

**STRENGTHENING REGIONAL COOPERATION AND FOSTERING LOCAL INITIATIVE:
RECOMMENDATIONS FOR REFORMING THE STABILITY PACT FOR SOUTHEAST EUROPE AND
IMPROVING INTERNATIONAL ASSISTANCE TO THE BALKANS**

Policy Paper

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Abstract

This policy paper presents the main findings of research on international assistance to Southeast Europe (SEE) and on the working of the Stability Pact for Southeastern Europe (SP). The intention of the research has been to evaluate international involvement in the region with a view of developing recommendations on how to avoid repeating past mistakes, how to improve future involvement, and how to encourage regional cooperation. The paper presents and evaluates alternative policy options to a number of identified problems. On the basis of the evaluation of these options, I develop recommendations on how to deal with the current problems of international assistance to SEE and the deficiencies of the SP.

Introduction

Developments in SEE and the prospects for regional cooperation have come to depend on international assistance, and particularly on the involvement of the EU. Significant international aid has been committed to the task of stabilization, democratization, economic reconstruction and regional cooperation in SEE. With the end of the reconstruction period approaching, most SEE countries are to see international assistance being progressively scaled down. Yet, the post-reconstruction phase finds most of these countries grappling with serious economic and social problems. Regional cooperation in SEE has stalled, too. These problems call for a careful evaluation of international involvement in the region with a view of developing recommendations on how to avoid repeating past mistakes, how to improve future involvement, and how to encourage regional cooperation.

Problem Description

Despite the undoubted success of foreign aid in overcoming the direct damages of the conflicts, assessments of its overall achievements are mixed. The following problems stand out as most pressing.

- ❑ **International assistance to SEE is massive but insensitive to local needs and tends to impose donor-driven priorities on SEE countries.**

International assistance often fails to adequately take into account local stakeholders' interests and tends to conceive of institutional reform as a self-contained effort disconnected from the existing structures of power, the interests, and the traditions in the recipient society.

Often **donors fail to respond to the real needs of the aid beneficiaries**. The problem is particularly acute in the case of democracy assistance where the bulk of assistance is disbursed through NGOs in the recipient countries that are financially dependent on international funds and tend to comply with the priorities of the donors rather than with the needs of the recipients. Even the SP - the initiative that most loudly and tediously declares the need to achieve 'regional ownership' - has a dubious record of facilitating local involvement.

International assistance, especially a massive one like in Bosnia and Kosovo, is not necessarily a blessing for state institutions. It can make them aid-dependent and can thus weaken their capacity and their status in the recipient society. The discrepancy between externally determined priorities and the urgent needs of the SEE societies undermines the political elite's responsiveness and accountability to the electorate and thus exacerbates the crisis of democratic representation. This discrepancy can be felt even in the countries with a lesser degree of international intervention.

- ❑ **The effectiveness of international assistance programs has been undermined by the lack of coordination among donors and by the resulting short-termism and support of isolated and unsustainable projects.**

The tendency to perceive of projects as an end in themselves rather than as part of a more comprehensive strategy of development or policy change thwarts their long-term effectiveness and decreases their sustainability. In many cases projects that have started to show perceptible results have been abandoned by the donors due to change of priorities and thus, due to the low levels of sustainability, abandoned altogether. Still many other projects are from the very beginning designed to be short-term ones.

Training initiatives and capacity building are often of such type. They last for a limited period of time, involve little follow up, and pay insufficient attention to the necessity to disseminate the newly acquired skills more widely in the institutions involved. The SP has a bad record of ensuring sustainability. The taskforces, initiatives, and projects that are most likely to last beyond SP funding are usually projects that have existed before the SP got involved in them; the sustainability of newly developed projects and networks is dubious at best. Support for institution building also consists of isolated projects with modest goals, over-reliant on seminars and conferences as ways of transmitting skills. There is still a stress on capacity building. Capacity building might have been justified in the initial phases of international involvement, but this phase is coming to a close.

The phenomenon of isolated and unsustainable projects largely stems from lack of coordination among donors and competition for higher visibility. Yet, however great the need for coordinating international assistance, piling up new coordination schemes on top of others is not only unlikely to be effective, but might end up having outright negative consequences.

