

Democracy, Security and the Future of the Stability Pact for South Eastern Europe

A Framework for Debate

**by the EastWest Institute in partnership with
the European Stability Initiative**

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FOREWORD

The Stability Pact was set up with the purpose of driving a bigger vision for South Eastern Europe, one that would overcome mistrust between the countries in the region and bring them into the reality of European integration. This vision remains as pertinent today as it was in the summer of 1999 when I had the honour, in the name of the European Union, to chair the Sarajevo Summit. A personal interest in the future of South Eastern Europe is also why I took the opportunity to be closely involved in this study, which has been drawn up by an independent team of experts from the EastWest Institute, in partnership with the European Stability Initiative and policy analysts across the region.

Those who have always been skeptical about the Stability Pact may read parts of this study as questioning the very feasibility of the undertaking. This would, however, be to misunderstand both the analysis presented here and the experience of the past two years. Not only have there been the successes highlighted here: the political commitment demonstrated by the Sarajevo Summit, the strong signal of support that the Pact helped to send to democratic forces in Serbia, and its role in creating regional networks and supporting valuable on-going efforts. There has also been a mismatch between the expectations and resources given to the Pact. The difficulties experienced in the first two years of the Pact's existence should lead participating states to increase the resources at the disposal of the Pact, not to question its role.

The first phase of the Stability Pact has come to a close. The challenge now for the Special Co-ordinator's Office is to make use of its high profile and distinctive role to drive a concrete agenda to advance in key issue areas the broader vision of democratisation, regional integration and Europeanisation that is at the heart of the Pact. The experience of integration in Western Europe has demonstrated that such a vision can only be achieved through practical programmes, setting concrete incentives and achievable deadlines. In order to live up to its promise, the Stability Pact must present a concrete vision that will capture the imagination of the publics both in the region and in the European Union.

Regional co-operation will only lead to meaningful results if it is fully supported by regional governments, which means it must help them deliver concrete benefits to their citizens. With this in mind, and drawing lessons from the experience of post-war European integration, this study proposes an approach based on functional integration in politically important sectors of the economy. A concrete proposal is to commit Western donors substantially to increase support to regional governments in reforming their energy sectors in return for a commitment by these governments to create a genuine common market, integrated with that of the European Union.

The study also proposes significantly more support for institution building to strengthen the capacity of states in the region to fight trans-border crime, while holding out the concrete promise of easier access to the European Union for their citizens. The role of the Stability Pact Office would be to identify gaps and shortcomings in assistance in this field and to develop a concrete vision of increasing mobility while fighting criminal networks. Such a focus can help to create a common sense of purpose among the actors working in this field.

The secret behind a successful strategy for the Pact in the coming period is focus. Not every problem in the region, and not every problem which South East European states have in common, can be approached as a regional problem. Many of the democratization and human rights issues raised under Table I, while important, are best addressed by existing institutions with established field structures throughout South Eastern Europe, such as the Council of

Europe, the OSCE or the European Commission. Many of the 'hard security' issues under Table III would benefit from an expanded and enhanced Partnership for Peace programme.

This study is not a survey of every activity that has taken place under the umbrella of the Stability Pact. It does not discuss the progress that was achieved in the field of trade relations and private investment, nor does it survey the contributions to the Stability Pact concept made by the European Commission, which in May 1999 launched the Stabilisation and Association Process. The purpose of examining the last two years is to draw practical conclusions that will help the Pact and its members to better meet the challenges that South Eastern Europe will face in the future.

At the heart of a refocused Stability Pact must lie a strong Office of the Special Co-ordinator with the resources and political backing necessary to meet the objectives defined by the Regional Table. At the same time, the commitment which a successful Stability Pact would require from governments both in South Eastern Europe and outside will only be generated if there is a genuine public debate on how additional resources can actually create sustainable democracies and lasting security. Such a debate took place in the late 1940s across Europe and North America. It then led to the institutions of collective security and economic and political integration which continue to underpin European peace and prosperity. There is a need to launch a similar *Great Debate* now on the future and form of outside support to South Eastern Europe.

In carrying out this study, we have received the full support of the Special Co-ordinator's Office and of numerous participating governments and organisations. We have discussed our ideas in October at a meeting chaired by High Representative Javier Solana, with the participation of Special Co-ordinator Bodo Hombach and Commissioner Chris Patten. The preliminary conclusions have also been presented to the fifteen Stability Pact national co-ordinators of the EU in Brussels in February 2001. I would like to thank the Canadian Government and the Open Society Institute for supporting this independent study. I also wish to thank the partners of the EastWest Institute, the European Stability Initiative and the regional policy institutes that contributed to this study.

Brussels, 4 April 2001

President Martti Ahtisaari
Co-Chairman of the EastWest Institute

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I. INTRODUCTION

The Stability Pact was launched in Cologne and Sarajevo in the summer of 1999 by 28 states and the principal international organisations active in South Eastern Europe. Coming only weeks after the end of the Kosovo war, it reflected an extraordinary consensus among the wider international community and the states of the region that something had to be done to address the problems of instability in South Eastern Europe at their source, breaking once and for all the cycle of conflict. Following a decade of reactive crisis management, the Pact was to be a “turning point” after “too many false dawns, too many shattered hopes and lives, too many tensions left unresolved”.¹ As German Foreign Minister Joschka Fischer noted:

“The Kosovo-war was the fourth war in the former Yugoslavia in just eight years, and I hope it will be the last. But a political solution in Kosovo will only prove to be lasting within a general peace strategy encompassing the region as a whole and at today’s conference we would like to launch such a strategy.”²

There were three elements to the Stability Pact vision. First, the countries of South Eastern Europe were offered a new perspective on **integration with Europe**, with pledges of enhanced international assistance to help them meet the requirements for membership in Western clubs, most importantly the European Union. Second, the countries of the region undertook to work together in promoting **regional security** and overcoming common obstacles to European integration. Third, the Pact set out to promote the **spread of democracy** throughout the region, as the cornerstone of conflict prevention and economic development.

The Stability Pact was launched against the background of Slobodan Milosevic’s continuing hold on power in Belgrade. An important political motivation behind the Pact and its early activities was the need to send a clear signal to the people of Serbia that Europe was willing to help them recover from a decade of war and isolation, but only once the Milosevic regime was removed from power. Montenegro was admitted as an ‘early beneficiary’ to the Pact, helping to focus attention on its resistance to the Belgrade regime. The Pact also played a role in wider international efforts to support the democratic opposition in Serbia, which, earlier than anybody had dared hope, succeeded in toppling Milosevic following elections in September 2000. There are those who argue that the Pact has now fulfilled its major function, and that in a post-Milosevic era, the established international instruments – the European Union and its Stabilisation and Association Process, NATO and the Partnership for Peace, and the traditional mechanisms for providing international development aid and credit – are sufficient for the needs of the region.

This report argues that the essential rationale of the Stability Pact remains as pertinent today as it was in July 1999. The underlying sources of instability in South Eastern Europe have not been resolved with the fall of Milosevic. They continue to be present in the fragility of post-communist states throughout the region. In Bosnia-Herzegovina and Kosovo, international missions are substituting for the lack of domestic governance. In Albania, twice in a decade international security forces have been required to secure the distribution of humanitarian aid. In Serbia, a new government faces the daunting task of overhauling public institutions shaped by a decade of dictatorial rule and international isolation. Even in Romania and Bulgaria, the

¹ Carl Bildt, Sarajevo summit, 30 July 1999.

² Joschka Fischer, Cologne summit, 19 June 1999.

two states of the region accepted as formal candidates for membership of the European Union, public institutions struggle to carry out the reforms required by the accession process.³

Each in their own way, the states of South Eastern Europe suffer from a marked lack of governance capacity. As a result, persistent social and economic crises and the breakdown of law and order provide the ideal conditions for ‘uncivil society’ to flourish, whether in the form of organised crime, nationalist extremism or a combustible combination of the two. These dangers are revealed by the tensions and conflicts brewing in Macedonia, Kosovo and the Presevo Valley.

The Stability Pact vision for South Eastern Europe belongs to the broader historical process of European integration. The export of stability, democracy and prosperity to Central and Eastern Europe has required a tremendous commitment of resources on the part of the European Union. Throughout the 1990s, the Western Balkans have been peripheral to this Europeanisation vision. Instead, the region has been an exporter of instability, refugees and, increasingly, crime – problems which the international community is unable to ignore. The basic choice has remained the same: bring the Balkans into the European fold, or wait for the next crisis to emerge.

However, it has become apparent that there is a significant gap between the bold vision articulated in the Stability Pact and the resources placed at its disposal. According to its founding documents, the Pact was to address all of the most pressing problems of South Eastern Europe, from security issues (both ‘hard security’ risks emanating from neighbouring states and the many sources of domestic instability), through democratisation, human and minority rights, economic transition and free trade, organised crime and economic migration, to post-conflict issues such as refugee return. It was to be the vehicle for a dramatic injection of international aid, which some compared to the Marshall Plan. In reality, the Stability Pact has been given almost no new instruments or resources to advance these goals. By default, it has become a loose co-ordinating structure over a selection of existing international efforts. This discrepancy between means and expectations has led to widespread disenchantment, particularly within the region itself.

To recapture its original vision, the Stability Pact needs to be refocused. The purpose of this study is to identify the opportunities for a re-launch of the Stability Pact. Focusing on the areas of democracy and security, the study argues that the real value of the Pact is not as an umbrella mechanism across the full range of international programmes. Rather, with its flexible structures and high political visibility it is ideally suited to promoting regional co-operation in specific strategic areas.

³ In analysing the institutional dimensions of instability and perceptions of regionalism in South Eastern Europe, the team working on this study has drawn heavily on the experience of experts in the region. Research partners in the field have contributed fresh research and a strong regional perspective that have been essential to developing the arguments presented here. The case studies written by regional research partners are forthcoming under separate cover.

II. THE STABILITY PACT MECHANISM: EVOLUTION AND IMPACT

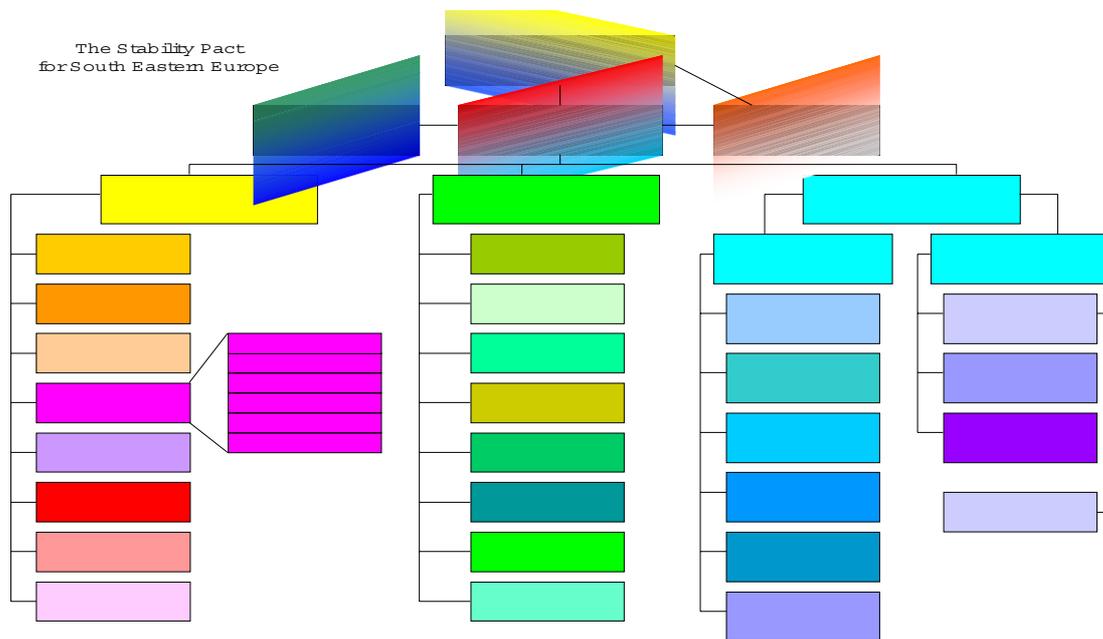


Table 1: Stability Pact Structures

A. OVERVIEW

The Stability Pact was created as a response to the political and economic disturbances brought about by the Kosovo war. The political context required the Pact to be established in haste, both to show solidarity with the countries of the region which supported NATO actions in Yugoslavia and to demonstrate to the people of Serbia the cost of continuing international isolation, to encourage them to move towards political change.

