstrates to Milosevic our strong interest in Montenegro and to the Serbian people that our differences are with Milosevic and his policies, not with Serbs or Montenegrins.

The U.S. has become and continues to be the Djukanovic government's leading supporter and most vocal advocate:

- We exempted Montenegro from sanctions against the FRY—including the flight ban, the oil ban, and the financial sanctions—and persuaded the EU to follow suit.
- We worked with our NATO allies to minimize the impact on Montenegro of air strikes against FRY and Serbian forces to avoid inadvertently weakening support for President Djukanovic and his reform policies.
- We demonstrated political support through high-level contacts: President Clinton met twice with President Djukanovic; Secretary Albright hosted President Djukanovic in Washington last fall and met him in Sarajevo last month; and we have remained in close daily contact with key Montenegrin officials despite the inability to maintain a permanent presence in Montenegro.
- Following Montenegro's adoption of the Deutsche Mark as a parallel currency, we sent a team of economic advisors to assist in developing and implementing urgently needed reforms of Montenegro's macrofinancial policies, budgeting processes, tax system, banking sector, and payment systems. The EU is also providing advisors in coordinated efforts.
- Last month, we signed an OPIC investment incentive agreement with Montenegro to help stimulate private sector investment, which is essential to building a vibrant economy. The agreement allows OPIC to offer political risk insurance and financing to U.S. firms for projects in Montenegro. It also allows OPIC-sponsored investment funds to invest in U.S. and non-U.S. projects in Montenegro.

Furthermore, an essential element of our strategy has been to back up our political support with concrete economic assistance. In fiscal year 1999, we provided $26 million in SEED funds for programs and budget support, $15 million in economic support funds (ESF), and a substantial amount of humanitarian and food aid to help them cope with the sudden influx of tens of thousands of Kosovar Albanians. In fiscal year 2000, we are providing another $26 million in SEED for program and budget support and $11 in ESF while continuing to provide considerable humanitarian and food aid to alleviate the impact of Belgrade's economic sanctions against Montenegro.

However, we expect that the amount of monetary assistance for fiscal year 2000 will not be adequate to meet Montenegro's needs, which have increased due to Belgrade's intensified economic sanctions against Montenegro. Consequently, we have submitted to Congress a supplemental request for an additional $34 million in SEED funding. We appreciate the House's inclusion of this request in the supplemental bill passed on March 30 and hope the Senate will also support it.

While U.S. leadership and resources have been and remain essential, the U.S. alone cannot provide sufficient support for Montenegro, nor should we do so. Europe too has a strong interest in the success of Montenegro's reform efforts and an essential role to play. Thus, we have been working intensively at senior levels to encourage the EU to commit greater resources to Montenegro, and speed their delivery, bearing in mind the importance of strengthening the Djukanovic government at this particular moment. The response has been encouraging. This year:

(1) The European Commission doubled EU assistance to Montenegro for 2000 from 10 to 20 million Euros.

(2) The European Council tasked the European Investment Bank (EIB) with developing a plan for financing projects in Montenegro.

(3) In Brussels on March 30, Stability Pact donors pledged funds against a list of "Quick Start" infrastructure projects, which included $15 million of projects in Montenegro. We have submitted for congressional notification the intended U.S. share of this effort, which will leverage far larger European sums.

(4) EU members are looking for ways to increase their bilateral assistance to Montenegro. Germany has granted DM 40 million in investment credits and the Netherlands has also offered significant new assistance.

We will keep working with our European partners to get Montenegro the assistance it urgently needs.

For the Montenegrin government, keeping the economy stable and showing that relations with the West pay dividends are critical in the run-up to the June 11 municipal elections in Podgorica and Herceg Novi. About one quarter of Montenegro's electorate will be eligible to vote in these elections, which are expected to gauge popular support for the Djukanovic government's policies of democracy and economic reform. Currently, the economy surpasses relations with Serbia as the issue of greatest concern to voters.

Popular support for independence has grown considerably over the last few years, but the Montenegrin people remain sharply divided over the question. A substantial portion of the population, perhaps a third or more, remains strongly opposed to independence. Given Milosevic's support for Serb loyalists in Croatia, Bosnia, and Kosovo, we believe a unilateral move toward independence by the Montenegrins would provoke Belgrade to respond with force.

Absent Milosevic's threats, we would still be convinced that the best future for Montenegro is to remain with Serbia in a democratic, prosperous, and reformed Yugoslavia. Such a relationship would preserve the traditional ties between the peoples of each republic and facilitate their economic development. Clearly, a democratic Montenegro can be a model and stimulus for democratization throughout the FRY.

In closing, let me thank the members of the committee for this opportunity to discuss the situation in Montenegro and our policy there. We appreciate the strong support of this committee and other members of Congress both for Montenegro and for the Administration*s efforts to help the government of Montenegro remain a model for democratization in the FRY.

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International Relations Committee
U.S. House of Representatives
Hearing on Kosova

April 11, 2000

Testimony by Hon. Joseph J. DioGuardi
(U.S. Congress 1985 – 1989)
Volunteer President, The Albanian American Civic League

"Winning the Peace in Kosova"

The attached paper by Balkan Affairs Adviser, Shirley Cloyes, will be summarized in oral testimony as follows:

1.) **Independence for Kosova: The Only Way to Peace in the Balkans**
2.) **Resolving the Crisis in Mitrovice**
3.) **The Fallacy of Multiethnicity**
4.) **Transforming UNMIK**
5.) **Preventing Another Balkan War**

WINNING THE PEACE IN KOSOVA

by Shirley Cloyes DioGuardi

When President Clinton announced the withdrawal of the Serbian military forces and the arrival of NATO forces in Kosova on June 10, 1999, he said that, "We have a moment of hope. Now…we have to finish the job and build the peace." These were prescient words, but, as it has turned out, the United States and Western Europe have continued to operate from assumptions that, if left unexamined, will almost certainly insure that we will lose the peace in Kosova and usher in a fifth Balkan war.

Part of the Republican Congress, led by Armed Services Committee Chairman John Warner, is setting the stage for the dismantling of U.S. operations in Bosnia-Herzegovina and in Kosova. This would be a tragic outcome of President Clinton's efforts to resolve the Balkan crisis—one that would have disastrous consequences for millions of lives and for the future of Europe. However, if steps are not taken immediately to transform Bosnia from an unproductive, ethnically divided enclave, dependent for its livelihood and security on Western benevolence, and to safeguard Kosova from a similar fate, the Republicans will be able to justify their actions. If this happens, President Clinton will go down in history, not as the world leader who brought a just and lasting peace to the Balkans, but as the U.S. president who, by agreeing to the "quick fix" of the Dayton Accords and the Kumanovo agreement, brought a costly and destructive end to the hope of a unified, stable, and democratic Europe in the 21st century.

The Republican concern about prolonged military involvement in the Balkans was given an added boost on March 20 from Democratic Senator Robert Byrd in the pages of

The New York Times. Byrd asserted that the United States should "turn the Kosovo peace-keeping operation over to our European allies," because Europe agreed to manage the reconstruction. Europe, indeed, agreed to bear the responsibility for keeping the peace in Kosova, but as the editorial staff of *The Washington Post* rightly argued on March 18, the United States must also shoulder its part. In order to stabilize southeastern Europe, which the editors concur is a "vital American interest," "the only thing worse than accepting the burdens of leadership in Kosova would be to try to fob them off on others."

The Republican call for a pull-out of all troops and funding in the Balkans and the growing Democratic sentiment articulated by Senator Byrd that the prudent (read: convenient) course of action is to leave this region in the hands of Europe reveal that both sides of the aisle are flying blind. Their positions signal either a serious lack of information or denial about what is happening in the Balkans today, as well as a profound ignorance about the longterm, negative impact of their positions on Europe's future and U.S. geostrategic interests.

If President Clinton does not want to lose the peace in Kosova and, with it, prospects for a stable, prosperous, and democratic Europe, then he will have to exercise moral leadership and take bold diplomatic steps on the global stage with dispatch. The Clinton administration's decision to bomb Serbia was terribly important, because it saved tens of thousands of Albanian lives, maintained NATO's credibility, and justified intervention when mass murder and mass expulsion became state policy. However, the Balkans remain in crisis largely because the United States and Europe did not take the military steps necessary to achieve an unequivocal Serbian defeat. (This would have required

ground troops and would have resulted in the capture of Serbian dictator Slobodan Milosevic and other indicted war criminals.) Therefore, as *Newsweek* editorialized on June 21, 1999, "the ultimate legacy of Kosova will depend on whether our diplomatic endgame matches the display of our power."

The future of Kosova hangs in the balance because our State Department is divided between two forces. Those foreign service professionals who understand that Slobodan Milosevic is the problem in the Balkans--having conducted five wars of conquest and genocide from 1991 to the present--have called on two presidents to respect the integrity of each of the juridical units in the federal presidency of the former Yugoslavia and to integrate Bosnia and Kosova into Europe. They understand that we have a moral obligation to stop "ethnic cleansing" and genocide and a political obligation to bring peace and stability to the Balkans by integrating the region into the rest of Europe. The others, who have unfortunately prevailed to date, rarely speak of Milosevic's role and instead blame the victims, branding them as "terrorists" instead of recognizing them as people rising up to stop relentless oppression. They subscribe to the failed policy of appeasement and containment that, beginning with the Bush administration, has resulted in the deaths of 300,000 in Bosnia and in the expulsion of more than one million Kosovar Albanians and in the killing, torturing, and imprisoning of many thousands more. This group enabled Milosevic, the war criminal, to become the peacemaker at Dayton. This group kept Albanians out of the negotiations and Kosova off the table at Dayton. This group responds to the symptoms of the Balkan crisis rather than trying to eradicate its causes. This group operates on the basis of the erroneous assumptions that continue to shape U.S.

and European foreign policy in the Balkans in self-defeating ways.

Independence for Kosova: The Only Way to Peace in the Balkans

The most pernicious assumption held by the West is that an independent Kosova will threaten peace and stability in Europe, when in fact, the reverse is true. President Clinton has publicly stated that he has been profoundly influenced by the work of Balkan scholar Noel Malcolm. Malcolm wholeheartedly endorses independence for Kosova as "the only longterm option that offers a genuine and just solution." He has repeatedly asked why the West continues to rule this option out, and he has never, in his opinion, received a convincing answer.

When the Yugoslav federation dissolved in 1991 and 1993, each constituent unit of the former Yugoslavia was equal and therefore had a legal right to self-determination under international law. Bosnia, Croatia, Macedonia, and Slovenia successfully declared their independence. According to Malcolm, independence for Kosova, which Kosovar Albanians voted for in a referendum in 1991, thus would have followed an established precedent. Instead, Serbia was allowed to annex and occupy Kosova in 1989 without any protest from the West. When the West could have secured Yugoslavia's peaceful dissolution, it instead allowed Serbia, in the name of "keeping Yugoslavia together," to wage wars of aggression and embargoed Bosnia's access to arms. America and Europe, therefore, became complicit in Milosevic's policy of "ethnic cleansing" and destabilization.

The war-ending agreement for Kosova represents our inability to learn from the past. UN Resolution 1244 both affirms Serbian sovereignty, but also effectively dismantles it.

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It is impossible to administrate Kosova when some NATO member nations support a total suspension of Serbia's sovereignty, while others vigorously uphold it. The United States recognizes that Serbian sovereignty after genocide is untenable, but this matters little when progress on almost every issue is obstructed by the ambiguity that is built into UN Resolution 1244. In such a climate, only two options remain: either NATO forces maintain Kosova as an international protectorate for an extended period, or Kosova is permitted, eventually, to become independent.

As Croatian scholar Branka Magas stated in a speech to the Bosnian Institute in London on May 10,1999, "Unless the process of dissolution of Yugoslavia is allowed to be completed and the Former Republic of Yugoslavia dissolved into its component parts, thus setting Kosova on a path to independence, it will be impossible to build a peaceful and democratic state system in southeastern Europe." Militating against this path is the pervasive assumption in the U.S. government that the independence of Kosova will lead to a "Greater Albania" and, with it, the rise of an Islamic state in the heart of Europe.

"We spent the 1990s worrying about a Greater Serbia, National Security Council Advisor Christopher Hill told the *New York Times* on July 2, 1999. "That's finished. Now we are going to spend well into the next century worrying about a Greater Albania." Nothing could be farther from the truth. Regrettably, we are not finished with the project of "Greater Serbia," which has been the only hegemonic force in the Balkans--a project that the *Times*, in response to Hill's statement, acknowledged has been "pursued with ruthless violence" by Milosevic, while there is "no evidence that Albania has similar will or might." Meanwhile, Albanians are not interested in changing borders, but in defending

themselves from extermination, forced expulsion, and forced assimilation. The threat of "Greater Albania" has always been wielded by those seeking for a variety of reasons to maintain the West's relationship with indicted war criminal Slobodan Milosevic.

Regarding the purported threat of an Islamic state in the heart of Europe, this concern reached new heights of absurdity during the war, when Senator Don Nickles disseminated a report through the Senate Republican Policy Committee, entitled "The U.S. and Iran's New Balkan Front." Written by Yossef Bodansky, it raised the specter of Islamic fundamentalism spreading throughout the Albanian world at the behest of Tehran and threatening Europe. From beginning to end, the report is a complete work of fiction. But if we were to agree with the premise of the report--that fundamentalist Islam represents a serious danger to Western interests--then we should welcome the presence in Europe of moderate, secular Muslims, such as the Kosovar Albanians (who have lived harmoniously with their Catholic and Orthodox brothers and sisters for centuries), the Bosnians, and the Turks.

Resolving the Crisis in Mitrovice and Presheve

The destructive consequences of Kosova's ambiguous status are now being played out in Mitrovice and Presheve. Bowing to France, we placed Mitrovice under French zonal command—a prescription for disaster in view of longstanding French collaboration with Serbia. After the war, the French prevented Albanians from returning to their homes and jobs in the north, allowing the Serbs, many of whom are acting on orders from Belgrade, to create a de facto partitioning of the city in violation of UN Resolution 1244. This left the northern sector, whose original inhabitants were primarily Albanians, in the hands of

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Serbs who then proceeded to loot and occupy Albanian apartments. The southern sector is populated almost entirely by Albanians and controlled by UNMIK. The conflict in Mitrovice has been presented as a contest between ethnic groups who have hated each other for centuries. This is an outrageous explanation, since it is French perfidy that has ushered in this state of affairs and is the principal source of the violence there. On March 11, *The Scotsman* newspaper reported that top international officials had accused French peacekeepers of cooperating with Serb paramilitaries controlling access to northern Mitrovice. This followed a similar accusation by the UN police, who verified that the KFOR French soldiers ignored their pleas for help against Serb gangs, who killed ten Albanians in a rampage at the beginning of February.

