

THE IMPACT OF ORGANIZED
CRIME AND CORRUPTION ON
DEMOCRATIC AND
ECONOMIC REFORM

HEARING
BEFORE THE
COMMISSION ON SECURITY AND
COOPERATION IN EUROPE

ONE HUNDRED SIXTH CONGRESS
SECOND SESSION

MARCH 23, 2000

Printed for the use of the
Commission on Security and Cooperation in Europe
[CSCE 106-2-7]



Available via the World Wide Web: <http://www.house.gov/csce>

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MARCH 23, 2000

COMMISSION ON SECURITY AND COOPERATION IN EUROPE,
WASHINGTON, DC.

The hearing came to order at 2:29 p.m. in Room 483 of the Russell Senate Office Building, Representative Christopher H. Smith, Chairman, presiding.

Commissioners present: Hon. Christopher H. Smith, Chairman; Hon. Ben Nighthorse Campbell, Co-Chairman; Hon. Frank Wolf.

Witnesses present: Rob Boone, Deputy Assistant Secretary for Narcotics and International Law Enforcement, U.S. Department of State; James K. Weber, Deputy Assistant Director, Investigative Services Division, Federal Bureau of Investigation; John Tennant, Deputy Assistant Administrator, Bureau for Europe and the New Independent States, U.S. Agency for International Development; Adrian Karatnycky, President, Freedom House; Nancy Lubin, President, JNA Associates, Inc.

**OPENING STATEMENT OF
HON. BEN NIGHTHORSE CAMPBELL, CO-CHAIRMAN**

Sen. CAMPBELL. This hearing of the Commission is called to order. This is one of those inopportune days. On short notice, I've got a flight out this afternoon to head West and, unfortunately, Chairman Smith has to testify in front of the Appropriations Committee in about another hour and a half or so. I don't know whether the Commissioners are going to attend, but we may have to play musical chairmanship.

At the outset, I want to underscore that the impact of organized crime in the OSCE region is not limited to some far-off land. Organized crime and corruption directly bear on United States security, economic, and political interests at home and abroad. I understand that scores of FBI investigations currently underway in my own home state of Colorado have an international dimension in such key areas as terrorism, violent crimes, and white-collar crimes.

Today thousands of our men and women in uniform, including many from Colorado, are serving in both Bosnia and Kosovo. Rampant corruption and uncontrolled organized criminal activity there are undermining the efforts by the international community to create some semblance of the rule of law. Nearly 5 years after the Dayton Agreement, the American head of the OSCE mission in Bosnia recently cited corruption as the number one obstacle to implementation of the Agreement.

Having placed thousands of U.S. service personnel in harm's way for peacemaking and nation-building, failure to get a handle on the deteriorating situation in the former Yugoslavia will no doubt lead to a protracted military presence in the region, costing American taxpayers untold billions of dollars.

Elsewhere in the OSCE region, the United States has provided hundreds of millions of dollars in bilateral assistance to Newly Independent States since the breakup of the former Soviet Union. Often, the aims of these programs and activities of U.S.-backed international financial institutions have been and continue to be frustrated by pervasive corruption and organized crime.

During the OSCE Parliamentary Assembly meeting last July in St. Petersburg, I introduced a proposal calling upon the OSCE to intensify efforts to resolutely combat corruption and organized crime. That recommendation was overwhelmingly approved by the 54-nation Assembly and has led to several concrete initiatives.

When we started raising the corruption issue, skeptics advised us against using the "c" word, the word "Corruption," as it might offend some of our European friends. Well, I can tell the chairman and the people here with us today, we've moved a long way since then. Efforts by this Commission with the Departments of State, Commerce, Justice, Treasury and others led to the inclusion of specific language in the Istanbul OSCE Summit Charter and Declaration on corruption and organized crime. The leaders of the participating States recognized that corruption poses a serious and great threat to OSCE shared values, cutting across security, economic, and human dimensions of the OSCE.

I see the Chairman is here and, with that, I'll submit the rest of my opening statement in the record. Mr. Chairman, I went ahead and started. I know you appreciate—you have a tight schedule this afternoon as I do, too, unfortunately.

**OPENING STATEMENT OF
HON. CHRISTOPHER H. SMITH, CHAIRMAN**

Mr. SMITH. Thank you. I appreciate it. Thank you, Chairman.

Today we do convene this hearing, a second in the series of hearings on the impact of organized crime and corruption in the countries of the OSCE region, particularly those former Communist states in Southeast Europe and the NIS, which are in transition to democracy and market economies.

Widespread corruption in the transition countries threatens their ability to provide strong independent legal regimes, market-based economies, and social well-being for their citizens. Corruption has stymied economic reforms in these countries and impeded efforts to improve the status of disadvantaged groups.

In the absence of effective civil rule-of-law, mafias have flourished through their corrupt connections, gained power over whole sectors of the economy, and derailing legislative reform agendas inimical to their interests. A recent EBRD report identifies these destructive factors and calls for greater efforts between governments and international organizations to depoliticize economic activities and develop measures to constrain state capture by private citizen interests.

Because of this corruption and the siphoning off of public resources, citizens are often deprived of government-supported basic support mechanisms and infrastructure have developed negative opinions about democracy and free markets. During a Commission hearing that we held

2 days ago regarding the human rights situation in Turkmenistan, one of the most authoritarian and repressive regimes in the region, opposition leader Kuliev, cited three components of President Niyasov's internal politics, the first of which is corruption.

This Commission has pushed for greater recognition of the threat of organized crime and corruption in the OSCE and supported efforts to develop an OSCE strategy to combat them. The U.S. delegation to the annual meeting of the OSCE Parliamentary Assembly last year in St. Petersburg, Russia, co-led by myself and my good friend Senator Campbell, called for the convening of an OSCE ministerial meeting to develop strategies to combat these threats. I particularly appreciate the leadership of the Co-Chairman on this initiative.

At the OSCE Parliamentary Assembly, we also introduced a resolution condemning the cross-border trafficking in women and children which, along with drugs and weapons, is a major industry for organized crime entities. Our Commission worked closely with the State Department to ensure that combating crime and corruption was on the agenda of our heads of State during the OSCE Summit meeting in Istanbul last November.

Let me just say also that our legislation that we have introduced on trafficking has been reported favorably out of the International Relations Committee and the Judiciary Committee subcommittee. One subcommittee has already taken action. We hope to have that on the House floor hopefully within a month or so. So we're trying to do our part to stiffen our resolve, beef up our law, and probably the centerpiece of that legislation, which I have introduced, with a number of bipartisan co-sponsors, is the life imprisonment for those who traffic people, especially women, into prostitution.

So let me just introduce our very distinguished witnesses and thank them in advance for being here. Our first panel includes Mr. Rob Boone, the Deputy Assistant Secretary of State from the Bureau for International Narcotics and Law Enforcement Affairs. Mr. Boone is responsible for developing and managing major policies of the Bureau, with a particular focus as the State Department's Policy Manager for International Crime Programs. Prior to his assuming his current position, Mr. Boone served as Senior Advisor to the Assistant Secretary of INL and as Special Assistant in the Office of National Drug Control Policy in the Executive Office of the President. Prior to his government service, he was a business litigation attorney and negotiation consultant.

Our next witness is Mr. James Weber, the Deputy Assistant Director for Investigative Services Division, Federal Bureau of Investigation. He has executive responsibility for all FBI foreign offices and their administration and operation. Mr. Weber began his service with the FBI as a special agent in 1975. He has served at a number of posts, both domestically and internationally, including as Deputy Legal Attache in Mexico City. Prior to assuming his current duties, Mr. Weber was Special Agent In Charge of the Albuquerque, New Mexico, FBI office, then Special Agent In Charge of the San Juan, Puerto Rico, division.

Our third witness is Mr. John A. Tennant, a Deputy Assistant Administrator, Bureau for Europe and the Newly Independent States for USAID. Prior to assuming his current position in 1998, Mr. Tennant served as Director of USAID in Bulgaria from 1994 to 1998 and as Director of the Office of Program and Project Development for USAID

in Jamaica, from 1990 to 1994. He has extensive experience with the agency's work in Asia, including postings in the Philippines, Thailand, Pakistan, and Vietnam.

Mr. Boone, if you could begin. And thank you, again, for being here.

**TESTIMONY OF ROB BOONE,
DEPUTY ASSISTANT SECRETARY FOR NARCOTICS AND INTER-
NATIONAL LAW ENFORCEMENT, U.S. DEPARTMENT OF STATE**

Mr. BOONE. Mr. Chairman, Senator Campbell, members of the Commission, thank you for this opportunity to discuss organized crime and corruption in Southeast Europe and Central Asia. The anti-corruption initiative of the Commission, under your leadership, as well as of your parliamentary colleagues from other OSCE nations, has been of decisive significance.

Mr. Chairman, in the interests of time, I would like to make a brief statement now and submit my longer statement for the record.

Mr. SMITH. Without objection, your statement will be made a part of the record.

Mr. BOONE. Organized crime and corruption are significant threats to the political, economic, and social stability and development of the nations of these regions. The ability to confront and surmount corruption and organized crime turns on the political will and institutional capabilities of each individual nation. Policy encouragement and material support by other nations can be invaluable, but they cannot substitute for the determination and capability of each country to act within its own borders.

Under President Clinton's International Crime Control Strategy of May, 1998, we have broadened our efforts to provide systematic and comprehensive support to enable other nations to act against corruption and organized crime. Since Vice President Gore hosted the first Global Forum on Fighting Corruption in Washington in February of 1999, the Department of State has coordinated an expanding interagency, international effort against corruption.

My written remarks address activities of my own Bureau for International Narcotics and Law Enforcement Affairs, and also some others by the U.S. interagency community. I'll defer to my USAID and FBI colleagues to describe the activities of their agencies.

What are the problems we are trying to address? Organized crime and corruption are two of many manifestations of the momentous social, political, and economic changes taking place in Russia and the states of Eastern Europe and Eurasia, following the breakup of the Soviet Union. Our bilateral crime control assistance seeks to help these states build strong and democratic institutions to combat these related and mutually reinforcing problems. We do this largely through training and technical assistance delivered by U.S. Federal law enforcement and other agencies. My FBI colleague, for example, can describe the very successful INL-funded International Law Enforcement Academy in Budapest, Hungary.

With respect to particular countries, for Russia and Ukraine we have two separate bilateral law enforcement working groups focused mainly on anti-money laundering, legal sector reform, mutual legal assistance, trafficking in women and children, intellectual property rights, organized crime, and financial crimes.

Regarding Bosnia-Herzegovina, on March 2, at the OSCE Permanent Council, the head of the OSCE mission there, Ambassador Robert Barry, identified, "corruption, discrimination, and political patronage," as the significant impediments to necessary economic reforms in that country. In this area, we are using a U.S. anti-corruption task force, established in September 1999, to support initiatives of the Office of the High Representative in Sarajevo.

In Central Asia, organized crime and official corruption are also serious and growing problems that have a strong negative impact on the ground, day-to-day. We will continue to work on these issues bilaterally and through multilateral fora, such as the OECD's October 1999, seminar on the rule of law in Tashkent, Uzbekistan.

Mr. Chairman, I would like to highlight just a few other regional and global initiatives. This month, a working group of the OSCE Permanent Council began to examine how the OSCE may best contribute to efforts to combat corruption. This initiative, in our view, would not have prospered without the effective efforts by the U.S. members of the OSCE Parliamentary Assembly. We will continue to work closely with the Commission to advance this issue in the OSCE.

The U.S. supports the Southeast European Cooperation Initiative, or SECI, an 11-nation regional organization to prevent and combat transborder crime. SECI members are establishing a center in Bucharest, Romania, to coordinate their efforts against smuggling of goods and people. Also, the Stability Pact for Southeast Europe, under the auspices of the OSCE, includes an anti-corruption compact and action plan. Globally, some 30 OSCE members participated at the February 1999, Global Forum on Fighting Corruption that Vice President Gore hosted in Washington. Next week in Bucharest, the Romanian Government will host a regional follow-up meeting. The U.S. observer delegation there will include members of the Commission's staff. In May 2001, the Netherlands will host a second Global Forum which the U.S. will co-sponsor. All OSCE members will be invited. We want the second Global Forum to further advance measures to promote integrity and prevent or control corruption among public officials, particularly those officials responsible for maintaining the rule of law.

In conclusion, organized crime and corruption are serious impediments to social, economic, and political development of the nations of Southeast Europe and Central Asia. Crime and corruption are as old as mankind. We cannot conquer them completely, but we can and should control the extent to which they harm democracy, economic progress, and the rule of law. This is why we work with the OSCE and other organizations on these subjects.

We are profoundly grateful for the strong support that our legislative colleagues have given to these international efforts. We look forward to continuing to work closely with you on them. Thank you again for the opportunity to be here and I'd be happy to answer any questions.

Mr. SMITH. Mr. Boone, thank you very much for your testimony and for your submission. We've looked through it and we all have some questions after our other two witnesses, but we do thank you.

Mr. Weber.

**TESTIMONY OF JAMES K. WEBER,
DEPUTY ASSISTANT DIRECTOR, INVESTIGATIVE SERVICES
DIVISION, FEDERAL BUREAU OF INVESTIGATION**

Mr. WEBER. Mr. Chairman, Senator Campbell, I appreciate the opportunity to be here on behalf of the FBI today. I, too, have written remarks that I'd like to submit for the record at this time.

Mr. SMITH. Without objection, your remarks will be made a part of the record.

Mr. WEBER. Briefly, orally, I'd like to bring to the Commission's attention some efforts of the FBI in addressing the problem which my colleague from the State Department just addressed.

In Fiscal Year 1999, the FBI had 91 special agents and 64 support personnel abroad addressing approximately 24,000 investigative requests that came from our domestic field offices. This compares with 14,000 requests that we had in 1998. So it indicates the tremendous growth of transnational crime and terrorism, and the interest of domestic law enforcement's need to have cooperative partnerships with the police services abroad.

The FBI is very grateful to Congress for its support and innovative contributions for the Legal Attache Program that's already in operation and we're currently working with Congress to open new offices in Prague; the Czech Republic; Amman, Jordan; Bucharest, Romania; Santo Domingo, The Dominican Republic; Seoul, Korea; and Nairobi, Kenya.

Specifically in the area of the Commission's interests, I wanted to highlight a couple of initiatives that we currently have underway. We have people going through training at this time and they'll depart the United States within 5 days for the Federation of Bosnia and the Republika Srpska. Two FBI agents will be there for a 180-day assignment and the purpose of their assignment is to evaluate organized crime and corruption problems that exist in that threatened area and to provide services to the SFOR forces there on evaluating some criminal intelligence data that could lead to prosecutions in organized crime matters and corruption cases.

Also in the SECI area, which Mr. Boone described, we currently have three agents that are working very closely with the SECI initiative. Our specific assignment in the SECI initiative is to be mentors and to provide assistance to the 11 participating countries' law enforcement agencies. We have also been specifically tasked to deal with the issue of trafficking in women and children. There will be an FBI-led initiative within SECI and we're quite confident that we can make great strides to help solve that emerging problem worldwide, as well as in that geographic area.

We are also currently working with the Hungarian Government to create a Hungarian/United States working group that specifically will deal with organized crime matters in Hungary. This initiative will be comprised of four FBI agents who will be working with the Hungarian National Police in a working group/task force with a specific mission to address transnational crime matters that affect the United States and Hungary.

One other initiative that we have that was mentioned earlier is the International Training Academy in Budapest, Hungary. We have more than 750 police officers from the geographic area of interest that have received training in the Budapest, Hungary, center. That's a very suc-

cessful training program. It is, in my opinion, one of the best training initiatives ever done outside the United States for emerging police services.

The FBI works in partnership with the State Department and INL in trying to provide training and trying to provide services that benefit not only the people of the United States, but will help create a stabilized police environment in this area of the world, which is very critical to both the economic recovery of these areas and also political stability of the region.

Thank you very much, Mr. Chairman.

Mr. SMITH. Thank you very much. I appreciate your testimony, Mr. Weber. Mr. Tennant.

**TESTIMONY OF JOHN TENNANT,
DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE
AND THE NEW INDEPENDENT STATES, U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT**

Mr. TENNANT. Thank you, Mr. Chairman, Senator Campbell, for calling this hearing on the important topic of the impact of crime and corruption on democratic and economic reform in Europe and the former Soviet Union. I will read a short statement and would also like to request that my written remarks be made part of the record.

Mr. SMITH. Without objection, they will be made a part of the record.

Mr. TENNANT. We at the U.S. Agency for International Development have dealt with this problem throughout the developing world and we're not surprised to see it emerge as a key issue in the post-Communist states of Central Europe and Eurasia.

From a personal perspective, let me say that, from my early experience implementing USAID's development programs in South Vietnam to my current position overseeing USAID's efforts to dismantle the communist legacy in Central Europe, I've seen how crime and corruption can deny ordinary people the benefits of economic development and rob them of hope for a better life. USAID knows that crime and corruption are serious transition to development issues and we address them head-on with our technical assistance programs and with our agency's wide-ranging institutional safeguards of U.S. taxpayer money.

First let me address how my agency can operate in countries plagued with corruption and crime. First, the overwhelming majority of USAID activities are technical assistance projects. That means these projects are implemented through contracts, grants, and cooperative agreements with American private sector experts and American private voluntary organizations or PVOs. The USAID demands strict financial accountability, as required by Federal law and regulations from our implementors. USAID officers, both in Washington and the field missions, closely monitor these implementors, when the agency further subjects our contractors and grantees to annual audits and regular evaluations.

We do acknowledge that abuses have occurred, but these have been small in comparison with our total resource levels. We have established mechanisms, including calling in our USAID Inspector General for identifying and resolving allegations of malfeasance.

Additionally, overseas missions have other protections against any attempts of fraud by corrupt individuals. Because of time constraints, I won't go into the detail of how USAID project managers make sure they

have adequate financial accounting and reporting systems in place to ensure accountability and to prevent waste, fraud, and abuse, but they are considerable and I would be happy to respond to further inquiries from the Commission on this matter.

We believe that neither technical assistance nor law enforcement nor diplomatic initiatives can stand alone. Programs run by U.S. Government agencies are mutually reinforcing and are aimed at fostering societies based on the rule-of-law and transparent market economies.

Let me say also that, whenever possible, USAID works to leverage its resources with other donor organizations. For example, USAID played a pivotal role in establishing the anti-corruption network for transitional economies at the OECD.

We are also working with the World Bank to conduct anti-corruption assessments in Central Europe. These studies analyze corruption's cost to society and the economy and then bring together journalists, non-governmental organizations, and reform-minded government officials in publicized integrity conferences. USAID provided financing to help support a conference which produced a reform program to help reduce corruption in Albania, for example, and is now discussing running similar conferences in Bulgaria and Romania with the World Bank.

Let me share with you a few of USAID's successes and some key areas that we use to deal with corruption: strengthening the rule-of-law; supporting an independent judiciary; implementing economic reform and public sector transparency; and strengthening civil society or organizations and interventions.

First, in the rule-of-law, USAID's major implementor is the American Bar Association Central and Eastern European Law Initiative, or CEELI. CEELI has provided a broad range of assistance to strengthen legal systems in Central Europe and the former Soviet Union. For example, ABA/CEELI worked to revise the criminal codes in the Bosnian Federation. With the funding from USAID, ABA/CEELI and Department of Justice lawyers have been providing training to Albanian judges, prosecutors, and defense counsel in the provisions of the new Albanian criminal law. In addition, judges and lawyers from a variety of countries have participated in ABA/CEELI seminars on appropriate governance, commercial law, ethics, and bankruptcy procedures.

Regarding the independent judiciary, as you know, there was really no independent judiciary under the Communist system. The judiciary was merely an instrument used by the Communist Party to ensure political control. So it had to start from the ground up to put in place a judiciary not dominated by a nomenklatura, an executive branch. For example, in the Republic of Georgia, USAID is working to ensure that well-trained and independent judges can safeguard the emerging democracy in that country.

I am pleased to report that Georgia is the first USAID-assisted country in this region to have implemented mandatory judicial qualification examinations for all sitting and potential judges. USAID provided support to the Judicial College of Georgia and to ABA/CEELI to develop this qualification exam that all current and future judges are required to take. The sitting judges who pass this examination have had their salary raised nearly twenty-fold by the Georgian Government. The examinations were considered to have been fairly and impartially adminis-

tered and received extensive media coverage in Georgia. We believe this process is improving judicial integrity and increasing respect for legal institutions throughout Georgia.

When USAID first began its program in Central Europe and the former Soviet Union, the economies were tightly controlled by a small elite of red directors, or Communist Party members, who held key positions in industry and government. To break the powerful hold of these select few and to spread the benefit of a market economy to all citizens, USAID supported privatization programs as an important part of economic reform.

Since sound banking and strong bank supervision is critical for the functioning of a market economy, USAID is also delivering technical assistance in bank supervision, accounting, financial reporting, and enforcement throughout the region. USAID has supported 22 bank regulatory authorities, primarily central banks in the region, to ensure sound, transparent, prudential banking systems that also help combat money laundering and other types of financial fraud.

Civil society is another very key element that we work with to combat anti-corruption. We've found that one of the most useful ways to combat crime and corruption in Central Europe and Eurasia is to empower indigenous groups to address this issue themselves. Publicizing the corrupt facts of individuals and institutions have encouraged the emergence of political reformers who have focused more on democracy-building and free market reforms than on preserving the personal power and privileges associated with the old Communist system.

As Mission Director in Bulgaria, I was pleased to be able to support the creation of a Coalition 2000 group, which is a public/private partnership of NGOs and municipal government leaders who are working together to monitor corruption and stimulate public demand for accountability in government. Coalition 2000 is now working on ways to link private business associations with NGO and municipal government efforts, also conducting public outreach campaigns through the media to make the atmosphere for corruption more costly. Coalition 2000 is also closely coordinating with Bulgaria's Parliamentary Committee to Counter Crime.

I'd like to note that Bulgaria recently removed a number of ministerial level officials that were implicated in corruption and that the Coalition 2000 was instrumental in helping publicize this.

In conclusion, Mr. Chairman, I'd like to thank the Commission and the Congress for the support that it has provided to USAID's program in Central Europe and the former Soviet Union. We believe that the American people can be proud that their taxpayer dollars are working to establish market democracies based on the rule-of-law in this region of the world. By addressing such critical issues as crime and corruption, we're not only improving the lives of ordinary people in the region, but are demonstrating the American values of fairness and equality of opportunity and are laying the foundation for American exports and investment. I would be happy to answer any of the Commission's questions.

Mr. SMITH. Mr. Tennant, thank you very much for your testimony. We've been joined by Commissioner Pitts. Commissioner Pitts, do you have any opening comments?

Mr. PITTS. No, I don't.

Mr. SMITH. Thank you. Mr. Boone, let me just ask you, the Stability Pact for Southeastern Europe contains, as you know, an anti-corruption initiative which calls for strengthening of legislation and promotion of the rule-of-law, adoption of international instruments designed to combat corruption and organized crime and the promotion of good governance. Yet, Ambassador Robert Barry, head of the OSCE Mission in Bosnia claims that many political leaders in the region are the old nomenklatura working hand-in-glove with organized crime and remnants of the old security services to maintain control of their citizenry.

How can we have a successful implementation of the Pact, of the initiative, with that kind of hand-in-glove relationship with the old people who used to part of the repression?

Mr. BOONE. Thank you, Mr. Chairman.

Mr. SMITH. How do you weed them out?

Mr. BOONE. I'm sorry?

Mr. SMITH. How do you weed them out?

Mr. BOONE. We're trying to do this through a number of ways. I think is one way that these regional, multilateral bodies have a particular role because not only can we work on an interagency basis looking across the full spectrum of justice and security officials, but also officials responsible for the broader economic development.

Specifically in the Stability Pact, one of the first things we need to do, and we know we need to do this, is do some on-the-ground assessments to figure out exactly who's doing what on the ground. This activity has begun. We're also looking at ways specifically to involve civil society on a broader basis. It's also how to weed out corrupt officials throughout all of those segments.

