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

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A REPORT ON PROGRESS MADE TOWARD ACHIEVING BENCHMARKS FOR A SUSTAINABLE PEACE PROCESS IN BOSNIA AND HERZEGOVINA



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To the Congress of the United States:

As required by 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 FY 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 sixth report, which also includes supplemental reporting as required by section 1203(a) of Public Law 105–261, provides an updated assessment of progress on the benchmarks covering the period March 2001 to December 2001.

GEORGE W. BUSH.

THE WHITE HOUSE, *June 25, 2002.*

REPORT ON BOSNIA AND U.S. FORCES
IN NATO-LED STABILIZATION FORCE (SFOR)

This document is divided into two parts, corresponding to two separate Congressional reporting requirements concerning NATO-led Stabilization Force (SFOR) operations and developments in Bosnia and Herzegovina (BiH). Part I responds to the requirements of section 7 of Public Law 105-174 and outlines the latest developments in our continuing efforts to achieve a sustainable peace in Bosnia and Herzegovina. Part II responds to the supplementary reporting requirements 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 March 2001 to December 2001.

Part I

Introduction. In May 2001, I sent the fifth semiannual report to Congress under Public Law (PL) 105-174, detailing progress towards achieving the 10 benchmarks adopted by the Peace Implementation Council (PIC) and the North Atlantic Council (NAC) for evaluating implementation of the General Framework Agreement for Peace in BiH (GFAP, or the Dayton Peace Agreement) over the period from July 1, 2000, through February 2001. This report is an assessment of progress on the benchmarks for the period from March 1 through December 2001.

Progress on the broad goals, as set by the PIC Steering Board, of self-sustaining peace, expansion of democracy, rule of law, and economic reform and growth continues, but gradually, and not without significant hurdles to overcome along the way. The state-level non-nationalist government of the Alliance for Change has been in office since February 2001. While an improvement over their nationalist predecessors, the Alliance's inexperience as well as hard-line nationalist and criminal resistance to loss of power remain obstacles to effective and efficient governance.

The State Border Service (SBS) opened an additional eight border crossing points, but local police capacity to combat organized crime, narcotics and human trafficking, ethnic violence, and civil violence remains limited. With U.S. assistance, the Independent Judicial Commission will revamp its judicial reform efforts, embarking on an aggressive new approach that restructures the justice system and re-competes every BiH

judicial and prosecutorial position. The April entry of international auditors into the Hercegovacka Bank (HB) in Mostar, supported by SFOR, netted documents necessary to pursue fraud cases and shut down the financial network of the Croat secessionist movement. The investigation is continuing and indictments are in preparation. BiH customs, under entity control, remain a significant source of corruption and diversion of government revenues to individuals and political parties as well as illegal parallel institutions. Despite the controversy surrounding handling of its first major telecommunications license sale, the creation of the Communication Regulatory Authority (CRA) has created opportunities for improved management and oversight of the telecommunications/broadcast sector.

Passage of the election law in August, after 2 years of failed attempts, was a significant accomplishment of the government and will allow BiH to assume responsibility from the Organization for Security and Cooperation in Europe (OSCE) for conducting elections. With constitutionally mandated elections in October 2002, the government must establish quickly the institutions and raise the funds necessary to conduct free and fair elections.

BiH continued to register solid progress in the banking and finance sector. A 184 percent increase in individual bank deposits in calendar year 2001 reflected increasing public confidence in the banking system as a result of U.S. support for a deposit insurance scheme and closure of the payments bureaus. The key weakness remains the inhospitable business climate, but government authorities have made progress in identifying the major barriers to both domestic and foreign investment with U.S. and international support.

Perhaps the most dramatic progress is that the pace of returns and resettlement of Displaced Persons and Refugees (DPRE) in 2001, significantly exceeded the rate for 2000, which itself was a record year. Returns involve all ethnic groups and go to areas throughout the country, helping to reverse elements of the ethnic cleansing and to moderate nationalist politics. In April, the first completely restructured court system in Bosnia was introduced in Brcko, but the question of privatization of entity-owned property in the Brcko district remains deadlocked. Cooperation from Bosnian parties responsible for apprehension and surrender of Persons Indicted for War Crimes (PIFWCs) continues to vary widely. In a major move, in early August, Federation authorities fully cooperated

in turning over three Bosniak indictees to The Hague. The continued success of Radovan Karadzic and Ratko Mladic in avoiding apprehension sustains Bosnian Serb extremism and erodes the rule of law.

(21) The following evaluation provides a detailed account of progress achieved over the reporting period under each of the benchmarks:

1. Military Stability.

Aim: Maintain Dayton cease-fire.