In addition, it has been widely publicized that the northern sector is teeming with Serbian paramilitary and military troops. Milosevic knows that by escalating tensions in Kosova the NATO alliance may unravel and Washington will grow ever more reluctant to act (witness the recalling in February of U.S. troops from northern Mitrovice because they were stoned and kicked by Serbs when they joined a multinational citywide search for weapons).

If Milosevic cannot have Kosova, then he wants the Trepca mining and metallurgical complex in northern Mitrovice. As the international community knows, he is trying to consolidate the northern sector in Serbian hands as a possible prelude to the permanent partition of Kosova in the name of Serbian "sovereignty." Although the Clinton administration has repeatedly made it clear that partition is unacceptable, there are numerous forces in the U.S. Congress and in Europe pushing in this direction. In order to

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ensure that Mitrovice remains in Kosovar hands, the following steps need to be taken: 1) The French KFOR troops need to be replaced with an international peacekeeping force; 2) the only hospital in Mitrovice, which currently has a Serbian staff of more than 700 people presiding over a patient population of ten to twenty, should be closed down for modernization and reopened with a multiethnic staff that is chosen by an international team of medical experts; 3) Albanians must be allowed to return to their homes in the north; 4) The French, who brought Serbian directors and workers to the Trepca mines after the war, must now return the Albanian directors and workers; 5) The international community, consistent with UN Resolution 1244, should reclaim the Trepca mines, which were forcibly wrested from Albanian control during the occupation, and place them under the control of UNMIK; 6) KFOR, in compliance with UN Resolution of 1244, should evict from Mitrovice all Serbian military and civilians who are not residents of Kosova; 7) KFOR should disarm all civilians in Mitrovice; 8) the Serbian border should be patrolled vigorously by a multinational force, ideally in cooperation with TMK (who can help identify Serbian paramilitary and military troops, as well as rogue KLA members who may be operating in Mitrovice).

The other flashpoint in Kosova is Presheve. The reports that "Albanian radicals" have infiltrated Southern Serbia in an effort to control Albanian-populated towns there do not reveal the whole story. First, little acknowledgment has been made of the fact that since the end of the war at least 6,000 Albanians have fled from Presheve, Medvejge, and Bujanovc, when the Serbs began a campaign that included harassment, beatings, looting, threatened murder, and forced expulsion. The Albanian mayor of Presheve, Riza Halimi,

has reported that Milosevic's forces are trying to drive Albanians in Southern Serbia into Kosova. Because of continuing "ethnic cleansing" in Southern Serbia, largely ignored by the West, a group calling itself the Liberation Army of Presheve, Medvejge, and Bujanovc that includes some former members of the Kosova Liberation Army, has entered the region to protect Albanians. According to Arben Xhaferi, the Albanian leader in Macedonia, they are trying to stop Serbian police and military from killing Albanians and destabilizing the region. While this is true, some former KLA members privately complain that this group is acting on its own authority and is only compounding Kosova's problems, because it is incapable of protecting the Albanian minority in Southern Serbia.

Either way, the media's portrayal of an Albanian threat to American forces in Presheve is completely irresponsible. As State Department spokesperson James Rubin stated after his March visit to Kosova, "there is a deep reservoir of respect, thanks, and goodwill toward the United States, not only among the political leaders, but at lower levels as well."

Instead of allowing the media to inflame public opinion, NATO should accompany General Agim Ceku, commander of TMK, and Major General Ramush Haradinaj, deputy commander of TMK, to Southern Serbia to develop a strategy for saving the Albanians in this region. The key is not just restraining renegade elements of the KLA (which are outside the control of the leadership), but of ending Milosevic's subversion in the Balkans. In addition, no matter what the cost in terms of additional troops, NATO must seal the border with Serbia.

The Fallacy of Multiethnicity

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The second major factor undermining the peace in Kosova is the international community's insistence on the creation of a multiethnic state in a country that is more than 95 percent Albanian and living in the shadow of the worst brutality in Europe since the Nazi era. Unlike Bosnia before Milosevic waged war, Kosova is not a multiethnic state, but a state with an Albanian majority with minority populations whose rights must be respected. For years Albanians and Serbs lived side by side without incident. That this has changed in the wake of Serbia's genocidal war against Albanians should come as no surprise. By attempting to establish a false parity and coexistence between those who engaged in state-sponsored mass murder and the victims, the international community is generating the opposite of what it should want in Kosova; namely, a state where the rule of law and respect for the human rights of all people prevails.

The problem is not Albanian failure to live harmoniously with Serbs; the problem is a century of anti-Albanian racism in the Balkans, which culminated in Milosevic's brutal ten-year occupation of Kosova and his subsequent attempt to expel or kill all Albanians. Postwar retaliation by Albanians is not the result of ethnic hatred, but of grief, resentment and desperation in the absence of justice for the victims. An end to individual acts of revenge and peaceful coexistence between Albanians and Serbs can be achieved in the long run only if justice and security are guaranteed in the short run. This will require abandoning the fallacious proposition of constructing a multiethnic Kosova in favor of promoting respect for minority rights; "denazifying" Serbia and the Serbs in Kosova who have collaborated in the torture, rape, murder, and expulsion of Albanians; the indictment and apprehension of all war criminals, <u>including Kosova's Serbian civilians who</u>

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committed crimes against humanity; a formal apology from the Serbian people and the international community to the Kosovar Albanians for what they have suffered during the occupation and the war; and a serious effort on the part of the United States, the UN, and NATO to secure the release of the 7,000 Albanian prisoners of war in Serbian prisons.

The unresolved fate of Albanian prisoners of war and the international community's failure to mount an organized, public campaign to demand their release is fueling social unrest and undermining NATO's credibility. The international community made a terrible mistake in not demanding the release of Albanian prisoners of war as part of the peace agreement. Forcibly removed to Serbian prisons and other facilities at war's end in violation of the Geneva Conventions and humanitarian law, Albanian POWs are subject to daily torture and deprivation. Their release should have been a condition of the war-ending agreement, but the provision that guaranteed their freedom in the first draft of the Kumanovo Agreement was dropped. According to a January 26, 1999 report from the International Crisis Group, the provision was dropped by the U.S. State Department, the Joint Chiefs of Staff, the Department of Defense, the CIA, and the National Security Council in order to secure an immediate end to the war. To rectify this situation, the UN Security Council should immediately issue a resolution demanding their release; support for Serbian opposition leaders and humanitarian assistance to Serbia should be contingent on securing the freedom of the Albanian POWs; and Europe and the United States should present a unified response to Serbia on this issue, with the aid of countries such as Canada and Italy that still maintain diplomatic missions in Belgrade.

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Transforming UNMIK

The third factor major imperiling the peace in Kosova is that UNMIK is underfunded by the United States and Europe and poorly administered by Bernard Kouchner (although he has a good heart, he lacks the conceptual understanding and vision to do the job). Nine months after the war, no functioning sewage, electrical, water, judicial, health, or telecommunications systems are in place. The international police force is insufficient. Doctors, teachers, local police, garbage collectors, road crews—the full range of civil servants—have been working long hours without pay for months. The recent surge in social chaos and the creeping criminalization of Kosova is a direct result of persistent deprivation, not ethnic enmity. If the United States wants to save money and lives, then the U.S. government and the European Union must meet their financial commitments for the reconstruction of Kosova. They must transfer the funds they have pledged now.

Kosova has suffered, by some estimates, as much as $60 billion in damages. The EU has pledged $340 million for the reconstruction of Kosova and $45 million of this year's UN budget, but only a small fraction of the amount pledged has been delivered. Meanwhile, too much money has been spent on building large international bureaucracies to administrate Kosova, when, in fact, Kosovars, who are hardworking, resourceful, educated, and independent, could be implementing much of the reconstruction process. For ten years under the brutal Serbian occupation, Kosovars created parallel institutions. Today they want to bypass the "aid economy." Kosovars believe that physical reconstruction must be tied to economic development and achieving economic independence. Western officials and media have acknowledged that much of the energy and activity that

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one sees in postwar Kosova is coming from the Albanians themselves (with access to money from the Albanian diaspora and from some international and local NGOs), not from the international governmental organizations.

The emphasis on humanitarian aid, which was the mistake that the international community made in Bosnia, must be replaced with a plan for Kosova's early entry into European economic structures. As Benn Steil and Susan Woodward argue in the November/December 1999 issue of *Foreign Affairs*, the West's original strategy of containment in the Balkans must be changed into one of economic incorporation into the rest of Europe, if the goal is private-sector development, respect for the rule of law, and an end to violent conflict over resources. One of the first things that the United States can do to achieve this end is to remedy the total absence of Albanians on the three committees that have been formed to implement the Southeast European Stability Pact.

Preventing Another Balkan War

After the Balkan Wars of 1912-1913, it was U.S. President Woodrow Wilson who, by standing up to the other "Great Powers" in insisting on the recognition of the State of Albania, saved the Albanian people from complete destruction at the hands of hostile Slavic regimes. In so doing, he generated among Albanians throughout the Balkans a permanent feeling of respect and gratitude to America. Wilson is remembered and revered for his act of courage. While Serbia remains a Communist state and looks toward the East, the Albanians of Kosova look to the West and are pro-democratic.

In 1998-2000, we are witnessing almost a replay of what transpired at the beginning of the twentieth century. For the second time in the life of the Albanian people (the only

indigenous inhabitants of the Balkans), America has intervened to prevent their extermination, this time through President Bill Clinton. Russia, one of the "Great Powers" that played a major role in the carving up of Albanian lands at the beginning of the twentieth century, is repeating that role today. Russia has always been Serbia's ally, even to the extent that its troops participated with Milosevic's forces in his war against the Albanians of Kosova. As a result, Russia has no incentive to make the UNMIK operation succeed—even more so, because Kosova has become the symbol of Russia's loss of influence in the Balkans. Instead of insisting that Russia must be brought into the political settlement of Kosova, the United States should look for other arenas in which to work out Russo-American cooperation, while expediting the resolution of Kosova's status within the NATO milieu. Given the alliance of Russia, China, Greece, and France with Serbia and their hostility to the independence of Kosova, moving the issue, with the help of England and like-minded Western European partners, to a definite conclusion before the end of the Clinton presidency is critical.

The Clinton administration has taken a cautious approach to Kosova's problems in recent months, apparently in an attempt to keep U.S. troops out of harm's way and to avert a European crisis during the presidential campaign. But only a bold approach will win the peace in Kosova. It must be remembered that America's leadership in going to war against Slobodan Milosevic made all the difference in stopping a second genocide in the heart of Europe in this century. But it must also be remembered that it was America's caution during the war that left Milosevic and his henchmen in power at war's end and able to attack the Balkans once more.

Testimony of Linda Dana
before the House International Relations Committee
April 11, 2000

Thank you Mr. Chairman, Members of the Committee, Congressman Pomeroy. My name is Linda Dana. I am from Gjakova in the western region of Kosova. I am happy and grateful to have the opportunity to speak with you today about missing and imprisoned people -- an issue that touches many Albanian families in Kosova, including mine.

It is estimated that 4,500 Kosovar Albanians are imprisoned in Serbia and are still unaccounted for. To date, Serb authorities have not been forthcoming with information. Until we know the fate of our family members and fellow citizens, the war will not be over for us. I am here today to ask the United States government to help us find out what happened to these people.

Today, I speak for the people of my city, prisoners and missing persons. Before the war, I was a medical student. I was born and grew up in Gjakova, the third largest municipality in Kosova. Gjakova was both a cultural and industrial center. The prewar population of the city and surrounding villages was approximately 141,000 residents, 2% were Serbs. Kosovar Albanians were not free. At best we were second class citizens. We could not hold jobs in state supported enterprises, attend state secondary schools or universities, or travel freely. We were forced to live in a parallel system. We survived.

The war came to Dukagjini region in western Kosova in the summer of 1998 long before NATO bombing. The city of Gjakova was almost totally blockaded. Travel in and out of the city was dangerous if not impossible. There was continual, heavy fighting in villages around Gjakova between Serb military forces, the KLA, and civilians.

On March 24, 1999 Serb military and paramilitary forces burned the historical sections of Gjakova to the ground in an act of revenge. For 450 years Old Town has been the cultural and economic center of the city and a symbol of community pride. The burning of Old Town marked the beginning of terror for us.

During the next two and a half months, many people were forced to leave the city. Of the almost 60% that stayed, 1500 people were either killed or captured by Serb forces. Some are known prisoners but the fate of many others remains unknown.

In the city, paramilitary forces went from home to home, sometimes torturing, looting, or rounding up men and boys. There are stories of people being killed who refused to open their doors to police. Civilians were forced to hide in their homes. As many as 30 people gathered in one house, posted lookouts and waited for the Serb police.

On the night of April 1st, my neighborhood was in flames. I was alone with my mother and father because my older brothers had been on the run for five days. I don't know how we survived. On the morning of April 2nd, we were forced to leave our home and along with thousands of people we fled the city.

I left with my childhood memories, with youth songs, but without my brothers. In hope that we would find my brothers among the lines of people, we walked for nine hours to reach the border. We stayed for two rainy nights in the mountains of Albania until we reached the northern Albanian town of Kukes.

But my brothers never came. They never passed the border of hope, rather they were forced to stay in the city of hell and be threatened with death at each turn. After 72 long days, the war was finished, but my suffering and the suffering of many Albanian families did not end. I had lost my home and my second eldest brother was missing in the city together with hundreds of men who were taken, killed, or had disappeared.

Between May 7th and May 15th, 300 people were taken from their homes. At 8:30 a.m. on May 10th, paramilitary forces entered the street, Asim Vokshi, at my uncle's house where my second brother was staying. They separated men and boys from the women and children, beat an old lady who refused to let go of her sons and forced the other women to leave the streets. According to eye witness accounts, 30 men, including my brother and nine members of my extended family, were taken into the street where the police checked documents, beat some of them and shot others. The bodies were later removed. Witnesses also claim that they saw some men forced into a police van which was driven away. We don't know who the men in the van were.

My story is not unique. There are many stories like this. It was hard to be back and face my destroyed city, people, friends, and relatives. The story of my hometown remains painful and unfinished. The drama continues. Every Friday people go into the roads in peaceful protest with photos of their loved ones asking and seeking answers.

A citizens' organization from Gjakova, the Office for Information on Detainees and Missing People has been working with national and international organizations to gather information about missing, detained and imprisoned persons. It is known that when Serb forces retreated they transferred prisoners from Kosova to Serbia. According to their records, 370 people from the municipality of Gjakova are in Serbian prisons, 703 people's fate is still unknown. Local organizations and the newly appointed

Gjakova municipal commission are working closely with Kosovar Transition Council's Commission on Prisoners and Detainees and the International Committee of the Red Cross to bring this issue to the attention of the International community. They have called upon the former Republic of Yugoslavia and Serb authorities to provide a full accounting of known dead and persons currently detained or imprisoned in Serbia. As well as the immediate release and return of prisoners and detainees. They have also requested that the Secretary General of the United Nations appoint a special envoy to address the issue of missing persons. On their behalf, I am asking the United States government to support these efforts.

