

ČLANCI I RASPRAVE

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EU FINANCIAL ASSISTANCE TO CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES IN THE BALKANS

Abstract

The study is dealing with the analysis of the EU financial assistance to candidate and potential candidate countries through CARDS programme, being recent EU financial instrument, which established single legal framework for the EU assistance. Lessons learnt from previous EU aid programs indicate that the sustainability is ensured only when the technical aid closely involves partner country administration. Local ownership is crucial in defining priorities of the assistance. Compliance of political preconditions, set by EU, is necessary for achieving the status of eligible country for EU financial aid. One of main political preconditions for Balkan countries is fostering regional cooperation. EU considers effective regional cooperation in South-Eastern Europe as complementary way i.e. the road in the direction of closer links of these countries with the EU. In addition to regional cooperation and good-neighborly relatio-

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ns, conditions for EU financial aid include also credible commitments to democratic reform with obligations on facilitating refugee return for each country in the region. Furthermore, economic reforms are necessary supplement to the EU financial assistance. If not accompanied by economic reforms in candidate countries, EU financial support would not be sustainable. Implementation of the EU financial aid in the Balkan countries is being analyzed through reviewing of situation in each of concerned countries. Post 2004 perspectives point out that the risk of further instability and border violations, with possible “spill-over” effects in the region and wider is a matter of deep concern to the EU. At the same time, it is also one of main incentives for the EU financial assistance to the region. However, bearing in mind the forthcoming EU enlargement in 2004, the future EU assistance to the Balkan region is faced with the specific crisis of post-2004 prospects. EU reconstruction aid is not enough for the post 2004 perspectives in the Balkan region. EU policy of declining aid after turning off the fire of war conflicts in the region could prove to be dangerous seen from the standpoint of achieving sustainable stability and long-term prosperity in the Balkans. EU can be and should be a centrifugal force for the Balkan region.

Key words: EU, CARDS, financial assistance, conditions, perspectives, local ownership

Ključne reči: EU, CARDS, finansijska pomoć, uslovi, perspective, lokalno vlasništvo

1 Introduction

Countries of the Western Balkans (Croatia, Albania, FRY of Macedonia, Bosnia & Herzegovina and FR of Yugoslavia, i.e. Serbia & Montenegro), being potential candidate countries for EU membership are included into the EU newest aid strategy of the CARDS program¹ since the end of 2000. The European Council in Lisbon (March 2000) has confirmed the EU objective to integrate those countries into the political and economic mainstream of Europe

¹ CARDS program is abbreviation for: **C**ommunity **A**ssistance for **R**econstruction, **D**emocratization and **S**tabilization, see: COM (2000) 628 final, European Commission, Brussels, October 2000 and Council Regulation (EC) No 2666/2000 of 5 December 2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the FR of Yugoslavia and the Former Yugoslav Republic of Macedonia, OJ L 306 of 7. 12. 2000.

through the Stabilisation and Association process. Later in Feira (June 2000), the European Council recognized the concerned countries to be potential candidates for EU membership. On the basis of the CARDS Assistance Program, European Commission has elaborated Regional Strategy Paper 2002 – 2006, which is the basic document of the EU financial instrument titled: Multi-annual Indicative Programme 2002 – 2004.

European Union has launched the CARDS Program within the Stabilization and Association Process. Consequently, the EU aid is adjusted to the EU political aims for the SEE region and is conditioned by the respect for democratic principles, the rule of law, human and minority rights, fundamental freedoms and the principles of international law². CARDS program represents a new EU financial instrument and thus it has replaced PHARE (of 1989) and OBNOVA (of 1996) assistance programs³. The main reason for launching the CARDS on behalf of the EU was to establish single legal framework for the EU assistance and to achieve aid efficiency.

There is also another category of Balkan countries, such as Romania and Bulgaria. Strictly speaking, those countries, together with Slovenia, which is claiming to belong to the Central Europe region, are embraced by the EU Accession strategy and therefore included into the PHARE program and many other accession fostering programs. Those accession aid programs are essentially and conceptually different from the treatment provided in the CARDS Assistance Program. Main basis of this difference is the objective to be achieved through implementation of EU financial assistance. Thus, Romania and Bulgaria will be analyzed the framework of the post-2004 perspectives, i.e. EU post-Eastern enlargement prospects.

² See: Preamble of the Council Regulation (EC) No 2666/2000 of 5 December 2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia, OJ L 306 of 7. 12. 2000.

³ Council Regulation (EC) No 2666/2000 of December 2000 has repealed Regulation (EC) 3906/89 and (EC) 1360/90 on PHARE program and Regulation (EC) No 1628/96 on OBNOVA aid program

2 Lessons learnt from previous EU aid mechanisms and programs oriented towards candidate and other Balkan countries

EU Regional Approach (1996) contained a set of legal, economic and financial methods for fostering cooperation in the Balkans region with the aim of achieving a long-term stability and peace consolidation in the region by promoting democracy, the rule of law, civil society and the respect for human and minority rights. As a result of the Regional Approach, the Union highlighted mutual cooperation of the countries in the Balkan region in the areas of:

1. Infrastructure improvements,
2. Cross-border cooperation schemes,
3. Consolidation of democracy, civil society and the strengthening of non-governmental organizations,
4. Return of refugees and displaced persons,
5. Development of good neighbourly relations,
6. Development of the private sector and
7. Promotion of investment.

Examining these instruments, especially of financial instruments, is important considering the fact that most of it are also contained and applied through the EU Stabilization and Association Process (SAP).

The EU financial methods for fostering regional cooperation include direct and indirect financial assistance for targeted countries. Direct financial assistance consists of two parts. The first part is planned in the form of grants from the EU budget. Character of these funds shows that the EU is interested in economic renewal of the whole region, but particularly of the countries in the area of former Yugoslavia. Exempli causa, the EU intended grants in the sum of ECU 400 million⁴ for period 1996-1999 for the process of economic reconstruction of these countries. This direct financial help the EU directed primarily towards realization of projects and programs in regional cooperation. The aim of these EU grants is to make easier the process of the return of refugees and displaced persons in the areas of former Yugoslavia.

⁴ Council Regulation (EC) No 1628/96 of 25 July 1996 relating to aid for Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia, OJ L 204/96

The second parts of direct financial assistance were the resources in the scope of the PHARE program⁵ of technical assistance to economies in transition at the beginning and later within CARDS program. Program OBNOVA was also very important⁶. At the beginning of its launching, OBNOVA program was allocated primarily to the reconstruction and rehabilitation projects in Bosnia and Herzegovina and afterwards to projects in Montenegro.

In the framework of indirect financial assistance, the EU applied the EIB and the EBRD loans⁷. The EIB loans were intended for investments in infrastructure projects in the area of former Yugoslavia. The EBRD loans were to be used for investments in production sectors, namely for the development of small and medium enterprises (SME), telecommunications, energy and others. This was done in co-financing with the PHARE program.

All these EU financial measures were and are closely coordinated with analogous activities of international financial institutions (the IMF and World Bank).

The experience of implemented EU aid programs and other donor support in the Balkan region is at the same time the foundation and very often the kind of a pattern for the on-going assistance of the Union and for the designing of the future aid too. One of lessons learnt from past EU support is that the technical aid, and particularly seminars and training activities are the most effective when expert inputs are provided by actual practitioners from EU Member State or candidate country's administrations⁸. Only in certain cases, such as the raising the awareness of *acquis* in the candidate or potential candidate

⁵ More detailed in: Gordana Ilic: "European Union policy in providing economic support to countries in the area of former Yugoslavia and the position of the Federal Republic of Yugoslavia" in: B. Babic and G. Ilic (editors), *"Yugoslavia and the European Union"*, Belgrade, 1997, p. 307-311.

⁶ The OBNOVA Program (for Bosnia and Herzegovina, Croatia, FR of Yugoslavia and FYR of Macedonia) has been created in July 1996, Council Regulation (EC) No 1628, amended by Council regulation No 2240/97 and Council Reg. No 851/98. It aims to reinforce the Dayton Accord and the peace agreements signed in Paris on 14 December 1995

⁷ "The EU's financial contribution to reconstruction in former Yugoslavia", Brussels, COM (95) 581 final, 18. 12. 1995.

