

REPORT ON BOSNIA AND UNITED STATES FORCES IN  
NATO-LED STABILIZATION FORCE

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COMMUNICATION

FROM

**THE PRESIDENT OF THE UNITED STATES**

TRANSMITTING

A REPORT ON PROGRESS MADE TOWARD ACHIEVING BENCH-  
MARKS FOR A SUSTAINABLE PEACE PROCESS IN BOSNIA AND  
HERZEGOVINA



JULY 7, 2003.—Referred jointly to the Committee on International  
Relations, Armed Services, and Appropriations and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE



THE WHITE HOUSE,  
*Washington, July 3, 2003.*

Hon. J. DENNIS HASTERT,  
*Speaker of the House of Representatives,*  
*Washington, DC.*

DEAR MR. SPEAKER: Consistent with the Levin Amendment to the 1998 Supplemental Appropriations and Rescissions Act (section 7(b) of Public Law 105-174) and section 1203(a) of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261), I am providing a report prepared by my Administration on progress made toward achieving benchmarks for a sustainable peace process in Bosnia and Herzegovina.

This eighth report, which also includes supplemental reporting consistent with section 1203(a) of Public Law 105-261, provides an updated assessment of progress on the benchmarks covering the period January 1 to June 30, 2003.

Sincerely,

GEORGE W. BUSH.



REPORT ON BOSNIA AND U.S. FORCES IN NATO-LED STABILIZATION,  
FORCE

This document is divided into two parts, consistent with two separate Congressional reporting provisions concerning NATO-led Stabilization Force (SFOR) operations and developments in Bosnia and Herzegovina (BiH). Part I addresses the provisions of section 7 of Public Law 105-174 and outlines the latest developments in our continuing efforts to achieve a sustainable peace in BiH. Part II addresses the supplementary reporting provisions contained in section 1203(a) of the National Defense Authorization Act for Fiscal Year 1999. These two reports are submitted in a single document to afford Congress a broad and comprehensive assessment of developments in BiH from January through June 2003.

Part I

MILITARY STABILITY

Aim: Maintain Dayton cease-fire and strengthen state-level defense apparatus.

The military security situation in Bosnia and Herzegovina (BiH) remains calm. Breaches in the Dayton cease-fire or the resumption of war are unlikely. During the reporting period, BiH and Serbia and Montenegro (SAM) continued to build upon normal diplomatic relations. Belgrade stopped salary payments to officers of the Army of the Republika Srpska (VRS) in March 2002. A handful of VRS officers continue their studies at military academies of the Army of Serbia and Montenegro (VSCG). No new students have been accepted in at least 2 years and all remaining VRS students are expected to complete their studies soon. Serbia and Montenegro have honored its pledge to substantially end salary and other payments to the VRS. The cultural affinity that the VJ/VSCG once felt for the VRS has weakened over time. The United States has no reason to believe that illicit support will resume on an institutional level. The United States continues to encourage the two separate armies to support and advance the full implementation of the Dayton Accords.

Following revelations of illicit transfers of military equipment from the Bosnian Serb firm ORAQ to Iraq and VRS espionage against SFOR and other members of the international community, the Serb member of the BiH Presidency resigned on April 2 under pressure from the international community.

As a result of the ORAO revelation, the High Representative also mandated a series of defense reforms, which are to be implemented by December 31, 2003. The reforms required include: establishment of a Defense Reform Commission (DRC) to bring about state-level, civilian command and control of the military in BiH; significant downsizing of troops and armaments in both entities; a comprehen-

sive state-level defense law; greater state-level control over arms production and export; and, eventually, a state-level army. Initial meeting of the DRC, chaired by former United States Assistant Secretary of Defense James R. Locher, surpassed expectations. Representatives of all three ethnic groups agreed on the need for a phased approach to establish democratic, civilian command and control at the state level. In particular, the RS has moved its position considerably on these issues, likely a result of recent policy changes in Belgrade following Serbian Prime Minister Djindjic's assassination. For the first time since Dayton, BiH is on the threshold of developing a state-wide defense structure that will lead to increased security for the country as a whole, rather than the existing construct of two mutually opposing armies in one state. The constructive atmosphere of the first DRC meeting suggests a high degree of local support for the reforms, even from several key leaders of the RS. The Bosnians will probably need assistance to implement many of the defense reforms being discussed, such as a state-level defense-type ministry and general staff. However, if fully implemented, these reforms will greatly enhance BiH's ability to meet its own goal of joining NATO's Partnership for Peace in July 2004—a goal that seemed unrealistic in 2002.

#### PUBLIC SECURITY AND LAW ENFORCEMENT

**Aim:** Restructured and democratic police forces.

The European Union Police Mission (EUPM) replaced the U.N. International Police Task Force (IPTF) on January 1, 2003, with a 3-year mandate to “monitor, mentor and inspect” police in Bosnia and Herzegovina. With about 500 police monitors and 70 civilian personnel, the EUPM is more limited in scope and mandate than was its predecessor. Monitors are co-located with senior officers at state and entity levels, as well as canton headquarters in the Federation and major Public Security Centers in the RS. Although, the EUPM Commissioner does not have the authority to certify or remove officials for noncompliance, the High Representative established a mechanism to remove officials at the recommendation of the EUPM commissioner. The EUPM has taken some initiatives to strengthen local capacity to combat organized crime, including human trafficking, as well as to develop law enforcement institutions.

With the full deployment of the State Border Service (SBS) in October 2002, illegal migration to and through Bosnia has continued to fall. Figures released in early 2003 show that the number of arriving passengers “unaccounted for” at the country's airports has fallen to less than five percent of what it was 2 years ago. A computerized watch-list, established with United States Government assistance, is now operational at all airports and has resulted in over 50 interdictions of criminal suspects. The system is now being extended to key overland crossings.

Since its establishment in 2002, the State Information and Protection Agency (SIPA) has thus far failed to deploy. Responsible for both dignitary protection and coordination of nationwide information-gathering on criminal activity, it lacks funds, adequate facilities and trained staff. Less than 50 of 572 positions had been filled as of June, and the organization still had no headquarters building.