Three events in particular have marked the evolution of the Stability Pact from the spring of 1999 until today: the Cologne and Sarajevo summits held in the summer of 1999, which launched the Pact as a **new forum for intergovernmental co-operation** between 28 countries and a range of international organisations; the Stability Pact Regional Funding Conference of March 2000, which embraced a **Quick Start Package** of about 200 “Stability Pact projects” whose implementation was to start within one year; and finally admission of the **Federal Republic of Yugoslavia** into the Stability Pact in late 2000. With the successful launch of most of the Quick Start Projects and the full participation of a post-Milosevic Yugoslavia, the first phase of the Stability Pact’s evolution is now drawing to a close.

The mechanism adopted to pursue these aims was modelled loosely upon the Conference for Security and Co-operation in Europe (CSCE): that is, it is first and foremost an inter-governmental body, rather than an organisation. Its principal forum is the South East European Regional Table, which includes all of the governments and international organisations participating in the Stability Pact. The Regional Table is chaired by a Special Co-ordinator and supported by a small office of staff seconded by participating governments

and international organisations. In addition, three Working Tables – on democratisation and human rights; economic reconstruction, development and co-operation; and security issues – were established. The Pact is formally placed under the auspices of the OSCE.

The Working Tables have been sub-divided into some 26 individual sub-tables and taskforces in particular areas (see Table 1). A number of Stability Pact initiatives and regional working groups have been launched, in which governments have committed themselves to action plans and joint declarations on issues such as organised crime, corruption and support to NGOs in the region.

B. STRUCTURES

1. Regional Table

The Regional Table is the highest body within the Pact, consisting of representatives of all participating countries and organisations. It meets twice a year and determines the Pact's overall strategic direction.

The Working Tables (Working Table I on Democratisation and Human Rights, II on Economic Reconstruction, Development and Cooperation, and III on Security Issues) are modelled after the three dimensions of the CSCE. Each has a permanent chair, appointed for two years, and one co-chair rotating on a six monthly basis among the regional governments. The three chairmen are not employed by the Pact, and exercise their functions part-time. Each participating country and organisation also has at least one Stability Pact national co-ordinator, generally located within the Foreign Ministry.

The Stability Pact was designed to support a “long-term process of dialogue” among the countries of the region, leading to a “coherent arrangement of bilateral and multilateral agreements for the improvement of good-neighbourly relations”.⁴ One of the convictions at the heart of the Stability Pact is that enhanced dialogue within the region will contribute to stability.

The impact of enhanced intergovernmental dialogue on security and democracy in the region is, by its nature, difficult to evaluate. Nonetheless, it is pertinent to note that the Stability Pact is the latest in a long series of initiatives designed to bring the governments of South Eastern Europe together. In 1988, the first summit of regional foreign ministers was held in Belgrade, followed by another in Tirana in 1990. Following the end of the Bosnian war, the foreign ministers of seven Balkan countries – Albania, Bosnia and Herzegovina, Bulgaria, Greece, Romania, Turkey and the Federal Republic of Yugoslavia – met again in Sofia in July 1996. Adopting a “Charter on good-neighbourliness, stability, security and co-operation”, they committed themselves to a process of multi-lateral co-operation in a wide variety of fields. The areas identified in the Charter are similar to those listed in the “Agenda for Stability” adopted by the Stability Pact's Regional Table in Thessaloniki in 2000. The Sofia Charter was later formalised as the South East European Co-operation Process (SEECOP), which continues to exist. It is notable that the areas singled out for co-operation have varied little over the years, although concrete results are often difficult to identify (see Table 2).

⁴ Joschka Fischer, Cologne summit, 19 June 1999.

Table 2: Sofia Declaration (1996) and Stability Pact Agenda for Stability (2000)

Sofia objectives (1996)	Agenda for Stability objectives (2000)
– Multilateral regional economic co-operation in communications and energy infrastructure, trade and investment, protection of the environment	– Reform of the business and investment environment, development of the private sector
– Social and cultural co-operation	– Trade co-operation and liberalisation
– Co-operation in the field of justice, combat of organised crime, illicit arms trafficking	– Fight against corruption and organised crime
– Trans-regional centre for transport infrastructure	– Protection of human rights and minorities
– Regional centre for trade promotion	– Security sector reform
– Regional conference to fight drug trafficking	– Independence of the media
– Joint measures against illegal migration and strengthening border controls	– Return of refugees and DPs
	– Infrastructure development
	– Strengthening of educational structures

There is therefore nothing novel in formalised inter-governmental dialogue in South Eastern Europe. What is unique about the Stability Pact is, first, its broad composition, and second, its high political profile, following its launch in Sarajevo in July 1999 at the highest level. This is potentially a powerful tool in securing political support for regional initiatives.

2. Special Co-ordinator's Office

The Special Coordinator's Office is the core of the Pact's institutional structure. The Special Co-ordinator is Bodo Hombach, a senior German politician appointed in 1999. The resources for the Special Co-ordinator's Brussels office are provided by the European Union, under a *Joint Action* within its Common Foreign and Security Policy. The *Joint Action* covers the salary, office and travel costs of the Special Co-ordinator himself, while the European Commission provides the office and travel costs of his staff.⁵ The budget of the Office is approximately 2 million Euro, excluding salary costs of seconded staff.

The Office is allocated 28 staff, who are seconded by the governments or international organisations participating in the Pact. Each seconded staff member is subject to different terms and conditions, and since the Stability Pact is not constituted as an international organisation, some of the diplomats are formally attached to their own state's mission in Brussels.

The Office sees as its role as one of political co-ordination of the Pact's activities, rather than direct management of specific projects. It acts as the "political centre" of the Pact, in order to "harness resources and enthusiasm among the participants". It monitors the development of the various initiatives, and supports other Stability Pact structures as needed.

In practice, the Office does not have the resources to play more than a nominal co-ordinating role. The Office itself has no direct involvement in the funding, planning or implementation

⁵ Travel costs of non-EU staff are covered by the seconding country.

of particular projects. Nor does it produce any substantive analysis, either of the needs of the region or of the impact of Stability Pact activities. With its limited human resources, it is dependent on information supplied to it by other organisations, and cannot effectively monitor international activities in its areas of responsibility, or even progress in the implementation of Quick Start Package projects. The Office has limited influence on donors over the speed of disbursement of funds by donors, which is subject to institutional constraints that which are difficult to overcome.

Staff from the Office are allocated responsibility for one or more sub-tables or initiatives. They are regularly invited to attend events in the area of their concentration which are organised by other actors. In Working Table I on democratisation and human rights, the Office estimates that it is invited to more than 100 conferences, seminars and other events related to South Eastern Europe each year, and notes that it is impossible to attend them all.

The Special Co-ordinator himself plays a role which is partly separate from his Office. He travels extensively in the region, visiting heads of state and brokering political agreements of various kinds. One of his best-known successes has been the agreement between Romania and Bulgaria on the construction of a new Danube bridge at Vidin-Calafat. Most recently, the Special Co-ordinator has played a part in international efforts to mediate the conflict in Macedonia, alongside the EU Presidency, Commissioner Chris Patten and High Representative Javier Solana.

C. ACTIVITIES AND IMPACT

1. Stability Pact as Project Co-ordinator: the Quick Start Package

In the aftermath of NATO's war in Yugoslavia, determined to avoid a recurrence of conflict, European Union leaders promised South Eastern Europe an injection of funds on an "unprecedented scale". In Sofia on 17 May 1999, British Prime Minister Tony Blair called for a "Marshall Plan for the Balkans", and called upon the European Commission to "pull together and drive forward a programme of reconstruction and development of a sort South Eastern Europe has never seen before, to take the EU's map of regional infrastructure links off the office wall and make it reality on the ground."

Against the background of these promises, the Stability Pact Special Co-ordinator's Office convened a Regional Funding Conference at the soonest possible opportunity. This conference took place in March 2000 in Brussels. Some 200 individual projects with a 'quick start capacity' (able to begin implementation within a year) were approved at the Conference, with a total value of 1.6 billion Euro.⁶ Since then, overseeing the Quick Start Package (QSP) has become the major preoccupation of the Office.

Three elements are key to understanding the Quick Start Package. First, given the extremely short period of time in which it was assembled and the much slower funding cycles of the major donors, most of the projects are not based on new funding, but draw on funding which had already been allocated to the region. The QSP is therefore a sample of existing donor activities in South Eastern Europe. Secondly, the Office had neither the time nor the resources to ensure that the QSP projects formed part of an overall strategy in any given area. The project criteria specified before the March 2000 conference were extremely general:

⁶ The total sum of 2.4 billion Euro announced included also Near Term Projects whose implementation would start later than one year after the conference.

“a.) projects should have a ‘quick start’ capacity; b.) projects should have a regional dimension and/or regional balance; c.) projects should have a high likelihood of funding and be attractive to donors; d.) there should be a balance of implementing agencies among the package of projects”⁷

The resulting mix of projects was an aggregation of individual donor proposals, which, as it turned out, were concentrated in the area of physical infrastructure. Third, recipient countries and implementing agencies had little time to come up with new project ideas. Many of the infrastructure proposals tabled at the Conference had already been presented to international financial institutions, and others were a continuation of projects which were already underway. As a result, the QSP is a cross-section of existing international efforts in the region and shares both their strengths and limitations.

Once projects were incorporated within the QSP, the Office played no particular role in their implementation, other than to request periodic reports from the implementing agency. Its capacity to monitor their progress is limited. In Working Table I, a staff of five and a part-time chairperson are responsible for monitoring 144 projects, carried out by a range of different organisations across South Eastern Europe, a task which they cannot accomplish at more than a superficial level. Nor was the purpose of the monitoring clearly defined. It remained unclear whether the Office would have a role in advising donors on strategy or methodology. As a result, the QSP projects have proceeded at their own pace, without much input from the Office.

