



# SPECIAL REPORT

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## ABOUT THE REPORT

This report integrates the results of three related efforts. Case studies of Serbia, Bosnia, and Kosovo examine how political extremists, intelligence and security forces, and organized criminal enterprises formed enduring power structures during the 1990s that instigated war and persist in obstructing peace.

In a conference on "Organized Crime and Political Extremism in the Balkans" conducted by U.S. Institute of Peace and the Transnational Crime and Corruption Center on November 13, 2001, a cross-section of U.S. policymakers and scholars identified obstacles that confront the international community in dealing with this challenge.

The conclusions and recommendations are drawn primarily from the experiences of practitioners who have confronted this challenge in the region, as reflected in chapters by Halvor Hartz and Laura Mercean, "Safeguarding Peace: Institutionalizing the Rule of Law," and Lt. Col. Ben Lovelock, "Securing Peace: Defeating Political Violence," from *The Quest for a Durable Peace in Kosovo: Evolving Strategies of Peace Implementation* edited by Jock Covey, Michael Dziedzic, and Len Hawley (forthcoming as one of a series of publications of the Association of the U.S. Army's program on the role of American military power).

This report was written by Michael Dziedzic, Laura Rozen, and Phil Williams. Chris Corpora and David Kanin contributed to the case studies.

**The views expressed in this report do not necessarily reflect those of the United States Institute of Peace, which does not advocate specific policies.**

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## Lawless Rule Versus Rule of Law in the Balkans

### Briefly . . .

- Extremist political forces linked with security/intelligence agencies and organized criminal enterprises have carved out autonomous structures of power in the Balkans that have instigated conflict and profited ruthlessly from it. These power structures have been maintained via informal networks that allow them to operate with impunity from prosecution, suborn elected politicians, extort profit from entrepreneurs, and manipulate the media.
- These political-criminal networks have the motivation and means, through coercion and politically motivated violence, to obstruct the transformation to self-sustaining peace. Failure to acknowledge this threat earlier and develop the means to address it adequately retarded peacebuilding in Bosnia and Kosovo; it is also the primary barrier to democracy in Serbia.
- In Bosnia and Kosovo, the international community has begun to attack the resources that sustain these rogue power structures: their capacity for political violence and illicit sources of income. For the rule of law to take root requires a comprehensive approach to building capacity, developing effective safeguards to ensure public accountability, and forging an enduring partnership between local institutions and the international community.
- In Serbia, civilian authority and accountability need to be asserted over intelligence functions; the crimes of the Milosevic regime must be vigorously prosecuted; and thorough reform of the legal code, judiciary, police, and penal system must be carried out with international assistance.
- The effort must focus on the power brokers responsible for violence-prone networks in each ethnic community, many of whom were also perpetrators of war crimes.
- To dismantle these power structures permanently, the support of civil society must be mobilized. One avenue is public exposure of the damage these political-criminal elites have inflicted within their own ethnic communities. Even more basic is the need to reassure moderate political forces and honest judges and police that they will not be abandoned as they undertake the long-term process of freeing themselves from these predatory structures.
- In the Balkans, organized crime is a model of multi-ethnic collaboration; the response must also be multi-ethnic. In addition to cooperation among governments, steps are

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needed to forge regional and international networks that bring groups from civil society together across ethnic boundaries so they can reinforce each other in addressing this shared problem.

- Unless these predatory power structures are dismantled and the rule of law institutionalized, political extremism and organized crime will continue to fester and destabilize the Balkans.
- The United States should pick its friends with care and make it clear that criminals of all ethnicities should be brought to justice. During the past century, the United States discovered that chronic political unrest in the Balkans could endanger U.S. interests in ways that were impossible to ignore. The likely consequence of future neglect would be for the Balkans to degenerate into a haven or transit point for terrorism.

## Introduction

In spite of the cultural diversity of the Balkans, the political economies of the region share a common, criminalized legacy. Extremist political factions have dominated politics in the post-Tito era by wielding a capacity for coercion and political violence derived from control over the state security apparatus and intelligence activities. The economies of the region have become increasingly criminalized as assets of socially owned enterprises were stripped, and smuggling and organized criminal activity became the primary means of income. Politics was a zero-sum game with outcomes ultimately decided by violent means. Control of the state translated into predatory exploitation of both the formal and underground economies.

These kleptocracies exploited and inflamed ethnic tensions as a means of legitimizing their rule. The wars that resulted afforded abundant opportunities for those in power to profit from arms smuggling and sanctions busting. The extremist power structures described in this report were thus responsible for instigating conflict and profiting ruthlessly from it, very often by dealing with each other to move commodities across ethnic boundaries. Today these largely informal power structures retain the motivation and means to obstruct the transformation to self-sustaining peace in Bosnia and Kosovo and to thwart democratic consolidation in Serbia. They continue to operate with impunity from prosecution, suborn or blackmail elected politicians, extort profit from entrepreneurs, and manipulate the media. Dismantling these power structures and ushering in the rule of law has thus become a top international priority.

Both Michael Steiner, special representative of the UN secretary general in Kosovo, and Lord Paddy Ashdown, the new high representative in Bosnia, have placed the threat from organized crime and corruption at the top of their agenda, and they have stressed the need to promote the rule of law. In his inaugural speech on May 27, 2002, Lord Ashdown made justice his top priority, declaring, "It may well be that the grip of nationalism in Bosnia and Herzegovina is, slowly—too slowly—weakening. But the grip of criminality and corruption is strengthening. And this poses a direct threat to every single one of us." Similarly Steiner has made the rule of law one of his top priorities. In his April 24, 2002 address to the UN Security Council, he advised that "we are also enhancing capabilities to effectively combat organized crime, terrorism, and corruption. However, I must emphasize that as we begin to make significant arrests against the criminal gangs we should anticipate a criminal backlash."

