

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

**“It’s All About the Money: Corruption as a Brake on Balkan Recovery”**

**Committee Staff Present:**

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Cooperation in Europe**

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House Office Building, Washington, D.C., Robert Hand, Senior Policy  
Advisor, Commission for Security and Cooperation in Europe, presiding**

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HAND: OK. It's 2:00, so let's begin with this briefing. I'd like to welcome everybody here to this briefing that we're having today looking at the Western Balkans, and particularly issues relating to corruption and the lack of good governance, et cetera, and the effects that that can have in terms of foreign meddling in the Balkans as well as the brain drain from the Balkans and other issues.

My name is Robert Hand, and I'm a senior policy advisor at the U.S. Helsinki Commission. And as many of you may know, the Helsinki Commission has been focused on the Western Balkans for a good three decades now – before, during, and after the conflicts – responding to them and also facilitating recovery from conflict, and then focusing more recently on helping their transition to stable democracies for the countries of the region and meeting their aspirations for European and Euro-Atlantic integration. The Commission has also been an early activist in confronting corruption, not just in the Balkans but throughout the OSCE region. Today's briefing is a combination of both of those efforts in a concentrated and focused way.

Many outside observers of Balkan developments focus too much, in my view, on expressions of extreme nationalism, ethnically-based confrontations, and the legacy of conflict as the dominant and ongoing features of the region and its political development. These features are seen as deeply embedded, giving a sense of fatalism regarding the prospects for real change. Based on my observations and experiences over the decades I would not minimize the impact of ethnic animosities and violence, but I conclude they only make any lack of real change possible, not inevitable.

Why? First, because we have indeed seen some change take place over time. In my view, it's just been too slow in coming.

Second, and perhaps more important, we see the political elites in the countries to varying degrees playing on ethnic issues, a sense of nationalism, or a sense of victimization from past conflicts – whether those perceptions are real or not – in order to secure their political power, provide a system of patronage, and ultimately to profit personally through corrupt practices even as their country's economy underperforms, political-motivated investment grows, and young and talented individuals migrate elsewhere rather than contribute to their own country's economic development. Those who do stay may want a greater focus on true economic reform, but they sacrifice their individual preferences for a collective will.

That is why we titled this briefing with the phrase "It's All About the Money." It's perhaps a slight exaggeration, but that exaggeration is only to emphasize what is otherwise an often-missed point. I hope our panelists today, whether they agree with me or not on what I have just said, can elaborate on the economic and business vulnerabilities to what the Center for International Private Enterprise site has labeled "corrosive capital."

I welcome the presence on our panel of analysts from the countries concerned, not from the outside, and that's where the Commission is sometimes unique in bringing in people from the countries we focus on to speak about the situation rather than just having analysts from here in Washington. And I want to thank CIPE for empowering local actors as they seek to incorporate

good governance, transparency, and accountability, and ultimately market reform and democratic transition.

While we can encourage change, however, it is the local actors that are in a better position to demand it. Our role should be to offer support, because it is in our interest to support it. As a very recent editorial asserted, “those with a local sense of history understand that local developments in the Western Balkans are never really local. The region remains a geopolitical zone of great powers.”

With that, I’d like to turn the microphone over to our panelists. We will start with Martina Hrvolova, who’s on the staff of CIPE, to give a general introduction of the issues we’re addressing today. From there, we will go to each of our guests coming from Macedonia, from Serbia, and from Bosnia-Herzegovina to give their more specific comments. After that, we will open it up to questions and perhaps some short, brief comments from the audience.

So let me start by turning it over to Martina. You can use either microphone.

HRVOLOVA: Thank you, Bob.

Let me know if you don’t hear me well.

I’d like to start by thanking you, of course, and the leadership of the Helsinki Commission, for your continued leadership on this important initiative to strengthen economic resilience and advanced democratic transition in the Western Balkans.

Today is very personal for me. Many of you know that I was born in a communist Czechoslovakia, and only because of the freedoms that both Americans and Europeans defended I at some point moved to the United States to do this wonderful job.

So let me start by saying – reminding everyone that three decades after the fall of communism, Central and Eastern Europe is 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 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 this capital.

As CIPE’s executive director, Andrew Wilson, explained in his statement at the Helsinki Commission briefing 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 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 also 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 anticorruption efforts in the Balkans have been significant. The evaluation of their effectiveness, however, tends to focus on 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 anticorruption efforts better. Earlier this year CIPE's network of partners – again from Serbia, Bosnia, Montenegro, and North Macedonia, represented by the panelists today – reached out to several public institutions in critical sectors of their economies to pioneer a new corruption risk assessment methodology to engage the business community in evaluation of corruption risk on this level. Their goal was to diagnose gaps in the governance of their partner institutions that can facilitate corrosive capital and incentivize policymaking 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, Directorate for Technological Industrial Development in North Macedonia, and the Tax Administration in Montenegro to identify key activities these institutions 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 analysis 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're honored that the Helsinki Commission invited CIPE and its partners here to inform a U.S. audience about these findings. Thank you for coming.

Moving forward, our partners will continue raising public awareness of them in their own countries, in addition, by engaging local business, other civil society leaders, and even 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 citizens. According to regional public perception polling conducted jointly with the National Democratic Institute, 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, though. The vast majority of citizens in the Balkans would not tolerate corruption in any case, which is great news. There is, however, also 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 relationship – symbiotic relationship. When they work 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 transition in the region of the Western Balkans and beyond. Our wealth of knowledge allow(s) for a 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 with you 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're all invited to join us on that occasion.

To conclude, I'd like to thank the National Endowment for Democracy, of course, for its continued support, but also to the U.S. Congress for its critical commitment to this issue and funding of the NED. Thank you.

HAND: Thank you, Martina. And again, let me thank CIPE for supporting these efforts in countries I am personally very concerned about, and empowering people to do something to encourage positive change, and for doing it not just for this briefing but for the previous briefing you mentioned in January 2018. We had some copies out on the table. I don't know if there's still some out there or not. But if you're interested in seeing that briefing, as well, it's on the Helsinki Commission's website, [www.CSCE.gov](http://www.CSCE.gov), or you can contact the Commission and ask for the January briefing on "Foreign Meddling in the Western Balkans: Guarding against Economic Vulnerabilities."

This briefing will also be transcribed and available in written form at some point in the near future, as well.

Next we go to Misha Popovikj from the Institute for Democracy Societas Civilis Skopje. Misha, the floor is yours.

POPOVIKJ: Thank you, Mr. Hand. And thank you to the Helsinki Committee (sic; Commission) for the opportunity to participate in this briefing.

Since its independence from the socialist Yugoslavia in 1991, the economy of North Macedonia has become more liberalized. Prior to independence, domestic companies became accustomed to a centrally planned economy, so in the 1990s the difficult transition towards the market economy led to a decline in employment while the private sector struggled to meet the needs of modern consumers and to compete in the globalized economy. The economy eventually reached its pre-independence levels in 2006, and after some stagnation during the financial crisis in 2007-2008 maintained slow but steady progress.

Even though unemployment has decreased over the years, it is still high. According to the state statistical office, in the second quarter of 2019 it was 17.5 percent. So it is not surprising that public opinion repeatedly singles out unemployment as one of the two most pressing issues, along with the state of the economy. According to the polling referenced by CIPE, 46 percent of the respondents said unemployment and 33 percent said the economy were the main issues that concerned them the most at the end of 2018. The two issues are, of course, closely linked.

