

# **The Stability Pact for South East Europe – Did it work?**

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## Summary\*

When the STABILITY PACT for SOUTH EAST EUROPE was introduced by mid-1999, many hopes were voiced and expectations raised. Some considered this PACT to become a unique effort of more than 40 partner states and institutions to ensure peace and democracy as well as to provide human rights and economic well-being. The torn countries in SOUTH EAST EUROPE were even given the prospect of full inclusion into the euro-atlantic institutions. Thus, the PACT was designed to be a practical example of long-term conflict prevention and peace consolidation, basically using instruments from three different kinds of sectors:

1. SECURITY: security policy and the creation of constitutional states,
2. POLITICS: the construction of a new political post-war order and democratic institutions, and
3. ECONOMICS: economic reconstruction and welfare promotion.

It turned out, however, that the reshaping efforts promoted by the EUROPEAN UNION (EU), the INTERNATIONAL FINANCIAL INSTITUTIONS such as INTERNATIONAL MONETARY FUND (IMF), WORLD BANK, EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD), and others, will take longer than expected and will cost much more than initially intended. Reasons for this include slow economic reconstruction, change aversion by many national institutions, bureaucratic obstacles, lacking experience with multilateral projects, etc. The most profound stumbling bloc, however, has turned out to be the prevailing nationalism of the peoples, respectively states or regions, concerned and their lacking readiness to cooperate with others they have, over generations, learned to fight, to hate or, at best, to ignore. The recent fights of the Albanian minority in Macedonia are a case in point.

Nevertheless, on balance the efforts taken in the STABILITY PACT framework have shown positive results: Despite existing local conflicts and ethnic tensions, the region has shown signs of political consolidation and economic recovery. By and large, the PACT has worked. For a long time, however, the emerging set of new political, economic and security structures will remain fragile and vulnerable.

Web links:

[www.stabilitypact.org](http://www.stabilitypact.org)

[www.seerecon.org](http://www.seerecon.org)

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# 1. The Stability Pact

At the EUROPEAN UNION's (EU's) initiative, the STABILITY PACT FOR SOUTH EASTERN EUROPE (SPSEE) was adopted in Cologne on June 10, 1999. Its inauguration took place at a summit meeting in Sarajevo on July 30, 1999.

The STABILITY PACT is a political initiative to encourage and strengthen co-operation between the countries of South Eastern Europe as well as to streamline existing efforts to assist South Eastern Europe's political, economic and security integration in Europe. The PACT is an instrument to co-ordinate and facilitate the implementation of the projects of all its partners. These include the countries of SOUTH EASTERN EUROPE and neighbouring countries, the EUROPEAN COMMISSION, NATO and OSCE, the INTERNATIONAL FINANCIAL INSTITUTIONS (IFI), the member states of the EUROPEAN UNION, the United States, Russia, Japan, Hungary, Canada, Norway and Switzerland.

The STABILITY PACT's aim is to bring peace, stability and economic development to SOUTH EASTERN EUROPE (SEE), a region where too often ethnic hatred, bad governance and economic backwardness have spawned conflicts that have at times spilled over into wider European wars. This region refers to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Federal Republic of Yugoslavia, the former Yugoslav Republic of Macedonia and Romania. It is a diverse region of 56 million people, living at about US\$2,200 per capita, roughly half the income level of the five Central European countries. The past decade of transition and conflict has left the region with a legacy of inadequate growth and declining living standards. As a region, these economies have recovered only 75 percent of their pre-transition income levels. In the past several years, growth has declined in aggregate, increasing the gap between these economies and the rest of Europe. More alarming is that there has been a deterioration in living standards, as evidenced by higher poverty, inequality and unemployment. This poor economic performance can be attributed to four factors:

- First, initial conditions in the region at the onset of the transition were adverse: the economies had unbalanced industrial structures, weak institutions, and fragmented civil societies.
- Second, war, civil strife and ethnic conflict have had a devastating effect on the region. In those countries directly affected, conflict has fragmented societies, and destroyed institutions and infrastructure. In all countries, regional conflicts have disrupted normal economic activities, made for an uncertain business climate and put strains on nascent political systems.
- Thirdly, macroeconomic stabilization policies have been inconsistent and this has furthered exacerbated the uncertain business climate.
- Finally, structural reform policies have been weak; progress in trade liberalization, privatization, enterprise reform, competition policies and financial sector development have all lagged the efforts in Central Europe. Similarly, disappointing progress has also been made in institutional, social and environmental policies.

