

**STABILITY PACT FOR SOUTH-EASTERN EUROPE:
A NEW PERSPECTIVE FOR THE REGION
BODO HOMBACH**

Bodo Hombach is Special Co-ordinator of the Stability Pact for South-eastern Europe.

South-eastern Europe has been in a troubled state for the last decade. The region has had its problems in the past but recent years have been marked by the destructive influence of an extreme form of nationalism, perpetrated by a bankrupt regime in Belgrade. That does not mean that all others are innocent. But, in many cases, we have seen countries that had their own serious defects turn to a moderate, constructive and pro-European path. The Belgrade regime has shown no sign of that. Indeed, in the run up to the Kosovo conflict it demonstrated all too clearly its reckless disregard for human life and dignity. It precipitated the Yugoslav people yet again into armed conflict.

The action taken to stand up against the Belgrade government's unacceptable actions was not the end of the story. Major resources have been applied to the rebuilding of Kosovo. And, more widely, a Stability Pact for the whole of south-eastern Europe was agreed and is being implemented.

THE END OF THE KOSOVO CONFLICT

On 10 June 1999, UNSC Resolution 1244 ended the military action in Kosovo. On the same day, the Stability Pact received a broad mandate, as a comprehensive approach of preventative diplomacy from the EU, the OSCE, the G8, NATO and a large number of other states and institutions.

With the Stability Pact, the international community finally found an appropriate and future-oriented answer to the major questions posed during the past decade: how to have a hope of success in preventing violent conflicts, war and expulsions in south-eastern Europe, and how to tackle long-term the social and economic deficits.

All participants in the Pact are pulling in the same direction: democracy and prosperity, lasting peace and stability in the region, regional co-operation, and integration of the countries of south-eastern Europe into the Euro-Atlantic institutions. Our common vision is a democratic and unified Europe without political and economic divisions.

THE END OF HISTORY

The end of history has not been reached, as some had predicted ten years ago. Many people in south-eastern Europe were grateful that NATO existed when conflicts in the region proved that the prediction had been false; grateful that NATO acted, that it stopped further murder in Bosnia and Kosovo, stopped further ethnic expulsions and the frontal attack of the Belgrade regime on the values of the civilised world, and prevented the long-term destabilisation of the entire region.

NATO also proved that the other side's reference to a "clash of cultures" was entirely misplaced. The Alliance was there when the human rights of Muslims had to be defended. In

Bosnia, late. In Kosovo, timely. It showed that it was ready to protect universal human values, transcending cultural and religious divisions.

The remaining problems - particularly in Bosnia and Kosovo - are immense. The situation in the Federal Republic of Yugoslavia, including Montenegro, is worrying. The peaceful transition to democratic conditions in Belgrade is, in spite of all our efforts, far from secured. But we must not judge the whole of south-eastern Europe in the same way. Above all, we should not constantly stare at the half-empty glass, rather we should emphasise more strongly the positive developments.

COMMUNICATING PROGRESS

Positive developments in south-eastern Europe mostly do not make headlines. Each incident in Pristina, each dead fish in a polluted river, is most likely to have a better chance of getting a headline.

We have to turn around this communication. We must move away from the cliché of the Balkans as a place of conflicts and instability towards a picture of south-eastern Europe that is rid of the ghosts of the Balkans, towards a vision of the future boom-town of Europe. We must make clear that the europeanisation of the region is fundamentally in our own interest. If we fail, we will again be threatened with the balkanisation of European politics.

For us, that means first and foremost that we ourselves must be convinced of the success of our own efforts. That is true for those who are responsible for the necessary reforms in the countries of the region, as much as for the international community, which has committed itself to the support of this process. Only in this way can we set in train the necessary positive dynamic, and convince those standing doubtfully on the sidelines, including the public.

THE STABILITY PACT

The Stability Pact is a framework for co-ordination. It has a clear political concept. Its catalytic and motivating effect has been demonstrated. The worry that there might be duplication of work or rivalry has been proved wrong. We are well beyond the phase of fundamental debate. The Pact's structures are broad and inclusive. All participants should be able to find their role. But bad habits do not change overnight. Instead of getting on with it and helping, some still see themselves as spectators and think they know better. However, old thinking has to be overcome on both sides.