I know that in the recent weeks representatives from the United States government and the governments of Western Europe have expressed concern about incidents of ethnic violence directed at Serbs and other minorities in Kosova. We, too, want the violence to end because until it does, the conflict in Kosova will not be over. It is also true that until we know what happened to members of our families, we will not be free to build a better future for all Kosovars.

In closing and on behalf of all Albanian Kosovars, I want to express our sincerest gratitude to the American people, President Clinton, the Congress of the United States, and all the NATO allies. It is because of your courage and assistance that we are alive and we are free, that we have our human dignity back and our eyes look toward the future.

The task of rebuilding our lives and communities is well underway. I have seen firsthand the impact of the United States' assistance to Kosova as an employee of the USAID Office of Transition Initiatives. I have worked in partnership with communities throughout Kosova to provide emergency relief, rebuild homes and schools and repair water and electrical networks. We still face the enormous task of building a viable market economy and a free democratic society. We know the responsibility is ours. With the continuing support of the United States and the European allies we will build a better future. Please do not lose faith in us. In hopes that my words have conveyed the clear message of gratitude and appreciation of Kosovar people, I thank you.

Committee on International Relations
U.S. House of Representatives
Hearing on Kosova

April 10, 2000

Testimony by Bajram Rexhepi, M.D., Chairman of the Commune Mitrovice, and Shyqyri Kelmendi, Vice-Chairman and former director of the Trepca Mines

I am pleased, Mr. Chairman, that you have invited me to present testimony to your committee about the problems of the city of Mitrovice, which has been illegally divided. I will focus on the problems that are obstacles to resolving the Mitrovice issue and that thereby prevent the establishment of peace and stability in postwar Kosova.

The Roots of the Problem

The following factors contribute greatly to the crisis in Mitovice:

1) Milosevic has created a system of parallel Serbian institutions with Serbian agents from Belgrade acting in Mitrovice in an unrestrained way.
2) The Serbian regime has created executive councils in the Serbian areas of Mitrovice to implement Serbian control, in violation of UN Resolution 1244.
3) Undercover Serbian police masquerade as civilians, while they in fact operate with sophisticated communications equipment and weapons.
4) Parallel courts operate in a continuation of Serbian prewar trials.
5) Even local services, such as elementary schools, high schools, the university, and the hospitals are provided by a parallel system of local institutions and communes.

Current Reality

In postwar Kosova, the Albanians have always been cooperative, with the aim of creating as soon as possible joint organs of local administration. The Serbian side has

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been marked by a lack of cooperation, intentional obstruction of efforts to create a joint administration, and outright acts of violence. This behavior belies the reality of what is happening to the Serbian population at the local level. Many Serbs are actually ready and willing to cooperate, but they have been prevented from doing so by extremists who have threatened them and their relatives with death.

There are not yet even minimal conditions for the security and free movement of the citizens of Mitrovice. Security is imperiled by organized Serbian bands acting in a concerted way. These bands operate with a mandate from the Serbian police, and, in fact, most of their members were at one time either policemen or members of the Serbian secret police. They are well known and are often identified as such by the general population. These individuals threaten the Albanian population in the northern part of Mitrovice in a systematic way in order to breed fear and trigger ethnic cleansing there. Organized crimes against the non-Serbian population are frequent. Thus far, seven Albanians, one Bosnian, and one Turk have been killed.

Ethnic cleansing of the non-Serbian population began before the war, raged during the war, and it actually continues after the war with the same intensity. In relation to this, it is important to examine population figures before the war. There were 2,512 Albanian families (53 percent) and 2,259 Serbian families (47 percent) in Mitrovice. Albanians in total numbered 15,052, or 62 percent of the population, while Serbs numbered 9,264, or 38 percent of the population.

During the war, more than 7,200 houses resided in by the non-Serbian population were either burned to the ground or severely damaged. Elementary schools and medical

facilities were completely destroyed. Albanian homes that were not destroyed were quickly occupied by Serbs, many of whom are men without families who fled from other parts of Kosova. Others have come directly from Serbia in order to direct militant anti-Albanian groups. Our current assessment is that more than 60 percent of the Serbs in the northern part of Mitrovice are not residents of the city. This reality makes the resolution of the division of Mitrovice even more difficult than it already is.

The economy of the city has been negatively impacted by the lack of security and barriers to the free movement of the population. We have not been able to reactivate any previously productive enterprise. We had factories that before the war were producing equipment, cement, textiles, leather, and processed wood. Today, none of them are in operation. The various parts of the Trepca mining and metallurgical complex, one of the largest in Europe, are partitioned. The lack of progress on the economic front is especially demoralizing to the residents of Mitrovice.

Why Serbia Wants to Divide Mitrovice

The Milosevic regime would like to keep the natural resources and industrial plants of Mitrovice and its suburbs under its control. Serbia wants, above all, to maintain control of Trepca. In order to keep the mineral wealth of Trepca in his hands, Milosevic must dominate the political dynamics in the region. He is trying to create a geographical and ethnic connection between Serbia and the northwestern part of Kosova. The populations of Peposaviq and Zubinpotok, for example, are now 90 percent Serbian and 10 percent Albanian. With the ethnic cleansing of the northern part of Mitrovice, the city is now divided by the Iber River between a Serbian in the north and an Albanian majority in the

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south.

The northern sector is, as I stated earlier, a haven for Serbian war criminals, gangs, and members of organized criminal syndicates. Their unrestrained movement between Serbia and Kosova and their stockpiling of weapons has been very visible. It is becoming increasingly apparent that Milosevic wants to control the northwestern part of Kosova as the first step in a strategy to destabilize or attack Montenegro, the Sandzak, and Kosova. The principal source of provocation and new conflicts is the continuing existence of the Milosevic regime.

Resolving the Division of Mitrovice

In order to prevent the permanent partitioning of Mitrovice, the multinational KFOR forces must control the flow of arms and use of covert communication devices on both sides of the city. The border between Serbia and Kosova must be controlled. Under UN Resolution 1244, Serbian troops and non-residents of Kosova must remain five kilometers behind the border.

The UN police must play an active, professional role in the life of the city. The arrest of criminals and the removal of troublemakers will lower tensions and make it possible to begin the path to peaceful coexistence between Albanians and Serbs. All residents of Mitrovice should be assisted in returning to their homes and buildings on both sides of the city. Schools that have been occupied by Serbs must be released, so that students may return to their classrooms. Steps must be taken to reactivate the economy, with an emphasis on the stimulation of small and medium-sized businesses. This cannot happen unless joint institutions and a local administration are established immediately.

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Regarding the latter, the existing measures set forth by the Transitional Council of Kosova to insure freedom of movement throughout Mitrovice, while not ideal, should nevertheless be implemented as soon as possible.

There is a pressing need to increase the efficiency of UNMIK's civilian administration. This could be accomplished, in part, through closer and more complete collaboration between the UNMIK, the police, and KFOR and greater engagement with the local population.

I want to close with a word of thanks. In spite of all the problems that Mitrovice continues to face, the NATO intervention in Kosova stopped Milosevic from implementing full-scale genocide, created the possibilities for the return of the Albanian population, and provided a path that ultimately will enable us to create conditions for a normal life. Without this action by the West, especially by the United States, with the constructive commitment of the Congress, the world would have abandoned itself to barbarism.

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Reconstruction Trends and Challenges in Kosova

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(Speech on the Congressional hearing of the Committee on International Relations, House of Representatives on Situation in Kosova)

Washington, April 11, 2000

Mr. Chairman,
Members of the committee,
Ladies and Gentleman,

It's a great honor and unique privilege for me to have the opportunity to address you during these challenging times for Kosova.

The key point I would like to make to you in my testimony today underlines the importance of channeling Kosovar energy and determination into the international reconstruction effort. The Kosovar people's impressive determination and energy to return to their land, after the dramatic events of the last ten terrible years, and to build their free and democratic society needs to be articulated and accepted through the good management of reconstruction. For lasting sustainability and stability, Kosovar participation in the reconstruction effort should be encouraged in a number of ways:

- More active programs to engage a broader cross-section of Kosovar's within the international reconstruction effort;
- The creation of an economic framework that reflects Kosovar needs and aspirations, and discourages informal and illegal economic activity designed with Kosovar input;
- The strengthening of Kosovar civil society and other democratic institutions and their inclusion in the renewal process; and
- The continued commitment of the U.S. and international community to transform Kosova from and "aid-based" economy, to a self-sufficient economy.

The aftermath of NATO's entering in Kosova, and the post-war reconstruction and renewal effort of the last ten months have brought about radical changes. Kosova's reconstruction is a complex task, it is not just the continuation of everyday life (starting from March 24,1999) but the creation of a new living environment, including the recovery of a fragile economy, its transition to a market economy, and the building up civil society. My organization has conducted several surveys to gauge the impact of the conflict, which I would like to share with you today, in order to illustrate our challenges. During the war, about 88% of the Albanian population was deported out of Kosova or displaced from their residences within Kosova, family incomes were reduced by 70%, 70-80 % of household goods were destroyed or looted, and private housing stock was reduced by 40%. In commercial life 92% of private companies suffered some form of damage (averaging around $130,000 per enterprise), livestock and farming equipment levels were reduced by 50%. The situation in our socially-owned companies and public companies was compounded by the technological degeneration and lack of investments during the last decade, after their de facto occupation and colonial-style management of the Serbian regime which focused on wealth extraction without investment. Our unemployment rate immediately following the war was 74%. When we consider the

systematic destruction of the Milosevic regime in interethnic relations during the last ten years, and the terrible social and psychological war consequences for thousands of families and individuals in Kosova, we have a more complete picture of the devastation in post –war Kosova.

However, there is also good news to share, we estimate that about 95% of deported and displaced population have returned in, or near to, their previous residences, showing their interest to rebuild their homes. Family businesses such as shops, restaurants, handicrafts and services have been re-activated very quickly, around 70% of private of small and medium enterprises have restarted and increased their turnover by 40%, employment by 27% and salaries by 64% compared to 1998. Farming and land cultivation lags behind due to the large scale of devastation of the living environment and private property at the village level. We expect that 50% of potential agricultural land will be in cultivation in both autumn and spring seasons

Public services and utilities have been reactivated, but with significant problems due to the consequences of a decade of neglect, and the current inefficiencies in developing central and municipal administrative structures, which create an environment of instability and inability to meet the demands of population and emerging business activities. In the following areas there is an urgent need for changes:

- Housing: from provisional settlements to long term solutions
- Electric Power: from dealing with the day-to-day problems resulting from neglect to a stabile system
- Financial Infrastructure: from initial steps to adopting modern banking practices and financial market institutions
- Legislation: overcoming key vacuum points
- New jobs and income generation: setting up structures to provide credit and technical assistance for a broad base of small and medium enterprises and family businesses
- Construction: efficient support for potential local contractors
- Socially owned enterprises: avoid dilemmas and confusion over ownership and management – privatization and creating access for Kosovars to govern their property
- Local Administration: setting up structures, define responsibilities, activate/ improve public municipality services
- Public order and security: building coalitions of the international administration, political subjects of Kosova, NGO sector, media and citizens for the substantial improvement of security, cultivating tolerance and interethnic communication

The UN administration, especially Pillar IV, which deals with reconstruction and development, has made significant efforts to set the basic legal framework for a market economy (fiscal authority, banking regulation and a payments system). However, the participation of Kosovars in this administration and the reconstruction process needs to be advanced. There is a need for more direct Kosovar input in a process that will bring a

sense of ownership in it and in policy making. This is essential for public support and the strengthening of the rule of law and a sustainable public finance system, reducing the operating environment for informal and extra –legal activities and organized crime, which can emerge or be imported. There is a feeling that this administration is being built more under the influence of the actual political spectrum rather than working to include and strengthen civic society capacities and intellectual resources. Also, there is a need for more efficiency and effectiveness in operations, the setting up of structures, completing the legal framework, and imposing public order and setting up a judicial system.

Reconstruction management needs more coordination among different actors: UNMIK- donors- business community- international NGO's- local NGO's, with the aim of increasing Kosovar capacities and for activating their own resources. Transparency, monitoring and ongoing evaluation of effects, is also crucial for reducing reconstruction costs.

Shifting from emergency to a sustainable phase of reconstruction strategy should include building up economic independence within open economy and regional and European integration. Kosovar advantages are human capital, entrepreneurial spirit and energy, positive attitude to transitional reforms, natural resources, optimism and a strong determination to build their country. Kosova is a postcolonial country with heavy war consequences. Doubts about the economic viability or if Kosova can budget its economic independence are more political speculation than reality. When Kosova had broad autonomy during the seventies, its economic viability substantially improved, and during ten years of peaceful resistance Kosovars survived within their own institutions. In today's post war environment they are exhibiting an impressive readiness to rebuild their society. Technical and financial assistance needs to capture this energy and should be focused on increasing development capacities within modern development concepts based on entrepreneurship, rather than the creation of yet another "aid-economy". The quality of economic viability not only of Kosova, but also of other countries in the region, will depend on the outcomes of the current efforts within the Stability Pact and other initiatives, in which the role of the international community at least in this initial stage seems to be decisive.

The stance of this respective house and US administration toward the Kosova issue, was essential for our hope in the hard times that we passed through, and it is of key importance not only from the perspective in building up democratic society Kosova, but for the transformation of the Balkans into a region of cooperation free from the burdens of the past and history. From their perspective, Kosovars believe in European values and understand the important role of the EU in a post- war period. But we believe also that the role of US in Kosova, and in this whole sensitive region, is crucial for it provides the most effective channel to overcome the historical burdens that plague the region, and promote the values of openness in this new era of globalization. The continued engagement of the US, NATO and EU are creating good conditions for this new era in the Balkans, we must finish this project in order to reach returns on our investment on stability, peace, and growth.

Mr. Chairman, Members of the Committee -

Let me express my gratitude towards our American partners: CIPE (the Center for International Private Enterprise), the National Endowment for Democracy, USAID, and Freedom House. These organizations have assisted in the growth and development of Riinvest, the private think tank in Kosova I represent, and who work closely with us in enhancing Kosovar capacities for economic and social development and democracy.

Thank you very much Mr. Chairman for giving me this opportunity.

PREPARED STATEMENT OF ILIR ZHERKA, EXECUTIVE DIRECTOR, NATIONAL ALBANIAN AMERICAN COUNCIL BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE

APRIL 11, 2000

Mr. Chairman, thank you for inviting me to join you today to discuss the situation in Kosova and your bill, H.R. 4053, the "United States Southeastern Europe Democratization and Burdensharing Act of 2000."

As we all know, last year at this time Serb forces were on a murderous rampage in Kosova. In their effort to rid the country of its indigenous, Albanian population, Serbs committed horrific acts of violence. In the village of Kline, 11 children, including a two-year old, were shot at close range by Serb forces. In Gjakova, Valbona Vejca together with her three children, including a 3-month old baby boy, were murdered at a pool hall where they sought shelter. In Izbicaj, nearly 50 elderly men were beaten by Serbs, their faces smashed in, before being shot at close range. And throughout Kosova, young girls were raped, some in front of their families, as an instrument of war.