Failure to acknowledge the criminal threat earlier and develop the means to address it has retarded peacebuilding in Bosnia and Kosovo and is thwarting reform in Serbia. Various factors have been responsible for obscuring the international comprehension of this issue:

- Conflict in the Balkans was defined in ethnic terms. Many atrocities, however, were motivated by wartime profiteering and plunder; irregular forces with roots in the criminal underworld played a leading role in this.

- International embargoes that were imposed to stanch ethnic carnage had perverse effects. They created a dependency on criminal operatives within each ethnic community because of the need to arrange cross-border transactions to obtain weapons, fuel, and other commodities. The result was to cement the bond between each state security apparatus and the criminal underworld.
- Organized crime was regarded as having no relevance to military peace enforcement until relatively recently. An understanding that securing the environment requires severing the nexus between criminal sources of wealth and violence-prone political obstructionists remains less than universal.
- The nexus between crime and politics is maintained through concealed, informal networks that extend into the intelligence agencies, military establishments, and police services of the state, resulting in a high degree of impunity.

In Bosnia and Kosovo, the international community has begun to attack these power structures and deprive them of their primary political resources: a capacity for political violence and illicit sources of income. The effort should focus on the power brokers who are responsible for violence-prone networks in each ethnic community. There is considerable overlap between this group and perpetrators of war crimes. Defeating power structures rooted in the nether world of intelligence operatives, gangsters, and paramilitary warlords requires committed international military forces. Criminalized extremist power structures cannot be dismantled by combat troops alone, however. A complete spectrum of law enforcement and criminal justice capabilities, from intelligence to incarceration, is required. Given that systems of law enforcement and criminal justice had either been intimidated or eliminated in Bosnia and Kosovo, international actors require proper authority and resources to complete this continuum.

Case studies of Serbia, Bosnia, and Kosovo below trace the evolution of criminalized political economies and the implications this has had for international efforts to bring peace and rule of law to the region. The case studies are followed by recommendations for dismantling political-criminal power structures and institutionalizing the rule of law. These three cases were selected due to their salience for U.S. interests, but similar criminalized power structures exist throughout the region. A recent report on Macedonia, for example, concludes that, "In effect the state has come to function in important respects as a 'racket.'" The consequence is "outright collusion between ethnic leaders to heighten tensions" ("Macedonia's Public Secret: How Corruption Drags the Country Down," International Crisis Group, August 31, 2002).

## Serbia

### *The Criminalization of the Political Economy*

During the Tito era an alliance was forged between Yugoslavia's intelligence agencies and its criminal underworld. The latter served as an instrument of political control under contract to assassinate dissidents abroad who were considered a threat to the Tito regime. The Belgrade mafia was well established due to its control of the so-called "Balkan route" for heroin from Afghanistan into Europe. Criminals received the full support of the Yugoslav intelligence apparatus, including fake passports, assumed identities, cover stories, safe houses, assistance from secret police in Yugoslav embassies, and impunity for their crimes. Over 100 Yugoslavs were murdered abroad between 1965 and 1990, but not a single successful prosecution took place.

In the post-Tito era, an informal alliance involving President Slobodan Milosevic's political machine, the Interior Ministry's State Security Service, and the Serb mafia was instrumental in criminalizing the Yugoslav political economy. Under the influence of Milosevic and his wife, Mirjana Markovic, the government was transformed into a kleptocracy

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dedicated to manipulating the monetary system, stripping assets from state-owned property, monopolizing lucrative smuggling networks, and war profiteering. The primary beneficiaries were Milosevic's Socialist Party of Serbia (SPS); the Yugoslav United Left (JUL) party of his wife; the State Security Service; some opposition party members; and career criminals. Among the specialties of the State Security Service, as described by the Helsinki Committee for Human Rights in Serbia, were arms smuggling, financial manipulation, narcotics trafficking, and even political murders, along with deployment as paramilitary units outside Serbia. The JUL party is described by Louis Sell in *Slobodan Milosevic and the Destruction of Yugoslavia* (Duke University Press, Durham, N.C., 2002) as a "rabble of war profiteers, smugglers, and criminals." Markovic allegedly operated on principles derived from the mafia of "absolute loyalty" purchased through patronage and "the certainty that betrayal would be repaid with death." Sell notes that Markovic and her JUL colleagues are suspected of complicity in a number of unsolved political assassinations.

At the macroeconomic level, monetary policy was shamelessly manipulated. The current governor of the National Bank, Mladjan Dinkic, exposed the Milosevic-era financial schemes in *The Economics of Destruction* (Video nedeljnik, Belgrade, 1995), noting that, "In the autumn of 1991, the Serbian leadership took complete control over Yugoslavia's monetary policy. . . . Time would show that this discretion was not intended to serve national interests, but rather certain individuals in the ruling financial elite." Only government officials were allowed to buy foreign currency at the official exchange rate. They could then resell German marks, for example, at much higher black market exchange rates. By 1995, Dinkic estimates that the equivalent of \$4 billion (U.S.) had been extracted from the population through manipulation of foreign exchange rates in tandem with hyperinflationary increases in the money supply.

Privatization of government-owned enterprises and asset stripping were other illicit sources of income. The privatization of Serbian Postal Telephone and Telegraph (PTT) in 1997 was of critical importance, providing Milosevic with \$1.5 billion that was reportedly used to pay salaries and pensions in response to growing restiveness against his regime. The buyers were Italian and Greek investors, illustrating the complicity of the international community in perpetuating Milosevic in power.

Milosevic and his associates also profited greatly from western sanctions because of their ability to exploit shortages through the marketing of smuggled goods. Political supporters of the Milosevic family were given official positions and government concessions that permitted avoidance of customs duties. The major products for sale in this gray economy were oil, gas, consumer goods, cigarettes, computers, telecommunications equipment, agricultural products, and spare parts. Even during the height of the sanctions regime, Milosevic manipulated international humanitarian food assistance, which allowed him to barter domestic grain for Russian gas and oil. Jugopetrol, run by Dragan Tomic, then speaker of the Serbian parliament, had a monopoly on petroleum imports and distribution. Smuggled cigarettes accounted for an estimated 70 percent of domestic consumption. It was even more lucrative to evade duties imposed by European Union states and peddle contraband cigarettes there. Marko Milosevic, son of the former president, was alleged to be a major player in this market. The long-running practice of diverting customs revenues to SPS party coffers ultimately resulted in Milosevic's indictment by Serb authorities in April 2001.