The current state-level government is more receptive to the idea of giving SIPA greater executive authority, but has thus far not provided the necessary funds and other support needed for even limited operations. The Office of the High Representative (OHR), EUPM and the United States Mission in BiH have pressed the government to act quickly to transform SIPA into a robust State-level investigative agency to back up the newly formed State Court and Prosecutor's Office.

An OHR-mandated reorganization of the state government included creation of a Ministry of Security. The exact role of this ministry has yet to be defined clearly, particularly the degree of influence it might have over operations of the independent, state-level law enforcement agencies, SBS and SIPA. The ministry recently formed a counterterrorism working group, consisting primarily of state and entity ministers or their representatives, but has otherwise focused on its internal organization and procedures.

Police forces in both entities are consolidating rules and procedures adopted in 2002 as a condition for receiving U.N. certification from the IPTF. These include measures for personnel evaluation and discipline, greater coordination with state and entity counterparts and standard operating procedures. Senior police officials have also pressed government leaders to redress salary imbalances between different police forces. While coordination and performance at the top level has improved in recent months, continued incidents of violence in certain areas—particularly returnee communities—point to the need to improve standards at the local level. Continued reports of official misconduct also showed the need for greater attention by professional standard units. RS police acted professionally to deter public security threats before and during a large burial ceremony conducted in March by relatives of victims of the 1995 massacre in Srebrenica. The Federal Interior Ministry took significant steps to integrate operations among all canton police, including those controlled by hard-line nationalist governments in western Herzegovina.

#### JUDICIAL REFORM

**Aim:** An effective judicial reform program.

The High Representative's reform program to review all judicial and prosecutorial positions subject to open competition, supervised by the newly created High Judicial and Prosecutorial Councils (HJPCs), continued during the reporting period. The HJPCs began work in September 2002 and consist of Bosnians and internationals. They conduct the reappointment process and oversee the restructuring and training requirements of the justice system.

The judicial reform process should take approximately another year to complete, with the aim of creating a truly independent judicial and prosecutorial system by mid-2004. The Independent Judicial Commission (IJC) continues to focus on its core tasks of restructuring and rationalizing the court system and providing to the HJPCs detailed background information on all candidates for the judicial positions. The OHR Rule of Law Department is assisting in the development of new legislation, coordinating legal training provided by the international community in BiH, monitoring re-

turns, and coordinating with other programs by non-governmental organizations.

Successful execution of judicial reforms is critical to establishing the rule of law and the confidence of all citizens of BiH, regardless of ethnicity, in the domestic court system. Additional focus must be concentrated on the local financing of the judiciary. The legislative and executive branches of government must provide necessary funding without delay or obstruction. The restructuring of the courts and prosecutors' offices is designed to reduce costs and rationalize them in accordance with European and international norms. Currently, financing of the judiciary occurs at a cantonal or entity level and is inconsistent.

In January, the High Representative imposed new state-level criminal procedure and criminal codes, which were subsequently passed by the BiH parliament. The codes will take effect in the RS on July 1, but the Federation has not yet adopted the new codes. The United States Government has taken the lead in an international effort to train judges, prosecutors and police in use of the new criminal procedure code.

On March 1, 2003 the state-level "Law on Protection of Witnesses Under Threat and Vulnerable Witnesses" entered into force throughout BiH. The law defines which witnesses are entitled to protection, outlines procedures the State Court and the State Prosecutors Office must take to ensure witness anonymity, and sets down the defense's options for appealing the status of a protected witness.

The newly established State Court and State Prosecutors Office are fully operational. In May, the State Court pronounced its first verdicts. Judge Salem Miso sentenced Tea Tanovic to 1 year imprisonment, and Iva Misic received 6 months imprisonment, both for bank fraud, after both pleaded guilty during pre-trial hearings.

#### ILLEGAL INSTITUTIONS, ORGANIZED CRIME, AND CORRUPTION

Aim: Building up local capacity to combat organized crime and corruption and the dissolution of illegal pre-Dayton institutions.

The bellwether event during the reporting period was the first utilization of the new state-level criminal justice system to prosecute suspected kingpins of a major organized crime network. RS police arrested four persons in the Prijedor area, all of whom were arraigned on May 10 at the State Court in Sarajevo for violations of the human trafficking provision in the recently enacted state criminal code. These four remain in custody at a State Court holding facility, while arrest warrants are outstanding for three others. The country's first nation-wide investigative task force—focusing on human trafficking—has continued its work, now with guidance from the State Prosecutor's Office. Until the State Information and Protection Agency becomes fully operational, with increased authority, coordination of this type of investigative work will remain the responsibility of entity law enforcement agencies.

One long-running organized crime case, involving the head of a family who diverted funds from the BH Banka and other local enterprises, reached a denouement in February. A Sarajevo court convicted Alija Delimustafic of planning and organizing the kidnaping of another Bosnian citizen in Germany in October 1996.



Delimustafic was sentenced to 4 years in prison. The maximum sentence under Federation law is 10 years.

#### MEDIA REFORM

Aim: Politically independent media and an apolitical telecommunications regulatory authority.

Media outlets continued their attempts to achieve economic viability in an oversaturated media market with limited success. Again, media experienced a mix of positive and negative developments in 2003.

On the positive side, the Mreza Plus network of independent commercial television stations has made donor requested management revisions that should allow it to operate more efficiently. Mreza Plus is also scaling back its joint news project proposal to meet donor funding limits; the first phase of the project should begin by the end of this year.

The Communications Regulatory Agency (CRA) continues to establish itself and develop the abilities of its local board members despite political controversy and financial interference. For 2 years running the previous government attempted drastic cuts in CRA's budget spending authority, including line item closeouts in program expenses. OHR, with the United States mission, is currently examining legal and constitutional options to reverse this year's decision and protect CRA against future politically motivated interference.

