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**REGIONAL STRATEGY PAPER**

**2002-2006**

**Including in Annex:**

**Multi-annual Indicative Programme 2002-2004**

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## EXECUTIVE SUMMARY

The purpose of this Regional Strategy Paper is to provide a strategic framework for programming the regional envelope of the European Community's CARDS assistance programme.

The CARDS Regulation<sup>1</sup> focuses on supporting the participation of Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia in the Stabilisation and Association process (SAP) which is the cornerstone of the EU's policy in the region. To this end, €4,650 million will be provided in the period 2000 to 2006 for investment, institution-building and other measures to achieve four major objectives:

- (1) Reconstruction, democratic stabilisation, reconciliation and the return of refugees.
- (2) Institutional and legislative development, including harmonisation with EU norms and approaches, to underpin democracy and the rule of law, human rights, civil society and the media, and the operation of a free market economy.
- (3) Sustainable economic and social development, including structural reform.
- (4) Promotion of closer relations and regional cooperation among SAP countries and between them, the EU and the candidate countries of central Europe.

This Regional Strategy Paper focuses on promoting closer relations and regional cooperation. Some 10% of the available funds will be directed to supporting this objective as a complement to the five CARDS Country Strategy Papers that focus on the other more national problems that the countries face.

The Strategy Paper first outlines the overall framework of the EC's cooperation objectives in the region and the regional policy agenda agreed by the EU and the five countries concerned. The SAP region's political and economic situation is then analysed, identifying the key challenges as far as regional cooperation is concerned.

The Strategy Paper next examines the coherence and coordination of the Cards regional support programme - how it complements the actions of the countries themselves, other donors and, indeed, of the CARDS national support programmes.

The Strategy Paper then presents the response of the CARDS regional programme in the four areas identified for support at the regional level: integrated border management, institutional capacity building, democratic stabilisation and regional infrastructure development. These have been selected because of their contribution to regional cooperation or because the support can be best delivered at the regional level.

Annexed to the Regional Strategy is a Multi-annual Indicative Programme (MIP) for the period 2002-2004 that provides further detail on the regional support programmes proposed. Detailed projects will be derived from this MIP and will be set down in Annual Action Plans in 2002, 2003 and 2004. With the exception of integrated border management, all programmes in this MIP will be implemented on a centralised basis by the relevant Commission services responsible for implementation.

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<sup>1</sup> Council Regulation (EC) No 2666/2000, December 5 2000 - Assistance for Albania, Bosnia and Herzegovina, Croatia, Fed Rep of Yugoslavia and the Former Yugoslav Republic of Macedonia, repealing Regulation (EC) No 1628/96 and amending Regulations EC.3906/89 and EC.1360/90.

# CARDS REGIONAL STRATEGY PAPER 2002-2006

## 1. EU AND EC ASSISTANCE OBJECTIVES

A key external relations' priority for the European Union is to promote stability and peace in the western Balkan region, not only on humanitarian grounds but also because the region's conflicts are at odds with the wider objective of security and prosperity across the continent of Europe and because they place a substantial military and financial burden on the EU member states.

The European Community's assistance objective is to support the implementation of the Stabilisation and Association process (SAP) which is the centerpiece of the EU's policy towards the region.

## 2. REGIONAL POLICY AGENDA

### 2.1. SCOPE OF THE STABILISATION AND ASSOCIATION PROCESS

The Stabilisation and Association process (SAP)<sup>2</sup> is an ambitious policy that, as its name implies, seeks to promote stability within the region while also facilitating closer association with the EU.