⁸ See: CARDS – Regional Strategy Paper, European Commission – External Relations Directorate General, Directorate Western Balkans, <http://www.europa.eu.int>, Attachment 5 of the paper

countries, technical assistance is to be provided by relevant Commission services⁹. However, past practice in financial support teaches that the sustainability is ensured only when the functions closely involve partner country administrations with close coordination activities.

In the frame of the institution building measures and the harmonization of national legislation with the *acquis communautaire*, it was proved very useful the access to TAIEX legislation data-bases in the candidate and potential candidate countries in the region.

Key success requirement for EU assistance is certainly the common interest that assumes involvement and close cooperation with national authorities of candidate and potential candidate countries. It was proved that external expertise is not sufficient for fruitful financial and technical support. Accordingly, local ownership is necessary in defining priorities of the assistance for each of beneficiary country¹⁰.

Local dimensions proved to be crucial for the successful implementation of EU support in the area of civil society and democratic stabilization measures. EU aid was the best managed through national programs, such as refugee return programs, good governance and freedom of media and other local NGO's activities combined with international NGOs.

Furthermore, another important highlighting for winning EU assistance to candidate and potential candidate countries is the coordination of aid with other donors in all areas of financial assistance. This coordination can be done through various forms, either by establishing of the official committees, consisted of donors' representatives, either by unofficial regular meetings of donors' representatives on the spot.

Prioritization is vital in order to avoid a long list of projects without targeted effects while implementation is underway. Finally, EU aid to be efficient and productive it is important to apply always simple procedures for implementation of the aid. Otherwise, it would be pointless loss of enormous EU financial resources.

⁹ *Ibidem*.

¹⁰ Here the author writes from the standpoint of own work experience deriving from the SCEPP's activities in determining priorities of the legal assistance and other aid projects together with the ministries of beneficiary country. More about SCEPP at: www.plac-yu.org

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European Community Support to the Sap Region 1991-2000
(€millions) (note: includes data for Phare and Obnova)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
Phare	10,00	75,00	40,00	49,00	53,00	53,00	70,40	42,50	99,90	35,45	528,25
Democracy & Human Rights					1,00	0,60	0,40	0,80	0,17	0,52	3,49
Specifications									2,60	1,92	4,52
Humanitarian aid (ECHO)		4,13			1,15	1,65	16,30	11,00	97,07	3,40	134,70
FEOGA(DGAGR)		120,00									120,00
Food Security (DGDEV)		35,00	35,00		35,00		10,80		5,50		16,30
Macroeconomic (DGECEFIN)											105,00
ALBANIA Total=		368,13			90,15	55,25	97,90	54,30	205,24	41,29	912,26
Phare / Obnova						228,12	207,07	118,36	100,85	100,85	842,66
Specifications					70,00	65,40	39,90	15,00	30,90	3,96	225,16
Media [1]				0,21	0,65	1,65	4,09	2,24			8,84
Democracy & Human Rights					0,70	4,80	4,80	1,80	0,79	0,62	13,51
Humanitarian aid (ECHO)		495,26			145,03	142,45	105,00	87,95	58,90	0,40	1.034,99
Macroeconomic (DGECEFIN)									15,00	20,00	35,00
Bosnia & Herzegovina Total=		495,47			216,38	442,42	360,86	295,25	223,95	125,83	2.160,15
Obnova						10,99	8,59	15,00	11,50	18,34	64,42
Media				0,09	0,31	0,72	1,67	0,59			3,99
Democracy & Human Rights						0,70	2,20	0,60	0,21	0,97	4,68
Specifications								1,00	0,42		1,42
Humanitarian aid (ECHO)		204,47			38,43	21,15	14,50	6,95	6,50		293,30
CROATIA Total=		204,86			38,74	33,56	26,96	24,14	18,63	19,31	366,20
Obnova								5,00	26,90	208,95	240,86
Media				0,73	1,18	0,37	3,83	5,38			11,12
Democracy & Human Rights					1,90	0,70	0,80	2,50	2,05		7,95
Specifications									1,76		1,76
Humanitarian aid (ECHO)		170,25			36,87	23,40	13,50	11,20	93,70	59,64	408,56
Macroeconomic (DGECEFIN)										20,00	20,00
FRY-Serbia and Mont. Total=		170,62			39,95	24,47	18,13	24,08	124,41	288,59	690,24
Obnova								13,16	127,00	439,90	580,06
Democracy & Human Rights										0,38	0,38
Specifications										6,00	6,00
Humanitarian aid (ECHO)									111,70	28,28	140,54
Food security (DGDEV)									20,90		20,90
Macroeconomic (DGECEFIN)										35,00	35,00
FRY-Kosovo Total=								13,16	259,60	510,12	782,88
Phare / Obnova		60,00			25,00	25,00	33,00	25,00	68,20	21,20	257,40
Media				0,05	0,28		0,21	0,28	0,50		1,32
Democracy & Human Rights							0,50	0,20	0,1	0,52	1,32
Humanitarian aid (ECHO)		36,52			9,15				39,81	5,35	90,83

Macroeconomic (DGECEFIN)							40,00			20,00	60,00
FYROM Total=	96,57			34,43	25,00	73,71	25,48	108,61	47,07	410,87	
Phare / Obnova	81,00						7,00	0,20	18,75	106,95	
Media			0,44	0,61	0,15	1,45	1,40	2,00		6,05	
Democracy & Human Rights						5,30	0,90	6,40	7,36	19,96	
Specifications									2,71		
Humanitarian aid (ECHO)	17,10			20,00			17,00	39,32	1,08	94,50	
REGIONAL Total=	98,54			20,61	0,15	6,75	26,30	47,91	29,90	227,45	
GRAND TOTAL=	1,434,20			440,26	580,85	584,30	462,70	988,35	1,061,10	5.550,05	

3 Conditions

Compliance of political preconditions, set by EU, is necessary for achieving the status of eligible country for EU financial aid, as well as for the trade measures and other forms of bilateral economic cooperation with the EU. One of main political preconditions for Balkan countries is fostering regional cooperation. However, it is necessary to stress that regional cooperation in the whole South-Eastern Europe is not the substitute for comprehensive inclusion of these countries into European integration flows.

However, in many relevant countries from the Balkan region (such as Croatia in recent period), the fact that the EU insists on regional cooperation is understood as roundabout route to the better position in approaching the EU. Some of those doubts (officially or non-officially expressed) are justified, because of the way the EU has been dealing with political and economic transition in the Balkans and in the area of former Yugoslavia especially, where its policy has proved ineffective and without sufficient incentives.

On the other side, the EU considers effective regional cooperation in South-Eastern Europe as complementary way i.e. the road in the direction of closer links of these countries with the EU. Regional cooperation on all levels will enable, for these countries, coordinated economic development, better compatibility of their economies and easier understanding of their own economic priorities in the process of improvement bilateral cooperation with the EU. It corresponds with growing interdependence trends among the countries in global international economic and political relations. What is more important, regional cooperation is the way for overcoming misunderstandings, mistrust and divergence in interests of different countries in the region. The experience of establishing and functioning of the European communities, which historic rivals and enemies, France and Germany, turned into firm allies united into a vision of

building European integrated structures, plainly speak about regional cooperation potentials as a constructive way for conflict prevention.

In addition to regional cooperation and good-neighbourly relations, conditions for EU financial aid include also credible commitments to democratic reform with obligations on facilitating refugee return for each country in the region. Furthermore, economic reforms are necessary supplement to the EU financial assistance. If not accompanied by economic reforms in candidate countries, EU financial support would not be sustainable and in the direction of developing such EU funds and programs into other forms of economic collaboration.

Special political condition of EU financial help for the states in the area of former Yugoslavia is to comply with the obligations under the Dayton/Paris Peace Agreements and with ICTY in The Hague.

All listed conditions are being checked through the review mechanism of the Stabilisation and Association Process, i.e. through so-called conditionality reports submitted annually for each of those countries. The reports are focused on the analysis of the main political and economic developments in the concerned countries seen from the standpoint of compliance with listed conditions. In case of diagnosis that the conditions are not respected, i.e. non-respecting of the SAP conditionality, EU assistance may be frozen.

Preamble of CARDS regulation defines a precondition for receiving EU aid¹¹: respect of democratic principles, the rule of law, human and minority rights, fundamental freedoms and the principles of international law.