There's a regional conference at the end of this month, in effect, a funding conference. We're looking forward to the reports of that because we think that'll also give us a better handle on the resources that we'll bring to bear, specifically on the problem that you raised.

Mr. SMITH. You know, I'm just wondering, like in a place like Romania where the Securitate used to be so strong, are they now in positions of policing power, having just changed uniforms and hats with, ostensibly, a new mandate? Or have they been cleaned out?

Mr. BOONE. Yes, the corruption problem still exists there. We've seen very good progress by the Government of Romania. As you know, members of this Commission's staff, my office, and a full interagency team, including the Vice President's office, will be going to Romania next week. We expect, I've actually learned on the way over here, high-level participation by a broad range of countries, including at the ministerial level. I think in the case of specific individuals, that won't be addressed, but I think the broader problem on an institutional, infrastructure basis, will be addressed. We're looking at that conference as a bridge to the next Global Forum where precisely the type of issue you raised will be addressed.

Mr. SMITH. I appreciate that. Could you, Mr. Weber, tell us to what extent organized crime is involved with the trafficking issue and if there's any guesstimate how much money is generated by the buying and selling of human beings, both for use, for exploitation, as you'd say, in the countries themselves or as they cross the borders? How big a problem is it?

Mr. WEBER. It's a very significant problem. Unfortunately, I can't put a dollar amount on it and I think any attempt to research that would just merely be an estimate. Nevertheless, it is a horrendous problem in that region. It is a problem from an organized crime perspective as well as from individual subjects because it's such a high profit margin crime. I'm confident that the SECI initiative will have some results in that area.

In regards to your question about Romania, I think the Romanians have, as far as their police services, have stepped up to the plate. As you know, the SECI center will be located in Romania and the Romanians are very enthusiastic. We're starting with basic police skills in these countries. For example, a simple matter of writing a police report is new to some of those officers.

I'm confident that Romania has made a commitment in addressing the problem of trafficking in women and children. I think that once, with the help of the State Department, the Federal law enforcement agencies that are going to participate, and the FBI's role in helping these police agencies, we'll be able to address and make some impact on the horrendous problem of trafficking in women and children.

Mr. SMITH. Mr. Karatnycky will be testifying in the next panel and he makes a point, and I would appreciate your comment on it, that, with regards to Romania, "I am more concerned that the limited progress seen in recent years in Romania can be reversed if the forces of former President Iliescu recapture power through the ballot box." What is your take on that?

Mr. WEBER. Again, sir, my take would be limited to that of the police services. I feel that a will to improve is there with the police services and, with our help, it will improve and we can make great strides there. Unfortunately —

Mr. SMITH. But part of our concern has been, at least with Mr. Constantinescu, that there be a real clean and honest break with the old Ceausescu regime. Many of us had profound concerns when President Iliescu came in that, while there were reforms, that many of the same old people were reemerging with different garb on. Now we have at least some testimony suggesting in the police force that there would be a concern of a return of some of those old hands.

Mr. WEBER. Again, sir, I can't answer that.

Mr. SMITH. Okay. If you or any of you can provide us any information on what you think might be the situation on those issues.

Let me just ask you again about human trafficking. When our delegation was at St. Petersburg, we met with a number of women who had been exploited, including the leader of a great group named Mira Med. Dr. Juliet Engel, who runs that group, pretty much on a shoestring, spoke of the retaliation against the NGOs and the fact that the organized crime elements not only threatened the young women themselves and the families, but those who act as advocates. Is that your experience?

She also told us that, and this was an estimate on her part, that the average woman, quote, "fetches, \$24,000 on this slave block" as she gets run through this terrible exploitation. Do those numbers comport with your sense of what the reality is out there? That women are going for that price?

Mr. WEBER. Yes, sir, they do, although it varies. For example, we recently had an investigation in the Midwest in the United States regarding some women who were smuggled into the United States for purposes of prostitution and, there, the procurer of these people paid \$2,000 per woman to —

Sen. CAMPBELL. \$2,000.

Mr. SMITH. Part of the aspects of our bill, one aspect, deals with protection for the women themselves. It is my understanding, and please correct me or provide amplification, if you would, that many women, once a brothel has been raided in this country, are very often on the next flight or a flight soon to be arranged, back to the country, whether it be Ukraine or Russia or anywhere else, without an adequate ability to really make them a part of a prosecution or at least get the information that might lead to a successful prosecution.

Our legislation would provide them the ability to procure a visa to stay here so long as they do not go out of their way to not be part of a prostitution effort. One reason our legislation is needed is that the penalties that can be leveled against the exploiters of women in this fashion are too light and too lenient, compared to what they should be. Our legislation would say “up to life imprisonment.” It is a bipartisan piece of legislation. I have just as many Democrats on the bill as Republicans and we are growing in number.

What is your sense as to the ability to provide a safe haven here for those women who have been so cruelly exploited? It is now in the Judiciary Committee. It’s been referred to them as well, so if you could provide your —

Mr. WEBER. I would applaud that because these women, of course, are victims. They’re necessary for prosecution and our only alternative in these cases to a paroling in the United States, under the legislation that you’re proposing, is a material witness warrant, which means we place these women in jail and hold them in custody. To me that is an unfair thing to do when they are victims in the first place.

Mr. SMITH. Let me just ask one final question before you get to my distinguished colleagues. Women who are trafficked into forced prostitution or indentured servitude often fall into the situation, as you know, after being recruited and signing employment contracts for legitimate jobs abroad, such as nannies and restaurant workers. Russian law enforcement officials claim that they cannot prosecute licensed Russian companies that recruit women for work abroad if a recruited woman ends up working in forced prostitution or in debt bondage because any crime that was committed occurred in the destination country rather than in Russia.

How do you respond to that claim? Are these just fronts to apprehend these women, bring them over here. The answer that we’re getting, is that they just can’t prosecute in Russia.

Mr. WEBER. It is a concern. One thing that, in my experience in dealing with this region has been a lack of mirror legislation that we have in the United States. For example the RICO statute has a conspiracy element that makes a very effective vehicle for prosecution but are not present in Russia. Nevertheless, there are several initiatives underway and various State Department programs to assist these countries, especially within the SECI nations, with providing model legislation that would help to address these problems that you identified.

Mr. BOONE. Yes, if I might add. At the programmatic level, we've developed a brochure that's been distributed in Russia to help protect these victims and prevent the crimes, called the "Be Smart, Be Safe" brochure. We've updated it for 2000 and it will be distributed. We also recently funded American University to do a program. It's a comprehensive, integrated program, to work both on victim assistance, but also on building the law enforcement capacity in Russia.

At a broader level, I would say the Government in Russia has shown increasing attention, including political attention, on this issue. We've had good cooperation, both in the G-8 context and in the negotiations in Vienna on the UN Protocol, to suppress and stop trafficking in persons, particularly women and children.

Mr. SMITH. I do have one final question, if I could, and, Mr. Boone, you might be the right person to answer it or Mr. Weber. In terms of prioritization all crimes are not equal. Again, one reason why, we're trying to beef up our own law and hopefully encourage other nations of destination to do likewise, is that U.S. attorneys obviously have a great deal of prosecutorial discretion. They can decide, as we all know, where to put their limited resources and what fish, bigger or small, to go after and they usually like to go after the bigger ones.

What kind of guidance are U.S. attorneys getting from the Justice Department? While a relatively new phenomenon with the breakup of the Soviet Union, what kind of strategies and guidance are our U.S. attorneys getting to put these people behind bars? Mr. Weber.

Mr. WEBER. On Monday of this week, the Attorney General of the United States spoke to the annual meeting of the special agents in charge of the FBI at Quantico, Virginia. I remember specifically in her remarks that she highlighted the crime of trafficking in women and children, and she stressed it as one of the highest priorities of the Department of Justice. Not only a United States problem, but a world problem. Her sincerity before that audience, I think, is a strong indicator of the guidance that the United States is willing to commit.

Mr. SMITH. That's outstanding. Thank you. Mr. Boone.

Mr. BOONE. Yes, just very briefly. This issue has the personal attention of the Secretary of State. She speaks on this in fora around the world, not just in the region we're discussing today, but concerning South Asia, with other parts of the world. Not surprisingly, this is a strong component of the work of my office and my interagency colleagues and, you know, they're doing a lot of the training overseas on this. We are fully committed to fighting this heinous crime.

Mr. SMITH. Thank you, Mr. Boone. Senator Campbell.

Sen. CAMPBELL. Thank you, Mr. Chairman. If it jeopardizes your work, you don't have to take the Fifth in here, you can just decline to answer and that'll be just fine or talk to us privately.

First, let me ask Mr. Boone, what can you report on any recent progress with respect to the implementation of the OECD Anti-Bribery Convention? I recall from our July hearing that France hadn't completed that process to adhere to it. Has France completed the process or are there still bribes paid that can be tax deductible?

Mr. BOONE. Actually, I just saw something earlier this week where the French parliament had passed legislation and my understanding of that legislation is that it would not grandfather these prior acts of corruption to which you refer. Nevertheless, I think there is still a legislative process to go through.

Sen. CAMPBELL. It would not grandfather?

Mr. BOONE. Yes, it would not, in effect, protect or condone.

Sen. CAMPBELL. Yes.

Mr. BOONE. But I still think there are further legislative steps to take. But that step which was taken, in our view, a very important one, I believe took place either Monday or Tuesday of this week.

Sen. CAMPBELL. I see. Thank you.

ABC Nightline, is running a week-long program on developments in Russia over the last 10 years. Last night's program was devoted to crime and corruption in high places. They cited some statistics that in Moscow there are 140,000 police officers compared to New York's force of 40,000. After having been to St. Petersburg with the Chairman, and talking to the people on the streets—taxi drivers and so on—about the bribery that is almost demanded by police officers, they do it because they're not getting paid. Well, we have a problem in this country with policemen, occasionally, that are getting paid. We still have some go bad now and then, as you know.

How do we address that? How do we expect to implement training to have some ethical behavior through training when, in fact, bribes are their only livelihood or a major part of their livelihood?

Mr. BOONE. I think, Senator, that inadequate salaries are something that we see. The need for adequate salaries is not only a problem in this region, but in all parts of the world. I would say it's necessary, but not sufficient. We still need to promote a culture of lawfulness and the rule of law. The Russians are taking steps on this front. We are engaged with them, both bilaterally--we have a law enforcement working group that the State Department and the Department of Justice co-chair. We and the Russians actually have a meeting planned later this spring. Anti-corruption is one of our key areas to engage the Russians on.

We also, at every opportunity, work with them in multilateral fora and I can report that Russian cooperation has been successful, or at least has helped promote the anti-corruption components of the Convention against Transnational Organized Crime that we're doing in Vienna.

Sen. CAMPBELL. While we were in St. Petersburg, some of us visited the National Police Training Academy which is about an hour out of St. Petersburg. I was rather impressed at the amount of training and the number of people in the training.

A former general was in charge of that training and he gave us a huge set of text books they use to train the police. They were in Russian, so I couldn't read them. Nevertheless, we did pass them on to State Department authorities to translate for their own use. That was given to us voluntarily, too.

We also made some arrangements for them to have some interaction with some of our U.S. federal agencies, too.

I was a little surprised when I went into their weapons room, it was totally different from what you would see in an American police weapons room. It had a couple of anti-tank weapons in there, and we don't often see that in local police departments in America.

But their police training is very close to military training, as you probably know .

Let me also ask you one other question. They say, at least the so-called experts, that protection rackets eat of 1/3 or more of the profits of businesses operating in Russia today, from mom and pop stands to large corporations.

We met with representatives of several American corporations to learn of their concerns and obstacles they face. Their big problem is getting through the permitting process to build or expand.

But are there programs in place to deal with that level of corruption, the strong-arm stuff for mom and pop operations, and things of that nature?

Mr. BOONE. Yes. It is our view, and this is an area that we would engage not only the Russians but all of our bilateral partners, that you cannot fight corruption by compartmentalizing the different sectors. You have to do it across the board because if, as you say in the other example, you are only doing it at the top corporate level, then the problem continues in the mom and pop store.

So, what we have incorporated into our programs is a comprehensive approach. We also do this in our multilateral program activities where it is one-on-one on the street corruption up through middle managers and up through senior executives, whether it is private sector or public sector.

Sen. CAMPBELL. I think the mom and pop operations would be at even greater risk because they don't have the resources to fight back. I know that even from the stand point of street gangs, it has historically been the big risk that the little folks who are just barely making it in a small business have almost no protection.

Mr. Weber, a dozen Russian law enforcement officials visited the Helsinki Commission earlier this week.

Their principal focus was on trafficking in human beings which has been clearly an issue that the Chairman has been interested in. One concern that they raised was the need for timely information.

I wanted to task you about that. You don't have to give me the details, but when you pass on information, how do you secure it? Or do you have a way of securing it so that the information that you pass on is not jeopardized in some way?

Mr. WEBER. We have really only the insurances that result from the bonds and implicit reciprocity of liaison contacts. As you know, we have now had some Russian officers attend the FBI national academy.

Our office in Moscow has sufficient experience with the Russian police services now that we have been able to identify people that we trust to pass this information through.

Sen. CAMPBELL. I think quite a few that you probably can't trust, too.

Mr. WEBER. And we have been successful.

Sen. CAMPBELL. Very good. Based on your work, which countries in the region have the most active organized crime links to the United States? Will you answer that?

Mr. WEBER. The Hungarian area has the crossroads for transnational crime emerging from that region. That is one reason we have formed an FBI/Hungarian task force police group. The Task Force will be looking at the large percentage of the monies laundered in the Bank of New York case all went to Budapest, Hungary.

Sen. CAMPBELL. But other crime groups in other countries use that as a conduit?

Mr. WEBER. Yes, sir. That is consistent with our experience. Even in Latin America, people who have large profits like the luxuries of life, will tend to gravitate toward the more developed, cosmopolitan capital cities.

Sen. CAMPBELL. Let me ask Mr. Tennant, have any of the countries with whom you work instituted something like an office of ethics or an inspector general or something of that nature, within their bureaucracies?

Mr. TENNANT. A number of them adopted codes of ethics which we have helped support. This is helpful because it gives them a moral compass which many of them don't have.

Some have started these types of institutions. Ombudsman, for example, and other kinds of institutions that can help oversee the corruption situation. We could find out which of the countries in the region that we have that particular type of agreement; I would be happy to provide that. But that would be the type of agreement that we would have.

Sen. CAMPBELL. Once they have adopted a code of ethics, do they have an enforcement mechanism? Like in the Senate, we have a code of ethics and if we don't abide by it we are in deep trouble, as you know.

Mr. TENNANT. Yes. This is always a problem. Enforcement is probably the biggest problem of many of these. The legislative reform that has been accomplished in the region tends to break down in enforcement. This is a weakness and we are working on it.

It is a long term effort, though. This isn't something that can be solved overnight. The big issue is having a good independent judiciary, a good investigative service and these things, because of the history in the region, take years to do.

We are moving forward and we do have some success, but it does take a good deal of time.

Sen. CAMPBELL. I understand. Thank you, Mr. Chairman. I will yield the microphone.

Mr. SMITH. Mr. Pitts?

Mr. PITTS. Thank you, Mr. Chairman.

To any of the panel, does the U.S. government have agreements with other governments, such as Russia, or Ukraine or other trafficking-source countries, that provide a framework for sharing necessary information with law enforcement officials to enable them to prosecute traffickers in the source country?

Mr. BOONE. We have, Congressman, agreements. I will give you an example. In the case of Russia, we have an executive agreement that provides for mutual legal assistance, but it is not a mutual legal assistance treaty.

So, it is less formal, less comprehensive. It is one reason we would like to have a mutual legal assistance treaty with Russia. But it is through that type of vehicle that we can provide evidence to one another.

It tends to be with most of the countries that the U.S. legal system is set up so we can provide the information to them, but they need a vehicle so that they can provide it to us.

We could find out which of the countries in the region that we have that particular type of agreement; I would be happy to provide that. But that would be the type of agreement that we would have.

Mr. PITTS. Do you know which countries are most cooperative and where the efforts are most productive in those cooperative agreements?

Mr. BOONE. Yes. I think I would probably defer to my colleague from the FBI because that would be the way the investigations would be worked.

Mr. WEBER. We have found the Hungarian Government to be the most open-armed and cooperative on transnational crime matters.

We are also forming some bonds and collaboration with the Russian police services that I think will be productive. It is generally case-specific areas and we have our most productive relationships in those areas where the police services are the most developed and well-trained.

The undeveloped services can hardly pass information to us because they lack the capacity to pass it even within their own service.

Mr. PITTS. How would a U.S. prosecutor pursue a U.S. company that was engaging in recruiting workers for legitimate jobs abroad, knowing full-well that the workers are really going to end up in this kind of slave-labor condition?

Mr. WEBER. The conspiracy laws of the United States would encompass that type of activity. I am not certain, but I would be glad to get back to the Commission. Though I don't believe it is a predicate offense for RICO, but I am confident that our criminal laws are sufficient to address that problem from a conspiracy standpoint. In addition, there are other U.S. laws that deal with prostitution and importation under the involuntary servitude acts.

Mr. PITTS. Do you find there are links between organized crime involvement in trafficking in human beings, or trafficking in drugs or trafficking in arms?

Mr. WEBER. Yes, I do because people who smuggle tend to smuggle anything. They deal in contraband, whether it is narcotics, fire arms or human beings.

Mr. PITTS. Do you find a link between trafficking in human beings and official corruption in the OSCE region?

Mr. WEBER. Yes, there is a link dealing with corruption. There is also a link in dealing with inadequate border controls.

When you talk about smuggling, typically they are crossing national borders, and many of these emerging democracies have inadequate border controls in place.

Again, one segment of the SECI initiative is to provide training and assistance to these countries in dealing with border controls. The Custom Service is very active in helping SECI in border controls, as well as inspection and enforcement issues relating to border issues.

Mr. PITTS. Now, when you are crossing borders, they have to obtain passports, visas and other travel documents. How do they obtain these official travel documents?

Is there reason to suspect that government officials are complicit in this human trafficking scheme in exchange for bribes or kickbacks?

Mr. WEBER. I believe it is documented that corruption exists at many levels. Whether the passports and visas were legitimately issued and then improperly used, as a result of bribery of border officials, or falsely issued as a result of bribery of the issuing officials.

Often, it is a combination of all these matters. Smuggling, in all of its manifestations, goes hand-in-hand with corruption of public officials ...

Mr. BOONE. Yes, I would echo those comments.

I would say another thing that happens that we try to address is, in effect, an absence of ability, even if there is not corruption, to maintain an adequately controlled border.

For example, in some countries in the region, we provide both training and equipment to have automated passport control at the borders. We train the officials how to detect fraudulent documents, enabling them to be able to process legitimate crossings and be able to distinguish them from illegitimate crossings.

Mr. PITTS. Now, when you set up these colleagues, down to the individual level to make sure that any person who is prohibited from receiving that assistance, before deciding you are going to help them or enter into a cooperative relationship with them?

Mr. BOONE. Yes, we are absolutely committed to preserving human rights. In fact we have prohibitions to make sure that we are not providing assistance, including to any individual, engaged in such conduct.

Mr. PITTS. We just had a hearing earlier this week, before the Commission on Turkmenistan. One of the facts that was brought out was that our government is going to be giving Turkmenistan a Coast Guard cutter.

There is no government in the OSCE region who has a worse human rights record. Turkmenistan is the only country in that region that has bulldozed churches, imprisoned people, and violated almost every human right.

Did you know about the Coast Guard cutter? Do you get involved in those types of arrangements when some arm of our government wants to give them some huge piece of equipment like a Coast Guard cutter?

That is for interdiction, you know.

Mr. BOONE. I don't know the specifics of that case; I would be happy to find out.

Certainly, multiple offices in our department, as well as the others, would be vigilant to learn of any such allegations involving an individual or a component of a foreign government.

Mr. PITTS. The response that we got from the deputy was that this was an unarmed Coast Guard cutter. Now, I don't know if there is any such thing as an unarmed Coast Guard cutter. It certainly could be easily armed and utilized.

I understand the importance of interdicting drugs, but I wondered what kind of a track record a government must have before you will enter into a cooperative relationship with them?

Mr. BOONE. As I said, we are vigilant about looking when we are making a determination to provide assistance, and as required by law, to investigating that with our law enforcement colleagues, down to the individual level to make sure that any person who is prohibited from receiving that assistance, does not get it.

Again, I can't comment on the specific case.

Mr. PITTS. Okay, previously, one Commissioner asked about the magnitude of sexual trafficking and Mr. Weber I think you said you couldn't put a monetary value on it.

Nevertheless, could you give us some kind of idea of the magnitude of the trafficking in human beings in the OSCE region or worldwide? Where are the real hot spots and what type of numbers are we talking, as far as people are concerned?

Mr. WEBER. I am sorry. I can't do that. However, I believe the Department of State has some data on that, and I would defer to my colleague, Mr. Boone.

Again, I would like to say that is one reason that we have agreed to participate in the SECI initiative is we need that information to flow from the countries where the problem is originating.

We can't make an effective analysis because we don't have the intelligence yet.

But I believe by cooperating and contributing our Justice Department resources to participate in the State Department initiatives there, that will generate the intelligence that we need so that we could answer your question with some degree of authority and certainty.

Mr. BOONE. I would just add obviously the raw data in most instances is coming from both the intelligence and law enforcement community.

As a general matter though, in the first part of your question, certainly the region we are discussing here today, and South Asia, it also depends if you are looking transit country or source country.

But I know for example, the Secretary made a strong statement in support of anti-trafficking programs just this week in India. She sent a statement.

Mr. PITTS. Mr. Tennant, you mentioned in your testimony that an independent judiciary is critical to strengthening the rule of law and other criminal codes?

But my question is how effective can judicial training or screening programs really be in countries where judges are appointed by and usually beholden to the current ruling regime?

In the countries where you work is there any legislative or public review of the judicial appointment process?

Mr. TENNANT. If it is a truly independent judiciary, and some countries do have this system set up, you have a supreme judicial council that makes the appointments. It should be independent from the ministry and the government.

So, there is a fire wall, if you will, in theory at least, between the judiciary and the government.

There are still problems in the amount of money that judges earn and in the payment of their salaries. Obviously this is a great concern, and training is very weak.

As the reform process continues and legislation is passed, you have to train the judges in how to enforce this, in bankruptcy and some of these other key areas. That is any area that you find needs great attention.

Helping to set up judicial training institutions and magistrate training schools in the region we are finding is helpful. We are setting these up; we have them now in the region. We hope this will help, as well as our CEELI program, as I mentioned.

Having these young, dynamic lawyers out there helping, working side-by-side with the judges is usually very useful. It not only helps them in their legislative duties, but it also serves as an example of what you can accomplish in the West.

Bringing judges to the United States and throughout Europe is another thing we do. We find this also is very useful to give them a sense of how our system works, and how it works in Europe.

So, it is a series of things. You have to do a lot of things and constantly look at this issue in a lot of ways, including the administration of justice. This is another important area. Getting the whole docket system modernized so that judges can process their caseload in a rapid and effective way is another constraint that we are starting to work on.

So, there is no one simple answer to this. It just takes a lot of work in a very comprehensive way.

Mr. PITTS. Thank you for your testimony. Thank you, Mr. Chairman.

Mr. Wolf?

Mr. WOLF. Well, I am sorry I am late. I really don't have any questions because I don't know what you have actually said. I will read your testimony.

I saw an article the other day that organized crime was bringing women into Kosovo to serve the U.N. troops for prostitution. Is that accurate? Do you have any thoughts or knowledge about that?

Mr. BOONE. No, sir, I don't have any specific information on that, but that has been a problem in the region.

Mr. WOLF. It was a Michael Kelly's story. He said KLA partners had smuggled dozens of women from Russia, Ukraine and Bulgaria into Kosovo, where they have worked servicing KFOR soldiers.

You don't know?

Mr. BOONE. No, sir, I am sorry I don't.

The only thing I would add is going back to my FBI colleague's remark about how what we see is smuggling routes and smuggling patterns. They typically involve not just, for example, weapons, but often people because the routes for smuggling are established.

They are also typically regions where there is a rampant degree of corruption.