□ **The SP is facing some specific problems.**

-The taskforces receive insubstantial institutional support and there is a perceived need to provide them with at least a minimal paid staff that would help offload the substantial logistical work currently performed by volunteers.

-The emphasis on high-cost infrastructure projects is a questionable strategy from a developmental point of view.

□ **International donors have committed funds to the task of encouraging regional cooperation but the supported projects have not been very successful in achieving these goals.**

The more advanced participants from the region have been dissatisfied with the unitary approach applied in such projects. The different countries in the region are facing increasingly different problems and are increasingly diverging as regards institutional capacity, legislation, advancement in reforms, etc.

In many cases when a country has been invited to participate in a regional project about which it has not been consulted, its involvement has been faint. Similarly, in the cases when one or several 'lead' countries have been identified to carry out the project, the other participants from the region have for a long time not been engaged in the project in any way other than taking part in trainings. They have remained inactive and unenthusiastic about those projects.

□ **International assistance to civil society is also fraught with problems.**

Local civil society groups are almost totally dependent on donors. In fact, many NGOs 'do' civil society work in order to make a living. This has curbed the ability of such organizations to establish closer links with, and respond to, their constituencies. Civil society assistance, however, has wrongly tended to conceive of its task in terms of technical assistance and mere allocation of resources. In addition, it has induced centralization and creation of hierarchical structures within recipient organizations and within the NGO sector as a whole.

Recent research on the strategies of international NGOs has pointed out that in terms of sustainability and relevance reactive strategies have achieved superior results compared to proactive strategies because, rather than imposing solutions in a top-down fashion, the former are better suited to solicit proposals and ideas from the recipient society.

Last but not least, many of the problems of international assistance are related to the inadequately optimistic expectations of its likely impact. It is the pressure on donors to demonstrate apparent results that probably explains the stress on more proactive and interventionist strategies as opposed to more subtle and time-consuming reactive strategies based on efforts to attract local staff, to acquire understanding of the local circumstances and to create partnerships with local stakeholders.

□ **Regional cooperation in SEE is hampered by the genuine unwillingness of most SEE countries to get involved in any form of SEE regionalism.**

- The symbolic politics in the region cause SEE countries to be staunchly weary of SEE regionalism. The perception is that regional integration associates them with a region classified as 'backward' and thus damages their international reputation. In addition, European and regional integration in many respects appear to work at cross-purposes. The regional approach implied in the SP arouses fears among the more advanced SEE countries that participation in regional cooperation initiatives will delay their EU integration. Thus, the unifying tendencies suggested by the EU's insistence on regional cooperation prove unacceptable to virtually every country in SEE.
- Regional cooperation is designated as a panacea for a variety of problems and frequently becomes a substitute for in-depth understanding of existing problems and possible solutions.

Policy Options

The need for adapting any foreign assistance strategy to ensure adequate local input into assistance programs' design and implementation has emerged as a new consensus among critics of international assistance. This new consensus has a potential to make some useful corrections in the paradigm of international assistance. Yet, being as it is a revolt against the previously unreflective and overly optimistic view about the ability of direct international intervention to promote desired changes, it tends to overestimate the ability of local input to solve the salient problems. Hence, while local input should be encouraged, it does not automatically provide solutions.

Policy options for improving the priorities of international assistance with a view of addressing the urgent needs of SEE countries.

- The recent proposal of the European Stability Initiative (ESI) that EU assistance to the Western Balkans should be refocused to address longer-term developmental and structural problems deserves serious attention. The existing EU and international strategies in the Western Balkans have been defined in accordance with the goals of post-conflict reconstruction and stabilization and are no longer adequate to current problems. However, this proposal is mostly applicable to EU assistance. Other donors are likely to be unwilling to sacrifice their own agendas.
- While the EU should focus on developmental issues, other donors should be encouraged to gradually shift away from projects dealing exclusively with civil society, ethnic relations or human rights, and to move towards an integrated approach that combines reconstruction and economic development efforts with efforts at rebuilding and reintegrating local communities and solving ethnic problems by involving all community stakeholders into a common endeavor. While such projects are immediately relevant to post-conflict situations, they also seem well suited for application, with some modification, to border regions in SEE. This approach could be more effective in fostering regional cooperation and good neighborly relations than an approach solely focused on ethnicity and minorities.

