

**Commission on Security & Cooperation in Europe:
U.S. Helsinki Commission**

“Combatting Corruption in Bosnia and Herzegovina”

**Commission Members Present:
Representative Christopher Smith (R-NJ), Chairman;
Senator Roger Wicker (R-MS), Co-Chairman;
Senator Jeanne Shaheen (D-NH);
Representative Robert Aderholt (R-AL)**

**Other Members Present:
Representative Scott Perry (R-PA)**

**Witnesses:
Jonathan Moore, Head of the OSCE Mission to Bosnia and Herzegovina;
Thomas Melia, Assistant Administrator for Europe and Eurasia, USAID;
Srdjan Blagovcanin, Chairman of the Board of Directors of Transparency
International, Bosnia and Herzegovina;
Valery Perry, Sarajevo-based Independent Researcher and Consultant and
Senior Associate at the Democratization Policy Council**

**The Hearing Was Held From 2:00 p.m. To 3:28 p.m. in Senate Room 212-10,
Capitol Visitor Center, Washington, D.C., Senator Roger Wicker (R-MS), Co-
Chairman of the Commission for Security and Cooperation in Europe,
presiding**

Date: Wednesday, May 25, 2016

WICKER: Welcome. Welcome all. I am United States Senator Roger Wicker, and I'm happy to convene this hearing on the fight against corruption in Bosnia and Herzegovina.

Chairman Smith and I have visited Sarajevo together in the past, and I appreciate his continued leadership toward ensuring a stable and prosperous country.

The United States, as we all know, cares deeply about the sovereignty, stability, recovery, and future prosperity of Bosnia and Herzegovina. Since my first visit in 1995, the country has made tremendous progress. However, more needs to be done by the international community and Bosnian leaders to sustain these advancements.

Here in Congress, my fellow commissioners, Senator Jeanne Shaheen and I were among those working to nurture private-sector entrepreneurship in Bosnia and Herzegovina. Last July, we participated in a presidential delegation to commemorate Srebrenica's 20th anniversary. We heard from Bosnians eager to create and grow their own businesses. On the 20th anniversary of the Dayton Accords in November of last year, we introduced the Bosnia and Herzegovina-American Enterprise Fund Act to grow small- to medium-sized businesses throughout the country.

Unfortunately, corruption in Bosnia and Herzegovina is widespread. Recent news reports have highlighted scandals involving senior politicians and concerns that financial assistance to communities that experienced flooding in 2014 may have been misused. In its Corruption Perceptions Index, Transparency International ranked Bosnia behind all other countries in the region except Kosovo and Albania.

Demonstrative steps need to be taken by all levels of government to improve transparency and the rule of law. Left unchecked, corruption will hinder Bosnia and Herzegovina's integration into Europe and NATO. Twenty years after Dayton, there is no excuse for corruption and the risk it brings to prosperity for future generations.

I have raised these concerns with officials at the State Department. I encourage the administration to continue to support prosecutors and judges who focus on high-profile corruption and economic crime cases. The United States government should also continue its support for investigative journalism and nongovernmental organizations advocating reform.

We cannot gloss over the country's deficiencies. Transparency and the rule of law are critical pillars to the future prosperity of Bosnia and Herzegovina. The people of Bosnia have already suffered through so much.

I want to thank our government and the NGO witnesses for joining us this afternoon. The Helsinki Commission looks forward to your insights and counsel on the steps required to enhance transparency and the rule of law in Bosnia and Herzegovina.

Now, when other members arrive, perhaps they will have statements also, but we'll get right to witnesses.

Our first witness today is Ambassador Jonathan Moore, head of the OSCE Mission to Bosnia and Herzegovina. The ambassador is well-known to the Helsinki Commission, with previous postings not only in Sarajevo but also in Belgrade, Minsk and Vilnius. Ambassador Moore also served as a congressional fellow in the Office of the Speaker of the House, as a national security fellow at Stanford University's Hoover Institution, and as a deputy chief of mission at the U.S. embassy in Namibia. So welcome to Ambassador Moore.

Our second witness is the Honorable Thomas Melia, assistant administrator at USAID for Europe and Eurasia. Mr. Melia is also well-known to the Helsinki Commission for his time with the National Democratic Institute, Freedom House, and as deputy assistant secretary in the State Department's Bureau for Democracy, Human Rights, and Labor. Earlier in his career, Assistant Director Melia worked on the staff of the late Senator Daniel Patrick Moynihan. Given his extensive career focus on human rights and democratic development, we look forward to his insights regarding the issue of the day.

Next, Mr. Srdjan Blagovcanin, our third witness, is chairman of the board of the Bosnia Chapter of Transparency International. Transparency International has done much to expose corruption and to counter corrupt practices in Bosnia and Herzegovina, throughout Europe, and around the world. Mr. Blagovcanin has more than a decade of experience as a promoter of good governance and anti-corruption reforms, and of rule-of-law initiatives. I want to thank you for traveling to Washington to participate in this hearing.

And finally, Dr. Valery Perry, an independent researcher and consultant who has worked for various organizations, including the United Nations Office on Drugs and Crime, the U.N. Development Programme, the OSCE, and NATO in Bosnia and Herzegovina. Dr. Perry is currently studying ways to counter violent extremism in Southeast Europe and Turkey. The Commission looks forward to Dr. Perry's recommendations on ways to promote the rule of law and promote transparency in Southeast Europe.

So, we will get started with our witnesses right away, and we will begin with a statement by Ambassador Moore.

MOORE: Mr. Chairman, good afternoon, and thank you very much for this opportunity and for the attention that you and all the members of the Helsinki Commission give to Bosnia and Herzegovina. You know very well that everything in the Balkans is political, and that all politics is local. In that spirit, the OSCE team throughout Bosnia and Herzegovina is engaged across the country with partners at all levels of society to help foster stability, build respect for human rights, and put its citizens on the path to prosperity.

Let me give you some quick and concrete examples. Education was one of the many victims of the war. Communities and ethnic groups were divided, and so were their schools. OSCE in Bosnia and Herzegovina has engaged at all levels to support quality education and bring schools and students together.

Simply lecturing politicians and parents is not effective. As you know from your constituents, they have a right to be heard. We have found places where schools can be combined, meaning that children learn with each other and from each other, instead of being separated. And instead of trying to impose our will, we have negotiated successfully with those same parents, as well as with politicians and religious leaders, to tear down barriers. Zepce, a mixed community in central Bosnia, is a shining example of this.

Our OSCE mission is very active in the sector of rule of law. We are one of many partners fighting trafficking in persons. We have an extensive team monitoring war crimes cases, where more than 20 years after the war justice has not been done. In this, the mothers of Srebrenica are some of our most enthusiastic and effective allies.

Our network of local partners is also essential for combating violent extremism. Terrorist attacks in Bosnia and Herzegovina, much more than elsewhere, fundamentally threaten the country's stability. The 19 Coalitions Against Hate that the OSCE Mission in Bosnia and Herzegovina supports have already proven their value in calling for tolerance and community values instead of division and revenge. Thanks to the Coalition Against Hate in Zvornik, as well as to the mayor and Islamic community among others, the community there found positive common ground after the terrorist attack which occurred there in April of last year.

Our skills and achievements in those areas, and our large field network of 10 offices around the country, give us a clear view of corruption, the main topic of today's hearing. We are engaged with our domestic and international partners, including Transparency International, to bring public and media attention to the problem, to support reform efforts, and help lessen the burden of corruption on the people of Bosnia and Herzegovina.

It is clear that simply having laws and institutions is not enough. Laws must be implemented and obeyed, and prosecutors and judges must do their jobs. Furthermore, old patterns of political patronage must stop. A lack of transparency in hiring employees in public institutions, concealing budgets, and even enrolling university students on political grounds blocks opportunities for the country's talented young people and also obstructs, as we've seen, foreign investment.

We have geared up our rule-of-law team at the OSCE Mission to Bosnia and Herzegovina to monitor corruption cases, where there have been far too few convictions. And we strongly support the cause of greater transparency. The public has a right to know who is working in public enterprises and for how much. Both with regard to prosecution and transparency, Sarajevo Canton is a particular leader.