Considering the allocation of funds across different Stability Pact areas, the QSP is primarily a transport infrastructure programme. Of the 2.4 billion Euro pledged in March 2000, 1.6 billion was allocated to the QSP and the balance to ‘Near Term’ projects (all of which are in Table II). The QSP breaks down across the three Working Tables as follows:

Table I (democratisation):	144 projects totalling Euro 340m (16 percent)
Table II (reconstruction):	64 projects totalling Euro 1,200m (81 percent)
Table III (security):	33 projects totalling Euro 55m (3 percent) ⁸

Approximately 75 percent of the QSP is allocated to 34 infrastructure projects under Working Table II. Of these, 21 of the projects totalling 1.1 billion Euro are in transport, mostly road building and renewal. Other infrastructure projects include three water/wastewater projects, one energy project and nine feasibility studies. Less than 20 percent of the QSP funds are for projects in the area of democratisation and security. However, within the Democratisation Table, 240 million Euro of the total of 340 million (70 percent) are for physical reconstruction related to refugee return. Under the Security Table, approximately half of the money is allocated to de-mining activities.

As a result, in fields which might be regarded as traditional democratisation, civil society and governance areas, the total value of QSP projects is approximately 130 million Euro (see table 3).

⁷ Stability Pact Special Co-ordinator’s Office, *Report to Donors’ Conference*, p. 23.

⁸ Figures are based on the Progress reports as published by the Stability Pact Co-ordinator’s Office in February 2001 and are subject to confirmation. While total figures (both of number of projects and funds provided) have to be considered preliminary, they nevertheless give a good overview of the relations between different sectors.

Table 3: Indicative value of Quick Start Packages in selected democratisation and institution-building fields as at 30 June 2000⁹

Area	Number of projects	Value of projects (million Euro)
Defence reform	2	26.5
Anti-corruption	3	2.0
Judiciary/police	15	5.3
Human rights & minorities	13	7.3
Local govt./public admin.	20	30.0
Media	31	29.4
Education	50	22.6
Parliamentary co-operation	4	3.4
Gender	8	2.5
Total	146	129.0

To place these numbers in context, the emergency humanitarian aid distributed by the EU in the region in immediate response to the Kosovo crisis was 378 million Euro, while its total assistance package to the region in 1999 exceeded 1.1 billion Euro.¹⁰ The 22.6 million Euro allocated to education is less than the 30 million Euro which George Soros's Open Society Network distributed for education programmes in South Eastern Europe in 1999. The 5.3 million Euro allocated to police and judicial programmes compares to an annual United Nations appropriation of about 160 million Euro to support 2,000 police monitors in Bosnia.¹¹

The figures reveal the lack of a guiding concept behind the QSP. In a regional strategy document prepared by the World Bank and the European Commission specifically for the Regional Funding Conference, the importance of institution building and governance reform is a dominant theme:

“Building large infrastructure without sound policies and institutions for private sector development and social cohesion and inclusion means wasting large amounts of resources without achieving the objective of sustainable economic growth and prosperity for the region.”¹²

A number of the Stability Pact's own documents, including the Investment Compact and the Justice and Home Affairs strategy paper, make a similar point.

However, the Stability Pact mechanism has not been designed in a way which allows it to coordinate international project aid to South Eastern Europe to any significant degree. There is no evidence that the *total* value of aid to the region has increased as a result of the Stability

⁹ Source: World Bank/European Commission, *Note on the Status as at June 30, 2000 of pledges to the March 2000 Regional Funding Conference for South-Eastern Europe*, 13 October 2000.

¹⁰ European Commission, *1991-9 EU Assistance to South-Eastern Europe and Western Balkans*, 24 March 2000.

¹¹ UN Press Release, *Special Representative for Bosnia and Herzegovina briefs Security Council*, 13 June 2000.

¹² World Bank, *The Road to Stability and Prosperity in South Eastern Europe*, March 2000, p. 119.

Pact, or that the portion of assistance which now comes within the auspices of the Stability Pact is more effective as a result.¹³

2. Sectoral Taskforces

The taskforces created within each Working Table are the most active structures within the Stability Pact mechanism. Working Table I has six taskforces (human rights and minorities; good governance; media; education; parliamentary co-operation; gender issues), a steering committee on refugee issues and the Szeged Process which supports democracy in the Federal Republic of Yugoslavia. Working Table III has a sub-table on justice and home affairs, divided into three pillars (fight against crime; justice and police; migration and asylum) and an anti-trafficking taskforce.

The taskforces have designated chairs and are left to develop their own structures and agenda. In some cases, they have focused on sharing information on the progress of QSP projects. In other cases, they have worked on developing regional initiatives, as described in the following section. Some meet regularly, have created web-pages and set up further working groups; others are relatively inactive.

The two most dynamic taskforces (the Education and Youth, and Gender Taskforces) were based on initiatives which already existed before the Stability Pact was created. The Education Taskforce grew out of the *Graz Process*, which had been managed since 1998 by the Austrian NGO *Kulturkontakt*, with strong input from other actors, including the Open Society Institute (OSI) network across the region. It had an established network for information exchange on various issues, ranging from history teaching to vocational training. The taskforce has now created an informative website. Its six working groups attract high-level attendance from the participating countries and organisations. The Taskforce has also been able to respond quickly to calls for projects in the education field, using its existing regional networks.

The Gender Taskforce was based on the existing “Central East European Network for Gender Issues”, a large and well-organised network of women’s initiatives across the region. The network lobbied for inclusion within the Stability Pact structure, even before the Sarajevo Summit. It has been active across the region and has succeeded in raising the profile of gender issues. It has also made strategic partnerships with other institutions, such as the OSCE. The notable feature of these two taskforces is that the Stability Pact was able to draw on a pre-existing, active constituency to drive the process forward.

By contrast, where a taskforce has been created by the Stability Pact without a consensus among the existing actors on the need for a new co-ordination mechanism, the initiative has been less successful. For example, the Council of Europe holds the chair of the Good Governance Taskforce, on the basis of its own extensive programmes in developing local government across Europe. However, international assistance in the area of public administration is too diverse to be tackled in such a forum, and the taskforce is largely inactive. The Parliamentary Co-operation Taskforce, which continues the work of the Royaumont Process, aims to promote exchange and co-operation between parliaments and parliamentarians across the region, without any specific area of focus. As most countries of the region are also members of existing parliamentary networks, such as the OSCE and

¹³ At the same time some governments, particularly Germany, have committed significant sums specifically for Stability Pact projects.

Council of Europe parliamentary assemblies, it is not clear what these additional meetings are intended to achieve. The taskforce on Human Rights and Minorities is just one of many legal and political mechanisms for human rights and minority protection in the region.

The Special Coordinator's Office reports that it is the less active taskforces which require the most support from the Office to keep them functioning, while the more successful taskforces are largely self-sustaining.

3. Stability Pact Regional Initiatives

The Stability Pact has also created a series of 'regional initiatives'. These are intergovernmental and inter-organisational agreements or arrangements designed to promote common action in a variety of fields: the Stability Pact Investment Compact, Anti-Corruption Initiative (SPAI), Anti-Organised Crime Initiative (SPOC), Media Charter, NGO Charter and e-Balkans initiative.

For the most part, the initiatives are organised around a common pattern. In an area considered to be a Stability Pact priority, a 'basic text' is developed among the participating states which outlines the problem or challenge in general terms. The participants agree on a mechanism for 'joint action', typically consisting of an 'action plan' supported by an 'implementation and monitoring mechanism'. A management committee is appointed, and a modest budget to support the process is identified, and in some cases listed as a QSP project. Each of the target countries is expected to designate a special (senior) representative, who is then responsible for defining a national action plan. National progress reports are shared among the regional network in a 'peer review' process, while an international steering group oversees the process.

This model of joint international action is common in Europe and used extensively by the Council of Europe and OECD. Its advantages are that it is quick to establish, inexpensive to operate and, having no legal status, does not require formal ratification.

There are two obvious disadvantages. The first is that, following its initial launch as a media event, the mechanism becomes dependent on the commitment of national representatives, and is prone to losing momentum. If the designated national representative does not have the resources, authority or dynamism to tackle the issue seriously, the initiative will have no impact. The second is that the action plans which result from such a process are extremely general, failing to take into consideration existing national or international initiatives or the diversity of local circumstances. The Investment Compact has produced a useful overview of obstacles to investment across the region.¹⁴ It draws attention to the depth and nature of the economic crisis in different parts of the region. However, compared to the detailed analysis provided by the European Union, the World Bank or even bilateral donors such as USAID, and compared to the leverage these donors have to bring about reform, it is unclear how the network of the Investment Compact can add substantial value beyond what it has already done.

a. Anti-Corruption and Anti-Organised Crime Initiatives

¹⁴ Stability Pact, *A Summary of the Current State of the Investment and Business Environment and Key Policy Reform Priorities in South Eastern Europe*, Paris, July 2000.

The Stability Pact Anti-Corruption Initiative (SPAI) has produced an action plan that lists seven priority actions for the participating states and sets up a peer review mechanism. Four priority actions are of a formal nature: to appoint a Senior Representative for the SPAI; to publicise the text of the Anti-Corruption Compact; to invite the general public to participate in the SPAI; and to provide the SPAI Steering Group with baseline data on budgets to measure future change. Three action points are more substantive: to review national legislation related to transparency in government procurement; to invite experts to review the effectiveness of measures against corruption related to foreign development assistance; and to announce plans to provide meaningful public access to government information in order to expose corruption.¹⁵

Whether these steps are an appropriate starting point for addressing the corruption issue depends entirely upon what anti-corruption programmes are already underway in each country. The fight against corruption has been central to international programs and domestic reform efforts in South Eastern Europe for a long time. Most countries of the region have long published detailed anti-corruption strategies. In Albania, an interagency co-ordination mechanism established after the turmoil in 1997 (the “Friends of Albania“) has consistently focused on this issue. The Council of Europe and the European Union support the Albanian government in fighting corruption and organised crime. The World Bank and USAID are active in institution-building projects which have implicit anti-corruption objectives. In Bosnia, the Office of the High Representative (OHR) developed a detailed anti-corruption strategy, which was the basis for similar programs adopted by Bosnian entity parliaments. In Romania the President established a National Council of Action against Corruption and Organised Crime in January 1997, followed by a Justice Ministry Directive in September 1998 and the creation of a number of special government offices for co-ordinating anti-corruption activities.

There are also a range of international initiatives already in operation. The Council of Europe and the European Commission jointly run a programme called ‘Octopus II’, aimed at helping states in transition fight corruption and organised crime. In addition, a Group of States against Corruption (GRECO) was established to implement Council of Europe conventions on the subject. What is often lacking are effective mechanisms as well as resources to move from strategy to implementation. Multiple co-ordination mechanisms on the same issue may reduce the resources available to the target states to devote to the problem. In Bosnia, the Special Representative to the SPAI has no budget or staff of his own, and is supported in his work by the existing Bosnian delegation to GRECO. This demonstrates that, given the limited institutional capacity of the target states, establishing additional co-ordination mechanisms may simply dilute resources.