The military security situation in BiH continues to be relatively calm since the July 2000-February 2001 report. Breaches in the Dayton cease-fire, much less the resumption of war, appear to be highly unlikely. With favorable changes in the governance of the Federal Republic of Yugoslavia (FRY) and continued responsible leadership in Croatia, the security environment in BiH's neighborhood has considerably improved. In recognition of progress on the security front, NATO ministers approved in May the recommendations of the previous 6-month review, including a 20 percent reduction in SFOR troop levels. This reduction was completed in September 2001, and SFOR has approximately 18,000 troops. The U.S. contingent has been reduced to around 3,000 soldiers. In December 2001, NATO Defense Ministers directed NATO military authorities to review the Alliance's presence in the Balkans and to provide a force transition concept to determine how SFOR can be downsized and further rationalized while still meeting key objectives. (See Part II, Number 1).

Hard-line members of the Croatian Democratic Union (HDZ) seeking establishment of separate Croat institutions fomented a large-scale walkout by Bosnian Croat soldiers from the Federation Army (VF) in March. However, by mid-June, in response to Federation Defense Minister Anic's actions, the vast majority had returned to their barracks and renewed their Federation contracts. The Entity Armed Forces (EAFs), for financial as well as political reasons, are pursuing significant reductions in force levels. A State-level "Bosnia and Herzegovina Defense Policy" was agreed in May and in July the Joint Presidency of BiH issued a statement announcing its intention to start a process that could lead to the accession of BiH to NATO's Partnership for Peace. SFOR advice and guidance to the Standing Committee on Military Matters (SCMM), representing the three-member BiH presidency, will continue to be important in restructuring the Armed Forces in BiH.

2. Public Security and Law Enforcement.

Aim: Restructured and democratic police forces in the Federation and the Republika Srpska (RS).

There has been sustained progress in the areas of police reform and professionalization. The multi-ethnic SBS, which has been operational at the Sarajevo airport and three land crossing points, expanded to 12 crossing points and the Banja Luka airport by the end of the year. The International Police Task Force (IPTF) regards the SBS as a key priority and has reassigned monitors to cover this operation as it continues to grow. Defying political pressures, the SBS has upheld Bosnia's commitments relating to border security. In accordance with an existing cooperation agreement, both entities continue to allow voluntary redeployments of officers across the Inter-Entity Boundary Line (IEBL) to enable them to undertake policing functions in their pre-war communities. Bosnia has also signed an agreement with Croatia and the FRY to regularize ties between various police forces in the region, and the trial of suspects in the Leutar assassination has begun.

The August 2000 arrest of a key figure in the BH Banka fraud case led to increased cooperation within the Bosnian criminal justice system, and groundwork has been laid for continued support and development of investigative units to combat organized crime and corruption. Toward the end of 2001, a state-level law enforcement group on trafficking in persons was established. Local police internal affairs units actively continue to uphold professional standards of police conduct. At the same time, however, local police capacity in both entities remains limited, and assistance from the International Community (IC) is still needed to fight more effectively organized crime, narcotics trafficking, trafficking in persons, ethnic violence, fraud and financial crime, and civil disorder. A series of disturbances in Mostar (related to the HB Bank raid) and Banja Luka (related to the Ferhadija Mosque dedication), and the peaceful July 11 Srebrenica commemoration (which had significant law enforcement presence), illustrate the ongoing importance of IPTF and SFOR assistance. As the IPTF completes police training functions, more focus will be placed on the co-location program and staffing special units to help local police deal with complex problems such as organized crime and corruption. The IPTF continues to conduct intensive audits of local police operations, and will vigorously enforce non-compliance and de-certification policies. At the same time, the IPTF is pressing

for full implementation of the Police Commissioner Project to appoint apolitical, professional directors of police in all cantons and the RS.

In addition, BiH participates in the Southeast European Cooperative Initiative (SECI) and signed and ratified the SECI Agreement to Cooperate in Combating Trans-Border Crime, along with other states in the region (Albania, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Greece, Hungary, Moldova, Romania, Slovenia, and Turkey). The signatories have established a Center to Combat Trans-border Crime in Bucharest, Romania, to exchange information and coordinate law enforcement to bring to justice criminals who operate across national boundaries. The Center, which receives technical assistance from the United States, opened in October 2000. Bosnia has already nominated one customs official as liaison, while seeking a second candidate from the SBS.

3. Judicial Reform.

Aim: An effective judicial reform program.

In 2002, the Independent Judicial Commission (IJC) will begin a new approach to judicial reform. Under the new restructuring and reappointment process, similar to a model used during East and West German unification, all judges and prosecutors will have their mandates terminated pending a competitive review of their positions. A High Judicial Council consisting of an equal number of nationals and internationals and chaired by an international, who would cast the deciding vote in case of a tie, will conduct the reappointment process. The process should take approximately 2 years to complete, with the aim of truly de-politicizing the judicial system. The IJC will assist in the development of new legislation, oversee domestic judicial training bodies, and coordinate the programs of non-governmental organizations related to the rule of law and judicial reform.