Within overall EU assistance, programme conditionality may be introduced when specific reform targets are tackled through financial assistance. In such a case the adoption of concrete sectoral policies may be required or cross-conditionality may be applied. Furthermore, specific conditionality on the project level is also being applied when it is necessary to achieve project's direct objectives and to launch the commitment of the beneficiary authority (e.g. financial control measures). Programme and project conditionality are usually defined in the financing Memorandum together with political conditionality. If the need arises when there is a failure to comply with this level of conditionality, the delay, suspension or cancellation of the EU aid may result.

Coordination and consistency of EU assistance in the region is achieved through the regional dimension of EU aid. In this context, special attention is

¹¹ See Council Reg. (EC) No 2666/2000 of 5 December 2000, OJ L 306

given to fostering the EU role as a driving force within the Stability Pact. Furthermore, the EU is a major contributor to SP work, together with USA, Russia, Japan, Turkey and international financing institutions. In the period between 1991 and 1999, the EU has provided substantial financial and technical assistance (4.5 billion Euro)¹² to the Balkan countries (Albania, BiH, Croatia, the FRY and the FYROM), which together with the humanitarian aid and the contribution of Member States is estimated to be around 17 billion Euro¹³. Despite that impressive help, the EU had not ensured long-lasting stability and economic prosperity in whole region, which was the primary goal of those EU efforts. Exactly this fact led EU to establish improved frameworks of relations with countries in the region, on the basis of existed regional approach and conditionality principles. Another reason for introducing the Stabilization and Association Process in the region is clear need to contribute essentially to the Stability Pact for SEE, since it was foreseen for the EU to be the leading actor within it. The Pact is working through three working groups: 1/ on Democratization and human rights; 2/ Economic reconstruction and 3/ Security and justice & home affairs issues. Coherence of the EU financial aid is assured through active participation of the Commission in SP working groups and by defining CARDS activities clearly.

Given the large number of involved donors, the issue of coordination of financial aid remains very important for the region. EU, through Commission's representative, co-chairs and is guided by the High Level Steering Group for SEE, which provides overall guidance on donor co-ordination. Moreover, the EU Commission maintains a Joint Office with the World Bank that was key in organizing regional donor meetings, such as the Regional Funding Conference in March 2000 and October 2001.

¹² "Opening up new perspectives for SEE – SAP", European Commission, Brussels, 2000.

¹³ According to the official data of the EU, contained in the publication: "Opening up new perspectives for South-Eastern Europe – Stabilisation & Association Process", European Commission, Brussels, 2000.

4 Implementation of EU financial aid in the Balkan countries

EU Commission maintains bilateral relations with beneficiary governments with the aim of ensuring its financial aid complement and build on national efforts, organized directly through its delegations in each country. EU assistance is being implemented in the form of grants. According to the CARDS Regulation, the EU assistance is being implemented by financing investment and institution-building programs. EU aid is provided on the basis of the strategic framework for the period 2000 – 2006, which is setting long-term objectives and priority fields in recipient countries. Additionally, multiannual indicative programmes are drawn up for three-year period on the basis of strategic framework, reflecting priorities established under the SA process and identified with each of the beneficiary countries. What follows are annual action programs that are designed for each recipient country targeted at setting out the budget, aims and the field of action with a detailed list of projects for a given operational year.

In case of Serbia and Montenegro, implementation of assistance programs is delegated to the European Agency for Reconstruction, which was set up specifically for the purposes of management of EU-funded projects. Implementation of EU financial aid for Serbia and Montenegro is also regulated by the CARDS Regulation in a way that the European Agency for Reconstruction (Governing Board) is giving recommendations to the strategic framework, multiannual programme and annual action programme. The EC formally signed a framework agreement (November, 25 2000) covering all EC assistance to the FRY. Total financial assistance delivered to the FRY from the 5th of October 2000 until the end of 2001 has been 1.1 billion Euro. This amount includes also macro finance assistance and humanitarian aid provided by ECHO and 64 per cent of this sum went to Serbia, while 6 per cent to Montenegro and 30 per cent to Kosovo¹⁴.

¹⁴ See: http://europa.eu.int/comm/external_relations/see/index.htm

Type of assistance (million €) - 1991/2001

	Republic of Serbia	Kosovo	Republic of Montenegro	Total FRY
Humanitarian aid (ECHO)				
1991-98				255.22
1999	75312	111.7	18.57	205.4
2000	50.45	28.835	14	93.285
2001 (to date)	45.3	14	7.5	66.8
<i>Total</i>				620.71
Reconstruction (OBNOVA / CARDS)				
1998 Reconstruction		7.5	5	12.5
1999 Reconstruction		127	9.5	136.5
1999 Refugees			13	13
1999-2000 Energy for Democracy	8.8			8.8
2000 Schools for a Democratic Serbia (SfDS)	3.8			3.8
2000 Emergency assistance programme (EAP)	180			180
2000 Reconstruction		275	20	295
2001 Reconstruction	210	320	20	550
<i>Total</i>				1199.6
Food Security				
1999 - food purchase & social payments	10.5		10.4	20.9
2000 - social payments			11	11
<i>Total</i>				32
Democracy / Human rights / Media				
1994-99 Democratisation programme (including media)			2.2	11.6353
1998-99 Media Programme (OBNOVA)	7	0.48	1.54	9
<i>Total</i>				21
Common Foreign & Security Policy / Interim Administrations				
1998 budgetary assistance (social welfare)			3	3
1999 EU Special Envoy, Forensic experts, UNMIK Pillar IV		2		2
UNMIK Pillar IV running costs 2000		6		6
UNMIK Pillar IV running costs 2001		11		11
<i>Total</i>				22

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Macrofinancial				
2000		35	20	55
2001	345	30		375
	<i>Total</i>			430
Other				
Danube clearance				22
	<i>Total</i>			22
Total 1991-2001				2347.31

¹ Allocation - actual figures may change depending on needs

² Of the €378m given to region for the effects of the Kosovo conflict (70.03 for Serbia, 111.4 for Kosovo, 17.57 for Montenegro)

³ Including Amounts currently passing through approval procedures

January 2002

As regards the other countries in the area of former Yugoslavia, the EU, as the most advanced case in this region (so-called Western Balkans) considered FYR Macedonia. FYR of Macedonia was the first country that had been invited to start SAA negotiations with the EU on 16 June 1999. The EU's Commission estimated that FYROM had made the most substantial progress in democratization, economic reforms and good neighbourly relations comparing to other concerned states in the region. The EU's Council adopted negotiating directives for a SAA on 24 January 2000. Reactions in Macedonia were very enthusiastic, especially from their government side, proving that Macedonia is pinning much hope on the SA Agreement. Besides, FYROM was very cooperative with NATO and the EU Member-States during air raids against the FR of Yugoslavia. Hundreds thousand of refugees (245,000) had fled to FYROM at that time and Macedonian government remained important strategic partner of NATO despite the popular resistance and hostile attitude of eastern parts of FYROM towards NATO troops¹⁵. It seems that qualifying FYROM to be the first in SAA bilateral negotiations with the EU was a kind of reward for political partnership with NATO and EU Member-States during NATO intervention against the FRY. NATO operation against the FRY had a devastating impact on Macedonian economy. Many business partners of FYROM are from the FRY and trade routes go traditionally through Serbia, but due to Kosovo war, commerce with the FRY and agricultural export ground to a halt. Unemployment

¹⁵ Approximately 15,000 NATO troops were placed in FYROM during the conflict, making the country a most valuable logistics support area for NATO forces.

rose to around 40% in Macedonia¹⁶ and there has been much lower investment flows. At the same time, the government had spent far more for the construction and maintenance of the nine refugee camps in Macedonia¹⁷ than it received from the international community for this purpose. It is the reason that Macedonia was the first among concerned countries, which has signed Stabilization and Association Agreement with the EU (on 9 April 2001). However, negotiating of SAA covers many topics, including important decisions on privatization, labour market and social sector reforms in order to modernize Macedonian economy. Macedonia started negotiations on SAA on 7 March 2000 and concluded it successfully at the Zagreb Summit on 24 November 2000. At the same time (in March 2000) the EU established its permanent Delegation of the European Commission in Skopje.

