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After the War in Kosovo

EU assistance to the Balkans for peace
and reconstruction between grinding
management structures and internal
budgetary and power-struggles

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1. Introduction

The European Union is confronted with one of the most demanding foreign policy challenges in its history. After ten years of crisis and war in the Balkans, the Union as part of the international community has committed itself to the political and financial responsibility to secure peace in the region. By advocating a Stability Pact for Southeast Europe, it has given a new European perspective to the region.

In practice, this means, firstly, to support the development of democratic political structures in the former Yugoslavia, especially in Bosnia-Herzegovina and in Kosovo; secondly, to assist the reconstruction efforts, and thirdly, to integrate the region into the European economy and to promote the economic integration of the different entities in the Balkans.

Taking a budgetary perspective, this paper has two objectives which analytically are only loosely connected. The first aim is to give a brief overview of the structures, types, channels, and amounts of EU assistance to the Balkans. This is done in the first part of the paper and in two Annexes. The thesis is that both the EU High Representative for Common and Foreign Policy (CFSP) and the European Court of Auditors are right in criticising the EU for having contributed to intransparent and potentially ineffective structures of international assistance to the Balkans. It is pointed out, however, that in recent months the Commission has tabled important initiatives which over time might help to reduce friction losses.

The second objective of the paper is to take a closer look at one aspect of the EU's Balkans policy which is often left aside in foreign policy analysis: money. The intention is to provide some insight into budgetary negotiations between the European Council, the European Parliament (EP), and the Commission on how the Community budget is to be adapted to the new challenge of fulfilling the promises which national foreign ministers and EU representatives have made to the international community and to the people in the region. EU expenditures on CFSP and external actions in general are non-compulsatory expenditures. This means that the EP has the last budgetary say over EU foreign policy decisions which have been taken rather intergovernmentally by member states. Thus, a vital "dualism"¹ between Parliament and Council can be observed.

In analysing budgetary negotiations in 1999 and the first five months of 2000, the following argument shall be put forward: It seems that Council, EP and Commission have no common view on how to finance external assistance in general and to the Balkans specifically. Especially between Parliament and Council, a huge gap must be stated. Both of them attach

¹ see Uwe Schmalz: The Amsterdam Provisions on External Coherence: Bridging the Union's Foreign Policy Dualism?, in: European Foreign Affairs Review, Vol. 3, No. 3, pp.421-442.

highest political importance to the Balkans question. However, they have strongly differing positions on how to finance assistance to the Balkans in detail, how to limit the repercussions for other external policy programmes, and how to manage the consequences for EU long-term financial planning in general. This causes serious tensions which are further intensified by fundamentally different approaches of the Council and the EP to European budgetary policy. Whereas national finance ministers seem to regard European budgetary policy as a sub-theme of national budgetary considerations², the EP tends to insist on conducting genuinely European financial planning. In addition, the EP has to deal with a Council which in itself follows no coherent approach since financial ministers and foreign ministers also have different political priorities.

It is argued here that, in combination with the quasi-institutionalised power struggle between the Council and the EP, these factors are producing an inter-institutional political climate of distrust and animosity which could seriously undermine the EU's aspirations to become a reliable, credible and strong actor in international security issues.

2. EU assistance to Southeast Europe

Who is doing what in the Balkans? Looking at the international efforts to secure peace, democracy and stability in this region, a large number of structures, forums and initiatives becomes visible. When the Heads of State and Government met in Lisbon in March this year, Javier Solana, the EU High Representative for CFSP, confronted governments with a highly critical report on the role of the EU in the Balkans. In this document, he made the case that EU assistance was neither effective nor visible enough. The work of international institutions was marked by a high amount of duplication and the EU was not as influential as it could be.³

² Governments still tend to see the *own resources* of the EU as national contributions to the EU, which form a normal part of national budget policy.

³ See „Solana kritisiert Chaos bei EU-Hilfen für den Balkan“, Handelsblatt, 23.3.2000; see also the two reports presented by the European Court of Auditors concerning EU assistance to Bosnia-Herzegovina: a) Special Report No. 5/1998 on reconstruction in former Yugoslavia, period 1996-1997, in: Official Journal C 241, 31.7.1998, p. 1-57; b) Special Report No. 2/2000 on aid given by the European Union to Bosnia-Herzegovina with a view to restoring peace and the rule of law, in: Official Journal C 85, 23.3.2000, p. 28-46; and the Report of the European Parliament on the Communication of the Commission on the Stabilization and Association Process for the countries in Southeast Europe, Rapporteur: Jan Joost Lagendijk, Brussels 22 March 2000. A good description of the EU's activities is given in Andreas Wittkovwsky: *Stabilität durch Integration? Südosteuropa als Herausforderung für die Europäische Union*, Reihe Europakolleg 43(2000), Friedrich Ebert Foundation, Bonn 2000.

2.1. The political framework

The main elements of the political framework of EU assistance to the Balkan are the *new Stabilisation and Association Process (SAP)* and the *Stability Pact for Southeast Europe*.

The new Stabilisation and Association Process (SAP)

In May 1999, the European Commission adopted its concept of a *new Stabilization and Association Process (SAP)* in order to put EU-Balkans relations on a new basis.⁴ It is a new version of the *Regional Concept* for Southeast Europe which had been introduced in 1996 in order to give a framework to the implementation of the Dayton/Paris peace agreement. It reflects the insight that the Union needs a more coherent approach if it intends to fulfil its promises regarding the Balkans question.

The main element of the SAP consists of the so-called *Stabilisation and Association Agreements* the European Commission intends to conclude with the different entities of former Yugoslavia. Politically the most important feature of these agreements is that, on a contractual basis, they offer the clear prospect of integration of these entities into the structures of the European Union. In addition, they provide the political and legal basis for all kinds of financial and political assistance.⁵

So far, however, negotiations about a Stabilisation and Association Agreement have only started with Macedonia.⁶

The Stability Pact for Southeast Europe

Closely linked with the new SAP is the *Stability Pact for Southeast Europe*, which was brought into being on 10 June 1999 at a special meeting in Cologne with the objective of presenting a clear commitment to the integration of the Balkans region into Europe and to the coordination of international, European and regional efforts to secure peace in the region.⁷ In the World Bank's wording, "the underlying logic of the Stability Pact is that the efforts of the

⁴ Communication >from the Commission to the Council and the European Parliament on the Stabilisation and Association Process for the Countries in Southeast Europe (COM (99)235 final, 26.5.1999).

⁵ See „Opening up new perspectives for Southeastern Europe: The Stabilisation and Association Process“ (http://europa.eu.int/comm/external_relations/see/intro/index.htm)

⁶ See Agence Europe 8/9. Mai 2000, S. 11; „Commission adopts draft Negotiating Directives for a Stabilisation & Association Agreement with the former Yugoslav Republic of Macedonia“, European Commission Press release, Brussels, 8 September 1999. On 24 November, 1999 the Commission adopted a Report on the Feasibility of Negotiating a Stabilization and Association Agreement with Albania (COM 1999/599 final). In May 2000, the Commission recommended negotiations with Croatia („Commission recommends negotiations on a Stabilisation and Association Agreement with Croatia“, European Commission Press Release, Brussels, 25 May 2000)

⁷ Stability Pact for Southeast Europe, Cologne 10 June 1999 [www.stabilitypact.org/pact.htm]

countries of Southeast Europe at improving intra-regional cooperation and economic reform would be boosted by strong support of the international community. This support would have two basic components. First, the international community would provide a clear and credible commitment to the integration of the SEE countries into European and global structures. The second commitment of the Stability Pact partners must be to provide coordinated support, both technical and financial, to the countries of the SEE region".⁸

Participants of the meeting in Cologne were the foreign ministers of the member states of the European Union, the European Commission, the foreign ministers of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Romania, the Russian Federation, Slovenia, the former Yugoslav Republic of Macedonia, Turkey, the United States of America, Canada, and Japan, the OSCE Chairman in Office and the Representative of the Council of Europe, the representatives of the United Nations, the UNHCR, NATO, WEU, the International Monetary Fund, the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development, as well as the Representatives of the Royaumont Process and several other regional initiatives. In a joint declaration, they laid down the objectives and the structure of the Stability Pact as well as the roles of, and cooperation between, the different participants of the Stability Pact. This was done, however, in very broad terms.

The Stability Pact works under the auspices of the OSCE. According to the declaration, its long-term objectives are a) to secure peace, prosperity and stability for Southeast Europe, b) to foster effective regional cooperation and good neighbourly relations based on the observance of the principles of the Helsinki Final Act from 1975, c) to create functioning market economies based on sound macro economic policies, and d) to integrate the countries of Southeast Europe into the European and Atlantic cooperation structures, primarily into the EU.

As an umbrella body within the framework of the Stability Pact, a *Southeast Europe Regional Table* was set up, giving a seat to the representatives of all participants. It reviews progress and provides guidance for advancing Stability Pact objectives. This Table was organized through three *Working Tables*. At *Working Table I* (Democratisation and human rights), efforts to restore civil society play a key part. Priorities include institution-building and good governance, freedom of the media and education, the protection of minorities and refugee issues. *Working Table II* (Economic reconstruction, development and cooperation) focuses on trade liberalisation and cooperation, private sector development, regional infrastructure and environment, legislative reforms and approximation of legislation, and the creation of

⁸ World Bank: The road to stability and prosperity in Southeast Europe: A regional strategy paper, 1 March 2000, p. 12 (on <http://www.seerecon.org/KeyDocuments/KeyOfficialDocuments.htm>); see also Benn Steil, Susan L. Woodward: A European "Deal" for the Balkan", in: Foreign Affairs, Nov./Dec. 1999, Vol. 78, No.6, pp. 95-105

favourable investment conditions. *Working Table III* (Security issues) covers the struggle against organised crime and corruption, border management, migration and customs, mine clearance and outlawing of small arms, arms controls and confidence-building measures, improvement of the police, justice and penal systems.⁹ The whole structure is chaired by a Special Coordinator, the German Bodo Hombach, who is responsible for preparing and following-up the decisions of the Regional Table and the Working Tables. His office is located in Brussels.

Not only the Stability Pact, but also the European Commission and the World Bank were entrusted with responsibilities of coordination. They have also set up a working structure which consists of a High-Level Steering Group (HSLG), supported by a Working Level Steering Group (WLSG). The HSLG is chaired by representatives of the Commission and the World Bank and includes the country holding the EU Presidency, the finance ministers of France, Germany and Italy, as well as the Finance ministers of the USA, Japan, Russia, and Canada. Furthermore the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Monetary Fund (IMF), and the UN have a seat in the Steering Group. The Stability Pact also is present. For their common efforts, the Commission and the World Bank have set up a joint Office for South East Europe which is located in Brussels, too.

2.2. Channels and types of EU assistance

Practical EU assistance to the region is channelled through different bodies, covers different types of aid, and is distributed on the basis of different programmes, depending on the type of assistance and the country/region concerned. Both in Bosnia-Herzegovina and in Kosovo, the EU supports, and participates in, the international authorities of interim civil administration.

The UN Civil Administration in Kosovo (UNMIK)

In Kosovo the *UN Civil Administration* (UNMIK), headed by the UN Special Representative Bernard Kouchner, is the highest legal and executive authority. It was set up on the basis of UN Security Council Resolution 1244 and the military/technical agreement between NATO and the Serb forces signed on 10 June 1999. Its mandate covers four pillars. Pillar 1 concerns humanitarian affairs and is led by the United Nations High Commissioner for Refugees (UNHCR). Pillar 2 covers the interim civil administration which is led by the United Nations.