The SOLIDARITY PACT sets out principles and areas of action with view to a common approach and specifies the role played by each party, that of the EU being to focus on the development

of programs to underpin democracy, stimulate the economy and foster contractual relations within the region. The SPSEE also stresses the importance of coordination between the WORLD BANK and the EUROPEAN COMMISSION on the formulation of a strategy for regional development and organisation of donor conferences.

The underlying idea of the SPSEE members is to draw the countries of the region closer to the perspective of European integration. A key element in this strategy is the STABILISATION AND ASSOCIATION PROCESS for the Western Balkan countries. The STABILITY PACT has a key role to play in helping to coordinate efforts to rebuild the region. Its main need is for sustained economic growth. After all, the Balkans are Europe's poorest corner outside the former Soviet Union. Aid programs in the framework of the STABILITY PACT are expected to involve projects ranging from supporting local banks to making bans to help with the construction of motorways. By promoting civil societies, democratization, questions of internal and external security and, above all, economic co-operation, the STABILITY PACT draws on experiences which have been quite successful in European post-war history. They include the EU integration process, that united most of Western Europe, and the 1975 Helsinki Process, that was decisive in overcoming the East-West conflict in Europe.

The STABILITY PACT sets out a framework that works as a two-way street. In order to receive support from the international community, the recipient countries must first implement appropriate reforms. The SOUTH EASTERN EUROPEAN governments, for example, are required to carry out economic reforms (dismantling of trade and investment barriers) and to fight corruption and organised crime within the context of the STABILITY PACT. In exchange, the donors are prepared to support the construction process in a co-ordinated way through assistance and credits.

## **2. The Working Tables**

The STABILITY PACT's three WORKING TABLES for DEMOCRACY AND HUMAN RIGHTS, ECONOMIC DEVELOPMENT and SECURITY have helped to develop 244 projects under the QUICK START PROGRAM of early 2000 with an overall financial engagement of EURO 2.4bn.

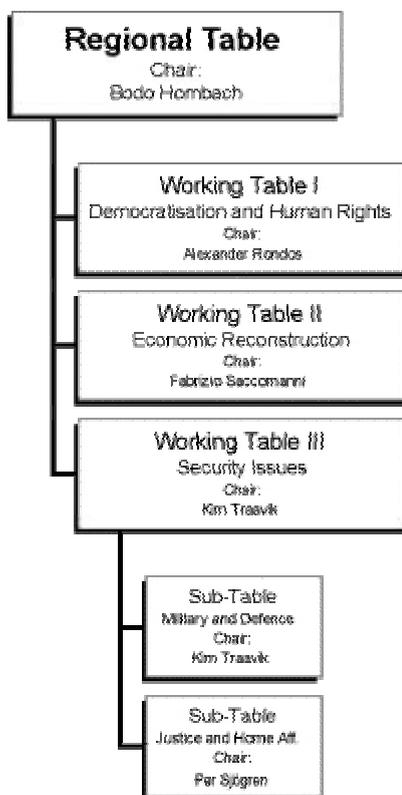
These WORKING TABLES, which have been set up similar to the well-known baskets of the CSCE process, draw up proposals for specific measures to be implemented under the PACT. In line with the above, the priorities in the SPSEE WORKING TABLES include:

**WORKING TABLE I ON DEMOCRATISATION AND HUMAN RIGHTS,**  
concentrating primarily on institution building and good governance as well as media freedom and education.

On refugee returns, in recent months a regional stocktaking of outstanding issues has taken place among the three main countries concerned, with donors and international organisations. This comprehensive approach has resulted in an AGENDA FOR REGIONAL ACTION FOR REFUGEES AND DISPLACED PERSONS, which comprises of a series of bilateral initiatives between FR of Yugoslavia, Bosnia-Herzegovina and Croatia. The measures deal with questions of property, housing, pensions, social

welfare and the necessary assistance to returnees and those persons, who decide to keep their present residency.

