



Discussion Paper 30

Five Years of Stability Pact for South Eastern Europe: Achievements and Challenges Ahead

Public lecture by Dr Erhard Busek, Special Coordinator for the Stability Pact, given at the London School of Economics on 8 March 2004

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In 1999, during the Kosovo war, when air raid after air raid did not budge Yugoslav President Milosevic, the public at large in Western countries knew that once again something had NOT gone according to plan in the Balkans. Similar sentiments had befallen policy-planning units of foreign ministries in Western countries even earlier - not over Kosovo, but over the West's Balkan policy throughout the 90s. Some criticised it as too reluctant, others as an outright disaster. The fact is that there were four wars between 1991 and 1999 in South Eastern Europe (SEE), with some of the worst atrocities in Europe since World War II.

Against this background, wide consensus emerged that a shift in paradigm was needed. These were the circumstances from which in June 1999, the Stability Pact for South Eastern Europe was conceived at a conference in Cologne under German chairmanship. Germany held the rotating presidency of both, the EU and G8 at that time.

What was so new about this initiative compared to previous ones? It was a different approach, which for the first time shared a determination to multilaterally tackle a problem region, which had a potential to set the European house on fire. As compared to earlier trials - and errors - of bilateralism in SEE (for example Paris works with capital A in South East Europe, Berlin with capital B, and London with capital C), the Stability Pact was specifically mandated with co-ordinating the efforts of assistance to the Balkans amongst all the donors. Practically this consists mainly of EU countries and the European Commission, the US, Russia, Japan, and of international organisations like OSCE, NATO, OECD, Council of Europe, as well as of International Financial Institutions (IFIs) such as EIB, World Bank, EBRD, Council of Europe Development Bank etc. In return, the SEE countries promised reforms and regional co-operation amongst each other. These two components were cornerstones of the "Stability-Pact-deal" and have remained the core parts of the Stability Pact's mandate and actions to this day. Therefore, improvements in regional co-operation are the yardstick by which the Stability Pact should be measured.

Allow me to give you an assessment of what has worked and what did not with regard to these goals. I will do this

1. by giving you an overview on the SP structures and main activities,
2. by describing the methodology used
3. and by summarising to what extent the lessons learned in the Pact could serve as a model elsewhere.

In doing so, I will also try to assess the Stability Pact's performance during its first five years of existence. You might know that the Sarajevo Summit - the official launching of the Pact - was held 31 July 1999 and this anniversary is only a few months away.

I. STABILITY PACT STRUCTURES AND MAIN ACTIVITIES

Taking into account experiences and best practices of foreign assistance in Europe since World War II, the SP was created as a continuing "intergovernmental

conference" with a permanent secretariat based in Brussels. In my capacity as Special Co-ordinator, I am heading this office and I am chairing the SP Regional Table. The Regional Table is the "general assembly" of all the Stability Pact participants, and its decision making body. It is driven by consensus, and - very importantly - the so-called beneficiary countries are participating on equal footing with the donor countries and institutions. It is a unique partnership indeed. These "beneficiaries" include eight countries. To use EU jargon, they are the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro, including Kosovo), the two candidate countries (Bulgaria, Romania) and Moldova, which is the only one not to have a confirmed perspective for EU membership, but aspires nonetheless to join the EU at some date in the distant future.

The SP is structured into three Working Tables, roughly modelled after the three baskets of the Helsinki process of 1975, today known as the OSCE. The three tables deal with Human Rights and Democracy, Economic Development and Reconstruction, and with Justice & Home Affairs and Military Security.

The role of the Stability Pact is in essence matchmaking. We assume the role of honest brokers, trying to find donors for projects, which we think worthy of funding and using our good offices to resolve problems of a political nature. In order to qualify for the Stability Pact "label", a project should be regional in character and involve two, three or more countries. Project implementation and financing however is outside of our competence and remains entirely in the hands of the donors. Others develop the projects, tender them, implement them and audit them according to their rules and remain accountable to their supervising bodies, i.e. national parliaments or boards in the case of International Financial Institutions. We strive to guide SEE countries to design their reform agendas in line with EU laws and standards, or in line with other standard setting bodies such as the Council of Europe or WTO. Since these countries all want to join the EU some day, it is in their best interest to follow the EU legislative line right from the very beginning! Sometimes multilateral institutions are a proper match for a given programme or project; sometimes it is more promising and faster to approach a bilateral donor. In order to structure this process, we have established regular donor meetings and consultation mechanisms for the various initiatives, which secure permanent consultations amongst donors and help avoid duplications.

We are active in approximately 25 domains and I would like to point out some of them in order to make you familiar with our working method. I will focus on six activities, which were selected by our shareholders - i.e. countries and institutions - as core objectives for 2004 and beyond.