In conclusion, thank you again for this special opportunity. A personal note: We have seen each other on Capitol Hill, Vilnius and Minsk, Medjugorje and Dubrovnik, Belgrade and Tirana, Sarajevo and Srebrenica. Please visit us again so I can show you what OSCE in Bosnia and Herzegovina is doing, and introduce you to the people whose success is our goal. I very much look forward to your questions, Mr. Chairman, and to the views of my fellow panelists. Thank you.

WICKER: Well, thank you very much. And it has been a pleasure to be with you, Ambassador Moore, and to speak to individuals in these various locales one-on-one. There's nothing like a personal visit, and I certainly think when Senator Shaheen gets here she might mention what an honor it was to join with Secretary Albright and President Clinton and Congressman King in being part of the official delegation to the 20th anniversary of the Srebrenica massacre. And I believe we made a real contribution in a bipartisan and bicameral way in that regard. So thank you for mentioning that, and whenever I get a chance I do encourage my colleagues, to the extent that we can take care of business at home and for our constituents, that we do look to our role internationally.

And we'll move to Mr. Melia and take your statement, sir. Thank you for being here.

MELIA: Thank you, Senator Wicker, for the opportunity to testify today on corruption in Bosnia-Herzegovina and its region, and on the efforts of the U.S. Agency for International Development to address this challenge.

As Secretary of State Kerry said in his remarks at the recent Global Summit on Corruption in London, criminal activity literally is a destroyer of nation-states. Furthermore, corruption is a significant obstacle to national social, economic and political development, the focus of my agency.

Corruption leads to a weakening of democratic institutions, economic decay by discouraging investment, increased inequality, and deprives states of the resources they need to advance their own development. In the wider European region, states weakened by corruption are also more susceptible to malign pressure and manipulation from Putin's Russia, as any semblance of a rules-based order often seems to take a backseat to power, influence and greed.

Finally, endemic corruption threatens states by depriving them of the most important resource of any democratic government: the trust and confidence of its citizens. Where public trust is absent, there can be little expectation of cooperation by citizens with government to build resilient democracies, let alone to do what is needed to counter emerging threats like violent extremism.

For these reasons, the Obama administration sees addressing the problem of corruption and the need for open, effective representative governance as a significant U.S. national security priority. Understanding that, we in the U.S. Agency for International Development work with governments, civil society, independent media, political actors and citizens to build the capacity to limit the likelihood of corruption, and to uncover, investigate and punish corruption when it occurs.

It is a sad fact that corruption is a major problem throughout the Balkan region, and Bosnia is no exception. As you pointed out in your opening statement, Senator, Bosnia has a very low score on the Transparency International Perceptions of Corruption Index. More troubling, perhaps, is that according to this index, Bosnia is actually losing ground in its fight against corruption, its score having fallen by four points in the last three years. This is consistent

with findings from Freedom House's Nations in Transit data series on anti-corruption measures in Bosnia, and on democratic reforms more broadly, which show that the modest gains that were made in all measures peaked around 2006, with stagnation or backsliding in the years since.

All of this indicates that corruption in Bosnia-Herzegovina is bad, even by Balkan standards, and possibly getting worse. When one takes into account Bosnia's multiple levels of government and the fact that by some estimates the public sector makes up 50 percent of Bosnia's GDP, the depth of the problem and its impact on citizens' lives becomes all the more clear. Therefore, growing the size and strength of the private sector in Bosnia is of critical importance, both for the prospect of economic development and as a concrete means to limit the impact of corruption by limiting the influence of public officials and rent-seeking behavior.

AID does this in several ways. For example, we have a new Development Credit Authority agreement in place with three commercial banks, valued at \$30 million, as well as three older agreements valued at \$46 million. To date, these loans have enabled the banks to disburse loans to more than 120 private firms, supporting close to 2,800 private-sector jobs and generating over 500 new jobs in the private sector.

AID is considering new opportunities, as well. This week, a team of economic experts from USAID is in Bosnia assessing what other options may be available to support the country's economic growth and prosperity. This is in part in response to the proposal that you and other members of this Commission have made in sponsoring legislation to authorize an enterprise fund for Bosnia. Our team in Bosnia this week is looking at whether or not this would be the right approach, in tandem with looking at some of the other mechanisms that we have in place or might be able to put in place.

We're also working to make public finance more transparent and accountable, reducing opportunities for irregularities and corruption. We have projects that are working to expand electronic services for payment of direct taxes and otherwise in the procurement process in Bosnia so that there is fewer – there's more opportunities for competition and for small businesses to participate in government contracts, but also there's more transparency, which reduces the possibilities for corrupt rent-seeking.

Corruption also occurs when local producers skirt regulatory standards – think of watered-down milk and other diluted products – to keep costs down. And especially when it comes to medicines and things like that, it puts consumers at real risk.

We have a USAID project being implemented by Cardno Emerging Markets that helps to mitigate corruption by supporting agricultural producers to adopt stringent EU regulatory import standards. This program facilitated EU approval for a number of dairies to export milk to the EU, contributing to the economic growth.

On the demand side of the equation, we support watchdog NGOs and investigative journalism, including Transparency International, but also including a network of independent journalists who report on – who connect the dots as part of professional investigative journalism, and these civil society and journalist stakeholders have brought to light a number of corrupt

officials and their corrupt dealings. This advocacy is critical, since three-quarters of Bosnia's annual \$1.7 billion worth of procurements is done non-competitively, and hundreds of these procurements are awarded to companies owned or co-owned by elected officials.

We're also working to support the institution of a new special anti-corruption unit in the Bosnia-Herzegovina federal prosecutor's office, mandated by a 2014 anti-corruption law.

Organized crime often depends on the inability of law enforcement to track illicit activity across borders. So that's why the journalists and the NGOs who can cross borders and report widely on what their findings are play an important role in advancing the exposure and control of corruption.

In conclusion, though the threats posed by corruption in Bosnia to its economy, its public service, and to the state itself are great, we in USAID are working with our partners to limit opportunities for corruption, uncover them when they occur, and see that they are investigated and punished. We're doing this together with our European partners, who in some cases enlarge our AID programs with donations from other governments' donor agencies. We're also working closely with other U.S. government agencies, such as the Department of Justice, which provides expert advice and assistance to investigators, prosecutors and judges.

This effort will require significant political will from Bosnia's leaders, NGOs and citizens. Progress will not be easy, and constraints related to the structure of the constitutional system in Bosnia may limit the possibilities for dramatic or early progress. Nevertheless, we will remain engaged.

Thank you for the opportunity to testify, and I look forward to your questions.

WICKER: Thank you very much, Mr. Melia.

Mr. Blagovcanin.

BLAGOVCANIN: Thank you very much, Senator Wicker and Chairman Smith. Thank you very much for this opportunity for me to speak on what I consider a very important topic.

There are a lot of arguments to rightfully claim that corruption is the biggest problem today in Bosnia and Herzegovina. Direct damage to the country reaches hundreds of millions of dollars disappearing from the budget due to corruption. Indirect damage, due to a lack of investment caused by corruption, is difficult even to estimate.

The crux of the problem is political corruption, which involves the highest political and public officeholders. Twenty years after the war, Bosnia and Herzegovina remains a country completely captured by corruption, where it is virtually impossible to get any public service without having to resort to corruption.

Most relevant studies clearly indicate that in recent years Bosnia and Herzegovina has not seen any progress in strengthening the rule of law and the fight against corruption. Corrupt

political leaders hold sway over key institutions in the country. This allows them to use all economic resources of the country in their own private interests.

Political control over the judiciary and law enforcement agency allows corrupt leaders to be protected from prosecution. There are almost no cases of political corruption that result in judgments of conviction. Political corruption is ignored by public prosecutors because of political influence.

The crux of the corruption problems lies in how political parties are organized. Devoid of basic internal democracy, they operate in a mafia-like manner. Their basic principle of operation is based on the distribution of the spoils. Their booty are budgetary funds, public companies, and public institutions.

Political elites use clientelistic appointments as the main method of exercising control over institutions. In this way, political leaders create clientelistic networks, which they use to run the country. The real and almost unlimited power lies in the hands of a few ethno-political leaders.

The political leaders are therefore not interested in reforms and European integration. They have learned their lessons from Croatia and Romania, two countries that had to tackle political corruption and prosecute their political leaders as part of their process of joining the EU. Therefore, the interest of political elites in the country is solely and exclusively to maintain the status quo. Any progress in the reform implementation directly affects and limits their power, and expose(s) them to criminal prosecution. Therefore, their strategy is to rhetorically accept reforms, while in practice they only feign reforms.