So, again, I don't know the specifics of this case, whether it is true or not. But we see, not only in the Balkans but also in the other countries of this region, that those established smuggling and criminal enterprises continue, both for goods and for people.

Mr. WOLF. What impact has that had on the United States? Does much of that impact on us?

It is bad and I think we should do what we can. But is much of the organized crime filtering into the U.S.? The Russians are now in New York and Miami and places like that. There are Albanians who are smugglers.

I mean, has there been a major impact regarding organized crime in that part of the world that has had a direct impact on the United States?

Mr. WEBER. Yes, sir, it has. I cite the Bank of New York case and the monies and the threat to the banking system of the United States. Our systems are vulnerable to manipulation which could conceivably cause financial chaos within our system, because of cases like the Bank of New York.

Nevertheless, at the same time, large amounts of ill-gotten monies that come from various criminal activities can and will be used to corrupt public officials. Such bribery and corruption could even extend even into the United States when you deal with millions of dollars.

I mentioned in my opening remarks that the FBI, last year, had approximately 24,000 investigative requests from our domestic offices passed to our Legal offices for investigation by our foreign counterparts.

That compares with 14,000 requests of that nature from the year before. To me, that is an indicator of the tremendous growth in transnational crime. The connections of any criminal activity in that region has measurable impact in the United States. It affects us all. It affects the taxpayer of the United States.

Mr. WOLF. Are all their governments cooperating?

Mr. WEBER. I am sorry?

Mr. WOLF. Are all their governments cooperating with our government?

Mr. WEBER. Yes, sir, I believe that they are. I defer to my State Department colleagues.

But as far as in the police services, have begun to establish bonds and a cooperative initiatives with them which we are very optimistic about.

Unfortunately, they lack the infrastructure, and in some cases the supporting mechanisms of the judiciary and even the penal systems to ensue that just sentences are carried out.

So, it is a multi-faceted task that we in the FBI and in the U.S. Government have in trying to address such issues in these emerging democracies.

I think the will is there; we just have a lot of hurdles ahead of us to get to our goal.

Mr. WOLF. A last question. Are things better today than they were three years ago, or are they worse with regard to organized crime in that part of the world now?

Mr. WEBER. I think they are better today, and I believe that it is the result of the support that Congress has given us to try to address transnational crime and terrorism.

All the multi-agencies of the federal government recognize these problems and are trying to address them. It is going to be a long process, but I think there has been improvement. We have seen the stabilization, for example, despite its frailties, in Russia. The police service has made some strides forward which I think will be helpful in the future.

Mr. BOONE. The one thing I would just add about improvement is, and if you look at corruption as the umbrella under which all these crimes are taking place, I think in the last two or three years that there has been a shift, internationally.

That governments, particularly at high levels, are publicly discussing this, making public commitments to fight this.

Now, when you get to an individual case, it might not even be a question of corruption but simply a foreign counterpart of, for example, the FBI, which does not have the manpower or the resources or the experience. But there still may be a political and even, I think the phrase was, a liaison relationship, which is positive.

That is why we look at training and technical assistance as a way to augment that prior commitment.

So, in that sense, there has been an improvement to address these crimes.

Mr. WOLF. Thank you, very much.

Mr. SMITH. Thank you, very much, Mr. Wolf.

Let me just ask one final question, then yield to Marlene Kaufmann, our Counsel for the Commission.

For issues in the economic dimension, including the crime and corruption issue again this op-ed that was in the *Washington Post* on Wednesday, makes the point, "Meanwhile, as predicted, members of the theoretically disbanded Kosovo Liberation Army have emerged as leaders of a criminal mobocracy that is the real power on the street."

It then goes on to talk about the smuggling of drugs and human beings and working with the Serbs, as well.

What do we know about that and if you are not aware of it, who would, within the State Department? Who is overseeing this kind of degrading situation that seems to be occurring there?

Mr. BOONE. I think the nature of the organized crime problem in Kosovo is terribly bad and has been so recognized. In January of this year, I know the Special Representative to the Secretary General has basically asked for an action plan.

One thing that was considered, and I think will come to pass is not to create another layer of bureaucracy, but to build upon what exists--whether it is U.N.-led missions or U.S. or other. One, to not have a separate entity, and two, to have all these functions work better together.

I know there was a further assessment done just last week, the 13th to 19th--we're still awaiting the results of that. It is with that we will then have a comprehensive strategy for dealing with organized crime in Kosovo.

Mr. SMITH. Ms. Kaufmann?

Ms. KAUFMANN. Mr. Chairman, in the interest of your time and the time of the Committee, we will submit detailed questions later.

Mr. SMITH. Thank you.

I want to thank our distinguished panel and look forward to working with you in the future and to hearing back from you with the questions that we will pose.

Thank you, very much.

I would like to invite our second panel to the witness table, beginning first with Mr. Adrian Karatnycky who is the president of Freedom House, a nonpartisan, nonprofit organization that promotes democracy, civil society, and the rule of law and monitors human rights, political rights and civil liberties around the world.

Before coming to Freedom House, Mr. Karatnycky was assistant to the president of the AFL-CIO. He also served as the director of research at the AFL-CIO's department of international affairs, and for the organization's Free Trade Union Institute.

In the 1980s, Mr. Karatnycky worked with Solidarity in Poland. In 1979, he was assistant director of the international Sakharov hearings and later worked with the renowned civil rights leader, Bayard Rustin.

Mr. Karatnycky has written extensively regarding Eastern European and Post-Soviet issues.

Second, Dr. Nancy Lubin, who is president of JNA Associates, Incorporated, a research and consulting firm that works on assessments and projects concerning the new states of the former Soviet Union, especially, in Central Asia.

She has lived, worked and traveled throughout the former USSR, including throughout Central Asia and the Caucasus, for more than 25 years, and consults for the U.S. government, agencies, private foundations, the media, multilateral banks, non-governmental organizations and companies ranging from Fortune 500 to smaller USAID contractors.

Dr. Lubin is also the director and principal author of the Council on Foreign Relations Project for Fergana Valley, directing a working group under the chairmanship of former Senator, Sam Nunn, to examine conflict-prevention in Central Asia; and, director of three years of foundation-supported assessment and year 2000 update of U.S. assistance to all NIS states.

Prior to holding these positions, Dr. Lubin was associate professor at the Carnegie Mellon University and the project director for the Congressional Office of Technology Assessment.

She has been a fellow at the U.S. Institute of Peace and the Woodrow Wilson Center for International Scholars. Quite a resume.

Unfortunately, we have to have a brief recess. We have a vote on the floor over on the House side and we have about eight minutes left before we have to report there, so please be patient.

(Whereupon, the proceedings recessed at 3:46 p.m. and resumed at 4:08 p.m.)

Mr. WOLF. Mr. Smith was unexpectedly detained. There was a vote on the floor. The Speaker is speaking and they are asking every member of the House to be there. I am not. Get this down where I am so when I have to send in my excuse note.

But I had promised Mr. Smith that I would come back so I am keeping my promise. Are you from in town or out of town? One of you I know is in town.

Mr. KARATNYCKY. I am from out of town.

Mr. WOLF. You are from out of town.

Ms. LUBIN. I am in town.

Mr. WOLF. I said I just can't break my promise, so I am back. If I can get out of here at 4:30, and I am interested and Mr. Smith is. What I would suggest is that your full statement appear on the record. You give us a summary of how good it is, or how bad it is, and then we can kind of go on from there. Is that okay?

Mr. KARATNYCKY. Absolutely.

Mr. WOLF. Good. Who is scheduled to go first?

Ms. LUBIN. Mr. Karatnycky is.

Mr. WOLF. Okay.

TESTIMONY OF ADRIAN KARATNYCKY, PRESIDENT, FREEDOM HOUSE

Mr. KARATNYCKY. Let me have at it. I think that when we look at corruption in this region and in general in the post Soviet space, we are looking at it in three forms. The grand corruption, at the upper levels of the state, where vast amounts of wealth can be stolen and plundered from the state treasury and from the public wheel. The middle level of corruption of mid-scale government officials particular ministries regulatory agencies, and so on. The third is petty corruption, and it seems to me that petty corruption is generic throughout all sorts of societies and all sorts of regions. There will always be this kind of impulse.

The middle level of corruption is one which can be worked on, and can be adjudicated and I think that's the area in this region particularly in South Eastern Europe where concentration of effort and activity can be given. At the highest levels of corruption, the levels where criminal and corrupt elements own and control the state, it is extremely difficult and extremely ill advised to have cooperative efforts with the state which is really led by criminal or criminally inclined leaders. If you look at the levels—at some of the Central Asian countries they precisely have some of those characteristics.

Mr. WOLF. Why don't you give us those countries?

Mr. KARATNYCKY. Well, in Uzbekistan it is widely reported, although it is a matter of—proof is a difficult thing to get when you don't have access to all the inner workings, that the cotton export industry is con-

trolled by President Kavimov. In Turkmenistan, it is widely known that no commercial or economic decision is taken without President Niyazov's direct involvement of any considerable scale. The allocation of licenses. The allocation of credits, resources, et cetera.

In Azerbaijan, the family of President Aliyev controls the oil industry. The great sources.

Mr. WOLF. You mean that he is not the great guy that we have heard?

Mr. KARATNYCKY. He apparently is both a great guy and not a great guy. It depends on whether you are reading his D.C. lobbyist press releases.

Mr. WOLF. Well, I was reading some administration statements from when he came over.

Mr. KARATNYCKY. Yes, I mean I think we have there are serious problems and difficulties in Azerbaijan. We have also at that level it seems to me—

Mr. WOLF. Why is Russia not in black and Uzbekistan is in black?

Mr. KARATNYCKY. Well, what I did was I segregated the countries in Southeastern Europe and Central Asia, to kind of give you a sense. We conduct ratings of the level of corruption and in the appendix you will see how the assessment—

Mr. WOLF. I was here when you testified the last time, and I am familiar with your ratings. Maybe you want to do this for the record? Who has improved and who has not?

Mr. KARATNYCKY. Well, I think that in the region there has been some improvement in Romania, and there has been considerable improvement in Bulgaria over the last year or two. You know, corruption will exist and corruption is an overhang of the past administrations and past misrule. Nevertheless, it seems to me that governments which have at the highest levels a real commitment to anti-corruption struggles have made some considerable progress.

Mr. WOLF. How does Mr. Putin fit into that?

Mr. KARATNYCKY. Well, this is an interesting separate issue. Corruption is a buzzword not only in Washington. It is an international buzzword, largely through good solid leadership from the United States, and from members of this committee and in general, but corrupt leaders also know that it is a buzzword and they are in many countries to eliminate their political opposition.

In other words it is very important to look at anti-corruption efforts and to make sure that they are not colored primarily by political priority, that they are universally applied, and for Mr. Putin the test will be, will he go after some of the oligarches that he seems to be favoring? Will he wait until he has the elected mandate and really conduct a broader clean hands campaign, or will he use it as a means of eliminating political opposition?

This is certainly what Aliyev does in Azerbaijan. It is certainly what Nazarbaev does in Kazakhstan. It is certainly what just last week a former parliamentarian in Belarus was sentenced to six years imprisonment. He had built a major kind of residential complex. But the reason he was sentenced to six years in prison on charges of graft and corruption was because he had criticized the extension of President Lukashenka's term.

So in many of these countries these political leaders, it is sort of a two-fer. They look better in the West because they are fighting corruption and they go and eliminate their political enemies. So really when

you are dealing with the most corrupt regimes like the ones in Central Asia, where I would caution a lot of collaborative efforts with them at the highest levels, or if you are dealing with these middle level regimes, the kind of corrupt regimes or regimes where there is much corruption but the head of the state does not have absolute non-tyrannical power, there I think there is some room for cooperation maneuver, but you always have to be very mindful of their potential of using this as a means of more eliminating opposition than really rooting out true corruption.

Mr. WOLF. Great. Thank you. Yes, ma'am.

**TESTIMONY OF NANCY LUBIN,
PRESIDENT, JNA ASSOCIATES, INC.**

Ms. LUBIN. Thank you for the opportunity to testify. I would make two or three broad points based on my testimony.

The first point is that instead of looking at separate levels of corruption in Central Asia, I see them as interconnected in a general system of crime and corruption that has become so entrenched over the last 70 or 80 years of Soviet rule that it is impossible now to disentangle even what is the official economy and what isn't. We look at corruption as taking a bribe and putting it into your pocket, as shown on Ted Koppel last night. But when a police officer stops a car and takes that bribe, only a tiny portion generally goes into his own pocket, and the rest is expected to work its way up the chain of command to his superiors and their superiors.

This is a highly, highly sophisticated and very integrated system that is very criminal in our sense of the word at its core, and that we are trying to now navigate and work with in some way.

I did my doctoral dissertation in Central Asia in the 70s and made a list of bribes back then that were given to get into the police academy or to get access to a whole range of goods and services in short supply. In survey research that we did 20 years later in the mid 90s we found that the patterns have remained remarkably consistent over the past two decades.

Organized crime is generally not viewed on the ground as individual gangs and organized criminal groups as much as it's seen as something often run by those at the center itself. That is something that I think hasn't been translated, or into our own assistance programs on the ground. Instead, we've walked into a world where we have little appreciation for how it works in practice. If you are a farmer working in a bank in Central Asia, local officials have access to your bank account, tell you how to spend your money, and can take money out. You have no recourse to any kind of protection.

Mr. WOLF. Really?

Ms. LUBIN. Law enforcement is one area where corruption is highest, so that when we begin to set up training programs in the region, it's not just the overall strategies that are important to be looking at, but how in fact these are implemented on the ground.

So my second point for this testimony is that because we have not taken the time to understand this system of corruption in a more nuanced way, we have run into an enormous amount of trouble implementing what appeared to be well-conceived policies and programs in Washington in a region where they often don't fit.

Mr. WOLF. Like where? Can you give me the biggest example?

Ms. LUBIN. I can give you examples. Many of our law enforcement programs to begin with— well, here, I'll give you examples straight from the testimony here. Western training programs in the rule of law are viewed with widespread skepticism in Central Asia when they fail to address a structure of a system where justice is typically bought and sold. When we engage judges, prosecutors and others in rule of law training programs, rewarding them with trips to the United States and other perks, in some ways, we only increase cynicism and disrespect for rule of law among local citizens when absolutely nothing changes in the way that the law is administered in the ground.

Institution building programs that support local banks, regional leaders and other institutions, for example, in the countryside—but that have little day to day oversight of those institutions—have been attacked for buttressing the very corruption that so hinders farmers from doing effective farming in the first place.

Mr. WOLF. How would you do it?

Ms. LUBIN. I would do what my organization has already done with many programs that we have worked with, including in law enforcement where western assistance programs have been attacked for being “how-to” courses for smugglers to smuggle better.

What we have done—and I think it takes time but is a useful exercise—is first to gain a very nuanced understanding for any program on the ground of a number of basic questions, such as where local interests lie, and personal interests, and interests for the country as a whole. Even if these interests are different from our own, and even if they involve the great deal of corrupt activity that they normally do, to then think through how we can change our programs on the ground so that they fit Central Asian realities and so that they have enough monitoring, and enough follow up, and enough oversight and accountability, so that we can be assured our training programs are being used effectively.

If we are not willing to make that investment, then we have no business being there in the first place.

Mr. WOLF. Have they done a good job so far since 1990?

Ms. LUBIN. I think our record has been very mixed, but JNA's assessments have been critical of the record, particularly with the law enforcement community. As I lay out in the testimony, follow up and oversight are now—

Mr. WOLF. Law enforcement and community in....?

Ms. LUBIN. In our joint law enforcement programs. We have worked on contract with law enforcement and have observed from within as well as from without that—while there's plenty of guilt to go around, and it is certainly not one entity that should be taking the blame, that because of the way programs are structured, where there is such limited oversight, limited accountability, limited follow up, and limited vetting in the way that the courses and programs are structured in the first place, that it makes it very difficult to have an effective law enforcement on the ground. The problem is compounded when, it seems to me, law enforcement is the area where the stakes are certainly highest and we can do the most amount of harm if programs aren't carried out well.

Mr. WOLF. Secretary Albright is going to visit countries in Central Asia next month. What do you recommend she do with respect to this issue, and do you think the State Department has been doing a good job?

Ms. LUBIN. I think there are two ways to address this issue. One is issuing programs and statements and meetings and conferences that address questions of corruption head on. The other is helping to create a civil society where citizens themselves have a real stake, or believe they have a real stake, in the future of their country and begin themselves to hold their own leaders and their local leaders, their national leaders accountable for their own actions.

I think the role of Secretary Albright would be certainly to emphasize the importance of both, but then to work as hard on the civil society side as on the direct anti-corruption side. We have been cutting back in that area, and I think that could prove to be a major mistake.

Mr. KARATNYCKY. Mr. Chairman, under President Reagan, we had to deal with an immense Soviet superpower, and we had to conduct business and transact major issues related to security. Nevertheless, that President found the proper means of withholding moral approval and showing a certain degree of criticism and indeed contempt for certain of the most lamentable practices of that society.

We similarly face in Central Asia systems that are no less repressive and in the case of Turkmenistan no less totalitarian, and in other cases perhaps more corrupt than what we saw in the last years of the Soviet Union. It seems to me that it is possible to maintain businesslike relations for security reasons, for reasons of economic interest, but at the very same time to make clear, a clear moral message that these are repressive societies that we believe that someday they will move along the path of democracy rather than to avoid these issues or to speak in broad generalities that these are societies in transition.

Mr. WOLF. Do they care what we think and do we have a lot of leverage?

Ms. LUBIN. I think all these governments care what we think, but that isn't enough in its own right to nudge them in any particular direction. There are reasons why these societies function the way they do, and our leverage has to go far beyond questions of what one U.N. official called peer pressure as the main lever to push these societies along.

We have to go far beyond that. There has to be vested interest in pursuing some programs and policies that we are putting forward, otherwise the programs will remain verbiage and in the long run do more harm than good.

Mr. WOLF. Have things gotten better or worse in the last six years?

Ms. LUBIN. In terms of the level of corruption itself, I think it has become very different from what it was before. Many Central Asians joke that in some ways the scale and the magnitude have broadened without that "moderating hand" of Moscow that they had under Soviet times, which is an ironic comment in its own right.

In certain sectors corruption has gotten much worse; in other areas, there is more transparency and it's gotten better. As to our response, the devil is really in the details of all of our own policies and programs. We must sort through where we can make an impact that goes beyond political statements and other tools that we use on the broad diplomatic and strategic realm. We must concern ourselves more with what happens physically on the ground and how we shape what we are doing and saying so that we can resonate with the population and with their leaders.

Mr. WOLF. In some respects it's just an extension of organized crime. You had organized crime under communism. It was the state, it appeared, but now you have a form of organized crime that is different. But the thinking it seems to me—I mean it is very difficult for a guy who is 50 years old now, and was 40 when the Berlin wall fell, to have really dramatically changed it is the younger people. But, I was just looking at the list, and then I see that Iliescu may be thinking of trying to come back, or is trying to come back, in Romania,

I mean he was trained in Moscow. Clearly Romania would slip back would it not, if Iliescu is elected? Would that be a setback, because you told me there has been some progress in Romania?

Mr. KARATNYCKY. Absolutely there would be a setback. We have to remember the waning months of Iliescu's retreat from power when President Constantinescu came into office. There was immense resistance on the part of the prosecutor general and on other judicial appointees of the Iliescu years to implement reforms.

They were eventually removed from power, but they blocked the new vigorous anti-corruption efforts in 1997 that the new president was attempting to force through. So clearly there is a danger of a return to this kind of a lax attitude and an opportunity once again for these networks and associations to develop, so yes.

Mr. WOLF. They were telling me that next year Romania will be head of the OSCE. Wouldn't it be dramatic if Iliescu were head of OSCE? I think it would actually be a disgrace. You know, they never found out what happened to the students killed in Timisoara, and the others.

You don't know if it's the Securitate connected within, if it's another. No one ever knows. They've never had the justice like they did in South Africa, the disclosure or a reconciliation commissions that would bring the people back who were really in charge when all that was taking place after the death of Ceausescu. It would be amazing and for him to be head of CSCE, OSCE, it's now OSCE.

Mr. KARATNYCKY. Mr. Chairman, one point about that, nevertheless he is operating in a context now where you have had some vigorous development of civil society, a very vigorous and lively independent media, fairly strong institutions that have had three or four more years to grow in this intervening period, so some of these leaders if they come back to power are constrained in a new circumstance which is very different where they had a much more of a free ride from the beginning of the revolution and they held power more or less uninterrupted until 1997.

Mr. WOLF. Should our government deal or not deal with countries who are controlled by this grand corruption? I mean what do we do? Just deal as diplomatically, and not business? If you were Secretary of State, what would you do?

Mr. KARATNYCKY. I think we have to have a certain level of dealing with them. I think what I was arguing is that really issues related to long term programs to build a new generation of legal practitioners and so on that can eventually be the basis when that society opens up of ridding out corruption, of support of civil society to the extent that there is an independent media in many of these countries, there isn't. Efforts to support that.

In some places to support the publication externally of publications as we did during the Soviet era and to begin to flood those countries with accurate information about what is being done in places like

Turkmenistan or Uzbekistan, where independent leaders are driven out and their heads are cracked open and they are intimidated and forced out of the country.

External support for these groups in the same way that we might want to support as you have supported aid to Chinese external opposition forces, those kinds of programs I think are much more in order than these kinds of cooperative efforts to kind of win over this corrupt elite.

Mr. WOLF. Speaking of China—

Ms. LUBIN. I disagree.

Mr. WOLF. You disagree?

Ms. LUBIN. I think we must deal with all of these countries and we must deal with them at all levels. We must cooperate with the leadership and the governments. We must deal with the grassroots as widely as possible, and we must deal with everything in between.

I commend this Administration for doing that. I don't think that we have to embrace these leaders and give them a moral stamp of approval. But particularly in the regions where I have worked for a long time, in Russia, and Central Asia and the whole former NIS, there is so much in the way of U.S. interests at stake that to walk away would also be shooting ourselves in the foot.

Where I think we have to do a good deal of thinking is not whether we do or we don't engage them, but how we engage them. On the ground, at the grass roots level, and at the very top. We have to think through thoroughly what issues we push with whom, how, when, in what context, and we must understand in a far more nuanced fashion than we do now, what our own interests are, what their interests are--political, personal, institutional, whatever, --and where our particular interests may overlap or be addressed. We must sort out our own tactical goals as well as strategic, and then really work out each individual step as we go along. But we must engage them.

Mr. KARATNYCKY. I fully agree. I would just say that we also ought to have in the most closed of these societies more cutting edge programs that really provide some flow of real information to the populations.

Mr. WOLF. How does China fit into this category? I know that China is not a member of OSCE, but I am looking at your ratings. Where would China fit in? Would they be a two? Would they be in with Slovenia, or would they be up with Yugoslavia?

Mr. KARATNYCKY. We do not do—we do a rating of the NIS and former Communist Bloc countries. We do not do a rating of China but clearly anecdotally the evidence of the growing acquisition of wealth by the ruling elite and the ruling families in even a comment in today's article by Jim Hoglan suggesting that they are squirreling away huge amounts of money in foreign bank accounts if the whole thing comes tumbling down suggests as well as all the anecdotal evidence that Transparency International and others collect about the levels of bribery particularly at the local level when the original level that need to be paid out to get some contracts and the like. All those kinds of evidence suggest that China has a massive problem in this regard.

Mr. WOLF. In closing I guess thinking back I think of Ronald Reagan articulating the vision of what we stood for. When Ronald Reagan gave a speech in Orlando to the NAE, the National Association of Evangelicals, where he called the Soviet Union the evil empire, and when we took

away MFN from Romania, Romanian citizens used to tell me to take it away. Take it away. It will be bad for us short term, but long term it will be positive.

When the United States speaks out boldly and when we export our values and they know that our leadership from the Secretary of State to the President to our ambassadors are articulating and pushing we don't have any defectors that I know of coming from China. We used to have a major defector program with regard to the Soviet Union. Pacepa from Romania, the Polish Ambassador.