So being a small, open country, North Macedonia relies on foreign direct investment to spur economic growth. FDIs can play a significant role in strengthening the economy by increasing exports, integrating in the global market, developing workforce proficiency and productivity, and promoting innovation through technology transfer. Most importantly, FDIs can help reduce unemployment.

That is why the political elite in North Macedonia has been keen on attracting FDIs to create new jobs for its voters. So to attract the FDIs, successive governments of North Macedonia have offered and provided various incentives to prospective investors. Between 2007 and 2016, the estimated amount of the awarded incentives, subsidies to foreign investment, was 225 million euros. It has typically ranged from 7 to 47 percent of the entire investment, on average.

Whether any of this public money was spent efficiently and effectively is impossible to assess due to the lack of a public register providing comprehensive overview of these incentives and corresponding evaluation of their contribution to strengthening the economy. The introduction of such a registry would be a welcome step towards enhancing transparency and oversight of investment incentives.

In some cases, incentives were awarded to companies without thorough examination of their capacity to carry out the investment, which led to the failure to realize such investment and the loss of public resources. Under the former government, political and economic cycles seemed to be jointly determined and investment became one of the channels through which politics influenced the economy and vice versa. Though any investment creates opportunities for

corruption on both sides and leads to an increased risk of corruption, this is especially the case when state incentivizes investments and such investments help prevent government failures, emboldens politicians, enriches investors, and finances corrupt dealing.

North Macedonia's government has begun 2019 with promises of an economic upturn and a push toward further democratic reform and efforts to ensure good governance, increased standards of living and access to opportunities and entrepreneurship, including to prevent many of Macedonia's population from leaving the country. However, according to the 2019 study of the Westminster Foundation for Democracy, due to the inability to prevent annual immigration, the potential annual gross added value measured around 333 million euros, which is around 3.1 percent of the 2018 GDP. To put it simply, every person which leaves Macedonia takes clearly 16,000 euros of potential future GDP abroad. A survey among young Macedonian people called "Youth Study of North Macedonia 2018/2019," showed that nearly half of the young people cited the improvement of their standard of living as the main reason for migration. Almost 18 percent said high salaries and 11.3 percent better employment possibilities.

So brain drain requires a complex set of measures that reflect the specifics of each country, and that should connect with a series of socioeconomic policies to be effective in the medium term. FDI has, however, been recognized as a key growth factor and a viable solution to the brain drain, or the permanent loss of skilled workers through immigration. If invested wisely, it brings not only economic growth, job opportunities, but also increases demand for skilled workers, thus helps stem brain drain.

Since the change in government in 2017, the awarded amount has totaled 40 million euros and is expected to increase as the current government plans to increase respective budget allocation. It also extended these incentives to domestic companies. While this move can certainly foster competitiveness of local companies, it also causes further concerns as the government does not thoroughly examine the ultimate beneficial ownership of the companies seeking investment incentives and does not screen foreign investment for potential risk either. As foreign investment can arrive through a citizen, shell company, or a domestic subsidiary, this may lead to an increased footprint of foreign investment in key sectors of our economy to the detriment of the country's political development.

That is why we decided to focus our efforts on ways to mitigate the negative effects that corrosive capital can have on the governments of investment incentives and subsequently democratic transition of North Macedonia by strengthening the resiliency of the relevant institutional and regulatory framework. To this end, we cooperated with the Directorate for Technological and Industrial Development Zones, one of the key institutions in this regard to ensure that investment incentives benefit the country's economic development generally rather than individually while maintaining financial stability, and thus contribute to the development of the world economy. While the supply of corrosive capital is not restricted to any particular country of origin, in North Macedonia it is typically associated with investment flows backed by Russia and China. Both have recently stepped up their presence in the region, including through investments that lack transparency, accountability, and market orientation.

Previous assessments of Russia's economic footprint in Macedonia show that the volume of investment originating in Russia was relatively low in comparison to the other countries of the Western Balkans. However, it increased from 1 to 4 percent when offshore companies are accounted for. This opacity highlights the need for examination of ultimate beneficial ownership that I mentioned earlier. The core reason for this beneficial ownership check is to prevent financial malintent, such as laundering of money, being hidden behind the closed doors of corporations, which then can be, and in fact were, used to further questionable transactions in North Macedonia in the past.

Our analysis of the applicable regulations to identify the ultimate beneficial ownership, requesting investment incentives, show that the examination is limited to country of origin of the parent company seeking to invest, and the regulations are difficult to implement due to the lack of corresponding expertise by the Directorate's of staff. This is because they're not a law enforcement agency. For the same reason, it is also easy for public officials to circumvent them without any consequences. Connected to this issue is the lack of cooperation among various public institutions on prospective beneficiaries, potential connections to criminal activities, while the institutions responsible for investment incentives conducts standard sanctions checks.

At no point does any of them conduct a specialized search that would include national and transnational criminal records to identify individuals and companies who may be under investigation for criminal activities, such as money laundering, to mitigate the risks associated with awarding incentives to such individuals or companies they're involved with. Given the recent investigation of money laundering and fake insolvency of one of the major Russian investments in North Macedonia, we would argue that creating conductions to detect suspicious transactions at any point in the significant investment lifespan is an urgent matter.

This is not only because it might have protected the public revenues that the company, reportedly owned by Russian Senator Leonid Lebedev, was expected to generate, along with the energy supplies to 50,000 households in Skopje, which is now at stake, but also potential incentives that may have to be spared to prevent its failure and subsequent loss of jobs and associated economic development. Finally, based on what we learned from surveying the employees of the directorate and its clients, as well as the history of investment incentives in North Macedonia, we suggest separating FDI promotion from politics.

In other words, let professionals rather than politicians take care of it, because potential for corruption is inherent to FDI, as even genuine companies want to make a profit and politicians leverage the jobs they bring. After all, the best way to attract investment is to provide investors with an enabling environment instead of failures. Thank you very much.

HAND: Thank you, Misha. I particularly appreciated your documentation of the economic impact of the migration of young people from Macedonia on the country's economy. And also, your noting that foreign direct investment is inherently risky in terms of corruption, but that is particularly so when the state incentivizes it. And that's something that maybe we can return to, how to get to what you had concluded in your remarks about trying to let professionals rather than politicians deal with these issues to prevent corruption from taking place.

But now let's go to our next speaker, Igor Novakovic, from the International and Security Affairs Center in Serbia. Igor, you have the floor.

NOVAKOVIC: Thank you. And thank you for the opportunity to speak on this critical topic today.

Serbia is often praised as a regional, even world leader in attracting foreign direct investment. In 2019, for example, it achieved a top spot to the Greenfield FDI Performance Index. Serbian experts tend to agree that this generous system of investment incentives is most likely the main reason for the increase of FDI and competitive advantage that Serbia has compared to the rest of the region. A relatively large share of direct investment projects involving incentives however occurs when investors have already formed a firm opinion of making Serbia their preferred location. The issue of incentives thus mostly boils down to bilateral negotiations between an investor and Serbian authorities.

Following 2008 economic crisis, Serbia established an FDI model based primarily on subsidies at the cost of improving other aspects of its business environment. Investors who run their businesses with integrity typically consider the broader issues of political stability – such as the rule of law, democratic governance of local institutions, and market-oriented economy. Despite the ongoing process of EU integration, according to many sources the rule of law and governance in Serbia have deteriorated. Therefore, it can be concluded that Serbia's strategy to attract FDI is not – is not to improve its enabling environment.