The European Union heads of state gave their support to the SAP at the Feira European Council in June 2000: *"The European Council confirms that its objective remains the fullest possible integration of the countries of the region into the political and economic mainstream of Europe through the Stabilisation and Association process. All the countries concerned are potential candidates for EU membership. The European Council encourages the States of the region to increase their regional co-operation."*

In this way, the SAP is constructed on certain basic understandings adopted by the EU:

- (1) One of the main motivations for the countries to undertake the necessary political and economic reforms is a relationship with the EU that is based on a credible prospect of EU membership, once the relevant conditions are met.
- (2) Against the background of the break-up of Yugoslavia, greater economic and political stability in the region can only develop if the countries establish normal relationships between themselves.
- (3) The EU's relations must remain conditional on each country's continued respect for the principles underpinning the SAP namely, respect for basic human rights, democracy and rule of law, protection of minorities, compliance with the Dayton/Paris Accords and International Criminal Tribunal for Yugoslavia (ICTY), regional cooperation and development of modern market economies.

Through the SAP, the EU has created a framework in which a new contractual relationship governing political, trade and other relations (the Stabilisation and

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<sup>2</sup> As set out in the Commission's Communication to the Council and European Parliament of 26 May 1999 ((COM (99) 235)

Association Agreements<sup>3</sup>) and a dedicated assistance programme (CARDS) help each country to progress at its own pace through the early mileposts on the way towards the final destination of EU membership.

The SAP treats the countries of the region in a manner that takes account of their differing situations at the end of a decade of conflict. In this way, each country will move closer to the European Union at its own pace.

## **2.2. COUNTRIES' RESPONSE: ADOPTING THE REGIONAL COOPERATION MODEL**

The Zagreb Summit in 2000 set the seal on the SAP by gaining the agreement of the five countries concerned to its objectives and conditions. The Summit's declaration stated in particular that *"rapprochement with the European Union will go hand in hand with this process of developing regional cooperation."*

The countries indicated the main themes that this regional cooperation would take: *"...the five countries concerned undertake to establish between their countries regional cooperation conventions providing for a political dialogue, a regional free trade area and close cooperation (inter alia) in the field of justice and home affairs, in particular for the reinforcement of justice and the independence thereof, for combating organised crime, corruption, money laundering, illegal immigration, trafficking in human beings and all other forms of trafficking."*

This regional cooperation model is essentially an extension of the EU's own philosophy that deeper cooperation with neighbouring countries is a route to national as well as regional stability and growth and that such cooperation serves the mutual interests of all countries concerned.

Certain reassurances from the EU are helping to promote a greater commitment among SAP countries to meet these regional cooperation objectives. First, a genuine contribution to better regional co-operation, even with less advanced or indeed reluctant neighbours, will be taken by the EU as evidence of readiness to move forward in their bilateral relationship with the EU. Second, the extent to which two countries will deepen their co-operation within the framework of SAA bilateral conventions will depend on practical issues, such as geographical proximity and mutual economic interests. Lastly, the European Council has reaffirmed its commitment to the principles of inviolability of borders, territorial integrity and sovereignty of the countries of the region.

## **2.3. SPECIFIC POLICY OBJECTIVES FOR REGIONAL COOPERATION**

Each country's willingness to build good relationships with its neighbours shall be the key determinant of its readiness to move closer to the goal of EU membership. These regional relations can be defined as a series of clear policy objectives:

- (1) To behave towards each other and work with each other in a manner comparable to the political relations that now exist between EU Member States.
- (2) To promote direct cooperation between SAP countries in tackling the common threats of organised crime, illegal migration and other forms of trafficking. In

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<sup>3</sup> An SAA has been signed with FYROM and another has been initialed with Croatia. Albania, BiH and FRY had not by mid 2001 reached the stage of negotiations on an SAA. For these countries, the EU has devised consultative mechanisms to help the authorities' concerned meet the preconditions for opening SAA negotiations.

many cases (eg. visa policy or border management), a common approach by all the countries will be needed to deal with the threat effectively.

- (3) To build a network of close contractual relationships - the “regional cooperation conventions” mentioned at Zagreb - between the signatories of SAA’s. Over time, these bilateral conventions with other SAA signatories will deepen cooperation between the countries of the region and between them and the EU through:
  - (a) bilateral free trade agreements in line with WTO provisions and based on continued asymmetric trade liberalisation with the EU.
  - (b) mutual concessions concerning the movement of workers, establishment, supply of services, current payments and movement of capital, and the progressive alignment of national policies to the *acquis communautaire*.
  - (c) cooperation in other fields such as Justice and Home Affairs and refugee return.
- (4) To re-integrate the SAP countries into the European infrastructure networks, namely for transport, border management and energy, and into the wider European networks, such as for environmental protection and sustainable development.