I think the Clinton Administration would be frightened if somebody from China wanted to defect because it may offend the Chinese government. So I think when leadership speak out boldly, not in a belligerent way, and I think Ronald Reagan did it in a very good way ... But this is what we stand for, because I believe there are good and honest and decent and ethical and moral people in all of these countries, who truly want to live a life where they don't have to pay a bribe, where they can't—All the bad things are going on, and we embolden those people when we stand with them the way the Pope stood with Lech Walesa during Solidarity.

To know that people in the United States and in the West are thinking of them, it emboldens them. When we are silent and not only silent, but almost accepting Azerbaijan. Aliyev was head of the KGB. I mean, my goodness gracious, the activities there are unbelievable. Yet you find companies and people running over who can't wait to sink that oil and pump that pipeline. I guess it's commerce with conscience, and commerce with conscience from both parties. We had a good bi-partisan policy from Truman straight up to Bush, and now, particularly when I think about China, it seems to have changed, but thank you very much.

Mr. Smith wanted me to apologize for not being able to come back and if the Speaker gets mad at me, I'll give him your name and I'll say that I came back. I thank you very much. The meeting is adjourned.

(Whereupon, the hearing was adjourned at 4:33 p.m.)

APPENDICES**PREPARED STATEMENT OF HON. CHRISTOPHER H. SMITH**

Today we convene the second in a series of hearings on the impact of organized crime and corruption on the countries of the OSCE region—particularly those former communist states in southeast Europe and the NIS, which are in transition to democracy and market economies.

Widespread corruption in the transition countries threatens their ability to provide strong independent legal regimes, market-based economies and social well-being for their citizens. Corruption has stymied economic reforms in these countries and impeded efforts to improve the status of disadvantaged groups. In the absence of effective civil rule of law, mafias have flourished through their corrupt connections, gaining power over whole sectors of the economy, and derailing legislative reform agendas inimical to their interest. A recent EBRD report identifies these destructive factors and calls for greater efforts among governments and international organizations to “depoliticize” economic activities and develop measures to constrain state “capture” by private interests. As a result of this corruption and the siphoning off of public resources, citizens—often deprived of government-supported basic support mechanisms and infrastructure -- have developed negative opinions about democracy and free markets.

During a Commission hearing day before yesterday regarding the human rights situation in Turkmenistan -- one of the most authoritarian and repressive regimes in the region, opposition leader Avdy Kuliev cited three components of President Niyazov’s internal politics, the first of which is corruption.

This Commission has pushed for a greater recognition of the threat of organized crime and corruption in the OSCE and supported efforts to develop an OSCE strategy to combat them. The U.S. Delegation to the Annual Meeting of the OSCE Parliamentary Assembly last year in St. Petersburg, Russia, co-led by myself and Senator Campbell, called for the convening of an OSCE Ministerial meeting to develop strategies to combat these threats. I particularly appreciate the leadership of the Co-Chairman on this initiative. At the OSCE PA, we also introduced a resolution condemning the cross-border trafficking in women and children which, along with drugs and weapons, is a major industry for organized crime entities. Our Commission worked closely with the State Department to ensure that combating crime and corruption was on the agenda of our Heads of State during the OSCE Istanbul Summit last November.

I welcome the opportunity to hear the testimony of our distinguished witnesses and will appreciate receiving your recommendations of how best this Commission can contribute to efforts to combat this cancer which chokes economic development, thwarts development of civil society, and threatens stability and security in the region.

WITNESS INTRODUCTIONS

Panel I. Our first witness is Mr. Rob Boone, Deputy Assistant Secretary of State, Bureau for International Narcotics and Law Enforcement Affairs. He is responsible for developing and managing major policies of the bureau, with a particular focus as the State Department’s policy manager for international crime programs. Prior to assuming

his current position, Mr. Boone served as the Senior Advisor to the Assistant Secretary of INL, and as a Special Assistant in the Office of National Drug Control Policy in the Executive Office of the President. Prior to his government service he was a business litigation attorney and negotiation consultant.

Our next witness is Mr. James Weber, Deputy Assistant Director, Investigative Services Division, Federal Bureau of Investigation. He has executive responsibility for all FBI foreign offices and their administration and operation. Mr. Weber began his service with the FBI as a Special Agent in 1975. He has served at a number of posts both domestically and internationally, including as Deputy Legal Attache in Mexico City. Prior to assuming his current duties, Mr. Weber was Special Agent in Charge of the Albuquerque, New Mexico FBI Office then Special Agent in Charge of the San Juan, Puerto Rico Division.

Our third witness is Mr. John A. Tennant, Deputy Assistant Administrator, Bureau for Europe and the New Independent States, USAID. Prior to assuming his current position in 1998, Mr. Tennant served as Director of USAID in Bulgaria from 1994 to 1998 and as Director of the Office of Program and Project Development for USAID in Jamaica from 1990 to 1994. He has extensive experience with the Agency's work in Asia, including postings in the Philippines, Thailand, Pakistan and Vietnam.

Panel II. For our second panel of witnesses we welcome Mr. Adrian Karatnycky, President of Freedom House, and Dr. Nancy Lubin, President of JNA Associates Inc., and a Senior Fellow at the American Foreign Policy Council.

Mr. Karatnycky is President of Freedom House, a non-partisan, non-profit organization that promotes democracy, civil society and the rule of law and monitors human rights, political rights, and civil liberties around the world. Before coming to Freedom House, Mr. Karatnycky was Assistant to the President of the AFL-CIO. He also served as Director of Research at the AFL-CIO's Department of International Affairs and for the organization's Free Trade Union Institute. In the 1980s Mr. Karatnycky worked with Solidarnosc. In 1979 he was Assistant Director of the International Sakharov Hearings and later worked with the renowned civil rights leader Bayard Rustin. Mr. Karatnycky has written extensively regarding East European and Post-Soviet issues.

Dr. Nancy Lubin is President of JNA Associates, Inc., a research and consulting firm that works on assessments and projects concerning the new states of the former Soviet Union, especially Central Asia. She has lived, worked, and traveled throughout the former USSR, including throughout Central Asia and the Caucasus, for over twenty-five years, and consults for U.S. government agencies, private foundations, the media, multilateral banks, non-governmental organizations, and companies ranging from Fortune 500 to smaller USAID contractors.

Dr. Lubin is also Director and Principal Author of the Council on Foreign Relations' Project on the Ferghana Valley, directing a working group under the chairmanship of former Senator Sam Nunn to examine conflict prevention in Central Asia; and director of a three year foundation-supported assessment and year 2000 update of U.S. assistance to all of the NIS states. Prior to holding these positions, Dr. Lubin was an Associate Professor at Carnegie Mellon University and a Project Director for the Congressional Office of Technology Assessment. She has been a Fellow at the U.S. Institute of Peace and the Woodrow Wilson Center for International Scholars.

**PREPARED STATEMENT OF
HON. BEN NIGHTHORSE CAMPBELL, CO-CHAIRMAN**

Mr. Chairman, thank you for agreeing to convene this second hearings on documenting the corrosive impact of organized crime and corruption in the OSCE region. At the outset I want to underscore that the impact of such practices is not limited to some far off land. Organized crime and corruption directly bear upon U.S. security, economic and political interests at home and abroad. I understand that scores of FBI investigations currently underway in my home state of Colorado have an international dimension in such areas as terrorism, organized crime, violent crimes, and white collar crimes.

Today, thousands of our men and women in uniform, including many from Colorado, are serving in Bosnia and Kosovo. Rampant corruption and uncontrolled organized criminal activity there are undermining efforts by the international community to create some semblance of the rule of law.

Nearly five years after the Dayton Agreement, the American head of the OSCE mission in Bosnia recently cited corruption as the number one obstacle to implementation of the accord. Having placed thousands of U.S. service personnel in harm's way for peacemaking and nation-building, failure to get a handle on the deteriorating situation in the former Yugoslavia will no doubt lead to a protracted military presence in the region costing the American taxpayer tens of billions of dollars.

Elsewhere in the OSCE region the United States has provided hundreds of millions of dollars in bilateral assistance to newly independent states since the breakup of the former Soviet Union. In many instances the aims of these programs and activities of U.S.-backed international financial institutions have been and continue to be frustrated by pervasive corruption and organized crime.

During the OSCE Parliamentary Assembly meeting last July in St. Petersburg, I introduced a proposal calling upon the OSCE to intensify efforts to resolutely combat corruption and organized crime. This recommendation, overwhelmingly approved by the 54-nation Assembly, has led to a number of concrete initiatives.

When we started raising the corruption issue skeptics advised against raising the "C word" as it might offend some of our European friends. Well, Mr. Chairman, we have moved ahead quite a ways in a fairly short time. Close work between the Helsinki Commission, the Departments of State, Commerce, Justice, Treasury and others, led to inclusion of specific language in the Istanbul OSCE Charter and Declaration on corruption and organized crime. The leaders of the participating States recognized that corruption poses a great threat to OSCE's shared values, cutting across the security, economic, and human dimensions of the OSCE. Twenty-five years after the signing of the Helsinki Final Act, there is perhaps no single greater threat to the core OSCE principles of democracy, human rights and the rule of law than organized crime and corruption. The United States and the OSCE have vested interests in effectively combating organized crime and corruption.

Today's hearing will shed new light on this grave challenge as we seek to develop concrete recommendations to advance within the framework of the OSCE. The Permanent Council has been tasked to examine how best to contribute to efforts to combat corruption and will report to the Ministerial Council later this year.

Mr. Chairman, I intend to continue to play an active role in advancing the work begun in St. Petersburg, and I look forward to hearing from our witnesses today.

**PREPARED SUBMISSION OF ROB BOONE,
DEPUTY ASSISTANT SECRETARY OF STATE
,BUREAU FOR INTERNATIONAL NARCOTICS AND
LAW ENFORCEMENT AFFAIRS**

Mr. Chairman, Senator Campbell, Members of the Commission:

Thank you for this opportunity to discuss the impact of organized crime and corruption on Southeast Europe and Central Asia. This is a matter in which the initiative of the Commission, under your leadership, as well as that of your parliamentary colleagues from other OSCE nations, has been of decisive significance. We are pleased to work with you on these issues, to share ideas, and to reaffirm our strong support.

Organized crime and corruption are significant threats to the political, economic and social stability and development of the nations in the Southeast European and Central Asian regions. The ability of law enforcement (and related authorities) of the governments of these states to address these problems is impaired by inadequate institutional adherence to the rule of law, inadequate legislation, and poor enforcement. These impediments are complicated by deep-seated public suspicion of police and justice officials that is related to the history of authoritarian rule in the region. Police and courts are often viewed as serving the interests of the state as opposed to those of the people as a whole. They are also seen as tools for repression, particularly of minority groups. Law enforcement institutions suffer from inadequate individual and organizational capabilities, as well as a lack of modern technical expertise and equipment, especially when confronted by the increasing sophistication of organized crime.

Effective responses to challenges of this nature must rest fundamentally on the institutional capabilities of each individual government. A nation's ability to confront and surmount corruption and organized crime turns on the political will in each nation to do so. Policy encouragement and material support offered by other nations can be invaluable. They cannot, however, substitute for the determination and capability of each nation to act within its own borders.

Corruption flourishes behind closed doors and where bureaucratic control is unchecked. Transparency and accountability, by opening up government to the bright light of public view, reduce the opportunity for corrupt acts by public officials. Transparency complements strong law enforcement by using codes of conduct, management and policy reforms, monitoring by the private and public sectors, and public education as ways to replace a culture of corruption with a culture of integrity.

The United States cooperates with other nations to combat all forms of crime and to help our international businesses operate without the baneful effects of corruption. Under the first-ever International Crime Control Strategy in United States history, released by President Clinton in May 1998, we have broadened our efforts to provide systematic and comprehensive support and assistance to enable other nations to act against corruption and organized crime. In global and regional diplomatic processes, we are seeking to define comprehensive, objective statements of practices governments should employ to control and combat corruption and organized crime. We are working to increase the public commitment of governments and political leaders to adopt and implement such practices.

We are providing increasing material and technical assistance and training to enhance the institutional capabilities of other governments to fight crime and corruption. We are doing this at a time when the demand of the voting publics in nations of these regions has never been greater than their leaders and governments must act effectively. We want to arm democratic political forces in these countries with practical agendas to hold their leaders accountable on a continuing basis. This is the central conceptual principle for the growing range of our international policy and assistance efforts against organized crime and corruption.

In Washington in February 1999, implementing one initiative of the International Crime Control Strategy, the United States hosted the First Global Forum on Fighting Corruption. The Bureau for International Narcotics and Law Enforcement Affairs (INL) coordinated the arrangements for this conference for Vice President Gore, who was its host and chairman. Over five hundred participants from ninety nations attended, which included participation by the OSCE and nearly thirty of its member states. Participants extensively discussed a comprehensive set of principles and practices that are effective to promote public integrity and to combat official corruption. In their final Declaration, the participants called for governments to adopt practices appropriate to each nation's particular circumstances and requirements and to assist each other in fighting corruption. The Second Global Forum will be held May 28-31, 2001 in the Netherlands, and the United States will join the Netherlands as a co-host.

Since the Global Forum, INL has continued to develop and coordinate the Vice President's comprehensive international initiative against corruption. Reflecting the extent and complexity of issues relating to corruption, the efforts of State Department regional and functional bureaus are complemented by activities and contributions from the entire interagency community, including the Departments of Justice, Treasury, Commerce and Defense, the Agency for International Development, the U.S. Office of Government Ethics and others.

While my remarks today will mainly address programs and interagency processes of which INL is a manager or member, I will also touch briefly on a range of activities involving other components of the U.S. interagency community that relate to Southeast Europe and Central Asia. As today's panel has representatives of both USAID and the FBI, I will defer to these colleagues to provide details of activities conducted by their respective agencies. However, INL collaborates closely with both USAID and the FBI in our interagency process, and we have welcomed their input and wisdom in developing initiatives on fighting organized crime and corruption.

Our anticorruption goals are being approached in several ways. I will first address several particular countries in which the Commission may have a specific interest. I will then discuss our activities in regional and global fora, as well as INL's regional training and technical assistance programs.

RUSSIA

Organized crime and corruption are two of the many manifestations of the momentous social, political and economic changes taking place in Russia and the states of Eastern Europe and Eurasia following the breakup of the Soviet Union. Russia's primary law enforcement agency,

the Ministry of Internal Affairs (MVD), estimates that there are numerous organized crime groups in the country, with the larger groups involved in all the activities typically undertaken by organized crime, including racketeering, auto theft, narcotics and weapons trafficking, extortion, money laundering, prostitution and murder. Official corruption is a contributing factor to the growth of these types of organized crimes, with many reports of criminal groups paying off officials at all levels of government in exchange for economic privileges and protection from investigation.

We engage the Russians on a wide range of these issues in the U.S.-Russia Law Enforcement Working Group. The Working Group is part of the U.S. Vice President-Russian Prime Minister Joint Commission. The Working Group focuses on anti-money laundering and anti-corruption initiatives, legal sector reform and mutual legal assistance. In June 1999, the United States and Russia signed a Mutual Legal Assistance Treaty (MLAT). The MLAT, when brought into force, will replace the currently used executive agreement and will provide an improved framework for anti-crime cooperation. The MLAT will allow for the provision of evidence and other forms of law enforcement assistance for criminal investigations, prosecutions, and related proceedings. It has been forwarded to the U.S. Senate for advice and consent to ratification and to the Russian Duma for consideration and approval.

With respect to INL programs, our approach is consistent in all the Eastern European and Eurasian states. We consider organized crime and corruption to be related and mutually reinforcing problems. The cornerstone of our policy is to build, through training and technical assistance, strong and democratic institutions to combat these scourges.

Our Anti-Crime Training and Technical Assistance Program (ACTTA) uses Foreign Assistance Act monies to support U.S.-Eastern European and Eurasian law enforcement cooperation in addressing international organized crime, financial crimes, narcotics trafficking, trafficking in aliens, and border security. Fighting corruption is a significant goal of these programs. United States federal agencies receiving funding to implement training and technical assistance include the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the International Criminal Investigative Training Assistance Program (ICITAP), the Office of Overseas Prosecutorial Development, Assistance and Training (DOJ/OPDAT), the Secret Service, the Internal Revenue Service (IRS), the Customs Service, the Bureau of Alcohol, Tobacco and Firearms (ATF), the Financial Crimes Enforcement Network (FinCEN), the Bureau of Diplomatic Security (DS), the Coast Guard, the Federal Law Enforcement Training Center (FLETC), and the Office of Government Ethics (OGE).

We also use Freedom Support Act (FSA) funding to support the participation of mid-level police officials from Eastern Europe and Eurasia in the core program at the INL-funded International Law Enforcement Academy (ILEA) in Budapest. ILEA focuses on professional development and includes courses on investigation and prosecution of organized crime and corruption.

In Russia, under the International Organized Crime Program, U.S. agencies provide assistance to the MVD through personnel exchanges, investigative cooperation, education, and technical assistance. The goal is to provide the MVD with the tools and skills to discharge their duties according to international standards. Under our Financial Crime Pro-

gram, we assist counterpart Russian agencies in the prevention, detection and investigation of crimes in the financial and commercial sectors. Our Central Bank Initiative works to upgrade the criminal investigative skills of bank examiners, prosecutors and law enforcement agencies.

The United States will continue to engage with the Russian Federation on ways we can help to further the Russian government's efforts against organized crime and corruption.

UKRAINE

The U.S. has a keen interest in supporting the development of the rule of law in Ukraine. The Secretary of State has identified Ukraine as one of four democracies deserving of particular attention this year. The others are Nigeria, Indonesia and Colombia.

Official corruption is perceived to be widespread in Ukraine. President Kuchma has repeatedly expressed concern about the societal threats posed by organized crime and narcotics in Ukraine and has criticized the control efforts of law enforcement and judicial authorities.

The task of reformers in Ukraine remains daunting. Key pieces of legislation, such as an anti-money laundering law, a criminal procedure code, and civil and ethics codes have yet to be enacted. A transparency program developed two years ago under the auspices of the World Bank remains largely unimplemented, although some progress has been made in the procurement area and on business licensing.

Ukraine has taken some actions to address the threat of organized crime and corruption. Ukraine attended the First Global Forum on Fighting Corruption in February 1999 and will also attend the regional conference later this month in Bucharest. In September 1999, the United States and Ukraine signed diplomatic notes that allow for provisional application of a bilateral Mutual Legal Assistance Treaty (MLAT). The MLAT now serves as a framework for legal assistance and cooperation between our two countries in the areas of the investigation, prosecution and prevention of crime. The MLAT has been approved by the Ukrainian Rada. We await Senate advice and consent to ratification on our side.

We are also working with Ukraine in our bilateral Law Enforcement Working Group (LEWG) to develop an action plan to address issues involving trafficking in women and children, intellectual property rights, organized crime, financial crimes, and corruption. Recently the FBI hosted a delegation of Ukrainian law enforcement officials in San Francisco for the U.S.-Ukrainian Organized Crime Conference. This conference, which was also attended by numerous U.S. law enforcement officials and prosecutors, gave officials on both sides an opportunity to review our progress in ongoing investigations and to plan cooperation in future cases.

INL also directs resources to Ukraine from the entire range of programs described in my discussion of Russia. In addition, under the auspices of the U.S.-Ukrainian Binational Commission, the United States and Ukraine have adopted a joint action plan designed to improve the transparency and predictability of Ukrainian government processes and procedures affecting foreign investment, including ethics, licensing, procurement and judicial enforcement. Encouraging the establishment of a culture of transparency and good governance in Ukraine is a key objective. Specifically, our anticorruption initiative aims: (1) to develop

ethics codes for the government and business sectors; (2) to enhance the transparency and predictability of regulatory and administrative processes and procedures affecting trade and business; (3) to support further development and implementation of procurement regulations and procedures; (4) to strengthen an independent media and NGOs and (5) to encourage civil society participation.

The United States will continue to work with the Ukrainians on the issues of fighting crime and corruption, both bilaterally and in global and regional fora.

BOSNIA-HERZEGOVINA

Bosnia-Herzegovina is prominent among nations where we recognize that fighting crime and corruption are essential to ensuring reform efforts will succeed. For example, just a few weeks ago, on March 2 at the OSCE Permanent Council, the Head of the OSCE Mission in Bosnia-Herzegovina, Ambassador Robert Barry, identified "corruption, discrimination and political patronage" as the significant impediments to necessary economic reforms in that country.

The U.S. Anticorruption Task Force for Bosnia-Herzegovina, established in September 1999, is strongly supporting a wide range of bilateral and international initiatives launched by the Office of the High Representative (OHR) in Sarajevo. The High Representative, Wolfgang Petrisch (who took office in mid-1999) has been stepping up the anticorruption campaign. One of his first acts was to create an Anticorruption and Transparency Group chaired by his deputy, Ambassador Ralph Johnson of the United States.

Specific American initiatives have centered on: getting indigenous Anticorruption Teams up and running in both the Federation and Republika Srpska, establishment of an Inter-Entity Anticorruption Coordinating Group and stimulating the OHR's systematic reforms aimed at effectively shifting power over the economy from nationalistic political parties to democratically shaped institutions.

On another initiative, which I will discuss more fully later in my testimony, the Bosnian Presidency has formally ratified the Stability Pact anticorruption initiative. The difficult task of implementation lies ahead. We are awaiting action on the appointment of a senior Bosnian government representative who will be responsible for implementing the anticorruption initiative.

I would note that Bosnia-Herzegovina is a member of the Southeast European Cooperative Initiative (SECI), which I will also discuss further below. As such, Bosnia has signed an agreement to share information on cross-border organized crime and will benefit from the expected opening this June in Bucharest of the SECI Center to fight transborder organized crime.

CENTRAL ASIA

In Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), organized crime and official corruption are serious and growing problems. Criminal groups in this region tend to be factional, competing for shares of the illicit market, which ranges from narcotics to stolen cars to business fraud. As is often the case in states in economic and political transition, high-level corruption abets organized criminal activities.

Law enforcement officials have had limited success in their efforts to combat organized crime and official corruption. The strength of the criminal organizations in terms of numbers, resources, and political support has overwhelmed the mostly underfunded, underequipped, and poorly motivated law enforcement agencies. Authorities in the five Central Asian nations are still working to develop adequate laws to deal with crime.

NGO participants at the October 1999 OSCE Economic Dimension Seminar on Rule of Law in Tashkent, Uzbekistan, highlighted the strong negative impact of corrupt practices on their day-to-day activities. We also have reports that the business community considers corruption involving government procurement and foreign investment projects to be a serious problem.

The Central Asian states have shown some awareness of the threat organized crime and corruption pose to their national development and have taken some steps. Kazakhstan, Kyrgyzstan and Uzbekistan all sent delegations to the First Global Forum on Fighting Corruption in 1999. The United States is encouraging the Central Asians to participate fully in the Global Forum process, in UN discussions on a possible global international instrument on fighting corruption, and in various other fora.

As with our anticorruption programs in the Southeast and East European states, we consider promotion of a culture of transparency as a key objective of our bilateral technical assistance programs in the Central Asian states. INL programs and funding described above for Southeast and Eastern Europe are also available to the Central Asian states. Central Asian law enforcement officials and prosecutors attend the ILEA Academy in Budapest and participate in a range of bilateral training and technical assistance programs funded by the State Department.

We expect to continue this assistance and to work with all the Central Asian nations on fighting crime and corruption and strengthening the rule of law.

REGIONAL INITIATIVES

OSCE

Having addressed some of the specific countries, I would now like to move on to regional and global initiatives, including INL regional training and technical assistance programs. I will make only brief remarks concerning the OSCE anticorruption efforts, as this is a matter on which we collaborate closely with you. As you know, in September 1999, under the leadership of Senator Campbell, the U.S. proposed to the Review Conference of the Organization for Security and Cooperation in Europe that the OSCE begin to address the issue of corruption, giving special emphasis to promoting integrity and control of corruption among public officials responsible for upholding the rule of law. This followed up on efforts by members of this Commission at the July 1999 St. Petersburg OSCE Parliamentary Assembly to provide important impetus for the OSCE to engage fully on anticorruption matters.