⁹ For example, at its meeting on 15 and 16 February 2000 in Sarajevo, Working Table III adopted a Stability Pact Anti Corruption Initiative for Southeast Europe, including a detailed action plan [both documents can be found on <http://www.stabilitypact.org>].

Pillar 3 relates to institution-building. Here, the OSCE is the leading institution. Pillar 4 is placed under the responsibility of the EU and addresses the of economic reconstruction.¹⁰

The EU High Representative in Bosnia-Herzegovina

In Bosnia-Herzegovina, the highest civil authority is the EU High Representative Wolfgang Petrisch. His mandate derives from the London Peace Implementation Conference, which took place on 8-9 December 1995, and UN Security Council Resolution 1031 of 15 December 1995.

Annex 10 of the Peace Agreement, which was agreed on in Dayton and signed in Paris on 14 December 1995, provides guidance on his responsibilities. He has to monitor the implementation of the peace agreement, to maintain close contact with the parties in order to promote full compliance with the regulations of the Peace Agreement, to coordinate the activities of international organisations and agencies, and to provide guidance to the International Police Task Force. He is the final authority regarding the interpretation of the agreement on civilian implementation, which includes the establishment of political and constitutional institutions, economic reconstruction and the restoration of infrastructure, the promotion of respect for human rights, the encouragement of the return of displaced persons and refugees, the continuation of humanitarian aid for as long as necessary, and the support and assistance for the election process supervised by OSCE.¹¹

Types of assistance

The EU contributes to all different types of international assistance, namely, humanitarian aid to facilitate the return of refugees to their homes (not subject to political conditionality, which means that Serbia receives aid as well); macro-economic aid, which is offered to address the massive budgetary and balance-of-payments problems, which have been caused in Kosovo and the neighbouring countries by the war and disrupted economic and trade relations (the bulk of assistance in this field is provided by IMF and World Bank¹²); all kinds of assistance to promote democracy (which focuses on the institutional and legislative aspects of reforms to strengthen democracy, the rule of law and the protection of human and minority rights); and aid for projects favouring civil society (e.g. strengthening the free media) and cooperation with NGOs.

¹⁰ Pillar 1 of UNMiK is led by Tom Koenigs, Pillar 2 by Dennis McNamara, Pillar 3 by Daan Everts, Pillar 4 by Joly Dixon.

¹¹ See OPHR's website at: <http://www.ohr.int>

¹² See „Economic Prospects for the Countries of Southeast Europe in the Aftermath of the Kosovo Crisis“, IMF and World Bank, 22 September 1999 [<http://www.imf.org/external/pubs/ft/kosovo/092299.htm>].

The biggest share of EU assistance, however, is invested into efforts at reconstruction with a focus on Bosnia-Herzegovina and Kosovo. The relevant legal basis is the OBNOVA programme (Serbo-Croatian term for reconstruction) which was created in July 1996. Croatia, the Federal Republic of Yugoslavia, and Macedonia also participate.¹³ OBNOVA covers activities such as clearing mines, repairing infrastructure, building homes, education, protection of the cultural heritage, and re-establishment and development of the institutional framework of public authority, including local authorities etc.

Not only the Western Balkans receive EU assistance for reconstruction. Within the PHARE programme, the ISPA programme and the SAPARD programme, money is also distributed to Romania and Bulgaria. At several occasions, however, the European Parliament voiced doubts as to whether the intention of these programmes, which originally were designed to cover pre-accession assistance to candidates for EU membership in the fields of institution building, regional cooperation, infrastructure assistance, and economic restructuring in rural areas, is compatible with addressing the consequences of the Kosovo war. The Commission argues that so far it has no other legal basis for the provision of financial assistance to these countries.

In Kosovo, the *European Agency for Reconstruction (EAR)* is responsible for the management of the practical aspects of reconstruction. It was set up by a temporary task force of the European Commission deployed to Kosovo on 1 July 1999.¹⁴ The EAR selects the contractors and signs all necessary contracts with service providers and suppliers with maximum emphasis on local tendering. Decisions on the location of the EAR were accompanied by intensive diplomatic haggling. Despite reservations of the European Parliament and the European Commission, EU foreign ministers in July 1999 agreed on locating the *administrative* headquarters of the the agency in Thessalonica and its *operational* headquarters in the Kosovar capital Pristina. The Greek foreign minister, Georges Papandreou, insisted that the Agency be based in Thessalonica, arguing that operational outlets were necessary not only in Kosovo but also in other countries of the region, for example Albania. So far, however, no additional operational units have been set up.

Additionally, several regional initiatives which try to foster peace and security in the Balkans enjoy political and/ or EU financial support. The most prominent of them is the Royaumont Process which was born in the wake of the first Stability Pact of Europe (March 1995) and the peace process as embodied in the Dayton Agreements at the initiative of France and with EU support. The participating countries are those "in and around former SFR Yugoslavia", as

¹³ See Council Regulation (EC) No. 1628/96

¹⁴ On 23 July 1999, the Commission presented a proposal to amend the OBNOVA-regulation to take account of the special situation in Kosovo and to provide the legal framework for the European Agency for Reconstruction (COM (99) 312 final)

well as the member states of the European Union, Russia and the USA. Its original aim was to facilitate the implementation of the Paris/Dayton Peace Agreements. Today, activities focus on civil society cooperation/networking, inter-ethnic dialogue, inter-parliamentary co-operation, education and academic co-operation, women's organisations co-operation, media, local government, and the co-operation of social and economic organisations. Participants must be based in the Balkans, in Hungary, Slovenia, Turkey, the EU, the United States or Russia. It is not clear, however, how these activities are to be coordinated with the different projects followed by the Stability Pact which also has a focus on reconstructing civil society. With a Common Position in November 1998, the Council incorporated the Royaumont Process in CFSP. In December 1998, the EP voted in favour of a special budget line to secure financial support for Royaumont activities out of the EU Budget. In May 1999 Dr. Romiliotis, so far coordinator of the Process, was officially appointed as the EU Special Representative for the Royaumont Process.¹⁵

2.3. Recent Commission Initiatives to reform EU external assistance

Being confronted with heavy criticism on its performance in the Balkans, the European Commission has launched two important initiatives which aim at placing the EU reconstruction assistance to Ex-Yugoslavia on a new basis and to reform the management of EU external assistance in general.

The new CARDS programme for reconstruction in Southeast Europe

In December 1999, the Commission proposed the new *CARDS programme* for reconstruction in the Balkans in order to address the problem of different programmes with different rules of procedure and different management structures. In its *Communication on Community Assistance for the Stabilisation and Association Process for Certain Countries of Southeast*

¹⁵ Further forums of regional cooperation in Southeast Europe are:

the *Southeast European Cooperation Initiative* (SECI), initiated by the US in the wake of Dayton. In cooperation with the United Nations Economic Commission for Europe and the OSCE, it aims at encouraging economic co-operation among the countries of the region and facilitate the access of Southeast Europe to European integration. It is a forum in which representatives of the participating states (Albania, Bosnia-Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Greece, Hungary, Moldova, Romania, Turkey, Croatia and Slovenia) meet to discuss common regional economic and environmental problems calling for concerted action;

the *Central European Initiative* (CEI), founded in November 1989 and initiated by Italy, now has sixteen members within the EU, in Eastern and Central Europe, among the New Independent States (NIS) and in Southeast Europe;

the *Black Sea Economic Cooperation* (BSEC), founded in 1992, has the status of an international organisation since 1999. Since the same year, it has a bank for trade and development located in Thessaloniki;

the *Conference on Good Neighbourliness, Stability, Security and Co-Operation in Southeast Europe* (CSEE) started with the declaration of Sofia in 1996 and represents an independent attempt of the countries of Southeast Europe to revive their relationships;

the *Central European Free Trade Area* (CEFTA), founded in 1992 by Poland, the Czech Republic, Hungary, and Slovakia. Today, Slovenia, Bulgaria and Romania are also members.

Europe, the Commission sets out the guidelines and arrangements for assistance and coordination with the Stabilisation and Association Process.¹⁶ On 10 May 2000, the Commission formally adopted its proposal for this new programme.¹⁷

According to this programme, a partnership can only be established if the country respects the basic principles of democracy, the rule of law, and human rights. The nature and scale of assistance will depend on the level of commitment to reform by the authorities concerned. The level of assistance should reflect the progress actually made. On trade, for example, greater access to the Community market might be offered but is dependent on the efforts of the countries concerned to promote trade within the region. Assistance is to be based on *national* and *regional programmes*. *National programmes* will remain the main vehicle for EU support and take the form of annual assistance programmes. Long-term action will require so-called *multiannual indicative programming*, i.e. the fixing amounts and priorities for assistance over a period of four years. *Regional programmes* are to cover horizontal cooperation designed to involve all the countries in the region and cooperation aimed at forming links between neighbouring countries (cross-border programmes). To achieve a maximum of transparency these programmes will be based on framework agreements similar to those with the candidates for EU membership.

The *CARDS programme* is mainly limited to reconstruction issues. The following types of EU-assistance will continue to have a specific legal basis:

- humanitarian assistance,
- assistance favouring democracy (based on Council Regulation 976/99), which focuses on the institutional and legislative aspects of reforms to strengthen democracy, the rule of law and the protection of human and minority rights,
- assistance for projects in favour of civil society and cooperation with NGOs (based on Council Regulation 976/99),
- exceptional macro-economic assistance (budgetary aid and balance-of-payment loans), which is to support stabilisation and reform programmes run by the countries under the auspice of the IMF and the World Bank.

Reforming the management of external assistance programmes

In March 1999, being accused of mismanagement and fraud, the Commission under President Jacques Santer had to resign. To a large extent, management problems have been caused by the fact that the development of administrative resources has not been in line with the

¹⁶ COM (99) 661 final, 8.12.1999.

¹⁷ See „Commission proposes to simplify and accelerate assistance to the Western Balkan“, European Commission Press Release, Brussels, 10 May 2000.

Commission's ever-increasing political and financial responsibilities.¹⁸ As a consequence, the Commission resorted to a system of external Technical Assistance Offices (TAOs), which were entrusted with running the different programmes.

This practice of sub-contracting, however, has led to an intransparent and inefficient system and a bad allocation of resources, especially in the field of external policy programmes, since they amount to about 62 per cent of all EU spending programmes (or to about 5.3 billion Euro from the Community Budget and 4.3 billion Euro from the European Development Fund), which are managed in the responsibility of the Commission.¹⁹ As the Commission puts it in its own analysis, the overload of work has weakened the Commission's proper financial and political control over the implementation of its aid. In addition, the effectiveness of Community aid management has been undermined by slow implementation and weak programming. Responsibilities have been diluted by the fragmentation and instability of administrative structures.²⁰

On 16 May 2000, the Commission launched a communication on its new strategy to overhaul the management procedures for its external assistance programmes.²¹ Based on the *White Paper on Reforming the Commission*²² which sets out the general framework of internal reform, the Commission aims at an "ambitious programme of measures to make significant improvements in the quality and timely delivery of projects while ensuring robust financial management and increased impact of EU external assistance"²³.

One major element of this programme is the creation of a single body in charge of project implementation. This new implementation office in the Commission will build on the present Common Service for External Relations. Its task is to give strategic and political guidance and to coordinate the activities of the Directorates General External Relations (RELEX) and Development (DEV). It will have to report to a Board of External Relations Commissioners with the Commissioner responsible for external relations (Patten) as Chairman, the

¹⁸ See the First report of Independent Experts, Brussels, 15 March 1999.