The Yugoslav Army was another beneficiary of the criminalization of the political economy. Seventy percent of the Yugoslav budget went to the army, but public accountability for the way it was disbursed was absent. Various Yugoslav tycoons who had connections to the army and to Russia emerged to facilitate the smuggling of weapons into the Republika Srpska and to other parties involved in conflict in the Balkans. Hundreds of deals totaling perhaps \$250 million were reportedly transacted. Solid evidence emerged in October 2002 that this clandestine activity has continued in the form of military assistance to Iraq from both Serbia and Republika Srpska, allegedly including development of cruise missiles for delivery of weapons of mass destruction.

Organized crime was another area of activity to be exploited in Milosevic's economy. According to journalist Duska Jovanic, the criminal underworld was reportedly astounded in the early 1990s by the way state authorities moved into the business of organized crime. Black market dealings, arms smuggling, and participation in financial manipulation became a way for the State Security Service to finance operations and for Milosevic's cronies to enrich themselves. Since Serbia is a major trans-shipment point on the Balkans drug smuggling route, at the very least there was complicity between Turkish trafficking organizations and Serbian officials to ensure free passage. Trafficking was allegedly orchestrated through the secret service of the Foreign Ministry and the State Security Service. Proceeds from the many illicit schemes orchestrated by the Milosevic regime were deposited in Cyprus and other offshore banking centers. Budimir Babovic, formerly of the Interpol office in Belgrade, described Serbia in a March 2000 *Chicago Tribune* article as a "black hole of criminality" in which there was "the criminalization of the state apparatus on all levels." After Milosevic's downfall, a ton of heroin was discovered in police lockers at Belgrade's police station number 1, and a Yugoslav military attaché was apprehended for smuggling cocaine in Venezuela.

While Milosevic insiders enriched themselves, the combined impact of the collapse of the formal economy, hyperinflation, and international sanctions devastated the average wage earner. The Tito-era economic model, which had fostered economic interdependence among the various republics, was shattered as the Federal Republic of Yugoslavia (FRY) disintegrated. Nearly half the workforce lost their jobs, and pensioners went unpaid for months at a time. The informal economy became virtually the only refuge. It provided both basic necessities and employment. At the Belgrade flea market, for example, one could find food, toys, crockery, tools, alcohol, cigarettes, counterfeit clothes and athletic shoes, pirated cassettes and video recordings, and stereo systems.

Milosevic sought to legitimize his predatory regime by manipulating nationalist themes. As Louis Sell observes, he glorified Serbia's past while attacking "the other Yugoslav peoples as anti-Serbian." Ethnic cleansing in Croatia, Bosnia, and Kosovo did not erupt spontaneously, however; they were often the result of deliberate atrocities committed by the State Security Service and their erstwhile collaborators from the criminal underworld. The most notorious example was Zeljko Raznatovic, or "Arkan," who had a career as a hit man for the Yugoslav secret police. Arkan and others like him served the Serb war machine as paramilitary leaders who killed and terrorized non-Serb populations, causing them to flee those portions of Croatia and Bosnia that Belgrade desired. In exchange, Arkan's "Tigers" and other paramilitary groups with links to the security services got all the loot they could pillage. Arkan then monopolized lucrative petrol and cigarette concessions in territory he had "ethnically cleansed."

### ***Impact on Reform and Regional Stability***

In the post-Milosevic era, reform-minded leaders have created conditions for growth in legitimate economic activity and substantially reduced opportunities for smuggling. The political-criminal networks that permeated Milosevic's regime, however, have proven to be enduring. The State Security Service and the army intelligence apparatus, the Military Security Service, have remained virtually autonomous entities.

A detailed study of policing in the FRY published in October 2001 describes these persistent power structures as "a firm within a firm" ("Study on Policing in the Federal Republic of Yugoslavia," Organization for Security and Cooperation in Europe). Foreign Minister Goran Svilanovic sees a grave danger to his country's nascent democracy emanating from "the link between organised crime—which gained its riches through smuggling of arms, cigarettes, alcohol and, increasingly, human beings—and the political and parapolitical centers of power in the region." Among the consequences for democratic consolidation are intimidation and blackmail of reformist politicians and judges, protection of war criminals, and obstruction of efforts to gather evidence about their wrongdoing.

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Regional stability has also been undermined through the surreptitious funneling of support from Belgrade to the army of the Republika Srpska and to paramilitary vigilantes in Mitrovica in northern Kosovo called “bridgewatchers.” At least until January 2002 the bridgewatchers were funded out of the budget of the Serbian Ministry of the Interior, but they also finance themselves through extortion and organized crime. Adept at orchestrating unruly demonstrations, the bridgewatchers have been responsible for the worst acts of violence that have been perpetrated against the UN Mission in Kosovo (UNMIK), including a grenade and sniper assault in April 2002 that injured 26 international police. They also use strong-arm tactics to intimidate Kosovo Serbs who cooperate with UNMIK and to resist deployment of Serb members of the Kosovo Police Service (KPS) in northern Mitrovica. The bridgewatchers are the primary reason that UNMIK had been unable to extend its writ north of the Ibar River in the predominantly Serb portion of Mitrovica.