In November 1999, the OSCE Istanbul Summit included this in its new Charter. The Declaration tasked the OSCE Permanent Council "to examine how best to contribute to efforts to combat corruption, taking into account the efforts of other organizations" and to report on this to the OSCE Ministerial in November 2000. The Chairman-in-Office has

now created a Working Group to undertake this task. To support and inform this work, the Office of the Vice President led an interagency team (which included staff from my office, the State Department's Office of Inspector General, the Justice Department, the Department of Commerce, the U.S. Office of Government Ethics, and the Commission) to Vienna. On March 3, the team provided an overview of the Guiding Principles developed at the February 1999 Global Forum. They suggested that the OSCE consider using the Guiding Principles as a tool in developing its thinking on how best to contribute to the fight against corruption.

OECD

Through a coordinated interagency effort spearheaded by Undersecretary for Economic, Business and Agricultural Affairs Alan Larson, the U.S. continues to promote ratification by all signatories as soon as possible of the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials In International Business Transactions. The purpose of the Convention is to oblige parties to make it a crime under their national laws for their citizens or commercial enterprises to bribe foreign public officials in the conduct of international business. As of March 20, 2000, 20 of the 34 signatories had ratified the Convention. Of the nations in Southeastern Europe, Bulgaria, the Czech Republic, Hungary, Greece and Slovakia have ratified the Convention. Poland and Turkey have signed but not yet ratified. No Central Asian nations are signatories or parties to the Convention.

We are also encouraging all parties to enact implementing legislation meeting the standards of the Convention and to enforce the legislation effectively. Scrupulous adherence to the obligations of this important convention will materially assist the governments of Southeastern Europe. To this end, the parties to the Convention are carrying out a program of systematic monitoring of the implementation of national laws.

SOUTHEAST EUROPEAN COOPERATION INITIATIVE

The U.S. strongly supports meeting the challenge of transborder crime through regional cooperation. A key element of our strategy in this region is the Southeast European Cooperation Initiative (SECI). SECI is an eleven-nation regional organization that includes Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Hungary, the Former Yugoslav Republic of Macedonia, Moldova, Romania, Slovenia and Turkey. On May 26, 1999, nine of these states signed an Agreement on Cooperation to Prevent and Combat Trans-Border Crime. A tenth nation, Croatia, signed on November 16, 1999, and the eleventh, Slovenia, has announced its intention to sign.

The Agreement contains a Charter for the establishment in Bucharest of a Center to coordinate the anticrime effort. The Center has been constructed, and a reasonable goal for beginning operations is June 1, 2000. It will address in particular crimes involving smuggling of goods and people, and will facilitate apprehension and speedy prosecution of criminals by appropriate national authorities. By coordinating activities and crime fighting strategies, the participating governments can work more effectively on problems affecting all of Europe. Also pursu-

ant to the Agreement, SECI nations have set up working groups on trafficking in people and in drugs, and they have started to discuss the possibility of a task force on customs fraud.

Another ongoing activity is the Trade and Transport Facilitation in Southeast Europe Program (TTFSE). This provides a forum for cooperation and exchange of experience among countries of the region on customs and border trade issues. The World Bank has engaged six states (Albania, Bosnia, Bulgaria, Croatia, Macedonia and Romania) in an agreement to accept World Bank loans to improve their border stations and management information systems in exchange for agreeing to remove institutional obstacles to cross-border trade. U.S. Customs programs assist in these border reform efforts and in providing training and technical assistance directly to member states.

COUNCIL OF EUROPE

In November 1998, the Council of Europe's (CoE) Council of Ministers approved a Criminal Law Convention on Corruption, which obliges parties to criminalize a wide range of corruption offenses. Of nations in Southeast and Eastern Europe, Albania, Bulgaria, Croatia, Greece, Hungary, Moldova, Poland, Romania, Russia, the Slovak Republic, Slovenia and Ukraine have signed this CoE Convention. The U.S. has observer status in the CoE, and is considering signature of the CoE Convention and joining the Group of Nations Against Corruption (GRECO), which is responsible for monitoring implementation of the Convention and evaluating enforcement of its provisions by parties.

STABILITY PACT

INL also assists in developing United States input and assistance to the Anticorruption Initiative of the Stability Pact for Southeastern Europe. The Pact, initiated by the European Union and strongly supported by the United States, was formally adopted in Cologne on June 10, 1999. President Clinton and leaders from Western, Central and Southeastern Europe endorsed the Security Pact purposes and principles when they met in Sarajevo on July 30, 1999.

Pact members agreed to coordinate their activities to bring Southeast European states more fully into the European and transatlantic mainstream if the Southeast European states, in turn, take steps to reform internally, including combating corruption. Thus, from the outset, the U.S. has viewed the Stability Pact as a two-sided bargain: we will do our part to assist the countries of Southeastern Europe, if those countries help themselves by making needed reforms.

At a meeting in Sarajevo on February 15-16, 2000, the members of the Stability Pact adopted an Action Plan designed to combat corruption on all levels in the region. The Action Plan calls for states to become parties to the Council of Europe conventions against corruption and to participate actively in anticorruption work in the United Nations, the Global Forum process, and other fora.

All this week, representatives from the Managing Committee are making site visits to countries in the region to assess their progress in fulfilling their commitments to combat corruption. The teams will assess specific action items listed in the initiative, to include: (1) use of international instruments; (2) promotion of good governance; (3) strengthening of legislation; (4) promoting transparency in business and procurement; and (5) strengthening public involvement.

Pact nations have also agreed to an Investment Compact committing each country to specific steps to create a climate conducive to private enterprise, and they have agreed to control and destroy illicit stocks of small arms and light weapons. For further information on the status and goals of the Stability Pact, I would draw the Commission's attention to the March 8, 2000, testimony of Daniel S. Hamilton, Special Coordinator for Implementation of the Stability Pact for Southeastern Europe, before the House Committee on International Relations. His statement contains considerable additional detail.

UNITED NATIONS

In April 1999, the UN Crime Commission recommended that the UN Convention against Transnational Organized Crime, to be completed by the fall of 2000, include a provision to criminalize acts of corruption involving domestic public officials in the context of organized crime. On January 21 of this year, pursuant to a General Assembly resolution approving the Crime Commission's December 1999 recommendations, the Ad Hoc Committee negotiating the crime convention concluded that it would be desirable for the UN to develop a comprehensive global instrument against corruption. The Netherlands has indicated that its principal goal for the Second Global Forum is to build support for such an instrument. A resolution concerning procedures to initiate such a process is expected to be taken up by the UN Crime Commission in April 2000.

GLOBAL FORUMS I AND II

As I have mentioned above, in February 1999, Vice President Gore hosted a Global Forum on Fighting Corruption and Safeguarding Integrity Among Justice and Security Officials in Washington, D.C. Among the 90 nations in attendance were delegations from Russia, Ukraine, Kazakhstan, Kyrgyzstan, Uzbekistan, Bulgaria, the Czech Republic, Hungary, Romania, Slovakia, and Slovenia.

Global Forum II, which will be held at The Hague in May 2001, and which the United States will co-sponsor, will be even larger than the first Global Forum. The Netherlands has indicated its intention to invite all the nations of the world. Major topics of Global Forum II are expected to be a potential UN global anticorruption instrument, ways to build regional cooperation through mutual evaluation mechanisms, and ways to improve inclusion of civil society and business in government efforts to reinforce the rule of law.

BUCHAREST ANTICORRUPTION CONFERENCE

To follow-up and focus the interest of the nations of Southeastern Europe in fighting corruption, INL approached the Romanian government last summer to offer technical and financial assistance to host a regional anticorruption conference. This offer was accepted, and next week delegates from fourteen nations will attend the Conference of Central and Eastern European Countries on Fighting Corruption in Bucharest. Keynote speakers will include representatives of Transparency International, the World Bank, the Council of Europe, and the Netherlands organizers of the Second Global Forum. The Government of the Netherlands has already invited Romania to be on the organizing committee for Global Forum II.

The United State is sending a strong observer delegation headed by Ambassador Rosapepe which will include staff from this Commission. Ambassador Rosapepe will make a presentation which will include a special message from Vice President Gore. It is hoped this Bucharest conference will lend political impetus to the OSCE and Stability Pact initiatives, to the UN Convention against Transnational Organized Crime, and amplify corruption issues of particular interest to democracies and economies in transition in preparation for the Second Global Forum.

This conference is particularly serendipitous for our work with this Commission, as Romania will be assuming the OSCE Chair in 2001.

TRAINING FOR LAW ENFORCEMENT

Training to fight crime and corruption is made available to all the Southeastern and East European nations (except Yugoslavia) and to the Central Asian nations as well. These regions receive a large share of USG resources for crime and anticorruption training.

Training is offered at the INL-funded International Law Enforcement Academy (ILEA) in Budapest. At the ILEA, a range of courses focus on modern law enforcement investigative practice and management. Such training, conducted both at ILEA and offsite, has multiple objectives. These include strengthening law enforcement efforts to confront transnational organized crime, reforming the civil and criminal codes, and revamping procedures to enable investigators, prosecutors and judges alike to address criminal activity in an environment respectful of civil rights and ethnic minorities. This last point is a particular challenge in a region where tensions between ethnic groups have defined political, economic and social structures for centuries.

INL also funds law enforcement training programs through a wide variety of U.S. agencies, listed earlier in my testimony on Russia and Ukraine, primarily working in Southeastern and Eastern Europe with the Department of Justice OPDAT, the Department of Treasury, and the U.S. Office of Government Ethics (OGE). We make a special effort to consider and fund proposals with a regional focus. For example, this year INL is funding a Justice Department attorney who will assist Hungary, Poland, the Czech Republic and the Slovak Republic with developing their anticorruption laws and programs. This regional advisor project will not only aid efforts in each country, but will encourage them to work together in developing a common vision for reform.

SUMMARY AND CONCLUSION

I would like to thank the members of the Commission for this opportunity to discuss with you the issues of organized crime and corruption in Southeastern Europe and Central Asia.

As I have set forth today, the threats of organized crime and corruption in these regions are serious impediments to social, economic and political development. In particular, transnational crime is on the rise. The United States seeks to address these threats through bilateral and multilateral cooperation and through direct training and technical assistance. Organized crime and corruption are related and mutually reinforcing problems that demand coordinated and comprehensive responses. Lasting reform can only be built on a solid foundation of rule of

law. It means enlisting government, civil society, NGOs and the business community in joining together to fight the culture that permits corruption to exist and flourish.

Crime and corruption are as old as mankind. We shall never banish them completely. But we can and should make all effort to reduce them as much as possible, to control the extent to which they harm economic progress, and to turn back the challenge they present to democracy.

We are seeing a new determination among all nations to address crime and corruption. We are seeing a realization of the costs of crime and corruption to progress and to a better future. And we are also seeing a consensus emerge that all the nations of the world are in this boat together and that the best hope for improvement lies in working together.

This Commission's initiative with the OSCE on corruption is a shining example of this new spirit. We are proud to join with you. Thank you again for your invitation to be here today. I would be happy to answer any questions.

**PREPARED SUBMISSION OF JAMES WEBER,
DEPUTY ASSISTANT DIRECTOR, INVESTIGATIVE SERVICE
DIVISION, FEDERAL BUREAU OF INVESTIGATION**

INTRODUCTION:

The Federal Bureau of Investigation, with the support of the U.S. Department of State, believes that it is essential to station more of its highly-skilled Special Agents in other countries to prevent foreign terrorism and foreign crime from reaching into the United States to kill and harm Americans in their own workplaces, streets, homes, and houses of worship.

The United States has been ravaged for far too long by foreign criminals originating in partial or complete sanctuaries abroad and using their beyond-the-border advantages to carry out terrorism, drug trafficking, and other violent crimes while they also rob American pockets by vast, complex economic crimes.

This is not the first time that the FBI has worked with the Congress to develop better programs to combat crimes that originate beyond our borders, seas, and sheer distance that once provided greater protection but no longer suffice in a new era of instant communications, fingertip banking and commerce, and swift and easy travel access to anywhere in our country.

In 1996, the FBI had in place in our Legal Attache Offices 70 senior Special Agents, all possessing specialized anti-crime skills, and 54 support personnel in 23 nations around the world. They work closely with authorities of those countries to build cop-to-cop bridges that help all law-abiding societies to develop cooperative efforts to better protect their people and our people.

In Fiscal Year 1999, the FBI had in place 91 Special Agents and 64 support personnel to address approximately 24,000 investigative matters originating in our domestic field offices out of 35 Legal Attache offices. The Legal Attache offices are listed below:

<p>Europe Vienna, Austria Brussels, Belgium Copenhagen, Denmark London, England Tallinn, Estonia Paris, France Berlin, Germany Athens, Greece Rome, Italy Moscow, Russia Warsaw, Poland Madrid, Spain Bern, Switzerland Kiev, Ukraine</p> <p>Africa Lagos, Nigeria Pretoria, South Africa</p>	<p>Asia/Pacific Canberra, Australia China, Hong Kong Tokyo, Japan Manila, Philippines Singapore, Singapore* Bangkok, Thailand</p> <p>Central Asia/ Middle East Almaty, Kazakhstan* Cairo, Egypt New Delhi, India* Tel Aviv, Israel Islamabad, Pakistan Riyadh, Saudi Arabia Ankara, Turkey</p>	<p>Western Hemisphere Buenos Aires, Argentina Bridgetown, Barbados Brasilia, Brazil Ottawa, Canada Santiago, Chili Bogota, Colombia Mexico City, Mexico Panama City, Panama Caracas, Venezuela</p>
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* These offices will be opened during Fiscal Year 2000.

The FBI is deeply grateful to the Congress for its support and innovative contributions for the Legal Attache Program already in operation and is working through the approval process to open new offices in Prague, Czech Republic; Amman, Jordan; Bucharest, Romania; Santo Domingo, Dominican Republic; Seoul, South Korea, and Nairobi, Kenya.

BOSNIA INITIATIVE:

In 1997, a multi-agency law enforcement team, comprising FBI, DEA and U.S. Customs Service agents, conducted a crime survey in the Federation territory in Bosnia. This was followed up by a single team survey in April 1998. Among the recommendations were that an Organized Crime expert should be consulted or employed, preferably by personal services contract, to assist the Federation and the Republika Srpska (R/S) with building organized crime units within their respective police departments. At the time, standard operating procedures were not in place for either cantonal or federal level law enforcement in the Federation, and the R/S was minimally cooperative.

On March 16, 1999, the U.S. Embassy Sarajevo contacted the Legal Attache office in Vienna to advise that a car bomb had exploded in Sarajevo at 8:00 a.m. that morning fatally injuring the Deputy Interior Minister of the Federation in Bosnia, Jozo Leutar, a Bosnia Croat Official. Legat Vienna was advised that a request for assistance had been made by the Interior Minister of the Federation to U.S. Ambassador Richard Kauzlarich for FBI technical assistance. The FBI sent a team to Bosnia to provide forensic and technical assistance.

At the specific request of the U.S. Ambassador to Bosnia, Thomas Miller, and with the concurrence of Director Freeh, two FBI agents will be stationed on a temporary basis in Sarajevo for 90 days with the possibility of a renewal of 90 days should progress merit. These agents will follow up on the Leutar bombing and address transnational crimes issues in an advisory capacity to Federation and R/S police services and the NATO Stabilization Force (SFOR). These agents will be armed for safety and personal protection, but do not have law enforcement powers.

The FBI agents will serve as monitors and mentors while in Bosnia, and will work closely with the Embassy, SFOR and law enforcement to assess criminal information, evaluate investigative techniques, oversee training, when needed, and advise the host country law enforcement on building cases against organized crime groups operating within Bosnia for eventual prosecution. During the first 90 day tour of duty, a senior FBI adviser will visit the team to assess progress and viability of continuing the tour of duty.

SOUTHEAST EUROPEAN COOPERATIVE INITIATIVE (SECI):

SECI is a forum in which the representatives and sovereign nations join in discussing economic and environmental problems in an effort to find solutions. It is a self-help program that was initiated on December 5, 1996. The participating countries are Albania, Bosnia, Bulgaria, Croatia, Greece, Hungary, Moldova, Romania, Slovenia, Turkey, and the Former Republic of Yugoslavia, Macedonia,

Within the criminal justice/law enforcement sector is the SECI Center, located in Bucharest, Romania. Like the other sectors, it is the same eleven nation coalition, in this case attempting to join forces to confront criminal activity grown rampant since the breakup of the Soviet Union. The confluence of new, democratic freedoms, and porous borders have greatly contributed to vastly increased intra-regional crime. Accordingly, the initial focus of this law enforcement sub-initiative was on trans-border crime. SECI quickly determined an organized crime (OC) origin or nexus to the bulk of this trans-border crime, and SECI law enforcement operations now have a generic OC orientation. The SECI Center is a non-operational entity which serve as a headquarters and information clearing house for all SECI law enforcement matters, the "national focal points," and the regional task forces.

The SECI Center will contain the leadership/management/administrative elements and liaison officers from each of the 11 countries. Ideally, this will include one police officer and one customs officer from each country. Additionally, an "observer" and/or liaison officers from the (nonmember) United States and supporting Western Europe countries will be present at the Center. Interpol and the World Customs Organization are designated as permanent observers. Some of these people will be full time, some part time (splitting duties with their normal embassy Bucharest assignment), and some, like the FBI, will rotate in and out of the country. The FBI has three representatives: one "U.S. Observer," and two Liaison Officers to support the Human Trafficking Task Force (HTTF). The SECI Center is due to open 6/6/00. Based on a number of factors, two specific task forces (anti-crime initiatives) were dedicated to drugs and human trafficking. The HTTF is located in Bucharest, within the Ministry of Interior, Romanian National Police, Directorate for Combating Criminal Organizations.

Essentially, both task forces have a substantive theme, but will not have a traditional multi-agency, fixed geographical composition. For example, while Bucharest and (possibly) Sophia, Bulgaria (drugs) will in fact have task forces, they will on a day-to-day basis consist only of those normal members of their OC units. On a routine basis, through the SECI Center, these core Task Force (TF) members will communicate with other designated TF members who remain in their (the other ten) countries working either/both TF matters. From time to time, it is envisioned that the FBI or DEA will bring those task force members to ILEA, Budapest, to assess their operational plan and advise, as appropriate. These TF's are the operational arm of each member's police/customs force, and will conduct normal police/customs operations. The "National Focal Points" are those officers who will act as in-country liaison officers to SECI Center and other SECI members. They would serve as "information traffic cops," and coordinate all matters with SECI.

After some two plus years of political and diplomatic negotiations, SECI has made substantial progress towards becoming a functioning organization.

With aggressive and mid-long term U.S. and other sponsoring nations' support, SECI can become a historic and vital player in the Balkan's anti-organized crime efforts. Borrowing on the same logic that created ILEA and a number of other Eastern European anti-crime projects, an effective SECI can confront Balkan OC in its infancy, and reduce its impact on the United States.

HUNGARIAN/U.S. SIX-POINT ASSISTANCE PLAN

The Hungarian/U.S. Six-Point Assistance Plan announced during the visit of Hungarian Prime Minister Viktor Orban, in October 1998 to FBI Headquarters in Washington, D.C., targets primarily international organized crime groups that are either based in or active in Budapest, Hungary. Because of its geographic location, Budapest historically has been a center of commerce and finance in the region. In recent years Budapest has seen the presence of organized -- and often violent -- criminal organizations that engage in a wide range of illegal activities affecting not only Hungary and other countries in Europe, but directly impacting the United States. In September 1998, FBI Director Louis J. Freeh met with Prime Minister Orban, Interior Minister Sandor Pinter, and other senior Hungarian government and law enforcement officials in Budapest to discuss the common threat of organized crime, and to praise Hungary for its willingness to assert strong leadership in the international law enforcement arena.

Prime Minister Orban, U.S. Attorney General Janet Reno, U.S. Ambassador to Hungary Peter Tufo, Hungarian Ambassador to the United States Geza Jeszensky, and Director Freeh announced a six-point assistance plan that provided a wide range of investigative support to Hungarian law enforcement, aimed at the goal of disrupting and dismantling crime groups. The support includes FBI Agents with an expertise in organized crime matters, expert laboratory and forensic assistance, criminal justice information systems support, and prosecutorial assistance for joint strike forces. It recognizes the commitment of the Hungarian government to address a problem that, if left unchecked, poses a direct threat to developing Hungarian institutions and, ultimately, all of Central Europe.

"A strong and committed international partnership is now in place which will allow us to move forward against a common enemy," Prime Minister Orban said. "For Hungary, it is a pivotal time in our history. We must preserve a healthy climate for business and commerce as we continue to move toward becoming a regional center in Central Europe. I fully support this plan because it takes us a major step in that direction."

Ambassador Tufo said: "Hungary is soon to be a member of NATO and a center for investment and trade in Central Europe. We cannot and will not allow Hungary to become a center for organized crime. Hungary will be a model for the region in how to defeat this pervasive crime problem -- before it is too late."

Director Freeh said: "The United States and Hungary enjoy a close law enforcement working relationship at every level. Beginning with shared commitment in 1994 to work together on emerging crime problems, to the opening of the International Law Enforcement Academy in Budapest in 1995, and through joint initiatives over time, Hungary has been a key law enforcement partner in Central Europe. This plan raises our relationship to a higher level by bringing our respective strengths to bear against a common enemy that threatens not just particular countries or regions, but all nations."

BACKGROUND OF THE U.S.-HUNGARY RELATIONSHIP

While Hungary has been a key U.S. law enforcement partner for a number of years, efforts to develop a comprehensive, long-term and targeted investigative strategy have recently intensified.

Since his arrival in Budapest in the fall of 1997, Ambassador Tufo has been a tireless advocate of U.S. cooperation with Hungarian authorities in a task force concept to attack international organized crime groups. He recognized early on that the threat posed by international criminals not only to the governmental, business and financial institutions in countries where they operate, but in today's global markets, represent a direct threat to American interests as well. The Ambassador has worked closely with the Department of State to develop a training and technical assistance plan for Hungarian law enforcement.

In July 1998, a new government led by Prime Minister Orban took office in Hungary and has made security issues, particularly fighting organized crime, a top priority. Dr. Sandor Pinter, a career law enforcement professional and former head of the Hungarian National Police, was appointed Minister of the Interior. Dr. Pinter has long been a strong supporter of close U.S.-Hungarian bilateral cooperation and the International Law Enforcement Academy.

In 1994, Director Freeh led a delegation of federal law enforcement leaders in an unprecedented overseas mission to Central and Eastern Europe to determine if the United States and 11 nations in the region could create new joint programs to fight crime. In remarks given at the headquarters of the Hungarian National Police, Freeh acknowledged the progress that Hungary had made in the previous four years in adapting to democratic structures. But he also warned of the growing problem of organized crime emanating from Russia and the Newly Independent States and cited the costs of the American experience in allowing organized crime to become entrenched. He pledged U.S. support and called for a coordinated law enforcement response, consistent with the fundamental democratic principles of justice.

SIX-POINT ASSISTANCE PLAN

I. *U.S.-Hungarian Law Enforcement Liaison.* The U.S. Government will seek diplomatic accreditation for representatives from key U.S. law enforcement agencies to serve as liaison with Hungarian counterparts.

II. *Formation of a Hungarian-American Law Enforcement Working Group.* In recognition of the dual threat of international organized crime and terrorism to the people of Hungary and the United States, a working group will be created to develop formal avenues to improve relations between the two countries by building on investigative successes, solving problems that diminish the timely exchange of investigative information and improving the successful resolution of joint international crime and terrorism investigations.

The Hungarian-American Working Group will be modeled on the Italian American Working Group (IAWG), one of the most successful international bilateral working groups in addressing common crime and terrorism issues. The IAWG mounted a coordinated and sustained attack against organized crime. The success of the IAWG framework resulted from developing cop-to-cop partnerships and focusing upon a common and agreed upon strategy.