¹⁹ The majority of EU spending programmes such as agriculture or structural funds are administrated by member states. The European Commission has the political and financial responsibility for more than 10 per cent of total Official Development Assistance world-wide, an increase of 5 per cent in 1985. It is also the largest donor of humanitarian aid in the world (tenfold increase since 1985). Whereas in the past, most external assistance was granted to ACP countries, today, two-thirds go to countries outside ACP in Central and Eastern Europe, the Newly Independent States, the Balkans, the Middle East, the Mediterranean, Asia, and Latin America. At the same time, the coverage of EU external assistance has been extended well beyond traditional development policy to include, for example, reconstruction, institution-building, macroeconomic support, or human rights.

²⁰ Communication to the Commission on the Reform of the Management of External Assistance, European Commission, Brussels, 16 May 2000, p.5.

²¹ Ibid.; short summary in „Commission shakes up management of external assistance“, European Commission Press Release, Brussels 16 May 2000, IP/00/480.

²² COM (2000)200, 1 March 2000.

²³ Communication to the Commission on the Reform of the Management of External Assistance, European Commission, Brussels, 16 May 2000, p. 1.

Commissioner responsible for development policy (Nielson) as Chief Executive, and the Commissioners responsible for external trade, enlargement and economic and monetary affairs (Lamy, Verheugen, and Solbes) as Members.²⁴ This will be accompanied by the unification of the process of programming and managing a project including a stronger emphasis on monitoring and evaluation by an interdepartmental so-called *Quality Support Group*.

According to the Commission, the involvement of EU member states via the Management Committees needs also to be improved in order to speed up implementation and to provide complementarity with member states' activities. Currently, there are 50 such committees. In view of the Commission, they should focus on policy and strategy in the future rather than trying to micro-manage at the level of specific projects.

The underlying theme of the new structure is to arrive at a new distribution of work between Commission internal services on the one hand, and external services on the other. Whereas Commission internal services will focus on core activities such as policy formulation, the implementation of programmes in the field will be delegated to a large extent to external services. More than in the past, these external services will be the Commission Delegations to beneficiary countries, which implies that their resources will be reinforced. These will further devolve the implementation of programmes to authorities in the field, when possible. In addition, the Commission plans to make use of TAOs. In the future, however, they will work within a clearly defined legal and budgetary framework.

2.3. Comments

The EU is organising and channelling its assistance to the Balkan in a rather complicated and intransparent set of structures which has evolved over time in reaction to political and military developments and with changing geographical focus rather than being based on a forward-looking, clear-cut concept. Neither the competences or responsibilities of the different actors, nor the scope of the different assistance programmes have been defined clearly enough.

From an outside perspective, it is not clear whether these structures are characterized by competition or cooperation or a mixture of both. For example as regards reconstruction in Kosovo, Hombach, Dr. Romiliotis, Kouchner and the ERA have overlapping mandates, forcing them to devote a huge amount of time and other resources on bringing into line potentially diverting approaches and bureaucratic interests.

²⁴ According to the Communication of 16 May, a number of specific areas will be managed by a single administrative structure: the management of pre-accession instruments (GD ENLARG), humanitarian activities (ECHO), and macro-financial assistance (DG ECFIN). Because of the special nature of projects, special arrangements are also necessary for the management of "specific activities" (Human Rights, CFSP, Rapid Reaction Facility) and the management of partnerships with NGOs (see Communication of 16 May 2000, pp. 9-10).

Sometimes political considerations, which in itself have nothing to do with the purpose of organizing assistance, are determining structures. A good example is the diplomatic haggling on the location and organisational set up of the European Agency for Reconstruction.

This adds to a situation in which not only EU foreign ministers are travelling through the region and to numerous conferences, making statements, promises and commitments, but also the EU High Representative for CFSP, Javier Solana, the Commissioner for external relations, Sir Chris Patten, the President of the Commission, Mr. Romano Prodi, as well as delegations of the European Parliament.²⁵ Especially EU representatives, which only recently have been assigned important foreign policy tasks, seem to be keen to use the Balkans case to sharpen their profile.²⁶ As Prodi said in the European Parliament on 15 February 2000, "the Balkans situation is an acid test of our ability to deliver the effective action on which our credibility depends. Here, if anywhere, the gap between rhetoric and reality has to disappear".²⁷

However, there seems to be some light at the end of the tunnel. The new concept of the Stabilisation and Association Process could provide a useful political and legal framework for giving the political, economic and financial links with the Balkans a new footing. Especially the offer of EU membership presents a long-term perspective which could provide democratic politicians in the region with a powerful vision. It remains to be seen, however, how successful the EU and the entities in the Balkans are not only in negotiating and concluding framework-agreements, but also to fill them with life.

The new CARDS programme for reconstruction could help to simplify the procedures of concrete programme and project management. This makes it easier for initiatives on the ground and interested parties in Europe to set up concrete projects and to facilitate sensible solutions to urgent problems and needs. The positive results of the last international donor's conference on 29 and 30 March 2000 could produce new dynamic, too. At this conference in Brussels, which was organized by the Stability Pact Coordinator, 2.4 billion Euro for international assistance were raised. 1.8 billion Euro have directly been pledged for concrete regional projects and initiatives forming part of a so-called quick start package.²⁸

²⁵ One EP delegation visited Bosnia-Herzegovina from 21 to 24 February 1998 with the mandate "to examine the financial, administrative and political challenges faced by the European Union in its efforts to aid the people of Bosnia-Herzegovina" (see Resolution of 18 December 1997 on the draft budget for 1998, paragraph 13). Another EP delegation followed from 31 May to 3 June 2000.

²⁶ Commissioner Patten, in a BBC Broadcast on 27 March 2000, explicitly argued that on the Balkans, the EU had to prove its capability to take over a bigger role in foreign and defence affairs [text of interview on http://europa.eu.int/comm/external_relations/speeches/patten/bbc_26_03_00.htm].

²⁷ "Shaping the New Europe", Romano Prodi, President of the European Commission 2000 – 2005, European Parliament, Strasbourg, 15 February 2000 (text of speech on [http://europa.eu.int/comm/external_relations/news/02_00/speech_00_41.htm]). See also "Europe must solve its own conflicts", Interview with Sir Chris Patten in *Die Zeit*, 6 February 2000.

²⁸ Press Statement by Special Coordinator for the Stability Pact, Bodo Hombach, Brussels, 30 March 2000.

Furthermore, the EU seems to be making some leeway in defining competences and responsibilities of the different actors. In its conclusions to the European Council in Lisbon of 23 and 24 March 2000, the Heads of State and Government acknowledged that "the international community needs a more coherent and action-oriented strategy for providing economic and political support to Kosovo and the region". They explicitly invited the Special Coordinator of the Stability Pact and the CFSP High Representative to "ensure the coherence of EU policies" in "full association" with the European Commission.²⁹ Whereas this mandate could give some guidance to the relationship between Council and Commission and the Balkans coordinator, the Commission's initiative of 16 May 2000 on reforming the management of external assistance in general might contribute to more efficient structures within the Commission. At first sight, it seems that the reform concept has strengthened the role of the Commissioner responsible for external relations as the key player in the Commission in external affairs.

3. Negotiating the budgetary foundation of EU assistance to the Balkan

The political and financial foundation for negotiations between the EP, the Council and the Commission concerning the financial envelope for EU assistance to the Balkans was laid in March 1999 under German Presidency at the Berlin European Council. At the same time, NATO started the bombing in Kosovo and Serbia. As part of the Agenda 2000 package, the Heads of States and Government and Parliament agreed on a tight Financial Perspective defining the financial resources in the different categories of the Community budgets for the years from 2000 to 2006.³⁰

In May 1999 when the war in Kosovo and Serbia was still going on, this was accompanied by the adoption of an *Inter-institutional Agreement (IIA)*³¹, which defines clear rules for future budgetary negotiations between Commission, Parliament and Council until 2006.

3.1. The basis: The Financial Perspective and the Inter-institutional Agreement

As the debate on more balanced national contributions to the Community budget throughout the Agenda 2000 negotiations demonstrated, it was not an easy exercise to agree on a Financial Perspective and an Inter-institutional Agreement. Especially in the EP, many representatives argued that the challenges facing the Union, e.g. enlargement and securing peace in the Balkans, were not met with adequate financial resources.³²

²⁹ See Presidency Conclusions Lisbon European Council, 23 and 24 March 2000, Chapter on Western Balkans.

³⁰ Presidency Conclusions of the Berlin European Council, 24/25 March 2000 (see Annex II).

³¹ Inter-institutional Agreement of 6 May 1999 between the European Parliament, the Council and the European Commission on budgetary discipline and an efficient budgetary procedure, Official Journal C 172, 18 June 1999.

³² Information contained in this chapter to a large extent is based on various conversations with MEPs, Officials of the EP and the Commission, and Council representatives. An overview of the political and

Nevertheless, in May 1999, the EP voted in favour of both agreements. A thin majority of MEPs was convinced that having a political framework which reduced the potential of conflict in future budgetary negotiations and included several other advantages³³ outweighed the financial limitations of the Financial Perspective. In addition, they stressed that the IIA contained a clause which, in case of unforeseen events, would allow for revisions of the maximum amounts available for the different categories of the Financial Perspective. Concerning the Balkans, a special declaration had been attached to the IIA which stated that the situation in the Balkans and especially in Kosovo could force the Commission to present a revision of the Financial Perspective. In general, the IIA was interpreted as a revision of the Financial Perspective as a normal instrument of flexible financial planning.

In short, the Financial Perspective defines ceilings³⁴ for the different categories of the annual budgets. The IIA, in turn, defines how institutions work with this Financial Perspective. For example, it states that not only the addition of further resources to the budget implies a revision of the Financial Perspective but also the transfer of money from one category to another. The objective is to set firm "walls" between the different parts of the annual budgets, guaranteeing or "ring fencing" certain amounts of expenditure in the different policy areas.

The IIA also defines the different political steps in case that it becomes necessary to change the ceiling of a category of expenditure. Most importantly, it stipulates that before asking for new money, the Commission has to analyse a) whether the new policy or need can be financed by cuts in other programmes (redeployment), and b) whether it is possible to increase the amounts in one category by reducing another category by the same amount, thus keeping the overall expenditure at the same level.

Finally, the IIA contains a so-called *Flexibility Instrument* which allows for increases of the overall sum of expenditure by a maximum of 200 million Euro p.a. in case the amounts already allocated in the different categories are not sufficient to meet all demands. According to the IIA, this Instrument should not be used for the same policy issue for more than one budgetary year. Before proposing the use of the Flexibility Instrument, the Commission has to make sure that it is impossible to find the money somewhere else in the budget. Since usage of the Flexibility Instrument entails putting new money into the European Budget, it could be argued that this amounts to a revision of the Financial Perspective. This might be true from a purely technical perspective.³⁵ However, since during negotiations on the Agenda 2000-

budgetary context is given in Working Document No. 1 on Balkans: State of Play, Political and Budgetary Context, European Parliament, Committee on Budgets, Rapporteurs Colom I Naval, Haug, Färm MEPs, 26 May 2000.

³³ E.g. a part of expenditure in agriculture has been classified as non-compulsatory, which gives Parliament and not Council the last say).

³⁴ In other words, maximum amounts.

³⁵ From a technical perspective procedures are similar but not identical.

package, governments again and again stressed that "national contributions" to the Community budget should be kept as limited as possible, a revision of the Financial Perspective is politically much more sensitive than using the Flexibility Instrument.