The Stability Pact is based on the most important experiences and lessons from world-wide international crisis management. Conflict prevention and peace building can be successful only if they start in parallel in three key sectors: the creation of a secure environment, the promotion of sustainable democratic systems, and the promotion of economic and social well-being. Only if there is progress in all three sectors can a self-sustaining process of peace get underway.

WHAT THE STABILITY PACT IS AND DOES

The Stability Pact is a political declaration of commitment and a framework agreement on international co-operation to develop a shared strategy for stability and growth in south-eastern Europe among more than 40 countries, organisations and regional groupings. The

Stability Pact is not, therefore, a new international organisation nor does it have any independent financial resources and implementing structures.

Organisationally, the Stability Pact created the post of Special Co-ordinator. In that role, I have a team of about thirty people. The Special Co-ordinator's most important operational task is to bring the participants' political strategies into line with each other, to co-ordinate existing and new initiatives in the region and, thereby, to help avoid unnecessary duplication of work. The headquarters of the Special Co-ordinator are in Brussels.

The participants in the Stability Pact are:

- o The European Union member states and the European Commission;
- o The countries of the region and their neighbours: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Hungary, Romania, Slovenia and Turkey;
- o Members of the G8: USA, Canada, Japan and Russia;
- o Other countries: Norway and Switzerland;
- o International organisations: UN, OSCE, the Council of Europe, UNHCR, NATO, OECD and WEU;
- o International financial institutions: the World Bank, International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB);
- o Regional initiatives: Royaumont Process (now merged into the work of the Special Co-ordinator and participating institutions), Black Sea Economic Co-operation (BSEC), Central European Initiative (CEI), South-eastern European Co-operative Initiative (SECI) and South-eastern Europe Co-operation Process (SEECF).

The Pact specifies that the Special Co-ordinator chairs the most important political instrument of the Stability Pact, the Regional Table. Three Working Tables operate under the Regional Table:

- o Working Table I: Democratisation and Human Rights;
- o Working Table II: Economic Reconstruction, Co-operation and Development;
- o Working Table III: Security Issues (with two Sub-Tables: Security and Defence and Justice and Home Affairs).

The structure and working methods of the Stability Pact are modelled on the CSCE process. A special feature is that at Regional and Working Tables, representatives of the south-eastern European countries are, for the first time, on an equal footing with those of international organisations and financial institutions in advising on the future of their region and jointly setting priorities in respect of the content of all three working areas.

The European Commission and World Bank were appointed by the Stability Pact partners to co-ordinate the economic assistance measures for the region. They jointly chair a High-Level

Steering Group in which the finance ministers of the G8 countries and of the EU, together with the representatives of international financial institutions and organisations and me as Special Co-ordinator, work together.

In the founding document, the EU, which has assumed a leading role in the Stability Pact, undertakes to draw south-eastern Europe "closer to the perspective of full integration...into its structures", including eventual full membership. The European Union and its member states are also the most important donors in the region. Since 1991, they have raised over EURO 9 billion. For the period 2002 to 2006, the European Commission sees a further EURO 11.5 billion as being necessary.

Moving towards European structures includes, in principle, the possibility of full membership of the EU. Countries wishing to be admitted must, however, first meet certain minimum standards, including the Copenhagen Criteria on democracy and market economy laid down in 1993.

As a contribution to the Stability Pact and an interim step towards membership, the European Union set up a new generation of Stabilisation and Association Agreements. They are aimed at the five south-eastern European countries which still have no contractual relationship with the EU, i.e. Albania, Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia (pending the removal of sanctions) and Macedonia. The intention is to increase economic, political and social co-operation between the EU and these countries through a new apparatus, the aid regulation 'CARDS'.