Pervasive corruption affects human rights and freedoms. Cases of repression against the media and civil society remain widespread. Corruption within institutions prevents citizens from accessing justice. A backlog of over 2 million cases, in a country of 3.5 million people, means that the judicial system is completely blocked. Adjudication of disputes takes years to complete.

The consequences of corruption are felt by citizens on a daily basis. Corruption expose(s) them to additional costs to pay for health, education and administrative services. Also, corruption undermines economic development of the country, trapping the majority of its people in poverty and depriving them of employment opportunities. The way the market is organized has a pernicious effect on the private sector. Privileged access to public tenders and privatization processes is reserved for cronies.

Therefore, I want to reiterate what I said at the beginning: corruption is the biggest problem in Bosnia and Herzegovina today. Without progress in fighting corruption, it is not possible to make progress in the implementation of any other reform.

How to make breakthrough? As Fukuyama rightly pointed out, all reforms are inherently political. Therefore, it is about generating political will for reforms and not only strengthening capacity of the institutions. Leveraging and articulating the public's deep mistrust in the

government through citizens' active involvement in decision-making should be prioritized in order to avoid another wave of destructive protests like those of 2014.

Past experience shows that simply calling on leaders to undertake reforms and to take responsibility is not sufficient. Generating a genuine and articulated internal demand for reforms is key to achieving sustainable progress. Thus, I believe that reforming the way political parties operate and introducing internal party democracy would create conditions for dismantling the clientelistic networks run by political leaders.

Another important aspect of the reform concerns the strengthening and reforming of the judiciary. The judiciary must finally assume responsibility for prosecuting corruption. For this to happen, it is imperative to ensure that it is independent in its work and free from any political interference.

In any case, Bosnia and Herzegovina still needs strong international support in undertaking reforms to strengthen the rule of law and fight against corruption. This also requires that the current EU reform agenda be expanded to include a detailed and specific plan for combating corruption and strengthening the rule of law.

Thank you very much again for the opportunity to serve as a witness at this hearing today. And in addition to my written statement that I submit, I would like to ask you to include in the records a paper that I recently authored with Johns Hopkins University. I believe it's highly relevant for the discussion today.

WICKER: Without objection, it will be admitted into the record at this point.

BLAGOVCANIN: Thank you very much, Senator Wicker.

WICKER: Well, thank you, sir. And that was about as breathtakingly downcast a report as I've heard about a country in a long time, but helpful nonetheless.

Dr. Perry.

VALERY PERRY: Thank you. And I'd like to thank everyone for organizing this hearing today to put this very important issue back on the agenda.

We've heard a number of vivid descriptions about the situation of corruption in Bosnia Herzegovina today. And it's clear that the politics of corruption makes meritocracy impossible, weakening institutions and promoting brain drain of the best and brightest of the country. The politics of corruption also results in a system in which floods can devastate one-third of a country and no leaders or officials are held responsible or are held accountable for their failure to prevent, protect, prepare, or respond to such a disaster.

The politics of corruption weaken the notion of civil society, shared purpose and joint vision, instead strengthening informal practices, patronage networks and exclusionary practices that are particularly damaging to a country only one generation removed from the most violent

conflict since World War II. No political system anywhere is immune from corruption. Systems, structures and incentives either encourage or impede corruption. Societies ideally organize themselves in a way that minimizes corruption and maximizes the public good. This can be hit or miss anywhere and no design is ever perfect.

However, Bosnia's political economy was shaped by the war and by the Dayton Peace Agreement that ended it in 1995. Dayton was, and remains, a made in America product. For this reason, it's important that we're having this discussion. The problem of corruption in Bosnia is not a technical problem. It's a political problem. In the absence of fixing the core political problems that both prevent accountability and allow impunity, all of the projects, capacity building, technical support and money in the world will not overcome the fundamental inherent weaknesses and democratic contradictions at the core of Bosnia's unaccountable political system.

In fact, after two decades and literally thousands of well-intended projects, it's time to consider not only the diminishing returns of such approaches, but the broader negative impact of such efforts actually maintaining the illusion that a system that has failed for 20 years can in fact somehow be made to work. Continuing to prop up a system proven to be ineffective is akin to hoping that updating the software on your 15-year old computer will help its performance. At some point you need to recognize that the problem isn't the software but the hardware, and that no patches or workaround will improve its performance.

So what should be done? I'll focus on three specific recommendations today. First, a package of legislative reforms aimed at reducing the possibilities for official corruption, abuse of office and collusion should be developed and supported. This would include laws related to conflict of interest, political party financing, and freedom of information, among others. And Transparency International has written on this in the past as well. Laws, by-laws and statutes regulating public enterprises also need to be urgently overhauled in line with available guidelines and international good practice. Many existing USAID and other US-funded programs – ranging from support for investigative journalism to critical justice sector reform – can be better coordinated and recalibrated to support this effort.

It's important to recognize that there will be political and, in turn, institutional resistance to such reform, and every effort will be made to evade proper implementation. We've seen this happen for years. However, there would be overwhelming public support among the citizens. Further, such an initiative would be very much in line with the European Union's own reform agenda, and in fact the notion that the country's business environment can be improved without improving this environment of corruption reflects a fundamental misunderstanding of the political economy in Bosnia today.

Second, the lessons of unsuccessful past privatizations in Bosnia must be studied, learned and applied by domestic and international interlocutors alike to understand both their role in further strengthening an oligarchical class of political and party leaders, and to understand why part of the country that has privatized nearly all of its public assets, the Republika Srpska, has in fact failed to enjoy any broad and durable economic or social benefits after such privatization. Future privatization should be put on hold until such time as there are reforms to the broader ecosystem to ensure fairness and transparency. Otherwise, the country risks seeing a further

enriched and emboldened political elite, accompanied by questionable foreign investment in enterprises which is often more about real estate and asset stripping than about building a robust economy for the people of Bosnia.

Third, it's critical to understand how the election system in Bosnia contributes to the lack of accountability and makes it not only possible, but natural, for politicians to be elected and reelected without delivering anything to their voters other than limited and targeted patronage. Much has been written about this issue. Current election law reforms being discussed will in fact make it harder for new or small parties or independents to participate in the political system. This will further entrench the dominant political elite and party machines that have held control for a generation, further eroding the checks and balances needed to fight corruption.

Substantial election reform is needed so that citizens actually know who really represents them at every level of governance and can vote them in and out of office; so that they have constituent services offices in their community that they can address with their interests and concerns, and, most importantly, to ensure that people in Bosnia Herzegovina have the chance to be represented on the basis of being a citizen, not on the basis of being a Bosniak, Croat a Serb, or the always marginalized others. These reforms could effect substantial change, and in fact do not require a Dayton II. In fact, any elite-driven, foreign-sponsored effort to try to engineer such reforms would very likely create a system even worse than the one we see today. Instead, reforms need to be citizen-focused, combining coordinated top-down support and bottom-up grassroots activity to create momentum among all political players and squeeze the elites to listen to their constituents.

Bosnia Herzegovina is a small country of less than 4 million people. And it's fair to ask why the U.S. should continue to spend time on it, considering the many other foreign policy priorities and humanitarian crises facing the world today. The answer is simple: If the U.S. and its partners cannot support the development of a functional and accountable system in Bosnia, how can it possibly hope to support positive and peaceful political outcomes in other parts of the world? If the U.S. and its partners do not learn the lessons of failed post-war power-sharing in Bosnia, there is the potential that similar foundational weaknesses will be introduced into other areas in crisis around the world, creating an illusion of peace and stability while corruption and spoilers flourish, social discontent is manipulated and society becomes entrenched in a state of frozen conflict.

Finally, the same systemic failures and factors that allow corruption and unaccountable governance to thrive in these frozen conflicts actually foster the civic marginalization, social alienation, and in the worst cases enable the rise of extremist groups and radicalized individuals seeking extra-institutional remedies to political and social maladies. In closing, corrupt politics and the pain of an economic transition which has delivered very little benefit to the majority of people have not only reinforced public frustration with the post-war situation, but has revealed increasing dissatisfaction among people with the very ideas of democracy and capitalism, promotion of which have been some of the core U.S. foreign policy goals for more than two decades.