## Bosnia

### *The Criminalization of the Political Economy*

For much of its history, Bosnia was under imperial domination that produced little economic or political development. Security and sustenance for its people were provided by informal local power structures or fiefdoms that were resistant to central governance. Although Tito installed single-party rule, with the break-up of Yugoslavia, three nationalist parties consolidated their grip on power in their respective ethnic communities: the Croat Democratic Union (HDZ), the Serb Democratic Party (SDS), and the Bosnian Muslim (Bosniac) Party of Democratic Action (SDA). These nationalist parties formed the nucleus of Bosnia’s criminalized power structures. They encouraged and exploited inter-ethnic conflict “through their monopoly on violence and their control of informal economic activity,” as an October 1999 European Stability Initiative (ESI) report on Bosnian power structures has documented (“Reshaping International Priorities in Bosnia and Herzegovina”). They inherited control of the internal security apparatus and intelligence services within each community, while the Tito-era “nomenklatura” system continued to function as an informal patronage network.

Illegal financial transactions and smuggling of arms, fuel, tobacco, alcohol, and foodstuffs became integral to the war effort. Nationalist parties funded both their political and military activities in this manner. Many officials, both military and civilian, became unabashed war profiteers, often cooperating across ethnic lines. The active promotion and exploitation of conflict displaced legitimate economic activity. The result was an underground economy based on gray market transactions (smuggling of consumer goods, corruption, barter) and black market activity (organized trafficking in drugs, arms, prostitution).

Corruption continues to be endemic in the wake of the armed conflict. The impact of official connivance in, protection for, and even direction of smuggling and other forms of tax evasion is enormous. Cigarettes, alcohol, and oil are particularly important. In Republika Srpska, one estimate suggested that over \$90 million had been lost annually as a result of smuggling. Each ethnic group also operates its own electric, water, and telephone companies that exercise a monopoly in areas they control. Nationalist parties siphoned off proceeds from these public utilities to the benefit of local politicians and to fund their campaign activities, militating against the emergence of alternative political views. In October 1998, Didier Fau, the deputy high representative for economic issues, estimated that Bosnia’s formal economy may account for 20 percent of activity while perhaps 80 percent goes to the gray and black economies. In countries where the rule of law prevails, these percentages would be reversed.

The black market has burgeoned. Criminal enterprises that had supported and profited

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from the conflict have continued to function, assisted by their connections in officialdom. This has afforded crime bosses a high degree of impunity, while ultra-nationalist politicians and others have continued to benefit from crime. The "Balkans route" in general is estimated by High Representative Paddy Ashdown to account for some 60 percent of Western Europe's supply of illicit drugs. Proceeds have reportedly helped to fund parallel institutions maintained by ethnic extremists. Since the end of the war "thousands of women had been trafficked into Bosnia for forced prostitution," according to Human Rights Watch (Regan Ralph, testimony before Senate Committee on Foreign Relations, Subcommittee on Near Eastern and South Asia Affairs, February 22, 2000). Local police, and some internationals, have been involved in this trafficking, while the demand is driven in part by the international presence. Porous borders had also made Bosnia a major route for illegal aliens seeking to reach Western Europe, though control has improved considerably with the formation of a State Border Service. Until 1999, one of the largest markets for stolen vehicles in Europe was located at Stolac in the Croat-dominated area of Bosnia. Hundreds of vehicles with forged registration papers and license plates from Western European states could be found there. Although the Office of the High Representative outlawed the market and pressured local authorities to arrest the organizer, Jozo Peric, a leading organized crime figure, he remains a fugitive (David Dlouhy, testimony before the House International Relations Committee, September 15, 1999).

### *The Impact on Peace Implementation*

The nature of extremist-criminal power structures and their impact on implementation of the Dayton Accords has varied across the three ethnic communities. Whereas Bosnian Serbs and Croats were able to count upon support from contiguous state sponsors during the war, Bosniacs could not. Thus, the power structures that evolved in Croat-dominated Herzegovina and the Republika Srpska (RS) were reliant on ties to the state security entities of their patrons. The exigencies of the war compelled Bosnian Muslims to turn to paramilitary elements, especially criminal gangs and *mujahedin* (Islamic volunteers) from Iran and Afghanistan.

Former Croatian minister of defense Gojko Susak was the principal patron and conduit for revenue that allowed the HDZ to operate a shadow Bosnian Croat government during and after the war. Some of the most powerful figures in the HDZ were directly involved with his highly lucrative smuggling operations, especially the illicit flow of weapons. The prominent role of Croatian intelligence operatives and their criminal activities were revealed in October 1999 when SFOR (the NATO-led Stabilization Force) raided covert intelligence facilities in Mostar and seized weapons, credit card counterfeiting equipment, and a wealth of information about their operations against the international community. This SFOR action and efforts to promote refugee returns have been staunchly resisted by Bosnian Croat veterans associations, noted for their capacity to assemble violent "rent-a-mobs" at a moment's notice. One of these paramilitary groups was founded by Mladen Naletilic, an indicted war criminal and notorious underworld figure, commonly known as "Tuta." His paramilitary Convicts' Brigade was responsible for some of the worst atrocities against Bosniac and Serb communities during the war. One of Tuta's senior commanders, Ivan Andabak, who was also a general in the Herceg-Bosna military (or HVO), is a suspect in the March 1999 assassination of the federation's deputy minister of interior, Jozo Leutar.

With the death of Susak and the January 2000 transition to a democratically elected, post-Tudjman government in Croatia, the HDZ lost access to funding to thwart implementation of the Dayton Accords. HDZ hardliners, including Tuta and other war criminals, have been jailed or sent to The Hague. HDZ leader Ante Jelavic was removed from the tripartite Bosnian presidency in March 2001 because of his involvement in pushing for a Croat mini-state or "third entity" in Bosnia. The Office of the High Representative (OHR) and SFOR have cracked down on the use of the Hercegovačka Bank to fund the parallel

Croat government. The bank may have also functioned as a money-laundering machine for transnational organized crime. Moderate elements based in central Bosnia and the Posavina corridor in northern Bosnia, where almost half the Bosnian Croats live, have become increasingly willing to pursue their own interests. Since Croats in central Bosnia are geographically dispersed, they are ill-disposed to the creation of a separate Croat entity. In the HDZ stronghold of southern Herzegovina, however, extremists continue to agitate for a Croat third entity, although without the means to do so effectively.