As of April 1, 2001, the revised Western-oriented, legal framework for the Brcko District has been in place, including a modern criminal procedure code. The largely United States Government funded Brcko Law Revision Commission (BLRC) took the lead in drafting most of the revised laws and is largely responsible for overseeing their implementation.

More effort is needed to ensure implementation of the new structures and laws and guarantee real independence (political

and financial) of the judiciary. Successful execution of judicial reforms is critical to establishing the rule of law and the confidence of all Bosnia's citizens, regardless of ethnicity, in the domestic court system.

4. Illegal Institutions, Organized Crime, and Corruption.

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

In April auditors working for the Office of the High Representative (OHR) entered the offices of HB to obtain records allegedly related to embezzlement and money-laundering investigations involving Bosnia's largest Croat nationalist party. Review of the documents and electronic records continues, with a view towards developing criminal cases later in the calendar year. TDY U.S. FBI agents have assisted IPTF and local authorities in the investigation of major organized crime/corruption cases. In coordination with OHR's Anti-Fraud Unit (AFU), the U.S. Treasury's Office of Technical Assistance began working in January 2001 to improve the investigative skills of the Financial Police in dealing with large-scale financial crime.

A joint task force composed of various Federation law enforcement agencies, with the support of the International Community (IC), including the FBI, has pursued the BH Banka case aggressively. (See above, Benchmark 2). The investigation phase has been completed, and prosecution is underway. However, despite Interpol warrants, the main suspects remain at large.

An independent audit released in July revealed that there is a dire need at all levels of government to track government spending and reduce opportunities for corruption.

BiH participates in the Regional Steering Committee, which meets on a regular basis to standardize cooperation among Southeast European customs services, to share best practices, and to bring them into line with European Union standards. However, to date, BiH Customs, which are under the authority of entity governments, remain a significant source of corruption and diversion of national income to illegal parallel institutions.

5. Media Reform.

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

There has been progress in the course of the reporting period as the media environment in BiH matures. On 2 March 2001, the CRA, an independent regulatory agency for the media and communications sector in BiH was created by merging the Independent Media Commission (IMC) and the Telecommunications Regulatory Agency. The CRA, led by an international employee appointed by the High Representative, is responsible for awarding broadcasting licenses, program monitoring, and standard setting in terms of establishment of codes of practice. The CRA has many apolitical national experts in key leadership positions. The licensing process should lead to welcome consolidation in the broadcasting sector, as some broadcasters have not been granted licenses because the failed to meet applicable standards. Additionally, progress has been reported by OHR toward the restructuring of the State public broadcasting service. FedTV was launched October 27, 2001, and continues to strive toward substantial shared production and newsgathering efforts among producers and journalists of all ethnic groups. In the Republika Srpska, the RS entity public broadcaster continued to struggle with financial, legislative, and objective reporting issues.

Unlike in the previous reporting period, when elections led to increased pressure on media outlets, the most recent reporting period has instead seen a further strengthening of journalistic independence in most areas. However continued political interference by hard-line elements of all ethnic groups has affected some broadcasters' objectivity and adherence to international standards of journalism. The international community will continue to defend vigorously media freedoms, while at the same time continuing to insist on adherence to licensing regulations and professional standards of conduct in journalism. United States assistance programs continue to help journalists meet those expectations and understand why they are important.

6. Elections and Democratic Governance.

Aim: National democratic institutions and practices.

At the State level, the Dayton-mandated and other central institutions are growing stronger, but still have a long way to

go in establishing their functional effectiveness as a viable government. In the past two years since a joint secretariat for the Presidency was created, the number of ministries expanded from three to six, and efforts were made to increase funding for the under-funded State ministries. The issuance of a common passport, and the deployment and expansion of the SBS (above, Benchmark 2) are examples of expanded central government functioning. There is still resistance from nationalists in the RS to vesting state-level institutions with real power, which they view as an infringement on their entity prerogatives, but the more moderate Serb leaders now understand the necessity of building State institutions.

General elections, which took place November 11, 2000, under OSCE supervision, resulted in overall increases for more moderate parties, allowing for the formation of governments run by the non-nationalist Alliance for Change coalition at both the Federation and the state BiH levels. The nationalist parties did not fully accept some of these results, and the Bosnian Croat HDZ party initially boycotted various elected institutions. After OHR removed the Croat President Ante Jelavic on March 7, 2001, for obstructing Dayton, the immediate crisis was largely resolved and eventually Croats joined governing bodies, although the HDZ continued to boycott the Federation House of Peoples.