Financial Perspective and IIA were voted on in the last plenary session of the old European Parliament. In June 1999, a new parliament was elected with more than 50 per cent new MEPs. Their first exercise was to organise the hearings with the candidates for the new Commission. Only in September 1999, they seriously started debating the Community budget for the year 2000 and the restrictions set to this debate by the long-term Financial Perspective.

3.2. The first round: Negotiations in 1999

It soon became clear that the narrow consensus which had been reached on the Financial Perspective in May 1999 was not very stable. The EP and the Council, which share budgetary authority within the EU, started engaging in a fierce debate on the question whether category 4 (external actions) of the Financial Perspective contained sufficient resources not only to pay for the old priorities in European foreign and development policy but also for the new challenge of financing peace in the Balkans.

The German Finance Minister, Hans Eichel, very early voiced his conviction that category 4 included enough resources to meet all demands, including the needs in the Balkans. At a meeting on 13 July 1999 in Brussels with the other EU finance ministers and representatives of the major international financial organisations and the Commission, he insisted that aid could under no circumstances exceed the ceilings set in the financial perspective as adopted in Berlin.³⁶ The other governments also ignored the Balkans declaration of the IIA. The argument of the Council was that the EU had to contribute to national efforts of budgetary consolidation.

Consequently, the Draft Budget 2000 which the Council communicated to the EP in mid-July 1999 followed the concept of financing the assistance for the Balkan by horizontal cuts across the different foreign policy lines in category 4 by 10 per cent, thus freeing an amount of roughly 500 million Euro for the Balkans.

These 500 million Euro were also promised by the Commission as the EU's contribution at the first International Donor's Conference for Kosovo in Brussels on 28 July 1999 (results see table in Annex I). This donor's conference started the international process of mobilizing funds for the reconstruction of Kosovo. It focused on outstanding urgent humanitarian needs like housing, restarting the economy, and building up a local civil administration under the supervision of UNMIK.

³⁶ In fact, the Financial Perspective was not adopted in Berlin in March 2000 but in May 2000 when the EP gave its formal consent.

The EP welcomed this conference. Unlike the Council, however, it argued that the war in Kosovo and its consequences for the whole region had changed the situation in the Balkans dramatically and that it was necessary to adapt EU long-term financial planning to this fact. Accordingly, it opposed the notion of financing assistance to the Balkans simply by cutting the resources for the other foreign and development policy programmes contained in category 4. It believed that these programmes represented important political priorities which should not be endangered. For example, in the view of the EP, it made little sense to put new emphasis on EU-Latin America relations and at the same time cutting the expenditures for this priority by 10 per cent.³⁷ Emotions went high. For many parliamentarians, the notion of cutting programmes for the poor in other regions of the world in order to finance European assistance to the Balkans was cynical. Before agreeing to any cuts, MEPs demanded that the Commission presented clear estimates on the exact needs in the Balkans. On this basis, the Commission had to produce a proposal for a multi-annual programme, including a revision of the Financial Perspective. Rather than treating the Balkans issue on a year-to-year basis, the EP demanded a clear signal that the EU intended to foot its new foreign policy responsibilities on a solid financial basis.

The Council vehemently opposed this approach. Neither did financial ministers see the need for a multi-annual programme, nor were they willing to consider any revision of the Financial Perspective, be it a transfer between different categories or the addition of new money to the Community budget. In the eyes of EU financial ministers, the Financial Perspective remained a workable basis.

Since 3 November 1999, clear estimates on the most pressing needs were available at least for Kosovo.³⁸ According to a study jointly undertaken by the Commission and the World Bank, a four- or five-years recovery and reconstruction programme for Kosovo would cost about 2.4 billion Euro (see Annex II).³⁹ These estimates triggered a debate on how realistic it was to reserve 500 million Euro for Kosovo for the year 2000. MEPs asked for the exact basis of this amount and whether it would really be possible to spend this amount of money in the year 2000 in an effective and useful way.

³⁷ On 28/29 June 1999 in Rio de Janeiro, a EU-Latin America summit took place, concluding with a declaration on a new strategic partnership for the 21st century.

³⁸ "Toward Stability and Prosperity, A Programme for Reconstruction and Recovery in Kosovo", European Commission, World Bank, UNMIK, 3 November 1999; see also "Kosovo: Building peace through sustained growth. The economic and social policy agenda", World Bank, 3 November 1999 [both documents in full length on <http://www.seerecon.org/KeyDocuments/KeyOfficialDocuments.htm>], and Economic Prospects for the Countries of Southeast Europe in the Aftermath of the Kosovo Crisis, International Monetary Fund, 22 September 1999 [full text on <http://www.imf.org/external/pubs/ft/kosovo/092299.htm>]

³⁹ Already in April 1999, the International Monetary Fund and the World Bank presented very preliminary estimates. See "The economic consequences of the Kosovo crisis. A preliminary assessment of external financing needs and the role of the Fund and the World Bank in the international response", IMF/ WB, 16 April 1999 [full text on <http://www.seerecon.org/KeyDocuments/KeyOfficialDocuments.htm>].

At the same time, pressure on expenditure in the field of external actions intensified. Not only did the EU decide to help Turkey to cope with the consequences of the severe earth quakes in autumn 1999, but it also promised financial aid to secure peace in East Timor.⁴⁰

The Commission tried to bridge the gap between the Council and the EP. It argued that before spring 2000, it would not be able to present safe estimates on the financial needs in the Balkans. For that reason, it proposed to handle the contribution to the Balkan in the year 2000 within the framework of the normal annual budgetary procedure. A multi-annual programme for the years after 2000 would be presented as soon as long-term estimates were available. Commissioner Schreyer proposed to raise the 500 million Euro as follows: 140 million could be transferred from unspent resources of 1999; 160 million would come from well-defined cuts in other foreign and development policies, the remaining 200 million would be raised by using the Flexibility Instrument.

By advocating the use of the Flexibility Instrument, the Commission offered a carrot both to Council and Parliament. Whereas the Council did not have to agree on a formal revision of the Financial Perspective, the EP could argue that it had won an agreement which included transferring new money to the Community budget and which would make cuts in category 4 less painful. This would help both to save their faces.

The Council still showed no movement. Consequently, the EP enhanced its pressure. In the second reading of the Budget 2000 in the Budget Committee, it confronted the Council with three alternative options. In Option 1 it threatened to leave the IIA altogether and to go back to the budgetary provisions of the treaties. The argument would be that the Council, by ignoring the Balkans declaration of the IIA, had broken the Inter-institutional Agreement. On the one hand, the EP this way would be able to increase *Commitment Appropriations (CAs)* in all areas by a considerable amount in the year 2000, not only in the area of foreign policy. There would be more than enough money for Kosovo. On the other hand, it would have to cut *Payment Appropriations (PAs)* by about 1.5 billion Euro.⁴¹ This of course, was viewed by the EP as the shortcoming of this option. It was argued, however, that such cuts could easily be made in the field of regional policy (category 2) since the year 2000 presented the first year of

⁴⁰ For East Timor alone, demands voiced in the EP varied between 10 and 200 Mio Euro.

⁴¹ The differentiation between CA and PA is a speciality of the EU Budget. CAs are resources which are reserved for the different policies but not yet written in legally binding contracts. PAs, in contrast, consists of money which the Commission calculates to contract and spend during one budgetary year. In regular intervals, the net-contributors among the EU member states have to transfer money to the European budget to cover the amount of PAs needed. However, in order to keep the regular contributions to the EU Budget as low as possible (and thereby temporarily reducing pressure on the domestic budgets), national finance ministries tend to be in favour of low levels of PAs in the EU Budgets. This is short-sighted, however, since at the end of the Financial Perspective, CAs and PAs have to be brought into line. In effect, finance ministers are building up a growing wave of unspent PAs which will roll over them in the last year of the current Financial Perspective at the latest. The EP is constantly criticising this kind of short-sighted budgetary policy.

the new programming period until 2006 and the new programmes would need some time to get started. There was no serious discussion about the fact that leaving the IIA in 2000 would mean to give it up altogether, including its long-term political advantages.

Option 2 was titled *Kosovo tomorrow*. According to this scenario, the EP threatened to approve a budget for the following year which included only a small amount of money for Kosovo. On the one hand this would cover the most urgent needs in Kosovo in the first three months of 2000. On the other hand, it would relieve the EP of the difficult political decision to cut other external policy programmes. Most importantly, early on in the new year, the Council would be forced to come back to the EP in order to negotiate a Supplementary Budget. Though politically difficult to sell to a wider public, the E believed that it was relatively easy to sell this option and to put the blame on the Council.

Option 3, finally, was based on the compromise tabled by the Commission. However, it entailed two important differences. First, it demanded that together with the vote on Budget 2000, the Council, the EP and the Commission had to agree on two different declarations. The first one would ask the Commission to come forward with a multi-year programme for the Balkans on 1 April 2000. The second would acknowledge that all institutions accepted a multi-year revision of the Financial Perspective in case that it would become obvious in spring 2000 that the long-term costs of European assistance would exceed the existing estimates of financial needs. In order to make this option more acceptable for the Council, the EP added the offer to cut the level of PAs by 1.5 billion Euro, thereby reducing the level of contributions which member states would have to transfer to the Community budget.

In informal contacts with the Council, the EP made clear that it preferred Option 3. If the Council showed no willingness to compromise, however, it would vote for Option 1 or 2, depending on majorities in the EP.

Still, the Council showed no intention to negotiate. Quite the contrary, at the formal Trialogue⁴² at the beginning of December 1999, the representative of the Finnish EU Presidency reiterated the old position. Asked by the delegation of the EP for the logic behind this position, the EP was simply informed that the Council was not obliged to present reasons. Obviously, the willingness of the EP to negotiate a compromise was interpreted as weakness. The Council seemed to believe that at the end, the Commission would give in.

For the EP, this behaviour of the Council amounted to a provocation. Everything appeared to be set for all-out confrontation. Tensions increased since the tight timetable in the last days of the budgetary procedure allowed only little space for further negotiations. Time had not only to be given to the Budget Committee to do all the necessary strategic positioning and voting

⁴² Trialogues are negotiations between delegations of the Council, the EP and the Commission.

before the second reading of the EP's plenary in mid-December, but also to the Political Groups which had to discuss their next steps.

When the plenary session of the EP was opened on 11 December 1999, MEPs were still waiting for a positive signal from Council. Already in the week before, the Budget Committee had postponed the final vote on the proposals to be tabled in plenary in order to give the Council more time. On the evening of 11 December, it postponed voting again since the rumour went that the Council had now started internal negotiations on accepting a compromise. The same rumour said, however, that the Council would probably demand to water down the wording of the declaration on the revision of the Financial Perspective and to increase the level of cuts in PAs to 2 plus x billion Euro.

Behind the curtains, the EP signalled that it could only agree on "cosmetic" changes to the declarations and that it would accept only a maximum of 2.0 billion Euro cuts in PAs, of which 500 million Euro had to be found in compulsory expenditure in agriculture, the "Council's budget".

Usually, the public budgetary debate of Parliament, which takes place on Thursday and in which the representatives of the Council, the Commission and the EP make their final statements, is only a formality. All political work has been done and the vote on Thursday is being prepared technically. This time, however, it was different. The EP waited for a positive public statement on behalf of the Council which would clear the way for a compromise.

Time was running out. However, the statement of the Finnish financial minister, the representative of the EU Presidency, remained inconclusive. It was still not clear to MEPs whether the Council would fulfil their minimum demands. Thus, a new climax was reached on Tuesday night in the Budget Committee. At last, the representative of the Presidency made clear that the Council was willing to accept the compromise. However, knowing that at least three delegations of big member states were still reported to be opposing such a move, the President of the Budget Committee, the British Labour Party member Terry Wynn, did not only ask the EU-Presidency⁴³ on its view but also the national representatives of the three relevant delegations present in the back of the meeting room. This was nothing less than a blunt break of informal rules.⁴⁴ Naturally, the national representatives declined to comment.