At the end of this killing spree, nearly ten thousand were dead, a million forced out of their homes, a whole nation traumatized. The war in Kosova was the central part of Milosevic's final solution to the Albanian question. Whatever history will say about the post-war situation in Kosova, the fact is that the United States of America led the military effort that put an end to the Serb campaign of murder, rape, and brutality against the Albanians. For this, Albanians will be forever grateful and indebted to this great nation, and all Americans should be proud of our actions in Kosova.

We should also be proud and thankful that the United States broke the chains of repression in Kosova. For the first time in history, the people of Kosova are free—free to express themselves, free to realize their individual potential, and, fairly soon, free to elect their own leaders and decide their own fate.

But, while the international community was successful in war, it has had a mixed record in peace. The international community has been unable to tackle some of the fundamental problems in Kosova, such as the inadequate supply of water and electricity, the division of Mitrovica, and the lack of law enforcement.

Part of the solution to the problems that plague the international mission in Kosova is for the United States to assert greater leadership, not less.

The American people understand what we have accomplished in Kosova and they support the need for continued American leadership. A poll conducted last month by Penn, Schoen, and Berland, showed that a majority of Americans supported the air campaign against Serbia. More importantly, a full two-thirds of the American people say they support the decision to put Kosova under NATO and U.N. control, and two-thirds believe that the U.S. military should stay in Kosova to help the transition to democracy, protect the people, and finish the job we began.

As a side note, the poll also revealed that nearly 80 percent of Americans support the creation of a democratic, independent Kosova.

After the United States incurred the bulk of the costs of the military campaign against Serbia, we support the idea that Europeans ought to pay for the bulk of the costs of peacekeeping and institution building in Kosova. But, at the same time, the United States must maintain flexibility to make the strategic investments needed throughout the region to ensure that stability and democracy firmly take hold in the Balkans.

Unfortunately, the assistance cap in H.R. 4053 does not provide enough flexibility. Instead, the bill would tie our aid to the levels provided by the international community. Under this bill, if European contributions dropped by 50 percent, we would be forced to do the same even if we thought it very unwise. Also, the 15 percent cap would be difficult to calculate and negatively effect our ability to deliver aid to Kosova. Today, we are able to get aid much more quickly to Kosova than the Europeans. Under the cap, however, the Administration would be forced to constantly reevaluate its efforts, causing delays. Additionally, the cap in H.R. 4053 would tie us to an arbitrary number, 15 percent, again limiting our flexibility in the region.

Beyond the problems presented by the funding cap, H.R. 4053 shields Montenegro and Macedonia from potential funding cuts, but not Albania and Kosova.

Although assistance to Albania and Kosova is not necessarily restricted in H.R. 4053, the language of the bill seems to suggest that these two countries are less of a priority for the United States.

We firmly believe that helping to create a strong, stable, and democratic Albania is essential to maintaining peace in the Balkans. Moreover, we have yet to win the peace in Kosova. Congress should consider doing more, not less to help establish long lasting institutions there. After all, we are spending billions of dollars to keep

our military in Kosova. We should also be willingly to leverage that money with adequate sums to rebuild the economy and establish democratic institutions.

The people of both Albania and Kosova are staunchly pro-American. In fact, Albanians throughout the world believe that they have a special relationship with the United States. That affinity began when Woodrow Wilson helped protect Albania's independence and continues through today with the U.S.-led NATO air campaign against Serbia. We should try to cultivate that special relationship and work to ensure that a spirit of democracy and respect for human rights prevails in Albania and Kosova.

We also believe that, as we provide aid to Montenegro and Macedonia, we should continue to press those countries to work harder to provide equal rights and equal opportunities to their Albanian population.

With the emergence of the Stability Pact, the United States and the international community is taking a regional approach to the Balkans. Congress should continue that approach by removing in H.R. 4053 the cap on our assistance and by adopting funding principles and goals for the entire region.

Again, I thank you for inviting me to address this Committee. I look forward to answering any questions you may have.

JULY 19, 2000

Congressman Benjamin A. Gilman
Opening Statement
Hearing on Crime and Corruption in Bosnia
July 19, 2000

This morning's hearing focuses on a disturbing problem that threatens to undermine our accomplishments in Bosnia and, perhaps elsewhere in the Balkans. Pervasive crime and corruption that has tainted all levels of Bosnia's society – particularly its political institutions and its economy – is now jeopardizing the basic peace framework mandated by the Dayton Peace Agreement. This is the principal finding by our General Accounting Office pursuant to a study they conducted that was requested by our ranking Democratic member, Mr. Gejdenson, our Committee Vice Chairman, Mr. Bereuter and myself last September.

Because this finding has such profound implications for our goals in Bosnia, and perhaps lessons for our mission in Kosovo, I have convened this hearing in order to allow our members of the International Relations Committee the opportunity to review and question the authors from the GAO, and also to hear our State Department's response to this report.

I am informed that during the review of the GAO's draft by all interested agencies in our government, no one challenged the essential finding concerning the impact of endemic crime and corruption in Bosnia. Given that fact, I am very eager to hear, as I am sure are my colleagues, what we are doing to confront this issue.

I am also informed that our good Ambassador Tom Miller who has been in charge in Sarajevo since last August, has made it his top priority to root out and resolve difficulties that have impeded the Bosnian economy. Ambassador Miller has focused on the problem of privatization, and has withheld U.S. funds that would go to supporting the budgets of the two main entities in Bosnia, the Federation, and the Republic of Srpska, until the appropriate measures are put in place by the local political leaders that will ensure a fair and effective privatization of the publicly held assets in Bosnia.

To be fair to the Bosnian people and the situation itself, we should note that Bosnia is not only a post-conflict situation where a devastating war raged for four years, forced nearly half of Bosnia's citizens to become refugees or internally displaced persons, and killed thousands more with massive destruction of property, but it is also a post-communist society which has had neither the benefit of functioning democratic institutions, nor experience with a free market based economy.

Our purpose today is not to play the blame game, but to determine what needs to be done in order to salvage our policy in Bosnia. We have spent a billion dollars in providing assistance in Bosnia since 1995, and billions more for our troops serving there as part of the NATO peacekeeping mission. Clearly, our investment is huge, and we can neither ignore this problem, nor simply walk away from our effort. I hope that our witnesses today, therefore, can provide us some insights and suggestions as to what we need to do to make our Bosnia policy a success.

We are joined today by Mr. Harold Johnson, who is the Associate Director of the GAO's International Relations and Trade Issues, Mr. James Shafer, the Assistant Director of that office, and Mr. David Bruno who is the evaluator in charge of this study. Subsequently, we will hear from Ambassador James Pardew from the State Department, who is the Principal Deputy Special Advisor to the President and the Secretary of State for Dayton Implementation and Kosovo.

I now would ask if the ranking member of the Committee, the gentleman from Connecticut, Mr. Gejdenson has an opening statement?

I now invite Mr. Harold Johnson to present his testimony. Mr. Johnson has served as Director of the International Relations and Trade Issues at the General Accounting Office since 1996. Prior to that, he served in a number of senior positions at GAO, including Director of International Affairs Issues, Foreign Economic Assistance Issues, Military Manpower Issues. He has been the recipient of many awards during his career, such as the Distinguished Service Award.

Mr. Johnson is joined today by his Deputy, Mr. James Shafer, who has also served as Assistant Director for GAO's European Office. He has been the Assistant Director for Acquisitions in the GAO's Army Group, and previously led numerous reviews of military and international issues.

We are also pleased to have with us Mr. David Bruno who is the evaluator in charge of the report that is the subject of today's hearing. Mr. Bruno has participated in or directed evaluations of U.S. and United Nations foreign affairs and assistance programs for over ten years, including U.S. agricultural credit programs for the Soviet Union, US AID business development programs in Russia, child survival programs in Africa, and counter-drug assistance to Latin America.

Gentlemen, you are all welcome, we appreciate your good work on the report, and Mr. Johnson you may now proceed. You may summarize your statement, which will be entered in full in our record.

Ambassador Jim Pardew is no stranger to this Committee, having appeared both in open public sessions and for private briefings on a number of occasions. He has served in both our Departments of Defense and State, and brings a long-term expertise in Balkan affairs to our hearing this morning. In a sense, Ambassador Pardew has become the institutional memory for our Balkans policy, due to his long-term involvement in United States policy in this region during the past decade. We are grateful for his willingness to appear today, and we welcome his testimony which he may summarize. Without objection, your full statement will be entered in our record.

United States General Accounting Office

GAO

Testimony

Before the Committee on International Relations, House of Representatives

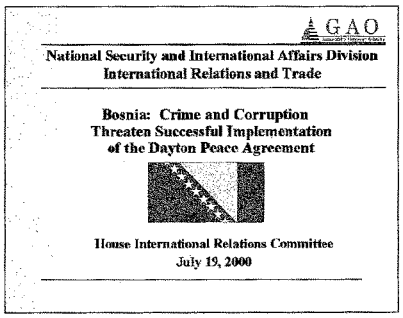
For Release on Delivery
Expected At 10:00 AM
Wednesday, July 19, 2000

BOSNIA

Crime and Corruption Threaten Successful Implementation of the Dayton Peace Agreement

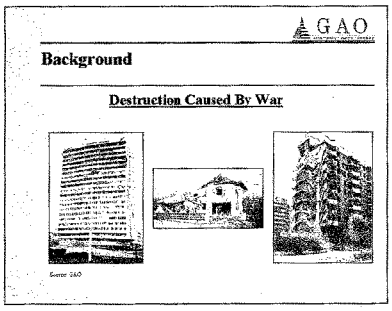
Statement of Harold J. Johnson, Associate Director, International Relations and Trade Issues, National Security and International Affairs Division

GAO/GAO/T-NSIAD-00-219



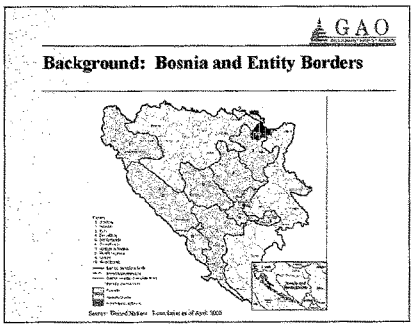
Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our recent report, completed at your request, on the impact of crime and corruption on the implementation of the Dayton Peace Agreement, which was signed in December 1995 by regional, Bosnian, and international community representatives.[1]

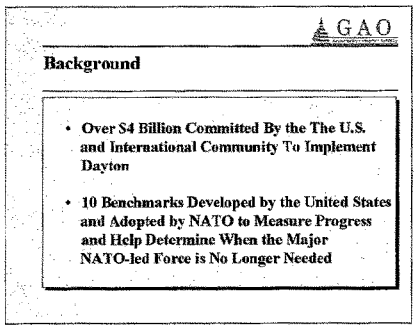


[1] *Bosnia Peace Operation: Crime and Corruption Threaten Successful Implementation of the Dayton Peace Agreement* (GAO/NSIAD-00-156, July 7, 2000).

The agreement was designed to help Bosnia achieve a self-sustaining peace, under the direction of an internationally appointed High Representative and a NATO-led military force.



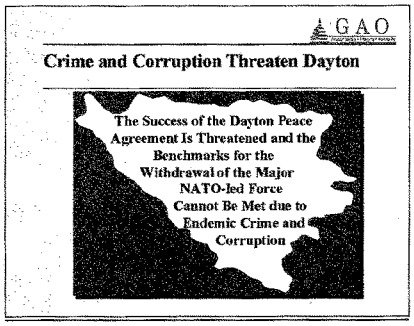
With the signing of the agreement, the Bosnian national government was created, and the two entities created during the war (the Federation and Republika Srpska) were recognized.



During 1996-99, the United States and the international community committed more than $4 billion to finance civil aspects of the agreement; as of March 2000, U.S. military costs to support the agreement totaled about $10 billion. The United States, NATO, and the Peace Implementation Council have developed a transition strategy, or conditions often called benchmarks, under which the military force could be withdrawn from Bosnia. Several of these conditions directly relate to reducing corruption.

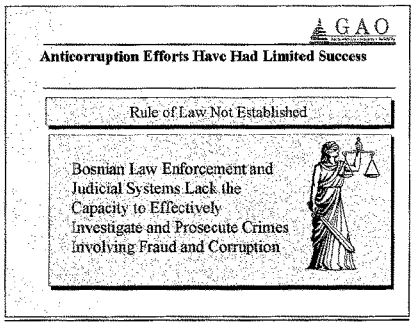
I will summarize our July 7 report's three main points: (1) how organized crime and public sector corruption have affected implementation of the Dayton Peace Agreement in Bosnia, (2) what the international community has done to improve Bosnia's law enforcement and judicial system and reduce corruption, and (3) how international assistance resources are being safeguarded and whether such assistance is being used by Bosnia in place of domestic revenues lost due to crime and corruption.

I should note at the outset that in doing our review, we did not conduct independent investigations of specific corruption-related cases. Instead, we examined studies, reports, and other documents published by NATO, the Department of State, the U.S. Agency for International Development, the United Nations, and many other international organizations. The evidence and conclusions presented in these documents are based on analyses and investigations of corruption in Bosnia. We also interviewed an extensive list of top-level officials, both governmental and non-governmental, responsible for or knowledgeable about programs and activities in Bosnia. We based our conclusions and recommendation on this extensive documentation coupled with the first-hand experience and judgments of high-level international officials in Bosnia.



RESULTS IN BRIEF

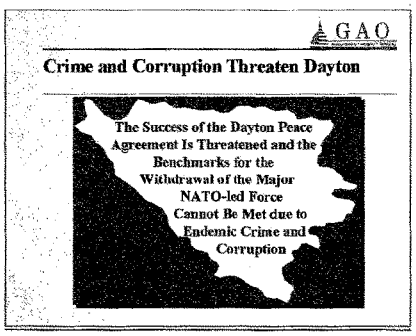
We found a near consensus opinion among officials we interviewed that endemic crime and corruption in Bosnia is threatening the successful implementation of the Dayton Peace Agreement and that until the situation is satisfactorily addressed the conditions for the complete withdrawal of the NATO-led force will not be met. Although some of the U.S. and NATO conditions have been met, none of the progress in implementing the agreement is yet self-sustaining according to the High Representative and others. Bosnian leaders from all three ethnic groups have not made a concerted effort to curb corruption and have often acted to obstruct the reform process in general.



Bosnia's law enforcement and judicial systems are inadequate and institutionally incapable of prosecuting cases of corruption or administering justice. Bosnian, international, and U.S. efforts to correct weaknesses in these systems have achieved only limited success and have not measurably reduced political influence over the judiciary or the economy.

