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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

**ON COMMUNITY ASSISTANCE FOR THE STABILISATION AND ASSOCIATION
PROCESS FOR CERTAIN COUNTRIES OF SOUTH-EAST EUROPE
CARA PROGRAMME
COMMUNITY ASSOCIATION AND RECONSTRUCTION ASSISTANCE**

Guidelines and detailed arrangements for assistance to Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and the Federal Republic of Yugoslavia under the future CARA programme.

2000 - 2006

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1. INTRODUCTION.

The purpose of this Memorandum is to set out guidelines and detailed arrangements for implementing the Community's future assistance to the countries of the region: Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and the Federal Republic of Yugoslavia. These guidelines aim to adapt assistance to the objectives of the European Union's strategy for the region. On the basis of these guidelines, the Commission will present a draft regulation on implementing the assistance in the first quarter of 2000. This will reflect the Commission's own experience and comments from the Court of Auditors and Parliament. This will provide a single legal basis and a single set of procedures for assistance to the region.

2. ASSISTANCE OBJECTIVES

The European Union is providing significant technical and financial assistance to the countries of the Western Balkans: almost EUR 4.5 billion, including humanitarian aid and macro-financial aid, since 1991. From 1996 onwards, with the exception of humanitarian aid, it has been implemented in line with the objectives set out in that year's regional approach and the political and economic conditions laid down by the Council (general affairs) on 29 April 1997.

To contribute to the objectives of the Stabilisation and Association Process, future assistance needs to be seen in the context of the eventual integration of the countries of the region into EU structures. This will come about gradually as they come closer to the EU and develop stronger links with each other.

Bringing the countries of the region closer to the EU

The prospect offered to these countries of integration into EU structures is a historic turning-point in their relations with the Community. The conclusion of stabilisation and association

agreements is essential to future integration. The agreements represent both the cornerstone of the process and a key step to its completion.

These countries will have to gear their political, economic and institutional development to the values and models underpinning the European Union: democracy, respect for human rights, the rule of law and a market economy. The EU is ready to support and assist them in introducing the reforms necessary to progress in these areas.

Reforms to back up these forms of development and the assistance to support them should now be framed in a **partnership** designed to involve and associate these countries more closely in a process of their own in which they must shoulder responsibility and show real political determination.

This partnership will require open and constructive **dialogue** with the countries to determine jointly what political and economic reforms are required to take this process forward and make integration a reality.

Initially, the necessary political, economic and institutional reforms and Community assistance in support of them will be targeted on making the countries concerned eligible to enter into the agreements. Assistance will therefore be shaped by an **analysis** of the situation of each country in relation to the reforms needed.

Subsequently, countries that have concluded Stabilisation and Association Agreements will be given assistance in meeting the obligations they have entered into in the Agreements so that they move towards integration at a rate agreed with the EU.

Strengthening links between countries in the region

Strengthening links between countries is fundamental to stability in the region. The priorities for assistance will be to bring them together via regional initiatives with shared projects, structures and objectives. Priority will also be given to promoting bilateral and multilateral agreements.

As the Commission Communication on the Stabilisation and Association Process states, "the EU is itself a model for overcoming conflict and promoting reconciliation through close cooperation to achieve common goals ...".

By the same token, there is a need for **stronger regional cooperation** aimed at creating ties of solidarity among the countries that are beneficiaries of this programme, and between them and other countries in the region that are beneficiaries of other Community programmes. This will take the form of multi-beneficiary programmes and cross-border cooperation programmes and will involve national and local administrations and other institutions in the fields of culture, education, vocational training, local government and justice.

A strong link will be made between bilateral assistance and regional cooperation. Bilateral cooperation will be placed as far as possible in the context of stronger regional cooperation and initiatives will be promoted to contribute to the stability and economic development of the region as a whole. This applies particularly to the fields of energy, environment, infrastructure, transport and statistics.

Regional programmes will be implemented to promote investment, the development of small and medium-sized enterprises and business integration. These will need to be geared to the gradual development of an area of free trade and economic cooperation. To enable the private

sector to play its role as the main generator of economic growth in the region, the programmes should include measures to improve the investment climate.

A particular importance will be attached to regional cooperation in the field of justice and home affairs, particularly in areas linked to transnational crime (drugs, money laundering, trafficking in firearms, etc.), the prevention of illegal activity (e.g. illegal immigration) and civil security and protection.

3. A NEW REGULATORY FRAMEWORK

The new guidelines for assistance and the objectives that it must fulfil involve a new approach requiring new mechanisms and procedures.