Passage of an election law on August 23, 2001, was a major accomplishment for the Alliance for Change, satisfying this pre-requisite for holding Bosnia's 2002 elections. It was also the last remaining requirement for BiH's accession to membership in the Council of Europe (CoE) (Bosnia was then invited to become a member at the September 2001 session. In January 2002, the CoE Parliamentary Assembly recommended BiH for membership, and BiH was expected to become a full member in May 2002). With the new election law in place, Bosnian authorities will now take over responsibility for conducting elections, and general elections should take place October 5, 2002. The United States is providing significant resources to this effort now that the OSCE, which ran all previous elections, has reduced the number of staff in its elections department. The OSCE will only sponsor an observer mission, but the OSCE Head of Mission is a member of the Central Election Commission.

In July 2000, the Constitutional Court ruled on the "Constituent Peoples" case, holding that all Bosniaks, Croats, and Serbs, have equal rights across the territory of BiH and striking down provisions in entity-level constitutions that were

deemed to be inconsistent with this principle enshrined in the BiH Constitution. In January 2001, the High Representative established the Federation and RS Constitutional Commissions, which were tasked with drafting proposals for amending both entity constitutions to conform to this significant decision. Both entities are still working on these revisions which are a critical step for guaranteed rights of all people in Bosnia. The two commissions meet periodically in a joint session aiming to harmonize the Entity approaches towards implementing the Constitutional Court decision on constituent peoples. Recently there has been progress in the RS. At its session held from 26-28 December 2001, the RS National Assembly (RSNA) discussed draft amendments to the RS Constitution, and following substantial debate adopted all amendments proposed and sent the package for public discussion; RS public debate was to end on February 15, 2002. Meanwhile, party representatives were negotiating outstanding points under the auspices of the High Representative, in hopes of showing that local leaders could take responsibility for resolving the country's most serious issues.

7. Economic Development.

Aim: Free-market reform.

Bosnia and Herzegovina has made steady progress over the past year in transition to a market economy. A multi-ethnic, social-democratic coalition (Alliance for Change) has replaced the nationalist parties long viewed as the main obstacles to economic reform. The Alliance has expressed strong commitment to accelerating the pace of economic reform and coordinating the effort between the two entities and the state-level government to build a viable, private sector-led market economy.

Financial Sector

Significant progress continues in the banking sector. The U.S.-led effort to close the Communist-era Payment Bureaus was highly successful and completed on time in spite of widespread skepticism that such a goal was achievable. As part of that effort, the United States Agency for International Development (USAID) provided a state-of-the-art payment system linking all commercial banks to the Central Bank of Bosnia and Herzegovina (CBBH) at the beginning of the year. The system processed 9.4 million transactions valued at $6.4 billion in the first 8 months of calendar year 2001, without problems. Several foreign banks entered the market, increasing competition and

forcing local banks to improve their services. Entity divisions are becoming increasingly blurred as both RS and Federation-based banks open branches throughout the country. Continued efforts by the United States to strengthen bank supervision, combined with the introduction of U.S. and German supported deposit insurance in the Federation, have had a dramatic effect on citizen confidence in banks. In calendar year 2001, the value of individual deposits in participating banks rose by 184 percent. Efforts are now underway to expand deposit insurance coverage to the RS through the creation of a state-level deposit insurance agency. Responding to post-September 11 terrorism challenges, Bosnian authorities have been actively and effectively engaged in identifying, freezing, and investigating financial assets with possible terrorist links.

Economic Growth

The BiH formal economy continued to be overly dependent on external aid. A late-2001 study by USAID estimated that external aid, including military programs, accounted for almost 14 percent of Gross Domestic Product (GDP). According to official statistics, real GDP growth in calendar year 2000 was around 5 percent. Still, overall exports have reached only about one-third of their pre-war level, far from adequate to generate the revenues needed to compensate for projected declines in donor assistance. These figures are indicative of a general downward trend, but with estimates of the informal economy ranging from 20 to 60 percent of GDP, they may be misleading. What is clear, however, is that BiH officials need to move aggressively to implement the reforms necessary to make BiH more competitive, particularly in exports.

Privatization

After a slow start due to a lack of political will, the enormous and complex task of privatization of state-owned enterprises is underway. Privatization of small-scale enterprises has been completed in both entities. Mass privatization through vouchers has been completed in the RS. The Federation has completed two of three waves in its mass privatization process. The sale of a number of so-called "strategic enterprises" in both entities is well underway. The United States was responsible for most privatizations of strategic companies, but other donors (World Bank and the European Commission) have now launched their assistance efforts. With U.S. privatization involvement drawing to a close, we will focus more on corporate governance of newly privatized companies

and on improving the climate for foreign and domestic investment. Privatization of major utilities (e.g., power and telecommunications), which have traditionally been "cash cows" for nationalist parties, has begun with U.S. assistance.