- **Media**

We focus on legislation, especially broadcast legislation, quality programming and training of journalists. There are many players in this field and media is not a topic that has a natural regional dimension. However, all countries are confronted with formerly state controlled media, including electronic ones, which now have to be transformed into public service broadcasters outside of government control and with safeguarded editorial independence. This is the Stability Pact focus in the area of media development.

• **Local Democracy and Cross Border Co-operation**

SEE is a region laced with a legacy from centralised governments/states. The EU, on the other hand, bases quite a few of its cohesion activities on functioning local and regional authorities. In order to install these capacities in the Balkans, we encourage Euroregion type set-ups across national borders, which can only become operational if capitals delegate some of their competences to the lower level. Ideally, this should include fiscal decentralisation as well. The Euroregions Sofia, Nis, Skopje or Ohrid-Prespa, involving Macedonia, Greece and Albania, are active examples of Euroregions within the Stability Pact framework.

• **Free Trade and Investment**

In SEE, the myth that government money will bring a better future is hard to eradicate. Since we all know that the main driving force behind the economic development of Western Europe was exports and free trade, we try to apply this recipe to SEE as well. In fact, I can say we have done so with a lot of success. In a record of 15 months, 21 bilateral free trade agreements between seven countries were negotiated, thereby enlarging small markets of national economies of between 2 million (Macedonia) and 22 million (Romania) consumers into a tariff free market of 55 million consumers. This helps in attracting investments, especially foreign investments, since from a business perspective SEE only becomes attractive if you look at it as ONE region.

We have several initiatives to foster investment. Jointly with the OECD the Stability Pact develops packages of tailored measures to improve the investment climate in SEE countries. This includes the organising of regular business missions for interested potential investors. We also associate the private sector in the form of a South East European Business Advisory Council, which allows us to regularly inject feedback from the private sector into the political reform and decision making process.

• **Energy**

The blueprint is strikingly simple: trading energy, connecting grids and liberalising markets in Southeast Europe is saving billions in comparison to efforts towards attaining or maintaining self-sufficiency on a national basis. To this end, the European Commission and the Stability Pact jointly launched an initiative for electricity and gas labelled South East Europe Regional Energy Market, which aims at reshuffling the markets in line with the relevant EU legislation (*acquis communautaire*). Donors have made it very clear that SEE countries can only expect funding if they reform and liberalise their energy sectors.

• **Fighting Organised Crime**

This curse - and its twin brother corruption - are damaging SEEs reputation, are discouraging investments and makes these societies pay a particularly heavy price in forlorn opportunities. But organised crime is not originating in the Balkans alone. The region is also a transit corridor for such "commodities" as trafficked human beings or drugs. Therefore, a regional approach is most efficient and needs to be connected with global actors such as Interpol or Europol. A Transborder Crime Fighting Centre in

Bucharest is operational, where 12 participating nations are represented with one customs and police officer each in order to help with investigations by their colleagues from other countries. Another important activity is the incorporation of international treaties, such as the UN Palermo convention, into national legislation. You might be surprised to learn that some countries simply do not have "organised criminal acts" listed as punishable offence in their penal codes. - Two secretariats, one in Bucharest to fight organised crime, the second one in Sarajevo against corruption, are supporting SEE governments in their efforts to adopt the necessary legislation and install domestic capacities to fight these dual demons.

• **Migration, Asylum and Refugee Return**

Until the end of 2003, the return of refugees was high on the agenda of the Stability Pact. We saw refugees and internally displaced persons return in record numbers in 2001, 2002 and 2003. Today, the challenge is to keep the refugees where they struggled to return, in other words to have sustainable solutions, including jobs, housing and access to acquired rights such as pensions or tenancy rights. As the refugee dimension diminishes and is gradually rolled over into general reform and development operations, the problem of asylum and legal and illegal migration is growing. The countries still do not have the necessary legislation in place to deal with illegal migration, and most of them are severely affected by legal migration, be it from brain drain or by having huge diasporas, on whose remittances entire communities in SEE have to subsist.

II. METHODOLOGY USED

The SP does not have its own funds. This is a huge advantage, as it allows us to keep the structure lean and flexible. Our office has not grown since its foundation and has a staff of about 35 including administration. You can see, that compared to NATO or the EU, we are small players in Brussels. In the eyes of the general public in SEE, however, the SP is often associated with money - big money and never enough of it, of course!

Our niche therefore has to deliver an "added value", and as I have already mentioned, matchmaking is probably the most important. Bringing projects and donors together and removing obstacles on a political level is perhaps concisely the main asset or added value of the Pact. For the Regional Energy Market, the SP "delivered the countries of the region" and brought about the mind change from the illusion of energy self-sufficiency to cross-border co-operation. In defence conversion, where NATO has acquired considerable expertise, SP succeeded in soliciting funds from the World Bank to retrain several thousand redundant military officers in Romania and Bulgaria. Needless to explain that introducing these people into a civilian workforce also considerably reduces a security risk. The point is that in normal operation, the World Bank and NATO do not meet. In the SP framework, they did and continue to do so.