Power in the RS was dominated by SDS party leaders Radovan Karadzic, Momcilo Krajisnik, and Biljana Plavsic. When external support from Milosevic declined, they had to rely primarily on revenue generated from illicit trade in alcohol, cigarettes, fuel, and coffee. Even though Karadzic was removed from his formal position in the RS government and SDS party in 1996, his retinue of bodyguards continued to be funded in this manner. In 1997 Plavsic defected, claiming that government salaries and pensions could not be paid because of revenue lost to smuggling operations controlled by her SDS opponents. These illicit activities were investigated, but charges were either dropped due to SDS pressure or investigators were murdered. SFOR further weakened extremist power structures in the RS by asserting control over public broadcasting, cracking down on paramilitary units and intelligence services, and arresting war criminals. Although Karadzic remains on the run, Krajisnik and Plavsic have appeared before the International Criminal Tribunal for the Former Yugoslavia (ICTY). The vacuum created by the weakness of the RS government has been filled, in traditional feudal manner, by localized fiefdoms at the municipal level. In some cases, such as Prijedor, the outcome has been positive, largely because of the arrest of war criminals and the atrophy of the repressive structures they controlled. On the other hand, the weakness of the rule of law in the RS provides ample opportunity for criminalized power structures in other municipalities (for example, Foca, Bijeljina, Brcko, Trebinje, and Zvornik) to flourish and continue obstructing the peace process.

Although the Bosnian Muslim SDA was supportive of most aspects of Dayton, political-criminal linkages growing out of the war have created serious impediments to the rule of law. Since the Bosniacs lacked a patron with whom they shared a border to help them circumvent the arms embargo, the SDA and its founder, Alija Izetbegovic, were compelled to seek external assistance from the Islamic world and the local mafia. Labyrinthine political-criminal networks ran through the defense ministry, the Bosnian Agency for Investigation and Documentation (BAID), the police, and the party. As is characteristic of these informal power structures, both the *mujahedin* who remained behind and the Sarajevo mafia enjoyed an ominous degree of autonomy and impunity.

The individual most responsible for coordinating war-time assistance from Islamic sources, including *mujahedin* veterans from Afghanistan, was former deputy Federation defense minister Hasan Cengic. Even though the United States compelled his removal in 1996, ESI reported several years later that he continued "to play a prominent role in the party and the Federation parliament, has an important political network in the SDA-controlled cantons, and has built up a private business empire." As with Karadzic and other leading extremists, mere removal from formal positions had only cosmetic impact since their power was derived from informal networks involving family and interlocking business and foundation relationships. Although the number of *mujahedin* fighters who remained in Bosnia after the war may be small, the closed nature of their communities near Maglaj and Zavidovici (for example, Bocinja) was a cause for concern. With the arrest in October 2001 of six Algerians accused of plotting an al Qaeda-inspired attack on a U.S. target, those fears were substantiated. The inability to prosecute the case in Bosnia because the intelligence possessed by SFOR could not be converted into admissible evidence exposed a glaring weakness in dealing with extremist power structures.

The involvement of BAID with the *mujahedin* and the criminal underworld is likely to become clearer since the arrest of BAID's first director, Bakir Alispahic, along with his deputy, the head of BAID's Sarajevo sector, and two ex-policemen who held key positions

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in the Bihac Canton during and after the war. According to the Institute for War and Peace Reporting (IWPR), they are charged with “numerous murders of Bosnian Croat returnees in central Bosnia, bomb blasts at Catholic sites, and the assassinations of one of AID’s deputy directors, Nedzhad Ugljen (“Sarajevo Trial May Lift Lid on Assassinations,” May 22, 2002). Alispahic and his BAID colleagues are also linked to an alleged terrorist training camp in Pogorelica run by the Iranian intelligence service that was raided by IFOR (the NATO-led Implementation Force, which preceded SFOR) in February 1996. BAID’s apparent ties to al Qaeda have also surfaced as a result of raids on facilities of the Benevolence International Foundation (BIF) conducted by the Federal Ministry of Interior in March 2002. According to IWPR, the incriminating evidence includes photos of BIF founder Enaam Arnaout posing with Osama bin Laden amidst an arsenal of weapons, and classified BAID documents relating to Islamic volunteers in Bosnia during and after the war. These documents were discovered in the office of former BAID member Munib Zahiragic, who was BIF’s senior representative in Bosnia (“Bosnia: AID Worker Linked with Bin Laden,” May 30, 2002).

The deal that the SDA cut with underworld bosses like Ismet Bajramovic, known as “Celo,” and others during the war has also had a pernicious impact on the post-war regime. The Sarajevo weekly *Dani* summarized the relationship as one where the government provided “the most open support and protection for and partnership with figures widely known for a long time as untouchable mafiosi, profiteers, and criminals” (May 7, 1999). Even though there has since been a change in government and former “untouchables” are becoming vulnerable, the system of justice has not kept pace. The scale of the challenge was suggested by the head of the Bosnia Judges’ Association, Vlado Adamovic, when he argued recently—in defense of the local judiciary—that “maybe 20 or 30 percent of the judges are bad or not respectful of the codes, but they are not all corrupt.”

In sum, with the seventh anniversary of the Dayton Accords approaching, some of the leading extremists have been eliminated from the power structures that instigated and profited from the war. The power vacuum has largely been filled, however, by their criminal counterparts rather than by the rule of law. The existence of a dominant extra-legal economy along with the corrupt behavior of key government officials means that there is a very poor revenue base to sustain public services, including the judiciary and law enforcement. Even when legal proceedings are brought against political figures, cases are either dismissed or sentences are very light. Such problems were given scant attention at Dayton, and the nationalist parties were able to exploit the fragmentation of power that resulted from the accords to entrench themselves even more firmly within their own communities. The result, according to Robert Barry, former head of the OSCE Bosnia mission, has been that the nexus of “extremist politicians, the remnants of the old security services, and organized crime in this country represents the single greatest obstacle to democratic reform, economic investment, and membership in Euro-Atlantic institutions” (speech at Sarajevo University, October 20, 1999).