### Chart: Organisation of Working Tables



Source: The official website of the Stability Pact at <http://www.stabilitypact.org>

The CHARTER FOR MEDIA FREEDOM was adopted in Thessaloniki June 2000. Through this initiative, agreed to by all the countries of the region, participants agreed to ensure the highest international standards of freedom of expression. They undertook to launch a process of internal review and dialogue ("public debate") to determine reform requirements and to adjust the situation in their countries to internationally acknowledged norms and standards. The CHARTER FOR MEDIA FREEDOM is a landmark document. It provides a common, shared set of practices and points of reference for media reform and development in the countries of the region.

The issue of gender equality has become a part of the mainstream political agenda in all SPSEE countries, where government and civil society women's groups joined together. The percentage of women elected in national parliaments has increased, as well as the percentage of women appointed to the highest executive positions, where the current regional average percentage of women MP's is 11% and rising. For the first time gender equality mechanisms were established in Bosnia-Herzegovina, Bulgaria and Serbia/Vojvodina (FRY).

**WORKING TABLE II ON ECONOMIC RECONSTRUCTION, DEVELOPMENT AND COOPERATION,** focusing on trade liberalisation and co-operation, private sector development, regional infrastructure and environment, as well as legislative reform and approximation of legislation.

A regional approach to infrastructure projects has been established in South Eastern Europe over the past 2 years based on strategic studies in each main infrastructure sector. These studies are intended to form a common and consensual working basis for all partners, IFIs, donors and countries of the region.

A MEMORANDUM OF UNDERSTANDING ON TRADE LIBERALISATION AND FACILITATION by SOUTH EAST EUROPEAN countries has been signed on 27 June 2001 in Brussels. The major goal of the MoU is to complete the network of free trade agreements in the region by the end of 2002, creating a market of up to 55 million consumers. The agreements will be fully in line with the WTO rules and with relevant obligations of each signatory country vis-à-vis the EUROPEAN UNION.

The INVESTMENT COMPACT, adopted by the region in early 2001, provides a regional forum to identify and remedy shortcomings regarding macroeconomic environment in order to make the countries of the region more attractive to investors. Apart from a policy dialogue, it includes a package of flagship initiatives aimed at addressing specific issues in a regional context.

**WORKING TABLE III ON SECURITY ISSUES,** dealing with the fight against organised crime and corruption, border management, migration and customs as well as demining and small arms.

In order to foster a broad security dialogue and promote arms control and confidence building measures, the STABILITY PACT partners have established a REGIONAL ARMS CONTROL VERIFICATION AND IMPLEMENTATION ASSISTANCE CENTER (RACVIAC) with eighteen participating countries.

Support of DEFENCE REFORM and mitigating the human consequences of defence rightsizing is a good example of synergy created by the STABILITY PACT between specialised agencies and the regional countries, in this case NATO, the WORLD BANK, Bulgaria and Romania. Bulgaria and Romania, with NATO providing expertise, set up retraining programs for redundant military officers to help reintegrate them into the civilian workforce. About 2000 military personnel underwent such training until fall of 2001 and the program is now being expanded to other SEE countries.

The STABILITY PACT ANTI CORRUPTION INITIATIVE, relying on high-level political commitments, assists countries of the region to enact needed legislation, build up institutions and develop civil society components, to fight corruption. After being formally adopted in February 2000, governments committed to implement the INITIATIVE are Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Romania and FR of Yugoslavia. They will benefit from co-ordinated technical assistance programmes.

Asylum and migration, involving either the return of a country's own nationals or future asylum-seekers or migrants from abroad need a truly regional response. The ASYLUM AND MIGRATION

INITIATIVE of the PACT has established national action plans and has created five Country Teams to assist in building up the legal framework and the capacities to deal with the issue, including aspects covering the trafficking of human beings.

Through its two SUB-TABLES, WORKING TABLE III deals with questions of both internal and external security. The aim is to establish transparency and predictability and to promote regional co-operation in those two areas with the focus increasingly directed to the area of Security Sector Reform. The **SUB-TABLE ON SECURITY AND DEFENCE** mainly deals with the following areas:

- In the context of arms control and non-proliferation, STABILITY PACT partners co-operate work on issues such as exchange of military information, notification and observation of military activities, restrictions on the location of heavy weapons, notification of the dissolution of special operations forces, and verification and in-spection regimes, inter alia through the STABILITY PACT initiated RACVIAC centre in Zagreb with eighteen participating countries.
- The REGIONAL MINE ACTION SUPPORT GROUP is a forum for co-ordination and information sharing in the area of mine action between the mine-affected countries of the region and other participants of the STABILITY PACT.
- WORKING TABLE III also pursues the objective of developing a unified regional approach to fight the excessive and uncontrolled circulation of small arms and light weapons in the region.