From 1991 to 1999 the EU provided 422 millions of Euro of financial support to Macedonia. Half of these funds went through PHARE + Obnova programs (215 millions of Euro). For humanitarian needs the EU had spent 85.48 millions of Euro through ECHO. Media assistance amounted 0.82 millions of Euro, while funding democracy & human rights projects was 0.70 millions of Euro. Finally, balance of payments support was 120 millions of Euro¹⁸. In 1998 Cooperation Agreement and Agreement in the field of Transport came into force. EU has foreseen further improvement of overall bilateral cooperation with FYROM within the framework of the SA Agreement and the establishment of a free trade area between the EC and the FYROM within ten years after the entry into force of the Agreement¹⁹. However, an Interim Agreement (signed on 9

¹⁶ Labour Force Survey (April 1999) indicate an unemployment rate of 32.4%, but in absolute figures the situation has been more depressive: 344,000 unemployed versus 316,000 of employed

¹⁷ The total estimated cost of the Kosovo conflict has been over a 1.5 billion \$ for a country of 2.1 million people.

¹⁸ According to the official the EU's data, see publication: "opening up new perspectives for South-Eastern Europe – Stabilization & Association Process", European Commission, Brussels, 2000.

¹⁹ European Commission adopted a five-year strategy for its financial assistance to FYROM on 21 December 2001. At the same time, it announced that over the next three years, 2002 - 2004, Euro110.5 million has been earmarked for FYROM to finance this strategy. The priorities set in the strategy are democracy and the rule of law; economic and social development; justice and home affairs; environment and natural resources.

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April 2001, together with the SA Agreement) entered into force on 1 June 2001, allowing the trade and trade-related matters of the SAA to function before the SAA entering into force.

1991-2001 EC assistance to the former Yugoslav Republic of Macedonia –
Allocations in millions of EURO

June 2001

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Phare + Obnova										
60.00			25.00	25.00	33.00	25.00	47.00	25.00		240.00
CARDS										
									42.50	42.50
ECHO (humanitarian aid)										
36.52			9.15	0.00	0.00	0.40	43.00	3.35	3.15	95.57
Media										
		0.05	0.28	0.00	0.21	0.28	0.00	0.20		1.02
Democracy & Human Rights										
					0.50	0.20	n.a.	n.a.	0.04	0.74
Balance of payments support										
					40.00			30.00		70.00
Rapid Reaction Mechanism										
									2.50	2.50
96.52	0.05	34.43	25.00	25.00	73.71	25.88	90.00	58.55	48.19	452.33

Source: http://europa.eu.int/comm/external_relations/see/fyrom/index/htm

However, signing of the SA Agreement did not help internal situation in Macedonia burdened with ethnic conflict between Albanians and Macedonian people to be stabilized. On the contrary, it burned into armed clashes in March 2001 and was partially calmed at the end of the year with the help of international community, primarily EU and NATO. Namely, one-third of population consists of ethnic Albanian, who prevalently advocates an

These are key goals of the Stabilization and Association Process, the cornerstone of the EU's policy towards the Western Balkans.

independent Kosovo and much wider rights for their community in the FYROM. On the other hand, the Slav Macedonians are opposing to that idea. In that way Kosovo problem, especially its "unfinished" final status continues to overshadow democratic development in the FYROM despite the SA Agreement and the overall SA process. There can be no doubt that Kosovo's future will affect Macedonia. The question is whether self-rule or independence for Kosovo will destabilize Macedonia. If Kosovo becomes independent or even only quasi-independent, there is a risk that more radical ethnic Albanian politicians in the FYROM will demand to negotiate on their own status. It is conceivable that they will press for political or territorial autonomy for those parts of Macedonia predominantly inhabited by ethnic Albanians. In the worst case, Macedonia's future as a state could be put into question if such demands are complemented by the establishment of parallel structures or by a boycott of state institutions.

Besides, the unchecked criminality in the region is another obstacle for fruitful regional cooperation and for the stability of the FYROM. The Macedonia-Yugoslavia border is rife with smugglers and radicalized elements of the former Kosovo and Serbian military units. The increased smuggling and corruption present tremendous obstacles to stabilizing domestic politics. These developments show Macedonia's fragility and its need to rely upon international guarantees for security. The increased presence of troops from NATO reduces the risk of a widespread outbreak of hostilities, but the risk is still real. As it has been mentioned in Bertelsmann Stiftung Strategy paper²⁰ "The Balkans and new European Responsibilities", the Albanian question has to be addressed. It needs to be made clear to ethnic Albanian politicians in Macedonia that while some of their demands for greater recognition and civil rights are justified, the ethnic Macedonians are not about to give away the very character of their country. They have nowhere else to go. They will hold on dearly to their language, their culture, and their religion because these are the things that make Macedonians feel Macedonian. The international community and the EU especially, should clearly convey the message to the ethnic Albanians in Macedonia and elsewhere that there will be no support for any kind of scenario envisaging a division of Macedonia and a possible merger of western Macedonia with Kosovo. Any resolution of Kosovo's final status should be made contingent upon provisions

²⁰ Bertelsmann Stiftung Strategy paper presented to the special meeting of "The Club of Three and the Balkans", Brussels, 29/30 June 2000, www.bertelsmann-stiftung

for ensuring Macedonia's territorial integrity²¹. The EU has already sent the message by insisting on inviolability of borders in the Balkans. It remains to be seen whether it would be enough to provide a foundation for Macedonia's continued stability. Nevertheless, the recent donor conference for FYROM, organized by the EU and the World Bank in Brussels, creates conditions for positive developments in Macedonia in terms of ensuring peace and prosperity, but depending on locally conducted anti-corruption battle and efficient economic reforms²².

In case of Albania, the EU noted some progress regarding the respect for democratic principles, human rights and market economy reform. However, large parts of Albania continue to suffer from a lack of public order and security. EU intends to intensify existing relations²³ and to open of negotiations for SAA with Albania. Albania got a positive feasibility study for the SAA negotiations and the Goteborg European Council (June 2001) invited the Commission to prepare negotiating directives for the SA Agreement²⁴. Forthcoming negotiations on the SA Agreement with the EU are to focus on improving the rule of law and reform of public administration, being main weaknesses in Albania, according to the EU evaluations²⁵.

In a phase before positive feasibility study, the EU recommended to Albania to take action in key areas of concern, in order to create prerequisites for

²¹ ICG Report on "Macedonia's Ethnic Albanians: Bridging the Gulf", 2 August 2000, contains that recommendation, www.intl-crisis-group.org

²² PM Georgievski enjoys great international support and around \$ 224 million funding is to be pledged at the donor conference of March 2002, aimed at ensuring further stability in FYROM and combating corruption. More detailed on: www.intl-crisis-group.org

²³ Contractual relations EU - Albania are based on the 1992 Cooperation Agreement and the connected Declaration on Political Dialogue. Upgrading the bilateral trade regime towards regional standards is foreseen by the EU as well as the establishing of new working parties (on infrastructure and agriculture), the enhancement of the EU Customs Assistance Mission and balance of payment support. Also, the EU provided for the budgetary assistance for refugee related expenses in Albania after the Kosovo crisis. According to the EU data published at the end of May 1999, overall EU assistance to Albania in 1999 is 151, 2 Meuros.

²⁴ Commission has done its first Report on the feasibility of negotiating a SA Agreement with Albania on 24 November 1999, COM (99) 599 final.

²⁵ Speech 01/338/ of C. Patten, EU Commissioner for External Relations of 10 July 2001, Brussels.

its successful participation in the Stabilization and Association Process (of which SA Agreement is an only one, albeit an important instrument). Key areas of concern are: A) continued macro-economic stabilization and accelerated structural reforms (the revision of banking legislation, stepping up of privatization of public enterprises and utilities, strengthening of tax collection, a functioning agricultural land market, integration of public investment expenditures into the general state budget and restructuring of public utilities on a cost-recovery basis); B) strengthening of security and public order (a legal framework for the police forces, including the special police forces, a strategic plan for their development in cooperation with the WEU, etc.); C) improvement of governance and strengthening of law enforcement (judicial and legal reform according to timely implementation of actions in cooperation with the Council of Europe, implementation of the Anti-Corruption Programme agreed with the World Bank and making fully operational the anti-smuggling unit set up in the framework of the EC customs assistance mission and the establishment of the State Publication Office and of an independent Civil Service Commission).

