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REPORT FROM THE COMMISSION

The Stabilisation and Association process for South East Europe

First Annual Report

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TABLE OF CONTENTS

1.	Introduction	4
2.	The Region: the Complexity of the Jigsaw	
3.	The Stabilisation and Association Process	6
4.	Progress Made and Lessons Learned	8
5.	The Continued Challenge	9
6.	The Road Ahead	13
Anne	xes	
A.	Summaries of individual country reports: [SEC(2002)339],[SEC(2002)340],[SEC(2002)341],[SEC(2002)342],[SEC(2002)3	43]
B.	EC assistance 1991-2001	
C.	Table on ratification of Human Rights instruments	

Executive Summary

In 2000, following a decade of turmoil in the Balkans, European leaders decided that the route to stability in the region was through steadily closer association with the EU and the clear prospect of membership. This policy, known as the Stabilisation and Association process, combines the development of privileged political and economic relations with the countries in the region, supported by substantial financial assistance programme (CARDS).

The Stabilisation and Association process is already beginning to produce the desired results The region is becoming more stable. Its countries are engaged in ambitious political and economic reform programmes based on EU law and practice. These achievements are set out in detail in the attached country reports.

The Stabilisation and Association process is a long term policy. It supports sustainable reform; but it is also designed to be, a flexible and dynamic process, evolving in line with changes in the region, the EU and the world, and capable of coping with sudden crises. In the coming years it will develop new ways of assisting the countries in the region in coming to grips with continuing problems of weakness in the rule of law and democratic institutions, corruption, the threat of resurgence of extremist nationalism, poverty and social exclusion and in co-operating regionally.

The Stabilisation and Association process requires continued commitment on the part of both the EU and the countries of the region to maintain a steady course towards and make the necessary preparations for full integration of the countries of the region into the EU.

1. Introduction

The turn of the century witnessed a significant change in the EU's approach to the Western Balkans¹. EU leaders decided that a policy of emergency reconstruction, containment and stabilisation was not, in itself, enough to bring lasting peace and stability to the Balkans: only the real prospect of integration into European structures would achieve that . The European Councils at Feira and Nice explicitly recognised the countries' vocation as "potential candidates" and spoke of "a clear prospect of accession" once the relevant conditions had been met. The Stabilisation and Association policy has been designed to help the Balkan countries transform that aspiration into reality, and to establish a strategic framework for their relations with the EU.

The Stabilisation and Association process combines new contractual relationships (Stabilisation and Association Agreements) and an assistance programme (CARDS), which help each country to progress, at its own pace, towards the requirements of EU membership. It is a long-term commitment to the region. It entails a formidable political effort, significant financial resources and a major direct input of personnel and expertise.

The Stabilisation and Association Agreements are legally binding international agreements. They draw heavily on the Europe Agreements with the candidate countries, and the experience of the enlargement process. They are ambitious, demanding agreements, which have at their core the basic principles which underpin membership of the Union. The SAAs require respect for democratic principles, human rights and the rule of law; they foresee the establishment of a free trade area with the EU: and they set out rights and obligations in areas such as competition and state aid rules, intellectual property and establishment, which will allow the economies of the region to begin to integrate with that of the EU.

The establishment of the Sap has coincided with - and contributed to - considerable progress in the Balkans. Every country in the region is now a democracy . All five countries are pushing ahead with political, economic and administrative reforms. But that progress has not been without setbacks. The resurgence of violence in the former Yugoslav Republic of Macedonia shows the fragility of the region, and how easily parts of it can slip back into crisis. Critical weaknesses in the rule of law and democratic institutions, endemic corruption, the threat of resurgence of extreme forms of nationalism, as well as poverty and social exclusion, all pose a serious threat. These issues need to be tackled if the stabilisation process is to become sufficiently sustainable to permit association with the EU.

The challenge for the EU is to cope with this political volatility and institutional fragility while holding a steady course towards the strategic goal of integration of the countries of the region into the EU. This means sticking firmly to the Stabilisation and Association process, adjusting it as necessary to cope with changing demands and circumstances in the region. This is an enterprise which will demand many years of political and economic investment.

This report looks in more detail at political and economic developments in the region, the Stabilisation and Association Process, its strengths and achievements, its weaknesses and shortfalls, the challenges still faced in the region and the way in which the EU needs to take the process forward. This paper is accompanied by five country reports [SEC(2002)339/343]

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Albania, Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia (FRY) and the former Yugoslav Republic of Macedonia (fYROM)

which set out the Commission's assessment of progress, or the lack of it, in the key areas of political and economic development and capacity to participate in the Stabilisation and Association process. Taking due account of the specific conditions in each country, the same criteria are applied across all of them. The Commission's assessment is accompanied by recommendations for action in the course of the next twelve months. This reporting exercise will be repeated annually. It is designed to help governments, parliaments, business and community leaders, the media, civil society and other interested parties – both in the EU and in the region – to understand the requirement of the Stabilisation and Association process and to help them focus political and financial resources on the key priorities.

2. THE REGION: THE COMPLEXITY OF THE JIGSAW

The break up of the former Yugoslavia, accompanied by years of war and repression, has left behind a highly fragmented region. A surface area and population of some 25 million – about the same as Romania – is spread across five countries in a complex ethnic jigsaw. This makes for a region of formidable complexity. War added to enormous economic and social transition problems in most parts of the region. All of the countries have had to start developing modern state institutions from scratch or from a very low base. Most of the old political, economic, and infrastructure networks collapsed. Albania, previously isolated from the rest of the world, embarked on its transition from an even lower base.

The region is a complex political and economic mix. In the last few years, Croatia has managed to shed its recent past relatively successfully. Others are finding it enormously difficult to make headway against the twin obstacles of inter-ethnic obstruction and a shattered political and economic landscape. In this environment the rot of corruption and organised crime has set in and is seriouslyhampering efforts to establish the rule of law.