Nevertheless the Committee could be convinced that the Council was indeed changing its mind. The deadlock was broken. On Thursday, the EP could put Budget 2000 into legal form. The ceiling of category 4 (external actions) was lifted by 200 million Euro by using the Flexibility Instrument, the rest of 300 million Euro was raised by cuts in other foreign and

⁴³ In which social democratic governments were in the majority.

⁴⁴ Which was the more dramatic since it occurred between politicians of the same political family.

development policy programmes and transfers from 1999. In addition, the EP agreed to a cut of the level of PAs by 2.0 billion Euro. The following two declarations were adopted jointly with the new Community budget:

"Declaration No 1: The Commission confirms that by April 2000 it will propose an aid programme for the western Balkan, including Kosovo for the period 2000-2006. The amount concerned will require it to submit a proposal for a revision of the Financial Perspective ..."

"Declaration No 2: The European Parliament and the Council agree that an aid programme for the western Balkan must be established. They take note of the fact that, if a sum requiring a financial effort significantly greater than that already programmed were to be agreed, this would entail exceeding the current ceilings for heading 4 of the Financial Perspective. "

In effect, Parliament had scored a small victory. Though it had to concede that in the year 2000, the assistance to the Balkans was financed on an ad-hoc basis, it believed to have a firm commitment on a multi-year programme and on a revision of the Financial Perspective. However, already at this stage, pessimists commented that the Council would not easily change its stance. After all, it had already ignored the Balkans declaration agreed on in May 1999.

3.3. The second round: Negotiations in 2000

Pessimists were right. In the new year, it became clear very soon that the debate was not going to be less contentious.

In debating its guidelines for Budget 2001, the EP again made clear that it believed it was necessary to design a multi-year programme for reconstruction in the Balkans. The Commission was asked to come forward with serious estimates on how much the Union would have to invest in the Balkans in the coming years.⁴⁵

Indeed, the Commission was working on new proposals. On 23 February, the Commission presented an informal proposal on its budgetary priorities in 2001 and on a revision of the Financial Perspective.⁴⁶ In a press statement, it reiterated a statement made by President Prodi at the OECD Conference in Istanbul in November 1999 and repeated in the

⁴⁵ „Entwurf eines Berichts über die Leitlinien für das Haushaltsverfahren 2001“, Haushaltsausschuss, Europäisches Parlament, Berichterstatterin: Jutta Haug MdEP, 17.2.2000. See also „Arbeitsdokument Nr. 1 über die Änderung der Finanziellen Vorausschau: Bestandsaufnahme“, Europäisches Parlament, Haushaltsausschuss, Berichterstatter: Joan Colom y Naval MdEP, 13.3.2000; „Entschließung des Europäischen Parlaments zu den Leitlinien für das Haushaltsverfahren 2001“, 30.3.2000; „Arbeitsdokument Nr. 1 zur Finanzierung des westlichen Balkan 2001“, Europäisches Parlament, Haushaltsausschuss, Berichterstatterin: Jutta Haug MdEP, 6.4.2000: „Working Document – Heading 4: A First Look at Problems and Prospects“, European Parliament, Committee on Budgets, Rapporteur: Jutta Haug MEP, 13 April 2000.

⁴⁶ “Commission lays foundations for 2001 budget proposals”, Press release, Brussels, 23 February 2000.

communication on the CARDS-Programme that a total amount of 5.5 billion Euro would be needed to finance the CARDS-programme 2001 to 2006. An additional 1.85 billion Euro were already reserved in category 4. 1.65 billion Euro had to be raised by cuts in other foreign policy areas. The rest would be covered by a transfer of 1.8 billion Euro (300 million Euro p.a.) from agriculture (category 1 of the Financial Perspective) to external actions.

The Council again showed no willingness to agree on a financial revision. However, a slight but important modification could be observed. More explicitly than in the last year, the Council argued that the Commission should present new estimates on the needs in the Balkans before considering a revision of the Financial Perspective. At the informal Trialogue held in Lisbon on 24 February, it pointed out that it was especially against reducing the ceiling in agriculture in order to lift the ceiling in external affairs. Later on, this position was confirmed by a note the Budget Committee of the Council on 20 March produced for COREPER in light of another Trialogue with the Commission and the EP. This note seemed to ignore the compromise reached in December 1999. Instead, it was stressed that the Financial Perspective as adopted in Berlin in March 1999 formed the basis for all future considerations.⁴⁷

In the EP, a heated debate arose. Though a large majority seemed to stick to the position to demand a revision of the Financial Perspective, several prominent MEPs from all political groups seriously criticised the idea of "instrumentalising" CAP resources as a "quarry" for other policies. It was deemed necessary to stop such moves right at the beginning. Of course, the Commission's proposals were perfectly in line with the rules of the IIA of May 1999 which demand analysis of all possible alternatives before asking for new money.

A close look at the proposal of the Commission to transfer money from agriculture to another category of action shows that it has nothing to do with using it as a "quarry". Agricultural expenditures are so-called obligatory expenditures. This means that if, in 2006, there will not be enough resources in category 1 to meet the figures as defined by the Financial Perspective, new money will have to be put into category 1. In other words, the Commission's idea is to postpone the question of "fresh" money to the future. Depending on the development of prices for agricultural products or the exchange rate between Dollar and Euro, it might well be in 2006 that less money than expected is needed in category 1.

It can be assumed that Commissioner Schreyer expected opposition against the transfer of resources from category 1 to category 4. After all, she first had to convince her colleagues to agree to this concept, including Franz Fischler, the Commissioner responsible for agriculture.

⁴⁷ „Rat der Europäischen Union: I-Punkt-Vermerk des Haushaltsausschusses für den Ausschuss der Ständigen Vertreter betreffend Haushaltsverfahren – Trilog über die für den Haushaltsplan 2001 in Betracht zu ziehenden Prioritäten,“ Brüssel, 20.3.2000.

For many, agriculture still is a sacred cow. However, after the Commission had fulfilled its obligation to come forward with a proposal firmly based on the rules of the IIA, it believed that it was now the turn of the other players to come up with better proposals if they did not like the Commission's approach.

The Council did not table any alternative. Instead, at the European Council in Lisbon on 23 and 24 March, it asked the Commission to come forward with a waterproof justification that indeed 5.5 billion Euro had to be reserved for the Balkans in the next five years, thus again turning the tables. When Prodi tried to gain the consent of the Heads of State and Government on this amount, he ran into stiff opposition.

Nevertheless, on 9 May, the Commission formally presented a proposal for a revision of the Financial Perspective which concurred with what had been voiced on 23 February.⁴⁸ The proposal contains the following breakdown:

	2000	2001	2002	2003	2004	2005	2006	Total
Albania, Croatia, Bosnia-Herzegovina, Macedonia, Montenegro	203	255	230	210	210	200	200	1508
Serbia	-	40 (+200)*	320	420	420	430	430	2060 (+200)*
Kosovo	310	350	240	110	30	30	30	1100
Regional Cooperation	28	80	90	90	90	90	90	558
Financial Assistance	pm**	75	pm	pm	pm	pm	pm	75
Total	541	800 (+200)*	880	830	750	750	750	5300 (+200)*

* Flexibility Instrument

** pm= pour memoire (money can be put in the line if necessary)

Interestingly, more than 2 billion Euro are allocated for Serbia. The Commission's argument is that the Union needs to prepare for changes and send a clear signal of its intention to assist Serbia as soon as President Milosevic is toppled and a democratic change takes place. As long as this change does not come about, the amounts for Serbia remain blocked.

According to the Commission, 5.5 billion Euro will be needed for the CARDS programme until 2006 if Serbia should undergo a democratic change already in 2001, and 5.3 billion Euro if the change takes place in 2002. The 200 million Euro necessary to cover the additional needs in 2001 will be added by again using the Flexibility Instrument.⁴⁹

⁴⁸ „Mitteilung der Kommission an den Rat und das Europäische Parlament zur Änderung der Finanziellen Vorausschau (2001-2006), Finanzierung des Hilfsprogramms für die westliche Balkanregion, Neuordnung der Finanzhilfe für Malta und Zypern“, Brüssel, 9.5.2000.

⁴⁹ See also Agence Europe, 11 May 2000, and Agence Europe 10 May 2000.

3.4. Prospects and Comments

What are the prospects for the coming budgetary negotiations? At last, both the Council and the EP have detailed budgetary figures on the table to work with. However, with the exception of Kosovo, the prospective amounts are still not known. This leaves all institutions in a rather unpleasant situation, the exception being the Council which can adopt a strategy of wait and see.

The Commission and especially the EP are left in a dilemma. On the one hand, parliamentarians have to admit that the Council justly asks for better justifications. After all, they have demanded the same even before the Council did so. On the other hand, they strongly oppose the Council's uncompromising negotiation stance which at least comes very close to a breach of both wording and intention of the IIA which was designed to reduce conflict and not to be instrumentalised in traditional power struggles.

At the same time, the EP seems to be unable to give unequivocal support to the Commission. Whereas MEPs warmly welcome the Commission's multi-annual approach and its general willingness to prepare a revision of the Financial Perspective, it is far from clear whether a majority would support the details of the proposal. In the meetings of the Committee of Budget on 23/24 May and 5/6 June, MEPs from all political groups voiced more criticism than approval. Contentious issues are, for example, the reduction of expenditure in agriculture in favour of increases in areas of external actions and the designation of the Flexibility Instrument for Serbia in 2001. In addition, the rapporteur of the EP on the Inter-institutional Agreement, Colom y Naval, objected to several uncertainties in the Commission's proposal. For example, it is not clear where exactly in the field of agriculture the Commission could try to free 300 million Euro p.a. >from 2003 to 2006.⁵⁰ Another difficult question is whether it makes sense to reserve more than 2 billion Euro for Serbia. It is not clear at all that in the coming years a political change will occur in Belgrade which would put new financial responsibilities on the EU. In order to finance this potentially dead reserve, allocations to other foreign policy areas needed to be cut from 2001 onwards – a tough political decision.

The Commission holds the key to open up the political deadlock. Since the Council shows no inclination to cooperate with the EP,⁵¹ MEPs would probably support the general line of the Commission's approach as soon as sound estimates support the figures. MEPs have made clear that they are willing to consider cuts in other policy areas as long as the other part of the budgetary authority acknowledges the fact that the challenge in the Balkans forces the Union

⁵⁰ See also Working document No. 3 on the proposal for a revision of the Financial Perspective, Budget Committee, European Parliament, Rapporteur: Colom y Naval MEP, 15 May 2000.

⁵¹ See Agence Europe, 10 May 2000, p. 9.

to develop a multi-year programme for the Balkans, to adapt the Financial Perspective, and to increase overall resources to a limited extent.

Parliamentarians' patience with, as they see it, the Council's strategy of ignoring joint declarations and sacrificing long-standing political commitments in order to finance the Balkan assistance is running out. They are not willing to tolerate a negotiation stance which implies no negotiation at all. The national finance ministries' way of thinking in the Balkans issue is seen as another proof of the more general perception that the Council is destroying the Union's credibility by entrusting it with ever more political responsibilities while at the same time refusing to provide it with adequate resources. It could be argued that even without the Balkan issue, the Financial Perspective does not cover the demands which the Union must confront in the coming years. Especially enlargement - it is still an open question whether or not farmers in new member states will immediately profit from direct payments - is likely to break the limits of current financial planning.⁵²

A further issue is intensifying tensions. The simple existence of a formal proposal for a revision of the Financial Perspective has changed the rules of the game. By the provisions of the IIA, the Council is legally obliged to react on this proposal in a formal way. In more detail, the Council is asked to negotiate with the EP and the Commission on what is going to happen with this proposal before the first reading of Budget 2001 in September 2000. So far, the Council shows no willingness whatsoever to engage in formal negotiations. To the contrary, several attempts of the President of the EP Budget Committee to organise an informal Trialogue already in June 2000 have been without success. The Portuguese Presidency answered that it could not convince governments to give a mandate for negotiations.