Another example is the integrated border management process, initiated in Ohrid (Macedonia) in May 2003. Borders in the Balkans are still perceived in mythical dimensions, wars were fought over borders! As Western Europeans we probably can

not properly fathom the symbolic significance, when Western Balkan Governments started to talk about secure and open borders and agreed to the shift from military to civilian border guarding, as is the EU standard practice. Again, the Stability Pact provided the platform to bring NATO, European Commission, OSCE and the countries concerned together. Of particular importance: Kosovo is fully participating in these activities.

Regional ownership is another method applied. As we talk about sovereign countries with elected governments and parliaments, any notion of neo-colonial implementation of reforms is out of the question. By putting the countries themselves in charge of the reforms, while ensuring access to technical assistance and funding, the acceptance of necessary reforms is higher and more sustainable. Sometimes, this comes at a cost: it takes more time to operate this way! - In addition to the organised crime and corruption fighting secretariats located in Bucharest and Sarajevo, there is now a centre for the collections of small arms in Belgrade, while the seat of the international commission managing the Sava River will be in Zagreb along with a 20-nation strong Arms Control facility.

A key component for SP involvement is the regional aspect of any proposed activity. Therefore the pre-condition for projects being launched within the SP framework, was communicated to SEE governments on the basis of conditionality right from the beginning. If we look back, it is correct to say that this was the stick ahead of the carrot. Reactions to this approach were mixed. Some governments bluntly explained that we could not expect them to design joint projects with neighbours they did not know or wish to know presently. The gradual understanding that this was in fact the exact intention of the conditionality encouraged several transport and finance ministers to join forces and submit 80 regional infrastructure projects, of which 35 were selected at the first of two SP funding conferences in March 2000 in Brussels. Today, I can say, that old scepticism is fundamentally gone. Governments know that they have to either work together or they will fail to receive support. To refer to the previously outlined example, the donors made it quite clear that necessary funding for electricity rehabilitation could be gained, but only if the governments committed themselves to liberalising their markets. It did the trick.

Generally speaking, we have today a natural and normal "European" pattern of consultation amongst SEE governments. What was initiated as a condition by donors has proven to become self-sustained through its own success!

III. WHAT HAS WORKED, WHAT DID NOT? - ASSESSING THE PACT AFTER FIVE YEARS

The decision to design the Pact with a mandate whereby it has to prove its added value -- rather than giving it "teeth" in the form of coffers full of money, has proven to be vital in the efforts to avoid duplication, while ensuring co-ordination amongst donors. A case in point is the so-called Infrastructure Steering Group, comprised mainly of the European Commission, the EIB, the EBRD and the World Bank. This body monitors the implementation and financing of regional infrastructure projects according to clearly defined criteria. Criteria, which are technically, economically and

environmentally feasible. It might surprise you to learn that this steering body is the only one of its kind amongst IFIs worldwide. So far, they have selected and financed 53 infrastructure projects with a volume of 4 billion Euro in the eight recipient countries.

Another instrument, which has worked miracles amongst neighbours -- who for some time seem to be trying to out do each other in terms of not wanting to acknowledge the government next door -- is peer-review and peer-pressure. As an example, under an initiative called the Investment Compact -- which is under the auspices of the OECD -- a catalogue has been created of 100 measures that could be applied to make countries in SEE more attractive for investments. Countries themselves were asked to choose which measure they wanted to apply on a priority basis. And against these promises, they were held accountable, not only by the OECD or us, but by their fellow SEE neighbours. The OECD gave invaluable advice, supported side-measures such as the establishment of foreign investors councils etc., but the actual question "have you done what you promised?" was asked at the twice-a-year review meetings by their neighbours. It became clear to all of them that they are a regional market and are perceived as such by potential investors, whereby a wrong decision by one would reflect negatively on all of them.

An approach, which we found less successful - at least to date, is called "twinning". This effort aims to connect an SEE country with a transformation country out of the new EU members of Eastern Europe and a Western European country. This method was tried out in the domain of asylum and refugee legislation, and again in fighting organised crime. Some results were outstanding, but we learnt that this was rather due to individuals involved, and not so much thanks to the chosen approach of twinning.

The concept of fostering regional co-operation is probably one of the least expensive success stories in foreign assistance in European history. With very limited resources, the Stability Pact has instilled the notion of regional co-operation and has succeeded to make it a benchmark and a qualifying precondition for EU membership. This is the point I am very positive about, and regional co-operation has become a self-runner. Countries discovered the value of regional co-operation in domains far beyond SP involvement. Once the neutral platform of regular contacts in the SP was established, ministers and officials found out that they could easily discuss topics considered taboo domestically. I firmly believe that the rapprochement between Serbia and NATO has started to ferment within the Pact. Confidence gained in talking regional co-operation substantially eased and greased the solving of the refugee cases between Croatia, Bosnia-Herzegovina and Serbia-Montenegro.