Tax Reform

The RS and the Federation have largely harmonized regulations on sales and excise taxes. The next challenge will be establishing a value-added tax (VAT) which is closely coordinated between the entities and the state-level government (or alternatively is a nationally applied tax). With U.S. assistance, both entities are also modernizing tax administration and introducing modern treasuries. The centerpiece of reform in both entities is a new Tax Administration Law that will give greater enforcement power by establishing units for intelligence, investigation, and arrears collection. The legislation has already been adopted in the Federation and the implementation mechanisms are now being established.

Other Challenges

An independent audit released in July 2001 revealed a dire need at all levels of government to track government spending and reduce opportunities for corruption. A USAID program designed to increase transparency and accountability is underway. The program is now operating in both entities, and will be operational at the state level by May 2002. Investment flows are the lowest in the region because of widespread corruption, opaque and complex tax, legal and regulatory frameworks, a burdensome and non-transparent administrative system, a weak judicial system, and poor infrastructure.

Recognizing these problems, the authorities at the state and entity levels have developed and are jointly working to implement a common strategy for economic growth and poverty reduction, and an action plan for improving the investment climate. Targeted support from the IC, including the United States, is being directed toward such reforms.

Strengthening the central government and moving BiH toward Euro-Atlantic institutions are among the IC's highest priorities. BiH and the IC must address the question of how to fund central (i.e., state-level) institutions. The State currently depends on contributions from the entities since it has no authority to raise funds of its own. A VAT may provide a

source of revenues more independent of the entities, but will take up to 2 years to implement.

8. Displaced Person and Refugee (DPRE) Returns.

Aim: A functioning and orderly minority return process.

This period has seen a huge increase in DPRE returns to pre-war homes. Minority returns to the most hostile regions in the RS have taken place and appear to be gaining momentum. There have been isolated instances of ethnically motivated violence. For instance, in July a Bosniak girl was murdered in her home soon after her family returned to Vlasenica in the RS.

The United Nations High Commission for Refugees (UNHCR) reports that in 2001, there were 92,061 minority returns, 36 percent more than the 67,445 returns that took place in 2000. At least as many ethnic minorities are expected to return to their place of pre-war residence in 2002. The majority of returns are to outlying, destroyed rural villages, where individuals take advantage of improved security conditions provided by SFOR.

Returns of minorities to urban areas, particularly the larger towns, continued to lag behind those to villages in 2001. One reason for the relatively slow pace of returns to cities has been the inefficiency (and often obstructionism) of local officials in resolving property claims, as well as the related reluctance of local authorities to evict illegal occupants. Officials in the RS and in hard-line Bosnian Croat majority areas, in particular, commonly obstructed evictions and minority reinstatements. To address this problem, OHR initiated a Property Legislation Implementation Plan (PLIP) late in 1999 as a follow-up to the package of amendments to property laws imposed on both entities by the High Representative. With continued oversight and pressure from the United States, OHR and others, 2001 saw improvements in the implementation of property laws in urban area in both entities, with evictions of illegal occupants on the rise. However, more progress is required. On July 17, 2001, the High Representative amended the law on socially owned property that removed inequities in treatment between the entities. These amendments have encouraged greater returns to urban areas.

Security is no longer the primary concern of most returnees, with the possible exception of those in some hard-line regions in the RS and Western Herzegovina. In these areas,

many returnees express the view that the arrest of publicly indicted war criminals would greatly reduce local tensions. According to a USAID sponsored study, shelter needs and other factors including employment, health care access, education, and infrastructure are of greatest concern for most other returnees.

The refugee program for Bosnian entry into the United States ended April 1, 2001. The Embassy's consular section reports a modest number of Bosnian refugees returning to Bosnia from the United States.

9. Brcko.

Aim: Implementation of the Brcko Final Award.

The reorganization of the Brcko District Government out of three postwar municipalities was completed with the hiring/rehiring of public employees in an open competitive process. The District Government also instituted the most comprehensive, transparent public budget in BiH in 2001 with all the revenues and expenditures accounted for. The District Assembly approved the District's 2002 budget on December 29, prior to the beginning of the fiscal year.

Retired U.S. Ambassador Henry Clarke in March became the third Brcko District Supervisor, succeeding Ambassador Gary Matthews. On April 1, Brcko became the first jurisdiction in Bosnia to operate under a completely restructured, independent court system. The system was immediately tested by two high profile cases, the brutal murder of a girl and the prosecution for corruption of a senior state-level official. The court functions with an independent budget in keeping with the recent opinion of the Consultative Council of European Judges on the funding and management of courts. The prosecutor has been strengthened, there is no investigating judge, and Brcko even has a legal aid society. The fine work of the Brcko Law Revision Commission, which ended operations on October 31, will continue with OHR-North Legal assuming drafting responsibilities for harmonizing legislation and the Independent Judicial Commission (IJC) taking over the implementation of judicial reform.