The **SUB-TABLE OF JUSTICE AND HOME AFFAIRS** deals primarily with the following:

- Intensified efforts by the countries of the region are to be undertaken within the framework of the ANTI-CORRUPTION INITIATIVE (SPAI) and the STABILITY PACT FIGHT AGAINST ORGANISED CRIME INITIATIVE (SPOC). Particular attention is given to the issue of trafficking in human beings through the three-year action plan of the TASK FORCE AGAINST TRAFFICKING IN HUMAN BEINGS.
- In the wider context of internal security sector reform, the importance of police training and regional co-operation of police and border police forces has received wide acknowledgement by STABILITY PACT partners. Two initial STABILITY PACT regional police training courses will be held in the second half of 2001.

It must be pointed out that the success of the STABILITY PACT depends primarily on the countries of the region assuming ownership of it. Long-term sustainable economic development will require the involvement not only of governments but of all members of society. Furthermore, it remains to be seen what economic and financial support will be put behind the PACT's rhetoric. Since the STABILITY PACT is only an empty framework, the donors, and particularly the EU, must put something real on the table, e.g. by offering access to the EUROPEAN SINGLE MARKET, by assisting in establishing the rule of law and by building efficient administrations. This could create the conditions that attracts private capital, foster economic growth and help countries, in the long run, to qualify for accession.

In the implementation of the STABILITY PACT, important lessons are being drawn from the MARSHALL PLAN and other post-WWII reconstruction programs. Donor processes throughout the

world have shown that they can be less than positive, and this has also been the case in SOUTH EASTERN EUROPE. Up to a third of internationally promised funds were not paid. Often, too much time goes by before promised financial aid and credits can be released and implemented in concrete projects.

Both donors and aid recipients are to blame:

- On the donor side, bureaucratic procedures and co-ordination problems can lead to duplication and mismanagement. And the priorities set (occasionally by internal policy) by the donors are not always congruent with the needs of the recipients. As a result, financial loopholes often arise in important areas.
- On the recipient side, on the other hand, there is often a lack of the institutional and legislative preconditions needed to ensure that foreign money is invested in a targeted and controllable way. It is also often forgotten that every country has only limited potential for absorption in order to avoid distortions (such as, for instance, corruption or the dependency syndrome)

It is true that by taking the initiative towards the STABILITY PACT, the EUROPEAN UNION has made clear its willingness to shift from confrontational politics to economic co-operation throughout SOUTH EASTERN EUROPE. Thus, since its operational phase that started by early 2000 the STABILITY PACT has striven to be a comprehensive framework for political, legal and economic reform in the region and to induce regional cooperation.

### **3. Achievements and Shortcomings**

The principal successes its supporters ascribe to the STABILITY PACT are its regional approach, the mutual commitment of recipients and donors, and the ‘new’ resources it has produced. These are unquestionably considerable achievements. But the PACT also has shortcomings, including what critics allege is a lack of clear direction; ill-conceived and comparatively non-transparent mechanisms for the selection of priority projects for funding; and the lack of serious regional involvement or input in the process. Further, it remains to be seen whether the endless series of STABILITY PACT meetings will actually lead to increased coordination among the numerous and disparate actors involved in the process.

#### **Regional Approach**

And yet, one of the most important features of the PACT is precisely its regional approach. It might seem obvious that final goals such as peace, stability and prosperity can only be achieved if — along with the new efforts of the international community to integrate these countries into European and global structures and to provide assistance in key areas — there is a concerted effort on the part of the countries of the region to implement deeper and more consistent reform programmes. There is little doubt that country-by-country reform and intra-regional co-operation alone can never in and of themselves change the dynamics of the region — even though they are an essential component of change.

The STABILITY PACT mandated various INTERNATIONAL FINANCIAL INSTITUTIONS (IFI) to co-ordinate a regional approach in specific areas. The WORLD BANK, for instance, prepared a compre-

hensive approach to regional development and integration by providing a strategic framework for development activities in the region. The fundamental objectives of this strategy were increased prosperity and a reduction in poverty for all people living in SOUTH EASTERN EUROPE focusing on four broad thrusts for action: rapid trade integration with the EU and within SEE itself; fostering social inclusion and social change within SEE; improving institutional capacity and governance structures; and investment in regional infrastructure projects.