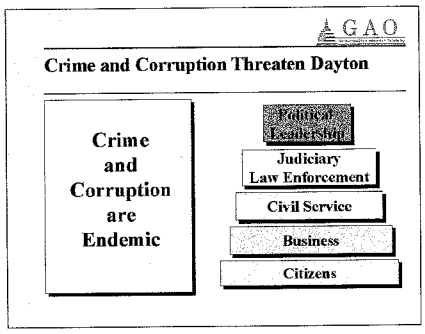
We found that international assistance, including U.S. assistance, is generally not being lost to fraud and corruption in Bosnia and that such assistance has been protected by a number of internal controls. However, we did find incidents of corruption in the international assistance effort. Further, the assistance provided could supplant the hundreds of millions of dollars the Bosnian governments lose each year to customs fraud and tax evasion. Moreover, the Bosnians spend a large percentage of their revenues maintaining three competing militaries that are primarily designed to fight each other. According to the High Representative, the size and structure of these forces are incompatible with the defense needs of Bosnia and are financially unsustainable. The international community has provided about $407 million in budget support to cover Bosnia's budget deficits,

and most of this support is not controlled or audited. Consequently, the international community cannot be sure how the money it has provided is spent.

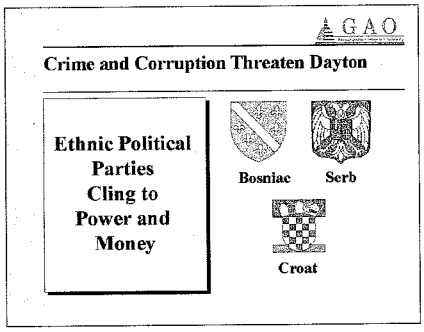


CRIME AND CORRUPTION THREATEN THE DAYTON AGREEMENT

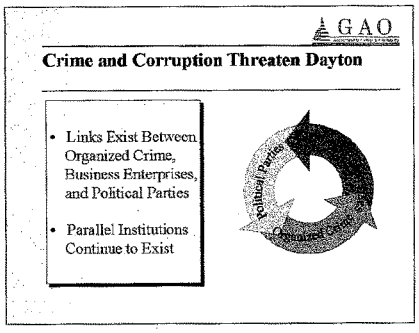
Pervasive illegal activity is negatively affecting progress in reforming Bosnia's legal, judicial, and economic systems; achieving U.S. policy objectives in Bosnia; and attaining the Dayton Peace Agreement's ultimate goal of a self-sustaining peace. Unless Bosnian officials make concerted efforts to address this problem, the benchmarks for the complete withdrawal of NATO-led forces will not be met. According to U.S. and international organization officials, to date, Bosnian leaders have not demonstrated sufficient political will to reform.



Bosnia's nationalistic political parties continue to control all aspects of the government, the judiciary, and the economy. Thus, they maintain the personal and financial power of their members and authoritarian control over the country.



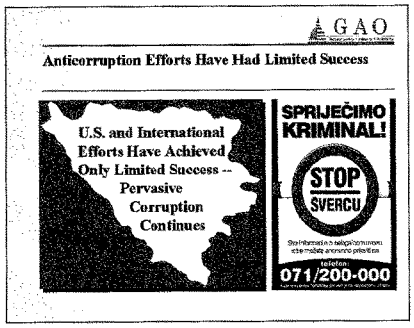
Bosnian leaders from all ethnic groups may have little incentive to combat corruption, since curbing corruption may reduce their ability to maintain their control.



Wartime underground networks have turned into political criminal networks involved in massive smuggling, tax evasion, and trafficking in women and stolen cars. Investigations have shown that certain smuggling operations could have been successful only with the participation of customs officials. In addition, according to the Department of State, criminal elements involved in narcotics trafficking have been credibly linked to public officials. The proceeds from the narcotics trade are widely believed to support illegal institutions maintained by ethnic extremists.

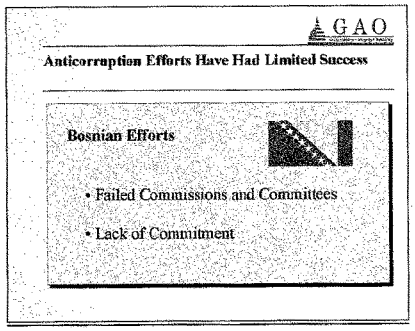
Numerous reports show, and international organization officials confirm, that Bosnian law enforcement officers' allegiance is often to ethnic political parties rather than to the public. For example, police in some areas work for local party officials and protect the business interests of the officials, intimidate citizens, and prevent the return of refugees. Similarly, political officials are involved at many stages of the judicial process. The selection of judges in Bosnia is the product of political patronage, and judges' salaries are controlled by political party structures. We were told that there are good and honest individuals throughout Bosnia's judicial system. However, criminal leaders, many of whom are closely linked to

ruling political parties, are ready to threaten judges, prosecutors, police officers, lawyers, or witnesses with violence, even death, to act in a particular way. Such influence over the courts often prevents cases involving organized crime and corruption from being heard.

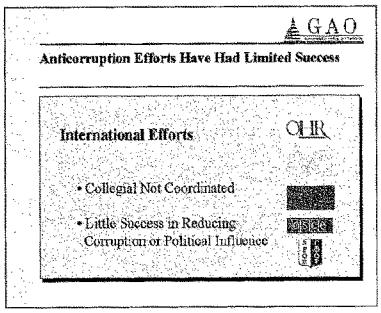


ANTICORRUPTION EFFORTS HAVE ACHIEVED LIMITED SUCCESS

Bosnian, international, and U.S. anticorruption and judicial reform efforts have been initiated over the past 4 years, but they have achieved only limited success in reducing crime, corruption, and political influence.



While international efforts could correct weaknesses in Bosnia's legal and judicial systems and provide needed supporting structures for the rule of law, the Bosnian government's efforts have primarily been to create committees and commissions that have failed to become operational or measurably reduce crime and corruption.



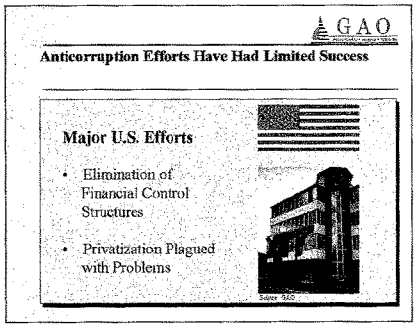
The Office of the High Representative has developed a strategy for coordinating international anticorruption efforts. However, the strategy is essentially a recitation of existing international efforts, and although the work of the international community is collegial, it is not truly coordinated. Despite the lack c a truly coordinated effort, international organizations, including the European Commission, NATO, and the United Nations, have implemented a number of anticorruption and judicial reform efforts. For example:

- The European Commission's Customs Assistance Office has established an anticorruption program that is considered the most successful effort. The Office has assisted in establishing needed customs legislation and customs services at the entity level. Investigations conducted and systems put in place

by the Office have identified incidents of corruption and illegal activities that have resulted in the loss of millions of dollars in customs duties and tax revenues. In addition, customs officials perpetrating illegal activity have been exposed.

- The NATO-led Stabilization Force (SFOR) helped the entity armed forces establish an office of the inspector general to help eliminate fraud and corruption in the entities' armed forces. The office's investigations have led to the removal, reassignment, or suspension of noncompliant personnel.
- The U.N. International Police Task Force has focused on restructuring, retraining, and democratizing the local police. The task force has established a certification process through which each police officer is evaluated against specific criteria, including involvement in human rights abuses during the war. In addition, the task force has created specialized units to train Bosnian police in public security issues such as organized crime, drug-related activities, corruption, and terrorism. Some progress is being made, but the linkage between the police and the political parties still has not been broken.
- The international community has implemented a number of efforts to make Bosnia's weak and politically influenced judiciary more independent and professional. The Office of the High Representative for example, has imposed laws to expand the jurisdiction of the Federation Supreme Court, strengthen the Federation prosecutor's office, and provide special witness identity protection. In addition, the United Nations established the Judicial Assessment Program in 1998 to monitor and assess the judicial system in Bosnia.

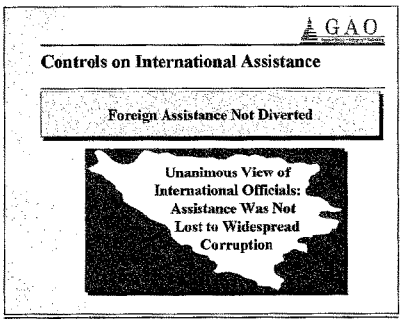
Despite the need for these and other efforts, they have had limited impact, partly because high-level Bosnian officials have not shown a sufficient commitment to fighting crime and corruption.



U.S. anticorruption efforts, led by the U.S. Agency for International Development (USAID), seek to curtail corruption through the elimination of communist-era financial control structures and the privatization of state-owned enterprises. Experience in Central and Eastern Europe has shown that the best, and possibly the only, way to accelerate the establishment of a sound, competitive commercial banking system is to attract the business of reputable foreign banks. Although efforts to establish a private banking system in Bosnia are progressing, the U.S. government and international community have had little success in attracting a prime-rated international bank to come to Bosnia.

Privatization efforts have encountered problems, and corruption may undermine the process. According to the United Nations and other experts, the privatization process is another opportunity for government and party officials to profit through corrupt activities. For example, officials may solicit bribes from those interested ir obtaining certain assets or sell the assets to themselves at prices below their value. Further, privatization could legitimize political factions' ownership of companies i those factions have the resources to purchase the better companies through private

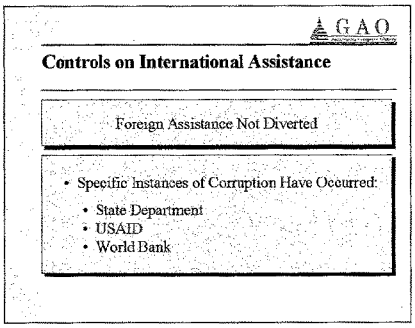
investment funds or other means. The documentation required to privatize Bosnian companies, including opening balance sheets and privatization plans, is being provided by enterprise managers who are not precluded from bidding on the companies, which is clearly a conflict of interest. Several officials told the U.S. Agency for International Development that they were depressing the value of their firms so they could purchase them for less than their true value. The head of the Office of the High Representative's Economic Department publicly stated in April 2000 that a majority of already privatized companies belong to the nationalist political parties. In May 2000, the High Representative removed the president of the management board of the Federation Privatization Agency from his post due to persistent and serious obstruction of the privatization process in the Federation.



INTERNAL CONTROLS OVER INTERNATIONAL AID APPEAR ADEQUATE, BUT ASSISTANCE SUPPLANTS BOSNIAN FUNDS

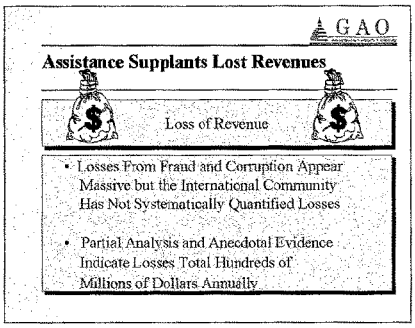
The United States and other international donors have established procedures for safeguarding assistance to Bosnia, and we found no evidence that assistance has been lost on a large scale because of fraud or corruption. Most of the $4 billion

supported Bosnia's physical reconstruction, which has largely been successfully completed.

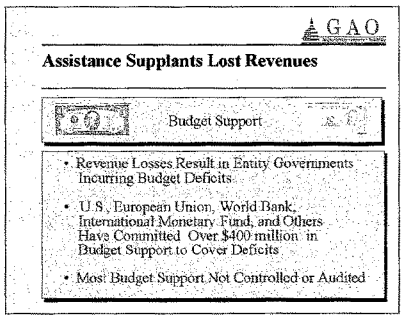


However, we did find instances of corruption within the international assistance effort. For example:

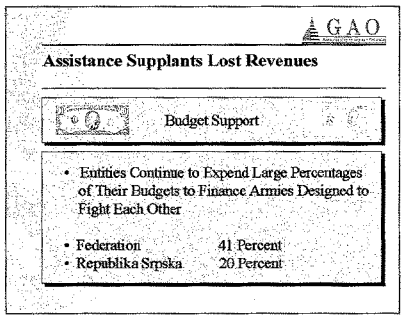
- The United States has yet to recover about $935,000 in U.S. embassy operating funds and USAID Business Development Program loan payments deposited in a bank that was involved in corrupt activities and is now bankrupt.
- In July of 1998, the Business Development Program's manager, a foreign service national, was terminated for receiving payments for helping a USAID loan applicant.
- About $340,000 in World Bank-provided funds was lost as a result of a procurement scheme perpetrated with fraudulent documents. As of May 2000, no arrests had been made and no funds had been recovered.



Despite the international community's success at controlling the use of its assistance funds, such assistance has supplanted millions of dollars the Bosnian governments lose every year to corrupt activities such as customs fraud and tax evasion. Determining the total amount of revenue lost because of corrupt practices would be difficult, and the international community has not systematically attempted to make such a determination. However, evidence gathered during successful customs investigations and partial analysis by the Office of the High Representative show that the losses total hundreds of millions of dollars annually. For example, the Office of the High Representative concluded that a moderate estimate of revenue lost due to tax evasion in Republika Srpska is $136 million, or 40 percent of Republika Srpska's annual $347 million budget.

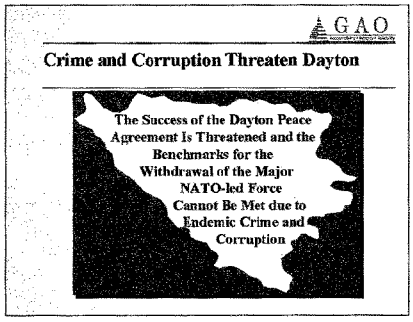


Due to shortfalls in revenue--partly because of corrupt practices noted above--the entity governments incur annual budget deficits which are then funded through direct budget support (that is, monies added to general revenues and not earmarked for specific purposes) provided by the international community. Most of the $407 million committed by international donors for general budget support is not controlled or audited. (App. I shows the organizations that provided direct budget support and the amounts provided.)



Meanwhile, the Federation and Republika Srpska budgeted about 41 and 20 percent, respectively, of their average annual, domestically financed revenue on military expenditures from 1997 through 2000 despite the High Representative's opinion that sustaining three large, separate armies, primarily designed to fight each other, is not financially feasible.

If the Bosnian governments strengthened the rule of law and identified ways to collect some or all of the hundreds of millions of dollars lost annually as a result of widespread tax and customs duty evasion, the international agencies' budget support might not be needed.



Our report recommended that the Secretary of State lead a reassessment of the U.S. strategy for assisting Bosnia in establishing a democratic government and a market economy. We believe such a reassessment is necessary because without it the United States and other donors may continue to fund initiatives that have little hope of resulting in a self-sustaining democratic government and market economy based on the rule of law and thus lead to the complete withdrawal of NATO-led forces. In particular, we believe State should consider whether direct budget

support is an appropriate form of assistance in the current environment in Bosnia, and how it can support those political leaders in Bosnia whose goals for addressing the corruption problem are consistent with the goals of the U.S. and the rest of the international community. Our report also suggests that the Congress may wish to require that the State Department certify that the Bosnian governments have taken concrete and measurable steps to implement anticorruption programs and sufficiently improved their ability to control smuggling and tax evasion before providing future assistance.