The economic picture: The economic size of the region remains small. Its total GDP is estimated to be around €40 billion - again, similar to that of Romania. The combined GDP of neighbouring Hungary and Slovenia - with half the population of the Western Balkans - is nearly 70% greater. Total exports from the region in 2000 were €7.7 billion (less than three quarters of Romania's exports) with over half going to the EU (which also supplies over half of the region's imports). Trade is growing steadily if unevenly across the region but intra regional trade remains disappointingly low, about 7% of total regional trade. Croatia, which has less than one fifth of the region's population, accounts for half of the region's total external trade. Moreover, obstacles to trade within states in the region (such as Bosnia and Herzegovina and the FRY) are as great if not greater than those between states. Nor does their lack of an internal market help them to pursue integration with the EU. GDP per capita also varies considerably across the region from €1300 in Albania to €4500 in Croatia. Those figures also disguise significant pockets of poverty and social deprivation.

All the countries of the region have made remarkable progress despite such an unpromising background and meagre starting points. Since the upheavals in 1997, **Albania** has made headway in consolidating law and order, reforming economic and social life, and opening itself to the region and the EU- although there have been worrying indications of internal political problems in early 2002. **Bosnia and Herzegovina** is beginning to deal with the legacy of a vicious civil war. **Croatia** has taken decisive steps towards emulating mainstream European democratic institutions and practice. **The former Yugoslav Republic of Macedonia** too seemed headed the same way until the major crisis of last year from which it is now beginning to emerge. The prospect of a democratic **FRY**, freed from the shackles of a despotic regime was a distant hope in 1999. With the overthrow of Milosevic and his transfer

to face trial before the ICTY in the Hague, the country has demonstrated its determination to make a break with its recent past and engage solidly in a process of political and socio-economic transition

That being said, the countries of the region still have a long road ahead before they reach EU levels of democratic stability and socio-economic development. The task of integrating the countries of the region into European structures remains a vast and long term undertaking.

3. THE STABILISATION AND ASSOCIATION PROCESS

Since its inception in May 1999² the aim of the Stabilisation and Association process has been to equip the countries of the Western Balkans with the means, based on European practice and standards, to maintain stable democratic institutions, to ensure the rule of law prevails and to sustain open, prosperous economies. Underlying this is the desire to replicate the successful transition achieved by the countries of Central and Eastern Europe before beginning negotiations on accession to the EU. The Stabilisation and Association process is both bilateral and regional. It creates strong links between each country and the EU. It also strongly encourages regional co-operation between the countries themselves and with their neighbours in the region. The EU's own experience of the benefits of regional co-operation lead it to believe that the Western Balkans will benefit significantly from closer co-operation. This is an integral part of preparation for integration into European structures.

In the last two and a half years the basic building blocks of the Stabilisation and Association Process have been put in place. These are:

Contractual Links: The preparation for and negotiation of the contractual links, the Stabilisation and Association Agreements, between the EU and the countries of the region is well advanced. Agreements have been signed with the former Yugoslav Republic of Macedonia and Croatia. A negotiating mandate has been proposed for Albania. For BiH and the FRY, the establishment of Consultative Task Forces has proved an effective means of helping national authorities to focus on national and EU oriented reforms and of engaging with them in a sustained way to secure implementation of these reforms, with a view to the negotiation of a Stabilisation and Association Agreement.

Trade Preferences: In November 2000, following an initiative by the Commission, the EU unilaterally granted almost totally free access to its markets for goods from the Balkans. The aim was clear: to boost the general level of imports from the Western Balkan countries, which have so far remained very low, at less than 0,6% of all Community imports and thereby to encourage economic growth in the region. The trade regime serves as a catalyst to the development of a network of free-trade agreements between the countries of the Stabilisation and Association process and beyond. The SAAs require the countries involved to move towards full free trade with the EU - and with each other - over a set period. The EU's decision to open its markets has already provided a much needed stimulus to exports.

6

Conclusions of the General Affairs Council of 21 June 1999, based on the Commission <u>Communication to the Council and the European Parliament on the Stabilisation and Association process for countries of South-Eastern Europe</u> [COM(99)235 of

Financial assistance: The EU has provided massive financial assistance to the region (over €5 billion since 1991). That assistance has changed over time as the needs of the region evolve. A new regulation was adopted in 2000 which brings a more strategic approach to the provision of assistance to the countries of the region. andreinforces the objectives of the Stabilisation and Association process. As each country moves deeper into that process, assistance will focus increasingly on support for the reforms and institution building necessary to implement the obligations in the Stabilisation and Association Agreements. €4.65 billion has been agreed for the region for the 2000-2006 period.

A qualitative leap forward has been made in the programming of CARDS assistance with the recent adoption of Country Strategies and a Regional Strategy for 2002-2006. These programmes, designed in close consultation with the partner countries, the Member States, relevant international organisations and other donors, focus CARDS for the 2002-2006 period on key Stabilisation and Association priority areas, ranging from essential reconstruction, to focused measures designed to build each country's institutional capacity to understand, legislate on and finally implement core elements of the acquis and entrench the rule of law.

This improvement in programming is being matched by better implementation. CARDS assistance is, on the whole being delivered rapidly and efficiently. The European Agency for Reconstruction in particular has, since it establishment in February 2000, established an impressive track record in delivering assistance quickly and efficiently in its area of operations - initially Kosovo, but now including Serbia and Montenegro, as well as the former Yugoslav Republic of Macedonia. Elsewhere in the region decision-making is being devolved to Delegations on the spot and their staffing levels are being increased in order to enhance aid delivery.

Within the international community, the EU continues to make the most substantial contribution of human and financial resources. Assistance to the region since 1991 has been in excess of €6 billion (see annex for details).

These building blocks - the instruments of the Stabilisation and Association process enable the EU to make a lasting contribution to institution building and sustainable development in the region. They permit the countries of the region to draw on EU practice and experience to decide how they should arrange their legislation and administration to facilitate the free movement of goods, services, capital and people across their own borders, within the region and with the EU to promote sustainable growth. The aim is to help these countries become viable, functioning states at the same time as they align their legal and economic systems with those of the EU. For example, each country needs to adopt an open trade regime. This requires in turn a functioning customs system - a customs law and adequately trained personnel to enforce the law. To be able to trade successfully within an open EU market, the countries' exports need to meet quality standards, certified within a reliable standards and certification system. A system of market surveillance is needed to make sure that the products put on the market are what they purport to be. In the banking and financial sector, using the EU system as a model will help to guide the countries in setting up an independent central bank with trained staff able to enforce prudential and other banking regulations in order to facilitate the free flow of capital while ensuring that their citizens' savings are protected.

