

Breaking out of the Balkan Ghetto: Why IPA should be changed

1 June 2005

Executive summary

As popular anxiety over further enlargement rises in the EU, the European Commission has produced a draft regulation for an Instrument of Pre-Accession Assistance (IPA)¹ which sets down the EU's present assumptions and planning for the Western Balkans. It assumes that Serbia-Montenegro and Kosovo, Albania and Bosnia-Herzegovina will achieve candidate status around 2010, and membership around 2020 – far behind the expectations of the region.

The strategy towards the region implicit in the draft regulation is essentially passive – it neither increases the amount of assistance, nor changes its quality. The countries of the Western Balkans will not have access to the full package of pre-accession assistance for at least another five years. This passive approach risks compromising the EU's influence in the region at a time when some of the most difficult political steps – such as determining the status of Kosovo – will need to be taken.

We propose that the potential candidates in the Western Balkans should be given the chance to progress towards EU membership on an equal footing with previous candidates. Serbia-Montenegro and Kosovo, Bosnia and Herzegovina and Albania should be given at least the same kind of support in 2007 as Bulgaria and Romania were given in 1997. If member-state building were to begin in 2007, it may be possible for countries of the region to achieve EU membership by 2014, in accordance with the ambitious agenda set out by the International Commission for the Balkans.

The draft IPA regulation should therefore be changed to make pre-accession assistance available to both official and potential candidates. The trigger should be the signing of Stabilisation and Association Agreements (expected in 2006), rather than formal candidate status. This would not increase the volume of assistance in the short term, as each country would require time to put in place the structures needed to benefit from this assistance. However, it is critical that they begin the process of member-state building immediately.

Providing pre-accession assistance in the Western Balkans would only strengthen the EU's political leverage in the region. The EU would retain the conditionality linked to the opening of membership negotiations, based on the Copenhagen criteria. At the same time, it would be in a much stronger position to push for governance reforms within the framework of pre-accession assistance. It would create a credible perspective on membership within a decade, giving new heart to all those struggling for stability and prosperity in the region.

¹ Draft *EU Council Regulation Establishing an Instrument of Pre-Accession Assistance* defines the quantity and type of EU pre-accession assistance for the budget period 2007-2013. The draft, together with previous ESI reports on the issue and a summary of the debate, can be found on www.esiweb.org.

Breaking out of the Balkan Ghetto: Why IPA should be changed

The entire edifice of European Union strategy towards South Eastern Europe rests on the eventual integration of the countries of the Western Balkans into the EU.

The promise of EU membership is the basis for all EU conditionality in the region, from compliance with the Hague Tribunal to institutional reforms, from trade liberalisation to the unresolved strategic issues, like implementation of the Ohrid Accords in Macedonia or deciding on the final status of Kosovo. Every official statement on Bosnia mentions the need to move “from Dayton to Brussels”; every proposed strategy for Kosovo assumes that the uncompromising positions of Serbia and Kosovo will moderate under a “common European roof”.

By 2007, with the next enlargement, the region will be surrounded entirely by EU members. It is only the prospect of following the countries of Central Europe and the Eastern Balkans (Bulgaria and Romania) into the EU that gives the countries of the Western Balkans any hope of avoiding becoming a ghetto of underdevelopment in the midst of Europe.

Yet at this moment, popular anxiety over any further enlargement, now very apparent in the internal politics of EU member states, risks weakening the most effective tool in the hands of the EU for dealing with this troubled region. Unless the EU can maintain a *credible promise* that the painful process of resolving outstanding political problems and undertaking root-and-branch policy and institutional reforms will actually bring the region closer to EU membership, it risks compromising its leverage and losing the initiative in its long struggle to bring prosperity and stability to the region.

In this context, the debate over the draft regulation for an Instrument for Pre-Accession Assistance (IPA) assumes a critical role. The current IPA draft is problematic on three levels.