### **3. REGIONAL ANALYSIS**

Given the focus of this paper, this section analyses the political and economic situation in the SAP countries from the perspective of regional cooperation.

While certain problems identified in the analysis below are national in nature, such as weak state institutions, they cannot be addressed at the national level alone. They are included here because they require either additional regional-level solutions or at least enhanced levels of cooperation and coordination between all five countries, if they are to be tackled effectively<sup>4</sup>.

#### **3.1. REGIONAL POLITICAL ANALYSIS**

The most significant recent development - as far as regional cooperation is concerned - has been the change in administrations in Croatia and Federal Republic of Yugoslavia (FRY). With democratic administrations now in place in all five countries, regional relations have noticeably improved.

Diplomatic relations are now restored between all five countries. All now have the option for closer association with the EU with the prospect of becoming candidates for membership of the EU. All have joined or are in the process of joining key international community organisations, including the United Nations, World Trade Organisation, Council of Europe, the Organisation for Security and Cooperation in Europe and Interpol. All are eligible for support from the International Financial

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<sup>4</sup> The bulk of national problems (eg. private sector development, social problems, etc) that the countries face are not covered here because they must be solved primarily by efforts at the national rather than regional level. These are therefore addressed in the individual CARDS Country Strategy Papers.

Institutions, namely the International Monetary Fund, World Bank, European Investment Bank and European Bank for Reconstruction and Development.

There are also certain promising signs of the countries of the region positively cooperating on common problems, a sine-qua-non for each country's progress in the SAP:

- (1) A greater maturity in managing crisis and tensions in bilateral relations. Examples in 2000/2001 include the FRY governments approach to dealing with ethnic armed insurgency in Southern Serbia, Croatia's criticism of attempts by Bosnian Croat nationalists to undermine the Bosnia and Herzegovina Federation (BiH) and Albania's co-operation with efforts to isolate armed ethnic Albanian extremists in Former Yugoslav Republic of Macedonia (FYROM).
- (2) The emergence of regional co-operation initiatives, admittedly with important input from the international community, such as the Stability Pact, the South East Europe Co-operation Process (SEECp) and the Adriatic and Ionian Initiative.
- (3) The increasing number of international agreements between the countries, such as the agreement to establish free trade arrangements by the end of 2002 and the recent trilateral agreement between Croatia, BiH and FRY to cooperate on promoting refugee return.
- (4) A greater willingness to co-operate with the International Criminal Tribunal for Yugoslavia (ICTY)<sup>5</sup>.

However, despite these promising signs, the region politically remains volatile and major obstacles to increasing regional cooperation remain, ranging from insecure borders to weak institutions. As such, further political crises cannot be discounted as the region comes to term with the final legacy of the break-up of the former Yugoslavia.

### **3.1.1. *The international dimension of borders, crime and illegal migration.***

The emergence of five new nations<sup>6</sup> from the break-up of the former Yugoslavia has created over 5000 kilometres of new **international borders** in the SAP region that are a focus of major problems (see map Attachment 1).

These borders are often not marked, the emergent border control agencies are often inefficient and are open to corruption, and the border crossing points are not equipped to handle the traffic crossing them. Border regions frequently pose the highest security risks, especially given their preponderance of minority populations. Many remain fragile and a focus of poverty, so providing a fertile breeding ground for unrest and worse.

Secessionist ambitions of minorities by definition question the position of borders. By mid 2001, such ambitions were focused in the south with the unsatisfied nationalism of armed ethnic Albanian groups, linked to the wider issue of Kosovo's political future.

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<sup>5</sup> By 2001, ICTY had publicly indicted 93 persons with four convictions and 38 cases on-going. The remainder was accounted for by 20 acquittals, deaths and persons remaining at large.