The Stability Pact's stabilisation policy is not only about economic development. Without state institutions that work effectively and the democratic development of a state under the rule of law, there can be no long-term economic development and prosperity. Equally, democratisation and non-discrimination are also fundamental preconditions to guaranteeing internal and external security. In this context, Working Table I has focused on the following:

- o The Szeged Process, to support the democratic forces in Serbia: the Federal Republic of Yugoslavia is excluded from the activities of the Stability Pact as long as the political leadership in Belgrade continues to flout the principles of the Stability Pact. The Republic of Montenegro, on the other hand, already takes part in many Stability Pact activities. In October 1999, in the southern Hungarian town of Szeged, an initiative to support the democratic forces of Serbia was brought into being. Since then, within the framework of the Szeged Process, 44 partnerships have been concluded with cities and local authorities governed by the opposition in Serbia. Further, Serbian municipalities and independent media are given financial and technical support by the "Chance for Stability" foundation;
- o The Human Rights and National Minorities Task Force has drawn up a comprehensive programme for the promotion of multiethnic co-existence and for the protection of minorities;
- o The Good Governance Task Force, chaired by the Council of Europe, deals mainly with the development of local governments, the appointment of ombudsmen and women and the reform of public administration;
- o The Gender Task Force, chaired by the OSCE, is devoted chiefly to achieving equality and the appropriate representation of women in public life as well as enabling women to take part in the political process (empowerment);

- o The Education and Youth Task Force deals with university education and vocational training, the teaching of history (school books), youth issues and democratic civics;
- o The Parliamentary Co-operation Task Force promotes education, exchange, co-operation between members of parliament and their staff;
- o The Regional Refugee Initiative works on a package of legal, economic and social measures in Croatia and Bosnia-Herzegovina designed to assist the return of refugees and exiles to their home regions;
- o Media Charter: in June 2000, the Regional Table adopted the Media Charter with the aim of protecting the independence of the media and supporting the training of journalists.

As regards Working Table II (Economic Reconstruction, Development and Co-operation), in its strategy paper, 'The Road to Stability and Prosperity in South-eastern Europe' of March 2000, the World Bank formulated, on behalf of the Pact's participants, the medium- and long-term economic development goals of the Stability Pact. These are defined as follows:

- o Private sector development, especially through the liberalisation of trade between the countries of south-eastern Europe and the European Union, through the improvement of the business regulatory environment and the improvement of the financial sector;
- o Poverty reduction and social development, especially through policies to foster social cohesion and inclusion, policies to encourage democratic and participatory processes, and policies to strengthen social protection as well as access and the performance of the social services;
- o Institutional development and governance, especially through the improvement of institutional and administrative efficiency addressing the problem of corruption;
- o Increased investment in infrastructure;
- o Improvements in environmental protection.

With the adoption of an Investment Charter in February 2000, south-eastern European countries undertook to introduce market economy reforms and to improve the climate for investment. With the help of the OECD, every country drew up a specific list of reforms. In accordance with the deadlines specified in the plan of action, implementation is starting in the summer of 2000.

- Against this backdrop, Working Table II saw the following initiatives undertaken:
- o The European Investment Bank (EIB) presented a comprehensive plan for the development of regional infrastructure (transport, energy, telecommunications and water supply). From 400 submitted proposals, 35 projects which will start within 12 months were assembled into a Quick Start Package. A further 50 projects are to be implemented within the next two years;
 - o The EBRD developed a strategy to promote the private sector, particularly small and medium-sized enterprises and those that focus on foreign trade;

- o In January 2000, 20 high-level representatives from the European Union, the USA, Canada, Japan and the south-eastern European countries founded the Business Advisory Council, which works, in particular, for the improvement of the investment climate in the countries of the region;
- o The Working Group on Trade is developing measures to break down customs barriers and other trade barriers. The countries of the region have signed an appropriate Memorandum of Understanding;
- o A Co-ordination Group deals with measures to promote vocational training;
- o A Task Force is working on the development and implementation of environmental programmes;
- o In February 2000 the Stability Pact partners on Working Table II agreed on a comprehensive list of measures to fight corruption (the Anti-Corruption Initiative). The measures will be implemented by the countries of the region on the basis of a definite timetable. They will be assisted in doing so by the Special Co-ordinator's staff, the Council of Europe, the OECD, the World Bank, the European Commission and the USA. Concerning Working Table III (security questions), through its two Sub-Tables, it deals with questions of both internal security and external security. The aim is to establish transparency and predictability and to promote regional co-operation in those two areas.