It's not too late to reverse these recent negative trends, though the clock is ticking as social divisions have reified and hardened in the divide and rule politics of the past generation. More ethnic politics and virtual partition will not help. Laws, strategies and initiatives that seek to hardwire accountability into the system, backed up by meaningful conditionality and enforcement mechanisms, can. I'm hopeful that this hearing will put this discussion back into the spotlight, and generate momentum for the change that's so desperately needed if the promise of Dayton Bosnia is to be fulfilled. Thank you.

WICKER: Well, thank you very much, Dr. Perry. And I do think everyone in the room can agree that the statements made have been vivid today. And obviously we have a lot of room for work.

It's my pleasure now to recognize Chairman Chris Smith for whatever opening statement he might have.

SMITH: Thank you very much, Mr. Chairman. I would ask – in lieu of the opening statement, ask consent that it be part of the record since we're well into the hearing.

WICKER: Without objection.

SMITH: And I thank you, because this hearing was your idea. I thank you for chairing it and for bringing us all together. This is extremely important and very, very timely.

Just a couple of questions. And I'm sorry I missed some of the testimonies. We had votes on the House floor - Mr. Perry as well - so that's why we are late. Mr. Melia, in reading your testimony you've made some excellent points about the importance of journalists. As we all know, in Azerbaijan, a Radio Free Europe stringer, or reporter, Khadija Ismayilova, was released. She had a seven-year prison sentence. We actually had a hearing of the commission on her and the concerns that an American – you know, a woman writing for Radio Free Europe was arrested because she exposed just that, corruption, for everything we're talking about today. We're awaiting more details about what has happened, but you talked about your journalist initiative and how important that is. And I'm wondering how unfettered those journalists really are. Are they able to report robustly, go anywhere, report any time without fear of retribution, physical or criminal liabilities?

Secondly, let me ask a question about the about the noncompetitive contracts you talked about, which obviously are a grave invitation for fraud of the highest order. All of you might want to speak to this – in our efforts to promote reform are we pushing low-bid and, even more importantly, best value? We've found in our procurement here in the United States that it's not always necessarily the lowest bid, but best value where objective criteria used by the procurers to ensure they're getting the best deal from competent vendors? And it seems to me, since so many of these contracts are noncompetitive, we've learned so many lessons in America about sole-source procurement. Sometimes it works. Sometimes it absolutely does not. And many times, particularly at the state and local level where there's even less transparency in the United States, a lot of people make a lot of money illicitly using noncompetitive sole-source contracting.

Third, several weeks ago I met with Ms. Subasic from the Association of Mothers Action of the Srebrenica and Zepa Enclaves. She herself lost her husband, son and 20 others at Srebrenica in July of 1995. Her frustration today regards the seeming impunity of hundreds of people, and estimated 850, implicated in the violation of international humanitarian law during the war who had their cases transferred from the international tribunal to the Bosnian courts. To this day these cases have not been processed, not one of them, which is outrageous on the face of it. And my question would be the extent to which corruption in law enforcement may be playing a role in that prosecutorial discretion where they do nothing.

Secondly, on trafficking, a similar issue. The numbers have gone down in terms of prosecutions and convictions. We're awaiting the most recent TIP report. It will come out shortly. We'll get a better feel for where Bosnia is. But it was tier two last year. And the prosecution side of the report points out in 2014 one prosecution, no convictions in 2014. That's not a good record. And we know in the United States, every country, the commodification of women, the selling of women is increasing not decreasing. We just had a major briefing of that last week from some of the NGOs that are involved, including ECPAT which is the End Child Pornography and Trafficking organization. So I ask you what role corruption might play in that.

And finally, Mr. Chairman, when we were at one of our OSCE Parliamentary Assembly meetings - I believe it was 2000, in Bucharest - it was all about corruption. As you pointed out, Secretary Kerry's statement about how it ruins democracies. And that's exactly what that entire conference was about, how it hijacks democracies and is the equivalent of the worst of the worst of human rights abuses.

Mr. Melia, if you would start.

MELIA: I can take a crack at a couple of those. I think Ambassador Moore and the others may be better suited to respond to your latter couple of questions.

Let me say on journalism, you asked if the investigative journalists are unfettered and able to do their work. They are to a large extent, although a lot of their work doesn't get reported in the mainstream media. There's a fair amount of sensationalist faux-investigative journalism where scandals of one politician leaking information about his or her rival pops up in the newspapers or on television. So and that kind of clouds the discourse. The work that we support through the RIJM, which is the Regional Investigative Journalism Network, which is all connected to the larger worldwide Organized Crime and Corruption Reporting Project, which got so much attention with the Panama Papers release in recent weeks, is dedicated to professional, fact-based, triple-checking your sources kind of journalism.

It's led by an American reporter from the AP named Drew Sullivan, who has trained a generation of journalists across the wider region, including Khadija Ismayilova, who you referred to. It was great news today that she was released on the eve of her 40th birthday tomorrow. I don't know if that was coincidence or not. But I think the worldwide campaign against her unjust imprisonment had a lot to do with it as well. So she's a part of this network. It was founded in Sarajevo 20-some years ago, and grew region-wide from this very place. And so their work is maybe not always on the headline evening news in Bosnia, but it does get out and is

around and is a constant fact-based source and a key reference point. So it does have an impact, even if it's not always on the evening news.

On procurement, which as I think we've all said in different ways and, as you know, is where political corruption interfaces with economic perversion of the marketplace. In Bosnia, as in a number of other countries from Ukraine throughout the region, where we have willing partners in legislatures and in ministries we do have a number of programs – and this is true in Bosnia – where we are helping to build out systems for increasingly transparent electronic procurement so that it's out there what's being sought by a government agency. On the one hand, it enables additional bidders to get involved, so small businesses out of town get a chance to get in the marketplace which contributes to lowering prices in some cases. But it also is more clear about what the government is buying, and for how much.

This is a work in progress. These systems get designed, get legislated, get put out there in regulation. I would say in all these countries, including in Bosnia, we're in midstream in trying to help build them out and get people trained to use them, and then increasingly put more and more stuff online into these systems. So I think the electronic age has many ups and downs in our lives, but I think in this one regard e-procurement is an important step for combatting corruption.

SMITH: Yes, Ambassador Moore.

MOORE: Chairman Smith, thank you very much for the opportunity. We look forward to seeing you back in Bosnia again. Enjoyed our trip together to Medjugorje. Let me just make some quick responses. First of all, when it comes, of course, to media freedom OSCE works very closely with a citizen of Bosnia Herzegovina, Dunja Mijatovic, who is in an additional year as OSCE's representative for freedom of the media. Our mission and our media team work very actively directly with journalists of course in editorial offices and all around the country to support them.

There have been some very concerning cases of raids of editorial offices, including by police armed with weapons, the seizure of computers, as well as individual assaults against journalists, most recently in the town of Visegrad, when journalists trying to report on a rally of the so-called Chetnik Movement were assaulted. These cases need to be investigated and prosecuted. The authorities responsible for rule of law as well as the police need to keep in mind what the rights and freedoms of journalists are. We use our voice hopefully eloquently, but we have certainly not solved the problem. It is a big part of what we try to do when it comes to media freedom issues.

On transparency, we had the chance slightly earlier to talk about absolutely the need for transparency so that people know what is being spent in the name of the citizens, how many of their taxes are going to whom, what the salaries are, who gets what jobs. I pointed to Sarajevo Canton as a particular good example of this. Working with the media, they released salary information, the names of key employees in all kinds of public institutions. And although people know that corruption is everywhere, it was extremely interesting for the public to actually have the facts to see how outlandish and excessive a number the salaries were. We very much

encourage that. And that example in Sarajevo Canton needs to be repeated throughout the country.

And thank you also, of course, for mentioning Munira Subasic and other Mothers of Srebrenica. We spent a tremendous amount of time with them. Munira asked for the support of the OSCE mission. And just a couple of weeks ago we co-sponsored a conference where we also brought in Serge Brammertz, the chief prosecutor of the court in The Hague, to talk about exactly this sort of issue. There are too many unresolved cases. The war ended more than 20 years ago and Munira and the other mothers, the other survivors, and the name of the people – victims of genocide and war crimes, they need to be – that needs to be respected.