The available data suggests that the subsidy modeled is not efficient either because of its costs – because its costs outweigh the benefits. In other words, similar results might have been achieved at a lower cost. Although employment has been on the rise and the GDP growth has remained modest, Serbia's economy does not mostly stand out compared to the rest of the region, while the amount of subsidies it provides does. These facts suggest that while investors enjoy high returns on their investments, Serbia is not maximizing its incentive system and it's missing out on the long-term benefits of foreign corporate presence, to say nothing about the sustainability of its subsidies.

There are no doubts that Serbia has raised its attractiveness to FDI, but not improving – but not by improving the quality of the enabling environment. It does so by topping up the investment incentives it offers by making the investments easier and less costly through regulatory incentives that circumvent the democratic principles of transparency, oversight, and accountability in doing business.

Given the significance of the investments of special importance to the development of Serbian economy, and because of the problem that unfolded with similar investments in the past, our team decided to focus its analysis on investment incentives and how FDI in this category interacts with the local governance. Though the investments of special importance were introduced to the Serbia legal framework only in 2015, investments of similar nature had existed for a very long time. For example, Gazprom's privatization of Serbia's oil industry in 2008 is one of the notorious. And of course, the current ongoing project of Turkish Stream could become another, there is a potential for that.

Under the Investments Act, an investment can be deemed of special importance if it satisfies a combination of requirements primarily regarding the quality of investments, its amount starting from 5 million euros, and the number of jobs it will create. The law generally allows a broad interpretation of this category and incentives to investments of special importance are rendered without a public call for bids. Their scrutiny is limited to an urgent procedure, which limits the space for examination of the proposed investment. Furthermore, they are usually treated with confidentiality. Investments realized on the basis of international agreements which the Serbian government concludes with foreign states become investments of special importance automatically.

This is important because, according to the Serbian legal framework, all international agreements adopted by the parliament are above domestic law, including the Serbian constitution. This allows for the exclusion of domestic regulation from the scope of the agreement, giving the state and investor the right to derogate from certain obligations, which may impair Serbia's sovereignty or affect its legitimate development interests. To strengthen the resilience to corrosive capital of public institutions responsible for investments of special importance, we reached out to the Council for Economic Development and the Development Agency of Serbia. The agency is a public institution which processes the applications for investment support and implements the decisions made on these applications by the council.

The council is mostly composed of ministers – actually, secretaries, if we can call them in American fashion – or appointed by the government of Serbia. However, both institutions ignored our genuine interest in working with them, though it's commonly agreed that the design and realization of FDI incentives should be guided by policies available to the public, which contributes to building support for the government's actions. This is true regardless of the placement of various policies and implementation responsibilities in this process.

Therefore, our analysis of these institutions rose primarily on information collected from secondary resources and primary data collected through surveys and interviews of several experts and clients, namely businesses that interacted with these two institutions. Interestingly, we concluded that 11 of the policies applicable to these institutions which we examined provided a solid framework for the prevention of corruption, incentivized by corrosive capital. Nonetheless, they are not adequately implemented. As a result, the governance gaps emerge.

Despite the limitations of our study, we would like to offer the following observations: First, Serbia should have one investment strategy uniformly implemented by all relevant public institutions. Investment incentives should reflect regional and sectoral developments and corresponding needs, so that they do not interfere with each other and they do not negatively impact competition. In addition to investment strategy, investment incentive criteria must be clearly established to limit the space for their extensive interpretation and arbitrary decision making by public and elected officials, as well as abuses by investors, such as aggressive tax planning, transfer pricing, round-tripping, and of course corruption or even criminal behavior, such as money laundering.

Next, no FDI incentive strategy is likely to succeed unless the implementing public institutions have the necessary expertise to conduct a comprehensive cost-benefit analysis of proposed investments, negotiate, manage, monitor, and evaluate investment incentives, as well as the capacity to make the decisions free from any pressures. Moreover, investment incentives should be open to scrutiny by relevant policymakers and civil society. The Commission for the Control of State Aid should therefore participate in the examination of incentives for prospective investments of special importance before the final deals are sealed. The government of Serbia should give FDI incentives proper consideration, as opposed to rubber-stamping decisions by the council with a limited representation of elected representatives, which the potential for external pressure is greater.

Though the council's annual reports should be public, as prescribed by the law, they are not. Neither was a 2018 report provided to use following the Freedom of Information request we submitted. Over the past year, the western Balkans have continued to see signs of democratic backsliding. And the European Union's recent retreat from the enlargement policy may lead to further deterioration. This situation allows malign foreign actors to enhance their presence in the region. Therefore, our continued focus on democratic and free market values remains critical. Substantial reforms for greater transparency, oversight, accountability, and market-orientation of the system of investment incentives are needed in regard to these public institutions, as well as the overall business environment in Serbia. That is the only way to boost the confidence of its citizens in democracy and prevent further brain drain. Thank you.

HAND: Thank you, Igor. I particularly appreciate your raising concern about democratic backsliding in the region as a whole, perhaps not just in Serbia, as well as noting how EU decisions can have an impact on the incentives that politicians in the region have to move forward, or to move backwards. I was also very taken by your comment on the Serbian legal framework, and how international agreements, if they're adopted by parliament, are above domestic law. That seems to be a potential to undermine any progress that is actually made in Serbia. And may ask you to elaborate a little bit more on that at some point.

But next, let's go to Bosnia and Herzegovina and to our last speaker Igor Stojanovic, from the Center for Civic Initiatives, CCI. Igor, the floor is yours.

STOJANOVIC: Thank you very much, Robert. Good afternoon, everyone. I'm Igor Stojanovic. And I'm here to present an analysis of the resilience of the Public Procurement Agency of Bosnia-Herzegovina to potential external pressure on its activities.

Governments and state-owned enterprise purchase a wide variety of goods, services, and public works from the private sector. Because public procurement accounts for the vast majority of state budgets, it carries an inherent risk of exploitation of public money. Of all government activities, public procurement is one of the most vulnerable to corruption. It can be misused by both - public officials and businesses not only for illegitimate enrichment, but also for the preservation of political and economic power. Weak governance in public procurement hinders market competition and raises the price paid by administration for goods and services, impacting public expenditures and therefore taxpayers' resources.

Public procurement is a key economic activity of governments that represent a significant percentage of gross domestic product generating significant financial flows, estimated at almost \$1.3 billion, or 7 percent of GDP of Bosnia-Herzegovina in 2017. According to Transparency International, estimated corruption in the public procurement of Bosnia-Herzegovina is between 20-25 percent of procured resources and cost taxpayers approximately \$300 million annually. This then typically passes on the household level and translates into higher costs of doing business and consumer cost of goods and services. Preventing corruption in procurement and its corrosive effects on the governance of Bosnia-Herzegovina is therefore necessary to ensure the level playing field and the overall quality of people's lives.

Therefore, the Center for Civic Initiatives partnered with Public Procurement Agency to identify ways to carry out its activities effectively and free from internal influences. The agency is not responsible for the acquisitions, which lie within the decentralized network of contracting public authorities. It is, however, one of the key of public procurement institutions of Bosnia-Herzegovina, although some of its responsibilities are with the procurements stages, which typically do not attract much attention. Among these are activities, to improve the legal framework of public procurement of Bosnia-Herzegovina and counseling of various stakeholders in public bidding.

Following the analysis of impressive 38 internal regulatory acts of the agency, and the results of more than 200 interviews with agencies employees, clients, and external experts, our conclusions highlight the need to adopt additional measures to prevent corruption incentivized by corrosive capital, particularly in these two stages of procurement, precisely because that is where the most significant vulnerabilities of the agency to corrosive capital breed.