The Stabilisation and Association process is a **long term** policy. It is about helping countries to bring about lasting change. The process of developing policies, adopting laws, setting up institutions and creating functioning administrations requires a lengthy effort. It requires a long term commitment on the part of both the countries of the region and the EU. It is not a short term fix for crises or ad hoc events. Progress through the various stages of the process should be determined by the pace of real change in each country. Rushing through the stages will not prepare countries to deal with the challenges which lie ahead but successful completion of each stage will create the groundwork for the more demanding requirements of the next stage. The Stabilisation and Association process contributes significantly to conflict resolution in a structural and sustainable manner, but, it cannot itself resolve crises when they arise. The aim is to entrench a culture of the rule of law, respect for individual rights, mature economic management in a way which makes forward momentum towards the EU **irreversible**.

The Stabilisation and Association process is an **accompanying** policy. It does not mean that the EU replaces or substitutes for national administrations. Rather, it supports and accompanies the countries in the region through their transition. That is the only way to break the dependency culture that remains a feature of parts of the Balkans landscape.

4. PROGRESS MADE AND LESSONS LEARNED

The process has acted as a catalyst for democratic change. All of the countries of the region have embarked on strengthening democratic process and institutions, respect for the rule of law and human rights. There are obvious weaknesses, but the commitment is there and is in part attributable to the countries having been embraced in the Stabilisation and Association process. The process opened the EU market to the countries of the region and has helped them to put basic economic and commercial laws in place which should facilitate long term trade. investment and growth. In preparing for and negotiating Stabilisation and Association Agreements, the EU has engaged with each country to identify with each one what is needed to develop the legislative and administrative capacity to upgrade performance towards EU levels. It is a process which is increasingly bringing experts from the region in important fields of policy into close contact with EU counterparts who over an extended period will explain best EU practice and offer ideas on how to best make progress in the integration and alignment process. In short, the Stabilisation and Association process has helped the countries on to a track of long term political, economic and social reform. It has provided the countries with the tools to move forward. The process is flexible and sophisticated enough to allow all five countries to advance at a sustainable pace towards the same goal. Each country can find its place in the process.

There are two key lessons that can be drawn from experience in implementing the Stabilisation and Association process, namely that the process needs to be tailored to the needs and specific conditions of the individual countries and that the proper balance needs to be struck between stabilisation and association. With regard to the former, the differences between the countries have become greater over time as political, constitutional and institutional forces have propelled some to move faster than others. The speed with which each country moves through the stages of the Stabilisation and Association process must be judged in relation to its ability to take on the obligations of a closer association with the EU. The process has proven itself sufficiently flexible to accommodate differing stages of progress. In the case of Bosnia and Herzegovina, for example, a decision was made to concentrate in the March 2000 EU Road Map on key prerequisites for reform. This road map exercise was judged to be the best method to enable Bosnia and Herzegovina to make the

progress needed to be able ultimately to engage in meaningful SAA negotiations. Croatia already enjoyed a degree of institutional and administrative maturity when it entered the Stabilisation and Association process which enabled it to make rapid progress. The former Yugoslav Republic of Macedonia did not and perhaps moved too speedily through the negotiations of a Stabilisation and Association Agreement, without having the time to build the foundations necessary for its effective implementation.

The term "**Stabilisation** and **Association** process" was carefully chosen: the distinction is a useful one. Both elements describe what the EU is trying to achieve, and must run in parallel. It is possible to make progress towards the formal obligations of an association while still working on the fundamentals of stability. However, one clear lesson has been that it is difficult to move very far along the association path unless there is a certain degree of stability – especially respect for the rule of law and functioning political and judicial institutions.

The range of problems facing South East Europe is enormous. No matter how successful the Stabilisation and Association process is and will continue to be, it will not transform the region single handed. This has to be a collaborative effort – of the countries themselves and of all the international actors in the region. One of the main achievements of the EU over the past two years has been to get other international actors and donors to recognise and accept the long term goal of integration into the EU, and its implementing policy, the Stabilisation and Association process as providing the centrepiece of the international effort and the motor of the transition process. They are increasingly gearing their efforts to complement the process.

5. THE CONTINUED CHALLENGE

While the Stabilisation and Association Process has been successful in helping the countries launch their wide ranging transition programmes, it has not cured the region of many of its pressing political, economic and social problems. The region faces a number of common challenges which require determined action on the domestic level and in the context of regional co-operation in order to lay the foundations of modern, well governed states enjoying good neighbourly relations. The Stabilisation and Association process cannot solve these problems for the countries. It can however make a substantial contribution to helping the countries help themselves. Furthermore, the Stabilisation and Association process can be bolstered in certain areas (e.g. regional co-operation) where it has played a limited role to date.

The main outstanding challenges are:

• The challenge of building effective, democratic states

<u>Fragile constitutional arrangements</u>. Contested or fragile constitutional arrangements are key features of the political landscape in three countries, Bosnia and Herzegovina, FRY and the former Yugoslav Republic of Macedonia. In each case this is having a significant impact on the implementation of the Stabilisation and Association process. The EU has continued to take a robust line on the need to respect constitutional frameworks and to discourage any notion that it would support changes which would lead to further fragmentation in the region. The instruments of the Stabilisation and Association process, notably CARDS, Consultative Task Forces and Stabilisation and Association Agreements, have been used in support of this policy. In the case of the FRY the Consultative Task Force is key to ensuring that all parts of

the state follow a broadly compatible reform agenda towards an association with the EU. This is designed to help bring a degree of stability to an otherwise potentially volatile situation.

Weakness in applying the rule of law. Western Balkan countries have experienced difficulty in developing a culture where respect for the law governs all aspects of political and economic life. The new states had to develop new institutions or adapt decrepit ones – the majority of which are inevitably weak — and eradicate the pervasive culture of organised crime which has underpinned much political activity. Without an understanding at all levels of society of what the rule of law means in everyday life, progress towards EU models and standards will stall. Corruption is a severe problem throughout the region and a basic feature of the political landscape. Its sheer scale and links with organised crime undermine basic public confidence in political and constitutional order in a region where these are already fragile for other reasons. It also deters foreign investment. Efforts are being made to address this in some countries; but these efforts have not yet generated the momentum needed to persuade politicians that this is a serious obstacle to moving closer to the EU.