This, in turn, could provoke the EP to accuse the Council to breach the IIA. First loud thoughts about going for this option were answered with quiet threats of the Council that it might retaliate by changing the Financial Regulation or even the budgetary provisions of the Treaty in order to weaken the EP's budgetary powers.

This tactical exchange of "views" alone indicates how strongly the political climate between the two parts of the budgetary authority has deteriorated. Given this constellation, it is likely that negotiations on the Community budget 2001 and the future of the Financial Perspective and the IIA become even more conflictive than in 1999. The only chance could rest in the fact that France is taking over the EU Presidency in July. The French government should be strongly interested in successful budgetary negotiations between the Council, the EP and the Commission. Otherwise, not only the budgetary negotiations but also political decisions in the Union in general, e.g. on the reform of the treaties or the adoption of a charter of basic rights,

⁵² See for example Gaetana Trupiano: Enlargement of the European Union and its Impact on EU Institutions and Budget, in: *The European Union Review*, Vol. 4, No. 3, 1999, pp. 65-85.

might be negatively influenced. It is unclear which new budgetary proposals as regards the Balkans could be tabled by France. However, already a change of tone in the Council's negotiation stance could pave the way for more cooperative talks.

4. Conclusions

Organising the institutional and legal structures necessary to translate EU assistance to the Balkans into concrete projects on the one hand, and inter-institutional negotiations between the Council, the EP and the Commission about the Union's financial contribution to the region on the other hand, are different issues. However, in one way or another, both influence the perception of the Union's performance in the Balkans and the credibility of its aspiration to become an influential actor in international security politics.

As regards the infrastructure of assistance to the Balkans, it is obvious that the international standing of the EU has been harmed by news about reconstruction efforts getting off the ground too slowly and too uncoordinatedly. The new concept of the Stabilization and Association Process, the new CARDS programme, and the Commission initiative to reform external assistance management raise hopes, however, that over time, the situation might improve. In any case, any judgement on the EU's performance should take into account the following considerations which make clear that effective external action is not only a "reflection of internal cohesion".⁵³

First, the EU's institutions in general and the Commission in particular have never been involved in managing a political task of comparable political importance and complexity. In the Balkans, the Union is not only asked to provide traditional foreign policy guidance. In practice, the challenge comes close to lay the foundations of democratic governance in a whole region which, with limited exceptions, is at best in a state of "cold peace". So far the willingness of the actors on the ground to cooperate with each other and with the international community has been limited and dominated by diverging interests.⁵⁴

Second, neither the Council nor the Commission have ever been in a position to draw up something like a conclusive "master plan" of how to address the problems of the region. Instead, for various reasons, they could only react to changing developments. It could be argued that both national governments and EU institutions were driven by the sequence and pace of moves made by the Serbian dictator Milosevic and other regional actors in the Balkans tragedy. This resulted in rather short-sighted political answers and in administrative structures which are often characterized by improvisation.

⁵³ Susanna Di Feliciantonio: EU Foreign Policy and Albania, in: *European Foreign Affairs Review*, Vol. 4, No. 4, 1999, p. 531.

⁵⁴ For the actual situation in Kosovo, see, for example, David Rohde: Kosovo seething, in *Foreign Affairs*, Vol. 79, No. 3, May-June 2000, pp. 65-79.

Third, concerning the Balkans, a proliferation of actors can be observed. On the one hand, the institutions of the EU are competing not only with national governments but also with other international organisations and financial institutions with their own bureaucratic interests. On the other hand, the institutions of the EU themselves have not been able to speak with a single voice. Not only national governments and the EU High Representative for CFSP, but also the Commissioners involved in the different tasks of organising the EU's assistance and the President of the Commission are using the Balkans issue to enhance their profile.

This experience seems to support the critics of an institutional construction which places the EU High Representative for CFSP in the orbit of the Council instead of firmly entrenching it within the Commission. Recent reforms in the Commission's external assistance services might clarify the situation within the Commission. This, however, does not reduce the potential of competition and conflict between the Commission and the CFSP High Representative. Only recently, Commissioner Patten produced an internal paper in which he heavily criticises the Council of conducting a schizophrenic EU external policy. The instalment of Javier Solana as EU High Representative for CFSP increased tensions between EU member states' governments and the Commission instead of reducing them. Solana claimed competences which belonged to the Commission. Again and again, Patten points out, the EU High Representative proposed new half-baked projects for the Balkans which the Commission had to fill with substance afterwards. He even asks Solana to develop more consistent strategies and "to put more flesh on the bones" of his actions.⁵⁵

Fourth, the Commission, which has to organise assistance to the Balkans without additional personnel, goes through a difficult period of internal structural reform. After the EP's vote of no confidence against the Commission in January 1999 and the formal resignation of all Commissioners on 15 March 2000, the Union had to carry on with an administrative vacuum at its centre at least until September 1999. Only then was the new Commission inaugurated. Since then, Romano Prodi and his team have not been able to present a clear answer to the allegations of fraud and corruption, an answer which is urgently necessary to lay the foundations for strong political leadership.

In such a situation, the increasingly conflictive debate between Council and EP on the financial and budgetary details of EU assistance to the Balkans seriously endangers the coherence and credibility of the EU's role in the Balkans. Instead of compensating for the lack of vision and leadership on behalf of the Commission, the Council and the EP are engaging in a budgetary struggle which is increasingly destructive for the cohesion between, and the credibility of, EU institutions.

⁵⁵ See Udo Bergdoll: Ein Kommissar durchschaut das Muskelspiel, in: Süddeutsche Zeitung, 13.6.2000.

Mainly the Council must take the blame for this. Competition between foreign and financial ministers makes it impossible for it to define a common view on the EU's political priorities among member states. In addition, national finance ministers seem to be unable or unwilling to conduct European budgetary policy as a policy of its own. They appear to be locked in the logic of national budgetary policy which, of course, tries to keep national contributions to the Community budget as low as possible. Finally, contrary to general political rhetoric, the Council tends to treat the EP with arrogance and ignorance at least in budgetary affairs.

The Commission needs to be asked why the trio made up of President Prodi, Commissioner Patten and Commissioner Schreyer is not able to accompany its multi-year proposal for a new Balkan programme for reconstruction with conclusive evaluations of what exactly needs to be done in the Balkans and which financial resources are necessary to meet these demands. While this is a difficult task in itself, it seems that such a move is blocked not only by virulent competition within this trio and by lack of leadership on the part of the President, but also by diverging interests between the cabinets of the Commissioners and the administrative services.

Compared with the Commission and especially the Council, the EP is the only institution following a credible line. The fact that institutional interests vis-à-vis the Council and political and financial needs in the Balkans coincide favourably makes it certainly easier for the EP to go this way. However, whereas the Council tends to sacrifice old political priorities and obligations as soon as new responsibilities arise, the EP has constantly argued in favour of a compromise line entailing a sensible re-definition of political priorities and financial resources. Instead of just asking for new money, it has demonstrated the ability to contribute to the efforts of budgetary consolidation. Through its budgetary powers in the field of EU external action, the EP is playing an increasingly important role in EU Foreign Policy.

It is difficult to predict, however, whether the constructive contribution of the EP is going to alter the course of action in the Balkans significantly. Politically, it is still national governments and not the EU High Representative, the Commission or the EP who is setting the agenda. Nevertheless, the EP can have a positive influence by generating strong political pressure and by again and again exposing the shortcomings of the approaches of the Council and the Commission.

Annex I

EU assistance to the Balkan 1991 to 1999**1. EU assistance to the Western Balkans, 1991-1999**

1991-1999 EU assistance to Southeast Europe per country and donor (in million Euro)					
Beneficiary country	European Community	Member States*	EIB	EU Total	EBRD
ALBANIA	816.73	712.80	46.00	1.575.53	68.00
BOSNIA-HERZEGOVINA	2.061.87	507.90	0.00	2.569.77	70.00
CROATIA	353.76	1.165.90	0.00	1.519.66	511.00
FEDERAL REPUBLIC OF YUGOSLAWIA (FRY)**	471.80	712.40	0.00	1.184.20	0.00
FORMER YUGOSLAVIAN REPUBLIC OF MACEDONIA (FYROM)	403.89	178.20	60.00	642.09	143.00
Regional Cooperation	462.15	0.00	0.00	462.15	0.00
TOTAL A	4.570.21	3.277.20	106.00	7.953.41	792.00
ROMANIA	1.813.20	3.069.40	1.134.50	6.017.10	1.283.00
BULGARIA	1.480.50	754.80	751.00	2.986.30	296.00
TOTAL B	3.293.70	3.824.20	1.885.50	9.003.40	1.579.00
TOTAL A + B	7.863.91	7.1101.40	1.991.50	16.956.81	2.371.00

Source: European Commission, 24 March 2000.

* The figures for the member states are incomplete. They do not include the contributions for 1998 and 1999 since some member states have not made available their contributions in these two years. Total A includes PHARE, OBNOVA, MEDIA, Democracy & Human Rights, Demining, Humanitarian Aid, Food Security and Macro-Financial assistance.

** Serbia, Montenegro, Kosovo

1991-1999 EC assistance to the Western Balkan per year, country and programme (in million Euro)							
Country	1991-94	1995	1996	1997	1998	1999	TOTAL
ALBANIA							
Phare	244.00	88.00	53.00	68.90	42.50	101.50	597.90
Humanitarian Aid (ECHO)	4.13	1.15	1.65	16.30	11.00	104.07	138.30
FEOGA (DG AGRI)	120.00	0.00	0.00	0.00	0.00	0.00	120.00
Food Security				10.80	0.00	5.50	16.30
Democracy and Human Rights		1.00	0.60	0.40	0.80	n.a.	2.80
BOP* support (DG ECFIN)						20.00	20.00
TOTAL	368.13	90.15	55.25	96.40	54.30	231.07	895.30
BOSNIA-HERZEGOVINA							
Phare + Obnova			230.89	205.10	190.64	118.36	744.99
Humanitarian Aid (ECHO)	495.26	145.03	142.45	105.00	87.95	58.90	1.034.59
Mostar, customs. voluntary return of refugees and demining		70.00	65.40	39.90	15.00	13.50	203.80
Media	0.21	0.65	1.65	4.09	2.24	2.40	11.24
Democracy and Human Rights		0.70	4.80	4.80	1.80	n.a.	12.10
BOP* support (DG ECFIN)						60.00	60.00
TOTAL	495.47	216.38	445.19	358.89	297.63	253.16	2.066.72
CROATIA							
Obnova			7.02	8.59	15.00	15.00	45.61
Humanitarian Aid (ECHO)	204.77	38.43	21.15	14.50	6.95	8.00	293.80
Media	0.09	0.31	0.72	1.67	0.59	0.00	3.38
Democracy and Human Rights			0.70	2.20	0.60	n.a.	3.50
Demining					1.00	0.50	1.50
Customs (DG TAXUD)						1.00	1.00
TOTAL	204.86	38.74	29.59	26.96	24.14	24.50	348.79
FRY							
Obnova			0.00	0.00	12.70	153.90	166.60
Humanitarian aid (ECHO)	170.25	36.87	23.40	13.50	11.20	205.67	460.89
Media	0.37	1.18	0.37	3.83	5.38	3.30	14.43
Democracy and Human Rights		1.90	0.70	0.80	2.50	n.a.	5.90
Common Foreign and Security Policy Assistance					3.00	2.00	5.00
Food security (DG DEV)						20.90	20.90
TOTAL	170.62	39.95	24.47	18.13	34.78	385.77	673.72
FYROM							
Phare + Obnova	60.00	25.00	25.00	33.00	25.00	47.00	215.00
Humanitarian aid (ECHO)	36.52	9.15	0.00	0.00	0.00	39.81	85.48
Media	0.05	0.28	0.00	0.21	0.28	0.00	0.82
Democracy and Human Rights				0.50	0.20	n.a.	0.70
BOP* support (DG ECFIN)				40.00	0.00	80.00	120.00
TOTAL	96.57	34.43	25.00	73.71	25.48	166.81	422.00
Regional							
Phare + Obnova					7.00	0.20	7.20
Humanitarian aid (ECHO)	17.10	20.00	0.00	0.00	17.00	39.32	93.42
Media	0.44	0.61	0.00	1.45	1.40	0.70	4.75
Democracy and Human Rights				5.30	0.90	6.40	12.60
TOTAL	17.54	20.61	0.00	6.75	26.30	46.62	117.97
TOTAL	1.353.19	440.26	579.50	580.84	462.63	1.107.93	4.524.50