Despite many regulatory acts in place, the agencies action may give rise to errors or corruption because of the lack of awareness on the part of the people involved – meaning primarily on the agency staff and clients. This can be put right to training as far as the staff is concerned. Ensuring that the agency officials are selected from those who meet high professional standards of knowledge, skills, and integrity is an important first step toward addressing potential external influences. While the agency's internal acts are largely aligned with national laws on civil service, they do not seem to be ahead of the actual needs, which are greater. Therefore, both require further regulation. For example, the hiring requirements are basic, and the vetting process for the agency staff is entirely lacking. What is more, corruption prevention is neglected in the design and implementing of the agency's activities to build capacity for its staff, subsequently also in the planning and managing of its operations, which is very much important for its accountability. It is therefore not surprising that our analysis showed low awareness of potential corruption pressure among the agency's employees.

Training can also play a key role as far as the counseling on public bidding is concerned. There is, however, a need to put mechanisms that would foster a culture of integrity in the agency in place. This can be done by introducing efficient financial disclosure and conflict of interest policies, along with corresponding sanctions mechanism, which can be expanded to cover also staff post-service period. This is especially important given the fact that agency does not systematically collect information on advice provided by its employees verbally. Such

policies can help ensure impartiality of the agency's interactions with its clients, manage conflict of interest, and prevent situation that lead to bias and corruption.

Because corruption thrives in secrecy, connected to the issue of conflict of interest is also the question of keeping procurement transparent. Therefore, an adequate degree of transparency is very much needed also when it comes to the agency engagement with bidders. Several things can be done to ensure this, starting with publicizing the contacts made by bidders and information provided to them by the agency staff. To encourage close cooperation between the agency and the private sector to maintain high standards of integrity, it may be also worth exploring the possibility of setting integrity standards for the private sector and ensuring they are followed.

These steps would allow for public scrutiny of their actions by civil society organizations, the business company, media, and the wider public. Procurement with no public scrutiny can have detrimental impact on the ability of countries to provide public services, foster competitiveness, and improve people's lives. In this regard, I would like to suggest returning to the practice of drawing the agency's annual report also from the procurement-related information from civil society and media, which was abandoned following the adoption of the 2016 amendments to the rulebook for monitoring public procurement processes by the Bosnia-Herzegovina Council of Ministers.

To conclude on a positive note, I would like to say a few words about the role of the agency in the legislative process. Though it regularly makes proposals to the Council of Ministry, it does not have any formal role in the parliamentary scrutiny and approval of the law. Because of its mandate to improve the legal framework of public procurement of Bosnia-Herzegovina and other activities are carried out, it would only make sense if it could play a more significant role in this regard. So far, the legislative process in the area of procurement have typically boiled down to the political agreements among the parties, where quality proposals for improvement of the procurement in Bosnia-Herzegovina rarely got the necessary support. Considering the possibility of engaging the agency more actively could therefore lead to an improvement in regulation, free from political bias.

Finally, let me recognize the B&H Public Procurement Agency for its willingness to collaborate in this effort, an effort especially given the rejection of such an offer from four other BiH institutions. While we are still defining the steps for moving forward, the provision of technical assistance to address the gaps I discussed earlier can be one of them. The potential success of the agency in closing diagnosed governance gaps can inspire also other public institutions to follow its path, which in turn will lead to improved rule of law, an essential aspect of attracting investment. That will be all from my side for now, and thank you for your attention.

HAND: OK, thank you, Igor. I particularly liked the fact that you drew our attention not just to foreign direct investment and risks of corruption in that area, but also in the realm of procurement – public procurement, and also the emphasis you gave you in your statement on the issues such as the training and professionalism of the people who are in the institutions that oversee it.

We will now turn to question and answer period. We will have a roving mic here so that people can raise their hands to comment. I think what I will probably try to do, given the configuration of the room, is take questions from one side and then the other. And that way we don't have to be running back and forth quite as much. But while you're thinking of the questions you would like to ask, let me just start by asking each of our guest panelists if they could just comment on the cooperation they had from state institutions or agencies. I think it was commented that here was cooperation from all of them, excepting Serbia, if I'm correct. And that in Bosnia, whereas there was some cooperation, it wasn't from all the institutions that you sought to engage, Igor.

I was wondering whether you could comment on whether the agreement to cooperate and work with you was genuine at the agency level, or was it a reflection of political pressure from above? Was there a desire to reform that could give us hope? Or whether there was any hesitancy in providing that cooperation. And then, in the case of Serbia, where there wasn't cooperation, whether that was because of resistance at the agency level, or if it was a political decision higher up not to cooperate in these efforts.

And then after each person responds – I don't know if, Martina, you would like to comment on how this situation evolved, how from CIPE's overall perspective this cooperation looked? And I ask this question because I look at these countries not where they're necessarily at, but where they're going. And you have to start with the will to have some kind of change. And that will be reflected in the degree to which state agencies or public officials are willing to engage civil society actors in looking at problems and seeking to correct them.

So who would like to speak first? Misha?

POPOVIKJ: Thank you. We cooperated with the Directorate for technological and investment development zones. It was – I would use this opportunity to thank them, because the first step towards improvement is relying on someone diagnosing and trying to identify what's working, what's not, or whether there are some issues, and then opening up to possibilities of improvement. And actually, they have asked us whether we could write them or help them, actually, because it's a cooperative process to help them write a plan of integrity, which is a big thing compared to just a few years ago. Whether this is a reflection of a wider political will, I would say there are movements for and against improvements in terms of good governance. So this is a reflection of those in favor of the broader sense of reforms.

HAND: OK. Which one of you would like to go first?

STOJANOVIC: Concerning cooperation with Public Procurement Agency in Bosnia-Herzegovina, I would like to emphasize that the kind of innovative approach in offering cooperation from the civic society would be one of the reasons why they decided to enter into the cooperation agreement with CCI.

In fact, it is always about the people and integrity, the leadership of different public institutions, - the agency in this regards decided to cooperate with us while four other institutions who have been offered for cooperation denied something like that. And in one point, it is

understandable since they have been asked to expose us totally, so to share with us all their internal documents and allow their staff to be interviewed and to participate in planned surveys quite often. So in current context that could present quite a political risk for them.

From that point of view, it could be understandable for their hesitation to enter in such a(n) agreement. But still, agency has enough, I would say, courage and also readiness to receive an independent feedback about what's really going on in terms of the ability of their internal acts and readiness to defend from undesirable external pressure in this regard. So at least the agency demonstrated some level of anticorruption readiness to preform from their side.

HAND: Igor, would you like to comment?

NOVAKOVIC: Of course. I can relate to what Igor said right now. And I think that in our case, first of all, as in – as in their case, we also contacted several institutions. We ended up with these two by contacting of all the other potentially interesting institutions for our research.

The point is it's all about the leadership of public institutions, but also about the organizational culture in the institution and the overall situation in society, I would say. You know, and that's – actually, that was proven to us a few months after, when our research was almost done, when we met one of the high officials who is connected with these two institutions that we assessed and he said, oh, why didn't you come to me? Because this sounds interesting and we – and we could have done it.

First of all, some things should not relate on personal relationships. So I don't necessarily have to know you. There should be a system that if there is an application or a proposal for cooperation that that should be processed and certain answers should be given to the ones who proposed it.

So that is the problem. I think – I think that probably somebody in these institutions who received our – the invitations for cooperation may be so that there are certain political risks or certain risks that they do not want to take and they did not process it further to the – to the officials of the institutions.