OHR has accepted a British Broadcasting Cooperation (BBC) Consultancy recommendation that CRA's authority be extended to include the licensing authority for public broadcasters. CRA is prepared to accept these additional responsibilities once its financial issues are settled. With CRA input, OHR has begun drafting the necessary changes to the public broadcasting law and plans to have them in effect by September 2003. These changes would include authority to regulate both advertising terms and time limits for public broadcasters.

The BBC Consultancy reports that PBS has made little or no progress in the management restructuring and reform recommendations from the OHR broadcasting agent. The PBS broadcasters continue to accumulate mounting debt in excess of their revenue. OHR is now requiring each broadcaster to develop a stringent cost cutting plan that will allow it to break even. Despite its costs, PBS has made no progress this year in developing expected educational and children's programming.

There has been little change in implementation of either the Freedom of Information laws or the Defamation law.

In print journalism, the personal attack on the Alliance for Change coalition leader begun during the 2002 election campaign continues despite the fact that the candidate lost the election. Attacks have expanded to include many other moderate, non-nationalist leaders and public figures. These slurs have occasionally provoked similarly unprofessional responses from broadcast journalists who have been fined by CRA for their more extreme outbursts. Since the print media is self-regulating, the original offender has received no such sanction. The United States is encouraging the responsible media community to express their disapproval at this be-

havior and call on the public to demand more professional standards.

The Press Council now has a capable local director and is becoming more active among the print media. The Council is working to assure that it will be completely self-sustainable in 2004 and no longer dependent on donor assistance.

#### ELECTIONS AND DEMOCRATIC GOVERNANCE

**Aim:** National democratic institutions and practices.

Following the October 5, 2002, general elections, new governments formed in both entities and at the state level in January. These are the first post-Dayton governments to be elected for 4-year terms. The governments are dominated by the three ethnically-based nationalist parties, the Bosniak Party for Democratic Action (SDA), the Serb Democratic Party (SDS), and the Croat Democratic Union (HDZ). Two swing parties that participated in the previous Alliance for Change government—the Party for Democratic Progress (PDP) and the Party for BiH (SBiH)—switched over and joined the nationalist coalition, giving it majorities in the parliaments of both entities and the state.

During the reporting period, state-level institutions have grown stronger in a few respects, but continue to fall short of coherent, self-sustaining government. In December 2002, the High Representative strengthened the state-level government by imposing changes to the Law on the Council of Ministers, which created two new ministries: the BiH Ministry of Justice and the BiH Ministry of Security. The amendments also ended the mandatory rotation every 8 months of the Chairman of the Council of Ministers. An individual of any ethnicity now may hold the position of Chairman of the Council of Ministers for the full term of the government.

The first important act of the incoming state government was to adopt the OHR-drafted Law on BiH Ministries, which delineated the competencies and responsibilities of each ministry in the expanded Council of Ministers. The law was adopted largely as drafted by OHR, but the Council of Ministers made a number of amendments that weakened the authority of some state ministries and independent agencies. These amendments demonstrate that some of the nationalist parties have not abandoned their policy of trying to keep the state-level government weak in order to retain power at the entity level.

In its first 6 months, the new Council of Ministers had only a modest record of accomplishment. In addition to the Law on BiH Ministries, the Council has approved amendments to the Law on Citizenship regarding denaturalization, which provide important authorities that can be applied to counterterrorism. The Council, the BiH Parliament, the entity parliaments, and the Brcko District Assembly quickly passed legislation recommended by the OHR-established “Bulldozer Commission” designed to remove administrative barriers to business in BiH. The Council also adopted the Law on Primary and Secondary Education. While the Council of Ministers has worked at a slow pace, meeting only 12 times in the last 6 months, the new BiH Parliament has met twice as frequently as its predecessor in order to clear a backlog of pending legislation and act relatively quickly on newly proposed laws.

The development of central government institutions remains constrained by inadequate funds. The central government relies upon transfers from the entities for the vast majority of its budget, since its only independent sources of revenue are fees from issuance of the new joint passport, overflight fees, and international donations. In February, the High Representative created the Indirect Tax Policy Commission and tasked it with drafting legislation unifying entity customs administrations and establishing a single, state-wide value added tax (VAT) and an Indirect Tax Administration. The Commission is scheduled to implement a unified customs regime on July 1. The state-administered VAT is scheduled to be inaugurated on January 1, 2005, replacing the differing entity sales and excise tax systems and ending the State's dependence on the entities for revenue.

The BiH Civil Service Agency, which is charged with developing a professional, apolitical, merit-based civil service, declared itself fully operational on February 6. The Agency is tasked with implementing the BiH Civil Service Law, imposed in May 2002, through transparent recruitment of state-level civil servants and by vetting current civil servants to ensure they meet minimum qualifications. The new government violated several provisions of the Civil Service Law in appointing senior level civil servants and has attempted to assert political control over Civil Service appointments. Strong intervention by the High Representative in insisting that the Civil Service Law be respected has largely succeeded in forcing the new government to conform to the law.

On May 29, 2003, the High Representative established the Expert Commission on Intelligence Reform, charged with producing a proposal for setting up a single intelligence structure in BiH. The Commission, which is led by former Hungarian Ambassador to BiH and former head of the Hungarian intelligence service Kalman Kocsis, began work in June with the aim of producing draft legislation to Parliament by August 1. Currently, each entity has its own intelligence service, which operate outside proper parliamentary and state control. In some cases, aspects of these services have been implicated in ethnic cleansing during the war. The High Representative has set the goal of an operational, single intelligence service by January 2004, provided the BiH Government promptly accepts and adopts the draft legislation to be produced by the Commission.

Following the April 2, 2003 resignation of Mirko Sarovic as the Serb member of the BiH Joint Presidency, fellow SDS member Borislav Paravac was elected by the BiH House of Representatives to replace him in accordance with the Law on Presidential Succession.

