Thank you, Mr. Chairman, Mr. Co-Chairman, and members of the Commission, for the opportunity to testify today on corruption in Bosnia and Herzegovina (BiH), and on the efforts of the United States Agency for International Development (USAID) to address this challenge. I would like to begin by describing the consequences of corruption, and then placing corruption in Bosnia in a broader regional context. Finally I will describe how USAID is working to help BiH, its citizens, government and NGOs, to fight corruption and to mitigate its harmful impact on society.

It is fitting that the Commission for Security and Cooperation in Europe is addressing this topic, because corruption is an issue of national and regional security. 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.” Corruption poses a direct security threat to states by enabling the smuggling of arms, persons, and drugs.

Furthermore, corruption is a significant obstacle to development, the focus of my Agency. USAID’s mission is to partner to end extreme poverty and promote resilient, democratic societies while advancing our prosperity and security. But 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 Europe and Eurasia region, states weakened by corruption are more susceptible to malign pressure and manipulation from the Russian Federation and other countries, as any semblance of a rules-based order often seems to take a back seat to power, influence, and greed including oligarchs, whose geopolitical goals do not respect international commitments to transparency, rule of law, and fair play. 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 the cooperation of citizens with government to build resilient democracies, let alone do what is needed to counter emerging threats like violent extremism.

For these reasons the Administration sees addressing the problem of corruption, and the need for open, effective, representative governance as a significant priority. U.S. foreign assistance plays an important role in formulating country-specific anti-corruption strategies, and USAID democracy, rule of law, and governance programming is in the forefront in many of these efforts. In the transitioning countries of Europe and Eurasia, USAID cannot succeed in our mission as an agency if corruption is permitted to go unchecked and unpunished. Understanding that, the Agency works 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.

To understand the problem of corruption in BiH, it must be seen in its regional context. It is a sad fact that corruption is a major problem throughout the Balkan region, and BiH is no exception. According to the most recent Transparency International Perceptions of Corruption Index (2015), BiH had a score of 38 (on a 100 point scale, with lower scores indicating higher perception of corruption), placing it 76th out of 168 countries surveyed, behind all of its Balkan
neighbors except Albania (88th) and Kosovo (103rd). More troubling, perhaps, is that according to this index BiH is losing ground in its fight against corruption, with its score falling one point in the past year, and four points from 2012. According to the World Bank’s World Governance Indicators (2015), control of corruption in BiH has changed little, if at all, from its worst days immediately after the conclusion of the war. This is consistent with findings from Freedom House’s “Nations in Transit” data on anti-corruption measures for BiH, and on democratic reforms more broadly, which show that modest gains that were made in all measures peaked around 2006 with stagnation or backsliding in the years that have followed.

Finally, USAID’s National Survey of Citizens’ Perceptions 2015 reports that over one in five persons surveyed reported paying a bribe to a public official, most often to doctors, nurses and police officers. Sixty-three per cent of citizens nationwide believe that the judiciary is not effective in combating corruption, and 62 per cent believe that public officials who violate the law are neither identified nor punished.

All of this indicates that corruption in BiH is bad by Balkan standards, and possibly getting worse. When one takes into account BiH’s multiple levels of government, and the fact that, by some estimates, the public sector makes up fifty per cent of BiH’s GDP, the depth of the problem and its impact on citizens’ lives becomes all the more clear.

To combat corruption and limit its impacts on the state and society, the United States is supporting both democratic, inclusive governance (including by strengthening the justice sectors and civil society) and economic growth (including through private sector development, fiscal reforms, and reform of the energy sector).
Growing the size and strength of the private sector in BiH 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 in rent-seeking behavior. USAID is working to do this in several ways. For example, USAID has new Development Credit Authority agreements in place with three commercial banks valued at $30 million dollars, as well as three older agreements valued at $46 million dollars. To date, loans have been disbursed to 120 private firms, supporting close to 2,800 private sector jobs and generating over 500 new jobs in the private sector.