As the IAWG has grown from its beginnings, through the "Pizza Connection" cases and the bombing assassinations of Italian crime fighters Judges Falcone and Borsellino, to the present benchmark of international law enforcement cooperation, the Hungarian-American Working Group will become the principal mechanism for the exchange of crimi-

nal information and expertise between the Hungarian National Police (HNP) and the FBI in areas relating to international organized crime and terrorism. The Hungarian-American Working Group will likely convene annually, alternating between Washington, D.C. and Budapest, Hungary, to advance mutual objectives toward the common goal of identifying, attacking and dismantling international organized crime and terrorist groups that threaten the lives and liberty of our citizens.

HNP/FBI TASK FORCE

As a first step in developing better liaison with the HNP, the FBI is in the process of developing an HNP/FBI Task Force to work in Budapest to address interanational organized crime. The Task Force will comprise five FBI agents temporarily assigned in Budapest to work with HNP officers in an advisory capacity.

A February 21, 2000 New York Times article regarding the FBI's cooperation with Hungarian law enforcement does not accurately depict the FBI's role. Statements in the article indicating that the FBI would be exercising law enforcement powers in Hungary are wrong.

As part of the six-point law enforcement cooperation plan, FBI Special Agents in an advisory capacity will be assigned on temporary duty as part of a joint task force to combat organized crime, specifically on cases with a direct connection to the United States. Agents will work side-by-side Hungarian officers in their advisory capacity—under the authority of the Hungarian government and subject to existing Hungarian law and law enforcement working procedures.

As in any foreign nation, FBI Agents will not have law enforcement powers. They will not make arrests, unilaterally develop or operate informants, nor gather intelligence. The carrying of weapons is subject to approval by the host government and the United States Ambassador, and is requested for self-defense purposes only. In any foreign country where the FBI works with its law enforcement counterparts, Agents will work within a strict framework of liaison protocols that recognize the sovereignty of that nation and the jurisdiction of that nation's law enforcement authorities.

III. Legislative Assistance with Development of Anti-Crime Laws. U.S. legislative specialists will continue to work closely with the American Embassy and the Government of Hungary in the development and implementation of anti-crime legislation targeted at international organized crime.

Currently, the Government of Hungary is considering a comprehensive legislative package that would give investigators and prosecutors the tools to deal effectively with complex and emerging organized criminal activity. Based on anti-crime provisions that have proved successful in the U.S. and elsewhere, the proposal includes tougher sentencing, seizure of financial assets, witness protection, undercover authority, stronger drug and money laundering laws, and racketeering and continuing criminal enterprise statutes.

The assistance consists of investigators and prosecutors with experience in organized crime, who will share with Hungarian authorities both the successes and the pitfalls of the long battle with organized crime in the United States.

IV. Enhanced Training for Hungarian Law Enforcement. Special emphasis will be placed on training which will directly improve the ability of Hungarian law enforcement to investigate and prosecute ma-

for organized crime cases. There will be a training program at ILEA, Budapest, designed to improve investigative skills and management of major cases and development of prosecutive packages to be presented in court.

V. Laboratory and Forensic Training and Assistance. The FBI Laboratory will work closely with Hungarian law enforcement to assess forensic needs and to determine how laboratory assistance can support investigative priorities. Unsolved bombings and other investigative matters that rely on forensic evidence will be reviewed. Training in forensic science will be conducted to strengthen the capabilities of Hungarian laboratory investigators and examiners in pending and future cases. A scientific fellowship exchange will allow Hungarian forensic experts to come to the United States to observe and work side-by-side with their counterparts in the FBI Laboratory in Washington, D.C.

Because of Hungary's experience with bombings, a major focus will be in the explosives area, where the FBI Laboratory conducts forensic examinations in bombing matters and presents expert witness testimony in court concerning forensic findings. The Laboratory provides direct field support in bombing matters and crime scene investigations, as well as searches of bomb factories and safe houses where explosives may be. It maintains liaison with domestic and foreign manufacturers of explosives as well as military and governmental agencies engaging in explosives-related matters. The Laboratory also conducts training in bombing crime scene investigations and laboratory forensic examinations related to bombing matters.

The FBI Laboratory maintains the largest single computer library in the world dedicated to commercially-produced explosives identification and comparative examination purposes. One laboratory program gives instant access to resources including a unique device that compares unique elements of cases, which has proved to be extremely helpful in serial bombing cases.

VI. Technological Support. The FBI's Criminal Justice Information Services (CJIS) Division will provide access to identification and other information service programs that have a practical, crime-solving application. This initiative is driven by two goals: to promote common international standards and inter-operability of law enforcement data systems; and, to promote sharing of law enforcement data through state-of-the-art technology.

The development of mutually shared databases and the development of electronic links between the FBI and Hungarian law enforcement will require a series of discussions to determine the relative inter-operability of existing systems and protocols, future technology obligations, and the status of Department of State treaty initiatives.

INTERNATIONAL LAW ENFORCEMENT ACADEMY

In April 1995, the International Law Enforcement Academy opened in Budapest, modeled after the FBI National Academy at Quantico, Virginia. The FBI-led, State Department funded ILEA has been a resounding success, where 750 police officers from 20 countries throughout Central and Eastern Europe and Eurasia have completed the eight-week program. The success of the academy is testament to a sense of cooperation between the FBI and the Department of State, and among the many federal agencies that contribute as instructors, including the Drug Enforcement Administration, United States Secret Service, Bu-

reau of Alcohol, Tobacco and Firearms, United States Customs Service, Immigration and Naturalization Service, Internal Revenue Service, Diplomatic Security Service and the Federal Law Enforcement Training Center. Additionally, the New York City Police Department, the John Jay College of Criminal Justice and the University of Virginia have participated.

Another 2,700 police officers have participated in shorter, specialized training courses at ILEA. The students have used techniques learned at ILEA to combat their own crime problems -- and to assist U.S. investigators with domestic U.S. cases. For example, Polish officers who attended ILEA dismantled a clandestine drug laboratory where drugs were destined for the United States; Ukraine and Hungary have established a close working relationship on their borders as a result of their students attending the Academy, and together have apprehended organized crime members who have ties to the United States; and, ILEA graduates from the Baltic countries have sought FBI assistance on organized crime matters that directly affect U.S. national security.

ILEA is a critical part of the overall U.S. international training program which is funded by Congress under the auspices of the Department of State's International Narcotics and Law Enforcement, the Freedom Support Act, the Support for Eastern European Democracies, and the Antiterrorism Training Assistance programs. These programs have resulted in U.S. law enforcement building bridges of cooperation and understanding with their foreign counterparts at the investigator level. Such bridges and relationships are among the most positive steps the U.S. Government can take to keep foreign crime problems from reaching America.

GREECE: 17 NOVEMBER TASK FORCE

Seventeen November (17N) is a terrorist organization that has been in operation in Greece for the last twenty-five years and continues to be a threat to both Greek and U.S. citizens. During attacks specifically targeting American diplomatic and military personnel, 5 Americans have been killed and 29 injured. To date, there has been no successful prosecutions of any individuals suspected of being involved in 17N activities.

The task force initiated operations in December of 1998. It consists of 2 FBI Special Agents (SAs) and 3 Greek Police Officers. It is also supported by surveillance, bomb and miscellaneous investigative personnel from the Hellenic Police on an "as needed" basis. Legat Athens is the on-site supervisor and maintains liaison with the Hellenic Police Counter Terrorism (HPCT) Unit and Athens embassy staff.

On December 23, 1999, the joint FBI/HPCT task force ended the year on a positive note with the arrest of a Greek terrorist. This was deemed a significant test case for the joint team as numerous investigative initiatives were employed to identify the fugitive's whereabouts. Now, with the capture of the fugitive, significant new investigative leads have been generated and will be pursued by the task force.

FBI SAs have worked with the FBI Profilers from Quantico, Virginia, who have continued to support the 17N investigation. Profilers have examined all U.S. victim cases and will review significant 17N Greek victim cases. Profilers will delve into the victimology aspects of the attacks, and further examine 17N modus operandi and group dynamics of the organization.

FBI SAs have provided numerous training initiatives. This included an international terrorism training seminar at Quantico, Virginia, an FBI post blast school in Athens, and a two-week undercover training course provided in January 2000 at Quantico, Virginia.

The FBI has maintained excellent professional relationships with the HPCT. Host country protocols have been adhered to and all task force operations will continue to be worked jointly with the HPCT. The FBI has fully briefed the U.S. Ambassador at the U.S. Embassy Athens regarding the task force efforts and the 17N investigation. The U.S. Ambassador has expressed his appreciation and commented on the excellent work accomplished by the task force thus far.

**WRITTEN SUBMISSION OF JOHN TENNANT,
DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE
AND EURASIA, UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT**

Mr. Chairman, Members of the Commission:

Thank you for the opportunity to discuss the impact of organized crime and corruption on Central and Eastern Europe and the former Soviet Union. The work of this Commission under the leadership of Congressman Smith, and that of Senator Campbell, is very welcome. The U. S. Agency for International Development is pleased to be able to work with you in this important issue.

Corruption was, as we all know, a staple of the Communist regimes in the former Soviet bloc. So it should not surprise us to learn that ten years after the fall of the Berlin Wall, corruption is still very much a part of everyday life in this region.

But let me emphasize that corruption is in no way limited to Europe and Eurasia (E&E). This is at root a development issue, borne mostly of inadequate or weak democratic institutions. Therefore, we cannot treat the symptom of corruption without also addressing the illness of, among other things, an overly centralized, bureaucratic, and ineffective system of governance.

Corruption is insidious, and it is wrong. It takes the playing field and tilts it toward the dishonest and the criminal. It treats democracy as a commodity that can be bought and sold. On this I think we can all agree.

For this reason, among others, the Clinton Administration has made fighting official and private corruption a priority in Europe and Eurasia.

USAID has been battling corruption in the E&E region for ten years now, and over that time we have learned that one single solution cannot work for all countries. For example, legal reform cannot be made by executive decree. Reform of any kind must be backed by the people, and by their elected representatives. By the same token, anti-corruption campaigns waged by narrow political elites all too often serve to perpetuate centralized political and economic control. Relying solely on strengthening enforcement mechanisms is also not the answer, nor is more money the best solution.

USAID addresses both short-term and long-term solutions, realizing that some short-term responses actually undermine long term solutions. For example, rapid privatization can help the State rid itself of assets, but doing so without transparency or accountability can lead to increased corruption, which creates public cynicism.

As a result of these and other "lessons learned," USAID is pursuing a multi-faceted strategy. In addition to our own anti-corruption efforts, which I will outline shortly, USAID works with multilateral organizations to bring a more broad-based approach to this region. For instance, we are active participants in efforts to encourage countries to adopt and ratify the OECD Anti-Bribery Convention and have actively participated in the Stability Pact negotiations, particularly on the Anti-corruption Compact. USAID also works with other U.S. government agencies, like the FBI and the State Department, to reduce the scope of crime and corruption in the E&E region.

Of course, we also work with host country governments. Again, because corruption is a development issue, it must be addressed within the larger framework of democratic reform. Therefore, our activities in the field usually fall under the following five areas: 1) implementing the rule of law, 2) establishing independent and competent judiciaries, 3) promoting transparent and efficient economic reform, 4) promoting civil service reform, and 5) civil society interventions and anti-corruption strategies.

THE RULE OF LAW

The single best anti-corruption weapon we have at our disposal is the rule of law, and the notion that all men and women are equal under the law. After living for decades in an environment where justice was political, and often sold to the highest bidder, the people of the E&E region understandably have a long road ahead of them.

With USAID funding, the American Bar Association's Central and Eastern European Law Initiative (ABA/CEELI) has provided a broad range of assistance to strengthen the legal systems in many countries. In the area of judicial reform, ABA/CEELI has helped foster support for judicial independence by supporting institutions like judicial training centers and judges' associations.

ABA/CEELI also supports the development of voluntary bar associations that work to improve the competence, ethics, and education of attorneys. ABA/CEELI participated in the revision of criminal codes in Albania and Bosnia-Herzegovina, recruiting and training students to work as volunteer legislative assistants in the Bulgarian parliament. Judges, prosecutors, and defense attorneys have received ethics training in Romania, Moldova, Georgia and most other countries in the E&E region. Due in large part to the work of USAID and ABA/CEELI, judges and lawyers in most E&E countries at minimum have had the opportunity to participate in seminars in corporate governance, commercial law, ethics and bankruptcy concepts almost entirely unknown under Communist rule.

In Bulgaria, USAID has supported a succession of Treasury Enforcement teams that worked closely with the Ministries of Interior and Finance to formulate an anti-crime/anti-corruption strategy, and to draft a law on money laundering. This law, which was passed in 1998, was instrumental in helping the government get a handle on organized crime in Bulgaria.

SUPPORTING INDEPENDENT AND COMPETENT JUDICIARIES

If the rule of law is the hallmark of democracy, then an independent judiciary is surely its manifestation. In order for justice to be blind, judiciaries must be independent. Judges that interpret the law fairly, and who do so without outside pressure are a precious commodity in many emerging democracies; the E&E region is no different. USAID is helping move the region toward legal and judicial independence, and we can honestly say we have made some notable progress.

To help ensure that only qualified judges assume the bench, we have helped develop and implement competency testing in Albania and Georgia. In Georgia, to increase public confidence in the fairness of these exams, the testing was broadcast over national television.

We have developed court administration projects in Romania and Bulgaria, and Magistrates' Institutes in Macedonia, Lithuania, Albania, Romania and Bulgaria. USAID has brought together the Russian-American Judicial Partnership and the National Judicial College in Reno, both of whom train bailiffs in the Ministry of Justice in the Russian Federation.

Let me add that perhaps the biggest indicator of progress is the exploding enrollment in the law schools of the region, indicating that young people believe that knowledge of the law as well as its enforcement is important to the success or failure of society as a whole.

IMPLEMENTING TRANSPARENT AND EFFICIENT ECONOMIC REFORMS

As I have said, one of the best ways to combat corruption is to reduce the size and scope of government bureaucracy, and create an open market economy that fosters competition, because competition is the antithesis of corruption and cronyism.

USAID has supported privatization programs in most countries of the region, helping make governments more effective and transparent, and moving enterprises out of the government into the open market. At the same time, USAID has strengthened regulatory bodies in banking, capital markets, energy and other areas, thereby increasing transparency and helping mitigate fraud and corruption. Accounting reform has led to much greater transparency in government, business, and financial sectors.

In Albania, USAID helped make a closed-bid tendering system for the sale of public enterprises more transparent. In Bosnia-Herzegovina, we trained government officials on how to prevent fraud, collusion and improper auctioning and tendering. We have advisors working with the Bank of Albania, with the Federal Banking Agency in Bosnia-Herzegovina, and with the National Bank of Romania—all of whom are working to increase transparency and efficiency. In Bulgaria and Macedonia, we are working on a Deposit Insurance Fund and in Macedonia on banking supervision, accounting, reporting, and enforcement.

CIVIL SERVICE REFORM

A nation governed by institutions, as democracies are, must rely not only on the strength of those institutions but on the quality and integrity of the people who run them. Citizens have the right to know how their taxpayer dollars are spent, and what policies are enacted in their name. This is transparency.

Transparency in government is critical to combating corruption and increasing public confidence in democratic processes. This is why USAID supports programs that improve budgeting controls and increase civic access to key municipal financial decisions. USAID also supports programs that improve ethical standards and provide better incentives for civil servants.

In Bosnia-Herzegovina, USAID's anti-corruption strategy addresses the weaknesses in governmental budgeting, accounting, and auditing functions. With USAID funding, a team from the National Association of State Auditors, Comptrollers and Treasurers (NASACT) reviewed governmental budgeting, accounting and auditing in the Bosnian Federation.

In Bulgaria, progress has been made in the strengthening local governments. A baseline survey of citizen satisfaction indicated that municipalities that received USAID support were considered to be more effective and accountable than those that did not. In Macedonia, USAID funded a KPMG/Barents activity that helped the central government draft a series of public administration reform laws. The activity also helped draft standards which were later adopted of ethical conduct for officers and employees of the Customs Office. A conference entitled "Ethics and the Police" was conducted for senior police officials using law enforcement case studies.

ANTI-CORRUPTION STRATEGIES AND CIVIL SOCIETY INTERVENTIONS

Outside of the four areas I just outlined, USAID is also working to confront corruption head-on. For example, in Bulgaria, USAID supports "Coalition 2000," a public-private partnership of NGOs and municipal government leaders working together to monitor corruption and stimulate demand for accountability in the public sector. Coalition 2000 recently convened workshops in Varna and Sophia that included representatives from Slovenia, Croatia, Macedonia, Bosnia-Herzegovina, Yugoslavia, Albania, Romania, Moldova, Greece, and Turkey. These conferences are widely hailed as the model for public-private partnership activities in Southeast Europe. Coalition 2000 is currently working on ways to link private business associations with NGO/municipal government efforts, and is conducting media campaigns to raise public awareness of (and decrease public tolerance for) corruption. Finally, Coalition 2000 is working closely with the Parliamentary Committee to Counter Crime and Corruption.

In Slovakia, the USAID Mission has been the focal point for all USG anti-corruption initiatives. The Slovak Government has created a steering committee (on which the United States sits, along with the local chapter of Transparency International) and developed a government-wide anti-corruption plan. Among other points, the focal point of NGO activity is passage and adoption of a Freedom of Information Act. The bill is currently before the Parliament; a group of over 100 NGOs have banded together to publicize the effort by through television advertisements.

In Albania, the Democracy Network project ensured NGO involvement in the drafting of the democratic constitution adopted by referendum in late 1998. This year, USAID will implement a civil society-based anti-corruption program, which will support public awareness of corruption, monitor government implementation of its own anti-corruption program, and work with the private sector on anti-corruption initiatives. The program is intended to complement the World Bank's assistance to the Government of Albania, which has resulted in the promulgation of an agenda of broad reforms intended to reduce corruption.

In Bosnia-Herzegovina, USAID has prepared an Action Plan outlining legislative, institutional, and procedural reform priorities as well as other actions necessary to promote accountability and counter fraud and corruption. The U.S. Anti-Corruption Task Force for Bosnia-Herzegovina, which was established in September 1999, strongly supports a wide range of bilateral and international initiatives. Specifically, the Task Force supports getting indigenous anti-corruption teams up and

running in both the Bosnian Federation and the Republic Srpska, establishing an anti-corruption Coordinating Group, similar to that of the United Nations' Office of the High Commissioner for Refugees (OHCR), and systematic reform that would shift power away from nationalistic political parties and toward democratic institutions.

Elections

Safeguarding elections from fraud and abuse remains a key U.S. foreign policy goal throughout Southeastern Europe, particularly in places like Bosnia-Herzegovina. While political processes are still highly personalized, USAID's technical assistance to central election commissions and independent political parties have helped to "impersonalize" and "regularize" this process and familiarize citizens with what to expect. Specifically:

In Bulgaria, the International Republican Institute (IRI), with funding by USAID, introduced the idea of a primary to a fractured opposition that in 1997 seemed unable to capitalize on a widespread desire for new leadership. This assistance was complemented by our media program, which kept a lone independent radio station on the air in the midst of a severe economic crisis, thus helping unite people suffering from the effects of hyperinflation and to keep them abreast of the latest economic news.

In Bosnia-Herzegovina, USAID, through the International Foundation for Election Systems (IFES), has helped the OSCE supervise all four elections held since the Dayton Accords of 1995. Through the National Democratic Institute (NDI), USAID has also minimized electoral fraud by providing poll watcher training to party activists.

INDEPENDENT MEDIA

Media not controlled by the government is free to criticize the government, introducing the message that public officials should be held accountable for their corrupt acts. In Albania, the International Research and Exchange Program (IREX), with USAID funding, is helping journalists improve their reporting skills. IREX (again, with USAID funding) has also sent Albanian reporters to the United States to work with American newspaper staffs on investigative reporting. These reporters will soon return to Albania and apply what they have learned to their news organizations.

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

In Romania, in anticipation of creating a critical mass of political sentiment opposed to corruption, USAID is stepping up the Investigative Journalism and Journalistic Ethics components of the PROMEDIA-II Cooperative Agreement, which encourages investigative journalism and journalistic ethics.

USAID's Mechanisms to Prevent Misuse of USAID Funds

I would also like to address how USAID operates in countries plagued with corruption and crime. Although we are concerned about the impact corruption has on development, we are equally concerned about the proper use of U.S. taxpayer dollars. Both USAID's Inspector General and the General Accounting Office actively monitor and audit all our programs. We have a well-established set of funds control systems and audit procedures based on U.S. procurement and accounting regulations. Among other things, these mechanisms ensure that our resources are not diverted from intended purposes.

In addition, USAID works with implementing organizations—largely U.S. contractors, non-governmental organizations and private, voluntary organizations—who must meet strict standards for internal accounting procedures, and who are subject to both audits and evaluations of performance. Finally, USAID Missions have tailored country-specific "firewall" procedures to prevent the diversion of USG funds into the wrong hands. For example, in Bosnia-Herzegovina, specific checks are done to ensure that communities harboring publicly indicted war criminals (or actual war criminals) do not benefit from any USAID program.

As I have said, USAID conducts its business with governments, local civil society organizations, and the private sector openly and transparently and requires accountability from both the primary contractor or grantee and the ultimate beneficiaries in host countries. As I have also said, the overwhelming majority of USAID activities consist of technical assistance and training projects, in which we transfer knowledge and expertise, not cash. Where balance-of-payments support is provided, it is provided only under carefully controlled conditions, for example, repayment of debt to the United States or to international financial institutions. But even these types of cash transfers have been limited in this region to special circumstances such as those following the Kosovo conflict, when we helped some of the neighboring countries in Southeast Europe cope with the enormous economic impact of refugees and loss of trade and tourism. In Bosnia-Herzegovina, we provided budget support to the Office of the High Representative (OHR), not directly to Bosnian institutions, and in Kosovo, funds are provided through the United Nations Mission in Kosovo (UNMIK).

MULTILATERAL REGIONAL EFFORTS

Whenever possible, USAID leverages its resources with those of other international organizations—the OECD's Anti-Corruption Network for Transition Economies, for example.

In 1997, USAID entered into a working partnership with the OECD to further the political and economic atmosphere for eventual ratification of the OECD Anti-Bribery Convention in transition countries. (Two of those, Bulgaria and Slovakia, are already signatories to the Convention). With the Center for Cooperation with Non-Members, USAID and OECD created the Anti-Corruption Network for Transition Economies. Linked by an electronic website (www.nobribes.org) and developed by a USAID contractor, the Network links international donors, key government officials, and civil society representatives in an informal forum to exchange information about policies and best practices in this field. A first meeting was held in Istanbul in October, 1998. The second meeting and a donors' coordinating committee was held in November,

1999, also in Istanbul. Discussion topics are specific, focusing on procurement reform, judicial integrity/enforcement mechanisms, administrative codes of conduct and sanctions for misbehavior, private sector ethics, investigative journalism, and the role of public-private partnerships in the battle against corruption. Country-specific networks and coalitions have also been initiated.

Within the framework of the Stability Pact, USAID is also working with the Southeastern Legal Development Initiative to support public-private partnerships and judicial reform. In Kosovo we are working closely with the United Nations. In Albania, USAID is now providing four advisors, as well as some equipment, to work in tandem with a larger European Union team working on customs reform

COUNTRY-SPECIFIC INFORMATION

KOSOVO

In Kosovo, the current challenge is to establish provisional institutions for transparent democratic and autonomous self-government. The types of institutions that need to be established in Kosovo are the same as those in the rest of Southeastern Europe: (1) the rule of law, (2) independent and competent judiciaries, (3) transparent and efficient economic management, (4) an adequately compensated civil service with clear authorities, and (5) strengthening civil society interventions. In Kosovo, as elsewhere, NGO initiatives, election monitors, and independent media will play key roles in ensuring free and fair elections and effective and responsible government.

In Kosovo today, all the institutions of a democracy and civil society are nascent. The only institutions that exist are an independent media and political parties. Institution-building will be a monumental challenge, and the way in which the international community approaches this challenge will determine what kind of society Kosovo becomes. This, in turn, will determine the scope of public and private corruption.

We must also remember that the challenge of institution building is being undertaken in a post-war environment, where authority still derives from military connections. To make the situation even more complex, Kosovo is also a post-communist environment, where the individuals with the most professional experience are unused to the workings of market democracies. A key factor in Kosovo's development will be the model that UNMIK uses to administer the judiciary, create a free environment for media and NGOs, and promote basic economic reform.