In the coming months the Commission intends to propose that the Council adopt a new legal basis for assistance to the Western Balkans.

The new Regulation will also present an opportunity to address certain problems that have hampered assistance to the region, such as slow implementation and cumbersome procedures that have been a factor in causing delays. These have tarnished the EU's image in the region and compromised the diplomatic influence that the scale of its contribution merits. Appropriate mechanisms must be set up which allow accountable management that can be monitored and implementation that is both rapid and flexible. It is imperative that the Community's image be restored and that we secure a reputation for implementing assistance effectively.

It will also be possible, through the future Regulation, to consolidate the regulatory framework for assistance to the region. The coexistence of two legal bases, Phare and Obnova, each with its own administrative and management procedures, has been a source of many operational problems, which have quite rightly been highlighted by the European Parliament and the Court of Auditors. Also, new guidelines have been developed to adapt the Phare programme to the new demands of enlargement and it is no longer a suitable instrument for assistance to the Western Balkans. The Phare programme, therefore, will no longer include implementation of assistance to the countries covered by this memorandum.

In future, assistance will be focused on three priority areas:

- developing public institutions and administrations in order to strengthen democracy and the rule of law;
- reconstruction, development and economic reform;
- regional cooperation.

4. ELIGIBILITY AND CONDITIONALITY

4.1. Eligibility to participate in the future assistance programme

A partnership can be established and a country may be eligible to benefit from the new programme of Community assistance only if it respects the basic principles of democracy, the rule of law and human rights.

4.2. Conditionality

Assistance to the countries in the region must be seen in the context of their eventual integration into EU structures. This can happen only if there is progress in the institutional and economic fields: such progress is a condition for integration. **The conditions for assistance and for integration are closely linked therefore.**

If conditionality is to encourage reform, it needs to be defined in a spirit of partnership, through dialogue with the countries concerned and on the basis of an analysis of their situation.

The nature and scale of the assistance will depend on the level of commitment to reform by the authorities concerned. By this we mean commitment in all areas. Conditionality will also apply to priority reforms in certain sectors, be they political, economic or institutional - it will not be possible for these to be excluded from the authorities' commitment to reform.

The level of assistance should reflect progress actually made. On trade, for example, greater access to the Community market could be offered, but subject to the efforts of the countries concerned to promote trade within the region.

Assistance will need to be part of a reform programme with precise short and medium-term **sectoral** objectives. It will contribute to achieving these objectives and will be shaped by them.

A gradual, progressive approach based on the respective stages and timetables of reform and assistance will mean, in the context of partnership and dialogue, that reform can progress at a pace best suited to the situation of the country. This will make it possible to proceed faster in some sectors without excluding others.

Specific conditions might be adopted for projects to ensure that beneficiary countries participate actively and constructively in carrying them out.

Failure to comply with the conditions will incur a range of penalties ranging from total or partial suspension of the assistance programme to deferment of certain projects to future budget years.

5. IMPLEMENTING ARRANGEMENTS

5.1. Programming

As a rule, assistance will be implemented under national and regional programmes.

5.1.1. National programmes

National programmes will remain the main vehicle for Community assistance.

Under the partnership, an analysis of the situation of each country will be discussed with the national authorities in order to evaluate the reforms and action necessary in the short and medium term to further stabilisation and association and to draw up on this basis the annual assistance programmes.

The annual assistance programmes will be contingent on a **commitment** by the authorities to a programme of reform and action.

Long-term action is required of the beneficiary countries if they are to achieve the objectives of the reform programmes. This is why the annual assistance programmes must be drawn up under **multiannual indicative programming** fixing amounts and priorities for assistance over a 4-year period. Programming will be **adjusted** each year according to the progress made on reforms and the assistance implemented.

Assistance will **focus** on a small number of sectors or large-scale projects, according to agreed priorities and other donors' contributions, in order to achieve maximum impact and make it easier to manage.

The national annual programmes may include projects and initiatives for **local bodies or independent organisations**, particularly as regards industrial development and cooperation between local and EU businesses. Where they are ineligible or agreement has not been reached with the authorities on a national programme, specific assistance programmes may be drawn up with local authorities. The programmes for Bosnia and Herzegovina and Kosovo will take account of the respective responsibilities of the UN High Representative and the Representative of the UN Secretary General.