Due to unresolved economic, political and institutional weaknesses at actual stage, negotiations for a new SA Agreement need to take full account of the political and economic reality in Albania. More specifically, the EU estimated as difficult the establishment of a free trade area with Albania given the present importance of customs revenues²⁶ for Albanian weak economy. Besides, Albania is very dependent on foreign aid. Albanian authorities prepared a status report, indicating the action they will take to overcome shortcomings highlighted in the feasibility study. The EU Commissioner for external relations, C. Patten visited Albania in March 2000 and estimated that Albania was clearly committed to trying to accelerate reforms. The speed and the quality of their reforms determine the pace of the opening negotiation process with the EU. The lack of previous democratic traditions and economic lagging behind is still present in Albania²⁷.

²⁶ According to the EU official data, the EU represents more than 90% of Albanian imports. See COM (99) 599 final.

²⁷ Albania witnessed violent internal conflicts after the collapse of the "pyramid" schemes in 1997. The 1997 elections brought the present Socialist coalition to power. A new constitution was adopted and ratified by referendum in November 1998, when an internationally endorsed program of reform was launched. The change of government took place in November 1999 (PM Meta). A new government enacted several actions, such as the creation of the institution of Ombudsman, new civil service and state police

Future association perspective would necessitate an extension of EU assistance in all relevant areas. Therefore, the EU envisages successive steps (evolutionary clauses) in a future SA Agreement with Albania, in particular as regards the establishment of a free trade area and for gradual alignment to EC acquis. In 2001 the EU Commission assessed it was appropriate to proceed with the SA Agreement. However, there are many issues to be tackled within the internal reform in Albania, such as: weak judiciary, insufficient administrative capacity, corruption, combating organized crime, economic consolidation, battle against gray economy and the lack of laws' implementation. These are official EU evaluations²⁸.

Meanwhile, Albania will continue to enjoy EC unilateral trade preferences²⁹, which complement the 1992 Trade and cooperation Agreement ("first generation" agreement - only MFN treatment, non-preferential type) with a textile agreement that had been previously in place. Furthermore, Albania is benefiting from the CARDS aid program, being the main channel for the EU's financial and technical cooperation with the Balkan countries. Priorities of the EU's assistance under the auspices of CARDS for Albania are: strengthening of public administration, justice and home affairs issues, market - related areas, environment, etc.

Albania participates actively in the Stability Pact. During the NATO intervention against the FRY, Albania was very important logistics basis for NATO forces and together with the FYROM it played the role of shelter for around 450,000 Kosovo refugees on its territory. There has been progress in relations with the FYROM and Bulgaria, in particular through agreed common projects on transport, telecommunications and energy interconnections. These regional projects included also B&H, Romania and Greece. Although there were no official contacts between Albania and the FRY authorities, Montenegro opened a new border crossing with Albania (at the beginning of 2000). The problem remained that trade cooperation with neighbouring countries stayed at a

laws and improving the quality of the judiciary. A revised anti-corruption plan has also been announced reflecting the new priorities within the Stability Pact. With regard to the reform of public administration, there is a need for professional personnel management, especially in the judiciary, police and customs, as well as the civil service.

²⁸ See: http://europa.eu.int/comm/external_relations/see/albania/index.htm

²⁹ Council Regulation (EC) No 1763/1999 of 29.7.1999 (OJ L 211, 11. 8. 1999) applies since 1. 10. 1999 until 31. 12. 2001.

traditionally low level (notably with the FYROM and Bulgaria). From 1991-2000 the EU provided Euro 1,021 million in total to Albania, of which an import took the form of balance of payment support and Euro 140 million for humanitarian aid through ECHO³⁰.

Overall EU Assistance in ALBANIA 1991-2001
(Allocations in millions of Euro) (Commitments)

June 2001

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total 1991- 00	2001*	Total 1991- 01*
Overall PHARE assistance												
10.0	110.0	75.0	49.2	88.0	53.00	68.9	42.5	101.5	33.4	631.5	37.5	669.0
FEOGA (DG Agriculture)												
	120.0									120.0		120.0
ECHO (humanitarian aid)												
	2.0	0.5	1.7	1.2	1.7	16.3	12.0	97.0	3.4	135.8		135.8
Food security (DG Development)												
						10.8		5.7		16.5		16.5
Macro-Financial Assistance (DG Economic and Financial Affairs)												
								20.0		20.0		20.0
Democracy & Human Rights												
				1.0	0.6	0.4	0.8	0.2	0.5	3.5		3.5
Other actions												
	0.3	0.6	1.1	0.4	n.a.	n.a.	n.a.	2.6	1.9	6.9		6.9
OSCE elections support												
						1.5				1.5		1.5
EIB loans												
				29.0			22.0		34.0	85.0	40.0	125.0
10.0	232.3	76.1	52.0	119.6	55.3	97.9	77.3	227.0	73.2	1,020.7	77.5	1,098.2

n.a. = not available

* forecast

Source: http://europa.eu.int/comm/external_relations/see/albania/index/htm

EU continues with assisting Albania within the SA process in institution building, public administration reform, anti-corruption efforts, and the rule of

³⁰ Data from the EU Commission publication: "Opening up new perspectives for South-Eastern Europe – Stabilization & Association Process", European Commission, Brussels, 2000.

law, as well as in economic development and social issues. Developing infrastructure (roads: East-West corridor and North; water supply, railways, civil aviation and maritime transport) is playing a key role in Albanian transition to market economy. Consequently, the EU is engaged in those efforts as well as in helping agriculture (exports promotion, land mapping, fishery sector, veterinary control, etc.) and in fostering cross-border cooperation with Greece and Italy. In addition, Albania participates in the EU inter-university exchange program TEMPUS and in the EU's aid to NGOs working in the field of democracy and human rights.

Particularly the EU's help in building civil society and fostering democracy are important equally as the EU's economic assistance in Albania. Long-lasting stability in Albania and its economic regeneration are vital to the success of the whole challenging experience of the SA process in the Balkans. Nevertheless, it remains still for Albania to develop more effectively regional cooperation schemes and projects in terms of regional trade promotion.

Croatia is the second that started SAA negotiations with the EU. After the presidential elections (on 7th February 2000) and a change of political climate following the elections, the EU Commission adopted a positive report on the feasibility of negotiating a SA Agreement with Croatia on 24 May 2000³¹80. It proposed the opening of negotiations on a SAA with Croatia on 19 July 2000. Besides, the EU held the EU - Balkan

Summit in Zagreb on 24 November 2000 aimed at stabilizing the region. Why did the EU have chosen Zagreb to host the EU - Balkan Summit? Probably because it sees Croatia should serve as a model to others in the Balkans through its success story. Through opening of the SAA negotiations, the EU supported new Croatian government in its commitment to democracy, the rule of law and economic and political reform. For those reasons the EU launched a bilateral Consultative Task Force (CTF), designed to provide Croatia with expertise and technical assistance in defining priority areas for the EU support within SA process. The focus is on legal reform and economic matters, as well as foreign trade policy. The SA Agreement provides for a wide-ranging partnership that will help Croatia come closer to the EU. It includes: provisions for political dialogue; incentives for enhanced regional cooperation; the creation of a free trade area with the EC after a transitional period; provisions on the movement of

³¹ In line with the EU procedures, the Council of ministers endorsed the positive report and welcomed the Commission's intention to recommend the opening of negotiations.

workers, freedom of establishment, supply of services, movement of capital and liberalization of road transit traffic; comprehensive cooperation in all fields of the EC interest, including justice and home affairs. Croatia is expected to meet a wide range of obligations. One of it, especially important, is the progressive harmonization of Croatian legislation with that of the EC in key areas of the internal market.

With a view to Croatian integration in EU structures, the Union committed itself to support: constitutional, electoral, judicial and media reforms; full respect of human rights and fundamental freedoms; economic reform; active progress on Croatian obligations under the Dayton/Paris Agreement - including the return of refugees and full cooperation with ICTY; and a real Croatian commitment to regional cooperation. In the 1991 - 1999 period the EU provided Euro 348.79 million to Croatia³². For humanitarian and democratic assistance, the EU provided Euro 243.2 million in the difficult period of war and transition from 1991 - 1995. In the 1996 - 1998 period, the EU aid was focused on reconstruction and refugee return as well as to independent media, democratization and de-mining. During 1999 over Euro 20 million was provided for reconstruction, the return process and the development of civil society and the rule of law. In the 2000 year Euro 15 million is budgeted. In the forthcoming period the EU support priority will remain the continuation of the return of refugees and displaced persons³³.