So that is the problem, and I think it's a real pity because what we found out that regarding these two institutions that there is an anticorruption framework that is relatively – you know, in relatively good shape. It should be implemented but, you know, that is something positive and it's a pity that we did not find out from the inside how the things are functioning, just from the outside.

HAND: Martina, would you like to put this in an overall context and perspective?

HRVOLOVA: Thank you, Bob.

Yeah. One thing I would highlight is that, hopefully, it's clear to everyone that the challenges we've discussed today are not unique to the Balkans, right – to the Western Balkans. There are many other countries who face similar challenges. But this is the first time that anyone

has ever tried to articulate and aspire to address the challenges stemming from the threat of corrosive capital.

And I also would like to commend the partner institutions in each of these three countries including Montenegro, which is not represented on this panel today, for admitting that there is an issue and their will to address the issue, again, associated with the inflows of corrosive capital. I'm hopeful, as always. I try to be positive.

So I hope that the action of these institutions, including the tax administration of Montenegro, which concluded an MOU with our local partner there, in this regard will inspire other reformers in other countries, so both in the Western Balkans but maybe even beyond the region to follow the same path – again, willing to admit that there is a problem and work with their civil society partners to address that problem.

HAND: OK. Thank you.

So now we'll start with questions from the audience. The first hand I saw was up front here in the center. The microphone's coming. If you'd like to stand up, introduce yourself, and then you can make a brief comment if you want but if you could ask a question and let us know if it's for everybody on the panel or for any specific individual.

Q: Thank you. My name is Viola Gienger. I'm Washington editor for Just Security, which is a national/international security, law, and policy online resource at – oh.

HAND: Could we –

STAFF: You have to press the button.

Q: OK.

HAND: There you go.

Q: Ah. Let's try this again. My name is Viola Gienger. I'm Washington editor for Just Security at NYU Law.

I noticed a contradiction in observations between Igor's statement and Misha's. Igor said the government of Serbia should give FDI incentives proper consideration as opposed to rubber stamping decisions by the council with a limited representation of elected representatives where the potential for external pressure is greater.

I understood that to mean that because there is not much – because there is limited, meaning not much, political representation that it is more susceptible to external pressure, right?

NOVAKOVIC: Well, no, it's a procedural thing. The thing is that the council is set up and that it adopts decisions which are later verified by the government. So the government is not really taking into consideration the decision of the council in most of the cases. It goes

automatically because members of the council are usually ministers and heads of several agencies.

Q: And not – that don't have elected representation on the council, or they do?

NOVAKOVIC: They are – well, they're members of the government.

Q: OK.

NOVAKOVIC: Members of the council are in the same time are several members of the government. The problem is that the government as a whole is not – is not debating in depth the proposals for the decisions adopted by the council.

Q: I was wondering about that because, Misha, you mentioned – you said that we suggest separating FDI promotion from politics. In other words, let professionals rather than politicians take care of it because the potential for corruption is inherent to FDI. And I'm just wondering whether you think that political decision-making is more susceptible to corruption in FDI rather than not – rather than professional decision-making, which –

POPOVIKJ: Thank you. What I am suggesting is that the process of – the process of prevention, the process of screening, the process of analyzing risks of potential investors should be handled by larger institutions, so meaning – (inaudible) – meaning professionals.

Only once this is vetted as being contributing to competitiveness, contributing to economic development, having no visible risks of ties with organized crime, with certain third parties – let's call them like that – only then political level can be involved because otherwise if you, as it is now, have mixed approach, so some agencies are involved in attracting and promotion of investment, then other ministers as well without portfolios do it as well.

They have various degrees of institutional proficiency to do vetting, to do – to apply anticorruption policies and so on. So this is why we are suggesting separation in phases. So at one phase you kind of screen and then after that, of course, it is a political decision at the end in some way or another.

NOVAKOVIC: Actually, that is also our point because this is just one element and one suggestion. Of course, the independency of all institutions and their – you know, the thing that they all should do their job it's crucial to have the whole process transparent and in the interests of the citizens, and this is just the final step what you mentioned. So that is just the final element in the puzzle. Thank you. So I relate to this, what Misha said.

HAND: Is there another question over on this side? Paul?

Q: Yeah. Thanks a lot. Paul Massaro, Bob's colleague. I work under national anticorruption.

Misha, you talked a lot about the need for ultimate beneficial ownership – shell companies. This is a big topic on the Hill right now. And also, the fact that you talk about it kind of makes me question sort of what are shell companies used for, ultimately – you know, moving money opaquely out of a country. So where is the money going? When it leaves whatever country it is, where is it ending up?

POPOVIKJ: Well, I cannot speculate for every shell company that was – that is involved in the Macedonian economy. There are some economic operators that were known to be, basically, owned by domestic politicians. So it's kind of using opaque ownership to acquire assets when in power – when in office, also foreign power – foreign companies which are organized around third parties, third actors such as Russia, for instance – a Russian businessman.

But yeah, I would not go – I cannot – I don't have more information to share at this moment, yes.

HAND: Go ahead, Samir, and then we'll move over here.

Q: Hi, everyone. Samir Beharić. I'm a fellow with the Commission.

I have a question related to the brain drain. I think, Misha, you spoke mostly about it. What is the – taking in consideration the high brain drain rates across the whole region, what are the – what are the, basically, possibilities for young people, civil society, to take action and to change I won't say the system but taking in consideration that the agents of change, young people, are leaving, the ones who think critically?

So the question is who stays behind and what is the capacity of those people and organizations staying behind to effect change in the region, not just in North Macedonia? So you could answer but also, like, this is relevant for other countries as well.

POPOVIKJ: I think we have had several waves of migration. So at this stage we are seeing highly-qualified people, some of them going because of low salaries, because of low prospects, but we also see, for instance, coders, people working in ICT who have, really, above average salaries for Macedonian conditions leaving.

So I would argue that this last wave is more about standard of life than about economic prospects. Air quality in Skopje is terrible. I think it's the second most polluted city in the world. So this is – this has caused a huge resentment lately. Just this Friday there was a big protest in line with the worldwide protest simply because of this.

So I would say that working on sustainable development through rule of law or good governance, building capacities, pushing towards better governance to ultimately trickle down to sustainable development, to improvement of everyday life, is the way to go and that's also a task for civil society.

HAND: Would either of you like to also comment on the brain drain from your countries or regionally?

STOJANOVIC: We can try, at least. I mean, it sounds like a question for a million dollar(s). But I thought it – this was not really a focus of our research. Considering cooperation between civil society and, I would say, citizens, it's – there is a problem, I would say, a little bit older than this recent brain drain, if I may say it. For the last 20 years, CSOs were really struggling to demonstrate wide support by citizens, although they represent themselves as advocates of citizens' interests. So I do believe that CSOs should rethink a little bit more about the way of their operations on working and try to reform their approaches and really demonstrate to the citizens that they are – in terms of corruption, they are at the, I would say, in first row of combating corruption.

So not to continue with some kind of methodology of roundtables anticorruption initiatives or similarly like that because, for example, if you are talking about whistleblowers in the country where I am coming from, most of these blowers found themselves in real problems at the end of the story, either lost their jobs or end up in deeper troubles, while NGOs are still there to express their concern.

So citizens maybe do not really believe in cause of CSOs to do something, to stand up, to advocate, unless they would like to see what's a difference in their approach. So if such a change will be visible by the CSOs, I believe then the citizens who still remain, let's just say, in our countries would consider, I would say, to express their support not just verbally.

NOVAKOVIC: Yes. I think, actually, it's not because I have enough years and I experienced several waves of migration – even myself, I went abroad for a few years – anyhow, I – my personal impression is that the current brain drain and migration that we have is not just about the money. It's not about – just about the paycheck. It's also about the perspective and the belief in the system.