A similar problem confronts the Stability Pact Anti-Organised Crime Initiative (SPOC). SPOC’s structure consists of a Regional Steering Board, an Advisory and Contact Group and, in each country, a National High Level Representative, whose first task has been to review the existing information on organised crime. This is intended to lead to “country-specific plans and projects”. Many of the most important international efforts in this field continue to bypass the Stability Pact, including the recent European Union initiative launched by British Prime Minister Tony Blair to help countries fight trafficking through seconding multinational

¹⁵ During a visit to Montenegro in December 2000 by members of the SPAI Steering Group, the Montenegrin SPAI Senior Representative noted that the government is “preparing a new Law on Public Procurement”, that international aid is “very well-managed and controlled” and that those who sought meaningful public access to “expose effectively corrupt activity” could visit the government website. SPAI Peer Review, 18-19 December 2000.

teams of EU experts. In Vlora (Albania), Greece, Italy and Germany are funding a co-ordination centre to fight trafficking in human beings. In Bucharest, a Regional Crime Centre for Combatting Transborder Crime was launched in February 2000.

b. Anti-Trafficking Taskforce Initiative

Human trafficking is now recognised as one of Europe's most acute social problems and perhaps the fastest growing criminal activity in the region. It is estimated that more than 175.000 women are trafficked via South Eastern Europe every year.¹⁶

The Stability Pact has launched a regional initiative on the issue. A taskforce under the Justice and Home Affairs Sub-Table was inaugurated in Vienna in September 2000. In December 2000 states signed an "Anti-Trafficking Declaration".¹⁷ Its aim is to co-ordinate existing efforts to combat human trafficking in the region and to offer political and fundraising support to the organisations, governments and NGOs already active in the area.

The taskforce is headed by the OSCE's Office of Democratic Initiatives and Human Rights (ODIHR) and will meet twice yearly, with support from a Preparatory Committee which is to meet quarterly. The target states have agreed to nominate national co-ordinators and to develop National Action Plans to combat trafficking. The taskforce has no budget of its own. The chair and one assistant are provided by ODIHR, and additional funds have to be raised to cover the costs of meetings and events.

An Action Plan developed by the taskforce has identified seven areas for urgent action, and a co-ordinator has been appointed for each: awareness raising (UNICEF); training and exchange programs (International Centre for Migration Policy Development); law enforcement co-operation (Southeast European Co-operation Initiative); victim protection programs (International Catholic Migration Committee); return and reintegration assistance (International Organization for Migration); legislative reform (Council of Europe); and preventing social and economic causes of trafficking (Office of the High Commissioner for Human Rights). Each co-ordinating institution is responsible for developing and fund-raising for projects in its area of responsibility.

Already, however, participants in the taskforce have expressed reservations about this structure. The division of responsibilities is somewhat artificial, and does not always reflect the expertise or resources of the organisations involved. For example, although under the taskforce structure IOM is responsible only for repatriation activities, in practice it is also one of the most significant actors in police training, and will continue fundraising for training programmes outside the taskforce mechanism. Another concern is that planned activities are too general in nature, failing to take into consideration the political context and particular institutional problems in each country. A third is that the taskforce does not have the staff or expertise to assist established organisations in fundraising. It risks duplicating existing informal, flexible arrangements among the principal actors.

¹⁶ Jeffrey Smith, Washington Post, 25 July 2000.

¹⁷ Stability Pact Office, Press Release, 13 December 2000.

D. CONCLUDING THE FIRST PHASE

The Stability Pact was successfully launched at the highest level in Sarajevo. It has helped to send a strong signal of support to democratic forces in Serbia. It has also helped in the creation of a number of regional networks and supported some valuable on-going efforts, such as in the education and gender fields. In addition, it has spurred the creation of a number of regional initiatives in strategic areas.

With the implementation of the QSP and the entry in the Stability Pact of the Federal Republic of Yugoslavia, the pioneer phase of the Pact has come to an end. Most of the existing Stability Pact activities were a response to urgent political needs of the moment, and can now be brought to a conclusion. The Stability Pact is clearly not designed to be a mechanism for donor co-ordination on a long-term basis, and having focused attention on the region through the Quick Start Package, the Office should now refocus its efforts on a narrower range of strategic initiatives. The rest of this paper explores where opportunities for effective action by the Stability Pact arise. This involves an understanding of the nature of the current challenges to democratic stability and human security in South Eastern Europe (Chapter III). It calls for a new democratisation agenda and innovative ways how to operationalise the promises of Europeanisation and regional co-operation in today's South Eastern Europe (Chapters IV–VI).

III. CONTEXT: THE WEAKNESS OF STATE INSTITUTIONS

A new consensus is emerging among both regional and international actors that the most fundamental obstacle to the advance of democracy and security in South Eastern Europe is the lack of effective and accountable state institutions. Strengthening domestic institutions is increasingly viewed as the key priority across the diverse sectors of international assistance, as relevant to human rights and social inclusion as it is to economic development and democratisation. Without reforming and reinventing the state in South Eastern Europe, neither closer integration with Europe nor integration within the region itself will yield significant benefits.

The World Bank concluded in its regional strategy paper that stronger institutions and good governance are required to create an environment favourable to political stability and sustainable economic growth:

“Much of economic development, social inclusion and regional stability in South Eastern Europe will depend on strengthening of institutions, governance and a lowering of the level of corruption. Gradual integration with European and global structures will also require significantly more mature institutional structures... Cross-country evidence shows that South Eastern Europe has very weak institutions and governance.”¹⁸

While the need for improved governance is common to the region, the underlying causes of institutional weakness in different countries are extremely diverse. At one end of the spectrum are Bosnia-Herzegovina and Kosovo which have experienced the collapse of most governance structures as a result of war, and Albania, which collapsed as a result of internal turmoil in 1997. At the other end is Bulgaria, which is advancing within the European Union accession process and where a relatively strong policy consensus has led to considerable progress in adopting key elements of the *acquis communautaire*. However, Bulgaria and Romania, the second official candidate for European Union membership in the region, are suffering from low budgetary and executive capacity to carry out the required institutional reforms. International strategies for strengthening the state in South Eastern Europe must begin from this tremendous diversity of national situations, which naturally limits the scope for regional strategies. As the World Bank put it, the need is “for a country-specific approach that should be complemented by regional initiatives.”¹⁹

These two propositions – that South Eastern Europe is characterised by the weakness of its public institutions, and that the nature of the problem is unique to each state – can be observed by comparing the condition of the central administration in the different states of the region. At one extreme, the international mission, which entered Kosovo following the sudden withdrawal of the FRY authorities, encountered a complete vacuum of public institutions. There is still no permanent central administration in Kosovo, and international organisations have assumed basic governance tasks, as well as the role of building up local institutional structures.

Weak central institutions may result in real political power being wielded outside the proper constitutional structure. In Bosnia, the constitutional structures created by the Dayton and Washington Agreements incorporated very few existing institutions. In the first phase of the Bosnian peace process, political power was exercised largely through three parallel, extra-

¹⁸ World Bank, *The Road to Stability and Prosperity in South Eastern Europe*, p. 3.

¹⁹ *Ibid.*, p. 75.

constitutional structures, corresponding to the territory controlled by the three armies. These para-states had their own revenues and budgets, courts and police forces, military and intelligence services, public utilities and economic spaces, leaving the state of Bosnia and Herzegovina a largely nominal creation. Only once these parallel structures began to disintegrate was it possible to set about creating meaningful state institutions.

The new government in Belgrade has inherited an administration shaped by a decade of authoritarian rule, with a huge surplus of state employees but a dearth of competent administrators to devise and carry out the necessary reforms. One Serbian analyst has used the image of a dinosaur, with a very thin layer of leaders from the new governing coalition as the small and active head, struggling to mobilise the body of a largely inert bureaucracy. A particular problem faced by Serbia is the duplication of institutions and functions between the Serbian and FRY governments, exacerbated by the unresolved status of Montenegro and Kosovo.

In Romania, public administration reform was largely neglected until 1999, contributing to the low capacity of the state. Without an effective central administration, successive governments have been unable to implement reform initiatives. In 1996 the Romanian police chief resigned due to his inability to tackle organised crime. Four years later President Emil Constantinescu explained in a televised speech in July 2000 his decision not to stand for any public office again by saying that he had failed in his attempts to fight a mafia-type system of “official corruption, with links to high-ranking state institutions”. Support for the extremist Corneliu Vadim Tudor, who emerged from elections at the end of 2000 as the most important opposition figure in the Romanian parliament, has had less to do with his populist rhetoric and xenophobia than with his successful campaign indicting the government’s inability to stem corruption and crime.

The condition of law enforcement agencies across the region provide another illustration of the range of sources of institutional weakness. In Bosnia-Herzegovina, nearly 2,000 international UN police monitors have been involved for several years supervising the work of local police, screening police officers for their war record, integrating ethnically segregated forces and more recently establishing a state border service. The police monitors played a key peace implementation role in preventing the nationalist leaders from using police forces for political purposes or to harass ethnic minorities. However, the police forces are also severely constrained by the budgetary weakness of Bosnia’s two Entities, and unpaid salaries and poor equipment continuing to undermine the effectiveness of the police. There is a real question as to whether Bosnia can afford as basic an institution as a border police without important changes to its system of undeveloped fiscal federalism.

In Kosovo, the Military Technical Agreement ending NATO’s bombing campaign resulted in the withdrawal not only of the Yugoslav military forces, but of the entire police and public order apparatus. As a result, the international community has taken on an executive policing role, by the UNMIK Police in some fields and by KFOR troops and military police in others. By June 2001, 4,000 local recruits to a Kosovo Police Service will have undergone training for basic police duties, but training programmes developing further policing skills, such as criminal investigation, traffic accident investigation, narcotics identification, organised crime investigation and forensic support are still under development. While training programmes can build individual competence, police administrative and operational structures cannot be established until such time as the UN permits a transfer of authority to local authorities.

The problem in Serbia is one of accountability of the law enforcement agencies built up during a decade of war and international isolation. Over the course of Milosevic's rule, the Serbian police grew from 14,000 to an estimated 80,000 officers and is notoriously unaccountable and corrupt, with close links to organised crime. A recent incident in which it was discovered that the security services had stored a large quantity of heroin in a safety deposit box in a commercial bank in Belgrade shows just how dangerous these institutions have become.

In Montenegro, following the split between the Djukanovic government and the Milosevic regime from 1997, police forces have been militarised so as to create a defensive capability. The Ministry of Interior does not release figures on police numbers, but estimates range between 12,000 and 15,000, up from 2,000 in 1997. There is little parliamentary oversight of the state security apparatus, and the build-up of the police is a major financial drain on the Montenegrin state. While the Ministry of Interior was allocated a budget of DM 49 million for 2000, by November DM 70.5 million had already been spent on public order and security, comprising 17.2 percent of total budgetary expenditure in the same period.²⁰

Albania is different again. The country has experienced a general breakdown of law and order on three occasions, most dramatically in 1997 after the collapse of the infamous pyramid investment schemes. The ensuing popular riots left the country with destroyed institutions, a profound lack of order and security, criminal gangs and an armed civilian population. Since 1991, the Ministry of Public Order in Albania has made several attempts to reform the police forces, but before mid-1997 it received no significant international assistance. Since then, the MAPE mission of the Western European Union, the American ICITAP programme²¹ and the Italian INTERFORCE have been active in assisting the reform and training of Albanian police. Progress has been slow, in large part because of a police turn-over rate of 73 percent over the past three years. In Bulgaria, by contrast, the government has been relatively successful since 1996 in tackling organised crime. The main deficiencies identified in a recent EU Commission report on Bulgaria relate to the need to update legislation on issues such as child pornography, personal data protection and computer crime.²²

Given the problems experienced by public institutions across South Eastern Europe, it is not surprising that the region as a whole suffers from a deficit in security and democratic governance. Without a solid institutional framework for the exercise of public power, free and fair elections will not lead to representative or accountable government. Without strong institutions to implement the rule of law, there is little prospect that states will provide effective protection of human and minority rights, whatever laws they adopt or international conventions they accede to. A team of leading experts from the region engaged by the United Nations Development Program to analyse threats to human security, a term indicating the minimum economic, physical and social needs of citizens, concluded that:

“At present SEE faces a proliferation of protectorates and ‘weak states’ - states that are unable or unwilling to create and enforce rules in a democratic context. In particular they are unable to maintain the rule of law. In at least three cases, Kosovo, Albania and Bosnia and Herzegovina, the major security provider is not

²⁰ CEPS/ ISSP, *Montenegro Economic Trends – Monet*, No. 4, January 2001, p. 28.