As part of a plan to clean up illegal business, a tender worth more than 200 million KMs was awarded for the reconstruction of Arizona Market, with urban infrastructure, by a group of private companies from Italy and BiH. In a coordinated effort involving Brcko District, officials from BiH,

Croatia, and the FRY, signed and presented a trilateral funding proposal for rehabilitation of navigation on the Sava River to the Stability Pact on October 25 in Bucharest. In June, floods that displaced thousands and did substantial damage to roads and other infrastructure hit the District. Nevertheless, according to Brcko District Government figures through October, employment grew in excess of 10 percent and more than 1,000 new businesses were registered, a 189 percent increase over the same period in 2000.

Unexpected progress was made in education. Serb assembly members rejected the District's draft law, under which students of different ethnicities would attend school together. District Supervisor Clarke imposed the law July 5, sparking hard-line Serbs to withdraw their children from public schools. However, on September 3, 2001, more than 10,000 primary and secondary school children returned to postwar BiH's first integrated public school system with a multicultural curriculum that recognized national rights while allowing children to study universal subjects together. Despite feared opposition by nationalists, the school system has operated peacefully.

Complementing a continuing trend of refugee returns to the District, more usable properties (1600) were returned to rightful owners or claimants in the District during 2001 than in all previous years combined. At this rate, all usable properties will be returned by the end of 2003. On the question of privatization of Entity-owned property, Serb and Bosniak assembly members remained deadlocked for much of the year, but the process of privatizing public enterprises finally got underway. Twenty-two qualifying bids on the first six companies were opened on December 20.

10. 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 December 31, 2001, a total of 66 PIFWCs had been transferred to The Hague for trial. Only 31 indictees remain at large out of a total of 116 public indictments to date (some indictees have died or cases have been 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 Bosnia. At the state and Federation levels, the Alliance for Change leadership has been

substantially more cooperative than previous governments. Bosniak and Croat leaders have generally been more cooperative on apprehending and turning over PIFWCs to ICTY than their Serbian counterparts. The RS is sanctioned under Section 581 (Lautenberg) of the Foreign Operations Appropriations Act for failing to take adequate steps to apprehend PIFWCs on its territory. Nonetheless, in the past year the RS has taken some steps in the direction of cooperation with ICTY. On October 2, 2001, the RS National Assembly adopted a law on cooperation with the ICTY, which has generated a change in the political atmosphere concerning war criminals. While once these individuals were heralded as heroes, the government has made progress in preparing the population for the recognition of the need to cooperate with ICTY, per the law of the land. As a step towards better cooperation, the government decided in October 2001 to open an Office of Cooperation with ICTY in Banja Luka, which should provide a formal structure to help cooperation. RS Prime Minister Ivanic has traveled to The Hague to meet with officials, and has begun making public statements about cooperation with ICTY. Despite these steps, the RS made no effort to arrest any indictees. On the other hand, the Federation government arrested and extradited suspects including Enver Hadzihasanovic, Mehmed Alagic, and Amir Kubara who were arrested by Federation police on August 2 and transferred to ICTY custody on August 4. There has been an increasing number of voluntary surrenders of Serb, Croat, and Bosniak war crimes suspects.

The United States continues to consider the apprehension and detention of Serb PIFWCs Radovan Karadzic and Ratko Mladic to be of the highest priority in not only serving the interest of justice, but also facilitating Dayton implementation in Bosnia. Their success in avoiding apprehension sustains Bosnian Serb extremism, inhibits the establishment of trust among ethnic communities, makes economic progress in the RS difficult, undermines the credibility of the IC, and retards the rule of law. Belgrade's transfer of Slobodan Milosevic to The Hague on June 28 and the cooperation of the Government of Croatia with General Rahim Ademi's voluntary surrender to ICTY on July 25 put increased pressure on BiH to cooperate fully with the Tribunal. Moreover, the fact that General Ademi is charged with crimes committed against Serb civilians (and the extradition of three Bosniak indictees to The Hague in early August) help to demonstrate to the RS the Tribunal's pursuit of accountability and justice for all individuals, not one particular ethnic group or country.

Part II

Section 1203(a) of the Fiscal Year 1999 National Defense Authorization Act requires submission of a semiannual report to Congress as long as U.S. ground combat forces continue to participate in the SFOR. This report covers events that occurred from March 2001 through December 2001. This report supplements the "Bosnia Benchmarks" report required by Public Law 105-174 and is therefore submitted here in conjunction with that report. When possible, where requirements overlap, duplication in the two reports is avoided. The numbered responses that follow correspond to specific numbered reporting requirements contained in section 1203(b).