And my personal impression is that the citizens all over the Western Balkans do not anymore believe in the system and they do not believe that it can be changed, and it's also related to what Igor said, that there should be – you know, that citizens should have advocates of their interests on the ground. That's one thing.

The other thing is that we are in a constant loop – I mean, in a never-ending maze of political problems of grand scale. For example, between Belgrade and Pristina there is an ongoing struggle and this actually blurs the perspective and the dialogue about the issues that are important for the everyday life of citizens. Same is in Bosnia. Same was in Macedonia until very recently.

These are the problems that should be also tackled. For example, the EU, in the case of Belgrade and Pristina, I think they also, through the mechanism of conditioning and prioritizing Chapter 35, which is about a dialogue between Belgrade and Pristina, actually shifted the focus from Chapters 23 and 24, which are exactly about corruption, exactly about the rule of law.

So and actually this whole focus on exactly that should return in the future and actually this French proposal for the reform of the accession process, although it has many challenging

elements, actually aims at depoliticizing the whole process of accession, which would be fruitful for us, I think.

HAND: Thank you for making that last comment in particular because it goes back to my introductory remarks where I say sometimes we focus too much on these bigger issues whereas the one issue that I think is underlying it is the lack of economic reform and the continuation of corruption and that we need to keep a focus on those issues.

Turning over to this side, I saw a hand raised. First, in the back row and then we'll go to the front row to Joe.

Q: Thank you, Bob. I'm Joe Foley. I'm the Washington rep for the National Federation of Croatian Americans here in Washington.

And I want to thank the Helsinki Commission and Mr. Hand for holding this briefing once again this year. It's great to see it happening annually now. Per the panelists' opinion, based on their best observances over time – and I did come in a little late. If this was addressed earlier, I apologize.

What are the top two or three national and/or multinational organizations with the most reliable record for assessing levels of corruption at the nation-state level in the Balkans at large? And I'd be glad to get those names and so talk slowly so I can write them down. Thank you.

HAND: Who would like to, first, try to provide an answer?

STOJANOVIC: I'm not sure did I catch the question correctly. Who are the most prominent international NGOs, or referential –

Q: It's Igor, right? Thank you, Igor. What are your opinions on the most reliable organizations for assessing success and failures of national corruption in the Western Balkans I think is maybe a better way to say it.

STOJANOVIC: Transparency International is the most – I would say most mentioned one, not just about their data but also frequency of the reports and analysis that you are really publishing. Besides that, I think there is some data coming from European delegation in Western Balkan countries. They are also issuing – at least they did it for B&H until last year. So there are some info, insight, about status of corruption.

HAND: Misha?

POPOVIKJ: Obviously, I am in conflict of interest. But the regional anticorruption network SELDI, which is a regional network of think tanks for good governance, has done assessments based on experience of administrative corruption. So it's not a perception-based index like the Transparency International but it's based on experiences of administrative corruption, which is the low-level corruption, and forthcoming are some more explorations of high-level corruption.

But also I would say that at least for Macedonia – North Macedonia – there was a senior expert group headed by Reinhard Priebe. who did an analysis of the state capture in Macedonia in 2015 and this still is the best assessment of high-level corruption and one of the, hopefully, still guiding principles for the reform agenda in Macedonia.

Q: How do you spell that last name, please?

POPOVIKJ: P-R-I-E-B-E.

HAND: And then up in the front here.

Q: Thank you. My name Ermina Mustafic. I'm with Congressman André Carson's office.

I have two questions. My first one is more a domestic question. Misha, you said 47 percent of people say they are most concerned with unemployment. What role do all of you feel that citizens can play in solving the corruption? Or do the citizens not really feel like they can have any change because it is so widespread?

And then if the citizens can't have a role, my second part of the question is what is the United States role, and if there is one thing that you would like anyone here in Congress to know what would that be. What's the one thing – for your country?

HAND: Would you like to start, Misha?

POPOVIKJ: That's quite problematic. This is the vicious circle. So if citizens do not trust institutions, they will not report and – but, most importantly, they will feel that they cannot do anything, and this is reproducing the enabling environment for corruption, or disabling environment for economic development.

I think that, based on our experiences in Macedonia, it is very important to finalize cases of high-level corruption. This is what people expected, this is what people are still haven't received, and this will create increased pressure and increased trust – tackling high-level corruption.

Unfortunately, how to do it without high-level cases is probably looking to the Parliament as a forum where you can start building a semblance of political will through negotiations between the majority and opposition and, thus, increasing the oversight role of the Parliament and this can relate then to increasing responsibility of anticorruption institutions before the Parliament. Typically for the region, anticorruption institutions are accountable to the Parliament.

HAND: Igor, would you like to address this?

NOVAKOVIC: Well, I don't think that citizens do not believe that a change is possible. Exactly on every elections when politicians advocate a fight against the organized crime and corruption, they are receiving support. Now, the question is how to implement that.

But, nevertheless, citizens are interested in these issues and I think that we should, first of all, think more how to explain that organized crime, corruption, and – can be tackled only in a systematic manner. First of all, as Misha said, we have to have independent institutions that are doing their job.

So it's not about a certain politician. It's not about the decision of certain politician to arrest somebody who is suspected for corruption or the organized crime. It's about systematic approach to this issue by the independent institutions. For example, I would like to see more independency in institutions such as public prosecutor in all of the countries of the Western Balkans and that is actually also the answer both for the EU and the U.S.

For example, the EU, in previous cases of the enlargement for them the most important thing was to have the arrest of some big shot and that was usually taken as a proof of determination of the country in question to fight against the organized crime and corruption. What was happening after the accession? It was not that much important. And we saw in some of the countries deterioration of situation immediately after the country entered the EU.

So what we should be focused on is actually the creation – the creation of a sustainable system to deal with these issues and the U.S. can actually advocate that both for the process of the EU integration of these countries – that's one thing – but also to push – to push for that practice in the countries of the region.

HAND: Igor, would you like to comment?

STOJANOVIC: Igor responded. (Laughter.)

HAND: You got it?

STOJANOVIC: No, I can – I can comment a little bit. I think that that's related with those previous – this previous question a little bit about citizens' trust and readiness to do something. And in addition to that, I mean, I'll throw out again this is not really related with our research. It's, obviously, that our discussion is moving a little bit aside from the main topic of our papers.

However, we all well understand that citizens are waiting to see some change in behavior of relevant institutions, court or prosecution, or to see at least somebody from a high level in jail, I mean, thanks to the corruption. Without that, they will not be really sure that something really is going on.

And the key question is when that will happen and based on what agents of change. And I don't know, quite honestly. As I said earlier, at least from civil society point of view, I think there are some needs – there are some changes very much needed in their ways of work.

So maybe CSOs then can regain trust of citizens and see them behind them. And also to answer your question about AID or U.S. engagement there, as far as I know, USAID this year contracted local CSOs in Bosnia-Herzegovina for the five-year project award \$7 million exactly for the making anticorruption works. So I'm sure you can easily find more information on AID website in Bosnia.

HAND: OK. Up front here.

Q: Hi. Ajdin Muratovic from Voice of America.

So we touched on a lot of issues today – workforce development, FDI. I'd like to go a little bit off Ermina's question about the role that the U.S. can play. Recently, in an email with the U.S. Embassy in Sarajevo, they stated that they have been – invested several hundred million dollars – they did not have an exact figure – it's going to need a FOIA request – on the judicial framework in Bosnia.