#### ECONOMIC DEVELOPMENT

**Aim:** Free-market reform.

BiH has made progress in its transition to a market economy, but more reforms are urgently needed. The private sector, which is critical to that transition, accounts for less than 40 percent of the country's GDP. Trade and investment will benefit from such steps as bureaucratic streamlining and downsizing, accelerated privatization, and accession to the World Trade Organization, all of which

are stated objectives of the BiH government. Currently the multiple layers of government, the co-existence of three economic spaces (two entities and the Brcko District), corruption, and the perceived absence of rule of law all contribute to an environment unfriendly to business. According to recent OHR polling data, the public continues to view the three most important problems facing the country as unemployment, criminality and rebuilding the economy. So far, despite their public pledges to tackle these problems and more, nationalist government authorities have done little to convince a frustrated public that they take these problems seriously.

Bosnia's economic indicators confirm that the country has made some improvements, but more are required. According to World Bank data, real GDP growth has declined steadily from 1999 (9.6 percent) to an estimated 3.8 percent in 2002, although growth exceeded projections. Foreign Direct Investment (FDI) doubled in 2002, despite the Europe-wide slowdown, but it remains among the lowest in the region at less than 3 percent of GDP. Particularly worrisome is the current account deficit, which has steadily eroded from about 8 percent of GDP in 1999 to 19 percent at the end of 2002. The trade deficit has continued to widen in 2003 as significant expansion of consumer credit has financed more purchases of imported goods. Data indicate that building materials were a significant portion of the imports as citizens built homes and businesses—a potentially welcome signal of confidence. Unemployment continues at unacceptably high levels, with official figures showing rates in excess of 40 percent. If the gray economy is factored in, the actual figure is probably closer to 15–20 percent. Even so, the figure is still far too high in a country where the World Bank estimates that nearly half the population lives at or below the poverty line.

On the positive side, BiH continues to maintain macroeconomic stability—low inflation and a stable currency. Those positives are largely the result of strict adherence to the Central Bank's currency board, which fixes the exchange rate of the konvertibilna marka (KM) to the euro. Inflation was a negligible 0.2 percent at the end of 2002 and has continued at a low level so far in 2003. Strong public confidence in the KM and the banking system has allowed BiH to build up its official hard currency reserves from about 2 months of imports at the end of 2000 to 5 months in early 2003. The banking sector continues to be the star performer in the Bosnian economy, garnering a full 75 percent of the total FDI in the country. The banks have ample short-term liquidity and a new deposit insurance program insures savings deposits up to KM 5,000 (approximately USD 3,000). BiH is moving forward on fiscal consolidation by strengthening tax administration and harmonizing indirect taxes; imposing improved expenditure controls; and continuing the process of military demobilization to reduce government expenditures. Recently the International Monetary Fund (IMF) noted that BiH had met or exceeded tax revenue and budget reduction targets.

These measures, while positive, have so far not been sufficient to wean BiH from foreign assistance. If BiH is to develop a self-sustaining market economy independent of outside aid, it must imple-

ment structural reforms more aggressively to remove the barriers that currently discourage domestic and foreign investment. BiH authorities are working with the international community to address the most urgent economic needs—improving the investment climate, accelerating the pace of privatization and increasing exports. Progress has been made on the investment climate. Since the beginning of 2003, the authorities have either adopted, or will soon adopt, laws on bankruptcy and liquidation, land registry, business registration, registered pledges, accounting and auditing. All of these laws are intended to establish a legal and regulatory framework more conducive for investment.

Privatization, particularly of strategic companies in the power and telecommunications sectors, has lagged as privatization authorities have struggled to cope with the challenges of creating a more transparent process responsive to the requirements of potential investors. Similarly, major hurdles still stand in the way of reviving the export sector. Policymakers are beginning to map out a comprehensive strategy to stimulate exports, identifying sectors where BiH has a comparative advantage and then providing financing to support the growth and development of those sectors.

In addition to these structural reforms, BiH is also facing serious challenges in addressing fiscal sustainability and domestic debt. Fiscal sustainability, particularly in an environment where international assistance is on the decline, will depend on whether authorities can muster the political will to reduce the size of government. World Bank data indicate the public sector accounts for more than 60 percent of the country's GDP, with wages and salaries alone comprising nearly 20 percent of GDP. The huge and looming domestic debt includes payment arrears, war-time frozen currency deposits and war-related damage claims that together total an estimated KM 10 billion (approximately USD 6.02 billion), or roughly the entire GDP of the country. If BiH is to develop a viable, self-sustaining economy, it must necessarily develop more effective strategies for dealing with these twin challenges in the months ahead. In February and March the High Representative responded to successive Organization for Security and Cooperation in Europe (OSCE) audit reports charging gross mismanagement, theft and neglect at the three Elektroprivreda (EP) power utilities, notably in the RS. Ashdown removed top officials, imposed a law on public appointments, and called for further remedial actions by local governments. The audit reports were authorized by OHR, financed by the USG and carried out by OSCE to expose the reasons behind the ongoing obstruction of essential energy sector reforms. The Elektroprivreda RS (EP RS) audit showed a leakage of at least USD 80 million. The audits of EP Mostar and EP Sarajevo confirmed mismanagement, but at less serious levels than EP RS. Follow-up work by OHR indicated that EP Mostar and EP Sarajevo had implemented the changes OHR had sought, but EP RS had obstructed some. OHR sought and obtained additional reforms.

#### DISPLACED PERSON AND REFUGEE (DPRE) RETURNS

Aim: A self-sustaining, orderly minority return process.

Although returns are occurring throughout Bosnia, even in some of the most hard line areas, this reporting period has seen a

marked decrease in DPRE returns. While property law implementation that had been the driving force behind the surge in returns and the accelerated eviction rate of the previous reporting period continues, numerous incidents of violence and intimidation since the October 2002 elections are a likely cause of the reduced pace of returns. The lack of economic opportunities also remains a significant obstacle to returns.

In addition to incidents of violence and intimidation, an increase in land mine incidents (27, nearly half of which resulted in fatalities) has marred the environment for returns. According to a USAID study, economic factors such as lack of adequate shelter, infrastructure, employment, education, and health care are the main impediments to sustaining returns.