Weakness in administrative capacity. Despite considerable variation between the countries, administrative capacity in the region remains generally weak. In general the public administration is neither well trained nor equipped. There is insufficient understanding of the role of government in democratic, market economies. Lack of staff and operating budgets mean that, even where new laws have been adopted, implementation remains very weak. Implementing the necessary reforms, including of the civil service and of local government, and strengthening human resources throughout the public sector are slow and difficult tasks. But they are crucial if the countries are to develop the regulatory frameworks and structures they need.

Questionable standards of political behaviour. The countries of the region are relatively new democracies. Their democratic institutions are still proving themselves. This process is made all the more difficult by a region-wide tendency to see serious confrontation, brinkmanship and crisis as norms of political life. Pushing institutions to their constitutional limits and beyond and failure to see the impact of such activities on the national interest are common. The current situation in Albania exemplifies this. This behaviour is neither sustainable nor healthy. Inevitably judgements by the EU and others on the stability of each country and its democratic institutions will take considerable account of the way in which politics is conducted there.

Extreme forms of nationalism. One of the more recent success stories has been the extent to which destabilising forms of extreme nationalism have been marginalised in the current governments of each country. The arrival of moderate governments provided the necessary confidence to move forward the process of drawing each country closer to the EU. Over time the attractions of extreme nationalism should diminish as its political outlook is shown to be increasingly out of touch with the demands of modernisation and reform and integration with the EU. However, the risk of a nationalist comeback in some countries cannot be ruled out in forthcoming elections in the region.

Weak civil society and media. An active civil society – especially of non-government organisations - and a genuinely independent media are crucial in making government and civil service both transparent and accountable to the citizen. However, none of the countries of the region can yet claim to have the level of vibrant and critical media and civil society they need for the future. Continued improvements are needed on access to information, legislation that facilitates NGO activities and safeguards for the free press.

• The challenge of tackling poverty and social deprivation

The majority of macro economic indicators in the region are now moving in the right direction. But none of the economies could be described as healthy or entirely stable. All of them face, to differing degrees, a destabilising combination of a substantial grey economy, an insufficiently broad tax base, a poor legal and administrative environment for foreign direct investment, slow progress on structural reforms and privatisation, rising unemployment and in some cases excessively high military expenditure. Poverty and social deprivation erode the cohesiveness of the population. One of the most dispiriting problems in many parts of the region is the brain drain of young educated people and the persistence of an educational culture still based on inter-ethnic divisions rather than reconciliation.

• The challenge of enhancing regional co-operation

The Stabilisation and Association process has consistently underlined the importance of regional co-operation. The heads of state/government of the five countries of the region and of the EU agreed at the 24 November 2000 Zagreb Summit that: "Rapprochement with the European Union will go hand in hand with this process of developing regional co-operation". The Stabilisation and Association agreements provide the model for the extent and type of co-operation the EU expects to be replicated between the five countries of the region. They also require each signatory to conclude a bilateral convention on regional co-operation with other signatories to support the creation of links between the Stabilisation and Association process partners.

The EU is built on a foundation of regional co-operation. The experience of its founding Member States and later adherents is that political understanding, economic and social prosperity depend on close co-operation with neighbouring countries across the broadest possible range of activities. The EU demonstrates how peoples can overcome hatred an division and join together in a common cause. Integration with the EU is only possible if future members can demonstrate that they are willing and able to interact with their neighbours as EU Member States do. The five countries face a number of common threats and developmental problems which they can only sensibly deal with by working together with each other, the EU and other neighbouring countries. This requires a big effort on the part of the countries of the region to demonstrate the maturity that would be demanded of them as future candidate countries. The EU has no interest in reinforcing or recreating a single Balkan space for its own sake; but rather an interest in sharing its own experience of regional cooperation and integration between strong but mutually dependent nation states. The fears which are sometimes expressed; for example in Croatia, that regional co-operation will hold back its integration in Europe are groundless: co-operation with its neighbours will act as a stimulus for further development and help the country to develop the working methods and practices which are integral to EU membership.

The establishment of diplomatic relations and agreement on legal SFRY state succession issues show that a degree of normalisation has been achieved in bilateral political relations. From this good start a network of relationships based on trust and confidence should develop. This will enable the region to reduce the risks of internal and external threats to stability and to ensure that difficult bilateral or wider issues such as border management, energy supply dependence, access to water resources and the sea and refugee returns are all dealt with responsibly. A high degree of trust between the leaders of the region will be needed before the international community can tackle an issue like the future status of Kosovo. Similarly deepening the reconciliation between Zagreb and Belgrade is an essential element in the stability of the region.

Regional co-operation is essential to tackling organised crime. The web of organised crime feeds nationalism and extremism in the countries of the region and exports its illicit products to the EU. Two thirds of the heroin seized in the EU comes via the Balkans. With the emergence of 5000km of new, and frequently barely managed, international borders between the states of region, it is not a rational use of resources that each country in the region tackles organised crime on its own. It is essential that they work together through INTERPOL and Europol, through a functioning regional judicial network and through co-operation on asylum, visas and readmission.

Regional co-operation is the only answer to the issue of refugees and displaced persons, over 1 million of whom remain in the region. In addition to humanitarian and social concerns for these people, a country's willingness to achieve genuine and sustainable reintegration of minority returnees is an indicator of its political and democratic maturity.

Regional co-operation is a necessary accompaniment to market opening. Countries in the region have already committed to provide market access to one another. In the Memorandum of Understanding signed in June 2001 under the auspices of the Stability Pact, all five countries (plus Romania and Bulgaria) agreed to sign before the end of 2002 WTO compatible free trade agreements with each other. A number of these bilateral agreements are already in place. Achieving this ambitious target would send a very strong signal on the region's determination to work together.

The countries' strategic interest in reconnecting regional transport corridors and energy networks between themselves and to the rest of Europe is obvious. The wider economic development of the region and future integration with the EU and wider Trans European Networks depends on it. It means also supporting regional programmes such as the Regional Electricity Market (REM) for the South East of Europe or the Transport Infrastructure Regional Study (TIRS). Together with the partner countries and with help from the international financial institutions (notably the EIB, EBRD and World Bank), the Commission has developed long term strategies for transport and energy in the region in 2001. These strategies have been endorsed in the framework of the Stability Pact and are complemented by an EBRD strategy in the water sector. As the implementation of these strategies gains pace, there will be an ever greater need for the five countries to work together for the wider regional interest when decisions are taken on specific cross-border international projects and networks.