<sup>6</sup> Namely, FRY, FYROM, BiH and Croatia as SAP countries and Slovenia as an accession candidate that lies outside of the SAP.

But secessionist pressure also remains in BiH where a strong international presence (eg. SFOR) remains a vital component in the country's continued development.

The last ten years of war, low incomes and erosion of public institutions have also created conditions conducive for **crime and corruption**. Organised crime networks in the region have become well established, highly violent and increasingly international. Despite erstwhile efforts from the countries, they are now involved in the trafficking of human beings into the EU, acting as a staging post for much of the heroin seized in EU member states, money laundering and smuggling (eg. cigarettes and firearms). The overall incidence of corruption in the region is also widespread. The levels of corruption measured in various surveys indicate highest incidence in Albania, Serbia and BiH<sup>7</sup>. Low pay and inadequate financial control and anti-fraud systems increase the susceptibility of public administrations to both petty and substantive corruption in all five SAp countries.

**Illegal migration** is clearly another major cross-border problem in the SAp region. While the SAp region itself is a source of illegal immigrants into the EU (largely now Albanian and Kosovar), the problem is primarily one of the region being used by local criminal groups as a transit route for smuggling immigrants into the EU who have come from other regions (eg. Middle East and Asia). Two main routes are used - a southern route runs through FYROM and Albania to Greece and Southern Italy and a northern route runs via Serbia toward Croatia and Hungary and thence into Austria or Northern Italy. Immigrants enter the SAp region by various routes, including by air, generally exploiting incoherent visa regimes and ineffective border control. Estimated figures vary widely but are probably in the order of over 100,000 illegal immigrants per year coming from the Balkans to the EU, of which some 15% originates from the region itself. While criminal groups operate these illegal migratory flows, certain government policies in the region continue to exacerbate the situation.

The regional problems posed by justice and home affairs go beyond cross-border crime, corruption, illegal migration and the penal justice system. The **civil and commercial justice system** is also often over-stretched. For example, one estimate indicates there may be as many as one million civil and commercial cases pending in the Croatian court system. Such overload prevents land rights being exercised (a key for refugee return) and commercial contracts being enforced (a key for attracting foreign investment and enabling foreign trade).

Obviously there is a wide variation between the countries of the region, reflecting each country's situation and history. However, no country is immune. For example, Croatia's situation cannot be compared to that of Kosovo or FYROM but it suffers considerable problems by being a major transit route for smuggling and other cross border crime.

In addition to national problems associated with inadequate laws, enforcement and institutional capacities, there are **international weaknesses** that limit the SAp countries' capacity to cooperate in combating their JHA problems: (i) lack of structures and networks within which countries can address shared cross-border problems such as border management and cooperation between national police and judiciary (eg. Interpol); (ii) no common regional policies being developed (ie. visa, access rights, readmission and asylum), leaving loopholes that are exploited by criminal networks;

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<sup>7</sup> SEE Legal Development Initiative report "Monitoring Corruption in South East Europe" 2001.

and, (iii) inadequate information systems that are generally not regionally interlinked or Schengen compatible, restraining the countries' capacities to investigate and tackle crime internationally.

The region is now grasping the gravity of its JHA problems as a source of political instability and a brake on its economic development as well as a possible hindrance in making progress on closer association with the EU. The countries have indicated their willingness to cooperate with each other to tackle the problem at the Zagreb Summit declaration, through the 2001 Sarajevo Declaration on illegal migration and through other initiatives, such as the regional anti-corruption office recently opened in Bucharest<sup>8</sup>.

### **3.1.2. *The role of minorities and civil society in democratic stabilisation.***

For a region that has spent most of the past decade caught in the trauma of civil war and ethnically rooted nationalism, the advances of recent years in **promoting stable democracies** have been impressive. In addition to democratic changes in Croatia and FRY, direct state manipulation of media is diminishing across all countries. All countries have made advances on facilitating the return of refugees and internally displaced persons<sup>9</sup>. New laws are being passed to safeguard these advances, especially in the areas of media freedom, election law and minority rights.