UNHCR reports that in the first 4 months of 2003 there were 17,181 minority returns, 44 percent less than took place in the same period in 2002. This decreasing return rate suggests that the total in 2003 may not reach the 100,000 minority returns that were projected for the year. There were 102,111 minority returns in 2002. UNHCR contends that as many as 250,000 refugees and displaced persons could return to areas throughout Bosnia and Herzegovina over the next 2 years. The sudden decrease in the rate of return if it were to persist would then mean that the return momentum of previous years has decreased prematurely.

According to UNHCR, as of April 30, 2002, some 949,257 DPRES out of the estimated 2.2 million people displaced by the 1992–1995 war have returned to their homes in Bosnia. Another estimated 720,000 have resettled abroad. Reliable estimates place the number of persons internally displaced in Bosnia at approximately 350,000 while another 120,000 Bosnians are refugees in neighboring Serbia and Montenegro and Croatia. Many want to remain in their place of displacement, but others want to go home. UNHCR officials believe that previous optimistic return projections for 2003 may not occur given the current decreased rate of return.

As international donor funding declines, local actors will need to play an increasingly central role in maintaining return momentum. Plans to hand over Annex VII responsibilities have been created and accepted by the Peace Implementation Council (PIC) Steering Board members as of January. The hand over to local authorities of international organization responsibilities such as OHR–RRTF and the Commission for Real Property Claims is currently far behind the original timelines. The timeline for the completion of the hand over is December 2003. The state-level refugee ministry will be the focal point for the hand over, but currently does not have an adequate budget to meet its increasing responsibilities in 2003. There is a need for institutional capacity building and the ministry will need to hire staff to handle its new role and provide the necessary support to sustain the DPRES return process.

Previous returns have been largely to rural towns and villages, but in the past year perhaps half of the returnees have gone back to suburban and urban settings. A major factor for this new trend is that local authorities in most areas of the country, after considerable prodding by the international community, are evicting illegal occupants and reinstating rightful owners. However, no studies have yet been done to assess how many reinstated owners have ac-

tually moved back to their repossessed property; anecdotal evidence indicates that many repossessed houses go uninhabited and that returns to heterogeneous urban centers are far more difficult than returns to the more homogeneous rural areas. Property law obstruction continues to be a problem in urban areas of the RS such as Banja Luka, Bijeljina, Zvornik, and Prijedor. As of the end of April 2003, 80 percent of all property claims currently in the property law implementation plan (PLIP) had been resolved. A minimum of 65,000 claims will be introduced into the PLIP that will require increased focus on evictions throughout 2004.

The formation of new governments ushered in new refugee ministers in 2003, and both the RS and the Federation entities are devoting increasing portions of their budget to support returns; however, it remains to be seen whether they will follow through on these commitments. On March 27, High Representative Ashdown announced his decision to remove former Federation Refugee Minister Mijat Tuka due to the results of the special audit of the 2003 Federation Ministry of Social Policy, Displaced persons, and Refugees (FMSP). The audit estimated that approximately KM 14.3 million (USD 8.6 million) was lost through overspending, manipulated tender processes, mismanagement, paying staff multiple salaries, and poor project controls that resulted in unmet reconstruction commitments. As a result, the High Representative removed Tuka from his position as the New Croatian Initiative (NHI) Deputy in the BiH House of Representatives. The Financial Police are continuing their investigation of Tuka and his alleged accomplices. The new refugee Minister, Edin Music (SDA), is working to correct these problems and is paying close attention to the OHR recommendations made in the audit.

The Federation Refugee Ministry is reorganized and preparing to deliver reconstruction material to returnees. The RS Refugee Ministry has begun to deliver reconstruction material to small numbers of returnees. The state-level refugee ministry has a small budget. All three ministries are expected to contribute to a joint Fund for Returns that is currently being created to support joint reconstruction initiatives, but current delays may affect local authorities' ability to support returns during this reconstruction and return season.

#### BRCKO

**Aim:** Implementation of the Brcko Final Award.

Retired United States Ambassador Henry Clarke completed his second year as Brcko's third Supervisor in April and, in close cooperation with the Brcko District Government, continues to make significant progress in implementing the Brcko Final Award. OHR, with input from the USG, is beginning to investigate how to integrate Brcko into BiH affairs in such a way that protects its status following eventual completion of the Supervisor's mandate.

The Brcko District Government, fashioned out of three pre-war municipalities and reorganized under an open, competitive process, continues to function much more efficiently than other municipalities in BiH. The District Government has the most comprehensive and transparent budget in BiH, with all revenues and expenditures accounted for. Brcko is also the only completely self-financed mu-

nicipality in Bosnia. The district assembly has adopted a five-year capital needs budget plan.

Ambassador Clarke briefed the PIC Steering Board's June 11–13, 2003 meeting on the implementation of the Brcko Final Award. Recent statements by politicians, particularly from the RS, indicated that some had not abandoned their hope that the RS would assume administration of Brcko. In its press statement, the PIC Steering Board called on both entities to respect the Final Award. In addition, with a regulatory dispute affecting trade between Brcko and Croatia, the PIC Steering Board welcomed the announcement that a solution was imminent.

Redevelopment of the Arizona Market has continued since the June 2002 groundbreaking with minor fits and starts. This spring, several squatters (mostly Bosnian Croats) continued earlier attempts to delay the project, claiming land they "owned" was taken illegally for the project. The Brcko government has given compensation to the few who could prove legitimate ownership. In the end, the squatters vacated their temporary structures allowing the road widening and permanent structure construction to proceed. Phase one of the project is scheduled for completion in July. All current business owners who either purchased space or signed rental agreements will be able to relocate to the new structure following its completion. The Arizona Market project foresees investments of KM 250 million (approximately USD 150 million) over a period of 7 years and allows the contractor to manage the Market for 20 years, after which it will be returned to the District.