Although it is not something which can be pursued at the regional level alone, similar strategic considerations apply to telecommunications and the Information Society. Action is needed in each country to establish the right conditions to attract private investment. Real competition and better provision of these services in less favoured regions would be an important motor for economic development across the whole region. The scientific and technical co-operation between the countries of the region and the EC can also help contribute to socio-economic development in the region.

The Stability Pact has an important role to play with the EU in helping the region take forward these ambitions and, though its activities, in complementing and reinforcing the Stabilisation and Association process. The work of the Pact is increasingly targeted on issues where its networks and experience can deliver measurable results. The Commission will contribute to the achievement of the priority objectives set out by the Special Co-ordinator at the General Affairs Council of 11 March, where these contribute directly to the EU's strategy under the Stabilisation and Association process.

6. THE ROAD AHEAD

The policy of Stabilisation and Association offers an advanced and privileged relationship with the EU, the final destination of which is clear. The process is designed to evolve and accommodate the needs and aspirations of all five countries, including in the context of an enlarged European Union. But to succeed in the long run, the SAP requires continued commitment and new impetus on the part of the countries of the region and the EU.

Commitment

The countries of the region need to make long term sustained efforts and considerable investment in order to put the fundamental parts of the EU model in place. They need progressively to enlarge their understanding of the obligations of the process and what implementation of the EU system really means. A particular and determined effort is called for to entrench the rule of law as a sine qua non for stability and progress with reform. Given the enormity of the problem of organised crime, it is essential that appropriate steps be taken to strengthen police capacities and empower the judiciary. Work on establishing appropriate legal bases for tackling corruption needs to be accelerated.

The EU needs to maintain its **commitment to the Stabilisation and Association Process as the only rigorous, long term and sustainable policy approach to the region**. It needs to modulate the process for each country, allowing progress at a pace commensurate with the country's capacity to meet obligations. The EU needs to continue the monitoring of the process and the countries' progress in it and will continue to do this through its Consultative Task Forces and this annual reporting exercise.

The EU has to ensure that the **financial resources the Community** has available for the implementation of the Stabilisation and Association process (€4.65 billion under CARDS) are fully and effectively used by the end of the current financial perspective. Those resources need to be complemented by and carefully co-ordinated with the efforts of Member States and other international partners.

The **EU** needs to do more to ensure the Stabilisation and Association process is better understood, particularly in the region, but equally in the EU and by international partners. Too often, it is still perceived as a bureaucratic exercise, removed from the actual needs of the people. A concerted effort still needs to be made, by the Commission, Member States and partner governments alike, to explain the process and **communicate its achievements more effectively**.

New Impetus

The SAAs formalise existing political dialogue arrangements which the EU has for each country. But the EU needs develop further its mechanisms for enhanced political dialogue and regional co-operation with Sap participants. The Commission therefore proposes to establish a new **political forum, - the Zagreb process - building on the success of the November 2000 Zagreb Summit**, to bring together the political leaders of the region and their EU counterparts at ministerial level on a regular basis to discuss key issues of common concern. The aim will be to deepen their understanding of the association process and contribute to the objective of more advanced regional co-operation, as required by the Stabilisation and Association agreements. Such meetings would also give a clear public signal of the special and inclusive nature of the privileged relationship between Sap participants and the EU.

There are certain aspects of the **intensive preparations** common to the pre-accession process of the candidate countries which could usefully be replicated. For example, - a particular emphasis needs to be put on institution-building, so that countries develop policies, laws and practices which will command the confidence of their EU counterparts. This will require **expertise from Member State administrations**, as is being provided to the current candidate countries, a requirement which will grow over time. Experience in the pre-accession context in border control and management can also be usefully transferred to the participants in the Stabilisation and Association process.

The EU is going through one of the most challenging periods of its development as it prepared for the biggest enlargement in its history. It will take time to absorb new Member States and to develop new ways of working in an enlarged Union. The Western Balkan countries are facing an equally daunting challenge of political and economic reform, involving extensive nation and institution building efforts. This process will also take time to bear fruit. In meeting this challenge, and with the assistance of the EU through the Stabilisation and Association process ,the countries of the region are gradually equipping themselves to become credible candidates for membership. The hard work of changing the legal and regulatory framework, developing functioning and democratically accountable public administrations and moving towards market economies is a pre-requisite for future membership. Just as in the current enlargement, these are the areas in which the EU will assess the readiness of future candidates and their ability to take on the obligation of membership. Therefore, it is the pace and extent of change inside each country which will determine their prospects for future membership and not the date of any application for membership.

The success of the Stabilisation and Association process as a policy will be gauged by the extent to which the countries progressively shed their dependency on external sources of military, administrative and financial support. The broader international community should continually review its presence and activity in the region with a view to disengaging in certain areas when the countries are sufficiently prepared to take on the obligations of nationhood themselves. The engagement of the EU and the countries of the region in the Stabilisation and Association process should facilitate this.

ANNEX A

Summaries of individual country reports

ALBANIA

Stabilisation and Association Report

EXECUTIVE SUMMARY [SEC(2002) 339]

Albania started its reform seriously adrift from the level of development in Western Europe. Early efforts to introduce democracy and build a market economy were severely undermined by the socio-economic crisis and generalised unrest which followed the financial collapse of 1997. The lack of a democratic culture, the absence of dialogue between different political tendencies and a limited understanding of the concept of national interest amongst political leaders have often prevented the development and implementation of sound policies to address the many issues that Albania faces. The tense situation in the region has also had an adverse effect on the country's stability. All this meant that the situation in early 1998 was little better than that prevailing in the early years of the reform.

Since 1998 Albania's reform efforts have been more productive: the adoption of a modern Constitution and legislative framework, an overall improvement in macro-economic stability and fiscal sustainability, effective implementation of the privatisation process, substantial strengthening of the customs and tax administrations, and improvement in terms of security and public order. Moreover, Albania has been constructive in response to the recent political crisis in the former Yugoslav Republic of Macedonia and Presevo. All this relative progress has brought Albania to the threshold of negotiating a Stabilisation and Association Agreement (SAA) with the EU.