1. The total funding it anticipates for the accession process will force the EU to reduce its assistance to the countries in the region in the coming years. This will occur at the very moment when the EU needs its leverage (‘soft power’) in the region to be at its most effective.
2. The assumptions implicit in the proposed budget suggest that the EU itself does not believe that the countries of the region will join the Union until at least 2020 – far behind expectations in the region. This will be deeply disheartening news to advocates of EU integration.
3. Most importantly of all, the key instruments of pre-accession assistance will not to be made available to the potential candidates in the Western Balkans for another five years or more. Unlike in Croatia and Turkey, the EU will not be helping the region to put in place the structures for economic and social

cohesion policies.² In other words, they are not being prepared for EU membership, nor given the assistance they need to tackle their deep social and economic problems.

As a result, signing a Stabilisation and Association Agreement (SAA) will neither increase the volume of assistance (which will decline) nor change its kind (which will remain the same). The IPA regulation is really about maintaining the status quo. Yet in light of the expectations that have been raised in the region, and the difficult political issues which remain to be faced, this may be the most dangerous strategy of all.

If political elites in the Western Balkans cease to believe that EU membership is a credible prospect on their political horizon, the basis for EU influence in the region would weaken. It would leave the governments of the region with little incentive to undertake difficult reforms, and would in all likelihood encourage a return to the destructive politics of the past. The EU would find itself spending more on stabilisation strategies – military or policing missions – and less on development and institutional change.

This would be a disaster not just for the region, but also for Europe's most important foreign policy venture. A credible strategy for integrating the region into the EU, and preventing the emergence of a Balkan ghetto, is critical not just for the region, but also for the EU itself.

A “realist” scenario for Western Balkan accession

Two years after the European Union assured the states of the Western Balkans at its Thessaloniki Summit that they share ‘a common European destination’, how far has the region progressed along the road to Europe?

Croatia is now a candidate, and will begin negotiations once it improves cooperation with the Hague Tribunal. Macedonia signed a Stabilisation and Association Agreement (SAA) in 2001, making it the leader in the region after Croatia. It is widely expected to become a candidate in late 2005, or early 2006 at the latest.

The other three states, however, are a long way behind. Albania began negotiations for an SAA in early 2003, but with no result as yet. Neither Serbia-Montenegro nor Bosnia-Herzegovina have yet received a date for beginning negotiations on an SAA. As High Representative Paddy Ashdown put it, “Bosnia and Herzegovina is now practically the only country from the Atlantic to the Black Sea, with the exception of Belarus, without any legal agreement with the European Union.”³ The same is still true for Serbia-Montenegro. The most optimistic assumption is that they will conclude negotiations for an SAA sometime in 2006.

Where does that leave the region? Bulgaria, due to become an EU member on 1 January 2007, is probably the best comparator available. Bulgaria signed its

² A draft of this regulation prepared by the European Commission as well as previous ESI reports on the issue and reactions can be found on www.esiweb.org.

³ Paddy Ashdown, International Press Briefings, 31 May 2005. www.ohr.int

Association Agreement (a Europe Agreement, predecessor to the SAA) in 1993. It achieved candidate status in 1997, opened negotiations in 2000 and concluded them four years later. In total, Bulgaria's path from Association Agreement to membership will have taken 14 years.

If Serbia-Montenegro and Kosovo, Bosnia-Herzegovina and Albania were to conclude SAAs in 2006 and proceed to make an immediate application for EU membership, then, following the Bulgarian precedent, they would accede to the EU in 2020. This is the "realist scenario".

It assumes that Serbia-Montenegro and Kosovo, Bosnia-Herzegovina and Albania would progress as quickly as Bulgaria did. To some, even this might appear to be an achievement, given the more difficult political environment for further EU expansion today compared to the past decade. However, it is hardly an inspiring vision for the supporters of Europeanisation in the region.