Policy options for increasing local input into the planning of EU assistance with a view of making EU assistance more relevant to the needs of SEE countries.

- A case can be made for introducing mechanisms to screen external intervention within the SAP, which would link access to finance from western aid agencies to compliance with certain criteria. This option in effect proposes to solve the problems of extensive international involvement with even more international involvement. It is, however, inadequate in addressing the need to ensure increased participation of SEE governments in decisions regarding international intervention.
- A second solution, proposed by the European Stability Initiative (ESI), is that EU assistance follow the developmental principles inbuilt into the EU structural funds: **local co-financing**, institutionalized partnership between the Commission, national and sub-national authorities, and **multi-annual programming of developmental efforts**. The principle of co-financing can help prevent distortions in domestic spending patterns and enhance the capacity for local and regional governance.

However, the Structural Fund approach cannot automatically remove the problem of sub-optimal priorities. The principle of co-financing was applied in ISPA but was not unproblematic. First, the crucial question is what is meant by 'local co-financing'. ISPA defines 'local co-financing' as one of three possible types of financing: local public finances; loans from the European Investment Bank or another International Financial Institution (IFI); or commercial (private) funding. In reality, also bilateral donors have acted as co-financers. Clearly, if the bulk of the co-financing comes in the form of a loan from an IFI or another donor (as it is likely to do, given the scarcity of local public finance in SEE countries), the positive effects in terms of local input in setting priorities and in terms of capacity building are dubious. Such practice might also unduly increase foreign debt. A number of currently undertaken infrastructure projects in CEE and SEE countries funded by IFIs have been charged with neglecting environmental standards routinely observed in the EU itself and, having been chosen on the basis of predominantly political and geopolitical criteria, are questionable from an economic point of view. In addition, for a number of reasons, including restricted capacities of local institutions, it is not ensured that the requirement for co-financing would result in local governments helping to set the optimal priorities for economic development. In this case, local co-financing would achieve little more than substitute locally chosen sub-optimal priorities for externally imposed sub-optimal priorities.

- The requirement for local co-financing is appropriate but priority should be given first, to financing from commercial (private) sources, and second, to local public financing. The ability to use loans from IFIs as a co-financing source should be restricted and subjected to stricter rules regarding the economic feasibility and the environmental impact of projects.

As the requirement for co-financing does not automatically solve the problem of sub-optimal priorities, it should be coupled with an *improvement of the mechanism for setting priorities* that would allow for sufficient local input in international and EU assistance. SEE governments should be encouraged to set comprehensive and concrete developmental strategies and priorities, with indications of financial assistance needed, in a National Multi-Year Developmental Program. These programs are to be regularly updated.

As SEE governments' capacity for such programming is currently constrained, it is necessary to put in place a consultation mechanism on the Developmental Program between the European Commission and the respective government. The mechanism could follow the example of the relatively recent practice in Bulgaria and Romania of consulting the National Programs for the Adoption of the *Acquis Communautaire* with the European Commission. The practice of presenting the said National Programs to the Commission perceptibly improved their quality. It also increased these programs' local political weight and importance. The introduction of such a mechanism will:

- ensure that the EU would consider the locally defined priorities;
- provide a balanced procedure for the EU to object to priorities and projects deemed improper or to propose its own preferred priorities without the possibility for one-sidedly imposing them;
- gradually increase the SEE governments' capacity for developmental programming.

In pre-accession support mechanisms to the SEE accession countries- Bulgaria and Romania- the above principles to some extent apply. These mechanisms are guided by the Accession Partnership priorities which are intended to help applicant countries meet the criteria for membership. ISPA is also guided by the transport and environmental strategies formulated by the accession countries' governments in agreement with the Commission. However, there is room for improvement in the priority-setting mechanism. A multi-annual developmental program could serve as a coherent overarching framework for determining concrete priorities for ISPA and SAPARD funding and the elements of PHARE concerned with social and economic cohesion and economic reform. This will ensure that the three funds will work towards a single purpose. This is in effect similar to what is required from the National Programmes for the Adoption of the *Acquis* (NPAAs), namely to create a coordination mechanism for the use of the three funds. The difference is that while the NPAAs deal with *acquis* harmonization, the developmental programs deal with the developmental priorities of the country and with the possible contribution of EU pre-accession funds to solving structural problems.