In addition, recognizing that governance and economic development at the local level are crucial to success, USAID is implementing Business Friendly Certification (BFC). By reforming municipalities and increasing transparency, BFC will improve the business enabling environment, ultimately contributing to additional private sector growth.

USAID is always considering new opportunities as well. This month, a team of economic growth experts from USAID is in Bosnia assessing what other options may be available to engage to support the country’s economic growth and prosperity. Several members of this Commission have sponsored legislation authorizing an enterprise fund for Bosnia, and this team is looking at whether or not this would be the right approach to grow the private sector.

The Agency is also working to make public finance more transparent and accountable. With a local partner, Finit Consulting, USAID works to eliminate non-transparent nuisance taxes for businesses, reducing opportunities for irregularities and corruption. The project will also improve transparency in government finance through the provision of IT solutions for budget management and the Treasury by introducing and expanding e-services for payment of direct
taxes. This support will also be used to help entity tax administrations to conduct risk-based audits.

Due to the risk posed by large transactions, the energy sector is an area of specific concern in the fight against corruption. Through an activity implemented by Advanced Engineering Associates International, USAID is working to transpose EU Energy Directive requirements into local legislation to govern the operation of the energy sector in BiH. Transparency in areas including the permitting of energy infrastructure projects will help to limit opportunities for corruption in this sector.

Corruption also occurs when local producers skirt regulatory standards (say, with watered-down milk) to keep costs down, putting consumers at risk. A USAID project, implemented by Cardno Emerging Markets, helps mitigate corruption by supporting agricultural exporters to adopt stringent EU regulatory import standards, particularly food safety and veterinary and phytosanitary procedures. Recently, this program facilitated EU approval for eight dairies to export milk to the EU. As more producers meet EU standards there will be less room for corrupt practitioners to compete.

While our economic growth efforts look to limit opportunities for corruption, other efforts are building the capacity to help citizens and civil society to uncover corruption when it occurs, and helping state bodies effectively investigate and punish culprits.

For example, partnering with a local Bosnian organization, the Center for Media Development and Analysis, USAID is helping to build a coalition of 60 local NGOs to advocate for implementation of anti-corruption reforms necessary for EU integration. USAID supported civil society and legislative stakeholders as they initiated adoption of whistleblowers’ protections in 2013. Last year, with our assistance, a group of local NGOs started an advocacy campaign to increase
transparency, competitiveness and accountability within the public procurement system and align it better with EU standards. This advocacy is critical since three quarters of BiH’s annual $1.7 billion dollars-worth of procurements is done non-competitively and hundreds of these procurements are awarded to companies owned or co-owned by elected officials. A few weeks ago Transparency International, also supported by USAID, presented legislative proposals to clarify and de-politicize the issue of conflict of interest in BiH. Similar actions are planned in the areas of public employment, health and education, which have proven to be sectors highly susceptible to corruption. The program also promotes civic monitoring, supports the production of independent, investigative video documentaries to expose corrupt individuals and provide evidence for prosecutions. Finally, as part of this project’s efforts to raise awareness and understanding of corruption affecting citizens, USAID, together with our NGO partners, staged a traveling exhibit on the lack of procurement transparency in BiH’s public sector, featuring a dozen items procured by entity governments at grossly inflated prices. The exhibit opened in Sarajevo, and was staged in ten major cities. A Facebook post on the exhibit generated more “likes” than any post in the page’s history, and was viewed by over 170,000 people.