The "realist scenario" for EU accession		
Bulgaria		Serbia-Montenegro, Bosnia, Albania
1993	Association Agreement	2006
1995	AA enters into force	2008
1995	Membership application	2008
1997	Candidate status	2010
2000	Opening negotiations	2013
2004	Closing negotiations	2017
2007	Membership	2020

Reading between the lines of IPA

The European Commission has prepared a draft *Council Regulation Establishing an Instrument of Pre-Accession Assistance (IPA)*, which will determine both the amount and, more importantly, the type of support the EU will make available to the Western Balkans between 2007 and 2013.⁴

For the time being, it remains a draft, and it is not out of the question that the total sum budgeted for the IPA assistance (some €14 billion) will be *reduced* in the tough round of EU budget negotiations to come. It is certain, however, that the money will not be increased beyond the level proposed by the European Commission.

European Union officials do not like to discuss timetables for accession. Each country, they say, progresses through the accession process at its own pace, and will be assessed on its own merits. Yet a look at the proposed IPA regulation reveals that the Commission is indeed budgeting and planning on the basis of the "realist scenario".

⁴ A draft of the IPA Regulation is available on www.esiweb.org

The IPA draft sets out the total envelope of funds available for assistance to both candidate and potential candidate countries, but not the allocation for each country. However, it does state the principles according to which funds will be allocated to the official candidates – Croatia, Turkey and, in due course, Macedonia. The draft regulation states:

“The intention is that future candidate countries should be treated broadly the same as past candidate countries.

As the countries of the Western Balkans become candidate countries..., they will receive per capita per year about the level of assistance established in the financial perspective 2000-2006... for the 10 candidate countries.”

This means that each of the candidates will receive around €27 per capita. For Croatia, this means €20 million per year, and for Macedonia around €4 million per year.⁵ The treatment of Turkey, given its much greater size, is somewhat different.

“For Turkey, taking into account the size and absorption capacity of the country, it is proposed that there will be a gradual increase in assistance over the period 2007-2013, towards this level.”

Presumably, this means that Turkey will begin its negotiations at approximately €1 billion (€14 per capita), increasing progressively to €1.9 billion (€27 per capita) by 2013.

Proposed assistance under the draft IPA Regulation (2007-2013) (million Euro)								
<i>Assistance level</i>	2007	2008	2009	2010	2011	2012	2013	<i>Total</i>
IPA total	1,426	1,631	1,734	1,977	2,294	2,441	2,564	14,067
Croatia ⁶	120	120	120	120	120	120	120	840
Macedonia	54	54	54	54	54	54	54	378
Turkey	1,000	1,150	1,300	1,450	1,600	1,750	1,900	10,150
Non-candidates	252	307	260	353	520	517	490	2,699

By subtracting these figures from the total available under the IPA Regulation, it is possible to calculate the funds which remain for the three potential candidates of the Western Balkans each year. Applying the assistance funds remaining for the potential candidates according to their population (note that EU population assumptions for these countries sometimes vary), gives the following breakdown:

⁵ In the case of Croatia this is what the country is receiving on average in 2005 and 2006. Croatia became an official candidate in 2004.

⁶ If Croatia becomes an EU member during this period, it will no longer be supported under this budget line, and its projected funding will be available to other pre-accession states.

Planned assistance for potential candidates, 2007-2013 (in million Euro)									
	<i>popu- lation</i>	2007	2008	2009	2010	2011	2012	2013	Total
Serbia	8.0m	113	138	117	159	234	233	220	1,214
Kosovo	1.8m	25	31	26	35	52	52	49	270
Montenegro	0.6m	10	12	10	14	21	21	20	108
Albania	3.2m	45	55	47	63	94	93	88	485
Bosnia-Herz.	4.1m	59	71	60	82	119	118	113	622
Total	17.8m	252	307	260	353	520	517	490	2,699
<i>Per capita</i>		€14.16	€17.25	€14.61	€19.83	€29.21	€29.04	€27.53	

This budget illustrates in very concrete terms the Commission's assumptions concerning the region's progress through the accession process. *Per capita* assistance will reach the level available for candidates (€27) only in 2011. This suggests that EU planning for the Western Balkan potential candidates is indeed following the "realist scenario", with candidate status not expected before 2010, and membership well beyond the end of the coming budget cycle.