5.1.2. Regional programmes

Assistance for administrative modernisation, for legislative, institutional and economic reforms and infrastructure development, etc. will have to take account of the regional dimension and provide the basis for initiatives in the field of regional cooperation. The national assistance programmes will include arrangements for participation in regional programmes.

The regional programmes will cover "horizontal" cooperation designed to involve all the countries in the region (multi-beneficiary programmes) and cooperation aimed at forming links between neighbouring countries (cross-border programmes).

5.2. Complementarity with other Community assistance instruments

The assistance given by the Community in other fields and under other regulations will complement and must dovetail with the assistance provided through the partnership under this new regulation. This applies in particular to the following types of aid, which will not be covered by the new regulation:

- **Humanitarian assistance** is not subject to the eligibility criteria or conditions set out in these guidelines and is not dependent on other types of assistance. Nevertheless, Commission staff in Brussels and on the ground do liaise to avoid duplication between the two types of assistance and to ensure a smooth transition from humanitarian aid to reconstruction and development assistance. This coordination will be intensified.
- **Assistance in favour of democracy** (on the basis of Council Regulation (EC) No 976/99 of 29 April) is compatible with and complements assistance under this new regulation, which will focus on the institutional and legislative aspects of reforms to strengthen democracy, the rule of law and the protection of human and minority rights. With regard to the press and the media, the new Regulation will provide for technical and financial assistance in support of the independent media.

Assistance under Council Regulation (EC) No 976/99 will pursue its objectives by supporting projects in favour of civil society and cooperation with NGOs.

The purpose of **exceptional macroeconomic assistance** (budgetary aid and balance-of-payments loans) is to support stabilisation and reform programmes run by the beneficiary countries under the auspices of the International Monetary Fund and the World Bank. The conditions and arrangements linked with its implementation will back up the reform and assistance programmes established under the partnership.

5.3. Coordination

Programming will take account of the assistance given by other donors, especially the IFIs' sectoral or macroeconomic guidelines and assistance programmes.

5.4. Cooperation with the International Financial Institutions (IFIs)

Community action could also take the form of cofinancing for projects or programmes implemented by the IFIs.

To ensure transparency in the way financial cooperation with the IFIs is organised, the Commission will propose to them a framework agreement similar to that for the candidate countries.

5.5. Management models

The Commission's objective is initially to devolve and in time to decentralise the management of assistance in order to involve and associate the beneficiary countries more closely. This objective will be pursued gradually, according to their administrations' ability to develop the resources and skills they need to take over the management of the programmes.

The European Agency for Reconstruction should in future extend the scope of its activities, either (in the context of devolving management) by taking on the responsibility for implementing assistance, or (with decentralisation) by helping national administrations. It will also be able to ensure the implementation of regional cooperation. In any event, it will need to ensure rigorous programme management in line with Community procedures.

6. FINANCING

Given the current state of the five countries' institutions, economies and infrastructures, the EC needs to approve financing commensurate with the objectives being pursued.

The exact amount will have to be calculated on the basis of several factors.

While the level of financing must reflect the significance of the political signal being given to these countries, we must not forget that we are not yet absolutely clear on their real needs. A lot of work still needs to be done here and the countries' absorption capacity must also be taken into account.

Nor is it certain that all the countries will be able, by 2000, to fulfil the conditions for taking part in this programme.

In the light of the above, an estimated sum of EUR 5 500 million in the form of grants is conceivable for this period (2000-2006). It will go to finance assistance to the region under the new regulation and, where appropriate, macrofinancial assistance. When the proposal for the new regulation is presented at the beginning of 2000, the regions' requirements will be programmed on the basis of an estimate of requirements and in the form of a financial statement. The sum of EUR 5 500 million serves as a "political" financial reference point, it being understood that the political instability in the region does not make it possible at this stage to draw up a duly substantiated financial statement.

This sum represents a considerable increase compared with the resources earmarked for assistance to the region in the preceding period. The sum is such that a proposal should be made for revising the perspective on the basis of the new programming of the whole of heading 4 which is to take place in February 2000.

A programme of this kind makes it necessary to lay on the human resources needed for the implementation of a programme on this scale. A lack of human resources could cause a recurrence of the difficulties encountered in the past which led to delays in implementation.

A substantial portion of this amount will be earmarked for the reconstruction of Bosnia and Herzegovina, Kosovo, Serbia and Croatia. In the case of Serbia, assistance for reconstruction will depend on the political conditions. Another large portion will go towards regional cooperation.

7. CONCLUSIONS

The Commission is requested to adopt this document and send it to the Council and Parliament for information.

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