State disagreed with our recommendation. According to State, by 1998, it had undertaken a broad reassessment of its strategy for Bosnia and it continually reassesses assistance priorities in Bosnia. However, we found no evidence that State's reassessment or its current strategy address the underlying causes of corruption and the lack of reform, namely the continued obstructionist behavior of hard-line nationalist political leaders.

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Mr. Chairman, this concludes our prepared remarks. We will be happy to answer any questions you or other Members of the Committee may have.

CONTACT AND ACKNOWLEDGMENTS

For future questions regarding this testimony, please contact Harold J. Johnson at (202) 512-4128. Individuals making key contributions to this testimony include F. James Shafer, David M. Bruno, Hynek P. Kalkus, and E. Jeanette Espinola.

BUDGET SUPPORT COMMITTED BY THE INTERNATIONAL COMMUNITY FOR THE FEDERATION AND REPUBLIKA SRPSKA

Dollars in millions

Organization	Amount
World Bank[a]	$244.5
International Monetary Fund	70.0
European Union	60.0
United States[b]	27.0
Other	5.9
Total[c]	$407.4

[a] World Bank funding includes trust funds financed by other donors.

[b] Includes $22 million committed to Republika Srpska and $5 million committed to the Federation but not disbursed due to the Federation government's lack of compliance with U.S. conditions placed on the funding. The United States has tried to persuade other donors to place conditions on the budget support they provide.

[c] Total does not include all budget support provided by all international donors because information on all donors is not readily available. Total does not include cash transfers from Serbia or Croatia. Estimates of these transfers total more than $500 million from 1996 through1999.

Source: World Bank, International Monetary Fund, European Union, USAID, Office of the High Representative, and International Management Group.

(711555)

Statement of James W. Pardew
Principal Deputy Special Advisor to the President and Secretary of State
for Democracy in the Balkans
U.S. Department of State
July 19, 2000
House Committee on International Relations

Mr. Chairman, I welcome the opportunity to be here today to discuss our programs and strategies for addressing crime and corruption in Bosnia.

Today I will update the Committee on the nature of corruption in Bosnia and our strategy for dealing with it. I will also respond to the specific points raised in the GAO report.

The Impact of Corruption in Bosnia

After concluding the Dayton agreement, we faced a country ravaged by war and stuck with the vestiges of a communist economic system and mind set. Democratic concepts of accountability to the public and transparency are still new to most Bosnians. The economic power structure continues to enable the large mono-ethnic parties to sustain their party apparatus and exert their influence at all levels in society. These parties divert funds from the companies they control, evade tax collection and generally engage in fraudulent behavior that goes unaccounted for as they hold many important governmental positions. Finally, the Government of Bosnia does not control its borders. Unregulated borders are an open invitation for criminal activity and a weakened police and judicial system fosters criminality.

The problems of corruption and crime in Bosnia should be considered in the context of what has been achieved there since the war. Great strides have been made in security, refugee returns and other critical elements of Dayton implementation. That said, we agree with the basic thrust of the GAO report that corruption and crime are endemic problems in Bosnia. Crime and corruption seriously inhibit Dayton implementation and economic and political development. The inclination of the current political leadership is to continue to do business as usual. However, there are a number of reform-minded and effective Bosnians who want change and are willing to work hard for it. The

entire thrust of our assistance program is to help them establish a peaceful, transparent and democractic society that is based on the "rule of law" and offers economic opportunity. Our message to the people of Bosnia, in the run-up to parliamentary elections this November, is that they deserve leaders that can make these changes.

We note that the GAO found no evidence of significant fraud or misuse of USG assistance funds. We attribute that to our financial controls, which we believe are sufficiently strict to protect our interests.

Adjusting U.S. Government Priorities

Let me briefly review our investment in Bosnia and how the focus of our assistance program has shifted. We pledged and disbursed $1.007 billion from 1996 to 1999 in the Bosnia Priority Reconstruction Program primarily for critical post-war requirements. This represents 18.5 percent of the $5.4 billion total international civil program for Bosnia. In FY 2000, we are spending $100 million in SEED and $47 million in peacekeeping operations (PKO), still in the same overall burden-sharing proportions.

As we noted in our written response to the GAO report, overall SEED funding for Bosnia fell from $215 million in FY 1998 to $100 million this fiscal year. This is a 53 percent decline, and $30 million below the level set by Congress.

In 1998 when completion of the most urgent reconstruction projects was already in sight, we reevaluated our assistance program. As a result, funding for the early needs has dropped to zero. In the course of one year (FY 1999 to FY 2000), we have phased out reconstruction assistance, which was $50 million in FY 1999, new funding for business lending, also $50 million in FY 1999, (although the on-going multi-year program will continue into FY 2001) and direct budgetary support, which ended after a $17 million ESF appropriation in FY 1999.

Beginning with the 1998 reassessment, our focus shifted to helping Bosnia begin to reform itself as a stable, peaceful, free-market democracy that can function without the heavy engagement of the international community. While our assistance funding to Bosnia started a sharp decline in FY 1998, we have maintained funding for economic reform at about $24 million annually. This goes for programs including budget transparency, closing out party-controlled payments bureaus, and setting the foundation for large-scale privatization. We are also emphasizing judicial reform,

increasing funding from $780,000 in FY 1998 to $5 million this fiscal year.

Our Strategy for Dealing with Crime and Corruption

The OHR and the U.S. agree on the basic thrust of an anti-corruption strategy. This strategy includes a comprehensive list of anti-corruption measures targeting the financial sector, judicial reform, privatization, accountancy, good governance, independent media, and open and transparent elections. In addition, we have established an anti-corruption task force in Washington to develop this effort.

Fighting corruption and crime requires action in two general areas. The first is reform of the political and economic structure. The second is establishing the "rule of law" with effective enforcement. Bosnia must achieve major progress in both of these areas if its is to counter current levels of corruption and crime.

Political and Economic Reform

I have already mentioned upcoming elections as a potential road to political reform. Successful reform also requires a new and transparent legal and structural framework. The international community has identified over a dozen pieces of specific legislation and administrative actions to restructure the Bosnian government, many of its functions, and the economy. The most important of these define and prohibit corruption and conflict of interest, establish transparency and accountability, establish a viable basis for the generation of state revenue through tax and customs reform, set the legal foundation for a viable financial and non-corrupt financial sector, and establish a viable health and pension system. These legislative and administrative actions are at various stages of completion. If local leaders refuse to act on them, we will push for the use of the international authority of the High Representative to impose these measures.

The Bosnian Government must also develop strong central government institutions. The entity governments must eliminate or restructure the institutions and businesses that have been important sources of funding for the anti-Dayton forces within the nationalist parties.

The most important items on this agenda include:

--The formation of an adequately paid, well-trained professional civil service that would be resistant to corruption;

--Overseeing and modernizing effective, impartial and professional law enforcement and judicial bodies so that they are resistant to corruption; and

--The establishment of a strong, central treasury.

These three are immediate priorities of the new Council of Ministers. Judicial reform, including the vetting judges, is getting underway. We expect to see significant progress on the development of professional and impartial law enforcement and civil service over the next year. We also expect the establishment of a central treasury within the same timeframe.

The other high priority tasks include:

--The abolition of the payments bureaus, which are a major source of funding for the nationalist parties. This process is on schedule for closure by the end of this year.

--Creation of strong, central regulatory authorities for the financial telecom and power sectors, which have been the major cash cows for ruling parties; The Republika Srpska just signed a commitment last week that we expect will lead to establishing a central regulatory authority for the power sector and open the road to the Power III Project. This is a $270 million power infrastructure project led by the World Bank and also funded by other, European donors. One of the success stories the the progress so far on establishing effective banking supervisory agencies and regulatory framework. The financial sector has made enough structural progress to recently attract the establishment of Bosnia's first full-service foreign bank. The international community is working actively with the Bosnians on strengthening the existing telecom regulatory body to enable rapid privatization of the telecom sector, and the introduction of vigorous competition.

--The privatization of key industries, which must be undertaken in a way that will break the industry's ties with nationalist parties and clean out corruption-prone management who are vestiges of the Communist era. The U.S.

is leading the effort to move quickly on large-scale privatization of over one hundred key business entities.

--The establishment of effective auditing organizations to search out and deal with fraud and corruption. We are providing $1.3 million in funding to support this effort.

Enforcement

The second part of our anti-corruption strategy is the enforcement framework, which subdivides into police enforcement and judicial response.

The challenge is great in Bosnia because, until recently, the police have lacked even the most basic law enforcement tools for policing in a democracy. With the help of the US and other donors, IPTF's mission to restructure, downsize, train and equip the Bosnian police has helped these forces acquire many of the basic tools they need to function. It also has enabled them to begin in recent months to build more complex capacities to take on problems like organized crime.

The IPTF recently established a joint task force (JTF) to monitor high profile investigations. The JTF is operational in both entities, and in many cases is co-located with local criminal investigative units. The JTF handled approximately 30 cases in 1999, is currently overseeing 120 cases, and has assisted INTERPOL with an additional 50 cases. The JTF is currently being expanded.

There are also two FBI agents assisting the Bosnians and international community in several high profile investigations, and helping the Bosnian police further develop their anti-organized crime capacities.

To give the police the more specialized skills necessary for complex investigations into organized crime and corruption, the U.S. has provided training and developmental assistance. Later this year, additional assistance will include training in major case management, public corruption, and transnational money laundering. We also are funding an organized crime advisor to begin duties later this year who will coordinate specific anti-organized crime training and technical assistance, and providing advice for revising or developing appropriate legislation to address OC and public corruption.

To improve the integrity of their officers, the Justice Department's International Criminal Investigative Training

Assistance Program (ICITAP), is working closely with police in both entities to establish professional standards units (PSU) and promulgate codes of ethics for police. The units, present in nine of the ten Federation cantons and in the RS, conduct internal investigations into alleged police misconduct. So far, PSUs have investigated over 380 cases, of which nearly 170 have been substantiated. Of those, over 100 have been referred to disciplinary boards, with sanctions ranging from written reprimands to dismissal.

We also support the work of IPTF's non-compliance unit, which audits the practices of local police organizations and investigates reports of misconduct or anti-Dayton actions by local police. On the basis of investigations, local police can be disciplined or even dismissed from service. As an example, the audit of the police in Stolac resulted in the entire force being put on probation for almost all of 1999. Audits have also been conducted of the police academy operations of both entities to verify appropriate procedures for selection and training of recruits.

The U.S. recently donated $1.95M to aid in development of the multi-ethnic State Border Service, which began initial operations at the Sarajevo airport last month, under IPTF supervision. This is the first armed joint institution in Bosnia, and will greatly increase the ability of the Bosnian government to secure its own borders, and will help prevent the trade in illegal goods and disrupt trafficking in persons.

Additionally, the USG is transferring this month $1 million to expand operations of the Anti-Fraud Unit (AFU) of OHR (from SEED). Starting next month, the AFU will be headed by a German judge with experience in fighting economic crime. It focuses on investigating high profile economic crimes, including those related to the privatization process. The AFU produced an anti-corruption strategy in February 1999, many elements of which are now being implemented as I have been describing in my testimony.

Judicial Reform

A democratic Bosnia, based on the rule of law, cannot be achieved without reforming the Bosnian judiciary. For several years now, the international community has focussed on the problem of Bosnia's weak and politically influenced judiciary.

Bosnia's judicial system needs a major overhaul. Members of the pre-war judiciary, although highly skilled,

were trained in a communist approach that did not contain the essential elements of judicial independence. Secondly, during the war, many qualified legal professionals fled or were killed. The bottom line is that the majority of judges within the current judicial system are ineffective and/or corrupt. Judicial vacancies have been filled by the nationalist parties that were formed during the war, resulting in often poorly trained and politically-driven judges and prosecutors.

From the inception of the Dayton Peace Process, the American Bar Association's Central and Eastern European Legal Initiative (CEELI), NDI, IRI, OSCE, the Council of Europe and others have been engaged in efforts to help build up the "rule of law" in Bosnia. As in the financial sector, however, too many political party controls over appointments still remain in place. Reforms, including training, vetting and the introduction of court police, are underway to professionalize the judiciary and to strengthen emphasis on individual rights.

In July last year, the Office of the High Representative produced a "Comprehensive Judicial Reform Strategy" which surveys the current situation, cites aspects that require improvement, and puts forward specific "action plans" to effect reforms.

At the heart of the matter is a judicial reform law that is expected to be adopted in the near future. It will replace current party controls, for example, over the appointment of judges through a new appointive process to be governed by Judicial Selection Commissions made up of professionally competent jurists.

Recent developments in USG judicial reform assistance include approval in May of $1.75 million Department of Justice Budget (from SEED) for expanded program to strengthen prosecutors' offices and begin groundwork for establishing vetted investigative strike forces OHR is setting up a Judicial Review Commission. It will build on the work done over the past few years by the UN Mission in monitoring judiciary performance and will make recommendations to the Judicial Selection Commissions. This will be a three-year project which ensures that the international community monitors and assists the work of the local Judicial Selection Commissions, as the latter build up their skills and competence. The High Representative will be responsible for ensuring that JRC recommendations get translated into actions. The U.S. will commit $2 million (PKO) to the JRC, and we expect other donors to step up as

well. This is the first effective step to establish oversight and standards for the judiciary, and to remove political party influence.

Recommendations of the GAO Report

The GAO report made three specific recommendations to combat corruption and crime.

--That we use more conditionality;
--That we do end direct budgetary support; and
--That we reassess our assistance program.

We agree with serious conditionality, although we need to make sure the conditionality supports our objectives. Our aid is increasingly focused on supporting minority returns and forcing the pace of economic and judicial structural reforms. The threat of denial of such aid is not an effective lever. The most effective form of conditionality currently available is with the international financial institutions, which continue to provide significant amounts of investment project credits and budget adjustment lending, and we are working closely with the World Bank, IMF and EBRD to strengthen conditionality. We coordinate closely with the International Community and the OHR to apply as much leverage as possible to overcome resistance by the Bosnian leadership to implement the changes necessary to undercut corruption

We also agree with moving away from direct budgetary support. As I noted earlier, we have already terminated such support and do not envision resuming it bilaterally. We continue to believe, however, that such support should be provided by the IFIs based on strict conditionality. Such IFI adjustment lending provides an important incentive to achieve the range of structural and economic reforms that the International Community is seeking. In addition, IFI structural lending reinforces our anti-corruption campaign directly through conditionality and technical assistance that require greater budget transparency, improved expenditure control, and government audit requirements.