The Sub-Table on Security and Defence mainly deals with the following areas:

- o Military reform and defence economics;
- o Combating the proliferation of small arms and light weapons;
- o Humanitarian de-mining;
- o Arms control and non-proliferation.

The Sub-Table of Justice and Home Affairs deals primarily with:

- o Measures to fight corruption and organised crime;
- o Promotion of transparent and efficient state institutions in the internal security sector (police forces, judiciary and penal systems);
- o Asylum and migration issues, and
- o Disaster preparedness and prevention.

COMPARISON WITH THE MARSHALL PLAN

The Stability Pact has often been compared with the Marshall Plan (1948-1952). This analogy is, however, only partly appropriate. Although there are parallels between the two initiatives, such as the regional approach and the ownership status of the target groups, there are also significant differences, including:

- o The multilateral nature of the Stability Pact, which brings together governments, financial institutions and international governmental and non-governmental organisations;
- o The combination of short-term tasks (relief of the humanitarian consequences of war and restoration of the natural bases for survival) and medium- and long-term requirements (democratic and free-market reforms and lasting development);
- o The continuing high degree of latent conflict in some regions of South-eastern Europe.

In the implementation of the Stability Pact, however, important lessons are being drawn from the Marshall Plan and other post-World War Two reconstruction programmes. Donor processes throughout the world have shown that they can be less than positive. Up to a third of internationally promised funds are never 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 usually to blame:

- o 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;
- o 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. Experts work on the assumption that the inflow of funds should be no more than three percent of its gross domestic product in order to avoid distortions (such as, for instance, corruption or the dependency syndrome). The Stability Pact therefore 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, have undertaken 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 have undertaken to support the construction process in a co-ordinated way through assistance and credits.

It is not the amount of the money that is, in the end, decisive for the success of aid. Rather, it depends on the activities to which the funds are directed.

The Stability Pact partners have therefore come to the following understanding: to first set priorities regarding content before raising funds - at the first meeting of the Regional Table in September 1999, a preliminary work plan was adopted. The second Regional Table meeting (June 2000) saw the wide ranging 'Agenda for Stability' adopted to link financial pledges to concrete projects - several hundred projects were examined within all three Working Tables in the run-up to the Funding Conference. The projects selected were compiled into the Quick Start Package and were recommended for funding at the Funding Conference.

REGIONAL CO-OPERATION

Since the Stability Pact was founded, the heads of state and government of the south-eastern European countries have met regularly for consultation. At the Bucharest Summit in February 2000, they adopted a 'Charter on Good Neighbourliness, Stability, Security and Co-operation

in South-eastern Europe.' A range of co-operative relationships has replaced bilateralism. Most Stability Pact projects and activities were proposed and are carried out by two or more countries of the region.

QUICK START PACKAGE AND REGIONAL FUNDING CONFERENCE

On 29 and 30 March 2000, I presented the Quick Start Package to the donor community at a funding conference in Brussels. The Package consisted of some 200 projects, from all three working Tables, with a value of EURO 1.8 billion. Most of the projects in the Package were proposed by the south-eastern European countries and in most cases involved more than one country. The implementation of the projects was to start within 12 months.

At the conference, the donor community undertook to provide approximately EURO 2.4 billion to finance the Quick Start projects. The sum pledged exceeded all expectations. Around EURO 1.1 billion was pledged by international financial institutions, over EURO 500 million from the central EU budget (via the European Commission), and the remainder by bilateral donors from the EU, G8 and other countries.

Projects from all three Working Tables can now be implemented. Working Table I receives EURO 165 million and Working Table III EURO 72 million. On Working Table II, for example, all 35 infrastructure projects, as well as the package for the development of the private sector and the Table's environmental projects can be financed. The return of refugees for example is also being supported with EURO 215 million.