The Privatization Office of the Brcko District continued operations begun in early 2002, stopping attempts by the RS to privatize businesses based in Brcko District. Its mandate is to privatize each of the 15 largest state enterprises located in the District. As of May, the office had privatized seven public companies, four of which have Foreign ownership and plan to export products this year. Apartment privatization is underway, with over 2000 apartments already sold, and more than 1,500 applications being processed.

Refugee returns to the District continue at a steady pace. Complementing this, property returns to rightful owners or claimants have reached 50 per week. Assuming this pace continues, property returns should be completed by the end of 2003.

In a sign of continuing movement toward multi-ethnic tolerance, re-construction of the 400-year-old White Mosque continues. Located in the center of town and completely destroyed by Serb and Bosnian Serb paramilitaries at the beginning of the Bosnian conflict in 1992, the Mosque remained in ruins because Bosnian Serb community leaders had prevented its reconstruction, claiming that such a provocation would stroke ethnic tensions within the District. The local Brcko Muslim community has refused to accept donations from other Islamic nations, not wanting to be tainted by association with or conditions attached to such money. Instead, they have depended on donations received from within their membership base.

Ethnicity continues to play a significant role in Brcko politics. Following the recommendation of a combination expert/independent panel for Brcko's new police chief, nationalist Bosnian Serb elements vehemently opposed the nomination on the grounds the



nominee was not “the right kind of Serb.” This was taken to mean one they could not control.

PERSONS INDICTED FOR WAR CRIMES (PIFWCS)

Aim: Cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) leading to the transfer of PIFWCs to The Hague for trial.

As of June 20, a total of 88 PIFWCs (including five who have since died) have been transferred to The Hague for Trial. Nineteen indictees remain at large out of a total of 138 public indictments to date (some indictees have died or cases were withdrawn or dismissed). Acting within its mandate, SFOR has intensified its search efforts, assisted in the transfer of indictees to The Hague, and supported ICTY field investigations in BiH. At the state and Federation levels, cooperation with ICTY was unchanged. Bosniak and Croat leaders have generally been more cooperative in apprehending and turning over PIFWCs to the ICTY than their Bosnian Serb counterparts. The RS remains under “Lautenberg Amendment” restrictions on United States Government assistance, although the Deputy Secretary of State issued a waiver allowing the majority of FY2003 United States Government assistance to the RS to continue. Three RS municipalities, Foca/Srbinje, Trebinje, and Pale, however, are specifically excluded from the scope of the waiver for having failed to take adequate steps to apprehend PIFWCs.

During the reporting period, SFOR forces apprehended Naser Oric—indicted on charges related to atrocities in Srebrenica and Bratunac—on April 10, 2003.

While RS Prime Minister Dragan Mikerevic publicly called for the surrender of PIFWCs, RS law enforcement authorities did not cooperate with PIFWC apprehensions and still have not arrested any ICTY indictees. Foreign Affairs Minister Mladen Ivanic’s call for establishment of a multi-agency PIFWC working group (with both Bosnian and international representatives) has gone unheeded. There has been no increase in cooperation efforts between HR and ICTY, and RS authorities have not taken any concrete anti-PIFWC actions during the reporting period. In January 2003, an ICTY investigative research team was allowed to review RS police and intelligence records, but was required to give two weeks written notice, and found that the archives had been “cleaned” of any records from July 1995.

The international community has stepped up its efforts to apprehend PIFWCs. In March, the United States, working with SFOR and OHR, initiated a plan to disrupt the financial and logistical support network of PIFWCs. On March 7, 2003 the United States designated Milovan Bjelica and Momcilo Mandic as obstructers of the Dayton Peace Accords on the Western Balkans Executive Order (E.O. 13219) for their material and logistical support to PIFWC Radovan Karadzic. In a coordinated effort, the High Representative imposed legislation on the same day that allowed him to block the assets and prohibit future transactions of supporters of PIFWCs and obstructers of the Dayton Peace Accords. The High Representative also signed a notice blocking all of the economic assets of the targets and removed them from public office. Action was also taken against Mandic’s companies, Manco Oil and Privredna Banka

Srpsko Sarajevo (PBSS). The assets of these companies were blocked in the United States, and OHR began investigations of both companies in BiH. The investigations of PBSS uncovered a vast money-laundering scheme. Momcilo Mandic is currently detained in Belgrade in connection with this scheme. The Central Bank of BiH has since closed PBSS because it could not meet reserve account requirements.

On May 29, 2003 President Bush signed Executive Order 13304 on the Western Balkans, superseding Executive Orders 13192 (Yugoslavia) and 13219 (Western Balkans). The new order blocks the assets of those persons involved in destabilizing the Western Balkans. The annex to Executive Order 13304 includes those family members and other individuals and groups designated under the order for providing support to Radovan Karadzic, Ratko Mladic, and other PIFWCs who remain at large.

The United States continues to consider the apprehension, detention, and trial of Bosnian Serb PIFWCs Radovan Karadzic and Ratko Mladic to be of the highest priority, not only in the interest of justice, but also to facilitate Dayton implementation in BiH and stabilize the region. Their refusal to surrender and ability to avoid apprehension sustains Serb extremism, inhibits the establishment of trust among ethnic communities, undermines the credibility of the international community, and retards the rule of law.

## Part II

Pursuant to Section 1203(a) of the Fiscal Year 1999 National Defense Authorization, this section of the report covers events that occurred while United States ground combat forces continued to participate in the NATO-led Stabilization Force (SFOR) from January through June 2003. This section supplements Part I of the report and the two are submitted together. When possible and where requirements overlap, this section will refer back to elements in Part I in order to avoid duplication. The numbered responses that follow correspond to specific numbered reporting requirements contained in section 1203(b).

### 1. EXPECTED DURATION OF UNITED STATES FORCES IN BOSNIA

United States policy remains to “hasten the day” that the United States and our NATO allies and partners can withdraw our military forces from the region while ensuring that the Balkans do not return to conflict or become a safe haven or way station for terrorists.