The EUROPEAN INVESTMENT BANK (EIB), to mention another example, developed, in close co-operation with other IFI and the EUROPEAN COMMISSION, a comprehensive program for the improvement of the regional infrastructure. It also identified quick start projects and near-term projects dealing with issues such as regional transport, regional energy, and regional telecommunications. The EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD), finally, prepared a strategy to promote private sector development in the region. It proposed various initiatives with a regional dimension, including regional guarantee and insurance schemes lowering the risk of cross-border trade and investment.

The STABILITY PACT further aims to complement the synchronization of economic action at national and regional levels by inter-twinning the political, economic and security dimensions of the process — through its efforts to inter-relate the work of the three WORKING TABLES. Whether the PACT will really be the catalyst that brings the many aspects of regional stabilisation together will only become clear in the future, once the real impact of its individual projects will be visible.

The regional approach of the STABILITY PACT has already led to a significant increase in regional cooperation, specifically at governmental level concerning WORKING TABLE Two issues. Some of these regional initiatives are instigated by Western organisations, such as the INVESTMENT COMPACT, the working group on trade, the MEMORANDUM OF UNDERSTANDING ON TRADE AND TRANSPORT FACILITATION, and the BUSINESS ADVISORY COUNCIL. Although stimulated by the existence of the PACT, other important regional cooperation arrangements were developed outside the structures of the PACT and without the direct involvement of ‘outsiders’. In some cases, the outcome of some of these intra-regional initiatives might be limited to declarations that actually amount to little more than exercises in goodwill. Yet, even this is a major step forward in a region where governments basically ignored their neighbours.

### **Mutual commitment of recipients and donors**

Underlying the STABILITY PACT is the concept of partnership. The countries from the region and the international community are expected to make mutual, reciprocal commitments. The PACT requires countries in the region to commit to concrete political and financial reform measures as well as enhanced regional cooperation. In return, the international community commits itself to supporting reconstruction, as well as the integration of the region into the European and transatlantic mainstream.

This is a product of the international experience in Bosnia-Herzegovina, where international support for reform was not always complemented by local commitment to these efforts. As a result of

this, the strong focus of the STABILITY PACT has been on partnership and local ownership of the process. It is generally assumed that success in this will be one of the keys to the overall success of the PACT. However, it is difficult to judge the sincerity with which the governments from the region have presented their reform programmes at the REGIONAL FUNDING CONFERENCE, since they know that paying lip-service to international expectations produces serious financial support.

Various experts and donors believe that the STABILITY PACT has produced lists of projects rather than comprehensive strategies and action plans. WORKING TABLES I and III have come in for particular criticism. Most Task Forces and Sub-Tables did not make comprehensive assessments of the needs in their areas, nor did they prioritise objectives.

A prime example is the approach to the issue of the rule of law. There is almost unanimous agreement that the promotion of the rule of law — through activities such as strengthening the independence of the judiciary and training of police forces — is crucial for the reform of the region. Establishing the rule of law and building efficient administrations would create the conditions that would attract private capital, foster economic growth, and help countries qualify for meeting the ultimate goal, EU accession. International experience in Russia demonstrates that economic assistance has little long-term effect in a state where the rule of law, good governance and democratic institutions are not much more than empty words. Yet, the STABILITY PACT did not develop a broad, detailed plan on how to promote the rule of law in SOUTH EASTERN EUROPE. Although a number of valuable projects related to the rule of law are funded, the results of these individual initiatives are unlikely to equal the possible achievements of a comprehensive structural reform programme.

In any policy framework, it is difficult to define concrete project criteria without an overall strategy or objectives. But without specific project criteria, it becomes impossible to organise a public call for proposals. Thus, once the sub-structures of WORKING TABLES I and III were requested to select projects, most of them did so by choosing — often in not so transparent ways — from the project proposals that they had coincidentally received. As a result, many donors have begun to question whether these so-called priority projects really reflect the priorities in the various sectors.

The fact that conflict-of-interest situations in the project selection process were not addressed properly has further hampered both the perception of the significance and the utility of some of the projects selected. A few Task Forces and Sub-Tables are led by implementing agencies such as the COUNCIL OF EUROPE and the OSCE that had also submitted project proposals for funding. Unsurprisingly, the fact that many projects of international organisations were finally selected has resulted in suggestions that the STABILITY PACT is an employment creation agency for Western organisations.