The justice sector is another critical front in the fight against corruption. Partnering with Millennium DPI Partners, USAID helps prosecutors, judges, other justice sector officials and institutions be more responsive and accountable in the administration of justice, to better serve the needs of citizens. This effort, along with other U.S government efforts including that of the Department of Justice, counters corruption by encouraging more efficient prosecution of cases of corruption and organized crime, and by strengthening justice sector institutions’ ability to uphold public integrity and mechanisms of self-accountability. Through this project, USAID has partnered with all 19 prosecutor’s offices to help them to
prosecute cases of corruption and organized crime more effectively and efficiently by improving the performance and authority of prosecutors, recognized as the weakest link among officials. USAID is also working with the Department of Justice’s Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) on advising anti-corruption prosecutors, improving police-prosecutor cooperation, and providing case-based mentoring to Bosnian counterparts in anti-corruption cases. We are also working, through mentoring, training and technical assistance to BiH’s High Judicial and Prosecutorial Council (HJPC), to institute new management systems for appointment of new judges and prosecutors – the most common “entry point” for politics into the work of the justice sector -- and to conduct performance appraisals, give merit-based promotions and to provide incentives and rewards for the successful prosecution of cases.

Regional collaboration is also key to fighting corruption. USAID is working with other countries in the region to ensure that regional best practices are shared with Bosnian counterparts. We will also support the institution of a new special anti-corruption unit in the BiH Federal Prosecutor’s Office, mandated by a 2014 anti-corruption law. USAID is also helping to increase cooperation and coordination among hundreds of state, entity, and cantonal law enforcement and justice sector institutions to prevent leaks of sensitive information that undermine the investigation and successful prosecution of corrupt cases. To strengthen disciplinary procedures for judges and prosecutors, USAID helps the state-level Office of the Disciplinary Counsel to better manage complaint procedures and autonomously review the conduct of judges and prosecutors and to recommend appropriate sanctions for unethical conduct and corruption of judicial officials.

Finally, since “justice delayed is justice denied,” this project initiated improvements in the efficiency of enforcement of judicial decisions through a data-driven process that has led to recommendations, including a Judicial Effectiveness
Index to identify bottlenecks and inefficiencies, which were embraced by the HJPC.

While corruption and organized crime often depend on the inability of law enforcement actors to track illicit activity across borders, journalists are not bound by such limitations. Sunshine, as they say, is the best disinfectant. The first step in countering corruption is to expose it. Through the Regional Investigative Journalism Network (RIJN), journalists receive more intensive training and practical experience in producing documented, high-quality investigative journalism based on best international standards and practices. The program is designed to link these journalists across borders, improve their investigative skills through on-the-job training, and use innovative digital technologies to collaboratively produce cross-border investigative reports. It also works to build citizen demand to reduce corruption, fraud, and other criminal activities through increased exposure to professionally produced investigative journalism. RIJN has proven its ability to serve as a platform for getting results in exposing corruption, from its revelation that a prime minister in Bosnia-Herzegovina received a free apartment, leading to his indictment and eventual resignation, to its current reporting on regional corrupt leaders’ links to offshore accounts in the Panama Papers. RIJN has carefully tracked the impressive dividends from its reporting across the region: the recovery of at least $600 million in hidden assets by tax authorities; the closure of more than 1,300 companies; investigations, indictments, and arrests by law of 80 people – including an ex-president; and the resignation or sacking of ten government officials.

In conclusion, though the threats posed by corruption in BiH -- to its economy, its public services and to the state itself -- are great, USAID is working with our partners to limit opportunities for corruption, uncover them when they occur, and see that they are investigated and punished. We are doing this together
with our European partners, in some cases leveraging U.S. government funds with donations from allies. USAID is also doing this with other U.S. Government agencies, such as the Department of Justice, which is providing expert advice and assistance to investigators, prosecutors, and judges in BiH. The existence in BiH of the EU reform agenda, the broader EU Association process, and initiatives such as the Open Government Partnership offer BiH and its partners an opportunity to intensify efforts to fight corruption.

This needs to be an ambitious, substantive, and multifaceted agenda for changes in law and in practice – changes that will impact the daily lives of Bosnia’s citizens. This effort will require significant political will from BiH’s leaders, NGOs and citizens. Progress will not be easy, and constraints related to the structure of the constitutional system in Bosnia may limit possibilities for dramatic progress. But despite these challenges, our decades-long commitment to peace in BiH demands our best effort.

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