However, the starting point against which all these achievements have been measured is extremely low and much more remains to be done to ensure further progress of Albania within the Stabilisation and Association process (SAp). The conclusion of an SAA itself is conditional on a sustained reform effort by Albania and on the strengthening of its administrative capacity in order to ensure the proper implementation of such an agreement.

Albania is still beset by a confrontational political culture, where individual interests prevail over general ones with the frequent result being political instability and poor governance. Elections are not yet up to international standards. The judiciary remains a major problem, as it is still ill-prepared to enforce legislation, legal reasoning is often weak and corruption is pervasive. Overall implementation of the legal framework is poor and legal security is insufficient to attract inward investments on a scale to contribute to sound and sustainable economic development. Public administration is weak and still subject to political and financial influence. In almost every area where Albania would take on obligations under a future SAA, there is a considerable lack of implementing capacity. Despite recent economic progress, the overall socio-economic conditions in Albania remain poor with almost one fifth of the population living on less than 1.2 €/day. The grey economy is still too large, prevents competition and discourages investment. The current energy crisis threatens prospects of continued economic growth. Widespread corruption and organised crime, particularly illegal trafficking of all types, remain very serious problems and undermine respect for the rule of law and the foundations of the state itself.

In order to make further progress in the Stabilisation and Association process, Albania urgently needs to guarantee a stable political environment, with fully functioning democratic institutions. The new Government should quickly re-focus on badly needed reforms and accelerate their implementation.

BOSNIA AND HERZEGOVINA

Stabilisation and Association Report

EXECUTIVE SUMMARY [SEC(2002) 340]

Bosnia and Herzegovina (BiH) faces a multiplicity of inter-related challenges. Some of the most pressing as defined in the General Framework Agreement on Peace (GFAP - Dayton Agreement) have been tackled with international assistance: military hostilities have stopped, refugees have returned in significant numbers to their homes, the institutions foreseen in the constitution have begun to function. This, however, is only a start. BiH must now look to a future as a self-sustaining European state by prioritising a targeted programme of reform that will enable it to take its place in the wider European order.

In terms of **political reform**, BiH must become a self-sustaining state based on the rule of law. This is a pre-condition for further progress. To achieve sustainability there must be a recognition among all sections of the BiH population that their future lies with each other and within BiH. All sides have an interest in building a state that can manage without international assistance and control. All BiH communities must therefore overcome the polarisation which has often made compromise so difficult and must build constructively on the foundations laid at Dayton. In some cases, the goal of sustainability and integration into European structures may mean that Entity powers may have to be ceded to the State. Republika Sprska (RS) in particular must consider that a strong state is compatible with a strong Entity, indeed that the former is a prerequisite of the latter. National and Entity sustainability can only be built on the basis of full BiH "ownership" of the reform process.

In terms of **economic policy** too sustainability is the watchword. Among the myriad challenges, two stand out in the short to medium term. First, since the war BiH has profited from massive, but abnormal and now declining, injections of foreign assistance. BiH must increasingly substitute this assistance with endogenous growth. Given limited domestic resources, it is therefore essential that BiH create the conditions to attract FDI -and this will only be possible if there is the systemic and institutional stability and sustainability mentioned above. A particularly important building block for economic sustainability is the development of a functioning BiH internal market. Secondly, BiH must bring its public finances into equilibrium. Without state resources to match state responsibilities, the sustainability of even those reforms that have been introduced will remain in doubt.

Finally, if it is to reach its declared goal of integration into European structures BiH must progress decisively within the **Stabilisation and Association Process (SAP)** over the next twelve months. Delays in Road Map completion reflect the complexities of BiH's internal order, but, unfortunatelypossibly, also a willingnesswillingness by some to hide behind those complexities. Regrettably, this has meant lost time and BiH falling behind its neighbours. The Road Map must be completed quickly in 2002. It is important that the Road Map and the SAP agenda are not additional requirements to political and economic reform. Rather, they identify the most urgent priorities and give orientation and direction by putting reform and the goal of sustainability in the context of integration into EU structures.

Since 1995 BiH has made progress. That progress must be built on in order to achieve the self-sustaining stability. This is essential, - for only with self-sustaining states (not Entities or local authorities) can the EU conduct negotiations or sustain contractual bilateral relations.

CROATIA

Stabilisation and Association Report

EXECUTIVE SUMMARY [SEC(2002) 341]

The political environment in Croatia changed radically with the advent of the new leadership early in 2000. The new Government has shown determination in its efforts to establish a fully fledged democracy and to develop a culture of respect for the rule of law. This and the steps taken so far have ended Croatia's political and economic isolation, leading to a rapid improvement of bilateral relations between Croatia and the European Union.

The Government now faces two main challenges: to consolidate democracy to underpin long-term political and social stability; and to implement a comprehensive programme of structural reforms to achieve political and economic transition. Success will require the commitment and active participation of all parts of the public administration. Civil society, too, will need to play a more effective role.

There has been a sea change in the approach of the current Government in the areas of democratisation, respect for human rights including minority rights and compliance with obligations under the Peace agreements. Considerable progress has been made. However, the most far-reaching potential threat to the achievement of economic, political and social reform is the continuing weaknesses of the judiciary and the resulting problems in law enforcement. Nationalistic pressures continue to have some impact on the pace of reform. This is particularly true for the return process, and de facto integration of the Serb minority. They have also been a factor in the handling of co-operation with ICTY. In addition, nationalistic pressures affect the attitude of the Government to increased regional co-operation. While at the bilateral, practical, level there have been important steps forward there is a persistent tendency to over-politicise and over-estimate the impact of and intentions behind regional initiatives. Croatia needs finally to overcome regional and historical frictions and take a more open approach to addressing outstanding political questions with its neighbours.

Macroeconomic indicators show that the state of the economy is improving. The Government has begun the process of economic and structural reform. This is proceeding at a slower pace than expected, but tangible results are expected within the medium-term and already in the course of 2002. High unemployment remains a main concern.