One of the most important things that we can do in Kosovo right now is establish a functioning legal system for the simple reason that criminal acts must be stopped and punished. Amnesty International reports that unpunished crimes allow ethnic violence to continue. This not only undermines the stability of the province, but allows and actually promotes political violence. And such violence undermines elections, public participation in political processes, and the media's ability to report, investigate, and comment on government practices. In short, it undermines the very things needed to prevent corruption.

Without an effective legal system, a parallel unelected authority may emerge and control much of the economy. For instance, Amnesty International reports that over the last six months, a parallel government in Kosovo has been openly undertaking illegal activities such as collecting

taxes, promulgating laws, evicting people from their homes, and engaging in illegal policing. Confusion about who holds power in a society is form of corruption itself: such activities will probably only cease when the legal framework is defined, property rights are established, and the legal system has the power to compel those operating outside the framework to obey the law.

Finally, without a functioning legal system, economic growth is impossible. As we have seen in other countries in Europe and Eurasia, both laws and law enforcement are needed to curb criminal activities and enforce property rights; otherwise, organized crime will fill the vacuum, making it impossible to operate a even small business, much less a major enterprise.

The failure to establish a legal system in Kosovo would be especially tragic since the people of the province seem to genuinely want a representative government and a market economy, something they were deprived of not only by Yugoslavia's socialist system, but also by virtue of their status as minorities within that system.

USAID's program in Kosovo will address these challenges. We plan to commit substantial amounts of our democracy funds to helping establish an independent, self-governing and competent judiciary. We plan to support independent media and advocacy groups. We are committing substantial funding to the upcoming elections to ensure that they are free and fair and result in a genuine transfer of authority to representatives of the people of Kosovo. We also plan to work with the new authorities to ensure that economic policy is transparent and properly implemented, especially in the tax and fiscal arenas.

BOSNIA-HERZEGOVINA

USAID's anti-corruption strategy in Bosnia-Herzegovina addresses the weaknesses in governmental budgeting, accounting, and auditing functions at the national level. We aim to ensure that adequate checks and balances are built into these functions so that the entire process becomes transparent and accountable to the public and deters waste, fraud, abuse and mismanagement of public resources.

In transparency issues, USAID is heading up a group of international donors to transform the Payments Bureaus and shift their functions to more appropriate institutions—like tax administration and commercial banks. In customs, USAID, in cooperation with EC-CAFAO, is responsible for the comprehensive training program that is a part of the CAFAO-led customs modernization program. The USAID team provides training to all customs officials in both entities on topics ranging from management and harmonization of systems to valuation and customs procedures. In support of the anti-corruption initiative, the USAID customs training team will offer specific anti-corruption and ethics training to the Federation Customs Administration (FCA) and the RS Customs Administration to combat fraud.

USAID has also been at the forefront in ensuring that the privatization process is carried out in a manner that is transparent and fair to all citizens. Among other things, USAID advisors have provided training and education to government officials and Privatization Agency staff in both entities on how to prevent fraud, collusion, and improper auctioning and tendering.

USAID's Business Development Program (BDP) bank training program helps local banks to develop their commercial lending capabilities and institutionally improve the banking system. In this way, USAID helps to reinforce impartial commercial lending and transparency concepts. Over 2,600 bankers have benefited from this program.

USAID has provided technical assistance to the Federation Banking Agency (FBA) since its inception in 1996 as the only banking supervision and regulatory authority in the Federation. Creating the FBA was one of the conditions for disbursement of the first tranche under USAID's balance of payment support program. In addition, the USAID bank supervision team has established a strong counterpart relationship with the bank regulatory body in the RS, and has helped foster a good working relationship between the regulatory authorities in both entities, with the aim to provide the basis for uniform bank licensing and regulatory standards. A strong, independent and effective bank supervision agency is critical to a prudential regulatory system that restores public confidence in the financial sector. In support of the anti-corruption initiative, USAID is also offering training programs to combat white-collar crime for the FBA and its RS counterpart agency. This entails, among other things, increasing the agencies' investigative capacity and the ability of the staff to audit and control positions that identify and address fraud and corruption in the banking sector, including money laundering.

USAID has been supporting the development of federation, canton and municipal budgets and financial management systems that meet international (UN and IMF) standards. By increasing transparency and accountability in the budgeting system, we hope further to root out corruption, or the potential for corruption, at these lower levels of government. With USAID funding, the International City and County Management Association (ICMA) is implementing a technical assistance and training program in all ten of the federation's cantons and many of its municipalities. The program has worked with the cantons and municipalities to hold public hearings on the budgets; developed a budget classification scheme that will be a significant step towards a transparent budget creation, implementation and reporting process; and fostered the development of an association of public financial management officials, which now has over 100 members from all 10 cantons. This new association will take the lead in professionalizing this cadre of experts, both to build their capacity and to develop a code of ethics to which they will adhere.

PREPARED SUBMISSION OF ADRIAN KARATNYCKY, PRESIDENT, FREEDOM HOUSE

The Commission on Security and Cooperation in Europe and you, Mr. Chairman, are to be commended for holding this hearing and seeking to promote a better understanding of the corrosive effects of corruption and organized crime on the political and economic evolution of the post-communist countries, and in particular on the countries of Southeastern Europe and Central Asia.

I will divide my remarks into two sections. First, I will provide a comparative overview of the broad trends in corruption throughout the post-Communist world, as these countries have all begun their state-building and rebuilding at roughly the same time, in the late 1980s to mid-1990s. Second, I will then make some specific observations about corruption's impact on the regions that are the subject of your hearing: Southeastern Europe and Central Asia. I will focus primarily on the dimension of corruption rather than organized crime, as Freedom House rates and conducts surveys of corruption and has some expertise in evaluating this phenomenon.

Corruption, of course, has three principal dimensions.

In one of its forms, corruption exists at the highest levels of the state and the economy. Typically in the former Communist bloc, it exists in what Max Weber called patrimonial societies. Such statist patrimonial systems have an almost seamless link between economic and political power and depend upon a mutually reinforcing system of patronage between the semi-private sector and the semi-public sector. They are systems in which the state has been privatized for the enrichment of new groups of oligarchs, or privatization has occurred with the state leaders and high officials at times emerging as the major economic powers. This form of corruption in the region involves activities that can cost economies hundreds of millions, even billions, of dollars of illegitimate enrichment by powerful state actors and private actors with privileged access to the protection and favoritism of the state. This, regrettably, is a form of corruption that is widespread in Central Asia and in Azerbaijan. In Azerbaijan, President Aliyev and his family exercise control over the country's vast oil industry. In Turkmenistan, President Niyazov and his inner circle are widely believed to have direct interests in the agricultural, energy, and industrial sectors of the economy and the President Niyazov personally vets major contracts and awards them to political loyalists. Uzbekistan's President reportedly has a controlling interest in the export of cotton.

Corruption also exists in the middle levels of the ministries and in the major regulatory, tax, and inspection structures of the state. Here, corruption typically involves significant bribes to mid-level office holders and members of the bureaucracy to gain special treatment, to avoid onerous inspections and over-regulation, and to obtain special treatment or privileged access to licenses. Here, too, the problem is acute in most of the Central Asian and Southeast European states.

Finally, it exists in the form of petty corruption and involves small payments made by ordinary people and small business entrepreneurs to lower level workers in the governmental bureaucracies. Petty corruption generally thrives in environments in which there is a maze of regulations that retards the activities of smaller business, costing the transitional economies losses well beyond the hidden costs of such bribes

by slowing entrepreneurial activity. Moreover, the costs of corruption and high levels of taxation and regulation encourage the hiding of economic activity in what is called the gray economy.

Each of the three forms of corruption undermines economic and political liberty. It deforms the market by making economic decisions subject to illegal special arrangements that typically involve rent-seeking. Corruption erodes public confidence in democratically-elected and democratically-accountable power as it makes clear that the public will can be subverted through bribery and illicit private gain by officials who violate the public trust. Corruption also frequently leads to significant illegal contributions to political campaigns, directly subverting the public will and eroding confidence in democratic electoral procedures.

The three forms of corruption mentioned above exist in different degrees in the different political and economic systems that have emerged within the post-Communist states of the OSCE region.

States that have undergone significant market reform and are politically open do not usually suffer from the problems of high corruption and massive levels of graft. These, instead, are more likely to occur in less reformed and unreformed systems. Massive corruption at the highest levels of the state is more typically a feature of the regions' hybrid transitional regimes—in patrimonial systems like Ukraine, Moldova, and Russia. High levels of corruption and corruption on a massive scale also can be found in the authoritarian systems that have emerged around such leaders as Azerbaijan's Heidar Aliyev and Turkmenistan's Saparmurat Niyazov. These leaders have such unbridled power that they can enrich themselves, their families, and their clans with virtually no constraints. In some sense, such authoritarians basically "own" the state and control large swaths of the economy directly and through their families.

Corruption at the middle levels of the state bureaucracy is most pronounced in patrimonial societies, in the hybrid systems in which some economic activity is privatized but remains tightly regulated and taxed by an intrusive state. These middle levels of corruption are highly pronounced in such countries as Ukraine, Russia, Croatia, and Bosnia and Herzegovina.

Petty corruption can be seen in all kinds of post-Communist states. It is paradoxically likely to be less pronounced in countries with a small private sector. Petty corruption is a serious problem in many of the middle category transitional countries rather than the predominantly authoritarian states in Central Asia. It appears to be a problem in several of the new democracies with strong private sectors, vibrant civil societies, and independent media. In part, this is a consequence of the low rates of pay for civil servants in these countries. For example, in Poland, civil service pay is notoriously low in the national government, in certain cases several times lower than the pay of civil servants in prosperous local governments. In Lithuania, for example, corruption among physicians and social servants is well below the national average, and these sectors are frequently beset by problems of petty corruption. Estonia has seen the prosecution of large numbers of customs and border guards.

On the other hand, rent-seeking and bribery in the political process is a form of corruption that afflicts all forms of competitive political systems. Established democracies like Germany, Japan, and Italy have been rocked by election related scandals, which originate in the efforts

of business interests to curry favor with political leaders. Clearly the problem of corruption appears to be an almost permanent part of the human condition. Still, while corruption afflicts many established democracies, those who engage in corruption do so in the context of an environment with a range of investigative bodies, a vigorous independent judiciary, inquisitive news media, and a vibrant civil society.

Since 1995, Freedom House has issued comprehensive reports entitled *Nations in Transit*. These detailed surveys, available through our web site at and in book form, are funded as a public private partnership, with principal support coming from the U.S. Agency for International Development and the Open Society Institute. The survey reflects the views of several dozen regional, country, and thematic experts and of a ratings process that involves leading scholars from the U.S. and Central and Eastern Europe.

The *Nations in Transit* survey asks over sixty detailed questions in a wide array of categories including political process, civil society development, human rights and the rule of law, media, macroeconomic and microeconomic reforms, privatization, social indicators, and corruption.

Nations in Transit not only provides detailed comparative overviews of political, economic, social, and corruption indicators, it also seek to rate each of the countries based on a comparative index, with "one" representing the most open and free societies economies and best practices, and "seven" representing the most forms of state domination of economic life and the most authoritarian and repressive political practices. We likewise apply the one to seven grade scale in judging the level of corruption in the post-Communist states.

We are in the process of completing our new report and I would like to share with you some of its key provisional findings. In two months time, these will be available on our web site and in book form and are currently in the final process of preparation for publication.

With your permission, Mr. Chairman, I ask to be allowed to include the completed corruption sections of the Nations in Transit report as part of the record of this hearing. I believe the findings contain a factual basis for evaluating the scale of corruption in the countries under review and so deserve wide circulation.

**THE SCALE OF CORRUPTION:
COMPARATIVE RATINGS FROM THE FREEDOM HOUSE
NATIONS IN TRANSIT 1999-2000 REPORT**

What do our new findings show?

As a general principal, the degree of corruption in the region stands in inverse proportion to the degree of political and civic freedom. These are reflected in Chart 1, which is appended to my testimony. Similarly, a strong inverse relationship exists between the degree of microeconomic reform, including comparatively low levels of regulation and taxation and levels of corruption. These are reflected in Chart 2.

Our ratings on corruption generally track the ratings issued by Transparency International as reflected in accompanying Table 1. But the Transparency International ratings differ from ours, as they are primarily a measure of "corruption perception" as reflected in surveys of the local and foreign business community. Unlike the Freedom House ratings exercise, Transparency International does not provide ratings for the legislation related to corruption, nor does it rate the strength and efficacy of the anti-corruption activities of the media and of civic

organizations. Unlike our Nations in Transit report, moreover, Transparency International does not rate the scale and efficacy of governmental anti-corruption campaigns, including prosecutions of high level officials.

Broadly, the picture in the region—as reflected in the Freedom House *Nations in Transit* report and in the Transparency International ratings on corruption—is not a happy one.

According to our corruption ratings system (See Chart 3), which rates countries on the basis of events through July 1999, Russia (an electoral democracy with a market economy marred by patrimonialism but not a liberal democracy and free market economy) and Yugoslavia (an authoritarian regime) have the highest levels of corruption and corruption perception, and the weakest performance in terms of anti-corruption efforts.

They are followed in close proximity by Albania (a weak electoral democracy), Azerbaijan (an authoritarian regime), Bosnia (a country just emerging from wrenching conflict), Kazakhstan (an authoritarian regime) the Kyrgyz Republic (weak electoral democracy), Moldova (another weak electoral democracy), Tajikistan (a country emerging from long-term conflict), Turkmenistan (a nearly absolute dictatorship with a heavy state role in the economic system), Ukraine (an electoral democracy with limited economic freedoms), and Uzbekistan (a dictatorship). Each of the aforementioned countries gets a rating of 6 or more in our 1-7 system. None of them has achieved liberal economic and political reform.

As you can see from the above, the countries most severely afflicted by corruption include primarily those located in states from Southeastern Europe—Yugoslavia, Albania, Bosnia and Herzegovina and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) as well as Azerbaijan. Indeed, while for the entire post-Communist has a median of 5.25 and an average corruption rating of 4.86 for Central Asia the median rating is 6.00 and the average is 6.00 as reflected in Chart 4.

Just below these most corrupt states is a range of countries that includes that include Armenia, Belarus, and Georgia, and the Southeastern states of Bulgaria, Croatia, Macedonia, and Romania. These score between 4.25 and 5.75 and are also afflicted by significant corruption coupled with weak responses by society and state.

Better performance in terms of levels of corruption and efforts to combat corruption are represented by the following countries, each of which received scores of between 3.75 and 3.25: Czech Republic, Estonia, Latvia, Lithuania, and Slovakia. The least corrupt countries in the judgment of our survey were Hungary, Poland, and Slovenia. Not surprisingly, each of these eight countries also has achieved the highest degree of democratic and economic reform in the region.

The summary ratings are reflected in Table 2, with the countries from Central Asia and Southeastern Europe highlighted in bold and capital letters to make more clear the scale of the problem.

A broad look at two crucial checklist items highlights how far the effort to effectively combat high-level corruption has to go. Of the 27 OSCE countries (See Table 3) covered in our review, only seven had strong and well-enforced conflict of interest legislation. And only one of these—Bulgaria—is from one of the regions under review today.

Of these 27 countries, only eleven had seen non-politically motivated prosecutions of high-level officials by the middle of 1999. No Central Asian states were in this category. And only Bulgaria and Romania, from among the states of Southeastern Europe, had seen anti-corruption prosecutions of high-level officials.

And, more significantly, of the 12 worst rated countries in our survey, nine are from the regions that are the focus of today's hearing. Regrettably, not one has seen the consistent and vigorous prosecution of high-level officials for corruption. Indeed, of the twelve most corrupt states in the region, only Uzbekistan (and Ukraine) has seen some modest efforts at prosecution of corruption at higher levels. In a third country among the corrupt dozen, Azerbaijan's prosecution of high-level corruption is regarded as politically motivated.

TYRANNIES AND THE FIGHT AGAINST "CORRUPTION"

The fight against corruption is popular in the West and with the publics of the region. As a result, all sorts of regimes—including some of the most corrupt—undertake highly publicized efforts to "root out" corruption and graft. Yet in a context in which the rule of law is absent and the judiciary is under the control of an authoritarian ruler, justice frequently is perverted.

Azerbaijan has seen the prosecution of major former government officials for corruption. Almost without exception, these have been officials from the Elchibey and Mutalibov administrations, whose members are regarded as political enemies of President Aliyev. In Uzbekistan, there has been some pressure on and prosecution of officials from the ruling elite. However these campaigns against "conflict of interest" avoid President Islam Karimov who is said to have a controlling interest in the country's cotton exporting trade.

We must be careful not to view the struggle against corruption as somehow divorced from economic and political reform. In particular, we should refrain from collaboration in government anticorruption activities in those post-Soviet regimes in which opposition is suppressed, the media are censored and controlled, and the executive authority is subsequent to the judiciary. In many of these countries, the struggle against corruption is frequently a means of settling score with political opponents. Thus, U.S. cooperation in the anti-corruption efforts of such regimes, effectively corrupts our own standards of respect for the rule of law. In such closed settings, U.S. and Western supported anti-corruption efforts should focus on the empowerment of civil society and efforts to promote independent media. They also could focus on long-term efforts to promote the independence and impartiality of the judiciary, recognizing that the focus here is on building long-term capacities when their societies become more open.

Finally, cooperation can be focused on efforts to reduce the intervention of the state in economic life, thus eliminating a number of incentives for corruption.

CRIME AND THE FATE OF DEMOCRACY

While my presentation is focused on corruption, the influence of organized crime on political life in the region deserves attention. Rampant lawlessness erodes public confidence in the state. It increases public demands for strong, even, authoritarian leaders and for short cuts in the areas of civil liberties and due process.

Organized criminal elements also see the state as an object of contestation.

In Kosovo, the KLA had strong and well-documented links with drug and sex trade crime families that armed its insurgency and sought through this support to win influence in what they hoped would be the dominant political organization after Kosovar secession. The culture of criminality and vengeance in Kosovo is in no small measure related to the fact that such criminal elements are interwoven into the fabric of the KLA's networks.

A major organized crime organization from Ukraine's Crimean peninsula actively sought to win power in the region through the electoral process and through bribery. It is reputed to have organized the political party known as the PEVK—the Party for the Economic Rebirth of Crimea. After it failed in its efforts to take over the Crimean government, one of the ethnically Armenian leaders of a major Crimean organized crime clan relocated to the de facto autonomous enclave of Nagorno-Karabakh. There, with the backing of his Crimean organized crime network, he again made a second effort to take over the parliament and government of the breakaway region.

CORRUPTION AND DEMOCRACY

Certainly, corruption is corrosive of public choice, of civic empowerment, and of faith in the market.

At the same time, a vibrant democracy and vibrant entrepreneurial economy brings forth the very mechanisms that can tame and reduce corruption.

Thus, our findings show a strong correlation between liberal political systems and lower levels of corruption.

What are the implications of these findings? What are the most effective mechanisms for combating corruption?

Petty corruption requires significant changes to the microeconomic environment. This means a reduction in the heavy burdens of regulation, simplification of procedures related to business registration, and the implementation of tax amnesties, which can enable the gray economy to emerge from the shadows. This reality is reflected in the correlation that Chart 2 shows between economic liberalization and lower levels of corruption.

Higher levels of remuneration for poor civil servants can also go a long way toward reducing incentives for petty corruption. In certain circumstances, Western donor efforts might consider providing funding to help governments supplement meager wages of key inspection and regulation officials.

Elections and rotations of elites can also help uncover past corruption. The fear of new political forces coming into power reduces the scope and scale of graft. Support for programs that promote an independent press also should be seen as part of the repertoire of programs needed for effective anticorruption efforts.

Finally, US foreign aid should support the activities of non-governmental groups fighting for deregulation, de-bureaucratization, and simpler tax compliance structures.

Regrettably, the dictatorships that have sprung up in Central Asia give little hope that corruption will be reduced or eliminated in the absence of deep democratic reforms, which most certainly will require the fall from power of such leaders as Nazarbayev, Aliyev, Karimov, and Niyazov.

In the case of the weak liberal and electoral democracies of South-eastern Europe, there is a broad array of problems, but there is also the human and institutional capital through which change can occur.

I am optimistic about the progress Bulgaria has made in the last several years of reformist rule. All members of the governing coalition have severed all ties with private business. In 1998, there were 124 corruption cases dealt with by the courts. And the country's National Audit office was given broad investigative powers in a context which has seen an impressive array of new laws on such matters as money laundering, bribery, and corruption.

I am more concerned that the limited progress seen in recent years in Romania can be reversed if the forces of former President Iliescu recapture power through the ballot box.

In Kosovo, efforts to reduce the influence of crime and corruption will require a reassessment of our relationship with the successor forces of the KLA.

Just how hard this will be can be seen in the problems of corruption afflicting Bosnia and Herzegovina.

These include the illegal smuggling activities of former Republika Srpska President Radovan Karadzic.

They also include serious allegations swirling around Bakir Izetbegovic, the son of President Ilija Izetbegovic. The younger Izetbegovic has been accused of corruption through his stewardship of the government agency in charge of reconstruction projects and his involvement in racketeering and extortion of Sarajevo shopkeepers. At the same time, there have been virtually no high level prosecutions of officials for corruption in a country where, according to the international community's high representative Carlos Westendorp, corruption is massive and systemic.

Still, compared with Central Asia, in each of these settings, there is a rather high degree of civic activism, an active and independent press (though often subjected to political and economic pressures), and a relatively open political process that can vote corrupt elites out of office.

Once again, thank you Mr. Chairman and members for the committee, for the opportunity to share my views. I am ready to answer any questions you may have.