²¹ International Criminal Investigative Training Assistance Program of the US Department of Justice.

²² EU Commission, *1999 Regular Report from the Commission on Bulgaria's Progress towards Accession*.

the national state but the international community... Weak states are the major source of political, economic, social and cultural insecurity.”²³

States which are unable to offer basic human security will suffer from a lack of ‘performance legitimacy’. Unable to meet public expectations, they also fail to win popular loyalty. This may manifest itself in disenchantment with the democratic process, distrust of courts and other public bodies, high rates of emigration, tax avoidance, and the flourishing of corruption and the grey economy, which are indicative of individuals pursuing survival strategies outside the legal and institutional framework of the state. These conditions may also lead to the emergence of ‘uncivil society’, in the form of organised crime or undemocratic opposition.

Over the past decade, a number of countries of South Eastern Europe have suffered from violent ethnic conflicts which have been a source of instability and enormous human suffering. The argument is sometimes made that the origin of instability in the Balkans is its complex historical and ethnic composition. The evidence suggests, however, that it is in fact the weakness and instability of the state that creates the conditions in which ethnic conflict is likely to emerge.

Where the state lacks the capacity to deliver an adequate level of public services, is unable to resolve persistent economic and social problems, and lacks the ability to maintain effective law and order in the face of challenges to its authority, both the incentives and the opportunities are present for ‘uncivil society’ to emerge: associations and institutional forms which act against the state and the well-being of its citizenry. This is most dangerous when it takes the form of ethnic mobilisation, when ‘conflict entrepreneurs’ acting in their own interests are able to exploit the insecurity of citizens who feel excluded from the state, giving them a nationalist ideological basis for their grievances. A preventive strategy towards ethnic conflict would be one which addresses the willingness and capacity of states to deliver an adequate level of human security to all their citizens, irrespective of ethnicity.

IV. AN AGENDA FOR DEMOCRATISATION

At the time the Stability Pact was created, removing Yugoslav president Slobodan Milosevic from power was an overwhelming priority for international democratisation efforts in the region. Although regular elections had been held in Serbia and the Federal Republic of Yugoslavia since 1990, there had not been a democratic transfer of power at either level. With Milosevic’s electoral defeat in September 2000, all countries of the region have now experienced a transfer of power by democratic means. There is no longer any significant ideological opposition to democracy and economic liberalisation, and all governments talk the language of reform and Europeanisation.

However, South Eastern Europe remains in a state of exhaustion and economic dislocation. The analysis of the weak state phenomenon shows that there is a tremendous range of localised obstacles to lasting democratic change, from the vacuum of state authority in Albania, Bosnia and Kosovo, to governments which struggle to build institutions to meet the growing expectations of the public. In the face of these very concrete problems, there is a need for a new democratisation agenda, where the starting point is not an ideal notion of democracy, but the specific obstacles to democracy encountered in the different countries of South Eastern Europe.

²³ UNDP, *Human Security in South-East Europe*, 1999, p. 10.

A. CONSTITUTIONAL DILEMMAS

Democracy is unlikely to be stable where basic state architecture remains a matter of dispute. Even after Milosevic, the vacuum of authority caused by disputes over basic constitutional structures remains a continuing source of instability. This problem is most acute in the case of Kosovo today, but also affects the relationship between Serbia and Montenegro (and thus the future of the Federal Republic of Yugoslavia). As long as these basic state architecture questions remain unresolved, little progress can be made at addressing the wider institutional problems. As the World Bank noted in a recent report on Kosovo, “It is surely the case that as yet there is no light at the end of the tunnel – constitutional or economic... Sustainable patterns of public spending and public institutions will only be determined when the constitutional and economic frameworks are clearly defined”.²⁴

A comprehensive democratisation agenda must also address the proper role of international actors within the domestic political systems of Bosnia and Kosovo, where the leading international civilian officials have the power to rule by decree, making them a pivotal part of the ‘real constitution’. The reasons why an international civilian presence with ‘protectorate type’ powers is needed in both Bosnia and Kosovo are related both to the weakness of domestic institutions and to legitimate concerns about security. However, as long as international agencies play a determining role in the political life of either place, the agenda for democratising the Balkans has not been completed.

It is difficult to discuss regional strategies for democratisation and security without noting that the unresolved status of Kosovo is one of the principal sources of regional instability. The Stability Pact Charter declares: “A settlement of the Kosovo conflict is critical to our ability to reach fully the objectives of the Stability Pact and to work towards permanent, long-term measures for a future of peace and inter-ethnic harmony without fear of the resurgence of war”. The final settlement was delayed in the hope that a change of regime in Belgrade might make it easier to resolve. This has not been the case.

A different, although related, question is the future of the Federal Republic of Yugoslavia. For the time being, the federation is a largely nominal creation, with few remaining institutional ties between Montenegro and Serbia. For various reasons, the dynamics within Montenegro pushing towards separation have only intensified since the fall of Milosevic. The political agenda within Montenegro is entirely dominated by this question, and serious reform of its institutions is unlikely until its constitutional status is clear. In Belgrade the split between two levels of government with an unclear distribution of competencies is hampering both constitutional reform and institutional restructuring. It is clear that there will be costs to both Republics if the question remains unresolved for an extended period.

Bosnia is the other location where the state architecture, although established at Dayton, has not been fully elaborated internally, and remains subject to challenge. The priority in Bosnia is to achieve a lasting constitutional settlement which binds the former warring parties together. Following political changes in Serbia and Croatia, there is now a chance to achieve agreement on a state structure with sufficient central institutions to maintain a common market and allow for progressive integration with European and international structures. Using international protectorate powers is legitimate in order to dismantle extra-constitutional

²⁴ World Bank, *Kosovo, FRY – Economic and Social Reforms for Peace and Reconciliation*, 1 February, 2001, p. 10.

power structures and create a core of functioning institutions. However, in so far as international rule substitutes for domestic governance, it can be counter-productive. Overall, the weakness of institutions remains the most serious threat to a stable and democratic Bosnia.

B. PUBLIC ADMINISTRATION AND HIGH-INTENSITY INSTITUTION BUILDING

No matter how sound the electoral process, governance in a weak institutional environment is unlikely to lead to a healthy democracy. The first phase of democratisation in South Eastern Europe – the creation of mechanisms for the transfer of power through free and fair elections – is now complete throughout the region, with the exception of Kosovo. The next phase, the creation of an institutional framework for accountable and effective governance in the public interest, still has a long way to go.

Although the importance of state building is widely recognised among observers of the region, international assistance to South Eastern Europe at the level of public institutions has been weak. Until now it has represented a minor component of existing international aid to the region. Donors have a preference for building physical infrastructure, where they are guaranteed a definite return on their investment. Second, international techniques for supporting institution building remain poorly developed.

The challenges involved are huge. Institutional reform is an area of considerable technical complexity, and must be adapted to local circumstances. In many of the countries of the region, even the most basic information (census, statistics) are unreliable, and the real mechanisms of power notoriously non-transparent. This is magnified by the difficulty of carrying out reforms in an unstable political environment, where change is likely to encounter resistance from vested interests. As a result, both the end goals and the optimal strategy for achieving them often emerge only during the course of the assistance programme.

Traditional democratisation strategy works by identifying deficiencies in existing institutional arrangements and offering international expertise – usually in the form of training programmes and technical assistance – to bring the institutions of target countries closer to Western models. Much institution-building assistance consists of isolated programmes with modest goals and short time scales. Programmes of this kind encounter a range of problems: training courses may fail to address problems of incentives, transfers of equipment and technical expertise are not used effectively by entrenched elites, and reform blueprints produce little change in the actual functioning of institutions. There is an over-reliance on seminars and conferences as a means of transmitting information and skills. There is insufficient evaluation of the impact of most classical democratisation activities, particularly in the area of public administration. The traditional piecemeal approach does not generate the critical mass required to overcome the major structural problems found in many South East European states.

A credible agenda for addressing the weakness of institutions in South Eastern Europe therefore needs to start with careful attention to the way assistance is delivered. The past five years of democratisation assistance to South Eastern Europe, particularly in Bosnia where so many of its resources have been concentrated for five years, offer some important lessons on how to build institutions in a weak state environment.

The weaker the institutional environment, the greater the attention that needs to be given to the basic institutional structures of the state: the design of the central government ministries and agencies; the creation of a professional civil service; finding adequate budgetary resources for institutional needs; and securing the independence of institutions from the political process where appropriate. Where these elements are not in place, moving straight into technical assistance and the training of staff in specific vertical areas of institutional responsibility is not likely to bring lasting results.

Strengthening central administrative organs, which are the government's primary tool for implementing policy and effecting change, must be a clear priority. As one study of administrative reform in Romania concluded:

“A well structured central administration may or may not produce good results, depending on other factors like the quality of leadership, the expertise available, motivation, resources. But a poorly structured central administration is sure to yield poor results, becoming itself a source of confusion and institutional noise. In such an environment it is more likely to have unclear assignment of responsibilities and overlapping, rivalries and captive agencies.”

In Romania in recent years, there has been a merry-go-round of government bodies responsible for economic regulation, including Privatisation and Development Agencies and Ministries of Reform, Privatisation, Economic Co-ordination and Industry (with and without trade, which was recently transferred to the Ministry of Foreign Affairs), all of which have had overlapping responsibilities with the Prime Ministers, the Finance Ministry and the State Ownership Fund (a quasi-ministry responsible for privatisation). The instability of the co-ordinating mechanisms has contributed to the delay of economic reform over the past decade. In 1999, Romania belatedly adopted a civil service law designed to insulate professional civil servants from political interference, which was one of the conditions attached to the EU accession process. However, after elections in 2000 and a change of government, the ministries were expanded and reorganised, and many civil servants were in fact replaced.

In weak states, governments attempting to reform central administrative organs are likely to encounter an “agency problem”. To overcome resistance from entrenched interests and inert bureaucratic structures, institutional reform must be well managed and resourced. States that lack the institutional capacity to implement credible reform initiatives are likely to find themselves caught in a cycle of failed reform efforts.