1991-2000 EC assistance to Croatia - Allocations in millions of Euro

March 2002

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
CROATIA										
Obnova (reconstruction + technical assistance)										
					10.99	8.59	15.00	11.50	16.84	62.92
ECHO (humanitarian aid)										
				243.2	21.15	14.50	6.95	6.50	-	292.30

³² According to the EU's official data contained in the publication: "Opening up new perspectives for South-Eastern Europe - Stabilization & Association Process", European Commission, Brussels, 2000.

³³ EU efforts to support the process of return include: repair of public utilities, rebuilding housing units, extensive mine clearance, law, order and security, support for the Commission for Real Property Claims as well as small loans and business credits for returned individuals.

IV (2002) 2-3. *EU financial assistance to countries in the Balkans*

Media										
			0.09	0.31	0.72	1.67	0.59			3.38
Democracy & Human Rights										
					0.70	2.20	0.60	0.21	0.97	4.68
Demining										
							1.00	0.42	0.31	1.73
Customs										
								1.00		1.00
TEMPUS										
									1.500	1.50
243.6				33.56	26.96	24.14	19.63	19.62	367.51	

Breakdown of 2001 CARDS programme for Croatia - In millions of Euro

I. Political Priorities	23.2
Refugee return - reconstruction and related issues	19.0
Refugee return - economic sustainability	4.2
II. Economic Development	14.4
Human capital	7.6
EU industrial standards	3.0
Energy infrastructure rehabilitation	3.8
III. SAA Obligations	20.4
Justice and home affairs	3.6
Integrated border management	10.5
Public administration reform	4.8
Statistics	1.5
IV. Complementary Measures	2.0
Small Scale Operations	1.0
Strategy development capacity building	1.0
TOTAL	60.0

Source: http://europa.eu.int/comm/external_relations/see/croatia/index/htm

Before signing SA Agreement, EC trade regime with Croatia already contained unilateral trade preferences on an autonomous basis for Croatia³⁴. It is

³⁴ Council Regulation (EC) No 6/2000 of 17. 12. 1999 (OJ L 2, 5. 1. 2000); applies since 1. 1. 2000 until 31. 12. 2001. This Regulation also contains wine concessions, which equally apply to Slovenia and the FYROM, pending the conclusion of specific wine agreements with these countries.

renewed and up-graded version of the previous trade regime inherited from the former (renounced) 1980 Co-operation Agreement EEC/SFRY and granted on an autonomous basis since, late 1991, to all former Yugoslav republics except to the FRY³⁵. Economic situation in the country is marked by a loss in tourism earnings and the structural problems. The unemployment rate is around 20%. EU foresees in particular to bolster economic reforms that would lead to higher economic growth and job creation in Croatia. In this context, special attention the EU pays to encouraging the growth of small and medium sized enterprises. The bilateral Stabilization and Association Agreement with the EU was signed on 29 October 2001. Under the SA Agreement framework it is foreseen to establish a free trade area with the EU after the six years of transitional period, cooperation with the EU in the field of justice and home affairs, law harmonization with the *acquis communautaire* and political dialogue with the EU.

Croatia is in enviable position of having great opportunities for the EU support under the SAA framework, providing it continues with good-neighbourly relations, economic and political reforms and with displaying a creative approach to regional cooperation projects. The new Croatia can become important fulcrum for stability in the Adriatic, Central European and Balkan regions. It is at the crossroad between three significant European sub-regions and therefore Croatian contribution to the Balkan's reconstruction, stability and prosperity is very important for successful EU policy in the whole SEE region.

As for Bosnia and Herzegovina (B&H), the return of minority refugees, the functioning of common institutions, deepening economic reform and judicial reform are not considered satisfactory on behalf of the EU. These are also the essence of the conditionality principles for B&H. Therefore, although B&H participates in the SA process, the EU foresees the opening of negotiations for SAA when it has met relevant conditions. Bosnia & Herzegovina (B&H) enjoys autonomous trade preferences by the EU³⁶. The EU linked the granting of autonomous trade preferences to respect for fundamental democracy principles

³⁵ More about it in: G. Ilic, "EU policy in providing economic support to countries in the area of former Yugoslavia and the position of the FRY", in: B. Babic, G. Ilic (edit) "Yugoslavia and the EU", Belgrade, 1997, 1999, pp. 301 - 315. The FRY was temporarily included in the regime (9.5.97 - 31.12.97), but has been excluded due to noncompliance with the relevant conditions of the EU conditionality principles (non-respect for democratic principles).

³⁶ Those preferences are similar in nature to those in the 1980 Cooperation Agreement between EEC and the SFRY of 1980 (renounced in 1991).

and human rights as well as to the readiness of the country to develop economic relations in the region³⁷. State institutions in B&H are not developed enough and a competent civil service is lacking. The situation has improved in several areas such as refugee return³⁸, media reform, customs administration, freedom of movement, the establishment of a Central Bank and a single currency. The problem is that important decisions are usually taken after pressure from the international community³⁹.

In March 2000, the EU's Commissioner for external relations C. Patten proposed to Foreign Minister J. Prlic to prepare a "Road map" towards a feasibility study in the context of the SA process, aimed to help B&H authorities to take a number of basic political and economic decisions. At its session on 6 April 2000, the B&H Presidency adopted conclusions expressing its support for the "Road map" and requested that relevant authorities fulfil the foreseen obligations. However, the EU estimated that due to the general political uncertainty and the institutional deficiencies in B&H, there would be neither feasibility study conducting nor the SA Agreement at that stage. During 2001, the EU supported the Bosnia and Herzegovina state institutions in drafting new laws, in particular in the fields of foreign trade and investments, and commercial legislation. EU lawyers are working with their BiH counterparts within the EU/BiH Consultative Task Force (CTF), with the aim of setting up a legal and regulatory framework, which is compatible with that of the EU. Assistance to the B&H state institutions is fundamental to ensure that B&H has the necessary working structures and capacity to function as a country and to meet the challenges and opportunities offered by the Stabilisation and Association Process. So far, the B&H state institutions have been weak when compared with administrations in the two B&H Entities (Federation of BiH and Republika Srpska). Through its programmes the EU is laying the groundwork for the establishment of a professional civil service serving the state institutions: the

³⁷ That means to engage in regional economic cooperation, in particular through the establishment of free trade areas in line with relevant GATT/WTO standards.

³⁸ Estimated 80,000 minority returns took place in 1999, but UNHCR estimates that over 330,000 refugees from B&H are still in need of a durable solution.

³⁹ For example, despite the agreement by the BiH Presidency in New York (on 14 November 1999) to establish a Border Service, the BiH House of Representatives failed to adopt the State Border Service Law at its session on 12 January 2000. The High Representative imposed the law on 13 January 2000.

Presidency, the Parliamentary Assembly and the six line Ministries. Assistance is also given to the Constitutional Court and the Central Bank.

B&H is now a single and uniform customs territory. This is the tangible result of the highly successful Customs and Fiscal Assistance Office (CAFAO) programme funded by the EU. The CAFAO programme, which includes assistance from European customs and tax experts, is contributing to the development of the customs and tax systems in B&H based on modern European standards. This programme makes a substantial contribution to securing financial resources for the budgets of both Entities of Bosnia and Herzegovina. In the period 1996 - 1999 customs revenues for the Entities doubled thanks in large measure to CAFAO. The EU supports democracy and human rights in Bosnia and Herzegovina through the two bodies of the Commission on Human Rights i.e. the Human Rights Chamber and the Ombudsperson. This type of support for is essential for continued stability and the country's future integration into Europe. Projects that promote the rule of law, respect for human rights, protection of minorities, and political pluralism are funded through the European Initiative for Democracy and Human Rights. Support has also been provided to a variety of independent media projects.