Criminals need to be brought to justice. The OSCE mission supports this process, we're working with judges and prosecutors at different levels, we've engaged a very comprehensive expert-level analysis to make sure that the courts and the prosecutors, especially at the state level, are doing their job. We hope to have the results of that in the near future. It is unacceptable to all of the victims and to us that more persons have not been brought to justice there.

SMITH: Did anybody want to touch on trafficking and the decrease in prosecutions and convictions?

MOORE: With regard to trafficking in persons, yes, you're exactly right. Of course, you know very well that the report will be coming out soon. I don't know what the content of that report will be, since I am coming from OSCE structures. But on all levels, we want to see more prosecutions brought about. Sarajevo Canton is a good example of this because young people and women who have been victims have not felt comfortable coming forth with testimony and speaking directly to prosecutors.

With our assistance, the prosecutor in Sarajevo Canton has specifically made space and reached out to victims, so that they feel more comfortable coming into the office and telling their stories. They're concerned that there might be retribution against them. And the prosecutor there, Dalida Burzic, has done an excellent job of creating a welcoming atmosphere so that victims of trafficking can also feel that their rights are upheld.

SMITH: Thank you, sir.

WICKER: We are joined by Representative Scott Perry of Pennsylvania, Representative Robert Aderholt of Alabama, and my colleague Senator Jeanne Shaheen of New Hampshire.

Representative Perry, do you have questions for the panel?

SCOTT PERRY: I do, sir. Is now the time?

WICKER: Now is the time.

SCOTT PERRY: Excellent. Well, I apologize also for being late and missing your testimony – *Dobar Dan!*

I know the discussion is generally about corruption, but I do have something I think potentially relates to at least some types of corruption, if not the corruption of society in Bosnia, and particularly with their security situation, in particular the security risks that relate to the infusion of Saudi financing for things such as the King Fahd Mosque, which was associated with the teaching – I guess at least the teaching - and some of the rhetoric for the attacks in Paris and, of course, some of the ammunition and the weapons came directly through Bosnia. And I'd like to hear some comments on that as well.

And, Dr. Perry, I'm sorry I missed your presentation. We just went over trafficking, but I'm interesting in your solution set for governance. When I was there, I was there with the Stabilization Force. And I know it was stabilized. Nobody saw that as long lasting or efficient in any way. And quite honestly, I'm amazed that it's lasted as long as it has. But I'd like to know your perceptions – as shortly as you can, or as briefly as you can – about what America's involvement in that regard should be. With those two questions...

WICKER: OK. Shall we start, then, with that question and then we'll go to the issue of the issue of the influence of foreign money? Dr. Perry.

VALERY PERRY: Thank you for getting right to the core of the crisis of political accountability in Bosnia. Over the last 20 years there have been a number of different efforts to try to reengineer the structure and the politics and the constitution of Bosnia. And none of them have succeeded for a variety of different reasons. Now there are a lot of different actors who feel that the main way to move the country forward is by EU accession. And everybody does agree that EU membership would be good for the country. It's just not going to happen anytime soon. It took 12 years for Croatia to finish its accession process. And Croatia has agreement that it's a country. And that's something that's still lacking in many ways in Bosnia Herzegovina.

However, it doesn't mean that it's impossible to try to look for some fundamental changes in the system in Bosnia. For example, there's a number of structural reforms that could make a big difference and also demonstrate to citizens, to civil society, to regular people that change is possible. For example, there is no ministry of agriculture of Bosnia Herzegovina, no state-level ministry of agriculture, which has led to numerous roadblocks in terms of people being able to export their goods. While there has been a lot of technical support to try to help dairy farmers and others to be able to meet the criteria at various levels to export their goods, in a market of 3.5 million people, the notion that there's no concerted statewide agricultural development strategy is, quite frankly, a bit ludicrous.

And what's even most frustrating is that there is quite broad public support for this. A majority of Serb citizens in the Republika Srpska surveyed recently, but also going back to 2013, support this because they recognize that they're losing from this current system. Developing a set of reforms to the constitution to allow for a ministry of agriculture would demonstrate that this is possible and that the sky does not fall, that people are no more or less a Bosniak or a Serb or a Croat than they were before. And it would also show civic groups, NGOs, that change is

possible and that they can drive it. And so I would want to support that. There's other low-hanging fruit related to health care reform, which would enjoy very broad support, and a campaign on trying to ensure and promote health care mobility around the country, which doesn't exist, would be another fundamental structural change that would be possible.

These structural changes would also, in the longer term, be complemented with some fundamental changes to the way that people elect their representation. If you ask the average Bosnian citizen who represents them in the state or entity or cantonal parliaments, they can't give you a name. Sometimes they'll say, well, this party does, but they can't tell you somebody who they can hold accountable. And this is a reflection of the system, the election law, and the constitution, which the parties, quite frankly, like because this way it's harder to be voted out for failing to deliver for your constituents.

The one layer of government that does function the best is the level of the municipality. And I don't think it's any surprise that mayors are directly elected. The problem is that if you keep the system in place right now, the mayors hit a ceiling. There's only so much they can do because almost all of the money is controlled by the ethno-dominated cantonal and entity budgets. And it's almost manipulated.

We saw some very interesting examples of some very good mayors who responded appropriately in the 2014 floods. And those who sought to try to work across party, ethnic lines were often punished in the media by a number of politicians who want to keep these issues alive. So again, I would argue for a medium-term effort to look at some structural reforms in the short term, to create some new state-level competencies supported by citizens, but then also try to find a way to make sure people know who represents them and that there's actual responsibility and accountability in that relationship.

WICKER: Before we get to part two, Dr. Perry, Mr. Blagovcanin suggests that laws need to be amended with regard to the political parties. Apparently you agree with that. If both of you could comment on what specifically is wrong with the laws governing now the parties operate, and how does that contribute to corruption?

VALERY PERRY: Sure. One law is the law on political party financing, which creates an awful lot of ambiguity about money coming in from public enterprises and other sources, and then funding not the public good and not politicians, but funding party machines in a very cronyistic manner. And so this could very easily be amended. When you look at a number of other pieces of legislation, there's no requirement for transparency. So again, as was noted earlier, it's very difficult for people to find out what's going on and to really be able to hold people to account in that way.

I would also now note that when we're looking at some of these issues of political party democracy inside the parties, because of the way that electoral units have been gerrymandered following the war, creating generally ethnically clean election districts, this means that there's never ever any reason to be moderate or to put your hand across to the other side. In fact, it behooves you to be extreme and to keep ethnic fear and tensions alive. And until that changes, we're not really going to see anything positive happening. And we've had a couple interesting

examples where a political party will lose a substantial number of municipalities in local elections and there will be no change in leadership in that party. This is not normal politics. Usually when a party substantially loses there is change in the leadership at the top. But that does not exist because it's still a very clientelistic system. And I'm sure Srdjan would be able to provide some more light on that.

WICKER: Mr. Blagovcanin, is it public money or is it donor money, as Dr. Perry put her finger on the problem?

BLAGOVCANIN: I would say it's public money, but in addition to that –

WICKER: It's taxpayer money?

BLAGOVCANIN: Exactly. But in addition to that, I would like to add to what I mentioned in my statement, that I believe that the key problem when it comes to political corruption is how political parties are organized. Without internal democracy, political parties are functioning like mafia structures. Their only goal is to secure spoil. And spoil is public finances, public institutions, public companies. So I believe that introducing legislation which will provide for internal democracy inside the parties would be extremely important to democratizing the country as whole.

WICKER: Now, before we move to Senator Shaheen, Ambassador Moore, can you help Representative Perry and the panel out on the issue of the influence of foreign money coming in?

MOORE: Absolutely. Mr. Perry, thank you very much for your question on the issue of radicalization. Terrorist attacks in Bosnia Herzegovina, much more than in many other countries, fundamentally threaten the country's stability. We have recent numbers which are probably low estimates that there are 130 citizens of Bosnia Herzegovina in Iraq or elsewhere in that region, part of Daesh or other forces. About 43 of them have been killed in that fighting. About 50 have returned. And they're being tracked very carefully, although I have to say that sort of work is not the kind of work that OSCE directly engages in.