On the third recommendation, we do not see the need to reassess our assistance program at this time. We made a fundamental shift in 1998, based on the completion of the most urgent funding needs. We are fully on track with our reform priorities including stemming corruption and crime. We are constantly fine tuning our strategy and tactics based on developments on the ground.

Our strong preference would be that the Bosnians undertake the changes themselves because it is clearly in their long-term, collective self-interest to do so. To promote that kind of thinking, we set a high priority on promotion of independent media, support of open and transparent elections, and encouragement of pro-reform and pro-Dayton leaders and political candidates, regardless of ethnic background or party.

Unfortunately, it is difficult to get the Bosnians to undertake the tough changes. Most of our leverage is through the OHR, which under Dayton has extensive powers, including, the imposition of laws and removal of uncooperative or criminal officials. While we are in synch with OHR on objectives, we encourage OHR to take firm action when they encounter serious cases of obstruction.

I have gone into considerable detail today on our efforts to reduce corruption and crime in Bosnia. We have made progress, although admittedly the problem is pervasive and we still have a long way to go.

In closing, Mr. Chairman, the program to reduce corruption and crime in Bosnia is very ambitious and tough to implement. It cuts across all elements of Dayton and we need to be in it for the long term if we expect to help bring democracy and prosperity to Bosnia. Unfortunately, attacking crime and corruption is not a short-term problem. It is a never-ending struggle even in advanced democracies. But in Bosnia, there is some good news as well: the international community is in agreement on these objectives; they are now the highest priority; and we are starting to make some headway on all of them.

House Committee on International Relations
Hearing on Kosova
Statement from Esad Stavileci, Ph.D.
Professor of Law, University of Prishtina, Kosova, and
University of Tetova, Macedonia

April 11, 2000

After the war, many positive changes have taken place in Kosova, for which the majority of the population is grateful to the international community, especially to the United States, which has repeatedly given the Albanian people of Kosova the hope for a better life, in the wake of the collective trauma from the Serbian genocide, the scope of which still remains concealed from the rest of the world.

Today, the international community is recommending to the Albanian people that they strengthen their dedication to peace and willingness to embrace their Serbian oppressors. They suggest that we look ahead to the future and the possibilities that it holds out to us. It will indeed be of great value to the Albanian people of Kosova if they understand that the path to peace and prosperity is a better alternative to endless violence and potential isolation within the international community.

However, in spite of all the positive changes that have been made in postwar Kosova, they are not enough, and decisive steps have to be taken to transform the status quo. The biggest problems facing postwar Kosova are: the de facto partitioning of Mitrovice, the incarceration of Albanian prisoners in Serbian jails in violation of international law, who are subject to "kangaroo courts" and have no access to valid legal procedures of any kind, the ongoing presence of Serbian military forces within the internationally mandated "security zone," and acts of violence and lack of a properly functioning judiciary.

The people of Kosova are convinced that independence represents the only just

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solution for Kosova, as well as for stability in the region, the achievement of which is the objective of the international community. We believe that ultimately independence will emerge as the only acceptable and lasting solution to the Balkan conflict.

There are evident, positive factors that favor developments in the direction of independence for Kosova, taking into consideration the presence of the international community on the ground as a starting point and based on UN Resolution 1244 and the promise of the people of Kosova to abandon communism and to embrace democracy.

Other factors also have to be taken into consideration in determining the final status of Kosova: First, the geographical and political map of former Yugoslavia has been changed. In contrast to the biased and unprincipled interpretations of the Badminter Commission, Kosova had the status of an equal unit in the confederal presidency of the former Yugoslavia. Second, the 1974 Constitution was the legal basis of the creation of the former Yugoslavia and, therefore, it should be the basis for its dissolution.

Third, based on juridical/constitutional facts, Serbia and Montenegro cannot become the successor of former Yugoslavia without legal consequences, two of which are especially significant. The former Yugoslavia is not recognized as a state. This means that the Serbian regime is trying to constitute another artificial country, even though they are still not internationally recognized. In addition, the "Federal Socialist Republic of Yugoslavia," based on the 1974 constitution, no longer exists.

Fourth, Kosova has not participated in any way with Serbia and Montenegro in the creation of a socalled New Yugoslavia. It should be noted that there are many, many voices in Montenegro calling for the independence of Montenegro from Serbia. Fifth,

Page 3 (Kosova/Stavileci)

Kosova has been put under a temporary international civil administration, and this fact alone is leading Kosova towards secession from Serbia-Montenegro. In addition, the Rambouillet agreement is not and cannot be considered a valid document under international law, which would give the right to the socalled Federal Republic of Yugoslavia to keep Kosova under "her umbrella."

There are at least ten arguments in favor of the independence of Kosova. They are:

1) Ethnically and demographically, Kosova consists of a dominant Albanian majority living within a discrete national territory.
2) The political will of the majority of the people of Kosova is to "live within their own territory according to their own set of rules."
3) The right of self-determination of the Albanian people of Kosova is a national right, to be exercised within their individual territory.
4) The existence of Kosova as a constituent, equal unit in the confederal presidency of the former Yugoslavia is well-established in the Constitution, where its territory and borders are clearly delineated.
5) The former Yugoslavia is in the process of dissolution. Bosnia, Slovenia, Macedonia, Croatia, and Serbia are independent. Therefore, Kosova is entitled to the same right.
6) There is a congruence between the ethnic character of the territory and the ethnic character of the government.
7) The complex historical and political individuality, geography, and national structure of Kosova is clear.
8) The Albanian people of Kosova have a natural, objective right to independence,

Page 4 (Kosova/Stavileci)

because they are the overwhelming majority of the population in Kosova and because they are a large and integral part of the entire Albanian population in the Balkans.

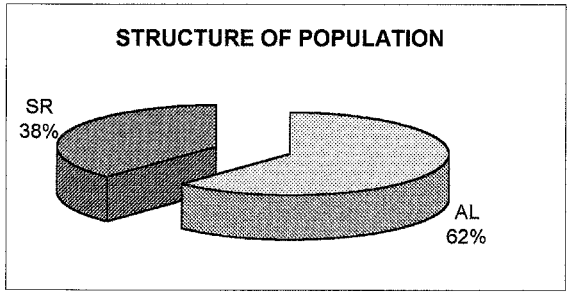
9) Kosova has a strong social and economic base, which makes statehood a viable option.

10) Kosova's right to independence is also a matter of social and political justice, because the Albanian population has been subject to massive human rights violations on a scale approaching genocide.

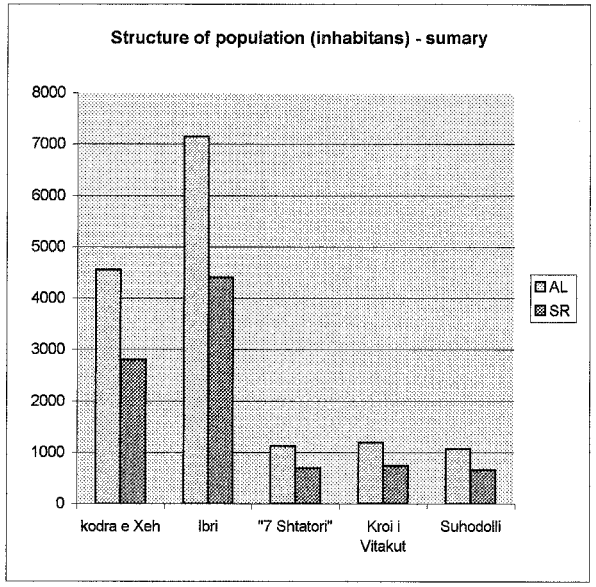
The independence of Kosova as a solution to the Balkan conflict is not only in the interest of the Albanian nation, but it is also in the interest of the Serbian people. It will eventually lead to a democratization of the region and improved relationships among ethnic groups and between the Balkans states and the international community. Ultimately, it is more rational to put an end to a conflict than to keep it forever open. Therefore, I, along with the majority of Kosovar Albanians, believe that independence is the only choice.

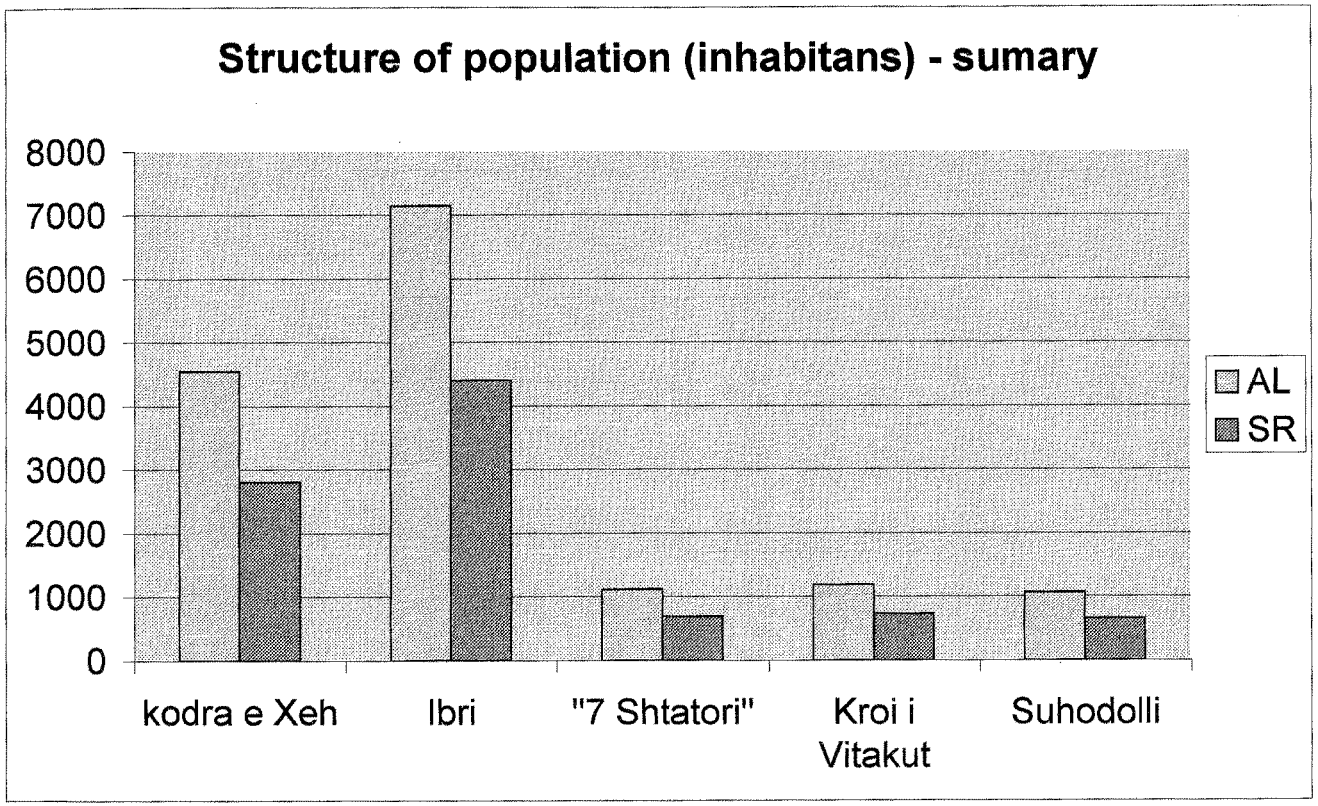
Structure of population - Nord part of Mitrovica
(Number of inhabitans)

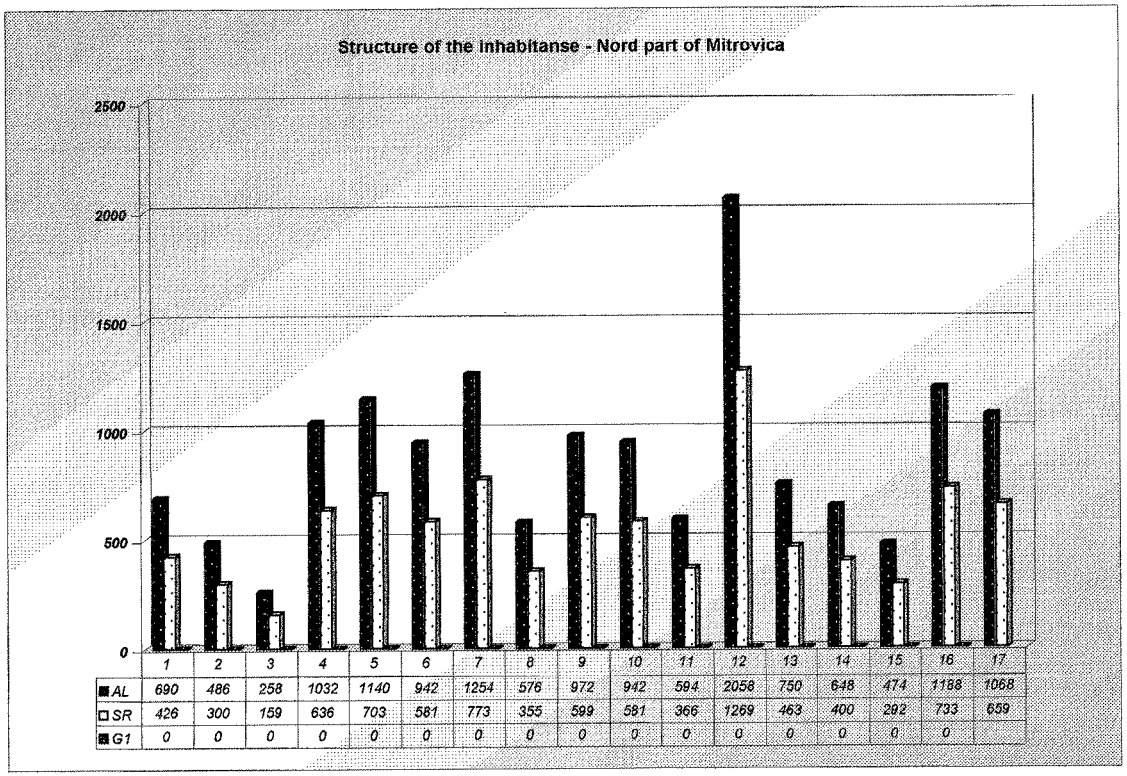
	AL	SR	SUM	% AL	% SR
G1	690	426	1116	61,86%	38,14%
G2	486	300	786	61,86%	38,14%
G3	258	159	417	61,86%	38,14%
G4	1032	636	1668	61,86%	38,14%
G5	1140	703	1843	61,86%	38,14%
G6	942	581	1523	61,86%	38,14%
G7	1254	773	2027	61,86%	38,14%
G8	576	355	931	61,86%	38,14%
G9	972	599	1571	61,86%	38,14%
G10	942	581	1523	61,86%	38,14%
G11	594	366	960	61,86%	38,14%
G12	2058	1269	3327	61,86%	38,14%
G13	750	463	1213	61,86%	38,14%
G14	648	400	1048	61,86%	38,14%
G15	474	292	766	61,86%	38,14%
G16	1188	733	1921	61,86%	38,14%
G17	1068	659	1727	61,86%	38,14%
	15072	9294	24366	61,86%	38,14%



	AL	SR	SUM	% AL	% SR
kodra e Xeh	4548	2805	7353	61,86%	38,14%
Ibri	7146	4407	11553	61,86%	38,14%
"7 Shtatori"	1122	692	1814	61,86%	38,14%
Kroi i Vitakut	1188	733	1921	61,86%	38,14%
Suhodolli	1068	659	1727	61,86%	38,14%
SUM	15072	9294	24366	61,86%	38,14%




Structure of population (inhabitans) - sumary
8000
7000
6000
5000
4000
3000
2000
1000
0
kodra e Xeh
Ibri
"7 Shtatori"
Kroi i Vitakut
Suhodolli
AL
SR



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
AL	690	486	258	1032	1140	942	1254	576	972	942	594	2058	750	648	474	1188	1068
SR	426	300	159	636	703	581	773	355	599	581	366	1269	463	400	292	733	659
G1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

AMERICAN UNIVERSITY
WASHINGTON, DC

July 6, 2000

Government Accounting Office
Bosnia Corruption Team
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Dear GAO Evaluation Team,

I appreciate your willingness to provide me the opportunity to comment on your recent draft report entitled "Bosnia Peace Operation: Crime and Corruption Impedes the Success of the Dayton Peace Agreement." The following comments are based upon my recent experience as the Co-Chair of the Bosnian Federation Government appointed Commission of International Legal Experts, which was tasked with reviewing the causes and consequences of corruption in Bosnia and making recommendations to the government on how best to combat corruption and promote transparency. My comments are also based on my long involvement with the Bosnian peace process beginning as member of the State Department's Legal Advisor's office, and subsequently as a member of the Bosnian delegation to the Dayton negotiations.