1. Expected duration of U.S. forces in Bosnia and Herzegovina. SFOR currently numbers about 18,000 troops, less than two-thirds the number in December 1999. Utilizing enhanced operational flexibility, SFOR has continued to fulfill successfully its key military and supporting tasks. Ongoing NATO and U.S. reevaluations of required force structure have led to significant reduction of the U.S. footprint from a high of approximately 20,000 personnel in 1996 to the current level of approximately 3,100 or about 19 per cent of the total deployed forces.

NATO has a solid record of success in BiH. Recent political changes in Bosnia, the FRY, and Croatia are promising and are generally supportive of NATO's mission to Bosnia. While Bosnian authorities and IC representatives rely heavily on NATO's presence for public security, efforts are underway to enhance the indigenous police capabilities needed to reduce and ultimately eliminate this dependency.

Recent positive trends in BiH suggest that NATO forces in Bosnia can be reduced by one-third, or perhaps more, by fall 2002; the U.S. troop contribution would be cut by approximately the same fraction. This would release U.S. military assets and resources now engaged in Bosnia to be used for other priority missions, including the war on terrorism.

In December 2001, the North Atlantic Council Defense Ministers directed NATO military Authorities "... to provide a force transition concept - including benchmarks - and present force structure options in the Spring that preclude a resumption of hostilities and still contribute, within means and capabilities, to a secure environment through a lower presence in Bosnia and Herzegovina."

This review was to be based on a theater-wide assessment of the scope for rationalizing peacekeeping operations in the Balkans, with a more regional approach to certain aspects including refugee returns, border security and combating organized crime, extremism and terrorism. A key objective is to enhance efficiency and allow for significant resource savings. (See Part I, Benchmark 1).

2. Percentage of benchmarks completed. No benchmark has bee totally fulfilled to date, although in some security areas we are approaching completion. Substantial progress has been recorded in other areas, particularly Brcko, but completing the benchmarks wil require time and continued commitment, as described fully in Part 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 IPTF 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 United States and NATO attach particular importance to the need to accelerate the development of civil institutions and local police in Bosnia so they can fully and appropriately carry out their rightful responsibilities for public security and the rule of law in BiH. We are collectively working to improve the capabilities and confidence of the police in Bosnia to deal with civil disorder, including through training by the MSU. With the expiration of the IPTF mandate in December 2002, the Peace Implementation Steering Board accepted the EU's offer to lead a follow-on police mission.

4. Military and non-military missions directed by the President for U.S. forces in BiH. The United States Government supported the December 2001 decision of the NAC to task the Commander of the Stabilization Force (COMSFOR), through the Supreme Allied Commander in Europe (SACEUR), with the mission of providing a continuing military presence in order to deter renewed hostilities, contribute to a secure environment, and help stabilize the peace in BiH. The tasks outlined below were identified for NATO forces deployed to BiH.

Key military tasks:

- Maintain a deterrent military presence.
- Ensure continued compliance with the military aspects of the GFAP.
- Operate Joint Military Commissions (JMC) at appropriate levels.
- 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 for SFOR.
- Monitor Entity Armed Forces activities and inspect Weapons Storage sites, within capabilities and in close coordination with relevant international organizations.
- Be prepared to co-ordinate turnover of responsibility for Airspace Management/Control to the BiH Department of Civil Aviation when directed. (See below, Section 4(D).

Key supporting tasks, within the means and capabilities of SFOR:

- Provide support on a case-by-case basis to the OHR in implementing the civil aspects of the GFAP.
- Support implementation of the Brcko Arbitration Award.
- Support the conduct of elections and installation of elected officials.
- Support the return of DPREs by contributing to a safe and secure environment, but not forcibly returning them or undertaking to guard individual locations.
- Support the ICTY and efforts against PIFWCs.
- Selectively support the OHR and IPTF in assisting local police, providing back-up, and contributing to a secure operating environment, without undertaking civil police tasks.
- Provide on a case-by-case basis selective support to the OSCE, if requested, in implementing Annex 1B (Agreement on Regional Stabilization) of the GFAP in BiH.
- Support the continued development of the SCMM.

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 indicted war criminals.

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 Bosnian parties to the GFAP. By the end of 2001, SFOR had detained 48 indictees without support from the parties. There are 31 public indictees still at large. Additionally, SFOR continues to support, as necessary and within means and capabilities, the ICTY in the exhumation of war crime sites. (See Part I, Benchmark 10).