In WORKING TABLE II, the INTERNATIONAL FINANCIAL INSTITUTIONS did actually prepare comprehensive development strategies. But the main criticism concerning the STABILITY PACT's economic priorities centres around the relatively heavy emphasis on high-cost infrastructure projects. In fairness, however, the focus on infrastructure is not surprising. Recipient governments lack the resources for these expensive projects that generate temporary employment and require few reform commit-

ments. International donors — having to justify the allocation of major resources to the Balkans to their taxpayers — are keen to support projects that have quick and highly visible results.

No doubt, it seems likely that most of the individual projects chosen by WORKING TABLES I and III, as well as the infrastructure initiatives selected for funding by WORKING TABLE II, will have a positive effect on the region. Yet, the sum of all these individual efforts might well never produce the systemic change that the STABILITY PACT aims to achieve.

### **‘New’ resources**

The international relevance attached to the STABILITY PACT has helped to mobilise new financial support for the region. While some bilateral donors have not changed their pre-STABILITY PACT amounts of funding for SOUTH EASTERN EUROPE, others — such as the German government — have allocated significant amounts of fresh resources. Given the enormous needs of the region, this is unquestionably a welcome development.

The use of the existing and new resources will also be influenced by the STABILITY PACT. Donors can support either those projects that have been identified as priorities by the PACT, or initiatives that underwrite the objectives of the PACT but are not necessarily included in the PACT’S list. Significant levels of support will continue to be made available for bilateral reform initiatives.

One of the elements that contributed substantially to the success of the MARSHALL PLAN for Western Europe after WWII was the ‘one donor’ concept. The recipients of the Plan were forced to collaborate in preparing a reconstruction strategy in order to be eligible for US assistance. This feature was absent during the reconstruction of Bosnia-Herzegovina. Multiple donors competed to deliver their aid, thereby allowing the recipients to accept support from the donor that attached the fewest conditions. Today, the lack of donor coordination in Bosnia-Herzegovina stands as an example to be avoided.

Given the size and complexity of the STABILITY PACT, it will not be easy to prevent the grant recipients exploiting the donors for their personal and political benefit. Only effective donor coordination can ensure that aid recipients will be obliged to compete for support and meet the conditions set in the context of the PACT. Ideally, all resources would be united in a trust fund or through any other mechanism, thereby creating the ‘one donor’ structure that made the MARSHALL PLAN so successful. But most donors want — and are often even legally required — to retain full control over their funds.

The issue of donor coordination is related to a matter that goes to the heart of the PACT’S existence: the question of leadership. In the wake of the Kosovo crisis, it was the EUROPEAN UNION that has attempted to rise to this challenge by developing the STABILISATION AND ASSOCIATION PROCESS. It bills this the centerpiece of its policy in the Balkans and its main contribution to the STABILITY PACT. The process offers the countries of the region the prospect of formal relations with the EU and, ultimately, of membership. It aims to capitalise on the almost unanimous view of people across the region that they want to ‘be part of Europe’ and to help them along the ill-defined but much touted ‘road to Europe’.

Indigenous involvement in the structures and projects of the STABILITY PACT has been limited and, when it has occurred, has been primarily through officials from the governments of SOUTH EASTERN EUROPE. Local civil society groups feel that the process has not sufficiently involved experts and non-governmental organisations (NGOs) from the region itself. In their view, this has hampered any hope of an accurate assessment of the existing needs and realistic, long-term solutions. Many NGOs from the region also believe that most of the Task Forces lack clearly defined objectives and strategies, as well as transparent, well-defined criteria to select priority projects. In addition, they perceive that the STABILITY PACT process and donor programmes have a bias towards projects from Western-based organisations. As a result, civil society in the region is deeply concerned that the STABILITY PACT will divert present and new funding, human resources, and political support from existing local initiatives to Western-based organisations and governmental initiatives.

If true, this raises the question of whether the STABILITY PACT has lost sight of a principle objective of its efforts, which is to create local capacity. While acknowledging the valuable support that Western expertise can bring, experience accumulated over the last ten years in SOUTH EASTERN EUROPE demonstrates that local initiative and ownership are crucial to ensure the long-term effectiveness of reform efforts. Only this approach would ensure that the assistance is delivered most efficiently and responsibly. It would also empower and reinforce local capacity and institutions in the STABILITY PACT region.