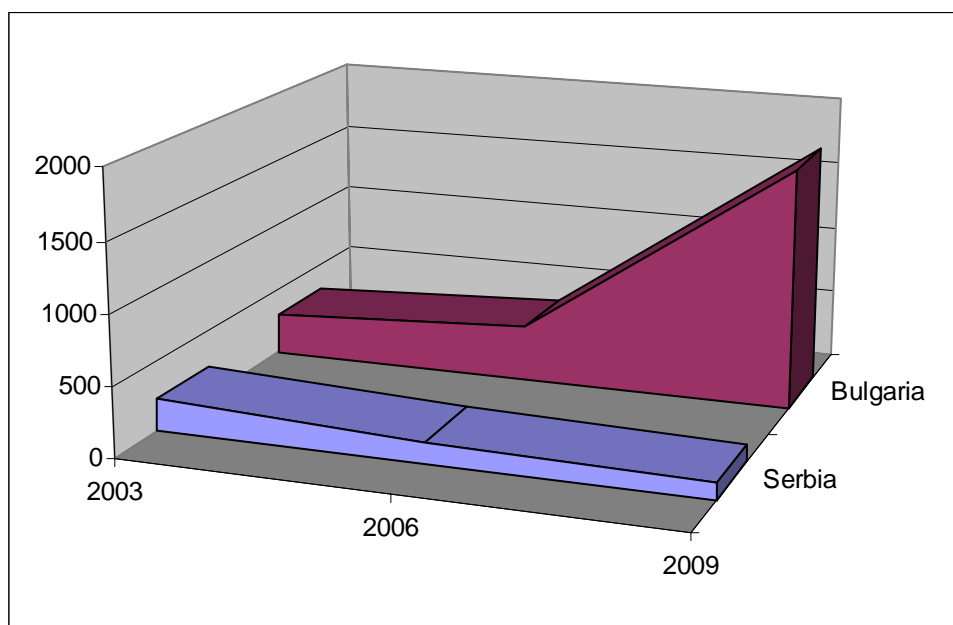
Levels of assistance between 2007 and 2009 are going to be significantly less for the potential candidates in the Western Balkans than they were even three years ago. All countries will receive less than they receive now (with the exception of Bosnia-Herzegovina, where CARDS funding has already fallen to this lower level). In Kosovo, the decline in EU assistance will be particularly steep.

Clearly, no new efforts are planned in the medium term to help the region address its increasingly serious economic and social problems. At most, *ad hoc* mechanisms partly funded from this budget line – such as the Office of the High Representative in Bosnia and the EU Pillar of UNMIK in Kosovo – might be phased out and the money become available for other programs.

The gap between the potential candidates in the Western Balkans and their neighbours will widen considerably over this seven-year period (see graph below). EU assistance to Bulgaria and to other EU members in South Eastern Europe aims to boost the productivity of regions and their enterprises, through investments in infrastructure, (re)training of workers and assistance to farmers. Deprived of this assistance, the Western Balkan economies will be less able to compete on a regional level, and will simply fall further behind.

It is difficult to discern a coherent political strategy in the current IPA draft. The IPA regulation establishes hard constraints on EU policy in the region between now and 2013. Once it is passed, there is no way of mobilising additional EU funds within this budget cycle. Yet some of the most delicate steps in the region are expected during this 2006-2010 period: a resolution of Kosovo's final status; a solution to the Serbia/Montenegro constitutional impasse; an end to the international protectorate in Bosnia. At these key moments, the EU's financial engagement in the region will be at its lowest level since the Kosovo war.