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## Kosovo

### *The Criminalization of the Political Economy*

After Milosevic deprived Kosovo of its autonomy in 1989 and removed ethnic Albanians from state-run enterprises and the education system, the underground economy became a vital safety valve, especially the linkage to the Kosovar Albanian diaspora. Many families survived on remittances from relatives who found employment in Europe. Thousands migrated, with the largest communities eventually forming in Switzerland and Germany. During most of the 1990s this exile population also provided regular donations to support the parallel government led by Ibrahim Rugova’s Democratic League of Kosovo (LDK) and his passive resistance to Milosevic.

Owing to the region's strategic location on the heroin trafficking route running from Afghanistan into Europe, Turkish criminal clans increasingly turned to Albanians to act as drug couriers as instability engulfed the Balkans during the 1990s. A ready pool of unemployed and alienated Kosovars was also available in Western Europe and some of them were recruited to run heroin and prostitution rings. Inevitably, Kosovars went into business for themselves, since their clan culture and obscure language made them highly resistant to penetration by law enforcement. Exploiting the presence of Kosovar communities throughout Europe, enterprising Kosovar mobsters were able to challenge Turkish dominance over heroin markets in Germany, Switzerland, Scandinavia, Belgium, Hungary, Poland, and the Czech Republic. Kosovar Albanians also became a major factor in prostitution in Italy and Germany.

Criminal activities played a significant role in developing a resource base for the political and military struggle of the Kosovo Liberation Army (KLA). Estimates vary, but up to half the funding for the KLA may have come from drugs. A drugs-for-guns connection first emerged in the early 1990s, with heroin shipments financing the purchase of weapons destined for Bosnia and Kosovo. With the emergence of the KLA in 1997, Kosovar Albanians living abroad also lent their support via the Homeland Calling Fund. When pyramid schemes in neighboring Albania collapsed that same year, the ensuing anarchy led to a looting of armories that created a ready supply of weapons across the region.

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The withdrawal of Serb security forces from Kosovo in June 1999 produced a public security and legal vacuum that the chief of the OSCE mission in Pristina, Daan Everts, referred to as an "open invitation" to organized crime. As refugees returned to Kosovo, Albanian criminal gangs rushed in with them. A lack of border controls allowed almost anything to be smuggled in or out, including drugs, cigarettes, alcohol, cars, and petrol. Cigarette smuggling became big business, both because Kosovo has one of the highest rates of cigarette consumption in the world and because high taxes in Western Europe make it especially remunerative to penetrate that market. Luxury cars in Greece and Macedonia became another lucrative target. With Kosovo's formal economy in a virtual state of collapse, employment opportunities were limited to the international presence or the underground economy.

### *The Impact on Peace Implementation*

The KLA quickly filled the vacuum as Serb forces withdrew, establishing de facto governing structures. A wave of violence against the Serb population produced "reverse" ethnic cleansing. Revenge was not the only motivation, as vacated Serb property was often usurped by ex-KLA fighters. Albanian ethnicity was no guarantee of respect for personal property, however, and much valuable real estate was expropriated by KLA members for personal use. Entrepreneurs who retained their businesses were often compelled to pay protection money. Recurring reports linked ex-KLA leaders with illegal trade in cigarettes, alcohol, and petroleum products.

As former KLA members sought to assert control over Kosovo's levers of power and sources of wealth, they came into conflict with LDK supporters. A civil war was narrowly averted by UNMIK, but antipathy between the LDK and Hashim Thaci's Democratic Party of Kosovo (PDK) has continued to cast a long shadow over politics in Kosovo. The protracted delay in forming a government after the November 2001 parliamentary election illustrated the depth of this antipathy.

The creation of the Kosovo Protection Corps (KPC) in 1999 as a disaster response unit, and to a lesser extent the recruitment of a new police force, the Kosovo Police Service (KPS), was part of a process to incorporate former KLA leaders into the political mainstream and integrate individual KLA members into civil society. Some senior KPC commanders continued to act with impunity, however, and to resist efforts to dis-

cipline them. Rogue ex-KLA fighters and some KPC members acting autonomously are widely suspected of having been catalysts in the insurrections that erupted in southern Serbia in 2000 and in Macedonia in early 2001. They have proven adept at exploiting grievances among ethnic Albanian populations in the region to fuel inter-ethnic conflict, and there are continuing reports of involvement by ex-KLA in trafficking in drugs, arms, and other contraband.

The danger from organized criminal elements is illustrated by the wave of illicit commercial construction that took place after June 1999, particularly in Pristina. In addition to being an attractive way for criminal enterprises to launder money, many of these structures were built illegally on municipal property. When UNMIK began to clamp down by demolishing illegal buildings in the summer of 2000, Pristina's chief for enforcement of permit requirements, Rexhep Luci, was assassinated by an organized crime hit team.

## Conclusions

In Bosnia and Kosovo, the international community is making progress in dismantling lawless structures of power. UNMIK and KFOR have finally put mechanisms in place that complete the "intelligence-to-incarceration" continuum, enabling them to begin holding those who have violently obstructed the peace accountable for their actions. The accused Kosovo Serb ringleader of the April 2002 assault on UNMIK Police in Mitrovica, Milan Ivanic, has surrendered to UNMIK Police after initially fleeing from justice. Since January 2002, former senior KLA commanders Daut Haradinaj and Rustem Mustafa and dozens of others have been arrested primarily for violence against fellow Kosovar Albanians, sending a strong signal that no one is above the law. KFOR also struck a preemptive blow against use of Kosovo's territory to destabilize Macedonia with the August 2002 arrest of three suspected organizers of the Republican Army of Ilirida. In Bosnia, High Representative Paddy Ashdown has also thrown down the gauntlet, declaring to the Parliament of Bosnia-Herzegovina on July 16, 2002 that "now we must turn our attention towards dismantling the organized criminal networks that are attempting to capture this country's institutions, and control its politics." Ashdown has moved swiftly to galvanize the criminal justice system by addressing deficiencies in the criminal code, establishing a special chamber in the court of Bosnia-Herzegovina and special departments in the prosecutors' office to deal with organized crime and corruption, and creating High Judicial and Prosecutorial Councils comprised of local and international jurists that will be responsible for reappointing almost all judges and prosecutors in Bosnia and maintaining ethical standards.