In Montenegro, government administrative reforms have been unsuccessful in part because of the design of the reform process. Shortly after taking office in 1998, the Montenegrin government established a Council for Reform of the Judiciary, Public Administration and Local Government, composed of eleven ministers and headed by the Minister of Justice. A government strategy document identified the goal as adapting the institutions to European standards and the needs of an emerging market economy. It specified three elements of the process: needs assessment and legislative reform; education and training; and technical solutions (principally computerisation). With a total of 63 staff, all of whom have other responsibilities, the Ministry of Justice was severely limited in the resources it could devote to the task. The Minister himself was preoccupied with his regular portfolio and his responsibilities within the government and political process. Two quasi-independent bodies, a Judicial Training Institute and an Institute for Public Administration, Judiciary and Local Government, were established to provide expert input, but being understaffed and underfunded, they have not played any significant role. Various expert teams have focused almost

exclusively on legislative reform, to the exclusion of institutional matters. The question of financial planning has not been properly addressed, either in terms of identifying the costs and revenue sources for new institutional structures, or in funding the process of change itself. In such a situation, the best strategy for international assistance is not to offer isolated training or technical assistance projects at particular institutional locations, but to support the development of a more credible reform strategy within the government.

The weaker the surrounding institutional environment and the domestic agents, the greater the intensity which is required of international assistance to make an impact. **Low-intensity programmes** are those where assistance is given from a distance, such as donated equipment, isolated and generic training programmes, short-term consultancies or study trips abroad. A high proportion of international institution-building assistance uses such techniques, whose value depends on the use to which they are put by the domestic institution. Where the institution is unstable, severely under-resourced or subject to political manipulation, low-intensity assistance may deliver isolated benefits, but does not necessarily lead to lasting reform. **High-intensity programmes** are those where the aid provider becomes sufficiently engaged with the domestic institutions to identify the specific obstacles to reform, and to develop solutions adapted to the local circumstances. These forms of assistance are resource-intensive and require detailed knowledge both of the recipient country and of the particular sector of reform.

Because of the concentration of international resources available, the peace mission in Bosnia-Herzegovina has enabled experimentation with the kind of high-intensity methods which are necessary to make headway in a state with an acute governance problem. One of the most significant examples has been the European Union Customs and Fiscal Assistance Office (CAFAO) programme. Involving some thirty European Union experts since 1996, it has been a relatively expensive programme at some 40 million Euro. Such an investment was justified because of the importance of customs to the viability of the state. In 1996, Bosnia had no customs service, depriving the state of revenue and allowing smuggling to become a major revenue source for organised crime.

The methodology of CAFAO involved the long-term secondment of European customs and tax experts on the ground in Bosnia, to develop a modular multi-annual program of institution building. It proceeded from intensive studies of the different institutions (tax administration, customs administration, financial police), included support to the drafting of laws, equipment and training, support for creating better management structures within the customs and tax fields, the development of Bosnia-wide computer databases and joint investigations.

Working jointly with the responsible domestic institutions to identify specific problems and solutions helped to build domestic constituencies in favour of reform. CAFAO might be described as an enhanced version of the **'twinning' methodology** used by the European Commission in accession countries in Central and Eastern Europe. Twinning involves the secondment of experts from EU member states to work in the equivalent institutions in the candidate country for periods of a year or more, to help with the technical development and institutional reform required for the implementation of the *acquis*. The strength of the twinning method is that it identifies the right sectoral expertise in Western Europe, and applies it in the institutional context in the recipient country where it is needed. However, individual 'accession advisers' operating in isolation, largely uninformed of the local political environment and lacking support from a wider political process will struggle to make much impact in the weaker states of South Eastern Europe. CAFAO might be described as a

‘twinning plus’ method, where a greater concentration of resources is mobilised to address more fundamental problems.

C. CIVIL SOCIETY AND THE DEMOCRATIC PROCESS

International assistance is only effective where it supports credible domestic reform efforts emerging from the local political process. In all states of the region, there is a need for a constant effort to nurture and strengthen the policy consensus behind reforms, stressing the benefits, fostering realistic expectations and, wherever reforms involve short-term costs, explaining the rationale. As the World Bank noted, “Information is essential for interested parties within and outside government to reach consensus about the nature of a governance problem and agreement over how to measure improvements.”²⁵ Where this public consensus collapses, a political opportunity will be created for anti-reform parties, including intolerant nationalists, to challenge the Europeanisation project.

Civil society plays a key role in building popular support for reforms, through creating a vibrant and participatory policy process. It does so in a number of ways: contributing to policy development; helping governments adapt general objectives to local conditions; informing the general public about policy objectives and particular reforms; and advocating on behalf of different sectional interests to ensure that their needs are considered. The broader the debate, the wider the market place of ideas, the more likely it is that reforms will not only be attempted but successfully implemented.

International donors can help foster a broader public debate on policy choices in the region, and thus increase the accountability of elected officials. One example has been the assistance offered to the independent research and policy community in South Eastern European states. International support has enabled Bulgaria to develop an influential group of independent think-tanks, which have contributed to maintaining a strong policy consensus in support of reform and Europeanisation. A group of eight policy institutes, with a combined budget of more than \$6 million in 1999, have assisted governments in many aspects of the transition process. As a community of institutions, they are both competitive and co-operative. They have helped make up for the shortfall in research and policy development capacity in public institutions, universities and political parties in the early phase of the transition. As the quality of in-house advice available to the Bulgarian administration has improved, their role has shifted towards influencing the general public, networking with other regional and international institutions, and preparing policy advice in more specialised areas, in particular in the field of Bulgaria’s relations to the European Union.

The development of the policy process is dynamic, and donors have to determine in each country where the opportunities for effective support arise. In Serbia, the new DOS government may be receptive to policy support from independent institutes, which may also provide a means of attracting qualified nationals from the diaspora to return and support the reform process. In Bulgaria and other states where the policy process becomes more sophisticated, new priorities will emerge – such as parliamentary research institutes to increase the accountability of government, or training of media to produce more informed reporting on the Europeanisation process.

²⁵ World Bank, *The Road to Stability and Prosperity in South Eastern Europe*, March 2000, p. 107.

V. REGIONAL STRATEGIES FOR SOUTH EASTERN EUROPE

A. PERCEPTIONS OF REGIONALISM

A central conviction behind the Stability Pact concept was that many of the problems of South Eastern Europe cannot be resolved on a national basis or through bilateral aid. The efforts of each country individually to reach the standards required for European integration are constrained by problems of a regional nature. Co-operation between states in improving security and political stability across the region and pursuing common objectives would help boost the efforts of individual states to integrate with Europe. Furthermore, the greater the economic and social ties between the states of the region and the greater the level of communication and co-operation between their governments, the lower the chance of a return to conflict.

This belief in the value of regional co-operation was central to the decision to establish the Stability Pact as an independent structure, separate from the existing framework for European integration. In the Stability Pact charter, the countries of the region pledged to work together on “bilateral and regional co-operation amongst themselves to advance their integration, on an individual basis, into Euro-Atlantic structures.”

However, the form of regional integration or co-operation called for by the Stability Pact has never been defined. It has been left largely to the Special Co-ordinator’s Office to identify the opportunities for regional co-operation. This has proved difficult to do, in part because of the tremendous range of issues which it is called upon to address, and in part because of different meanings of ‘regionalism’ among the states of the region.

In fact, “the Balkans” is a label applied largely by outsiders. Internally, the region is extremely diverse, and has a limited conception of its own regional identity. Although there is no shortage of inter-governmental contacts across the region, there is minimal integration between the national economies. Historically, a number of countries of the region have sought to disassociate themselves from their ‘Balkan’ neighbours, in order to strengthen their claim for integration with Europe.

Regionalism, when promoted in a general fashion as a goal in itself, can appear to contradict the notion of European integration. EU accession is fundamentally a state-centred, bilateral process. The massive reform programmes required for accession are focused on national regulatory and administrative capacity. For this reason, the EU has created an accession framework which “allows each country to move at its own pace”, admitting states as and when they are able to participate in the benefits of membership. Bilateral conditionality is the essential basis of European integration, and has been replicated in the Stabilisation and Association Process.²⁶

The states of South Eastern Europe with the best accession prospects are concerned that an undifferentiated regionalism would detract from the promise of Europeanisation. They fear that Europe may adopt a ‘lowest common denominator’ approach to the region, treating its states with a false equivalence. Croatian President Mesic has stressed that the process of Europeanisation is “a regatta, not a caravan”, in which each state moves forward at its own pace. Likewise, Bulgaria as the region’s most advanced accession candidate has been increasingly wary of the Stability Pact notion of regionalism. Paradoxically, in the past

²⁶ The Stabilisation and Association Process (SAP) is the European Union’s main contribution to the Stability Pact and the operative element in helping the individual countries into the accession process.

Bulgaria has been an active proponent of inter-governmental links in the region, pursuing a policy of promoting “European patterns of behaviour... so as to accelerate incorporation of our area into the EU and NATO”.²⁷

B. COMMON PROBLEMS AND REGIONAL PROBLEMS

In identifying the opportunities for building regional co-operation, one important concept is the distinction between issues which are common to some or all of the states of the region, but are essentially national in nature, and those which are genuinely regional. Many of the objectives listed in the Stability Pact belong to the former category: democratisation (electoral processes, rule of law, human rights, independent media, civil society), protection of minorities, economic reform (macro-economic stabilisation, trade liberalisation, foreign investment, commercial regulatory regimes, capital markets, privatisation), the fight against corruption and a wide range of particular institution-building goals (parliaments, police, judiciary, customs and border services, local government). While these objectives are common to the states of the region, the solution lies in strengthening domestic institutions, a process which must inevitably be carried out by each state individually.

The scope for addressing common problems such as these through regional initiatives is necessarily limited. The Stability Pact has taken two approaches. One is to develop fora for the exchange of information, expertise and best practice, designed to support and enhance national efforts. The value of this approach depends on the particular context of and obstacles to institutional reform vary considerably in different countries. Croatia and Albania, for example, both have a pressing need to tighten control of their borders through building up their border services and customs authorities. However, in Croatia the political context is set by the complex question of relations between Croatia and the Bosnian Croat community; whereas in Albania, the instability of the central administration and the weak rule of law make the challenge a very different one. In such cases, the value of exchanging information is limited, and pertinent international experience may just as likely come from outside the region as from within.

The second approach is to encourage international donors to prefer multi-country or regional assistance projects over bilateral ones. In the Annex to the Stability Pact Cologne charter, one of the objectives of the Regional Table is “the identification of projects aimed at facilitating the achievement of arrangements, agreements and measures in conformity with the objectives of the Pact. Special attention is to be given to projects which involve two and more countries in the region.”

In practice, regional projects in the field of democratisation, human rights and strengthening the rule of law usually take the form of regional conferences, seminars and roundtables, whether for public officials or NGO activists. The value of these kinds of initiatives is difficult to measure, but it is clear that they can only be supplementary to more intensive approaches to reform at the national level, of the type identified in chapter III. At its worst, promoting a regional approach to common problems may encourage donors to adopt an artificially standardised, ‘template’ approach to national reforms, promoting common initiatives in different countries without properly identifying differences in needs and context. Certainly, from a donor’s perspective, regional approaches to programme aid do not offer economies of scale in promoting democracy in the region. In short, the weakness of states –

²⁷ Nadejda Mihajlova, *Priorities in Bulgarian Foreign Policy*, Thesis, 1:3, Autumn 1997, p. 17.

which we have identified as the primary obstacles to democratisation in South Eastern Europe – is a common problem, but not a regional one.

