



# Center for International Private Enterprise

Chairman Hastings and Co-Chairman Wicker, Distinguished Members of the Committee, Senate and the House of Representatives

Good afternoon. My name is Martina Hrvolova, and I am a Program Officer for Europe and Eurasia at CIPE, the Center for International Private Enterprise.

I wish to begin by thanking Bob Hand of the Helsinki Commission for his continued leadership on this important initiative to strengthen economic resilience and advance democratic transition in the Western Balkans.

Three decades after the fall of communism, Central and Eastern European countries are now integrated into a continent that is mostly free and at peace. However, there is still much work to be done to secure the gains that so many sacrificed for and worked hard to deliver. Worldwide, many democracies face both internal and external challenges, including a resurgence in corruption and political opportunism. For a long time, continued economic growth generated tremendous opportunities. Autocrats have, however, preyed on the openness of modern economies. Russia is among the countries that often use capital investment to undermine the global value-based economy and erode local governance in the places that receive its capital.

As CIPE's Executive Director Andrew Wilson explained in his statement at the Helsinki Commission briefing on foreign meddling in the Western Balkans last year, a high influx of any capital leads to an increased risk of corruption. This is especially the case with corrosive capital,

which originates in authoritarian regimes and lacks transparency, accountability, and market orientation.

In 2018, CIPE's civil society partners in Serbia, Bosnia and Herzegovina, North Macedonia, and Montenegro conducted a study of Russian economic footprint in the Western Balkans. They concluded that there were gaps in the governance of these countries, which foreign capital exploited to influence their economic and subsequently political developments. According to their findings, corrosive capital has emerged as a key element of foreign meddling, posing a major challenge for democratic transition across the region.

One year later, the Balkan investment climate remains largely characterized by the weak rule of law and governance. At the same time, many of the region's countries continue to rely on foreign capital for their economic development, and state interference in their economies persists. Tangible results in the fight against corruption, which can facilitate corrosive capital, are, therefore, needed for a business environment to enable sustainable, inclusive growth that, in turn, benefits democratic transition.

We recognize that anti-corruption efforts in the Western Balkans have been significant. The evaluation of their effectiveness, however, tends to focus on the macro level and falls short of meaningful stakeholder engagement. As the other panelists will discuss, engaging affected stakeholders such as businesses in evaluation of individual public institutions can allow policymakers to review anti-corruption efforts better.

Earlier this year, CIPE's network<sup>1</sup> of partners from Serbia, Bosnia and Herzegovina, North Macedonia, and Montenegro, represented by the panelists today, reached out to several public institutions in critical sectors of their economies to pioneer a new corruption risk assessment

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<sup>1</sup> [The Centre for Contemporary Politics \(CCP, Serbia\) in collaboration with Igor Novakovic of the International and Security Affairs Centre \(ISAC\), Centers for Civic Initiatives \(CCI, Bosnia and Herzegovina\), The Center for Democratic Transition \(CDT, Montenegro\), and Institute for Democracy Societas Civilis Skopje \(IDSCS, Macedonia\).](#)

built on engagement of the business community. Their goal was to diagnose gaps in the governance of these institutions that can facilitate corrosive capital and incentivize policy-making that prioritizes the illegitimate interests of corrosive capital over the legitimate interests of citizens. Except in Serbia, they managed to find partners for this unique effort.

With CIPE's assistance, these partners then collaborated with the Public Procurement Agency in Bosnia and Herzegovina, the Directorate for Technological Industrial Development in North Macedonia, and the Tax Administration in Montenegro to identify key activities they perform that are most vulnerable to corruption incentivized by corrosive capital. As a next step, the partners surveyed the employees of these institutions, businesses that have recently been in touch with them, and other relevant experts to factor their experience and concerns into the final analyses of the identified governance gaps. With input from more than 400 stakeholders, partners then proposed necessary regulatory and institutional reforms, which they will present today.

We are honored that the Helsinki Commission invited CIPE's partners here to inform a U.S. audience about these findings. Moving forward, they will continue raising public awareness of them in their own countries. In addition, by engaging local businesses, other civil society leaders, and relevant international organizations, they will continue advocating the proposed reforms with local policymakers to close the identified governance gaps. By doing so, they aim to ensure that all investors enjoy a level playing field. This, in turn, will make markets and democracies in the Western Balkans more resilient to external influence, help ensure inclusive economic growth, and counter the worrying spread of a perception that democracy and markets have failed average citizens.

According to a regional public perception polling conducted jointly with the National Democratic Institute at the end of 2018, problems caused by the economic situation are citizens' main concern, and their governments are the most capable of solving these problems. Not at any cost thought. The vast majority of citizens throughout the region oppose corruption

and would not tolerate it any case. There is, however, also a widespread belief that public officials benefit from investment the most, or that investment suits investors as opposed to citizens.

Governments, civil society, and businesses have an important symbiotic relationship. When they work well together, democracies and economies flourish. Governments are expected to foster environments that support innovation and enable the economy, including local businesses, to thrive. Companies can generate democratic development by running their business with integrity to create value beyond making a profit and by advocating democratic reform. Part of the solution also lies with the international community, where various organizations, including CIPE, can empower local stakeholders to advance democratic and market-oriented principles by improving governance of public institutions and promoting an ethical and accountable business culture that fosters inclusive growth.

Our wealth of knowledge allows for significant cross-fertilization of ideas and contributes to growing worldwide awareness and understanding of corrosive capital as well as ways to address it. In this regard, we look forward to sharing the first results of CIPE's work in Asia as well. On Friday, CIPE will launch its new findings regarding the use of non-inclusive procurement processes by China in Southeast Asia, and you are all invited to join us on that occasion.

To conclude, I would like to thank the National Endowment for Democracy for its support of the CIPE program that engages with today's panelists. Of course, such projects are, in turn, made possible thanks to the critical commitment of the U.S. Congress to funding the NED. Thank you.