Source: Working Document No 1 of MEP Jutta Haug, on funding the Balkans in 2001,6. April 2000, PE 289.530

N.B. 1999 "media" allocation for Bosnia-Herzegovina (Euros 2.40 million) is included in the Phare + Obnova allocation (Euros 118.36 million)

* BOP= Balance of Payments

1999 Humanitarian assistance to Kosovo and neighbours in response to Kosovo Crisis	
Country/Area	million Euro
Kosovo	111.7
Serbia	70.3
Montenegro	17.5
FYROM	39.7
Albania	97
Bosnia Herzegovina	2.5
Regional	39.3
Total	378.0

Source: European Commission, 24 March 2000

1991-1999 EU assistance for regional cooperation (in million Euro)									
	91	92 93	94	95	96	97	98	99	Total
PHARE+ OBNOVA							7.00	0.20	7.20
Humanitarian Aid (ECHO)	17.10			20.00	0	0	17.00	39.32	93.42
Media			0.44	0.61	0	1.45	1.40	0.70	4.75
Democracy & Human Rights						5.30	0.90	6.40	12.60
Total				20.61	0.15	6.75	26.30	46.61	117.96

Source: European Commission 24 March 2000.

2. EU assistance to Kosovo

EU assistance in Kosovo 1998-2000 (in million Euro)			
Type of EU support	1998	1999	2000
Reconstruction	7.7	127	275
Humanitarian Aid		378*	50
Exceptional Financial Assistance**			35 (+10)
Total	7.7	505	360 (+10)

Source: European Commission 24 March 2000.

* includes all humanitarian aid for refugees in the whole region

** support to Kosovo's Consolidated Budget; in February 2000 the Commission increased its contribution by 10 million Euro, following an urgent appeal by Mr. Kouchner of UNMIK. On the whole, 80 million Euro were pledged by the international community in budgetary assistance for 2000.

Projects committed in 1998, 1999 and 2000 by the EC Task Force and transferred to European Agency for Reconstruction (programme overview until 3 May 2000 (in 1000 Euro))					
number	Name	committed	<i>Contracted (for information)</i>	paid	paid/ committed
98/ KOS01 B7-541	Obnova 98				
	University of Pristina	4,400	4,400	1,248	28.4%
	Supply of timber	209	209	209	100.0%
	Animal food	2,900	2,900	540	18.6%
	Programme total	7,509	7,509	1,997	26.6%
99/ KOS01 B7-541	Phase I				
	Rehabilitation of dwellings and public buildings	14,000	13,476	11,077	79.1%
	Support to essential public utilities	9,000	8,777	6,329	70.3%
	De-mining	4,000	4,000	3,400	85.0%
	Customs (managed by DGXXI)	3,000	3,000	973	32.4%
	Village employment and rehabilitation	4,500	4,500	4,036	89.7%
	Small scale operations	1,000	957	681	68.1%
	ATA	6,000	1,019	407	6.8%
	Damage assessment	3,500	3,500	2,948	84.2%
	programme total	45,000	39,229	29,851	66.3%
99/ KOS02 B7-541	Phase II - Support for transport and local administration				
	Emergency road repairs	300	278	0	0.0%
	Bridge construction	1,000	242	0	0.0%
	Construction of platform Kosovo-Polje	2,500	1,410	908	36.3%
	Re-establishment of local authority	2,200	2,197	616	28.0%
	programme total	6,000	4,127	1,524	25.4%
99/ KOS03 B7-541	Rehabilitation of Mitrovica hospital				
	programme total	1,000	1,000	235	23.5%
99/ KOS04 B7-546	Economy reconstruction programme for Kosovo				
	Municipal and local investment fund	8,000	449	0	0.0%
	Municipal administration	5,000	402	97	1.9%
	Central administration	2,000	770	207	10.4%
	Registration: ID cards	5,000	4,973	1,389	27.8%
	Postal & Telecommunications	8,000	1,108	219	2.7%
	Energy	13,000	6,126	1,508	11.6%
	Water (major towns)	3,000	2,138	120	4.0%
	Micro credit scheme	1,000	0	0	0.0%
	Rural credit scheme	1,000	63	20	2.0%
	Enterprise management	4,000	96	33	0.8%
	Civil society	500	0	0	0.0%
	Kosovo Protection Corps	5,000	0	0	0.0%
	Feasibility studies	2,000	6	6	0.3%
	Reserve	5,000	0	0	0.0%
	programme total	62,500	16,131	3,599	5.8%
99/ KOS05 B7-541	Supply of snow ploughs for Kosovo				
	programme total	2,500	1,401	863	34.5%
99/ KOS06 B7-546	Exceptional targeted support for public services				
	programme	5,000	5,000	5,000	100.0%

99/ KOS07	Agency for the reconstruction of Kosovo				
B7-546	programme total	5,000	5,000	417	8.3%
00/ KOS01	Exceptional Targeted Support – II				
B7-546	Programme total	30,000	30,000	10,000	33.3%
	TOTAL used (3 financial years) / 2 items	164,509	109,397	53,486	32.51%

Source: European Commission, May 2000

Reconstruction assistance implementation in Kosovo, State: 22 March 2000 (in million Euro)				
	Allocation	Commitment	Contracted	Payments
1998/99	134.7	134.7	67.2	39.4
2000	275	30	30	10

Source: European Commission 24 March 2000

3. EU assistance to Montenegro and Serbia

1998-1999 EU assistance to Montenegro*	
Type of assistance	million Euro
99 Humanitarian Aid (ECHO)	18.0
98-99 OBNOVA	25.0
2000 Obnova (anounced)	20.0**
99 Food Security	10.4 (first 5 Mio Euro paid in December 1999)
99 Help for refugees	6.6
99 Support for electricity imports	2.5
Total (Since April 1998)	ca. 83.0

Source: own insecure compilation based on EU-Commission figures

*Montenegro remains part of the Federal Republic of Yugoslavia but has differentiated itself from Serbia by pursuing a path of political and economic reform and by openness to the West under President Milo Djukanovic. As a result, Montenegro has come under considerable pressure from the regime in Belgrade. Belgrade has closed down trade between Serbia and Montenegro, denying Montenegro access to its most important source of food and medicines. Belgrade's policies are threatening political and economic stability in Montenegro, and Djukanovic's government is facing large budget and balance of payments deficits. The EU provides assistance in order to support the reform path of Montenegro.

**On 20 March 2000 Commissioner Patten announced the plan to double the original 10 million Euro for 2000.

Serbia

Since 1998, a range of political and economic sanctions has been imposed against the FRY as a consequence of to the Kosovo crisis and the repression of independent media (e.g. a visa ban list including members of the regime and their supporters, targeted economic sanctions, a flight ban which recently has been temporarily suspended). These sanctions, however, are structured in such a way as not to prevent EU assistance.

Since 1992, ECHO has been providing substantial humanitarian assistance (which is not subject to political conditionality) to three main target groups:

§ Refugees, e.g. from Bosnia-Herzegovina and Croatia;

§ Displaced persons e.g. from Kosovo;

§ The most vulnerable groups in the FRY, e.g. the poor, the elderly, hospitals

Assistance includes shelter, food, medicines, water supply, and sanitation. In 1999 alone, ECHO spent 75 million Euro of humanitarian assistance to Serbia, excluding what was given in the context of the Kosovo conflict.

In line with support for democratisation and human rights throughout the region, the EU has given support to NGOs and civil society actors in Serbia since 1994. This covers promoting dialogue between different ethnic communities, conflict resolution, training programmes for NGOs, political education etc. Specific support has been given to independent media in order to help them face the repression by the federal and Serbian authorities. Since the beginning of 1998, over 6 million Euro has been dedicated to support independent media in Serbia.

In order to improve the everyday life of the people and to make clear that the responsibility for the present state of affairs rests with the current regime, the EU, in October 1999, has launched the *Energy for Democracy* programme. Its objective is to deliver heating oil to opposition-run municipalities. Over 4 million Euro were allocated to the pilot project for Nis and Pirot. Recently, the programme has been extended to include Kragujevac, Kraljevo, Novi Sad, Sombor and Subotica. Since October 1999, more than 17,000 tons of oil have been delivered. The programme has enabled other donors, e.g. Norway with its *Oil for Democracy* programme (for Uzice, Cacak, Trstenik, Arilje and Pozega), to participate.⁵⁶

⁵⁶ See Commission successfully completes Energy for Democracy in Serbia, Brussels, 25 May 2000, IP/00/527.

4. Results of International Donors' Conferences

Detailed Results of Donors' Conference in July 1999	
Countries/Organisations	million Euro
Austria	36.336
Denmark	71.401
Finland	18.200
France	51.000
Germany	166.170
Ireland	4.444
Italy	4.535
The Netherlands	42.455
UK	137.531
Spain	10.035
Sweden	41.636
Total EU Countries	583.743
Switzerland	71.821
Turkey	38.595
Japan	154.381
Norway	48.664
Slovakia	0.034
Australia	48.494
USA	537.051
Total Non-EU Countries	899.040
Total All Countries	1.482.782
European Community	515.00
World Bank	57.893
CE Social Development Fund	2.000
UN Development Programme (UNDP)	4.824
UNICEF	28.946
Total Organizations	608.663
Total EC + 15 EU member states	1.089.742
Total	2.091.446

Source: European Commission.

Donors' Conference for Bosnia-Herzegovina in 1997		
Donations	million Euro	%
Total Donations	3.254	100%
EU Total + member states	1.321	40.6%
EU Total	649	19.94%

Source: European Commission, GD Research, August 1999.