Regional problems in the stronger sense of the word are those which require collective action by some or all the states of the region, in order to overcome problems or achieve benefits which could not be attained by individual states acting in isolation. There are of course numerous examples of regional problems in South Eastern Europe. Obvious candidates include organised crime, narcotics smuggling, human trafficking and other trans-border problems of growing proportions which are increasingly beyond the reach of any single state in the region to address. Other regional problems are the status question in Kosovo; the linkages between Serbia, Croatia and the peace process in Bosnia; the status of minority communities, particularly those whose ‘home state’ is in neighbouring countries; unresolved ownership questions in regional infrastructure; and return of refugees and displaced persons.

C. INCENTIVES FOR REGIONAL CO-OPERATION

For regional co-operation to be meaningful, it must be based on genuine incentives, arising from the security and material interests of the countries of the region. In schemes to liberalise trade or connect the countries of South Eastern Europe via transport infrastructure, the incentives and benefits cannot simply be assumed.

One of the conditions for opening negotiations on a Stabilisation and Association Agreement is that the state must enhance co-operation with other South Eastern European countries and conclude free-trade agreements with its neighbours. While free trade is undoubtedly beneficial, the evidence suggest that its potential to drive wider social, political or even economic change in South Eastern Europe is limited. Existing intra-regional trade is minimal. For all countries of the region, trade with the European Union is far more significant. While there are variations within the region, on average only 11 percent of imports originate from other South East European countries (including Slovenia), and less than 13 percent of exports stay within the region. Using aggregate figures, South East European countries trade nearly five times more with the EU than with each other.²⁸ The World Bank in its regional strategy document also points to the similar structure of national economies across the region, “leaving less room for obvious increased trade opportunities based on structural complementarities... The size of the economies and markets involved suggests that the stimulus would be far smaller than the stimulus provided by closer integration with the EU and should not be seen as an alternative to EU integration”.²⁹

The principal approach to regionalism within the Stability Pact itself has been the development of regional infrastructure through international investment. Within the Quick Start Package, infrastructure development accounts for 75 percent of total investments, the majority in road building and transport construction. Improved infrastructure, and particularly developing European transport corridors across South Eastern Europe, is thought to assist both with regional integration and enhanced trade with the European Union.

Infrastructure investment alone, however, does not create strong ties within the region. The experience of the priority reconstruction programme in Bosnia after the signing of the Dayton Agreement is instructive. The World Bank and the European Commission co-ordinated a multi-year, US\$5.1 billion investment in the reconstruction of Bosnia. The priority of

²⁸ World Bank, *The Road to Stability and Prosperity in South Eastern Europe*, March 2000, p. 56.

²⁹ *Ibid.*, p. 53.

international donors was to disburse funds as rapidly as possible, in response to the urgent humanitarian needs of the population. As a result, donors and implementation agencies paid little attention to political or institutional questions, simply working with whatever local structures they found in place. In practice, this meant channelling large amounts of money through local power structures that were opposed to the goals of building a functioning Bosnian state and implementing the Dayton Peace Agreement.

In operational terms, the reconstruction programme achieved extremely impressive results. By May 1999, 1,300 kilometres of roads were repaired, 22 bridges were reconstructed, the rail track was almost completely restored and electricity generation had reached 78 percent of pre-war capacity. However, the problems caused by the neglect of the institutional environment soon began to emerge. With no central road administration responsible for maintenance, roads undamaged during the war have begun to degrade, and those fixed with international funds already require further repairs. Rail traffic remains low, due not to technical deficiencies but to lack of central planning or co-operation between the entities. In the energy sector electric power exchange between the three segregated power companies remains limited, and there are no high-voltage links between the entities. The ownership of major facilities such as the hydro-electric power stations in the Federation remains unresolved.

In these circumstances, the enormous international investment in the repair of war damage in Bosnia brought little return in terms of integration of the country. Instead, funding channelled through separate political or institutional structures helped to preserve the *status quo*. Only recently, when the international community began to pay attention to institutional questions, did infrastructure investment begin to contribute to a broader integration and security agenda. The World Bank's Third Electric Power Reconstruction Project (QSP Infrastructure Project no. 2502) at a total projected cost of US\$225 million has been made conditional on the two Bosnian entities accepting the authority of state-level regulators in the energy field, laying the foundation for a genuine common market.

The experience of the European Coal and Steel Community, which served as the vehicle for functional integration in the post-war Europe of the 1950s, illustrates how economic forces and material incentives can be used to overcome political divisions. Jean Monnet's original concept was to use functional integration in two highly strategic industries to make further conflict between France and Germany impossible. To realise the integration potential, restrictive state practices were eliminated, and members of the European Coal and Steel Community were given unrestricted access to each other's markets. By pooling sovereignty in two key industries, Western Europe established the process leading to today's European Union. Once the economic benefits of the Community became apparent, the awkwardness of singling out just two sectors led governments to broaden the co-operative arrangements.³⁰

Jean Monnet's insight was to "concentrate all available power at a specific point in a narrow sector, then break through and spread out behind the lines", a tactic which has succeeded in changing the very notion of sovereignty in post-war Europe, rendering war unthinkable and advancing the spread of prosperity spread throughout the EU. As one of the main conclusions of this paper, a similar vision for functional integration within South Eastern Europe and with the European Union is suggested for the energy sector as a means of promoting regional security.

³⁰ ESI, *Taking on the commanding heights: Integration of network industries as a tool of peace building*, 3 May 2000, www.esiweb.org.

VI. CONCLUSIONS AND RECOMMENDATIONS

The first phase of the Stability Pact has come to a close. The Pact has succeeded in its initial aim of drawing the regional governments into a wider political process, creating links among them, and sending a powerful message to Serbia that democratic change would be supported by substantial aid. However, by spreading itself too thinly across too many initiatives, and by setting itself up as a donor co-ordination body, the Stability Pact has created expectations that it cannot hope to meet, with consequent risks of disillusionment.

The challenge for the next Regional Table will be to identify key areas for strategic initiatives where the Stability Pact mechanism can make a decisive contribution. It will need to articulate a concrete agenda for the next phase of the Pact, engage the necessary resources, and lay down a clear time frame for orientation and inspiration. For the Office of the Stability Pact Special Co-ordinator, this means moving beyond the Quick Start Project approach and the existing low-intensity initiatives, and making use of the office's high profile and distinctive role as a regional mechanism to drive a renewed and refocused agenda.

A. THE EUROPEAN METHOD

The central theme of the Stability Pact is the integration of South Eastern Europe into the wider Euro-Atlantic zone of stability. This will require significant efforts, no less than those which were made starting in the 1940s to create a lasting security, economic and political infrastructure in Western Europe. The institutions then created – from the OECD to the Council of Europe, from NATO to the European Coal and Steel Community leading to today's European Union – are today an indispensable framework for stability.

The experience of integration in Western Europe since 1950 is that achieving breakthroughs in a few concrete areas is more valuable than pursuing integration for its own sake across a wide range of issue areas. Poorly defined, abstract or over-ambitious efforts invariably failed.³¹ The European experience has been one of gradual integration, using concrete achievements to generate a de facto solidarity. This has allowed post-war Europe to overcome mutual suspicion and even to resolve complex status problems.

A key concept of the process of European integration is that of functional integration. It refers to creating a stable institutional framework of co-operation in areas in which states have an interest in working together to realise concrete benefits. Once established, the incentives and habits of co-operation may spill over into other areas. This was the process behind the Schuman Plan, which led to the first European Coal and Steel Community in 1950. In Bosnia and Herzegovina the International Community's High Representative, Wolfgang Petritsch, has identified integration of network industries as a key international peace-building strategy.

In the case of South Eastern Europe, approaching regional co-operation through functional integration will help the states of the region advance towards their ultimate common goal of becoming part of wider Euro-Atlantic institutions. Should the countries of the region be willing to work towards supranational institutions in selected sectors then these should be integrated from the outset with European Union institutions. Regional integration must not lead to a "regional club" isolated from the rest of Europe.

³¹ Many schemes of European integration in the late 1940s were too vague, abstract or general and failed: from the Atlantic High Council for Peace to the integration schemes called Fritalux, Finebel, and Fritnebel.

B. ENERGY AND REGIONAL SECURITY

This report recommends that one of the most promising fields where the Stability Pact should launch a major initiative is in the development of a truly common energy market. Energy policy lies at the heart of security and prosperity in South Eastern Europe. The supply and distribution of energy has inescapable trans-border dimensions. This has long been recognised. From the 1996 Sofia regional summit to the European Union regional strategy, there have been references to the importance of helping to create conditions for genuinely integrated South East European energy markets. Numerous studies have outlined the benefits of an integrated electricity market. However, despite the large sums spent on physical reconstruction projects, there has been no concerted effort to overcome the myriad of political, economic and institutional obstacles to genuine market integration.

The lack of regional co-operation in the trade and regulation of energy brings both high costs and risks to stability. The destabilising potential of energy shortages and energy politics has been apparent in Serbia, where rolling electricity blackouts have been perceived as a genuine threat to the new FR Yugoslavia government. The electricity systems of the former Yugoslav countries rely heavily on each other for ancillary services which, in the absence of an institutional framework, are both unremunerated and unreliable. Creating genuine regional markets through structured co-operation in the energy sector can make a significant contribution to regional security, as well as producing opportunities for region-wide economic growth.

Resolving apparently technical matters in the areas of ownership of energy infrastructure, trade and regulation would foster a habit of pragmatic co-ordination between technical elites, thus restoring trust between key regional actors. Successful institutionalised co-operation and resolution of disputes over the ownership of power production facilities could also transform the way in which some of the region's most difficult political problems are viewed. Concrete regional co-operation might help alleviate tensions surrounding status issues in Kosovo and Montenegro, as in the case of competing French and German claims on the Saarland, which were diffused by coal and steel integration in Europe after the end of the Second World War. The common goal of a united Europe and the larger context provided by the Schuman plan created a basis for resolving conflicts of interests that appeared insoluble as long as they were treated bilaterally.

Over the medium term, substantial new investments will need to be made throughout the region to satisfy the demand for new energy generation capacity and to replace old capacity. The existence of regional markets and structures for co-operation will determine the viability of such investments. A coherent vision of how to move towards an integrated energy market within the region and with Europe would facilitate the resolution of existing controversies, enabling the industry to build on existing functional links, and result in an increased ability of the sector to generate private investment. The industry will also require institution building on the national level to build up the capacity of regulatory and administrative institutions, as many of the problems in the energy field relate to inadequate domestic reforms within individual countries. Capacity building will be most effective if implemented with the objective of integrating the regional institutions with European structures, and if it includes high-intensity twinning with European experts. In order to help the states of the region to realise the vision of an integrated energy market by a certain date, the European Union should be ready to support them substantially both with infrastructure investments and with technical advice.

Successful functional integration in the energy sector could provide a model for regional co-operation in other sectors. If the countries of South Eastern Europe are able to undertake integration in a strategic sector such as energy, they should be assisted in attracting the investment and technical and infrastructure support that they need. A time frame, similar to the “1992” objective behind the Single European Act, could help focus attention on domestic reforms and the resolution of regional problems within a process of integration into Europe-wide energy networks.