To ensure that all promises are fulfilled as rapidly as possible, I have created a monitoring and assessment mechanism. All project managers carrying out the Quick Start Projects must regularly report to the Special Co-ordinator on the progress of implementation. This information is published on the Stability Pact web site. In accordance with the resolutions of the Funding Conference, infrastructure projects are examined by Working Table II in co-operation with the High-Level Steering Group. Additional projects can be regularly assessed and proposed for financing by the Donor Network, which was brought into being by the Stability Pact.

A year after its foundation, the Stability Pact has therefore achieved concrete results in many areas: project proposals have turned into construction sites. Now it is important to ensure that the upward spiral of trust and confidence is maintained.

LOOKING TO THE FUTURE

Previously every country of south-eastern Europe had a big brother outside, and most of the countries of Europe had a preferred partner in the Balkans. That was the reason for many conflicts, sometimes even proxy-wars, or a reason why conflicts in the Balkans became wars in Europe. The Stability Pact is the political answer to this outdated political approach from the nineteenth century. The Pact has created an upward spiral of mutual trust and practical steps. But both sides are still mistrustful, watching to see that the other side delivers, gives indications of confidence-building and that the conditions are fair.

The Stability Pact has already achieved a lot, in the face of much scepticism. Over one year on, south-eastern Europe remains firmly on the political agenda. That is a success. It was not inevitable. The media have moved on. From Kosovo to Chechnya, then East Timor, now Sierra Leone and the Horn of Africa.

There is a wind of change in south-eastern Europe. The positive hope for the future is closely bound up with the desire for a perspective of step by step integration into Euro-Atlantic structures. In this area, I will remain an advocate for south-eastern Europe, just as much as I will push strongly in those same countries for thoroughgoing reforms, regional co-operation and individual fulfilment of the respective conditions for membership. The EBRD says, and I have good examples, that the interest of investors in south-eastern Europe is growing. I heard the same thing even in Japan. Mobilising private capital and private engagement is now a focus of Stability Pact work.

These are a few pieces of good news that the region so urgently needs. For self-motivation, but also to attract investors. The ball is now in our court. We have to make sure that actions follow political words. The working structures of the Stability Pact will therefore for now not develop any further project ideas but will focus on monitoring the implementation of the agreed projects.

The Quick Start Package of the Funding Conference, meaning starting the agreed and financed projects in 12 months, is a declaration of war on slowness and bureaucracy. Both are powerful opponents. But, it would be disastrous if the impression were created that, although we could agree relatively quickly on joint military action when necessary, political consensus just remained on paper. I am in favour of constructive impatience. Projects must now become construction sites.

It has been a successful year. But we all know that more could always be done. For the year ahead, it is important that we continue to develop towards a genuinely shared political strategy for all the challenges that face us within the Pact. And, I see four key tasks which must form a central part of that strategy. First, the full and timely implementation of all the projects and programmes agreed so far, so that the next steps can then be taken: promises must be kept, including those on democratic, economic and defence reforms by the countries of south-eastern Europe. Second, attracting private investment and capital to the region: government money can only ever be the start. The crucial requirement is to ensure that the economic potential of the countries in south-eastern Europe can develop and flourish. Third, intensive efforts to improve the effectiveness of international institutions in dealing with the problems we face: we have declared war on slowness and bureaucracy, now we must fight that war. Fourth, setting the region on the path of fully benefiting from the information technology revolution.

In November, the European Union will hold a Summit in Zagreb together with the countries of south-eastern Europe. This must be a success. I fully support the French Presidency in its efforts to ensure that it is. The aim of the EU and all of us involved in the Pact is to make the Balkans a beacon of hope for all Europe. With the unacceptable regime in Milosevic's Yugoslavia at its heart, the region has a difficult future still ahead of it. The Stability Pact for South-eastern Europe offers Yugoslavia the prospect of integration into the European mainstream if it respects the fundamental standards of international and domestic behaviour to which the Pact would commit it. This is an offer which I believe the people of Yugoslavia will accept, and in doing so they will remove and replace a corrupt and monstrous regime in Belgrade.

The rest of the region has already chosen a positive and successful path: day by day, the Pact is building the new, wider Europe.