However, the process of democratic stabilisation is far from complete and the **treatment of minorities** lies at the heart of the problem. All SAp countries have substantial minority populations with long histories of inter-ethnic conflict but also, at times, of accommodation and cooperation. This problem affects all ethnic groups: Croats, Serbs, Albanians, Hungarians, Macedonians, Greeks and others are minorities in one country while forming the majority in adjoining societies. Roma are a separate and important case, being spread as a minority across all SAp countries.

During the conflicts in BiH, Croatia and Kosovo, Europe witnessed the worst atrocities against minorities (including torture, killing and forcible displacement) seen on its territory since 1945. While other minorities in the region may not have suffered such profound discrimination and disruption, they also are disadvantaged and excluded from full participation in education, accessing public services and maximizing individual economic opportunities.

Certain common characteristics emerge from an analysis of this issue. First, racism and xenophobia towards minorities is still clearly prevalent in the region with the result that minorities continue to feel excluded from the political process. Second, these minority groups often believe that armed conflict and secession are more effective means of satisfying their political demands than democratic debate and the ballot box. Third, political stability in the region cannot be guaranteed while the number of refugees and displaced persons – the most obvious by-product of the mistreatment of minorities - remains so high. Lastly, while central governments will continue to lead in addressing

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<sup>8</sup> This was opened through the South East European Cooperation Initiative (SECI).

<sup>9</sup> Refugee indicates a person who has been displaced into a different country (eg. Bosnian Serbs into Serbia) while internally displaced person indicates one who has been displaced but has sought refuge within his/her country (eg. a Bosnian Muslim from Serbska entity into another part of the country).

this problem, no long-term solution can work unless racism in the general population is addressed and bridges between majority and minority groups are built.

Of all the problems facing minorities in the region, the situation of the war-displaced is the most significant. **Refugees and displaced persons** have decreased in number since the mid 1990's but still totaled 1.3 million at the end of 2000 out of a total regional population of 25 million. These persons remain without access to property or livelihood.

The increasing number of refugees and displaced persons returning in BiH and the progress achieved in Croatia, such as the willingness to improve conditions for return (eg. property rights), offer some hope. However, refugee return to other areas (eg. Eastern Republic of Srpska) is still very problematic. On the issue of Serb refugees now within FRY (ie. from BiH, Croatia and Kosovo), it seems likely that many are intending to settle in FRY rather than return to their country of origin. This creates a new dimension to the refugee challenge – how to facilitate settlement within FRY and reduce the social and political pressures that such permanent settlement will produce. Return of non-Albanian displaced persons to Kosovo also seems unlikely in the short run because of the security situation.

**International co-operation by SAP governments** in order to facilitate cross-border return is beginning, notably in 2001 with the Agenda for Regional Action, a trilateral agreement between BiH, Croatia and FRY on refugee return. Such international cooperation must increase and be supported by the international community, especially as regards flow of information and agreeing common approaches on citizenship, pensions, social insurance, health and education.

Beyond such international agreements and cooperation, the physical tasks that directly facilitate the return of refugees fall largely on the receiving country (or entities in the case of BiH) to which the refugees hope to return. These tasks involve creating the right legal conditions (eg. property rights), security (eg. policing and personal safety issues), economic (eg. employment opportunities and pension rights) and social (eg. housing, racism and xenophobia) conditions to attract back persons who had fled the region during past crises. This **national focus** in helping refugees return is not only a practical necessity, it is also correct that a country which created conditions for ethnic cleansing in the past must face its responsibilities by correcting and reversing such conditions. This has been a conditionality of EU relations (including provision of its assistance) to the region since the mid 1990's and continues under the SAP.

However, government action at the national level or through regional cooperation is not enough to bring about reconciliation and genuine respect for pluralist democracy. The attitudes of the general population – whether they be part of a majority or minority population in a country – must also be tackled as it is there that the most intransigent problems often now reside. For example, refugees frequently cite the continued racist attitudes and threats of the local population and municipalities as being the main reason for their refusal to return and not the policies of the receiving central government.