In Kosovo an attempt was made to intimidate the international community through street demonstrations that at times became violent. In Bosnia, criminal-political power structures have reacted to the Ashdown Declaration by seeking to obstruct ongoing investigations and court cases.

In Serbia, legislation has been passed that seeks to bring the State Security Service under control, and special mechanisms have been created for dealing with organized crime. The Special Operations Unit of the State Security Service that engaged in armed rebellion in November 2001 has been disbanded. These commendable efforts deserve whole-hearted support, but their impact should be measured by results in bringing the Milosevic-era criminal oligarchy to justice. Test cases abound. Mass graves discovered on Ministry of Interior facilities near Belgrade provide hard evidence of a systematic cover up of wartime atrocities committed in Kosovo, yet pursuit of this matter through the legal system has stalled. The long list of unsolved political assassinations—among them the slaying of Arkan, the chief of the special police, and the defense minister—testifies to a lack of accountability. Investigations by the National Bank of Yugoslavia into the financial crimes of the Milosevic regime have similarly been stonewalled, prompting bank governor Mladjan Dinkic to denounce this publicly. In his judgment,

*In Bosnia and Kosovo, the international community is making progress in dismantling lawless structures of power.*

the inaction results from efforts by those who wielded power under Milosevic to preserve their prerogatives. The June 2002 assassination of Bosko Buha, Serbia's deputy head of public security, whose action to support the October 5 rebellion was pivotal to Milosevic's ouster, provided a chilling reminder that the politics of violence still prevails in Belgrade. The specter of a political-criminal regime, simply without Milosevic at the helm, still hovers menacingly over Serbia.

### *Dismantling Lawless Power Structures*

*If power in the Balkans continues to be wielded by untouchable, informal networks of predatory politicians, rogue intelligence operatives, and gangsters, self-sustaining peace will be unattainable. . . . Unless the rule of law prevails over the legacy of lawless rule in the region, the cycle of conflict will inevitably be repeated.*

- *The United States has no need for friends who are crooks.* If power in the Balkans continues to be wielded by untouchable, informal networks of predatory politicians, rogue intelligence operatives, and gangsters, self-sustaining peace will be unattainable. Implementation of peace agreements in this context has erroneously been regarded by some as a "post-conflict" process. In reality, the final phase of conflict remains to be decided. Unless the rule of law prevails over the legacy of lawless rule in the region, the cycle of conflict will inevitably be repeated.
- *The British military get results.* Defeating power structures rooted in the nether world of intelligence operatives, gangsters, and paramilitary elements requires committed international military forces. In their Balkans peace missions, the British military has repeatedly demonstrated the effectiveness of a mode of operation that is rooted in principles of counterinsurgency as applied in Northern Ireland. This emphasizes cohesive action with civilian counterparts, especially law enforcement; cultivating support and eliciting information from the local population; and intelligence-led operations to assist in the arrest of those who oppose peace through violent means.
- *The entire continuum from intelligence to incarceration must be completed.* KFOR and UNMIK eventually had to acquire the full spectrum of capabilities—from intelligence to incarceration—to begin dismantling criminalized power structures in both the Kosovo Albanian and Serb communities. To prosecute high-profile cases successfully required international police, judges, and prosecutors who could not be intimidated by powerful extremists or prominent criminals. International judges are regularly asked by their local colleagues to assume sensitive cases.

### *Institutionalizing the Rule of Law*

*For the rule of law to become a reality, the complete spectrum of components must be developed, including the legal code, judiciary, police, and penal system.*

- *Capacity building for the rule of law must be holistic.* For the rule of law to become a reality, the complete spectrum of components must be developed, including the legal code, judiciary, police, and penal system.
- *Safeguards must be developed in tandem with capacity.* To ensure that these institutions actually serve the public interest and do not again become captives of repressive and corrupt political forces requires effective safeguards to observe performance (transparency) and to sanction misconduct (accountability).

Structural safeguards within the state are part of the answer. This includes political pluralism (which in the Balkans equates to multi-ethnic governance), open elections that permit transitions in power, and judicial autonomy. It is also essential to create independent oversight bodies with effective disciplinary mechanisms for each institution involved in the rule of law.

Vigorous safeguards in civil society are also essential for effective transparency and accountability. This includes a free press (especially investigative journalism); political parties capable of mobilizing an opposition; education of the public about their rights and mechanisms for redress of abuses; and mobilization of groups in civil society that have an inherent interest in the rule of law (for example, private sector, professionals, intelligentsia, middle class, women, students).

- *Partnership between internationals and locals is essential for sustainability.* A partnership between the international community and members of local institutions involved in the rule of law is essential both for short-term success and long-term sustainability. The training and assistance provided initially is liable to be ineffective unless it takes into account local political, economic, and cultural realities. Over the long term, partnership provides an additional guarantee that these institutions will not become captives of repressive domestic forces or transnational criminal or terrorist networks. The timing of the transition to local “ownership” should be determined both by the capacity of local institutions and by the strength of domestic safeguards. Since the process of capacity building will be accomplished well ahead of the point when local safeguards are able to function reliably, the judiciary, police force, and penal system will be vulnerable to being suborned by criminalized power structures. To bridge this gap, a period of partnership with international personnel should take place to permit domestic safeguards to mature and be tested before full responsibility is transferred.