(B) Support to civilian police functions: As long as organized opposition to full implementation of the GFAP continues, the OHR, the United Nations Mission in Bosnia and Herzegovina (UNMIBH), and other international organizations involved in civil implementation will rely on 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 nascent SBS (~1,500 members) has shown some promise, it faces severe resource constraints. (See also Part I, Benchmarks 2, 3, 4).

(C) Resettlement and return of refugees: During this reporting period, SFOR continued close cooperation with the OHR and the United Nations High Commission for Refugees (UNHCR) to encourage refugee returns. Returns of ethnic minorities to majority population areas surpassed last year's level, according to UNHCR figures. 92,061 minority refugees and displaced persons returned in 2001 -- 36 percent more than the 67,445 returns in 2000. UNHCR assesses that over three-quarters of the 1.2 million wartime refugees and more than one-fifth of the 1 million displaced persons have now returned to their homes or resettled. However, this increase in returns is also an area of increased tension, as evictions and the resettlement process force internally displaced persons from homes they have occupied illegally. SFOR focuses on advanced planning, enhanced information exchange

to identify hot spots, and maintaining a secure environment to minimize any efforts to intimidate returnees. (See Part I, Benchmark 8).

(D) Support to local and international authorities:

Elections. No significant elections took place during the reporting period. However, a new election law was enacted in August 2001 that will apply to all future elections, including a State Presidency election next year and a general election planned in October 2002. It is hoped that these will be the first elections organized and run entirely by BiH authorities. SFOR will provide wide-area security, although this requirement is significantly reduced due to the anticipated improved security environment. (See Part I, Benchmark 6).

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 IC. SFOR has an important role in supporting, within means and capabilities, the IPTF that continues to advise and monitor local police to enhance their capabilities and professionalism. SFOR also continues to support UNMIBH and OHR efforts to develop a State Border Service, which began operations in June 2000 and continues to expand its responsibilities. (See Part I, Benchmarks 2, 3, 4).

Brcko. Since the final Brcko Arbitration Award in March 1999, the Brcko District has been completely demilitarized with the full cooperation of the EAFs. (See Part I, Benchmark 9).

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 to Bosnian authority control of the BiH upper airspace, which NATO had controlled, as provided for in the GFAP, since initial deployment of IFOR. Transfer of "medium term airspace" occurred at the end of 2001. SFOR continues to work with local authorities to

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

5. 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 an increase in refugee returns, actions against PIFWCs and terrorists with alleged links to al-Qaida, the situation remains generally calm. Initiatives are underway to reduce the EAFs to a size and budget commensurate with Bosnia's population and financial capabilities. Additionally, SFOR is involved in a multi-year plan to develop a single, state-level Bosnian army with a unified command and control structure. Cooperation between the EAFs on civil projects and demining continues to improve. (See Part I, Benchmark 1).

BiH authorities, civil and military, have yet to develop fully the legitimate, responsible, accountable state institutions necessary to achieve the ultimate goal of a self-sustaining peace. However, recent Supreme Headquarters Allied Powers Europe (SHAPE) and SFOR estimates view the likelihood of an internal military threat as remote. There has also been significant improvement in the external security situation of BiH, due to recent democratic political change in the FRY and Croatia. The impact of these democratic changes is not yet clear, and their effect on Bosnia remains to be seen.

6. Assessment of costs: Since fiscal year (FY) 1996, the projected cost to the Department of Defense of the military missions in Bosnia and Herzegovina has been about $11.3 billion. Costs are summarized below (in millions):

OPERATION	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996
	Actual	Actual	Actual	Actual	Actual	Actual
Joint Forge /Guard/SFOR /IFOR	1292.8	1381.8	1431.2	1792.8	2087.5	2241.0
Deliberate Forge/Deny Flight	153.0	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	1445.8	1483.1	1586.6	1962.7	2282.5	2520.0

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

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 U.S. Division headquarters by a U.S. Brigade Combat Team Task Force with a force capacity of approximately 4,600 in Bosnia, support of approximately 600 enabling soldiers in adjacent countries, four base camps, and two troop rotations per year.

IFOR Preparation and IFOR included the costs of preparing U.S. troops for deployment to IFOR, which was the initial NATO-led peace implementation force in Bosnia and Herzegovina.

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

Operation Sharp Guard enforced the United Nations- sanctioned 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 the United States participation in the United Nations Preventive Deployment (UNPREDEP) along the Serbian/Macedonian border.

United Nations Croatia (UNCRO) was support provided to the Zagreb hospital in support of the United Nations in Croatia.

7. Status of future operation plans: As these two reports indicate, 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, and implementation of the final Brcko arbitration decision has been generally peaceful. Increasing flows of returning refugees and internally displaced persons continue. 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, NATO will continue to evaluate its presence and the forces required based on these elements.

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