Radicalization is a huge problem. There are certain questions, obviously, about how some of the funding gets to Bosnia Herzegovina. There have been huge theoretically humanitarian donations to fund the building or rebuilding of religious institutions, houses of worship, in different parts of the country. The issue of fundamentalism and increasing radicalization, especially through social media, the Internet, in some cases people who've returned from Syria who are trying to recruit people to go to Syria, is a very comprehensive problem.

At the same time, I would say it's slightly outside the scope of the OSCE mission, which doesn't cross lines into intelligence work. Our focus is on working more directly with the public. And we've had a lot of success with local communities where mayors and neighbors and the Islamic community, Catholic and Orthodox communities, are very aware of what's going on in those communities. They come together to talk about community values. That's something actually the OSCE mission in Bosnia Herzegovina supports – 19 coalitions like that around the

country. After some concrete terrorist attacks like the one in Zvornik in April last year, the community came together again. Instead of calling for revenge, Orthodox and Islamic leaders sat down together and said: This is not what our community is about. We have to investigate this. We have to move forward. We have to come together. So it is a comprehensive issue.

In terms of exact sources of funding, some of them are private, some of them come through, of course, states. You mentioned the interest of some countries in the Middle East in Bosnia Herzegovina. There are, of course, individuals – that seems to be the bigger problem – who were radicalized, who came – in fact, I'm sure you're very familiar from your military service with those who came to Bosnia to help fight on that side – and some of them have stayed. Not enough of them have left. But the level of radicalization in society is a huge problem. And again, while any terrorist attack has terrible consequences for the victims, in Bosnia Herzegovina it could really tear the country apart. So we pay very close attention to this and, speaking on behalf of the OSCE mission, particularly at the local level, as well as with the Ministry of Security.

WICKER: Before I recognize Senator Shaheen, Dr. Perry, have you observed, as have I, that mayors trained in New Hampshire are really better mayors in Bosnia and Herzegovina?

VALERY PERRY: Perhaps we should start sending more politicians to train. No, it is interesting, though, that for the past two decades, there have been a lot of different capacity development efforts to try to build a new cadre of political leaders. But there's very little that we can see that has actually transferred into the day-to-day business of politics. It's very difficult to make that leap. Either people go to New Hampshire, fall in love with it, and decide to never leave and never go back to Bosnia. Sometimes if they go back to Bosnia, they seek to try to change things from within, but they get so frustrated because they're not actually able to operationalize the new things they learn, that they either give up or try to go and get a job at the embassy or the OSCE or someplace else that's a little bit better than the private sector.

And so it's very difficult to try to find examples of individuals who have been able to make it past this ceiling to try to really change the level of discourse in politics. And this is after 20 years and probably thousands of people trained by either American or other funds.

WICKER: Senator Shaheen.

SHAHEEN: Well, for those of you who don't know, Senator Wicker was referring to the mayor of Srebrenica, whose family fled to New Hampshire after the massacre and who went back and became mayor. So we're very proud of him.

I want to follow up on that line of questioning because I think you mentioned, Dr. Perry, that there are enclaves of the different ethnic groups and that sort of has gotten baked into the way government works in the country. How much of that is the result of the Dayton Accords and how much of it can actually be changed at this point?

I mean, I was struck – and I'm sure everybody on the panel has been to the country – but I was struck when I was there that much of the challenge around getting people to work together

seemed to be based on the fact that when the peace was set up after the war, the country was so divided by ethnic groups that it was very hard to think about how to get people to work across those ethnic lines for the benefit of the whole country.

So I wonder if you could speak to that and to the extent that that's baked in, and is there a way to fix it. You talked about some reforms, which I think make a lot of sense, but it sounds like those are sort of tinkering around the edges.

VALERY PERRY: Sure.

At the 20-year anniversary of Dayton event in Dayton this past November, it was interesting to see that pretty much everyone who was there noted that when they were working on the Dayton Agreement and the Dayton constitution, that they never thought that the structure would remain in place 20 years later. There was always an assumption that the issue would be readdressed and overhauled at some point because they recognized the inherent contradictions within the draft even as they were doing it.

But that fundamental reform hasn't happened, and you're right that we've ended up seeing instead municipalities, cantons, entities and then the state level, which at the lower levels have really been dominated by various ethno-national issues, meaning that there is no sense of political ideology in the country in terms of left-right. It's just, you know, they are crooks, but they are our crooks and people feel a need to try to protect that in that way.

What's frustrating is that while many people look at the war in Bosnia and say it wasn't an ethnic conflict; it was a conflict about power and influence in which ethno-national issues and religion were manipulated by the leaders fighting it, 20 years later we've seen that a number of these identity issues have begun to harden in a way that will not be fruitful for the long-term future of the country. There is no incentive for cross-group coordination. While there's nothing technically preventing a number of municipalities in Herzegovina from working together to develop a business enterprise zone, the political parties don't want to see it because they want to maintain the control that they have within the current environment.

And what's most troubling to me is that when I see people who are my age, different people who are parents, et cetera, they remember what joint life was like. They remember what it was like to fall in love with someone from the other side and to go to concerts and to travel. Their children don't get that. There have been a number of different efforts, mostly with foreign funding, including the OSCE, to try to bring kids together on different study trips, et cetera. These are never, ever done by the local officials, and they're never done with any real effort to try to change the education system.

And I think this is one of the big risks is that the problem in the education system is not about school buildings. It's about what children are learning. Right now we have a system where there is a Catholic curriculum, an Orthodox curriculum and a Muslim curriculum, and about 40 percent of this content is different. So children are growing up and coming of age and never being able to see that they're citizens of the same society. And until we tackle what children are learning, the future looks grim.

And I would also just point out that this is very much related to radicalization, because the lack of having any critical thinking, media literacy and analytical thought mainstreamed into the primary and secondary systems means that a lot of people, especially in poorer rural areas, don't have the skills to try to counter effective grooming by radicals.

And so, unfortunately, educational reform is necessary in a substantial way, and the politicians and political parties will resist it because the best way to maintain control is by making sure that citizens can't question and don't know how to question that they're not being served.

WICKER: Representative Robert Aderholt is chairman of a subcommittee on the Appropriations Committee in the House and is vice president of the OSCE Parliamentary Assembly.

Robert, we're glad to have you join us.

ADERHOLT: Thank you, Senator. It's good to be here. Thanks for everybody being out for this hearing.

Dr. Perry, you mentioned something I want to just follow up on. A little earlier you talked about the way that districts are drawn and you said they're drawn in such a way where there is no encouragement to reach over to the others. Expand on that a little bit and talk about how these districts are drawn and if there is any way that you see that this could be changed for the future.

VALERY PERRY: Unfortunately they largely reflect the ethnic cleansing that happened during the war and then the legitimization of all of these various units of administration after the Dayton Agreement.

The sad fact is a lot of municipalities and regions that were once quite mixed are now more or less homogenous. And that's maintained and it would take some time for that to reverse. Return has not been complete because of the many political impediments over the past 20 years as parties have sought to maintain homogenous districts. I wouldn't seek to start trying to change lots of lines of municipalities, et cetera, but there are different ways that you can change the vertical integration among the various levels of government to try to have more political responsiveness in terms of the election systems.

Right now nobody needs to campaign on issues saying, you know what, I cleaned up the community park, I put lights in and I've gotten a new highway paved to get us to another place. They basically campaign on issues of us-versus-them ideology and then also on patronage, basically promising that they'll continue to pay privileged pensions to veterans of their group, that they will continue to pay various different payments and subsidies to their people, as opposed to an actual issue-based campaign.

And unfortunately, I'm pessimistic that this can change because over 20 years a lot of very smart people, from the National Democratic Institute, from a number of different USAID agencies, European agencies, have sought to try to change this to create an environment where issues are front and center. And after 20 years it really hasn't changed, and the elections we saw the past couple cycles were more of the same. And in fact, the election results in 2014 took us back to the same parties that started the war in 1991 and 1992. So I think there's a need to sort of try to fundamentally look at where are these points that are keeping this ethnic system in place?

ADERHOLT: So where we would see this is like, for example, in Republika Srpska. When the parliament meets in Banja Luka – I think it's Banja Luka where the Republika Srpska meets – they would have the districts drawn within the Republika Srpska are very ethnically —

VALERY PERRY: More or less. I mean, it's one very interesting thing right now is that while a census – the first postwar census was conducted in 2013. The results have not been released because the various political parties can't agree on how the data should be counted or analyzed. And this is because they really don't care about some of the basic census issues we would think of: how many people live in a family, what their roof construction is made out of and whether they get their water from a well or from a sewer system, a public system. All they want to do is try to consolidate and formalize the ethnic redistribution that has happened over the past number of years.