The European Commission developed a Country Strategy for B&H (in December 2001), which covers a number of years and provide a framework for future EU assistance in the period 2000 - 2006. Over Euro 2 the EU has provided billion for B&H in the 1991-2001 period⁴⁰. Starting from 2001, the EU assistance to B&H is delivered under the new CARDS* programme and supports the participation of the country in the Stabilisation and Association Process. In 2001 assistance of more than Euro 105 million was committed under the new CARDS Programme. In addition the EU member states contributed over Euro 1.2 billion in assistance between 1996 and end of 2001. This involved the completion of critical transition reforms essential to breaking the fierce cycle of rising unemployment and declining growth. EU is providing assistance to accelerate privatization by attracting foreign investors in tenders (20 Strategic State Enterprises) and has supported the dismantling of the 'Payment Bureaux' in order to create a modern banking system. Furthermore, the EU is providing substantial support to stimulate the development of the private sector. The EU

⁴⁰ See publication: "Opening up new perspectives for South-Eastern Europe - Stabilization & Association Process", European Commission, Brussels, 2000.

also provides macro-financial assistance through grants and loans in support to the balance of payments of B&H⁴¹.

One of main conditions for the improvement of bilateral cooperation with the EU stays unfulfilled. Precisely, the cooperation by B&H with the ICTY stays insufficient, because a number of persons charged by the ICTY with war crimes are still at large in B&H. However, the EU seems determined to further supporting B&H with the aim to ensure its participation in the SA process and to make the Dayton/Paris institutions work as intended within an EU oriented framework (that includes also conflict prevention and poverty reduction, an approach shared with the World Bank).

1991-2000 EC assistance to Bosnia and Herzegovina
Allocations in millions of Euro

1991 - 1994	1995	1996	1997	1998	1999	2000	Total		2001	Total + CARDS
BOSNIA AND HERZEGOVINA										
Phare + Obnova										
		233.33	213.20	202.515	131.858	104.8	890.703	CARDS	105.23	
ECHO (humanitarian aid)										
495.26	145.03	142.45	105.00	87.95	56.40		1,032.090			
Mostar, voluntary return of refugees and demining										
	70.00	57.56	31.80	3.125	2.00	(4)	164.485		(4)	
Media										
0.21 (1)	0.65	1.65	4.09	(2)	(2)	(2)	6.60		(3)	
Democracy & Human rights										
	0.70	4.80	4.80	1.80	(4)	(4)	12.10		(4)	
Balance of payments support										
					60.00		60.00		1.500	
495.47	216.38	444.79	358.89	295.390	250.258	104.8	2,165.978		105.23	2,271.208

(1) In 1994 only.

(2) Included under OBNOVA.

(3) Included under CARDS.

(4) Complete figures not available yet.

⁴¹ In 1999 the EIB was conferred with a specific mandate to grant up to Euro 100 million in loans to BiH which benefit from a 2% interest-rate subsidy from the Community budget. The first loan for Euro 60 million for road infrastructure improvement was signed in the year 2000. A second loan for Euro 40 million for improvement in the railway network is signed before the end of 2001. http://www.europa.eu.int/comm/external_relations

Breakdown of indicative allocation for Bosnia and Herzegovina for 2001 under CARDS - In millions of Euro

I. Democratic Stabilisation	56.56
Return of refugees and displaced persons	37.30
Institutional Capacity building	16.76
The establishment of the Public Broadcasting Service	2.50
II. Economic Reform	33.67
Private sector development	10.00
Infrastructure development	14.27
Social cohesion and development	9.40
III. Justice and Home Affairs	15.00
Border control and integrated border management	10.00
Judicial Reform	2.00
General Technical Assistance Facility	3.00
TOTAL	105.23

Source: http://europa.eu.int/comm/external_relations/see/bosnie_herze/index/htm

5 Instead of conclusions: Post 2004 perspectives

General goal of the EU financial aid is to increase the responsibility of recipient countries and entities regarding political and economic reforms in terms of democratic stabilization, capacity building for state institutions and economic efficiency, i.e. market economy. Therefore, EU financial assistance is targeted to an institutional, legislative, economic and social framework tailored according to the EU patterns. Due respect is also present for priorities agreed with beneficiary countries. Nevertheless, overall ambition of the EU financial aid, as well as other forms of economic cooperation, is to establish the same set of trade rules, tariffs and administrative procedures, all aimed at improving conditions for trade and investment in the region. For that purpose, the same EU compatible reforms should be put in place throughout the whole region of Balkans.

Fundamental reason for introducing more constructive elements into the EU policy and financial aid is laid down by the EU security approach to the Balkan region. Indeed, the risk of further instability and border violations, with possible "spill-over" effects in the region and wider, is a matter of deep concern to the EU. At the same time, it is also one of main incentives for the EU financial

assistance to the region, bearing in mind that the EU and member states are by far the largest donors⁴². However, having in mind the forthcoming EU enlargement in 2004 that would bring at least ten (if not all twelve candidates) into EU membership, the future EU assistance to the Balkan region is faced with the specific crisis of post-2004 prospects. Main explanation is grounded on the simple fact of subscribing already existing structural funds and EU resources to Eastern "new-comers" in order to achieve economic cohesion of the EU. On the other side, Balkan's stability cannot be attained without development.

That means that the EU reconstruction aid is not enough for the post 2004 perspectives in the Balkan region. On the contrary, EU structural funds are based on the mechanisms, which ensure solution of the problems of industrial decline, unemployment crisis and rural underdevelopment that are also main features of the Balkan region today. Therefore, the EU policy of declining aid after turning off the fire of war conflicts in the region could prove to be dangerous seen from the standpoint of achieving sustainable stability and long-term prosperity in the Balkans. Those are also the arguments in favour of the EU policy of enlargement treatment – accession process fostering for all Balkan countries. This is very important, since prevalent number of concerned states in the region is not going to function as a real European market economy in a near future. Most countries need adjustment periods for economic and legal harmonization with EU standards and EU *acquis*.

Main essence of the 2004 perspectives for the Balkan region is to insist on enlargement treatment after 2004 year, i.e. after Eastern enlargement⁴³. EU funds already exist for this approach to be implemented. Precisely, after the EU enlargement by ten new countries in 2004, only Bulgaria and Romania will be left eligible for the 3 billion EURO in the pre-accession budget until the end of

⁴² "As US engagement wanes, the Western Balkans has become the testing ground for a specifically European vision of how to spread stability and prosperity beyond its borders." European Stability Initiative (ESI) Berlin – Brussels – Sarajevo, "Western Balkans 2004 – Assistance, cohesion and the new boundaries of Europe, A call for policy reform", 3 November 2002, p. 4.

⁴³ More detailed about methodology and road to enlargement treatment in: ELIAMEP, CAP, Bertelsmann, "The EU and the Balkans – From Stabilisation to Southeastern Enlargement", Wim van Meurs (CAP) and Alexandros Yannis (ELIAMEP), September 2002.

the EU budget period in 2006⁴⁴. Consequently, there is a potential for using some of those EU funds for targeted cohesion policies in the Balkan region.

At the time of writing this paper, it is still open issue which EU policy option will prevail. The option: "keep them outside the club until they behave themselves" is very often underway and reminds more on showing the face of the "Fortress of Europe" to non-EU countries. There is also the alternative to this EU option, which is defined as: "let them into the club where we can socialize them". This would be more open and more generous approach of the EU compared to the first one.

The EU accession of potential candidate countries of South-Eastern Europe (Balkan countries) requires the strengthening of their institutional and administrative capacity. EU's financial assistance and investments are helping these countries to bring their economic and social structures into line with the EU's standards, but Union's support is not sufficient to prepare for EU membership. Future candidate countries of South-Eastern Europe have to reinforce their administrative and judicial abilities to the point where they are ready to take on the obligations of the EU membership in order to get the most out of joining the EU. The problem that should be addressed in that context is related to the lack of effectiveness of institutions in all these countries (although to a different extent). This problem has great impact on the economic side of transition process in these countries and on the prospects for their successful accession to the EU.

For the last ten years of transition to the market economy it has been learned that the market needs institutions to act effectively in Eastern Europe. It means that the compiling with the contract obligations is very important in the market economy. If there is no contract and no business credibility, there will not be economic activities at all. Otherwise, why it should be given the loan to the company, if one is not sure that the loan will be returned? Why it should invest into the economies with weak administrative and institutional structures? That is the reason the EU insists on the institution building in the candidate countries. Institution building means developing the structures, human resources and management skills needed to implement the *Acquis* in the candidate countries of South-Eastern Europe.

⁴⁴ ESI paper: "Western Balkans 2004 – Assistance, cohesion and the new boundaries of Europe, A call for policy reform", 3 November 2002.