On the whole, the report accurately reflects the fact that corruption and a lack of transparency are hindering the economic transformation currently underway in Bosnia. Your report also accurately notes that the Bosnian political institutions hold primary responsibility for creating and implementing an effective program to fight corruption. Moreover, your call for greater Congressional involvement in the oversight of the Dayton implementation process is highly appropriate, and I believe would be welcomed by the Bosnian government given their repeated calls for international assistance in creating the institutions necessary to fight corruption.

I would like to take this opportunity to highlight a number of circumstances that contribute to the level of corruption in Bosnia and inhibit efforts by the Bosnian government and the United States to craft an effective response. Importantly, while the causes and consequences of corruption in Bosnia are generally similar to those in all other states in Central and Eastern Europe and the former Soviet Union, the situation in Bosnia is further complicated by a number of circumstances relating to the system of governance created by the Dayton Accords, the manner in which the Accords have been implemented, and the activities of international entities operating in Bosnia.

Although your draft report acknowledges the influence of some of these circumstances, it is necessary to fully understand them in order to for the United States government, along with the World Bank and important international non-governmental organizations, to appropriately and effectively work with the Bosnian government to respond to the challenge of corruption in Bosnia.

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1) The Dayton Peace Accords created a system of governance which is highly inconducive to Bosnian initiated and American supported efforts to fight corruption.

Because the Dayton Accords deny the Bosnian central government any authority to enact Bosnia-wide law enforcement measures, it is impossible for the Bosnian central government to create a comprehensive approach to fighting corruption, or even to enact partial measures which would aid in promoting transparency.

Because there is no court of first instance at the national level, it would be impossible to enforce any national laws relating to corruption even if the national executive were to become vested with the authority to enact a comprehensive anti-corruption program. Imagine attempting to fight corruption in the United States without national legislation or a Federal Court system.

Moreover, the Dayton Accords deny the Bosnian central government the authority to create a law-enforcement organization capable of pursuing the organized crime networks which operate throughout the territory of Bosnia.

The authority to enact law-enforcement measures is essentially spread between the Republka Srpska and 10 cantonal governments in the Federation of Bosnia-Herzegovina. While the Federation may enact legislation relating to law enforcement, the authority to enforce the legislation rests with each cantonal government.

As a result of this arrangement, there are 12 official customs zones (and two private zones in Mostar and Travnik), and a number of contradictory and incompatible regulations concerning economic matters, which inhibit efforts to combat corruption, and in many instances unintentionally facilitate the commission of economic crimes.

The territorial demarcation created by the Dayton Accords resulted in an international border of over 1600 km with over 420 points of entry, only 14 of which are covered by any type of customs regime. Although efforts have recently been undertaken to create a national border patrol, it will be deployed only at the Sarajevo airport and three border points.

2) The relative non-implementation of the Dayton Accords in important areas such as apprehension of war criminals, political re-integration and political transformation has limited the ability of the Bosnian government and the United States to craft and implement effective anti-corruption measures.

Despite the moderate efforts of the Yugoslav Tribunal and SFOR to indict and apprehend those responsible for crimes against humanity, war criminals continue to permeate the political and economic life of Bosnia. As these individuals are largely responsible for the most serious organized crime, their presence and their exercise of political power not

only impedes the implementation of the Dayton Accords, but negates any serious efforts to combat corruption.

> The most striking example of the ability of war criminals to influence the post-Dayton political process in Bosnia is that of Momcilo Krajisnik. Mr. Krajisnik, along with Radovan Karadzic, orchestrated the campaign of ethnic cleansing against the Bosnian people. After the Dayton negotiations Mr. Krajisnik was allowed to stand for and was elected as the Serbian representative to the Bosnian Presidency. He also assumed responsibility for overseeing the Republika Srpska's vast black market operations. After completing his full term on the Presidency, where he actively undermined efforts to implement the Dayton Accords and efforts to make progress on institutional development necessary to combat corruption, he was indicted by the Yugoslav Tribunal for his role in the Bosnian genocide.
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> Moreover, the Bosnian-Serb deemed most responsible for orchestrating the Bosnian genocide, Radovan Karadzic, continues to remain at large in the Republika Srpska and exercises control over the organized criminal elements operating there, thus undermining any efforts to promote meaningful reconciliation, let alone truly national efforts to combat corruption.

The presence of indicted war criminals also actively undermines the further development of civil society as they are frequently engaged in activities relating to corruption and organized crime, and seek to perpetuate mono-ethnic politics and the partition of Bosnia as this provides them with the financial and political support necessary to evade arrest.

The continuing presence of paramilitary organizations, particularly in Prnjavor, Bijeljina, Zvornik and Koraj in the Republika Srpska and Drvar in Herzegovina undermines the ability of local or national law enforcement agencies to indict and arrest corrupt officials or important criminals protected by these paramilitaries.

The rush to hold elections within 12 months of signing the Dayton Accords and the adoption of an election law which is inconsistent with European standards because of the manner in which it disenfranchises large segments of the population based on their ethnicity, has further entrenched many of those responsible for the ethnic conflict in positions of power and conferred legitimacy upon them as individuals as well as their ideology of ethnic separation, particularly in the Republika Srpska.

The Republika Srpska and some of the cantonal authorities would like to secede from Bosnia, and pursue policies aimed at undermining the authority of the central government, including any central government or Federation wide activities which would serve to combat corruption and organized crime.

Even among the cantons which do not wish to secede from Bosnia there is little inter-cantonal cooperation on matters of corruption and crime, and there is no appreciable cooperation between the entities.

The desire of some cantons to separate from the Federation has inhibited the development of a truly joint customs regime. According to the Federation Customs office, some Cantonal Customs departments refuse to allow non-Croatian Bosnians to work with them at border crossings, and that in reality, the border between BiH and Croatia is a border only on paper.

According to the International Crisis Group, "police regularly disregard and often flagrantly violate the laws of BiH, human rights, and the [Dayton Accords]. In some areas, particularly western Herzegovina and Republika Srpska, police often operate with impunity, sheltering war criminals, refusing to investigate ethnically motivated crimes, and occasionally committing crimes against minority groups. Police regularly refuse to comply with directives of the international community, including the High Representative."

3) The current anti-corruption effort led by the Office of the High Representative is discredited and ineffective, and has intentionally obstructed the efforts of the United States Department of Justice and World Bank to undertake more professional efforts to combat corruption.

The Office of the High Representative has drafted a lengthy report on corruption and has undertaken a number of actions designed to influence the level of corruption in Bosnia. The report is based mostly on unsubstantiated analysis and presents a list of vague and unprioritized recommendations - most of which relate to the creation of working groups. The efforts undertaken by the OHR have largely been ineffectual as they produce relatively unsophisticated ad campaigns, academic style conferences, and primary school initiatives. As a result, the people of Bosnia and the Bosnian political institutions have little confidence in the ability of the OHR to assist in their efforts to combat corruption.

The U.S. Department of Justice and the American Bar Association CEELI project initiated efforts to assist the Bosnian political institutions in creating a comprehensive approach to combating corruption, but these efforts were quashed by the OHR on the basis that they were interfering with the jurisdictional prerogatives of that office.

Similar efforts by the World Bank were also quashed by the OHR.

Although the unarmed International Police Task Force is providing assistance to local Bosnian police on how best to combat corruption, there is currently no international effort to aid the Bosnians in developing an anti-corruption police force

4) A qualitative distinction exists between the Republka Srpska and the Federation in terms of the nature and extent of corruption.

While the report accurately cites examples of corruption from all three political constituencies in Bosnia, it is important to acknowledge the differing levels of corruption in the Croatian controlled cantons, the Republika Srpska, and the Bosniac controlled

institutions, as varying types of remedies may be applicable depending on the level of corruption.

> In this regard, a European official who recently commented on the matter of corruption in Bosnia likened the comparison between the Federation and the Republika Srpska to that of the European Union and the Russian Federation. Both suffer from endemic corruption, but there is a marked difference in the level and extent of corruption.

Within the Federation, the Croatian controlled cantons have until recently operated a network of organized crime directly linked to the Croatian government and Croatian secret service, receiving both funding and protection from their Croatian sponsors. According to SFOR, the Croatian effort relied upon the organized criminal network to further its objectives of undermining the implementation of the Dayton Accords - in particular with respect to refugee return and the protection of minority rights - and creating a *de facto* separate Croatian entity politically and economically integrated with Croatia.

In light of the above, in order to create the necessary environment conducive to the success of Bosnian and American efforts to combat corruption and to achieve political, economic and social reintegration of Bosnia, the first step, as accurately recommended in your report, will be to enhance Congressional oversight over the Dayton implementation process. This oversight should be directed to ensure that serious effort is put into the arrest and marginalization of indicted and suspected war criminals, that the existing central government institutions are strengthened, and that the influence and power of the separatist entities are eroded.

Additional necessary steps include the adaptation or modification of the Dayton Accords to evolve Bosnia from a pseudo state into a state with strong central government institutions capable of not only combating corruption, but also providing for the security and welfare of all the Bosnian people. A concerted effort to combat corruption will also require the displacement of the discredited and ineffectual efforts of the OHR, and their replacement with a United States and World Bank led professional effort to stand-up and train the necessary institutions to combat corruption and promote transparency.

Again, I appreciate your willingness to permit me to comment on your report, and I look forward to providing any assistance you may require as you continue your efforts to monitor and evaluate will this and similar matters relating to the evolution and implementation of the Dayton Accords.

Most sincerely yours,

Paul R. Williams

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United States Agency for International Development
Sarajevo, Bosnia-Herzegovina

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USAID ANTI-CORRUPTION EFFORTS

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 Republika Srpska Banking Agency (RSBA). Three full-time American advisors, funded by USAID assist both agencies.

- Concentration of so many government functions within the Payments Bureaus makes transparency difficult. USAID is heading up a group of international donors to eliminate the Payments Bureaus and transfer their functions to more appropriate agencies such as the Treasury and and commercial banks.

- USAID's Business Development Program 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.

- 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.

- 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. International advisors are being provided to guide the privatization of the largest enterprises to assure maximum international participation

- USAID provided the computer hardware and software for the claims registry and auctions system. The privatization network system is designed to document all changes made to the data, thus limiting the ability to improperly alter privatization certificates.

- USAID assistance is helping to establish effective supervision of capital markets in both entities. 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.

- Through its Public Sector Accounting Reform project, USAID is providing the two entities and State of BiH with assistance in the following: (1) the development of

accounting policies, (2) training in the application and usage of internal controls, (3) technical support and equipment to upgrade the existing government financial information system, and (4) accounting training and support with the upgraded computer system. The ultimate goal of the project is to introduce modern accounting and controls to increase transparency and accountability in the use of public funds. This project complements the World Bank/Swedish efforts in establishing Supreme Audit Institutions at all government levels.

Democracy

- USAID municipal advisors are helping to create an open and transparent government in the newly established Brcko District. Areas of focus include the design and implementation of systems for fair hiring and compensation, uniform purchasing procedures, discussion of budgets on local media, establishment of a citizens' complaint department and hotline, and implementation of "process mapping" to determine the optimum time needed for business permitting and registration in order to reduce customers' time and cost.

- USAID's judicial reform programs are promoting greater transparency in legal institutions by improving court and prosecutor administrative capacities, promoting higher professional standards among lawyers, judges and administrative personnel, and encouraging a demand for justice by citizens. The programs give special emphasis to training prosecutors in the new provisions of criminal law, which are vital for combating corruption and organized crime.

- Through its DemNet Program, USAID funded a series of open radio shows on anti-corruption. For example in Trebinje, representatives of local government and the police were available to answer publicly citizens' questions about corruption.

- Training teams from the USAID-funded International Foundation for Election Systems (IFES) are helping community and village residents pursue advocacy efforts to address local concerns, promote local government transparency and political accountability, and improve lives. USAID supports similar activities through the local NGO "Centers for Civic Initiative" (CCI), which uses its cross-entity network to educate citizens and strengthen their capacity to resolve community problems and keep their elected officials accountable.

- USAID's media assistance program aims to create an independent media that is self-sustaining and free of political influence. The project provides technical assistance, training, and small grants to support the development of investigative reporting. This initiative has resulted in articles and television documentaries on local government corruption, mis-use of public funds and human rights violations among others.

- USAID, through IFES, is working with the Association of Elected Officials to promote open and transparent elections through (1) provision of information relating to electoral laws and procedures, (2) distribution of voter education materials, (3) provision of distance-learning technology to educate about election administration, and (4) research to promote public confidence in the electoral process and election results. USAID, through NDI, has provided pollwatcher training to party activists in order to minimize the possibility of fraudulent electoral processes.

Municipal Infrastructure

- USAID is participating as part of a steering committee in a European Commission-funded audit of the collection and use of tax revenues from municipal sector utilities in both entities. The team will track the money through the government looking at the amount of revenue generated and where it ends up.

Training

- USAID participant training programs, administered by World Learning, stress accountability and take participants to third countries to witness firsthand the workings of responsive and transparent organizations. Bosnian participants have been motivated to implement a program to discover and penalize perpetrators of tax and financial crimes; create and distribute consumer education materials; and successfully advocate for fairer privatization laws among other things.

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