In Republika Srpska you do have some areas where return has been moderately successful. However, it's still much more of a majority-minority relationship as opposed to any sort of joint ideologically driven, issue-driven coalitions at any level of government. And unfortunately, as time has passed and as return slowed down, and in a number of cases has even reversed, it's getting harder and harder for people who are either a minority or who choose not to define, to try to find any political home and influence the system, which is creating a cycle where dominant ethnic politics is getting even stronger instead of weaker.

WICKER: Mr. Melia, you mentioned that you are – I guess USAID is looking at S.2307, the Bosnia and Herzegovina-American Enterprise Fund Act, authored by Senator Wicker and Senator Shaheen, and that you're not quite sold on it yet. As you know, this bill would authorize an enterprise fund modeled after the support for Eastern Europe Democracy Act of 1989. It would fund small and medium-sized enterprises. It would be directed by a board of six American investors. USAID would be involved. It doesn't score, I assume, the appropriation bill funding it would score but it is presently scored as having no cost.

What needs to be done, in the opinion of any of you that are familiar with this act, to make it work? And is it an opportunity for us to put some conditions there that the enterprise fund would kick in if progress or steps were made in the direction of a more pluralistic approach to government and concrete steps to avoid corruption?

MELIA: Two kinds of thoughts in reaction to the proposal come to mind. One is that, to the extent that a new enterprise fund might make sense – and it might – I would ask the question about whether it should only apply to Bosnia and Herzegovina. As we look around the region,

we've had these enterprise funds in Albania, in Bulgaria and Romania, and then further to the north in Hungary, Slovakia, Poland and the Baltics. So one question would be: why only Bosnia and Herzegovina? There are other countries in the neighborhood that might be in the same situation. So that's one question.

The second question or second set of issues is really about what the need for it is in Bosnia and/or in other countries. That's why we have a team on the ground now of finance experts who are doing dozens of interviews with people in the business world, in the banking sector to explore the credit marketplace there. In part, this is driven by the bill. We wanted to get a fact-based assessment in order to inform our reply to it or our suggestions on how it might be refined.

WICKER: And we appreciate that.

MELIA: So that assessment is underway now. We have a team out there that will be back in the next week or two and we'll be putting together a report that we'll share hopefully before the legislative process advances, you know, much further.

We have in place five finance mechanisms in Bosnia and Herzegovina. They're called Development Credit Authorities, which essentially provide kind of backstop loan guarantees for banks to invest more readily in small and medium enterprises and in privatized businesses. They have not been fully subscribed. That is, there's money on the table that could be lent out to businesses that has not been borrowed.

Part of the assessment is looking at why that is, why there's money available to be invested in businesses and the businesses aren't asking for it. It may be administrative or other hurdles. It may be a lack of awareness of how credit works. Obviously the lending authority is different than an equity investment that was the hallmark of the earlier enterprise funds.

They actually bought stakes in companies and, through that ownership share, would provide technical assistance on corporate governance and business development and all that. So it was more than just a loan from a bank. It was a loan with - or it was an investment with - benefits, and it came from the know-how of the people involved in the enterprise funds.

So that's the difference. If there's this alternative model, which is the enterprise fund as opposed to the credit authority, that would make a difference in way that makes sense in Bosnia, then we'd be -

WICKER: Have they worked anywhere?

MELIA: Yes, they've worked in several places. If you look at the -

WICKER: But where could you point us?

MELIA: Well, nearby in Albania.

WICKER: Albania has been a success, on balance?

MELIA: There's been a number of businesses were jumpstarted and rebooted and succeeded. And the fund then sold off its shares and, you know, kind of cashed out at a certain point and the businesses went on their way.

WICKER: Was it 30 million (dollars)?

MELIA: Albania, I don't recall offhand. It may have been 30 million (dollars) was put in there originally.

WICKER: OK, well, let us know on the record other success areas.

You know, why Bosnia and Herzegovina? Senator Shaheen, I think it's for the same reason we're having this hearing, for the same reason that we have a capacity crowd in here, it's that the very power and influence of the largest superpower in the history of the world was brought to bear to end a conflagration and to see if we can make pluralism work in the area that gave rise to the term "balkanization."

Ambassador Moore, do you have any thoughts to add? I'm sure you don't, but – (laughter) – let me pull them out of you.

MOORE: Mr. Chairman, I'm a diplomat; I always have thoughts. Thank you for the opportunity.

WICKER: And on the one hand – (laughter).

MOORE: I only have one hand.

WICKER: OK.

MOORE: I swear the oath to the Constitution of the United States with it.

To be clear, there are some success stories. And we've found it very successful to focus on them. Senator Shaheen made reference to the mayor of Srebrenica. The mayors in towns like Zepca and Zvornik and Bijeljina, they are multiethnic communities. They don't have the balance they had. Valery is exactly right to point out that there hasn't been enough return, but you have Serb majors trying to talk about the rights of their Bosniak fellow citizens. Again, I quoted the former speaker: All politics is local. Absolutely. All the more so in the Balkans.

A way to focus and highlight and perhaps fund – whether it's brick-and-mortar projects or it's to support entrepreneurship in those communities where mayors have reached out to all of their fellow citizens to try and make a difference, to try and counteract all of the tensions and the divisions that were, it's true, enshrined in the Dayton Agreement - there are some positive examples that we can build on. When those opportunities are shown in a certain set of communities, they can be seen elsewhere.

Reference was made earlier to the fact that before the war everybody lived together. Well, yes, they did but they still went to war. Just having them live next to each other isn't enough. This is why our focus, of course – following the guidance from the Helsinki Commission and looking at human rights – it's not just, yes, I have a neighbor who is one of "those" but their kids go together to the same schools, they work in the same enterprises, they respect each other's right and freedoms, they celebrate each other's holidays together. That's a very comprehensive project.

And Valery is right in that framework too. Political parties are very reluctant and generally unwilling to do that. It's the sort of thing that the international community can encourage. OSCE is trying to do that on the ground there. Your visits and your attention help to foster that as well. There are so many people telling good stories and doing good things. Unfortunately, they may be the exception rather than the rule, but we need to support them.

WICKER: Mr. Blagovcanin.

BLAGOVCANIN: I just need to add one thing. Sometimes, or even maybe oftentimes, a religious community or communities in Bosnia and Herzegovina are playing a role which is not quite positive. Sometimes the orientation is towards homogenization of the ethnic groups in Bosnia and Herzegovina, and sometimes they are inspiring interethnic problems in terms of hatred and similar things. So that's just in addition to positive examples. Since I'm not a diplomat, I'm always trying to find negative (laughter).

WICKER: Senator Shaheen.

SHAHEEN: Well, thank you.

I would add to why is this room full and why does this hearing matter the fact that what happens in Europe matters to us, that the trans-Atlantic partnership is critical to our security and that, as we've seen, one of the places that is still not whole, free and at peace in Europe is the Balkans.

And so it is not in our interest, just as I think it's not in Europe's interest, not in Bosnia and Herzegovina's interest, to have continued ethnic strife, to have continued recruitment of foreign fighters, to have continued concerns about impediments to the country becoming a functioning democracy. So that gives opportunity for all of its citizens. So I would say there is a lot at stake here and it's important for us in the United States to pay attention.

Ambassador Moore, I would like to go back to the earlier reference to the Mothers of Srebrenica because they have also been in our office. And as you know, the mandate of the International Tribunal on War Crimes in the former Yugoslavia is to expire next year. Can you talk about whether you think that it should be renewed, what the chances of that are, and what the prospect of continuing to go forward with the prosecutions are? You mentioned it a little bit.

Can I then also ask you or others on the panel to talk about what's being done to counter violent extremism, the efforts to recruit foreign fighters that are going on in the country?

MOORE: Senator Shaheen, thank you very much for that.

Yes, certainly in regards to all the members of the Commission from the Mothers of Srebrenica, I was so pleased that Munira and other mothers we were able to cosponsor this event just a couple of weeks ago. They were very keen to see justice done, and we want to see justice done as well.