Several donors accept that there is no substitute for the competence and commitment of indigenous organisations and are keen to increase local involvement in the Pact. However, their good intentions have been complicated by a number of practical questions. How to ensure inclusive — rather than exclusive — participation without inviting hundreds of NON-GOVERNMENTAL ORGANISATIONS (NGO) to the PACT'S meetings? How to select local experts? Ironically, despite the enormous amount of resources associated with the PACT, there seems to be no funding to cover travel and other costs related to local participation in its proceedings.

It has become a truism that foreign aid programmes are all too frequently designed to benefit the donor rather than the recipient. But unless local procurement and contracting become the rule rather than the exception, most of the international assistance that was pledged might never reach the STABILITY PACT region. The fact remains that if the donor community wants to support lasting change in SEE, it must ensure that its resources support the efforts of the real stakeholders in the reform process. Similarly, the STABILITY PACT will have to be brought from conference halls filled with diplomats in Western Europe to those of whom it aims to change their lives.

### **The Bucharest Conference of October 2001**

Nevertheless, conferences have turned out to be at least helpful. The most recent event so far was the SECOND REGIONAL CONFERENCE in Bucharest on October 25-26 in Bucharest with the participation of Ministers and High-level officials from 37 countries and 32 international organisations.

Although the Conference was not designed as a traditional donors' gathering, the financial support, which had been mobilised since the FIRST REGIONAL FUNDING CONFERENCE in March 2000, was substantial. All participants seemed to be encouraged by the significant shift from emergency assistance and reconstruction to medium and long-term sustainable development strategies. This emerging focus on longer-term development challenges was reflected in decisions on key infrastructure sectors - transport, air traffic, energy and water, and the set of 27 infra-structure projects that secured donor financing of €2.4bn.

In addition, some €500mn was committed to refugee matters for Yugoslavia, Croatia and Bosnia-Herzegovina. This amount is the more indicative as it tops up €550mn, which was already allocated by the three countries themselves. A further 100 mn € was dedicated to other activities in WORKING TABLE I as well as projects in WORKING TABLE III, thereby adding up to a total of approx. €3bn. This indicates that the support of the international community to SEE will be steady and long-term in its nature, as many infrastructure projects will take years to mature, thereby creating employment as well as economic opportunities. During the Conference it became clear that regional co-operation has become to be established on all levels between the Governments of SEE. What began timidly in the year 2000 by supporting only projects of two, three, or more countries is, in 2002, a self-sustaining element.

Beyond these commitments within the STABILITY PACT fold, the EUROPEAN UNION/WORLD BANK co-chairs of the Conference announced that total donor funding for SOUTH EAST EUROPE remains substantial and has amounted to over €6bn per annum since 1999. All participants stressed the importance of the private sector and the need to attract foreign investment. To that end, discussions focused on the fight against corruption and improving the private sector enabling environment across the region.

## **4. Perspectives**

Nearly two and a half years after its inception, the net effect of the STABILITY PACT remains modest. Expectations have been raised very high; expectations that were always going to be very difficult to fulfil. Progress was bound to be slow. But the STABILITY PACT has now started to chalk up some achievements, foremost among them being the results of the REGIONAL FUNDING CONFERENCE. It remains to be seen, however, whether the PACT will indeed be able to break the vicious circle of violence; increase economic prosperity; promote democracy and human rights; build security; and reverse the process of disintegration. These are immensely difficult and daunting tasks.

Still, private investors continue to fear political instability, and both regional security and democratisation remain a distant goal. This is not the fault of the STABILITY PACT. But neither can too much be expected of it. For even if the practical implementation of the STABILITY PACT is flawless, its ultimate objectives will not be reached for a long time.