Expected gains and costs of the forthcoming association between each of the Balkan country and the EU are not precisely measured in the region and are the subject of varying estimations depending on starting hypotheses (purely economic, purely political or mixed). It seems that the association gains are to be expected in a long-term path, while the costs of adaptation (especially economic costs) are immediate. It alarms public opinion in Serbia and in many Balkan countries, but on the other side there is also an existing awareness of urgent necessity and advantages of entering European mainstream.

Compared to the EU strategy for Central Europe countries EU expressed weak interest towards South-eastern Europe ("Western Balkans"). However, EU changed positively its attitude towards SEE countries during 2000/2001 with the introducing of the SA Process in 1999/2000.

Creation of a new European architecture -a "multi-speed Europe" phenomenon, which is taking place in a changed constellation in the international relationships is influenced, inter alia, by EU Stabilization and Association process -agreements for Balkan countries. Results of the current transformation process in the European economic and political relationships will certainly have influence on the geostrategic, economic and political position as well as on the development perspectives of each individual European country. The EU represents the nucleus of European integration processes and therefore a great number of the European third countries are striving to become a part of it with the aim of directly regulating its own position in the modern European structure. EU eastern enlargement is a long-term process affecting the whole of Europe. In quantitative terms, if enlargement proceeds to only ten candidate countries (of thirteen), the area of the Union would be enlarged by about one-third whereas its population would increase by 29%. Qualitatively, the accession of Central and Eastern applicant countries would dramatically alter the political map of Europe as it has been for the last five decades. Balkan region should not and must not remain isolated of those integrationist processes in the continent, despite of current economic and political problems in the region. The international community and the EU particularly, bearing special responsibility and interests towards the Balkans, ought to support democratic institutions and civil society development in each of Balkan states. EU should, and is already acting as a catalyst for regional cooperation, but at the same time, closer economic integration of the Balkan countries into EU should go hand-in-hand with their regional cooperation. Only in such circumstances the EU financial assistance together with the Stability Pact for SEE has great success chances.

Similarly as the founders of today's EU envisaged economic integration as a means for prevention of another war in Europe through step-by-step

integration deepening, in whole SEE region economic recovery is of crucial importance. It is not only the reconstruction of the Balkan countries at issue, it is more wide approach to the whole SEE region, which is needed. Otherwise, the EU's democratic deficit, very often seen in Member States as decision-making by technocratic elite in Brussels, could also have bad impact on the EU's policy effectiveness in the Balkan region. The success of EU policy in this context means effective integration of concerned countries into European mainstream, strengthening of the EU influence in the region and parallel evolving of the EU's whole identity as an actor in international relations. EU Stabilization and Association process and the SA agreements for countries of the Balkans should be a stimulus in the form of the EU financial and economic support. However, the time for the generous EU financial assistance to the non-member countries passed long time ago.

On the other side, the EU can be a centrifugal force for the Balkan region. Albeit, many Balkan countries are anxious for the EU's fostering regional cooperation not to be some delay of their participation in European integration. Thus the EU should clearly and in every possible occasion emphasis to all concerned countries that fruitful regional cooperation in the region is the road to the direction of a future EU membership. At the same time, it is the most constructive EU approach to the problem of dividing line between the "ins" and "outs" in the SEE region.

mr Gordana Ilić

Finansijska pomoć EU zemljama kandidatima i potencijalnim kandidatima sa Balkana

Rezime

Studija o finansijskoj pomoći zemljama kandidatima i potencijalnim kandidatima za članstvo EU, bavi se prevashodno principima, uslovima, poukama i perspektivama finansijske pomoći EU regionu Balkana, posebno posle 2004., odnosno posle proširenja EU.

EU je lansirala novi finansijski instrument u vidu CARDS programa u kontekstu Procesu stabilizacije i pridruživanja, koji predstavlja jedinstveni pravni okvir u cilju postizanja efikasnosti tehničke pomoći EU. Počev od decembra 2000., CARDS je praktično uveden umesto PHARE i OBNOVA programa, koji su do tada funkcionisali, ali su principi pružanja EU pomoći ostali isti. Pri tome, pre svega se radi o vladavini prava, poštovanju opštih principa međunarodnog prava, zaštiti ljudskih i manjinskih prava i osnovnih sloboda, koji ukupno čine osnovu i okvir primene EU finansijske podrške balkanskim zemljama. Ovi principi proizilaze iz opšteg pristupa EU regionu Balkana usmerenog prevashodno na obezbeđivanje bezbednosti i mira u regionu.

Pouke proistekle iz prethodnih EU programa finansijske pomoći ukazuju da je održivost EU podrške moguća samo onda kada EU tehnička pomoć tesno saraduje sa administracijom zemalja korisnica. Otuda je tzv. Lokalno vlasništvo i lokalna inicijativa, koja potiče upravo od zemlje korisnice, ključna za definisanje prioriteta pružanja finansijske pomoći EU. To se posebno odnosi na EU podršku civilnom društvu i mere demokratske konsolidacije zemlje korisnice EU pomoći. U kontekstu izgradnje institucija i harmonizacije nacionalnog zakonodavstva sa EU Acquis, pristup i korišćenje TAIEX baze podataka se pokazalo izuzetno korisnim. Pored toga, efikasna koordinacija EU tehničke pomoći sa finansijskim programima ostalih međunarodnih donatora je veoma bitna, kao i primena jednostavnih procedura za primenu EU finansijske podrške.

Neophodno je ispunjavanje EU političkih uslova od strane zemalja korisnica, kao okvira pružanja EU pomoći. Jedan od osnovnih političkih preduslova koji postavlja EU, predstavlja jačanje regionalne saradnje balkanskih zemalja. Naime, Unija posmatra efikasnu regionalnu saradnju kao efektivni

komplementarni put u pravcu uspostavljanja tešnje saradnje ovih zemalja sa EU. Pored regionalne saradnje i primene principa dobrosusedstva, za balkanske zemlje EU primenjuje i uslove koji uključuju ispitivanje utemeljenosti demokratskih reformi, uz obaveze olakšavanja povratka izbeglica, u svakoj od zemalja regiona. Povrh toga, ekonomske reforme su neophodna dopuna finansijskoj podršci Unije. Ukoliko nisu praćene adekvatnim ekonomskih reformama u zemljama korisnicama, EU tehnička pomoć ne može biti efikasna, sa aspekta dugoročne održivosti i postizanja ciljeva.

Primena EU finansijske podrške balkanskim zemljama analizirana je posredstvom prikaza i ocene situacije u svakoj od zemalja korisnica EU pomoći. Bitno je ukazati na činjenicu da EU tehnička pomoć pre svega ima za cilj uspostavljanje uniformnog seta trgovinskih i carinskih pravila u regionu, kao i ujednačenih administrativnih procedura, koji sve ukupno teže poboljšanju uslova investiranja i trgovine u regionu. Stoga je važno da se u svim balkanskim zemljama sprovede sistem ekonomskih i političkih reformi koje su kompatibilne standardima i zahtevima EU. Takođe, opšta namena EU tehničke pomoći usmerena je na povećavanje odgovornosti zemlje korisnice u smislu efikasne primene političkih i ekonomskih reformi, a sve u pravcu demokratske stabilizacije, jačanja institucija i funkcionisanja tržišne privrede.

Perspektive okvira EU finansijske pomoći posle 2004, ukazuju na realnu opasnost rizika dalje nestabilnosti regiona, sa mogućim efektima tzv. «prelivanja», što predstavlja izvor ozbiljne zabrinutosti Unije. Istovremeno, ovi bezbednosni rizici u regionu su i jedan od glavnih podsticaja pružanja EU finansijske podrške regionu. Međutim, imajući u vidu predstojeće proširenje EU, EU finansijska podrška regionu Balkana suočena je sa svojevrsnom krizom posle 2004. To se naročito odnosi na tendenciju opadanja pružanja EU pomoći. Nameće se zaključak da EU politika smanjenja finansijske podrške posle gašenja ratnih požara u regionu može biti vrlo opasna sa aspekta postizanja dugoročne stabilnosti i prosperiteta u balkanskim zemljama. Upravo zato je značajno da EU u kontekstu pružanja finansijske pomoći nastavi sa svojom ulogom katalizatora stabilnosti i centrifugalne sile za zemlje regiona Balkana.