Policy options for increasing the relevance of assistance programs of other donors.

- A good case for avoiding over-reliance on foreigners in international assistance programs. Short-term appointments of foreign experts or trainers with no sufficient knowledge of the local context and language risk undermining assistance programs' relevance. Increasing inclusion of local personnel and staff is indispensable not simply because it brings comprehensive knowledge of the local circumstances but also because of basic reasons of legitimacy. In addition, the costs associated with procuring advice and implementation from foreign experts and consultants are usually substantially higher than those of involving locals. Despite its obvious merits, this proposal should not be taken to the extreme.
- Another option is that donors make conscious efforts to adapt their program designs to the local context with the help of in-depth research of the local conditions carried out by experts familiar with the recipient country and its language. This in effect means that the donors themselves should ensure improvements in international assistance. It is, however, unlikely that such improvements could be achieved without a degree of opening up to local staff, unless donors are prepared to be extremely flexible

in changing and adapting the program design in a trial-and-error manner in the course of implementation, which is difficult to achieve in practice.

➤ A more balanced alternative exists. The degree to which reliance on western expertise might be beneficial depends on the goals of assistance. Western expertise in developing and implementing assistance strategies is likely to have a tangible impact on the building of new institutions. However, these western experts, e.g. twinning, should have a good knowledge of the local conditions and preferably experience in the target country. For example, long-term residence of the external experts in the target country has as a rule increased the effectiveness of assistance programs and should be encouraged.

Assistance relying heavily on Western expertise can have only limited impact on the functioning of local institutions. To address these goals, assistance programs should increase their reliance on local personnel and reactive strategies that rely more on local initiative than on imported standard solutions.

Policy options for decreasing the professionalization, aid-dependency and lack of sustainability in recipient countries' NGO sectors.

➤ It has been suggested that donors should try to avoid centralization (with the concomitant disagreement and mistrust) within the recipient NGO sector as a whole by spreading out more small grants among a variety of organizations and to avoid competition for scarce resources between NGOs. This proposal, however, should not be taken to the extreme because supporting a multitude of organizations with small grants is likely to exacerbate the problem of lack of sustainability and will further diminish the real impact of assistance.

➤ Another option is to temper the current practice of supporting primarily established organizations with a long grant history. This can be achieved by giving out grants also to some *pre-existing and already functioning*, albeit smaller and less established, local and less professionalized organizations (e.g. community-based organizations or organizations outside the capital).

Policy options for addressing the problem of unrealistically high expectations of the impact of democracy assistance.

➤ There are recent proposals that western NGOs engaged in democracy assistance should also engage in public education regarding the incremental nature of democratization. These proposals are adequate but also difficult to put in practice if democracy programs continue to rely on a normative and moral rhetoric to justify their engagement.

➤ The second option is that international assistance providers simply **tone down their current normative rhetoric** and instead seek to define their missions with down-to-earth limited goals that match their real capabilities.

Policy options for dealing with the reluctance of SEE countries to engage in SEE regionalism.

➤ One remedy for the tension between European integration and regional cooperation has been put forward by proponents of Europeanization. This remedy is simply to provide more Europeanization and to make regional cooperation part of EU

conditionality. Such an approach has affirmed perceptions of SEE regionalism as a top-down process mainly dependent on external initiative. The stress on European and international interventionism and conditionality unwittingly downplays the role of local ownership of the regional cooperation process and compromises its sustainability.

➤ Another option is that international strategies rely less on conditionality as a way to ensure compliance with “regional cooperation” values and instead take into account the symbolic politics of the region. This entails avoiding declaratory and symbolically loaded language and excessive resort to shaming and patronizing on the part of the international actors. The same can be achieved by allowing for “a la carte” regional cooperation (among smaller groups of SEE countries) based on pragmatic interests and goals.