The major reasons for these deficiencies can be summarised as follows:

- First, constitutional development has not been guided in many respects with the view of the key considerations: freedom and justice.
- Second, rights and justice are often sacrificed to policy objectives, sometimes justified by reference to political or economic urgency.
- Thirdly, in terms of public expenditures, the SOUTH EASTERN EUROPEAN countries are either too large or too small. Indeed, for various reasons, they seem to tend towards largeness, but end up being small, owing to one type of institutional collapse or other. The main reasons for the collapses over the past ten years or so have been wars, disintegration, inflation and exchange rate crises.
- Fourthly, in terms of the structure of expenditures, even the large States practice selective paternalism; in other words, they have been held to ransom by the influential interest groups. Thus, in most cases, public employment is still high, as are public consumption and transfers. The effects of selectivity are visible in high unemployment and the collapse in the quality of public services. In those instances where States have collapsed, transfers tend to suffer, too.
- Fifthly, in terms of the economic policy stance, concern about stability in some cases overrides concern about growth. This is more ambiguous in cases where fiscal policy has been governed by growth concerns, as evidenced by the high budget deficits in most countries. However, this policy mix tends to be inconsistent as it fails to lead to sustained growth and it is often one of the reasons for States collapsing.
- Sixthly, the tax system is not optimal; it is inefficient and unfair. Given that it still co-exists with extensive black market activities and widespread corruption, the effective tax burden is clearly too high. The introduction of value-added tax (VAT) often brings in more government revenue, but it does not necessarily lead to improvements in terms of optimality, efficiency and fairness.
- Finally, the weakness of the State and the other public and civic institutions in SOUTH EASTERN EUROPE must not be related to the so-called Balkan values. Such weaknesses occur everywhere - in Central, Eastern and also in South Eastern Europe. This, in fact, should be taken as an encouraging sign as it implies that the States in the region can ultimately be reformed.

On balance, the efforts taken in the PACT framework have shown positive results: Despite existing local conflicts and ethnic tensions, the region has, by and large, shown signs of political consolidation and economic recovery. Thus, the PACT has worked. For a long time, however, the emerging set of new political, economic and security structures will remain fragile and vulnerable.

## Annex

### 1. The Stability Pact for SEE: A Chronology

10 June 1999	Foreign Ministers Meeting adopts Stability Pact, Cologne
30 July 1999	Sarajevo Summit, SC Hombach appointed
27 Sept 1999	1st Regional Table: Stability Pact Work Plan
October 1999	Szeged Process initiated
7 February 2000	Mediation on Danube Bridge, Vidin-Calafat
16 February 2000	Anti-Corruption Initiative adopted
February 2000	Charter on Good Neighbourly Relations adopted (SEECF)
February 2000	Investment Compact launched
29-30 March 2000	Regional Funding Conference, Brussels
March 2000	Launching of Regional Environment Reconstruction Program
30 March 2000	Quick Start Package (Euro 2.4bn) funded
June 2000	Media Charter adopted
18 Sept 2000	Task Force Against Trafficking in Human Beings established
5 October 2000	Fight Against Organised Crime Initiative adopted
20 October 2000	Regional Arms Control and Verification Implementation Assistance Center opened, Zagreb
26 October 2000	FR Yugoslavia joins the Stability Pact
October 2000	Charter on NGO-Government partnership
14 December 2000	Police Forum of SEE countries established
February 2001	Regional Economic Action Plan adopted (SEECF)
24 March 2001	Szeged Process enhanced
30 March 2001	Quick Start Package: 201 of 244 projects started
3 April 2001	Migration and Asylum Initiative adopted
22 May 2001	Border Management Task Force established
5 June 2001	Parliamentary Troika (EP, Parl. Assemblies of OSCE, CoE) established
27 June 2001	Memorandum on Trade Liberalisation in SEE signed
27 June 2001	Agenda for Regional Action on Refugee Return launched
28 June 2001	Moldova joins the Stability Pact
25-26 Oct. 2001	Second Regional Conference on Reforms and Assistance, Bucharest

Source: <http://www.stabilitypact.org>

## 2. Participants of the Stability Pact

- OSCE (patronage)
- The member countries of the EU, the European Commission, and the European Investment Bank
- The Council of Europe
- The countries of South Eastern Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Yugoslavia, Rumania, Slovenia, Macedonia and Hungary)
- The USA, the Russian Federation, Turkey, Japan and Canada
- The UN including UNHCR
- NATO and the WEU
- IWF, World Bank, European Bank for Reconstruction and Development (EBRD), and the Organization for Economic Co-operation and Development (OECD)
- The Black Sea Economic Cooperation (BSEC), the Central European Initiative (CEI), the South East Europe Cooperation Initiative (SECI), the South Eastern Europe Cooperation Process (SEECF) and the Royaumont Process

Source: <http://www.stabilitypact.org>