**TABLE 1. FREEDOM HOUSE
CORRUPTION SCORE
VS.
TRANSPARENCY INTERNATIONAL CORRUPTION PERCEPTION
INDEX**

<u>CO</u>		<u>TICPI</u>	
Slovenia	2.00	Slovenia	6.
Poland	2.25	Estonia	5.7
Hungary	2.50	Hungary	5.2
Czech Rep.	3.25	Czech Rep.	4.6
Estonia	3.25	Mongolia	4.3
Latvia	3.50	Poland	4.2
Lithuania	3.75	Lithuania	3.8
Slovakia	3.75	Slovakia	3.7
Mongolia	4.00	Belarus	3.4
ROMANIA	4.25	Latvia	3.4
BULGARIA	4.75	BULGARIA	3.3
Georgia	5.00	MACEDONIA	3.3
MACEDONIA	5.00	ROMANIA	3.3
Belarus	5.25	CROATIA	2.7
CROATIA	5.25	Moldova	2.6
Armenia	5.75	Ukraine	2.6
ALBANIA	6.00	Armenia	2.5
AZERBAIJAN	6.00	Russia	2.4
Bosnia	6.00	ALBANIA	2.3
KAZAKHSTAN	6.00	Georgia	2.3
KYRGYZ REP.	6.00	KAZAKHSTAN	2.3
Moldova	6.00	KYRGYZ REP.	2.2
TAJIKISTAN	6.00	YUGOSLAVIA	2
TURKMENISTAN	6.00	UZBEKISTAN	1.8
Ukraine	6.00	AZERBAIJAN	1.7
UZBEKISTAN	6.00	Bosnia	0
Russia	6.25	TAJIKISTAN	0
YUGOSLAVIA	6.25	TURKMENISTAN	0

TABLE 2. NIT 2000 RATINGS CHART

<u>Country</u>	<u>CO</u>	<u>MI</u>	<u>DEM</u>	<u>ROL</u>	<u>ECON</u>
ALBANIA	6.00	4.50	4.25	5.25	4.50
Armenia	5.75	4.00	4.50	5.08	3.58
AZERBAIJAN	6.00	5.00	5.25	5.92	5.00
Belarus	5.25	6.50	6.50	6.00	6.25
Bosnia	6.00	6.25	4.83	6.00	5.58
BULGARIA	4.75	4.00	3.17	4.00	3.75
CROATIA	5.25	3.75	4.25	4.67	3.67
Czech Rep.	3.25	2.00	1.67	2.50	1.92
Estonia	3.25	2.00	2.00	2.50	1.92
Georgia	5.00	4.00	3.83	4.50	3.67
Hungary	2.50	1.75	1.50	2.25	1.75
KAZAKHSTAN	6.00	4.75	5.50	5.50	4.50
KYRGYZ REP.	6.00	3.50	4.83	5.33	3.83
Latvia	3.50	2.50	1.92	2.67	2.50
Lithuania	3.75	2.75	1.83	2.75	2.83
MACEDONIA	5.00	5.00	3.58	4.08	4.58
Moldova	6.00	4.25	3.67	4.83	4.00
Mongolia	4.00	3.75	3.00	3.67	3.92
Poland	2.25	1.50	1.33	1.83	1.67
ROMANIA	4.25	4.50	3.08	4.00	4.17
Russia	6.25	4.50	4.17	5.00	4.33
Slovakia	3.75	3.50	2.33	3.08	3.25
Slovenia	2.00	2.00	1.83	1.92	2.08
TAJKISTAN	6.00	6.00	5.50	6.00	6.00
TURKMENISTAN	6.00	6.25	7.00	6.50	6.42
Ukraine	6.00	4.75	4.17	5.08	4.58
UZBEKISTAN	6.00	6.25	6.50	6.25	6.25
YUGOSLAVIA	6.25	5.50	5.50	5.83	5.33

Countries are scored on a 1 to 7 score, with 1 representing the best performance and 7 the worst. CO = Corruption; MI = Microeconomics; DEM = Democratization; ROL = Rule of Law; ECON = Economic Liberalization

TABLE 3.**COUNTRY CONFLICT OF INTEREST LEGISLATION HIGH-LEVEL
ANTI-CORRUPTION PROSECUTIONS**

Albania	Weak	No
Armenia	No	
Azerbaijan	No	(Politically motivated)
Belarus	Weak	(Politically motivated)
Bosnia and Herzegovina	Weak	No
Bulgaria		
Croatia	No	No
Czech Republic	Weak	
Estonia		
Georgia		
Hungary	Medium	
Kazakhstan	Medium	No
Kyrgyz Republic		
Latvia		
Lithuania		
Macedonia	Weak	No
Moldova	No	No
Mongolia	Weak	
Poland	Weak	
Romania	Medium	
Russia	No	No
Slovakia	Weak	
Slovenia	Medium	
Tajikistan	No	No
Turkmenistan	No	No
Ukraine	Weak	Weak
Uzbekistan	No	Weak
Yugoslavia	No	No

***As of July, 1999

**PREPARED SUBMISSION OF NANCY LUBIN,
PRESIDENT, JNA ASSOCIATES, INC.**

Mr Chairman and Members of the Commission, thank you for your invitation to testify today on corruption and organized crime in the Central Asian region of the former USSR. As your invitation letter and testimony in your previous Hearings suggest, of all the challenges to the future of Central Asia—and to Western interests there—issues of corruption and crime are among the most pernicious and intractable, affecting more than any other single factor the direction these societies may take in the years to come.

Since gaining independence in 1991, the new Central Asian states have grown rapidly in importance to U.S. national security, commercial and foreign policy interests for a number of reasons. These include the region's vast reserves of oil and gas, as well as gold and other natural resources, that have already attracted enormous U.S. and international investment. They also include Central Asia's geo strategic location at the intersection of Russia, China, India/Pakistan, Afghanistan and Iran—all of which have recently raised increasingly complex foreign policy questions for the U.S.—and fears of growing terrorism and a spillover of an anti-Western Islamic "fundamentalism" into the region. And they include Central Asia's role as a source and transit route for narcotics and possibly nuclear and other weapons of mass destruction and their components; its alleged ties to international terrorism and organized crime; the persistence of relatively corrupt and authoritarian governments that have fluctuated in their level of commitment to reform and raised new economic, political and human rights challenges along the way; and the vast environmental, religious, human rights, poverty and other political and social pressures that have created a tinderbox that the smallest spark could ignite.

To the extent that corruption and organized crime affect all these interests, your concern is well placed. But despite the urgency of addressing these issues, few involved in assistance to Central Asia have taken the time to understand what role corruption and organized crime play in this part of the world, and fewer still have taken the time to examine how one can adjust programs and policies to address these challenges on the ground. Instead, we seem to have charged ahead—first ignoring issues of corruption and organized crime, and then instituting programs and policies that in many cases may backfire. Indeed, the World Bank, USAID, and other donors recently have stated publicly that our assistance over the past decade may have served to exacerbate corruption in the NIS rather than to alleviate it.

The purpose of my testimony, then, is to provide a few brief remarks regarding the role of corruption and crime in Central Asia and recommendations for Western assistance programs engaged in this region. The steps taken by the OSCE at the Istanbul Summit are excellent first steps in developing a broad strategy to address these challenges. I hope our recommendations offered today might help with their implementation on the ground. My comments are based on my own research on these issues spanning the roughly twenty five years that I have been traveling to this region, and extensive first hand experience over the past decade consulting for U.S. companies, foundations, and government agencies, including U.S. law enforcement agencies; and international donors and NGOs.

CORRUPTION AND ORGANIZED CRIME IN CENTRAL ASIA

Much of the discussion about Central Asia has tended to treat issues of corruption and organized crime as roughly analogous to these questions in the U.S. Discussions have tended to view organized crime, for example, as penetrated by identifiable groups that might corrupt governments but generally act independently of them. And they have tended to view corruption as comprised largely of bribe taking for personal gain—such as an official receiving money or something of value to conduct an illegal act or not to perform his official duties. Corruption is generally perceived as misfeasance, malfeasance or nonfeasance.

But these approaches ignore how much deeper, more pervasive, and more destructive the problem of “organized crime” and corruption in fact are throughout Central Asia, and how deeply interwoven they have remained in the very fabric of Soviet, and now post-Soviet society there.

Corruption is not an individual affair in this part of the world, but part and parcel of a highly organized system of economic crime that permeates all aspects of life. What we might consider organized criminal activities are not limited to independent groups, but may often be considered affairs of state.

And corruption and crime have never infiltrated the governments of the new states as much as they have always been an integral part of these governments, stemming logically from the region’s past. Research I conducted for a book on this question back in the 1970s (Labor and

Nationality in Soviet Central Asia: An Uneasy Compromise) confirmed that throughout the highly centralized Soviet system—where there was little in the way of oversight and accountability, and a lot in the way of shortages of basic goods and services—a highly organized, criminal, economic system emerged that was just as central and powerful as the official system. It was not perpetuated by rackets and mafias (although there were many throughout Central Asia). It was driven by the millions of normal bureaucrats and professionals who were part of an elaborate system of bribes and payoffs—and of heavy-handed tactics when their interests were threatened. While bribes and payoffs are not unique to the former USSR, the resulting scale and magnitude was far greater than anything we can imagine in this country, largely because the opportunities were so enormous and any oversight was so brutally repressed. It was also particularly difficult to opt out of a system where the organs of state were so part and parcel of the problem.

In Central Asia, the continued centralized and monopolistic nature of the Central Asian economies; their often tightly knit clan, family, ethnic and religious structures; and the persistence of strong, centralized authoritarian governments gave questions of corruption and crime their own flavor. Indeed, this is a region of the USSR where for many years, perhaps as high as a third of Uzbekistan’s cotton production—the region’s main crop—existed only on paper, to serve the needs of bribes and organized crime that extended all the way to Moscow.

CORRUPTION AND CRIME: 1990S

Since independence, while the rules of the game have changed dramatically in Central Asia, in some of these countries this system has only intensified—as one Central Asian ironically put it, now that Central Asia is “without the moderating hand of Moscow.”

The pervasiveness of crime and corruption in Central Asia today is underscored by a survey we conducted in the mid 1990s among over 2000 respondents in Kazakhstan and Uzbekistan. Close to three fourths of our respondents said that it is virtually impossible to get anything done in a timely way without paying a bribe. Bribes ran as high as the equivalent of an entire year's average salary just to get a son or daughter into a good college, and over one month's full salary to get surgery in a good clinic (both technically free). Likewise, thousands of dollars were paid just to get low level jobs in trade, the services, the light and food industries, law enforcement, and other sectors where opportunities for receiving pay-offs are high. Although the bribe to get these jobs by itself came to the equivalent of several years' salary once one is actually on the job, those paying knew that it would be recouped rapidly.

The most important thing that emerged from our survey, however, wasn't so much the extent of individual bribe taking, but how much it mirrored the picture I had described in my book from two decades earlier. The bribes seemed to be so systematized, that they correlated closely with the tables I had constructed two decades before listing the amounts of bribes required to gain access to specific jobs, goods and services in Central Asia under the former Soviet Union. And most of our survey respondents—just as my sources and friends in the 1970s—referred to this system of bribes as “organized crime” rather than mere corruption, because they viewed them as part and parcel of a large scale, organized, criminal economic system. They underscored that only a small part of bribes remain in the hands of the bribe-takers; the remainder moves up the hierarchy, to ensure that officials all the way up the chain also are “fed”—usually a condition of a job.

Respondents view organized crime and corruption as especially serious among high government officials, law enforcement personnel, and officials throughout the judicial system. Close to two thirds of respondents in our survey said that as a rule, high government officials are either themselves members of the “mafia” or closely tied to the mafia. Indeed, almost thirty percent of the police in our expert survey said that, as a rule, their fellow cops are closely tied to organized crime! And about half of all survey respondents said that bribery occurs as a matter of course in the courts and procuracy as well. Some report that the going rate is currently about \$10,000 in bribes to a prosecutor or judge to have an accused released from trial for a low level organized crime offense.

Today, officials are viewed as not just complicit in criminal activities, but have a long history of often running the “rackets” and criminal groups themselves. The “cotton scandal” I mentioned above—one of the most important scandals of the Soviet era—was headed by Yuri Churbanov while he was USSR Deputy Minister of Internal Affairs. The former Minister of Internal Affairs of Tajikistan was widely reputed by Western embassy officials to be in charge of the country's main drug smuggling operations.

But corruption extends to lower levels as well. Whether to line their own pockets or to carry out their own responsibilities, for example, extortion of farmers or entrepreneurs in parts of Central Asia and the Caucasus is conducted not by criminal groups, but by the very banks, ministries, and other government entities ostensibly designed to encourage entrepreneurial behavior. In some Central Asian countries where I have worked, locals have described in some detail how local bureau-

crats and government officials obtain information on the private accounts of citizens, illegally withdraw money from those accounts without the account holder's agreement, and pressure citizens to then provide approval. In countries where no individual is allowed to buy or sell land, local government officials themselves have described to me how they run their own illegal land markets to rent land for specific periods of time; in 1999, one hectare of land in one raion of Uzbekistan was "selling"—illegally and under the table—for the equivalent of at least five years' average income. Government enterprises in parts of Central Asia's countryside muscle out competition and monopolize business by requiring that any purchases of farm supplies be made through their own enterprises; if farmers wish to purchase inputs from other suppliers, their bank accounts are frozen.

And bribes and payoffs have also become a way of life in the provision of basic goods and services. In many Central Asian hospitals, for example, health care professionals have linked up to ensure that no treatment is provided to patients unless they buy medicine directly from the doctors or nurses at highly inflated prices. According to a number of physicians and hospital employees, many physicians are part of a bigger "syndicate" where they receive medicine from the government to be distributed free, but sell them to their patients at high prices. A variety of bribes and payoffs are a way of life in this part of the world—where refusal to pay can have devastating political and economic ramifications for one's family.

IMPACTS

The impact of corruption and organized crime in these countries is enormous. Economically, they severely distort local economies, stifle business, limit opportunity, and represent among the greatest obstacles to fundamental reform, as those involved often have much to lose and little to gain should reform actually take hold.

While corruption and organized crime have characterized these countries for decades, they have also become one of the most serious sources of potential conflict in this region as economic hardship has grown, as the burden of bribes and payoffs has consumed families, and as the gap between the haves and have-nots has widened. By permeating the legal system, corruption has impeded the creation of a rule of law and sense of fairness among the population as a whole, likewise triggering tension and instability in local communities. Although the USSR was never a model of fairness, citizens today feel increasingly disenfranchised and unable to address grievances fairly.

In general, corruption has eroded confidence that political leaders, law enforcement and economic ministries and others can be guided by anything but self-serving interests. Indeed, growing corruption and crime has injected skepticism among many of these populations that democratic and market reforms are even desirable, let alone attainable. It has also injected an additional corrosive element on society, as it is used as an excuse to crack down on political opponents, including NGOs and journalists, whenever a particular regime regards them as threatening their own interest.

In terms of U.S. interests, crime and corruption within Central Asia buttress other criminal activities in this region, especially narcotics trafficking and the potential, if not actual proliferation of other dangerous materials through the southern tier. The trafficking of narcotics,

weapons, and other substances has long been big business in this region, but it has expanded enormously over the past decade as corruption and crime have grown. And corruption has clearly impeded U.S. investment in Central Asia and generally stifled much needed Western investment there. Most troubling is the possibility that as oil revenues begin to flow to this region, problems of corruption and crime may become more difficult to address, and perhaps so exacerbated as to make reform all but impossible.

U.S. ASSISTANCE POLICY

It is in this corrupt context that the U.S. and other countries have instituted a wide range of assistance programs—roughly 2 billion dollars' worth ever the past decade to the five Central Asian states, and close to 33 billion in cumulative obligations if the Caucasus are included—to help establish market economies, stable democratic societies based on a rule of law, and now, to address issues of corruption and crime head on.

For the past six years, at the request of several private U.S. foundations, JNA Associates has been examining these efforts in Central Asia as well as elsewhere in the NIS. Our first report, *Aid to the Former Soviet Union: When Less is More*, was issued in 1996, and we have been asked by two foundations to release an update this year.

The results of this investigation, coupled with our own consulting in the field, suggest that while some of these efforts have been excellent, far too many assistance programs may have inadvertently exacerbated problems of corruption because of a lack of regional expertise on the part of donors to understand the context in which they are working. We found the problems in Central Asia are often misdiagnosed because Western donors do not take into account the corruption and informal economies of Central Asia itself. In societies where such a vast part of the economy occurs under the table, a wide array of programs has been criticized by local analysts as inadvertently empowering the very corrupt structures they are ostensibly intended to reform.

For example, Western training programs in the rule of law are viewed with widespread skepticism in Central Asia when they fail to address the structure of a system where justice is typically bought and sold. Engaging judges, prosecutors and others in rule of law training programs—and “rewarding” them with trips to the U.S.—inspires only increased cynicism and disrespect for rule of law among local citizens when nothing in the administration of law and the system of bribes is changed. Likewise, programs designed to restructure the management of water and other critical resources—resources that traditionally have been at the heart of government corruption—have been criticized for empowering the very individuals and agencies who have little vested interest in implementing fundamental management reforms. Scarce resources such as water are big business for those with control over their distribution; Western programs are highly criticized locally for only adding to the pot. “Institution building” programs that support local banks, regional leaders, and other structures in the countryside—with little day to day oversight of these institutions—have been attacked for buttressing the widespread corruption that so hinders farmers. The cynicism is magnified when farmers, in turn, are provided training programs to learn how to function in a market economy—but an economy that has never existed. And the business and foreign policy communi-

ties have likewise found the best of deals turned on their heads, not because their counterparts do not understand what is in their own interest, but because in an economy where the rules of the game are so different, their interests are often so different from our own.

The mismatch in programs has been only exacerbated by faulty assumptions, and by inadequate attention to implementation and follow up. Some donors, for example, have attempted to work with Central Asian governments on issues of corruption and crime, but complain of a lack of political will in implementing those programs. Yet few seem to acknowledge that the programs they ask Central Asians to embrace are likely to remain unimplemented—or worse, to be co-opted or undermined—when they provide leaders and others with much to lose (in power, prestige or financial interest) and little to gain in return.

Likewise, some of the programs I have observed are predicate on the notion that corruption and organized crime are essentially economic problems: so long as salaries of police, judges, or other law enforcement rise, this notion goes, corruption is likely to be reduced. But organized crime and corruption traditionally have been most prevalent among those in the highest paid jobs and sectors in Central Asia—including in the 1970s when law enforcement was in fact highly paid—and as the U.S. experience shows, corruption is not dominated by the poor. Finally, other programs treat corruption as a moral issue; but there is little evidence to suggest that locals actually view the problem this way—and much evidence to suggest that they take offense at morality lessons that they believe are quite divorced from their own worlds.

Regarding monitoring and follow up, many aid staff tell us that they are supported in their efforts to create new programs and projects, but that they are not provided the resources to Staff them properly on the ground and conduct follow-up. Few have developed short term, measurable benchmarks that can provide a qualitative sense of whether or not they are on the right track. Without sufficient oversight or follow-up, we have found that we ourselves cannot monitor our own effectiveness of programs accordingly, and risk failing through theft, corruption or an otherwise dissipation of assets and perversion of program goals and objectives.

Some NGOs and contractors contend that this is only exacerbated by the common pressures—from the donor community or Congress—to provide results quickly. They contend that this provides little time to encourage the proper design of programs and vetting of participants. This is certainly a problem—but so, too, are those who find this unnecessary in the first place. Several officials from the donor community who feared U.S. assistance programs might exacerbate corruption nonetheless feel compelled to continue. In the words of one, “We have to do something!” In the wads of another, “A surgeon cannot stop in the middle of an operation to conduct a study.” It seems to us that if we are not certain of the impact of our efforts, there should be options so that we do not “have to do something.” And it seems to us that a surgeon might indeed find it advantageous to stop in the middle of an operation if he is not certain that he is performing the correct surgery. He might consider pausing not for a study, but perhaps to bring in another specialist to aid him if he does not feel that he has the expertise to perform the operation completely and safely.

All of these issues comprise a particular problem in U.S. law enforcement programs to address corruption and organized crime in Central Asia. Many, if not most western programs are designed and implemented by law enforcement specialists with little, if any prior experience in this part of the world. Participants in these efforts inform us that most law enforcement programs in Central Asia are not provided the resources to have a full time, in-country presence in the region; instead, they rely on U.S. Embassy staff—or the part time spouses of Embassy staff—who are already stretched thin with other embassy duties and/or have little knowledge of law enforcement and the country itself. Training programs are often designed and organized, and trainees are often selected, by local foreign service nationals with little independent vetting, while instructors are provided little support to ensure that their training fits the Central Asian context.

As a result, several U.S. law enforcement officials involved in these programs have themselves expressed concern to us that they do not always know who they are training—and a few have expressed fear they may be training future criminals rather than effective law enforcement agents. With few funds available for follow-up, they say they are not provided the resources to evaluate how the training and the resources they provide are used. And even with the funds, they are often at a loss how to conduct effective monitoring. Asked how one guards against Western training being used to enhance narcotics smuggling and organized crime, one official replied that they rely on their ability to select “honest” partners and on “peer pressure” from the international community. Neither approach has a strong track record in this part of the world without being supplemented by other means.

The UN Drug Control Program’s project to strengthen interdiction capabilities through regional law enforcement cooperation in the Ferghana Valley is typical of law enforcement programs in this region. Observers have feared that because the program design focused so heavily on the technology, of combating narcotics trafficking and ignores the informal workings of these societies (including law enforcement) there would be no incentive on the Central Asian part to use this equipment as intended. Locals still joke about the highly trained drug-sniffing dogs that were provided by the European Union to Kyrgyz law enforcement—all of which died mysteriously within five months of their arrival in Central Asia. The deaths were attributed to the harsh climate; but locals are sure the dogs were killed because local law enforcement did not want this capability. These and other training programs have engendered a great deal of skepticism and criticism on the ground that we inadvertently may be providing “how to” courses to the very smugglers we are hoping to eradicate.

RECOMMENDATIONS

While the priority given to addressing issues of corruption and organized crime in Central Asia is laudable, more attention should be paid to the nuts and bolts of how programs are designed and implemented on the ground. The following recommendations are but examples of the type of fine tuning that could be explored to help ensure that U.S. assistance does not exacerbate corruption and organized crime, but may play some role in ameliorating them. Simple steps could include:

- Require impact statements that incorporate corruption into project design. To encourage a better fit with the Central Asian context, Congress should require, and the OSCE encourage, all assistance projects to submit detailed “impact statements”—similar to the environmental impact statements required of corporations and government agencies before embarking on new ventures, and open to public scrutiny—before embarking on new assistance ventures. These assessments should outline the formal and informal economic and political workings of the context for the project, and describe in detail how issues of corruption and crime will be incorporated into program design, implementation and monitoring. While some of the USAID missions in Central Asia have recently mentioned the need to link corruption with their projects, few seem to have articulated a concrete idea how to do this. Assessments of these impacts should also be part of all evaluations during and after completion of projects. These evaluations must be truly independent—and bad news should be used to reassess and refine our efforts, not quashed.
- *Focus on content.* It is important that we do not fall into the trap of merely creating programs to address corruption for the sake of addressing the problem. It is important that the content of those programs—particularly in the law enforcement field—are truly useful. For example, in a recent conversation I had with a USAID official, I asked him to describe the content of the much heralded new anti-corruption training programs USAID is establishing in the former USSR. While he was eager to describe the overall design of the program, he was extremely defensive and unwilling, or unable, to describe the substance of the program. The content of training programs itself should be openly discussed as it will determine the success or failure of efforts to combat corruption on the ground.
- *Follow-up.* More resources should be provided for effective follow-up and a continued presence on the ground for all programs, perhaps particularly regarding law enforcement efforts. Only through close monitoring by regional experts can we assess how our training is being utilized and its broader ramifications. Yet if anything, follow up may be getting worse, as USAID has apparently cut back on resources spent on its own evaluations and reviewing the effectiveness of specific programs. Congress should mandate such follow up and require the GAO and each agency’s Inspector General to annually assess the success of these aid programs,

- Long-term and consistent funding for civil society: Congress should ensure that more long term and consistent funding is provided in a timely way for programs that help to build a civil society in Central Asia, and that work. Individuals and NGOs have made inroads into creating public constituencies focusing on environmental, social, or other issues of concern to the local populations; these groups address issues of corruption and public oversight obliquely through their advocacy of other issues. But these individuals and groups, on tiny budgets in the first place, also find that inconsistent funding greatly hinders their efforts. The annual, if not more frequent negotiations for basic funding that NGOs and smaller projects in particular must undergo—as well as the long delays in receiving funds, often until half way through the fiscal year—seriously undermine work that the donor community has so widely praised. Congress should consider providing endowments, or at least multi-year funding at defined levels, to programs such as the Eurasia Foundation, ISAR, and/or other well-conceived grass roots programs that can continue to support these small scale efforts.
- *Apply similar standards to all international donors funded in part with U.S. taxpayer contributions.* Congress and the OSCE should continue efforts to ensure that particular attention is also directed to the role and functioning of international organizations—such as UN agencies, the Asian Development Bank, the World Bank and others—as well as U.S. agencies in providing assistance to Central Asia. Our own work with international donors suggest that some may fail to observe the precepts of rule of law in their own work, and may inadvertently exacerbate corruption as well. To the extent that U.S. funding and personnel are involved, the success or failure of their programs often reflect as much on local perceptions of the U.S. as do our own,.

In conclusion, I would like to note that many of the above comments are not limited to the Central Asian states alone, and many of U.S. assistance programs have been quite useful. But the ramifications of incorporating more attention to corruption into all U.S. assistance programs in Central Asia today may be quite different from elsewhere in the former USSR. Today, Central Asia continues to emerge as a key part of a region “critical,” in the words of Secretary Albright, “to our own long-term security and prosperity,” but also at a difficult juncture. Despite almost a decade of U.S. assistance in Central Asia, many of our programs are still relatively in their infancy, providing more opportunity, perhaps, than elsewhere.

As I mentioned above, the OSCE declarations are an important step to address the twin cancers of corruption and organized crime. But the devil is in the details. Greater attention to the way programs are implemented on the ground might also be an important step to reduce challenges that will have a critical impact on the domestic development of these countries, on broader regional politics in this volatile part of the world, and on our own security here at home.

This is a U.S. Government publication produced by the
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Europe (CSCE).**

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