The signature of the Stabilisation and Association Agreement (SAA) was an indicator of the steadily improving relationship between Croatia and the European Union. The credibility of Croatia's aspirations to become a candidate for EU membership depends in the first instance on how successfully it implements the SAA, which offers a clear route to bringing the country closer to European standards. The Agreement has had an immediate and concrete impact on the domestic reform programme. For instance, the Government is making serious efforts to establish the necessary legislative framework. However, the implementation of adopted legislation remains a major challenge and the administration needs to look at its own capacity to implement the reforms and address the deficits it finds. Although the Government appears to appreciate this, it continues to focus too much on the headline political objectives of Croatia's European policy rather than on the enormous effort that moving closer to European standards requires.

Federal Republic of Yugoslavia Stabilisation and Association Report EXECUTIVE SUMMARY

[SEC(2002) 343]

During 2001, a full-fledged strong commitment to reform, and some real progress, has been evident in the Federal Republic of Yugoslavia (Republic of Serbia, Kosovo and the Republic of Montenegro). The "classical" problems of a country in transition are of course compounded by unsolved issues of constitutional status, and, until recently, the less cooperative attitude shown by one constituent Republic, which undermines the functioning of the state. It is vital that these do not interfere with reform efforts - reforms which are in any event required throughout the country - and is not permitted to cause instability beyond the borders of the FRY.

In terms of **political reform**, the overall impression is positive. In the relatively short period since the new Governments took office, Belgrade has shown clear political determination to undertake the necessary reforms. Respect for fundamental principles has improved, though better coordination and implementation is required. FRY has continued its efforts to build bilateral and multilateral relationships throughout the region and beyond. FRY respect for international obligations (ICTY) requires urgent improvement if it is not to become an obstacle to integration into European structures. There has been progress too in Kosovo, with continuing international efforts to build democracy and the rule of law, and political change in the form of the development of a Constitutional Framework and the successful elections to the new provisional institutions of self-government. The transfer of competencies to the elected representatives would have been possible more quickly had they shown more leadership. More progress might have been expected in Montenegro, after three years of democratic government. It is important, throughout the FRY, that momentum for difficult political reforms does not falter in the face of the challenges ahead, and that potential brakes on progress - such as corruption - are tackled urgently.

Substantial progress has been made on the **economic** front, with the ending of the isolation of the FRY, the holding of a successful Donors' Conference and the delivery of substantial quantities of assistance, the resolution of most of the country's external debts and the rapid move from post-conflict reconstruction to transition. There is clear international consensus that Belgrade has already laid the correct bases of economic reform and development in the first year of transition. At macro-economic level, the correct financial and fiscal steps have been taken. The economic development of Kosovo, though from a low base, continues with donor support and guidance. More progress in implementation of economic reforms should have been evident in Montenegro, in its third year of transition. The implementation of economic reforms slowed down in the beginning of 2001, but after the April elections further progress was made in some sectors although budget financing remains difficult.

As the pace of transition picks up in 2002, there should be **deepening structural reforms** throughout the FRY - moving from the adoption to the implementation stage of reforms, bringing all parts of the FRY to the same level so as to permit the state to move forward. The authorities will also face the challenge of maintaining public support for the difficult and necessary reforms ahead. For the mutual benefit of all parts of the FRY, and with a view to

FRY drawing closer to the EU, priority must also be given - particularly but not only in the economic field - to the recreation and efficient functioning of the single economic space within the state and the implementation of EU-compatible reforms throughout the state.

Former Yugoslav Republic of Macedonia Stabilisation and Association Report EXECUTIVE SUMMARY

[SEC(2002) 342]

In 2001 the former Yugoslav Republic of Macedonia faced the most serious **political and security crisis** in its history. This has had a major impact on the economy, democratic institutions and the administration's ability to take forward the process of reform. With a significant political and economic investment by the EU and the rest of the International Community, the country has shown determination in overcoming the crisis but needs to maintain its efforts to ensure stability. The crisis revealed severe weaknesses in the country's democratic institutions and underlined the need for a major effort to underpin the stability of its institutions, thus guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. The changes to the Constitution in November 2001 and the adoption of the Law on Local Self-Government in January 2002 were a very positive step in this direction. The full implementation of the Framework Agreement of August 2001 is essential to build the necessary country-wide political consensus and stability needed for the reform effort ahead.

The *economic situation* deteriorated during 2001, largely as a result of the security crisis. Macro-economic stability was not maintained and most indicators moved in the wrong direction. Implementation of its structural reform programme is a top priority and will require a significant political and administrative effort. Privatisation of the state-owned enterprises and sale or liquidation of large loss making enterprises wereunfortunately delayed. Transparency of the privatisation process has not been ensured. Despite improvements in the regulatory framework of the bank supervision, the health of banking system remains fragile. The reforms are urgently needed if the country is to be able to cope with the competitive pressures and market forces which will flow from the full implementation of the Interim Agreement.

With regard to the structure and functioning of the *administration* the adoption of the legal framework for the decentralisation of public administration was an important step forward which should also contribute to the wider stability of the country. In general, however, the public administration has some way to go before it can adequately fulfil all the tasks required of it in a functioning democracy based on the rule of law. The weakness of the judiciary and the consequent difficulties for law enforcement remain. Corruption is a serious cause for concern and it is crucial that the government tackles this energetically through an action plan of specific measures.

The signature of the *Stabilisation and Association Agreement* (SAA) in April 2001 and the coming into force on 1 June 2001 of the Interim Agreement was an important step in the former Yugoslav Republic of Macedonia's efforts to move closer to the EU. But careful, thorough implementation of these obligations will be the only real indicator of progress. However, the political crisis has slowed down the process of institutional and legislative change which is necessary if the former Yugoslav Republic of Macedonia is to come close to European structures. It is important that every effort is made in 2002 to refocus attention on the implementation of the Interim Agreement.