NATO’s missions in the strategically important Balkans, including SFOR in Bosnia and Herzegovina, are evolving as improvements in stability and security continue. The NATO-led forces in BiH, including United States personnel, are being, and will be, further restructured and reduced in number, as progress allows.

NATO has successfully maintained a safe and secure environment for Bosnian authorities and International Community representatives to carry out their responsibilities and activities under the Dayton Peace Accords. SFOR’s successful fulfillment of its key military and supporting tasks has enabled NATO to reduce its troop presence (including United States forces) by a third. This re-

duction has been implemented under NATO's Joint Operations Area (JOA) review and regional approach to operational restructuring that encompasses all NATO operations in the Balkans.

Reflecting the significant challenges that remain in BiH and the region, an SFOR operational pause was deemed appropriate during the reporting period with NATO-led troop strength holding at approximately 12,000 (including around 1,800 United States personnel or about 15 percent of the total deployed force).

## 2. PERCENTAGE OF BENCHMARKS COMPLETED

No benchmark has been fully accomplished to date, although in some security areas we are approaching completion. The latest Operation Plan revision has reduced the number of SFOR key military and supporting tasks. Substantial progress has been recorded in other areas, particularly Brcko, but completing the benchmarks will require time and continue commitment, as described fully in Part I of this report.

## 3. STATUS OF THE NATO "FORCE OF GENDARMES"

The Multinational Specialized Unit (MSU) continues to be an essential component of SFOR, which provides unique capabilities in information gathering and crowd control. The MSU carries out liaison with the international and local police. It deters disruptive civil behavior by demonstrating that SFOR can deal effectively with outbreaks and by maintaining a police-like professional presence throughout BiH that is less confrontational than a military response. These qualities, combined with the MSU's continuous patrolling and cooperation with local police and community leaders, help to foster an atmosphere of security and rule of law. The MSU has completed the task of training special indigenous police units in many of the same skills as international MSUs. These kinds of forces will take on a greater role as NATO continues to draw down.

The United States and NATO attach particular importance to accelerating the development of civil institutions and local police in BiH so they can fulfill their responsibilities for public security and the rule of law. Since beginning its work in January, the EUPM is concentrating on management, administration, and professional accountability of indigenous police units and managers. It is not structured to focus on patrolling and training.

## 4. MILITARY AND NON-MILITARY MISSIONS DIRECTED BY THE PRESIDENT FOR UNITED STATES FORCES IN BOSNIA-HERZEGOVINA

The United States Government supported the June 2002 decision of the North Atlantic Council (NAC) to task the Commander, Stabilization Force (COMSFOR), through the Supreme Allied Commander Europe (SACEUR), with the continued SFOR mission according to the revised tasks outlined below:

Key military tasks:

- Maintain an adequate military presence to ensure deterrence and continued compliance with military aspects of the General Framework Agreement for Peace (GFAP);
- Contribute, within means and capabilities, and in close coordination with the Office of the High Representative (OHR) and the

Organization for Security and Cooperation in Europe (OSCE), to the Armed Forces of Bosnia-Herzegovina restructuring, education and training process and to the development of state-level defense institutions;

- Contribute, within means and capabilities, to a secure environment in which the international civil organizations and the parties to the GFAP can carry out their responsibilities under the agreement;
- Ensure force protection and freedom of movement;
- Be prepared to coordinate the turnover of responsibility for air-space management and control to BiH;
- Pursue, within current mandate and within means and capabilities, actions against persons suspected to be terrorists.

Key supporting tasks, within the means and capabilities:

- Provide on a case-by-case basis support to the High Representative in his implementation of civil aspects of the GFAP, as well as to the other key civil implementation organizations;
- Support, in coordination with the OHR, the UNHCR and other International Organizations, return of Displaced Persons and Refugees (DPREs) to high-risk areas by contributing to a safe and secure environment;
- Support the International Tribunal for the Former Yugoslavia (ICTY) and efforts against Persons Indicted for War Crimes (PIFWCs);
- Support the OHR, the PITF and its follow-on force in assisting the local police;
- Provide, on a case by case basis, support to the OSCE, if requested, in implementing Annex 1B of the GFAP;
- Provide technical advice on de-mining to the Host Nation.

SFOR has been very successful thus far in accomplishing its primary missions of deterring renewed aggression and providing a safe and secure environment. While SFOR's continued attention is required to maintain this favorable situation, the force should now be able to shift its main focus to three narrower missions: combating terrorism, reforming and restructuring Bosnia's armed forces, and apprehending persons indicted for war crimes.

With regard to specific issues raised under reporting requirement 4:

(A) *Persons Indicted for War Crimes (PIFWCs)*: Primary responsibility for the apprehension and transportation of PIFWCs lies with the parties to the GFAP. During the reporting period, SFOR detained one inductee with little or no support from the parties for a total of 23 since 1996. Some nineteen PIFWCs from throughout the region are still at large, including two high profile indictees—Ratko Mladic and Radovan Karadzic. Additionally, SFOR continues to support, as necessary and within means and capabilities, the International Criminal Tribunal for the former Yugoslavia (ICTY) in the exhumation of suspected war crime sites.

(B) *Support to civilian police functions*: As long as organized opposition to full implementation of the GFAP continues, OHR, EUPM, and other international organizations involved in civil implementation will expect SFOR to contribute to a secure environment and to provide back-up in the case of civil unrest

provoked by Dayton opponents. Indigenous police forces are further hindered by lagging pay, overstaffing, and poorly-equipped personnel and investigative units. There is widespread corruption, political influence from hard-liners, and lack of inter-ethnic credibility. On a positive note, the Police Academies are meeting ethnic quotas, and vetting of potential officers has improved. While the State Border Service has shown substantial progress, it faces severe resource constraints.

(C) *Resettlement and return of refugees*: During this reporting period, SFOR continued close cooperation with the OHR and the U.N. High Commission for Refugees (UNHCR) to encourage refugee returns. In its support role, SFOR focused on advanced planning, enhanced information exchange to identify hot spots, and maintaining a secure environment to minimize any efforts to intimidate returnees.