Conclusions and Recommendations

In order to improve the priorities of international assistance with a view of addressing the urgent needs of SEE countries

1. EU assistance should be refocused to address structural economic, social and developmental goals. It is high time to thrust aside the conflict-prevention approach and to address currently more pressing problems. Donors other than the EU should be encouraged to gradually shift away from projects dealing exclusively with civil society, ethnic relations or human rights, and to move towards an integrated approach that combines reconstruction, economic development (e.g. rebuilding of houses, encouraging small business or agriculture) and social issues (e.g. youth unemployment and other job creation programs) with efforts to rebuild and reintegrate local communities and to tackle ethnic issues. Such projects are especially well suited for application to border regions in SEE.

In order to increase local input into the planning of EU assistance with a view of making EU assistance more relevant to the needs of SEE countries

2. SEE governments should be encouraged to set comprehensive and concrete developmental strategies and priorities, with indications of financial assistance needed, in National Multi-Year Developmental Programs. The programs will be consulted with the EU. It is recommended that a consultation mechanism on the Developmental Program between the European Commission and the respective government be developed. The mechanism could follow the mechanism under which Bulgaria and Romania consult their National Programs for the Adoption of the *Acquis Communautaire* with the European Commission. The accession countries- Bulgaria and Romania - should aim to make the program a coordinating framework for determining priorities for ISPA, SAPARD and PHARE funding. In view of further improving the mechanisms for setting developmental priorities, in the mid-term national parliamentary committees should be created and tasked to develop a mechanism for consulting the multi-annual developmental program presented by the government with local non-state actors, most notably trade unions and employers’ organizations.

3. A requirement for local co-financing of EU assistance should be introduced. However, priority should be given first, to local co-financing from commercial (private)

sources, and second, to local public financing. The ability to use loans from IFIs as a co-financing source should be restricted and subjected to stricter rules regarding the economic feasibility and the environmental impact of projects.

In order to increase the relevance of assistance programs funded by other donors to local needs

4. It is necessary to adapt assistance programs' design in accordance with the local context and with the goals of the assistance program. Assistance that aims to influence the building of new institutions may use western expertise relatively extensively. However, western experts and twinning should not be flying in and out for short consultancy sessions. Long-term engagement with, and physical residency in, the target country is necessary.
5. Assistance aimed at improving the functioning of local institutions should consider relying more on local staff. Such assistance programs should be more reactive and should let local initiative lead the way rather than try to impose imported standard solutions.
6. Generally, the period when programs focused on capacity building and training by western experts were necessary is coming to an end. Donors should consider shifting towards supporting *problem-driven* projects identified as urgent by the target organizations and institutions.
7. In post-conflict areas in ex-Yugoslavia projects focused exclusively on basic human rights, minorities and refugees, ethnic reconciliation, and physical reconstruction are becoming less appropriate. The inertia in donor strategies and the upholding of a separate ethnic-conflict-centered agenda for SEE comes at the expense of more pressing developmental and social problems and should be reconsidered. See recommendation 1.
8. Donors' requirement that recipient NGOs identify one person (director) who should assume the responsibility for administering a grant has led to the creation of hierarchical structures and a relative centralization within recipient organizations. This practise should be avoided in order to prevent further centralization and professionalization of the recipient organizations that would further remove them from their constituencies.
9. Donors should also try to avoid centralization within the recipient country's NGO sector as a whole, and should try to increase sustainability and decrease donor dependence. The practice of supporting primarily established organizations with a long grant history should be tempered by giving out grants also to *pre-existing* and *already functioning*, albeit smaller and less established, local and less professionalized organizations.
10. Due to serious problems of sustainability and limited actual impact, projects aiming at formulating best practices should target areas that are relatively developed economically rather than the most underdeveloped ones.

In order to address the problem of inflated expectations about democracy assistance and to decrease the pressure on donors to produce immediate and visible results

11. Western agencies engaging in democracy promotion and international aid should substantially tone down their rhetoric and should avoid moral judgments and justifications. They should define their mission with down-to-earth, limited, goals

rather than with ideological and normative statements like building democratic societies or bringing stability, prosperity and Europeanization to SEE (and other regions).