The process of regional energy integration will require a combination of financial leverage, the promise of European integration, and an offer of high-profile mediation to help resolve individual issues that stand in the way of co-operative energy strategies. Several feasibility studies have been carried out on the needs of an integrated regional energy network. What is required now is the identification of the political and commercial interests that can be harnessed to support regional integration, and the development of an institutional framework that would allow the regional actors to resolve energy issues among themselves and benefit from co-operation. The Stability Pact can assist by:

- **Promoting the vision of energy integration. The Stability Pact should make use of its high profile to sell the vision of energy integration to European and regional decision makers, as well as to investors. A major interagency effort, involving the World Bank, the European Commission and many important bilateral donors, would be required to translate this vision into reality.**
- **Steering the process politically. To realise the potential for functional integration in South Eastern Europe requires a high-level and yet flexible institution capable of gaining the confidence of the international and regional actors in the energy field, including international organisations, private companies and state regulators.**
- **Making available the good offices of the Stability Pact Co-ordinator in brokering and mediating disputes. This is a highly information-intensive process which will require systematic research and specific expertise in the regional energy industries to be built up within the Stability Pact Special Co-ordinator’s Office, as well as a good network to the major international and national actors.**

C. FREEDOM OF MOVEMENT AND ORGANISED CRIME

Among the most significant benefits of European integration felt by most European citizens have been the four freedoms enshrined in the Treaty of Rome: the freedom of movement of goods, services, capital and people. The accession experience shows the complexity of creating the preconditions for realising these freedoms outside of the current EU member states. The extensive efforts to secure and streamline border controls in Poland and the Baltic states, for example, has revealed the magnitude of the resources required. In the case of the countries of South Eastern Europe, the challenges are even greater and full freedom of movement far off. Yet the process of further European integration can only succeed if citizens feel a sense of European identity and experience direct benefits from Europeanisation, and are ready to sustain support for the costly reforms undertaken by their governments.

At the same time, the inability of the countries in South Eastern Europe to control their borders is cause for serious concern both for the countries themselves and for outsiders, including in particular the European Union. For the countries of the region, ineffective border management has resulted in the loss of revenues and trade. The vacuum created by uncontrolled borders has led to struggles for control over smuggling and trafficking routes that have been a part of the material origins of the conflicts in the region over the past ten years. For Western Europe, the export of crime and human trafficking through the Balkans is widely recognised as one of Europe's most pressing social problems. The route that has traditionally been used for the trade in arms and heroin is now increasingly used for the trafficking of human beings, with some 100,000 illegal immigrants entering Western Europe yearly through Albania alone.

The concerted effort required to build effective law enforcement agencies to confront organised crime will require substantial resources, support from the partners in the Stability Pact and genuine political will on the part of South East European governments.

The resources required from both donors and the countries in the region for the reform of border and customs administrations, the upgrading of physical border crossings and the strengthening of police capacity to fight cross-border crime are considerable. There is a clear interest for the European Union in providing substantial assistance to the countries of the region in establishing effective control of their borders. The dual vision of creating borders that are both open and secure is one that can inspire the populations both of the European Union and the countries of South Eastern Europe. The Schengen regime has led to increased control of Europe's external borders. At the same time pressures for illegal crossings at these borders have also increased.

A lot of activities are already ongoing, including an initiative to second 40 experts from EU member states to train officials in the fields of immigration, border controls and law enforcement. There is a UN-led effort to set up border police in Bosnia. The EU Commission provides support to building customs administrations in Albania and Bosnia, and trains and equips border police and customs officials in Macedonia. A SECI Regional Centre for Combatting Trans-Border Crime was opened by in Bucharest in November 2000. In response to the challenges in Albania, a Centre for the Fight Against Illegal Trafficking, managed jointly by Albania, Germany, Greece and Italy, is expected to be operational by June 2001.

The incentive for the countries in the region to expend the required resources from their national budgets to implement law enforcement and immigration policies and effective border control systems is less clear. In order to be able to generate public support for these expenditures, it is important that the strengthening of borders is seen not as keeping the countries of the region outside of Europe, but as a means of bringing them in. The strongest incentive is that of holding out the prospect for eventual visa-free travel from the region to the EU, as demonstrated by the case of Bulgaria. The visa issue effectively mobilised the entire Bulgarian public, with opinion polls showing that a remarkable 94% of the population considered the lifting of visas to the EU to be an issue of primary importance. In line with the importance attached to the issue, the Bulgarian government has implemented a series of institutional reforms, including reforms to the immigration and asylum system. It has replaced its identity documents, and taken important steps in tightening border controls, including the establishment and training of a new border service.

Without concerted action, the risk that promoting European standards in migration policy and border controls will come at the expense of travel between the countries of the region is also real. Visa regimes that cut off the Hungarians in Vojvodina, the Croats in Bosnia, or the Albanians in Macedonia from their ethnic kin in neighbouring states are potentially harmful to the stability of the region. For this reason, there is a strong European and regional interest to ensure that borders are both open and secure across South Eastern Europe.

The role of the Stability Pact should be to develop a concrete programme that aims at tackling illegal movement and cross-border crime, while at the same time allowing for maximum freedom of movement to build a European identity in South Eastern Europe. The Special Co-ordinator's Office should seek to articulate a practical strategy looking a few years ahead, identifying the domestic institution building needs of each country in the region, and mobilising outside resources. For this, it needs to be able to draw on country-specific assessments and set priorities in line with the overall strategy. It will need to build up the required expertise and networks with all relevant institutional actors. The high profile of the Stability Pact will allow it to:

- **Ensure that all actors are aware of and support the broader vision of maximally free movement, on the one hand, and the institution building needs to secure borders, on the other.**
- **Mobilise available Western resources to be able to offer technical expertise to the countries of the region. To promote serious capacity building in the border-management institutions, an important input by the Stability Pact Office will be in the area of identifying international resources and promoting a common assistance methodology focused on high-intensity twinning.**
- **Involve regional policy institutes, parliamentary committees and other opinion leaders to ensure that the citizens of the countries in the region understand the vision, the demands on their governments, and the contributions by the EU to its implementation.**

In order to make progress visible to the publics, a first objective should be to expedite and simplify visa-issuing procedures for travel to EU countries. This should be followed by a clear set of interim conditions for granting visa freedom between the countries of the region. The EU should commit itself to granting visa-free travel to all countries of the region on condition of meeting clear and objective standards, which must include effective regional co-operation in fighting organised crime. This would help to focus efforts and set intermediate objectives. Countries of the region would be given the opportunity to progress at a faster pace to fulfilling the institutional requirements for border management and crime-fighting, but no country of the region would be asked to impose a visa regime on neighbours before a given target date.

D. RESHAPING THE PACT STRUCTURES

1. Regional Table

The Regional Table should continue to serve as the main forum to set the strategic direction for the Pact and to provide political guidance to the Special Co-ordinator. It should insist on a greater concentration of efforts while ensuring that the Stability Pact Co-ordinator's Office obtains the resources it needs to carry out such a focused agenda.

At the same time, the structures underneath the Regional Table must be redesigned in line with the refocused role of the Stability Pact. The division of the Stability Pact's activities across three distinct Working Tables on Democratisation and Human Rights, Economic Reconstruction, Development and Co-operation, and Security Issues makes it difficult to deal with cross-table issues. The regional problems that the Pact has a comparative advantage in addressing are fundamentally cross-cutting. The fight against trans-border crime, for example, is necessarily based on building democratic institutions, has implications for the ability of a state to collect customs revenue and addresses the material origins of insecurity in the region. A focus on regional energy market integration requires systematic research into complex interdisciplinary issues that straddle the border between politics, engineering and national security.

A refocused Stability Pact should discontinue the meetings of the Working Tables, and establish specialised steering structures for a limited number of Stability Pact Strategic Initiatives. Instead of having part-time and seconded chairpersons, these initiatives should be led by senior figures who are working full-time on the issues from the Office of the Special Co-ordinator.

Specific Steering Boards would be set up for the 'Energy for Security' and 'Freedom of Movement' priority programmes. These Steering Boards would consist of high-level representatives from the key implementation agencies, contributing resources and expertise to the implementation of the vision, and providing strategic guidance to the Special Co-ordinator's Office in setting objectives and mobilising a broad coalition of actors.

The QSP approach of fund-raising for a wide variety of different, small-scale projects should be discontinued. Future funding conferences should be highly targeted to mobilise resources for the Stability Pact priority initiatives, and should only be scheduled once concrete multi-annual programmes have been devised.

2. Special Co-ordinator's Office

Meeting the challenges of supporting such initiatives in strategic sectors will require an appropriately staffed and specialised Special Co-ordinator's Office with the expert resources to act as part of a wider, coherent effort by the international community. Based on the priority areas that are determined for the second phase of the Stability Pact, the composition and tasks of the Special Co-ordinator's Office will also need to be reviewed and matched by corresponding resources.

For the implementation of these strategic initiatives, the Special Co-ordinator's office will need to build up specific expertise. To be able to articulate the broader vision for energy and border programmes, draw up an implementation plan with a realistic time frame, review existing resources and mobilise further resources, the Office must itself become a knowledge organisation – a repository of ideas and concepts for the selected regional issues in which it is involved. This will not necessarily require a change in staffing levels, currently capped at 28 persons, but has implications as to the professional profile of staff members. In order to develop the analytical capacity to articulate solutions to complex interdisciplinary problems, the Office needs to be able to recruit and hire people with relevant experience in the region and to get secondments from organisations with expertise in the areas of concentration. This will almost certainly require the core budget of the office to be increased.

It is essential to define a role for the Stability Pact which complements and supports, rather than duplicates, existing efforts by the governments of the region, bilateral donors and international organisations. The Stability Pact must avoid substituting its own structures and initiatives for activities that other actors, such as the EU Commission, World Bank, OECD, NATO, Council of Europe, OSCE or others, already carry out well in their areas of competence. A key role of the Special Co-ordinator's Office will be to communicate the strategic framework and concrete operational needs in the areas of its strategic initiatives to the specialised agencies, and motivate them to align their activities. The Office must be seen as a source of genuine intellectual leadership in the focus areas. The ability to mobilise all of the actors, and to broker deals between them, is the main strength of the high-profile Special Co-ordinator's Office.

3. Taskforces and existing initiatives

The most visible activity of the Stability Pact has been the extensive networking that has taken place at different levels and in different issue areas through the Sub-Tables, Taskforces, Working Groups and Initiatives. The Stability Pact has played an important role in the establishment of these fora for discussion, networking and information sharing. It is not, however, clear that the structure of the Special Co-ordinator's Office is needed to support the further functioning of these various fora.

The approach of most of these structures is to deal with common problems in a regional context, facilitating contacts and information sharing, rather than seeking to tackle core regional problems where the political brokerage of a high-level mechanism such as the Pact is required. The Stability Pact should spin off the task forces, while encouraging donors to continue to support functioning task forces and existing regional initiatives directly. Those taskforces who have not managed to prove their value-added for donors or regional governments in the course of the past two years will disband by themselves.

STABILITY PACT STUDY

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