Annex II

EU assistance to the Balkan 2000-2006**1. Financial Prospective EU 15, 2000-2006⁵⁷**

EUR million - 1999 prices – Appropriations for commitments	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	4092	4280	4390	43770	42760	41930	41660
	0	0	0				
CAP expenditure (excluding rural development)	3662	3848	3957	39430	38410	37570	37290
	0	0	0				
Rural development and accompanying measures	4300	4320	4330	4340	4350	4360	4370
2. STRUCTURAL OPERATIONS	3204	3145	3086	30285	29595	29595	29170
	5	5	5				
Structural Funds	2943	2884	2825	27670	27080	27080	26660
	0	0	0				
Cohesion Fund	2615	2615	2615	2615	2515	2515	2510
3. INTERNAL POLICIES	5900	5950	6000	6050	6100	6150	6200
4. EXTERNAL ACTION	4550	4560	4570	4580	4590	4600	4610
5. ADMINISTRATION	4560	4600	4700	4800	4900	5000	5100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	3.12	3.12	3.12	3.120	3.120	3.120	3.120
	0	0	0				
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instrument	1.04	1.04	1.04	1.040	1.040	1.040	1.040
	0	0	0				
PHARE (applicant countries)	1.56	1.56	1.56	1.560	1.560	1.560	1.560
	0	0	0				
TOTAL APPROPRIATIONS FOR COMMITMENTS	9199	9338	9380	93005	91465	90795	90260
	5	5	5				
TOTAL APPROPRIATIONS FOR PAYMENTS	8959	9107	9413	94740	91720	89910	89310
	0	0	0				
Appropriations for payments as % of GNP	1.13	1.12	1.13	1.11%	1.05%	1.00%	0.97%
	%	%	%				
AVAILABLE FOR ACCESSION (appropriations for payments)			4.14	6.710	8.890	11.44	14.22
			0			0	0
Agriculture			1.60	2.030	2.450	2.930	3.400
			0				
Other expenditure			2.54	4.680	6.640	8.510	10.82
			0			0	0
CEILING ON APPROPRIATIONS FOR PAYMENTS	8959	9107	9827	10145	10061	10135	10353
	0	0	0	0	0	0	0
Ceiling on appropriations for payments as % of GNP	1.13	1.12	1.18	1.19%	1.15%	1.13%	1.13%
	%	%	%				
Margin	0.14	0.15	0.09	0.08%	0.12%	0.14%	0.14%
	%	%	%				
Own resources ceiling	1.27	1.27	1.27	1.27	1.27	1.27	1.27
	%	%	%	%	%	%	%

⁵⁷

See Presidency Conclusions of the European Council in Berlin, 24/25 March 2000.

2. Financial Framework EU 21

EUR million - 1999 prices - Appropriations for commitments	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	40920	42800	43900	43770	42760	41930	41660
CAP expenditure (excluding rural development)	36620	38480	39570	39430	38410	37570	37290
Rural development and accompanying measures	4300	4320	4330	4340	4350	4360	4370
2. STRUCTURAL OPERATIONS	32045	31455	30865	30285	29595	29595	29170
Structural Funds	29430	28840	28250	27670	27080	27080	26660
Cohesion Fund	2615	2615	2615	2615	2515	2515	2510
3. INTERNAL POLICIES	5900	5950	6000	6050	6100	6150	6200
4. EXTERNAL ACTION	4550	4560	4570	4580	4590	4600	4610
5. ADMINISTRATION	4560	4600	4700	4800	4900	5000	5100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	3.120	3.120	3.120	3.120	3.120	3.120	3.120
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instrument	1.040	1.040	1.040	1.040	1.040	1.040	1.040
PHARE (applicant countries)	1.560	1.560	1.560	1.560	1.560	1.560	1.560
8. ENLARGEMENT			6.450	9.030	11.610	14.200	16.780
Agriculture			1.600	2.030	2.450	2.930	3.400
Structural operations			3.750	5.830	7.920	10.000	12.080
Internal policies			730	760	790	820	850
Administration			370	410	450	450	450
TOTAL APPROPRIATIONS FOR COMMITMENTS	91995	93385	100255	102035	103075	104995	107040
TOTAL APPROPRIATIONS FOR PAYMENTS	89590	91070	98270	101450	100610	101350	103530
<i>of which: enlargement</i>			4.140	6.710	8.890	11.440	14.210
Appropriations for payments as % of GNP	1.13%	1.12%	1.14%	1.15%	1.11%	1.09%	1.09%
Margin	0.14%	0.15%	0.13%	0.12%	0.16%	0.18%	0.18%
Own resources ceiling	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%

3. Commission/World Bank-Study of 3 November 1999⁵⁸

On 3 November 1999, the Commission and the World Bank presented a study with first estimates total needs in the Balkans. It argues that 2,3 billion US Dollars will be required to support a 4- to 5-year programme for reconstruction and recovery. It distinguishes between a first phase until December 2000 and a second phase from 2001 to 2003. In addition, the study stresses that the estimates have to be refined as more information becomes available and policy discussions evolve. For example, the 2,3 billion US-Dollars do neither include support for Kosovo's Budget in 2001 to 2003 and beyond nor humanitarian requirements (which might be covered by ECHO appropriations). In most sectors, substantial operating expenditures will also need to be financed to ensure proper operation or service delivery.

It is not clear how the figures in this table fit together with the estimate of the Commission of 10 May 2000 that it will need 1.1 billion Euro for Kosovo until 2006.

Estimates on needs in Kosovo in million US\$, 3 November 1999 (Study by World Bank and European Commission)					
Activity	First Phase (until December 2000)			Second Phase (2001-2003)	Total
	Until March 2000	April to Dec. 2000	Total		
Agriculture	8	86	94	141	235
Privat Sector Develop./ Industry	16	104	120	110	230
Institutions	15	35	50	50	100
Housing	36	270	306	214	520
Water and Waste	30	49	79	181	260
Landmine-Clearing	7	14	21	9	30
Education	11	38	49	36	85
Health	16	24	40	45	85
Telecommunications	15	26	41	54	95
Energy	51	78	129	281	410
Transport	12	57	69	96	165
Subtotal	217	781	998	1.217	2.215
BOP Support	68	60	128	-	-
Total	285	841	1.126	1.217	2.343

Source: European Commission/World Bank, November 1999.

⁵⁸ See "Toward Stability and Prosperity, A Programme for Reconstruction and Recovery in Kosovo", European Commission, World Bank, UNMIK, 3 November 1999.

4. Results of Regional Funding Conference in Brussels, March 29-30, 2000⁵⁹

Pledges for Quick Start Stability Pact: Regional Projects/Programmes (in million Euro)						
Donor (country/institution)	Cross Table Initiatives	Democratisation/ Human Rights	Economic Reconstruction, Development, Cooperation	Security Issues	Unallocated	Total (of all four sectors)
Countries						
Austria	0.00	5.34	1.85	0.46	0.00	7.65
Canada	0.00	28.63	10.74	11.45	0.00	50.82
Czech Republic	0.23	6.94	16.79	0.56	0.00	24.52
Denmark	0.00	0.06	0.00	0.00	9.94	10.00
Finland	0.34	0.67	2.78	0.00	0.00	3.79
France	0.15	2.10	20.65	2.10	0.00	25.00
Germany	2.56	47.04	93.87	6.14	0.00	149.61
Greece	0.42	2.35	7.30	0.74	0.00	10.81
Hungary	0.00	1.46	0.04	0.05	0.00	1.55
Ireland	0.00	1.27	0.00	0.00	0.00	1.27
Italy	0.00	32.07	115.48	1.03	0.00	148.58
Luxemburg	0.00	1.67	0.90	0.29	0.00	2.86
Netherlands	0.00	27.50	38.75	1.50	0.00	67.75
Norway	0.20	2.28	5.28	2.23	2.36	12.35
Poland	0.00	1.04	0.00	0.00	0.00	1.04
Portugal	0.00	0.00	6.50	0.00	0.00	6.50
Slovenia	0.00	0.76	4.00	0.38	0.38	5.52
Spain	0.00	0.30	41.00	0.00	0.00	41.30
Sweden	0.00	0.16	2.38	0.55	0.00	3.09
Switzerland	0.31	5.91	10.58	0.00	0.00	16.80
United Kingdom	0.00	0.00	19.10	0.00	35.24	54.34
United States	0.21	24.02	49.18	7.16	0.00	80.57
Other *	0.00	2.50	55.00	2.50	0.00	60.00
All countries	4.41	194.07	502.17	37.13	47.92	785.70
Of which EU countries	3.46	123.03	365.56	15.29	45.18	552.52
Institutions and Organizations:						0.00
European Commission	0.00	191.00	325.00	15.55	0.00	531.55
Black Sea Trade and Development Bank	0.00	0.00	41.50	0.00	0.00	41.50
Council of Europe Development Bank	0.00	75.00	75.00	0.00	0.00	150.00
IFIs	0.83	0.00	867.17	25.94	0.00	893.94
Total Institutions and Organizations	0.83	266.00	1.308.66	41.49	0.00	1.616.98
Total European Commission + EU countries	3.46	314.03	690.56	30.84	45.18	1.084.07
Grand Total:	5.24	460.07	1.810.83	78.62	47.92	2.402.68

* Includes pledges by countries which do not wish to make part of their pledge public at this stage of the budgetary procedure.

⁵⁹ See Working Document No. 2 on Balkans: State of play, Facts and Figures, Committee on Budgets, European Parliament, Rapporteur: Colom y Naval MEP, 29 May 2000

5. The Commission's formal proposal of 10 May 2000 on a revision of the Financial Perspective

On 10 May 2000, the Commission presented a proposal for a revision of the Financial Perspective. According to this proposal, "raising the heading 4 ceiling by €300 million each year from 2001 to 2006 should make it possible to cover the additional needs for the new CARDS programme (...)".⁶⁰

Commission Proposal for a revision of heading 4, 10 May 2000 (in million Euro)						
	2001	2002	2003	2004	2005	2006
CARDS programme	800 (+200)	880	830	750	750	750
Other external action	4145	4196	4345	4496	4591	4708
Total	4945 (+200)	5076	5175	5246	5341	5458
Present ceiling (current prices)	4735	4840	4948	5058	5170	5285
Raising of ceiling*	+300	+300	+300	+300	+300	+300
New ceiling	5035	5140	5248	5358	5470	5585
Margin	90	64	73	112	129	127
Flexibility instrument	(200)					

* by reducing the ceiling in category 1 (agriculture) by the same amounts

⁶⁰ "Toward Stability and Prosperity, A Programme for Reconstruction and Recovery in Kosovo", European Commission, World Bank, UNMIK, 3 November 1999.

CARDS-Programme: Breakdown of the financial envelope foreseen 2000-2006 (in million Euro)								
	2000	2001	2002	2003	2004	2005	2006	Total
Albania, Croatia, Bosnia-Herzegovina, Macedonia, Montenegro*	203	255	230	210	210	200	200	1508
Serbia	-	40 (+200)	40 280	40 380	40 380	40 390	40 390	240 1820 (+200)
Kosovo	310	350	240	110	30	30	30	1100
Regional Cooperation	28	80	90	90	90	90	90	558
macro-financial assistance	pm*	75	pm*	pm*	pm*	pm*	pm*	75
Total	541	800 (+200)	880	830	750	750	750	5300 (+200)

Source: European Commission, May 2000.

* including macro-financial assistance.

6. Funding for Kosovo in Community Budget 2000

EU assistance to Kosovo in 2000	
Community budget 2000	€ million
Reconstruction programmes	150
Participation in UNMIK	30
Agency for Reconstruction (running costs)	15
Exceptional macrofinancial assistance (B7-532)*	35
Pillar IV staffing and resources	10
Sub-total immediately available (B7-546)	240
Carry-over 1999	30
Total for reconstruction (OBNOVA) (B7-546)	270
Total for Humanitarian aid (ECHO) (B7-210)	50
Possible additional funding from redeployment	40
TOTAL	360

Source: European Parliament, May 2000.

* Lines of Community Budget