Given that a lot of these – the overarching issue really seems to be the judicial framework and prosecution and showing an air of accountability, what do you think that the U.S., given that we've put so much money into that, what do you think we could do better in terms of getting actual results? Thank you.

NOVAKOVIC: I can give one answer. I'm not an expert in it but, you know, I have just elements of information.

Actually, in Albania, and we should dig into it – into this case – there is an ongoing vetting process of judges of the constitutional court. So each – every judge that was in some way discovered to have connections with corruption or organized crime – don't quote me now because I'm not – I'm not completely sure, but – if there were some problematic issues in their careers they were not allowed to continue to be judges of the constitutional court. The whole process is carefully supported by the U.S. and, in this moment, I think Albania has out of seven judges, I think, only one.

So that is the consequence. And certain things are moving in the region, but maybe Misha knows more about what is happening down there, because it's a really useful example because it's about the overall transformation of the – of the rule of law in that country.

HAND: Misha?

POPOVIKJ: Vetting of judges is not a panacea. It was probably – I mean, it's still not – I mean, judiciary is dysfunctional now in Albania but maybe vetting was needed there. We don't know if it's needed elsewhere. This all depends on how judges are connected with corruption or organized crime.

If it's a small kernel of judges, then vetting would be inefficient because it will indispose all the – all of the judicial system. But this is not a million – a hundred million or more question

how to solve the judiciary because I don't know if it can be solved with self-regulation or I think it's an investment in media which can uncover these relations because for instance, the example seen in North Macedonia are that we know some of the problematic judges which were exposed because of the wiretapping scandal from 2015.

But also independent media has – have uncovered other corrupt judges in much – in cases which are below the radar. So I think that's transparency of infringements is the first step and then – and then hoping that it's much more important to find capable prosecutors than to reform the judges. Or the – so intervention in the judiciary should be much more focused on prosecution than on – because you can eventually end up in front of competent judge who can start the whole avalanche of replacing corrupt judges.

HAND: OK. While we're over on this side of the room, I want to recognize the fact that Martina is not the only one from CIPE present here. We also have Natalia Otel Belan and as well as Marc Schleifer, and, finally, we have Abdul Alkebsi. Close enough, yeah. I'm reading with my glasses on and my glasses are for distance and they're down here. But I don't know if, based on the questions and comments we've heard so far, whether you have any comments yourselves from CIPE.

Q: Well, if I may. Yes.

HAND: If we can get the microphone.

Q: Hate to hold you guys back.

HAND: And I'm sorry if I suddenly targeted you for – (laughter).

Q: Thank you very much. Thank you.

So, again, my name is Abdul Alkebsi. Close enough, Bob. Thank you very much for the partnership. Thank you for the invitation. And, Martina, what a fantastic job. Thank you.

We are one of the institutes – core institutes – of the National Endowment for Democracy and a(n) affiliate of the U.S. Chamber of Commerce, and what I wanted to say is so take a step back how complex the issue of dealing with the corrosive effects of capital flows from authoritarian regimes into a struggling democracy.

You hear how complex it is in every country. Now add layers to deal with the overall flow of this capital and you understand what a challenge we have ahead of us. And it's important to bring an international perspective to all of this – you know, the new perspective, the networking, the cross-fertilization, but, most importantly, a methodology that addresses this issue systematically – to bring it to all of these countries and we deal with this issue not just in the Balkans, as Martina said, in Asia and Latin America and now, hopefully, also in the Middle East. And the methodology is about, first, understanding where these capital flows go – what happens. You have to understand what happens.

Second, what gaps – what governance gaps do they create or do they expand or they take advantage of, and after that it's very important to address these gaps through policy reforms. Not just identify in shaming and – naming and shaming the corrupt people but what systematic approach, what policy reforms are recommended and then advocate for this change and in a cyclical way, do it again and again and again.

And so this is the formula, but this formula is not complete without people like Igor and Igor and Misha who have the courage, the knowledge, the expertise, and the ability to do the work – the hard work – inside these countries. So this formula is important.

Just, again, I want to take a step back for you to understand how complex this issue is and how important for us to have an approach for it, and not just work in each country alone. You have to understand it, again, from a global perspective and it is a real threat.

These capital flows are now the arms that these authoritarian regimes are using to attack democratic reform and democracies all over the world. It is really – it is what they use right now. So in addition to cyberattacks, these flows into – all over the world are the new way of attacking democracy and we need to deal with it.

So, again, thank you very much for the partnership. Guys, you did a fantastic job. Thank you. (Applause.)

HAND: Let me also recognize Martin Vladimirov, who is part of the team here under CIPE auspices and I believe you were here back in 2018 as well. I don't know – you come from Bulgaria. You're with the Center for the Study of Democracy. Do you have any comments based on what your colleagues up here have said that you would like to make?

Q: Yeah. Actually – thank you very much. Actually, I just wanted to include Montenegro in the discussion, very quickly. By the way, the Center for the Study of Democracy and CIPE go back 30 years working on these issues in the region when I was in the kindergarten, and in this particular study which we did we tried to really involve a tool that has never been used before in the region. It sounds a little bit academic but it's really oriented towards reforming an institution from within so it's a little bit of a management tool.

So this perception corruption – not corruption perception but corruption pressure discussion that we had here is based on, basically, comparison of what officials perceive as good anticorruption policies and what clients or companies involved with dealing with the institutions perceive, and comparing the two has been the way to understand where there's a gap in transparency, there is a gap in accountability.

And I just wanted to give the results a little bit for Montenegro because Montenegro wasn't mentioned, and it's actually the star example, in a way, from the group of four countries. It's where we've seen the lowest corruption pressure both on the official side, so both on the institution and we're talking about the tax administration in Montenegro, but also from the side of clients, for both companies and officials have been involved in far less corruption transactions than Bosnia-Herzegovina, Serbia, or Northern Macedonia. And this is, I think, in line with

general decline in administrative corruption in Montenegro over the last decade, which we have noted through several corruption assessment reports.

And I think it's a good sign that Montenegro seems to be determined to join the Euro-Atlantic community as – I mean, the first step was done with NATO. Although Montenegro is probably the target – the biggest target of authoritarian corrosive capital in the past decade as well, but it seems that even though there is kind of a status quo on high-level political – on high political level, still, in terms of institutional efficiency there seems to be improvement and I just wanted to put that out here because we didn't mention it. Thank you.

HAND: OK. Thank you.

If I could just go back and ask Igor Novakovic to follow up on the one comment I made on his presentation about international agreements having a priority over domestic law. It seems to me that that would be extremely problematic, to say the least, in terms of creating an unequal playing field based on who negotiates what and if you could just comment on how content people are with that situation. And I don't know how unique it is to Serbia.

NOVAKOVIC: First of all, I look at it as an emergency measure. You know, it's there in our legal system because from time to time there might be a need to have an agreement as such, for example, also the agreements with – regarding the process of the EU integration. So it's something that was probably created to be there as an auxiliary measure but not the measure that should be applied consistently all over and for each and every case.

The problem is we have the situation – the problem that we have with this situation actually started in 2008 when we concluded the energy agreement with Russia, which had three elements. One is element – the first element is Russian purchase of the oil industry of Serbia. Second element is completing of the construction of the underground gas storage in Banatski Dvor and the third element is the construction of the South Stream pipeline over the territory of Serbia.

My organization back then I was not – actually, I just started to work in ISAC in 2010 and we came out with a study that – and we find out that through that energy agreement Serbia's constitution and legal system were breached many times but there were no consequences because it is legal, according to the system.