Comparing EU assistance to Serbia and Bulgaria 2003 - 2009 (million €)⁷



	Population	2003	2006	2009
Bulgaria	8 million	300	430	1,600
Serbia	8 million	240	161	117

The quality of EU assistance

Even more important than the amounts of assistance envisaged, however, are the IPA provisions concerning the type of EU assistance which will be made available.

The present IPA draft divides the states of the Western Balkans into two groups:

1. *Potential Candidate Countries* (Annex 1): Albania; Bosnia and Herzegovina; Serbia and Montenegro; Macedonia
2. *Candidate Countries* (Annex 2): Croatia; Turkey.

The potential candidates are to be offered a continuation of the same kinds of assistance provided in recent years under the CARDS programme:

⁷ Sources: sum of annual allocations for Phare, ISPA and SAPARD (Bulgaria 2003), "Communication from the Commission to the Council and the European Parliament. Roadmaps for Bulgaria and Romania" (Bulgaria 2006); "Communication from the Commission. A financial package for the accession negotiations with Bulgaria and Romania", 10 February 2004 (Bulgaria 2009; note: the Bulgaria figure is derived on a per capita share of the total figure for Romania and Bulgaria minus Bulgaria's expected contribution to the EU budget in 2009); DG Enlargement (Serbia 2003), DG Enlargement (Serbia 2006); own calculation derived from draft IPA regulation (Serbia 2009).

“Potential Candidate Countries will continue to receive assistance along the lines currently laid down in the CARDS-Regulation: Institution Building and Democratisation, Economic and Social Development, Regional and Cross-Border Co-operation and some alignment with the *acquis communautaire*, in particular where this is in the mutual interest of the EU and the beneficiary country.”

The official candidates, however, are to receive the full package of pre-accession assistance, in order to prepare them more intensively for EU membership.

“Candidate Countries will receive the same kind of assistance, and will additionally receive assistance in the preparation for the implementation of Structural and Rural Development Funds after Accession, as well as concerning the full implementation of the *acquis communautaire*.”

Concretely, this means that official candidates, but not potential candidates, will receive support under three headings:

1. regional development;
2. rural development; and
3. human resources development.

This qualitative difference in treatment between the two categories of country is extremely significant. Pre-accession assistance is based on a vision of economic and social convergence with the European Union itself. It involves intensive engagement by the European Commission in assisting candidates to develop the institutions, policies and procedures which they will need once they become EU members.

Under the Commission’s guidance, each of the candidates will begin to prepare comprehensive, 7-year National Development Plans, laying down a framework of policies and structures for promoting cohesion and development. They will begin to learn the techniques of EU-style development planning, with close consultation among different levels of government and with social partners. They will be required to build up the institutions needed to manage EU structural funds in the future.

In practice, this means that the candidates will begin to engage in a much more intensive way with the challenges of economic and social development. Past experience, from the Baltic states to Turkey, shows that pre-accession assistance touches off a process of institutional and policy change which accelerates the candidates towards EU membership. This process – which we have called ‘member state building’ – is unique in the international development field in its capacity to inspire change.

By contrast, the experience of traditional, CARDS-type assistance in the Western Balkans over the past five years has been disappointing. Initially, CARDS focused on reconstruction, using *ad hoc* structures such as the European Agency for Reconstruction (EAR). It then shifted to institution building and administrative reform. The institution-building programmes supported by CARDS have been mainly broad, horizontal, public-administration reform projects. They have not seriously

focused on key development topics like rural development and regional policy. Though a great deal of money has been spent, the impact has been very limited.