(D) *Support to local and international authorities*:

*Elections*. No significant elections took place during the reporting period. The last general election took place in October 2002, the first organized and run entirely by BiH authorities. SFOR provided wide-area security, although this requirement was significantly reduced from previous elections due to the improved security environment.

*Crime and Corruption*. Crime and corruption remain perhaps the most significant threats to the secure environment in BiH, impeding progress in civil implementation of the GFAP. There is still significant illegitimate political and criminal influence on police, prosecutors, and judges, and links between organized crime and the local officials remain strong. Much needs to be done to reinforce the equitable rule of law in BiH. Reform of the criminal justice system remains a major priority for the International Community.

As previously noted, SFOR has an important role in supporting, within means and capabilities, the new EU Police Mission (EUPM) that replaced the IPTF at the beginning of 2003. The EUPM will continue to advise and monitor local police, particularly senior leaders, to enhance their capabilities and professionalism. SFOR also continued to support OHR efforts to develop the State Border Service.

*Brcko*. Since the final Brcko Arbitration Award in March 1999, the Brcko District has been completely demilitarized with the full cooperation of the Entity Armed Forces (EAFs).

*Airspace Control*. Progress in the work of the OHR with BiH airspace management authorities should permit, at some future time, final transfer of this responsibility to BiH itself. In January 2000, SFOR returned control of the BiH upper airspace (which NATO had controlled since initial implementation of IFOR as provided for in the GFAP) to Bosnian authority. Transfer of "medium term airspace" occurred at the end of 2001. At the end of 2002, SFOR transferred full responsibility for the operation of the Sarajevo airport to BiH civilian authorities. During the reporting period, SFOR continued to work with local authorities

to develop a state-level approach to other civil aviation issues, including management of the airport at Sarajevo.

#### ASSESSMENT OF THREATS TO THE UNITED STATES FORCES

The security situation in BiH remains stable. The EAFs generally comply with the GFAP and cooperate with SFOR, so maintenance of public order is normally not a problem. Despite actions against PIFWCs and terrorists with alleged links to al-Qaida, the situation remains generally calm. Initiatives are underway to reduce the Entity Armed Forces (EAFs) to a size and budget commensurate with Bosnia's population and financial capabilities. Cooperation between the EAFs on civil projects and demining continues to improve.

BiH authorities, civil and military, have yet to develop fully the legitimate, responsible, and accountable state institutions necessary to achieve the ultimate goal of a self-sustaining force. However, Supreme Headquarters Allied Powers Europe (SHAPE) and SFOR estimate the likelihood of an internal military threat as remote. There has also been significant improvement in the external security situation of BiH, due to democratic political change in Serbia and Montenegro, and Croatia.

Bosnia-Herzegovina remains the Balkan country most vulnerable to terrorist penetration. Uniquely positioned and resourced, SFOR, in cooperation with Bosnian authorities, serves as the catalyst to disrupt and counter conditions that support terrorism within BiH. The USG has been successful in revising the SFOR Operations Plan to reflect counter-terrorism as a key task.

*Assessment of costs:* Since FY 1996, the projected cost to the Department of Defense of the military missions that the President has directed in Bosnia and Herzegovina has been about USD 13.5 billion (through 2003). Costs are summarized below (in millions):

OPERATION	FY 2002 Actual	FY 2001 Actual	FY 2000 Actual	FY 1999 Actual	FY 1998 Actual	FY 1997 Actual	FY 1996 Actual
Joint Forge/Guard/SFOR/IFOR .....	1019.4	1292.8	1381.8	1431.2	1792.8	2087.5	2241.0
Deliberate Forge/Deny Flight .....	( <sup>1</sup> )	( <sup>1</sup> )	101.3	141.4	159.4	183.3	225.9
Task Force Saber/Able Sentry .....	.....	.....	.....	14.0	10.5	11.7	30.9
UNCRO/Provide Promise .....	.....	.....	.....	.....	.....	.....	22.2
Total .....	1019.4	1292.8	1483.1	1586.6	1962.7	2282.5	.....

(<sup>1</sup>)Incl. in SFOR.

Operation Joint Forge (follow-on to IFOR, SFOR, Deliberate Force, Joint Endeavor, and Joint Guard) is the NATO operation to deter the resumption of hostilities and to contribute to a secure environment that promotes the reestablishment of civil authority in BiH. Operations financed include continued support of a United States Division headquarters by a United States Brigade Combat Team Task Force with a force capacity of approximately 1800 in Bosnia, support of approximately 40 enabling soldiers in adjacent countries, four base camps, and two troop rotations per year.

IFOR preparation and IFOR included the costs of preparing United States troops for deployment to IFOR.

Operation Deliberate Forge (follow-on to Deny Flight, Decisive Edge, and Deliberate Guard) involves air operations for maintaining the no-fly zone over BiH.

Operation Sharp Guard enforced the United Nations-sanctions embargo against the FRY (excluding the enforcement of the arms embargo against Bosnia) conducted in conjunction with Western European Union forces.

Task Force Able Sentry was United States participation in the United Nations preventive deployment along the Serbian/Macedonia border (UNPREDEP).

UNCRO mission entailed support provided to the Zagreb hospital in support of the United Nations in Croatia.

Operation Provide Promise was the military operation that airlifted and airdropped humanitarian supplies into Bosnia.

#### STATUS OF FUTURE OPERATIONS PLANS

As this report indicates, there has been a continued, gradual improvement in all aspects of civil implementation and in the security situation in Bosnia during the reporting period. The EAFs have been cooperative. Flows of returning refugees and internationally displaced persons continue, albeit at a slower pace. To the extent that Bosnia moves toward normalcy and as its leaders and citizens take on greater responsibility for implementing all aspects of the agreement, the requirement for an overwhelming NATO presence is diminishing. The threat of a resumption of hostilities by the EAFs remains low. In accordance with OPLAN 10407, revised in June 2002, NATO will continue to evaluate its presence and the forces required based on these elements.