***A period of partnership with international personnel should take place to permit domestic safeguards to mature and be tested before full responsibility is transferred.***

## Recommendations

### *Dismantling Lawless Power Structures*

- *Milosevic-era crimes committed in Serbia should be prosecuted.* The United States, European Union, OSCE, and ICTY should assist the FRY/Serbia with investigative resources and access to information pertaining to crimes committed in Serbia by the Milosevic regime. They should compile a list of the most politically significant crimes and issue regular reports on the status and causes of delay in achieving a just verdict in these cases. Future economic assistance could be conditioned on the way these pivotal cases are handled, with an emphasis on convictions and confiscation of assets.
- *Military and intelligence agencies should be made accountable to elected civilian authority.* Military and intelligence services must be accountable to properly constituted civilian authority. Measures to achieve this include vetting of personnel, budgetary oversight and auditing by elected civilian officials, standards of professional conduct, and effective disciplinary mechanisms. This should be a priority, especially concerning the Military Security Service in Serbia, and future international economic assistance should be conditioned on performance in this area.
- *International evidence-gathering capabilities need to be reinforced.* Over the years, international officials have developed an understanding of who has been responsible for obstructing peace in the Balkans. This knowledge, which is sometimes derived from intelligence, must be converted into evidence that can be admitted in court. To make this possible, the UNMIK Department of Justice has brought together personnel with criminal investigative skills and appropriate security clearances to exploit police and military sources of information and to develop evidence. To be effective, UNMIK and the OHR in Bosnia must also have adequate investigative capabilities. SFOR and KFOR may also need to use wire-taps to produce investigative leads, and all international organizations need to work toward sharing information about the strategic nodes within political-criminal power structures. Skilled criminal investigators willing to commit to extended tours of duty are needed in Bosnia and Kosovo to develop and prosecute cases. UNMIK has established a witness protection program, and the same is needed in Bosnia, but this will be of minimal value unless the means are also provided to preserve the anonymity of witnesses prior to, during, and after trial. In cases that are strategically important, the United States, Canada, and European countries will need to fund relocation of witnesses outside the region.

In both Bosnia and Kosovo, court cases need to be prioritized according to their strategic importance in disrupting or dismantling obstructionist power structures.

- *Emphasize international public relations efforts.* The more effective the campaign against lawless power structures becomes, the more vital it will be to counter resistance in the form of inflammatory appeals to nationalist solidarity. In the past, the international community has too often been reactive and ineffective in its public relations efforts. Serious attention must continuously be given to getting the international message across.

### ***Institutionalizing the Rule of Law***

***The NATO objective should be clearly perceived as integrating the Balkans into the security structures of Europe, as opposed to leaving together. This will hasten the day when the power of dangerous obstructionists can be broken and the conflict cycle can finally be ended.***

***International assistance programs should be targeted on forging networks that bring civil society groups together with their counterparts across national and ethnic boundaries so they can understand and work together to address the transnational aspects of the problem.***

- *Long-term commitment.* Extremist politicians will retain popular appeal as long as there is the perception that the survival of each national community remains at risk. The distant promise of integration with Europe is intended to overcome these fears; however, the immediate reality is that the United States has proclaimed that NATO's security forces are heading "out together." This declared policy, as opposed to the actual reduction of NATO troops, is counterproductive from the perspective of removing doubt about longer-term risks. The NATO objective should be clearly perceived as integrating the Balkans into the security structures of Europe, as opposed to leaving together. This will hasten the day when the power of dangerous obstructionists can be broken and the conflict cycle can finally be ended. Mechanisms to perpetuate the international-local partnership in support of the rule of law should also be established, as the European Union Police Mission is doing in Bosnia by taking over from the UN's International Police Task Force.
- *Reform Serb police, penal system, and judiciary as recommended by the OSCE.* The October 2001 OSCE study on policing provides a comprehensive set of recommendations for transforming the police service and penal management. Implementation of these recommendations should be a priority for bilateral donors and international financial institutions, particularly reforms dealing with international involvement, regional cooperation, transparency, and accountability. The OSCE study also highlighted the need for court reform, noting that the "system is ripe for manipulation" in large part because of the overweening influence of holdovers from the Milosevic era on the bench. Comprehensive reform of the judicial system should be a top priority for the international community.
- *The role of civil society as a safeguard should be emphasized across the region.* Crime and corruption are cross-cutting issues that afflict all ethnic communities. Criminal elites collaborate readily across national and ethnic boundaries, while legitimate actors in civil society are fragmented and isolated from each other. International assistance programs should be targeted on forging networks that bring civil society groups together with their counterparts across national and ethnic boundaries so they can understand and work together to address the transnational aspects of the problem. Linkages with international NGOs should also be cultivated to enhance local capacity and to mobilize outside support against intimidation and reprisals.
- *Investigative journalists should have international support.* A tradition of investigative journalism is lacking, especially in Serbia. In a criminalized political economy, publishers do not find it profitable to run such stories. International assistance from professional organizations and aid providers is required to develop and sustain this vital function.
- *International capacity to promote the rule of law requires development.* The capacity of the international community to promote the rule of law suffers from chronic deficiencies in the mobilization and deployment of qualified personnel. Efforts by the European Union and OSCE to field well-qualified police, judges, prosecutors, and

penal system managers are critically important and should be fully supported. The United States should also develop a professional, reserve cadre for international service with the full spectrum of skills required to institutionalize the rule of law.

- *Accountability for internationals.* Members of the international community must be held to at least the same standards as their local counterparts. This has too often not been the case. The arrival of internationals has been followed by the burgeoning of brothels and trafficking in women. Scandalous misconduct has too often merely resulted in repatriation. Member states of international organizations providing judges, police, and penal specialists should promote and cooperate with efforts to institute codes of conduct, performance reviews, and effective disciplinary procedures for these personnel.

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