In order to improve the design and implementation of regional projects in the SP and projects on a regional scale funded by other international actors

12. The format of such projects should be reconsidered and the number of participating SEE countries should be limited to only those that have clear pragmatic interest in the particular project and are expected to actively work on it.

13. Regional projects should not be designed by one external organization and then imposed on regional participants. Projects should either be designed by the countries that have interest in participating in them or consulted with these countries in advance.

14. In regional projects there is scope for using experts from other SEE countries rather than western or European experts. This especially concerns experts from Bulgaria and Romania since the two countries are relatively advanced in the process of adoption of the *acquis* that other SEE countries are going through or will soon be going through. This will have two beneficial effects. First, financial costs will be lowered. Second, regional cooperation on practical issues will be encouraged. Third, this strategy is unlikely to anger the countries most reluctant to engage in the region's affairs so much as the 'regional approach' to solving common problems. Making use of such consulting mechanisms requires that countries like Bulgaria develop regulations that would allow public officials to perform such duties without implicitly or explicitly breaching the rules of employment in public office.

In order to improve the efficiency of the SP

15. In order to encourage and facilitate the involvement of local actors, the SP needs to reconsider the current practice of frequently sparing itself the difficulties of providing feedback. Requirements and application details need to be communicated to the local participants in an appropriate (from the point of view of the local participants as well as the SP) way. This means developing clear requirements and criteria, and subsequently communicating them to the SEE participants through the National Organizing Committees or the National Working Groups and through an accessible web presentation.

16. The SP should ensure financing for regional meetings that could facilitate the development of regional ties, exchange of expertise, and habits of regional cooperation. In line with this recommendation and recommendations below, there is a rationale for diverting a small fraction (2-3%) of donor aid passing through the SP towards SP structures. This could enable the SP to provide institutional assistance to the taskforces. The latter goal could be facilitated by the establishment of small country offices (possibly hosting several taskforces rather than just one) with a minimal paid staff that would help offload the enormity of the logistical work currently done by volunteers. The office should be a joint endeavor between the executive and the taskforces in order to guarantee that public authorities will have a degree of commitment to it and that public officials will be involved in SP activities at a very early stage. These recommendations, however, are conditioned on the discontinuation of support of taskforces that are either inactive or duplicate existing coordinating mechanisms.

17. The SP should focus on facilitating coordination among donors. For the purpose, it should avoid wasting resources on creating taskforces and similar bodies in areas overpopulated with coordination mechanisms, e.g. corruption. If the Office of the Special representative is provided with adequate financing, it should attempt to monitor the implementation of projects. It should seek to facilitate complementarity between different sources of financing with the idea to ensure that in the cases of successful initiatives new donors (especially the EU) take over where others withdraw.

18. There is little international assistance could do in terms of coordination if regional governments have not decided on clear priorities for themselves. Hence, the SP should encourage regional governments to formulate their priorities with respect to international assistance. See recommendation 2.

19. The SP needs to carefully consider its priorities. The resort to geopolitical criteria in infrastructure project selection needs to be minimized. The focus on infrastructure in general should not be exclusive. Areas that need heightened attention are, for example, measures to increase investment in the SEE region; high-intensity programs of institution-building that rely on profound knowledge of the idiosyncratic reform needs of each SEE country and each particular institution; and issues of sustainable development, employment creation, health and education.

20. It is likely that the potential benefits of a regional free trade area are not widely recognized by the SEE countries. It is advisable that the arguments related to the hub-and-spoke problem (see final research report) are brought up, explained, and offered for consideration when free trade in the region is being discussed within the SP. This could be a way for the SP to solicit a more enthusiastic reception of free trade initiatives in the region.

In order to overcome the reluctance of SEE countries to engage in regional cooperation

21. It is recommended that international strategies take into account the symbolic politics of the region. Declaratory and symbolically loaded language and excessive resort to shaming and patronizing on the part of the international actors are counterproductive.

22. “A la carte” versions of regional cooperation (among smaller groups of SEE countries) could overcome the impediments to regional association engendered by the region’s symbolic politics.