What should be done is actually to leave this provision in the – in the – in our legal system but not rely on it. So when an investment is coming from a third state and if we are negotiating with the government, it should be purely commercial. Let's think about how to make it not secretive, how to make it transparent, and how to base it, all of these processes, you know, on the market, on the actual – and the actual needs of both of the investors and the citizens – to take that into account.

Our problem is that in many of these cases, you know, because for years and especially after the 2008 economic crisis there is a widespread perception that we have high

unemployment, that we have lack of FDI in the country; thus, we should accept everything that is coming.

According to this research that Misha mentioned that was done by Westminster Foundation for Democracy, currently in Serbia the unemployment among youth is 3 percent, which is significantly lower. No. No. I read it yesterday. It's around 3 percent, according to – according to them.

If that is true – if that is true, then we should really start thinking about the quality of the investments and how the investments are coming. So now is the time. And, plus, we should also think on how to improve the situation regarding domestic investments because we were – all this time we were only focused on FDIs.

HAND: And then if I could ask Igor Stojanovic, with your focus on procurement but also to the extent that you've looked at foreign direct investment as well in Bosnia, the country as a whole, as we all know, suffers from the fact that political power is decentralized by entities and then from there one half into cantons and that the political parties themselves sometimes are more important than the government institutions.

Does this lead to great variation throughout the country in terms of problems of corruption or does it result that, nevertheless, no matter where you go the situation is, basically, the same? So, essentially, if you could address how the current political framework actually impacts corruption and efforts to combat it.

STOJANOVIC: OK. I mean, the easy answer on your question is that second option that you mentioned right now. (Laughter.) Although there is a complex structure of the country, my personal opinion is that's not the key reason for having such a high corruption. It is more about it was the mission of political parties who rarely have, I would say, public benefit on top of their goals. So most of them are really running politics just to become in power and most probably continue with the existing practice, like the party before them.

So country – different levels – different political parties but pretty much similar corruptive problems usually related with intention of parties to control everything from the employment in public institutions/companies, funds, whatsoever, to also control any other source of power that can help them to remain in power. So I do think, structurally it's more about their dedication towards the public interest.

HAND: Thank you.

Are there any other questions out there in the audience on any side of the room? None?

OK. Well, then at this point, I think I'll just allow each one of the panelists, if they want to just make a few closing remarks, just, you know, one or two minutes to summarize their points, anything they want to stress or something that they missed, and then we'll close the briefing.

Why don't we start with the same order that we – yeah, we'll start with the same order that we began the briefing with. So we'll go with Martina first.

HRVOLOVA: Thank you. I would like really – I want to go back quickly to the question of whether the U.S. taxpayers' money generate the value that the taxpayers expect of – from us to generate on the ground. I have to admit that the situation is not easy, of course. If you ask me if it's better or worse than 10 years ago, I would certainly tell you that I did not expect North Macedonia to conclude the agreement on the name change together with Greece.

So, again, I tend to be optimistic. Even if it's true that societies are divided, polarized, and there is a lot of brain drain going on, it's hard to find those agents of change. But they are still there, and so CIPE is one of the organizations who tries to make sure that their voices are heard. It would not be probably appropriate for me to comment on the role of the United States.

But one thing I'd like to highlight is that the three Ds – so development, defense, and diplomacy – have always being an integral part of the U.S. foreign policy. And so we at CIPE believe that together, with other institutions in the field of international development, we believe that democracy should become the four D so, again, an integral part of the U.S. foreign policy. And so that's also one of the answers I wanted to give to the question that you raised with regard to justice system in Bosnia and Herzegovina, and I will leave it there.

HAND: Thank you. Yeah, I would say that, like you, I am an optimist. To some extent, you almost have to be to survive being a Balkan analyst here in Washington. There's people who claim to be better Balkan analysts than I am who say that instead of being optimistic I am simply naive.

But I think that the – I think that they're wrong. Things can change. I started at the Helsinki Commission back when there was a divided Europe and nobody ever thought that that could change, and there's no reason that I think the situation in the Balkans regarding the issues we're addressing today should be any different than they are anywhere else in Europe.

Misha, would you like to speak next?

POPOVIKJ: Well, I'm not an optimist. I'm a pessimist. But I'm also a stubborn person. So I think it's more important to be that. And in that respect, going back to what Martina actually started speaking, and that's the role of the United States, I think that the United States' focus on rule of law is very important and I think that they have contributed very – I don't know if it was planned like that, but it was very theoretically founded, I would say.

So, one, they – in 2014, they had the really – actually, 2012 they started this USAID's anticorruption program, which was really systematic support to civil society to enhance their capacity for doing a state-of-the-art anticorruption research and CSD was part of this in helping us.

At the same time around that same period, they started supporting independent media and investigative journalists, and, in theory, these two things are the key prerequisites for successful

combating of corruption. And I think that we should wait in terms of some things cannot appear very quickly. But I think that this investment proves – will prove to be worthwhile.

HAND: Igor?

NOVAKOVIC: I believe I already said enough. But I would like just, in the end, to shift the focus back to the corrosive capital issue – that it is really important for all the citizens to know – to know information about the capital that is entering the country because not all capital is good.

Despite the fact that it could have some positive effects in the short run that we should be interested about investments that are entering our countries, that we should be interested about the ultimate beneficiary owner, and that we should push for it, actually, in the – in the future because, as CIPE representative said before, this is one of the new tools that is being applied by many of the third states in the region and elsewhere in the world to obtain political leverage and to fulfill their interests.

Thank you.

HAND: OK. Thank you.

Igor?

STOJANOVIC: Well, just you, Bob, to feel better, so there are two of us, I mean, naïve. (Laughs.) I am also optimistic guy, and I really do believe that at some point citizens will start to observe politicians primarily through their behavior to deliver difference and results. And that most probably will point the moment after which things have to be better.

So I really – I'm optimistic, and some things really needs times. Maybe we are hurry very often and keen to have something as much as possible. But sometimes maybe we need – we need really to have patience about that and I'm pretty sure that Western Balkans will stand on its legs.

HAND: OK. Thank you, and I'm glad we're both naively optimistic about the things. I would say that particularly in Bosnia I've actually seen things already, from my point of view, turn that way. TWe have seen protests over various issues in Banja Luka or in Sarajevo, but I think the politicians still think that by pursuing their same course or intensifying that course they can ride it out rather than actually to start shifting course to a more cooperative relationship.

So at this point, I think I'll close the briefing. A short announcement that reference was made earlier to the situation in Albania regarding their courts, et cetera. Next week, we're hoping to have a briefing that would focus exclusively on Albania with some visiting parliamentarians. So look for your inboxes for any announcement regarding that.

I also want to thank some of my colleagues, fellows, at the Helsinki Commission: Michael, who is currently opening the door for people but has also been giving them the

microphone – Michael Albanese and also Samir Beharić. Both of them have been here during the whole fall. They'll be leaving us soon, and it's a brain drain for the Commission to see you guys go. Your help in organizing this has been deeply, deeply appreciated.

And let me, again, thank CIPE for bringing our guests here and thank the guests for coming and making presentations because, as I said earlier, and in response to your comment that you said too much, if you're from civil society you can never say too much. That is my point of view, and I very much enjoy the opportunity to give a voice to civil society, to the countries in the Balkans because the people from the region so genuinely deserve to hear that voice and, hopefully, to join in trying to promote positive change.

And with that, I'll end the briefing. Thank you very much in the audience for coming. Hope to see you again. (Applause.)

[Whereupon, at 3:53 p.m., the briefing ended.]