There is a huge backlog of cases. These crimes occurred more than 20 years ago, and yet in so many instances, the vast majority, nobody has been brought to justice. The prosecutors and judges need to do their job. They need to do a better job. And we are trying to help them do that by monitoring the process of conducting these trials. We are supporting the mothers and other institutions in trying to get as much attention to these issues as possible.

You mentioned ICTY, the International Criminal Tribunal for the former Yugoslavia. It is wrapping up by the end of next year. I think that's a good, illustrative example. Everyone reacted in various ways to the conviction of Karadzic, the acquittal of Seselj. In both cases the chief prosecutor, Serge Brammertz, with whom we work very closely, is appealing those judgments, seeking a longer sentence in the Karadzic case and of course seeking a conviction in the Seselj case. No one was universally satisfied by those verdicts. It wasn't enough or it was too much, et cetera.

The same problem does exist in Bosnia and Herzegovina. I think it's unfair to have some people on the local level there look at everything through a political compass. It's not true that each conviction and each acquittal has political overtones or antecedents, but each and every case is seen in that political context. We want to make sure that it's a question of seeing justice and not politics. We want to make sure that the prosecutors present strong cases against all of the potential defendants with all of the evidence that's before them.

In terms of the major cases that ICTY is dealing with, they have those two appeals to deal with. They also have the Mladic case. It's been their intention and they've taken these steps to forward other cases involving war crimes and genocide in Bosnia and Herzegovina to the courts in Bosnia. That process is still underway. Again, the work needs to be improved, and we're trying to help that done in the name of all of the victims and in the name of bringing justice.

WICKER: Let me ask you this: Do you think there is, among a majority of leaders in the rank-and-file Bosnians, a desire to end the corruption and to devise a better, more inclusive, pluralistic government without all of these hyphens, and yet they just can't seem to bring themselves to a place where this gets critical mass?

What I'm asking is if there something to be said for inviting all the parties back to Dayton, or to a Dayton or to a Geneva or someplace and see if everyone could agree to hold hands and have a do-over and get this right this time? We know that 20 years ago we never

dreamed that the structure we imposed would still be there in 2016. So would anyone like to – Dr. Perry, you’re about to jump at that. Yes. (Laughter.)

VALERY PERRY: Yeah. No, I think that while fundamental constitution reform and structural reform is needed, a Dayton II would be the wrong way to do it because the leading political parties don’t have a vision and don’t have a desire for a joint life in which you’ve got civic parties in a pluralistic community and set of communities. And there’s really no interest in pressing forward with these reforms. There’s a lot of –

WICKER: Among the public?

VALERY PERRY: I’m saying among the political parties.

WICKER: No, but what about among the public?

VALERY PERRY: I think there’s more sense that this is unsustainable among the public, but the people really just don’t know what to do. We saw in 2013 and then 2014 a number of civic protests that started to come out, very often related to issues related to corruption and ineffective governance, but they fizzled out for a number of reasons that have been analyzed and studied. Really, there was no political option to which they could hitch their wagon, so to speak.

And so dealing with the political elites on any of these unresolved issues at Dayton would, in my view, be almost worse than what we’ve got now because it would probably end up creating a complete partition by creating a Croat entity, a Serb entity, and a Muslim or Bosniak entity, because that’s the writing we see on the wall today. And we’re seeing a lot of steps happening under the guise of federalism to create more ethno-territorial borders within the country so everyone has their own fiefdom, and this is completely –

WICKER: And actually they’ve got quite a bit of company around in Europe, don’t they?

VALERY PERRY: They do, and this is what’s quite troubling again. There are many very functional federal states, but they’re looking for ethnic federalism where you’re only representing the people who are from your ethnic, religious group and no one else. And this will do nothing to make a cleaner, more effective, more accountable democracy.

And I was glad you used the word “pluralism” earlier because, unfortunately, we’re seeing less and less pluralism as things move forward because there’s almost an end-run end game now as political parties and politicians and some of the elites who have gained a lot of money and influence over the past two decades are seeking to consolidate everything they can before the party ends.

WICKER: But, gentlemen, we’re taking steps backwards. Everyone agrees. Is there any big idea to break the logjam in this little country and make it work? ... Thank you. (Laughter.)

MOORE: No. Again, all politics is local. There are local successes. If we can bring more attention to them, maybe we can inspire, maybe we can in some cases shame people to act differently, but there is no single fix.

And Dayton II – I have to agree, Dayton II is not an option. The circumstances that forced an end to the war after three-and-a-half years of terrible crimes are just not there, not in the region and not elsewhere in the world. The mechanisms exist. If they choose to agree, they choose to amend their constitution, they have the ability to do that. The international community doesn't.

WICKER: So there's not a desire to move to something different –

MOORE: No.

WICKER: – just the inability to get there.

Folks, thank you very much. Does anyone else have anything to add for the good of the order? Final comments, Mr. Melia.

MELIA: One last comment to take this back to where we started about corruption. I think in various ways everybody has said that it is this overly endowed, interlocking governmental structures that has the public sector at every level so overlarge that is a driver of corruption. There's just too much, too many public officials handling the people.

WICKER: And I think Freedom House recognized that in a recent report.

MELIA: So this is a driver of corruption and I think we need to understand that this constitutional structure is one of the contributors to this problem, among other problems.

WICKER: Final comment, Dr. Perry.

VALERY PERRY: Sure.

Again, I think that we really need to try to speak directly to the 99 percent of citizens in the country rather than only going through the filter of the political parties and trying to reach out to do some of these things. When you talk to people, when you talk to teachers and farmers and small business people, and young people who simply want to get on with it, they're not talking about the same frustrations that we hear the political parties talking about.

They're not concerned about which census forms to count or not count so you can have more or less Muslims or Catholics in a given piece of territory. They want something normal. It's just that there are none of the tools right now to try to easily vote people out of office or in office, to try to get the prosecutors to start cases to prosecute and hopefully incarcerate people.

WICKER: Term limits maybe.

VALERY PERRY: Some people would like that, I bet, in many countries, I suspect. And I think that we need to work with the public in this way to create more of a grassroots sense of reform and possibility supported by a top-down set of conditionality and pressure related to the EU and other drivers to try to squeeze the middle that has simply been completely unresponsive to the needs and desires of the vast majority of citizens.

WICKER: Final comments from Ambassador Moore and Mr. Blagovcanin. Ambassador Moore.

MOORE: Well, we're there, of course, to make sure that, like other participating states in OSCE, Bosnia Herzegovina fulfills its OSCE commitments. And one of the ways they can do that and fight this effort against corruption is by pursuing the path to integration. They have declared their interest in joining NATO. They're on the path towards the EU.

It's a long and slow path, but they need to make some very specific reforms on that path. That should help in some areas, but there are still concrete things that we can do especially by shining a light on the positive examples that do exist there. And when you come there again and you see that, I hope you will agree.

WICKER: Surely the EU is not going to admit a government that's structured like it is.

MOORE: I am unaware of any pre-decision by the EU in terms of exactly what the structure should be. There's a long list of requirements that they need to fill, the thousands of pages of the *acquis communautaire*, the different chapters that have to be reviewed. They will need to implement all kinds of laws, not just introduce those laws, when it comes to public financing, when it comes to political parties and their activities, when it comes to how the judiciary works. It's not a perfect fix, but there's work that they'll have to do.

WICKER: But as you say, they also have to decide they actually are, in fact, a country.

MOORE: The sense of nationhood in Bosnia Herzegovina we haven't touched on, but of course it's a very –

WICKER: We touched on it briefly.

MOORE: Yeah.

WICKER: And, Mr. Blagovcanin, you have the last word of this hearing.

BLAGOVCANIN: Very briefly, starting point for consideration of all future reforms should be that political elites in a country do not have any interest to reform anything. That's the best system in the world for them. They are accountable to no one. They control everything. They control public finance, public companies, lives of the people. So it's about articulating the people's deep mistrust in the system, how to ensure that citizens can influence what's going on in the country. Thank you very much.

WICKER: Thank you very much.

Let me speak on behalf of the entire panel here. We are absolutely thrilled at the turnout today, the interest expressed by the attendance of rank-and-file individuals from whatever organizations or backgrounds. And we are grateful to the panel for their expertise and testimony. Thank you all. And this hearing is closed. (Sounds gavel.)

[Whereupon, at 3:28 p.m., the hearing ended.]