The experience in Serbia illustrates this clearly. Following the fall of Milosevic, Serbia attracted a wave of assistance aimed at reforming its public administration, but with few results. A recent evaluation of Serbian Public Administration Reform 2001-2004 notes:

“Three and a half years later the basic structure of the state apparatus that served the Milosevic regime and its communist predecessors were still in place. In short it appeared that political discontinuity had been followed by institutional continuity.”⁸

The report contains a clear diagnosis of where the main problem lies:

“A central conclusion of this report is that the Serbian system of government is characterised by weak mechanisms for cross-institutional coordination. These weaknesses raised doubts about the country’s ability to develop coherent policies in all sectors of reform, and may entail serious social and economic deficiencies.”⁹

This problem is endemic across the region, from Macedonia to Bosnia-Herzegovina and Kosovo. It has the effect of diluting any top-down reform measure, of the kind promoted by CARDS. Continuing to offer CARDS-type assistance to the Western Balkans is a ‘business as usual’ approach which holds no real prospect for accelerating the potential candidates through the accession process.

The superiority of pre-accession assistance over traditional, CARDS-type mechanisms is demonstrated clearly by the experience of another South East European state: Bulgaria.

Member state building – the Bulgarian experience

The Bulgarian experience in the 1990s shows very clearly that it was the beginning of a serious pre-accession process, and not the mere promise of eventual membership, which helped the country emerge from the tumultuous 1990s united behind the goal of joining the EU.

The Europe Agreement signed in March 1993 and the PHARE assistance provided from the early 1990s had little impact on policy or institutional reforms. Various half-hearted reform initiatives under successive, unstable governments produced few results, while the economic situation deteriorated rapidly, culminating in winter 1996/7 with hyperinflation, the collapse of the currency and widespread civil unrest.

The turning point in Bulgaria’s post-communist evolution came with the beginning of a serious pre-accession process. Elections in spring 1997 brought to power a reform government that pledged to achieve EU membership within 10 years. In the aftermath

⁸ Statkonsult Oslo, *Unfinished transition*, Belgrade March 2005, p. 15.

⁹ *Ibid.*, p. 143.

of economic and financial collapse, this goal must have appeared wildly ambitious. It was, however, supported by a proactive and forward-looking strategy on the part of the EU.

In 1997 the EU Luxembourg Council decided to begin the accession process with all ten Central and Eastern European applicant states, and to focus its assistance accordingly. While it was considered premature to open membership negotiations with Bulgaria, *all* of the pre-accession instruments offered to the most advanced countries – such as the Czech Republic or Hungary – were also made available to Bulgaria. In 1999, the EU introduced instruments for agriculture and rural development (SAPARD) and for environment and transport (ISPA) – the latter modelled on the EU’s cohesion funds.

This shift in the EU’s approach did not involve an immediate increase in funding; it occurred in the middle of the budget cycle 1993-1999, with no new funds available before 2000. Yet it supported a process of dramatic policy and institutional change in Bulgaria, as the country began to put in place the systems required to benefit from the pre-accession assistance. Two task forces, to prepare for SAPARD and ISPA, were set up in 1998, preparing a “National Agriculture and Rural Development Plan” (NARDP) and national ISPA strategies for transport and the environment. These strategies had to be compatible with a “National Economic Development Plan 2000-2006”, an overall strategy for Bulgaria’s convergence with the EU that also served as the basic programming document for most EU assistance.¹⁰

Though it may not have been apparent at the time, these reforms brought about irreversible changes to the Bulgarian state and its relationship with society. This was most visible in the area of rural and agricultural policy. At the time, nearly half of the Bulgarian population lived in rural areas, and 25 percent of total employment was in agriculture.¹¹ During the early 1990s, the Bulgarian state had entirely failed to engage with the challenges of the countryside, which had slipped further into poverty.

The first National Agricultural and Rural Development Plan described in painstaking detail the depth of the structural problems. It outlined a series of concrete policy measures to address them, and the financial and institutional resources that they would require. It was a serious document, produced in close consultation with EU institutions. It included a budget of €849 million in investments from 2002 to 2006, of which the EU would contribute €85 million.¹²

Through programmes such as these, the pre-accession assistance reoriented the energies of the Bulgarian state towards issues of sustainable economic development and social cohesion. In doing so, it created for the first time a sense among ordinary people that the EU integration process had something concrete to offer them, strongly reinforced when visa restrictions were lifted in March 2001. The result was a dramatic change in national political dynamics. Anti-reform politicians who had loomed large in the political landscape throughout the 1990s were no longer able to