ANNEX B

1991-2001 EC assistance to the Western Balkans												
Commitments in millions of euro												
Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
ALBANIA												
Phare/Cards	10,00	75,00	40,00	49,00	53,00	53,00	70,40	42,50	99,90	35,45	37,50	565,75
Democracy & Human Rights					1,00	0,60	0,40	0,80	0,17	0,52	0,40	3,89
Specific actions									2,60	1,92		4,52
Humanitarian aid		4,	13		1,15	1,65	16,30	11,00	97,07	3,40	6,60	141,30
FEOGA		120	,00									120,00
Food security							10,80		5,50			16,30
Macroec. assistance [1]		70,	00		15,00	20,00						105,00
Total =		368	,13		70,15	75,25	97,90	54,30	205,24	41,29	44,50	956,76
BOSNIA & HERZEGOVINA												
Phare/Obnova/Cards				0,21	0,65	229,77	211,16	190,50	118,36	100,85	105,23	956,73
Democracy & Human Rights					0,70	4,80	4,80	1,80	0,79	0,62	0,80	14,31
Specific actions					70,00	65,40	39,90	15,00	30,90	3,96		225,16
Humanitarian aid		495	,26		145,03	142,45	105,00	87,95	58,90	0,40	0,75	1.035,74
Macroec. assistance [1]									25,00	10,00	25,00	
Total =		495	,47		216,38	442,42	360,86	295,25	233,95	115,83	131,78	2.291,93

CROATIA										
Obnova/Cards		0,09	0,31	11,71	10,26	15,59	11,50	18,34	60,00	127,80
Democracy & Human Rights			,	0,70	2,20	0,60	0,21	0,97	0,50	
Specific actions						1,00	0,42	0,31	0,98	2,71
Humanitarian aid	204,77		38,43	21,15	14,50	6,95	6,50			292,30
Total =	204,86		38,74	33,56	26,96	24,14	18,63	19,62	61,48	427,99
FRY - Serbia / Montenegro										
Obnova/Cards		0,37	1,18	0	4	10,38	26,90	208,95	230,00	481,97
Democracy & Human Rights [2]			1,90	0,70	0,80	2,50	2,05		4,95	12,90
Specific actions							1,76			1,76
Humanitarian aid	170,25		36,87	23,40	13,50	11,20	93,70	59,64	55,40	463,96
Macroec. assistance [1]								20,00	260,00	280,00
Total =	170,62		39,95	24,47	18,13	24,08	124,41	288,59	550,35	1.240,59
FRY – Kosovo										
Obnova/Cards		,				13,16	127,00	439,90	320,00	900,06
Democracy & Human Rights								0,38		0,38
Specific actions								6,00		6,00
Humanitarian aid							111,70	28,84	13,92	154,46
Food security							20,90			20,90
Macroec. assistance [1]								35,00	15,00	
Total =						13,16	259,60	510,12	348,92	1.131,8 0

FYROM										
Phare/Obnova/Cards [3]	65	,00	25,28	25,00	33,21	25,28	68,70	21,20	56,20	319,87
Democracy & Human					0,50	0,20	0,10	0,52	1,35	2,67
Rights										
Humanitarian aid	36,	,52	9,15				39,81	5,35	5,40	96,23
Rapid Reaction Mechanism									12,80	12,80
Macroec. assistance [1]					25,00	15		20,00	10,00	70,00
Total =	101	,52	34,43	25,00	58,71	40,48	108,61	47,07	85,75	501,57
Regional										
Phare/Obnova/Cards	81,	,44	0,61	0,15	1,45	8,40	2,20	18,75	20,00	133,00
Democracy & Human					5,30	0,90	6,40	7,36	3,68	23,64
Rights										
Specific actions								2,71		2,71
Humanitarian aid	17,	,10	20,00			17,00	39,32	1,08	1,00	95,50
Total =	98,	,54	20,61	0,15	6,75	26,30	47,91	29,90	24,68	254,84
GRAND TOTAL =	1.43	9,15	420,26	600,85	569,30	477,70	998,35	1.052,41	1.247,46	6.805,48

^[1] Macroeconomic assistance refers to disbursement and includes grants and loans.
[2] The figure in 2001 refers to the FRY as a whole.
[3] Including Cards Emergency Package of €13.7 million) in 2001.

ANNEX C

Human Rights Conventions ratified by Albania, Bosnia and Herzegovina, Croatia, FRY and fYROM

31 January 2002

	Albania	Bosnia and Herzegovina	Croatia	FRY	FYROM
Adherence to the following conventions and protocols		3			
ECHR (European Convention on Human Rights)	R: 20.10.96	0	R: 5.11.97	0	S: 9.11.95 R: 10.4.97
Protocol 1 (right of property)	0	0	R: 5.11.97	0	S: 14.6.96 R: 10.4.97
Protocol 4 (freedom movement et al.)	R: 02.10.96	0	R: 5.11.97	0	S: 14.6.96 R: 10.4.97
Protocol 6 (death penalty)	R: 21.09.00	0	R: 5.11.97	0	S: 14.6.96 R: 10.4.97
Protocol 7 (ne bis in idem)	R: 01.01.97	0	R: 5.11.97	0	S: 14.6.96 R: 10.4.97
European Convention for the Prevention of Torture	R: 02.10.96	0	R: 11.10.97	0	S: 14.6.96 R: 6.6.97
European Social Charter	R: 12.01.96	0	S: 8.3.99	0	S: 5.5.98 R: —
Revised European Social Charter	R: 21.09.98	0	0	0	0
Framework Convention for National Minorities	R: 28.09.99	R (BiH non member of CoE)	R: 11.10.97	R	S: 25.7.96 R: 10.4.97
ICCPR (International Covenant on Civil and Political Rights)	0	R (succession)	R: 8.10.91	R	Succession: 18.1.94
Optional Protocol to the ICCPR (right of individual communication)	0	R	R: 12.1.96	R	Accession: 12.12.94
Second Optional Protocol to ICCPR (death penalty)	R: 21.09.00	R	R: 12.1.96	R	Succession: 26.1.95
ICESCR (International Covenant on Economic, Social and Cultural rights)	0	R (succession)	R: 8.10.91	R	Succession: 18.1.94
CAT (Convention against Torture)	R: 02.10.96	R (succession)	R: 8.10.91	R	Succession: 12.12.94
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	0	R (succession)	R: 8.10.91	R	Succession: 18.1.94
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	0	R (succession)	R: 8.10.91	R	Succession: 18.1.94
Optional Protocol to the CEDAW	0	S	R: 8.10.91	0	S: 3.4.00
CRC (Convention on the Rights of the Child)	0	R (succession)	R: 8.10.91	R	Succession: 2.12.93

R = ratified S = Signed O = neither ratified or signed