Even Kosovo, despite the uncertainty about its final status, is actively involved in over a dozen SP initiatives - sometimes with tailored arrangements; sometimes over protests from Belgrade! These practical activities on issues of everyday concern have provided the nascent Kosovo institutions with practical training in international cooperation, regardless of its unresolved status.

These spin-offs and the very fact that heads of governments call on each other nowadays just as naturally as elsewhere in Europe, I consider one of the lasting legacies of the Pact. The operational costs of the Stability Pact Office are approx. 2 million Euro per year, covered by EU funds. So if someone asks how you can make

eight countries perceive each other as neighbours worthy of co-operation with little money involved, I think the Stability Pact model is an answer.

I beg your pardon for this self-promotion! But I think you agree with me that SEE is a much more stable region than it was in 1999. In case you do not follow events very closely, the fact that SEE is out of the headlines and off the front-pages is empirical evidence. Such news used to be negative; now they are absent. But in the papers' economics section, SEE countries start to make news. I do not univocally subscribe to terms like "growth region", "tiger economies" etc., but it is a fact that SEE is enjoying higher growth rates than most economies in Europe. This growth is from very low levels, I agree, but it is growth nonetheless. Experience elsewhere has shown that it is the economic perspective rather than the level of wealth that incites people to invest and to see a future for themselves. Moreover, SEE populations have less incentive to emigrate or to turn to shady or illegal activities. For many in Western Europe, this is already a big achievement. Personally, I am not content with this, as I believe that stabilising SEE will take some more time and can only be called irreversible if such remaining trouble spots as Bosnia-Herzegovina or Kosovo are brought into the main fold.

Improvements on the political level were even more dramatic than in economics. All countries have held credible and clean elections repeatedly and have consolidated their democratic structures. Even if I take into account the setbacks of the recent Serbian election results or the Macedonian crisis two years ago, I firmly believe that the process of democratisation is irreversible in SEE. Tudjman and Milosevic are gone. Democratic figures and governments have emerged. What is still lacking is a consolidated system of political parties, but this simply will take more time.

The same goes for their determination towards making difficult reforms. We will see the pendulum swing in either direction in these nations - as we had similar ups and downs in the Eastern European transition countries - but the course is clear.

IV. LET ME CONCLUDE

I have tried to outline the various components and parts of the engine driving the reform process in SEE, and to describe what is the role of the Pact in it. Let me now try to give you an answer regarding the fuel that this engine is running on. Most people answer: Money! I disagree. Money is needed, yes, but it is just another component of the engine. The driving force is the European and Euro-Atlantic perspective as they manifest themselves towards EU and NATO membership. This is the famous light at the end of the tunnel, which allows the governments of the day and the opposition to rally behind a common reform agenda. It is the glue between political elites - with a strong record of disappointing their electorates - and a sometimes disillusioned population after decades of "socialist planned" economic decline. It is therefore shortsighted and sometimes naïve if people ask for speeded up accession to the EU or even for the lowering of the threshold for entering the EU. Quite to the contrary, the rules should not be bent, but the perspective has to be maintained. This political responsibility has so far been understood by EU and NATO alike. I am very thankful for that. It makes my job easier and sometimes even

possible!

If I try to assess the achievements of five years of Stability Pact, I will reiterate what I believe to be the elements that have successfully undergone their baptism through fire. The combination of democratic reforms, economic reforms and security reforms is a sine qua non in making SEE societies fit for the European house. The synergies created across the SP working tables are obvious.

The stubborn insistence on improved regional co-operation has paid off, sometimes with SEE politicians grumbling. The Pact is a mechanism by which regional co-operation can be increased at very low cost and with considerable positive spin-offs for other, more delicate politics. The fostering of trade instead of aid has succeeded and - what is more important - starts to make in-ways into the regional mentality. The understanding that phenomena like organised crime or infrastructure development - such as energy supply - can only be tackled if regional co-operation is established in the first place has been understood. I believe that the very fact that this message has been endorsed will be a foundation for many more reform drives in the future, as SEE nations begin their accession negotiations with the EU.

We all know, that SEE countries have a long way to go to make their political systems, their economies and their societies fit for EU membership. The Stability Pact has considerably and successfully assisted them in some aspects of this development. In this respect, the Stability Pact can serve as a model or blueprint to stabilise and recover other post-conflict or crisis regions. However, what makes the environment in which the Stability Pact is functioning unique, is the magnetic attraction of EU and NATO. And for this, I have not come across any convincing alternative or replacement if we want to apply the Stability Pact formula to other areas in the world.

Thank you very much