¹⁰ *Bulgarian National Economic Development Plan*: www.aeaf.minfin.bg/en/publications.php

¹¹ *Bulgaria National Agriculture and Rural Development Plan*, p. 12. More documents: www.europa.eu.int/comm/agriculture/external/enlarge/countries/bulgaria/index_en.htm

¹² From 1990 to 1997 Phare had provided 56.7 million Euro to Bulgaria for agriculture. From 2000 this amount was made available through SAPARD *annually!*

tap into a mass constituency of citizens disillusioned with the apparent failures of democracy. Across the political spectrum, Bulgarians united behind the common goal of EU accession, creating a momentum that has made the Europeanisation process unstoppable. Though governments and presidents changed, the reforms continued.

IPA and the Europeanisation of the Balkans

The IPA draft regulation sets out an EU policy towards the Western Balkans that is essentially passive. As one of the senior officials developing Balkan policy inside EU institutions noted:

“The perspective of EU membership can be a powerful motor for reform, but it does not work in homeopathic dosage. Without significant institutional and financial engagement, the prospect of membership can easily turn into an empty rhetorical exercise, into a kind of ‘double bluff’ in which the EU pretends to offer membership while the countries of the region pretend to implement reforms.”¹³

If the EU is genuinely committed to the eventual integration of the Western Balkans into the Union, **the IPA should be changed to create a much more dynamic strategy towards the region. This would be possible even without increasing the total envelope of funding.**

First, the potential candidates in the Western Balkans should be given the chance to progress towards EU membership on an equal footing with previous candidates. Serbia and Bosnia in 2007 should at least be treated as Bulgaria and Romania were in 1997. This should be done by changing the IPA regulation to make pre-accession assistance available to both official candidates and potential candidates. **Access to pre-accession programmes should be linked to the signing of SAAs, rather than to formal candidate status.**

This would not necessarily require more financial assistance in the short-term, as it would take the countries of the region some years to put the necessary structures in place. Once they have done so, other donors could provide co-financing to supplement the IPA budget.

This would have the effect of strengthening, rather than diminishing, the EU’s political leverage in the region. The EU would retain the conditionality linked to the opening of membership negotiations, based on the Copenhagen criteria. At the same time, it would be in a much stronger position to push for governance reforms within the framework of pre-accession assistance.

Second, the EU should offer a much more substantial institutional commitment by the Commission, both from Brussels and the in-country delegations, to helping the countries of the region put in place the structures needed in order to access pre-accession assistance. The European Agency for Reconstruction would need to be

¹³ Stefan Lehne, *Has the Hour of Europe come at last? The EU’s strategy for the Balkans*, p. 22, in: Judy Batt ed., *The Western Balkans moving on*, Paris, 2004.

replaced by strong Commission Delegations in Belgrade, Pristina, Podgorica and Skopje.

Under these two conditions, a very different scenario becomes conceivable. **If member-state building were to begin in 2007, it may be possible for countries of the region to achieve EU membership in 2014, in accordance with the ambitious agenda set out by the International Commission for the Balkans.**¹⁴

The Reform Scenario		
Bulgaria		Serbia-Montenegro, Bosnia, Albania
1993	Association Agreement	2006
1995	AA enters into force	2007
1995	Membership application	2007
1997	Candidate status	2008
2000	Opening negotiations	2009
2004	Closing negotiations	2013
2007	Membership	2014-2015
14 years	Total	8-9 years

Despite enlargement fatigue across the EU, few people doubt that the success of the Balkans remains a major interest of the EU – not just because it could represent Europe’s most impressive foreign policy success (or its most costly and embarrassing failure), but also because it is a far better and ultimately cheaper alternative than watching the region slip back into political instability.

¹⁴ International Commission on the Balkans, *The Balkans in Europe’s Future*, April 2005, p. 14.