In this area, the **actions of civil society** – especially of non-government organisations and of a genuinely independent media – are critical. However, none of the countries can yet claim to have the level of vibrant and critical media and civil society that is necessary to safeguard democratic advances. For example, public and media access to information, public participation in policy debate and accountability of government and

its agencies are aspects of civil society which are still largely undeveloped in all five of the countries. Equally, print, visual and audio media is often not yet fully independent of state interest and journalists sometimes still fear persecution for reporting the news impartially. Advances have been significant but further effort through greater levels of non-governmental organisation activity and of cooperation with international organisations is still clearly required.

### **3.1.3. *Weak state institutions and regional cooperation.***

The lack of effective and accountable **state institutions** hampers the ability of each country to co-operate with its neighbours and to move towards the goal of closer integration with the EU. The rule of law in the region is often discredited in the eyes of the general population because laws are often not fairly and honestly applied and are instead manipulated to further the interests of elites. In this manner, placing control more in the hands of professional civil services will be significant in assuring the region's future, being as relevant to human rights and social inclusion as it is to economic development and democratisation.

Without a solid institutional framework for the exercise of public power, free and fair elections will not lead to representative or accountable government. Without strong institutions to implement the rule of law, there is little prospect that states will either provide effective protection of human and minority rights or tackle international crime and corruption. Without stable regulatory structures to establish a climate favourable to business enterprise, neither privatisation nor trade liberalisation will generate sustainable economic growth.

In this as in other areas, there is considerable variation within the region. BiH is still at the level of establishing rudimentary state architectures, with the international community assuming vital legislative functions and providing the aid that sustains central governmental services. In Kosovo, moves within the framework of UN Security Council Resolution 1244 towards provisional institutions for self-government should see the gradual development of certain institutions. The state institutions of Albania, FYROM and the FRY remain fragile and need to first develop their capacities before they can satisfactorily implement the SAp. Croatia is however more advanced in this area than its neighbours, although its institutions still require substantial strengthening. Implementing the numerous and difficult tasks arising from the SAp and other challenges will clearly be a long-term process for the state institutions, given their current general weaknesses.

## **3.2. REGIONAL ECONOMIC ANALYSIS**

The legacy of the region's political problems is starkly reflected in its **overall economic performance** which, since the early 1990's, has either stagnated or declined. As shown in Attachment 3, the region's economic output remains some 20% below its levels of 1989 and GDP per capita – with the exception of Croatia - remains low. Unemployment remains persistently high - climbing to over 35% in FYROM and BiH – and productivity is less than half that of central European countries. Financial sector reform and privatisation have been piecemeal.

However, there are positive signs that can be built upon, so long as further political crises are avoided. GDP growth in 2001 is recovering, inflation is being brought under control and current account and fiscal deficits, while in some cases still unsustainable,

are beginning to be addressed through budgetary discipline and revenue collection reform.

These improvements are the first signs that preliminary structural reforms are feeding through into improved economic performance and show that, if structural reform is completed, the region is capable of significant growth. However, the structural reform and private sector development issues pose largely national challenges and, as such, are pursued further in the Country Strategy Papers rather than in this Regional Strategy Paper. The key regional cooperation challenges emerging from the economic analysis lie in boosting trade and investment and in finding regional solutions to cross-border transport, energy and environmental problems.

### 3.2.1. Trade and investment

The effects of the region’s instability over the last decade are clearly seen in its performance on trade and investment.

Figure 1 below shows how **foreign investment** has shied shy away from the SAp region, preferring to invest in the central European countries. Starting from roughly similar levels in the early 1990’s, investment in the central European countries has increased forty-fold to some \$21 billion while investment into the SAp countries has increased only three-fold over the entire decade to just over one billion. The poor performance in Albania, BiH, FRY and FYROM is made all the more stark when it is considered that over 80% of this investment went to Croatia.

Figure 1: Foreign Direct Investment

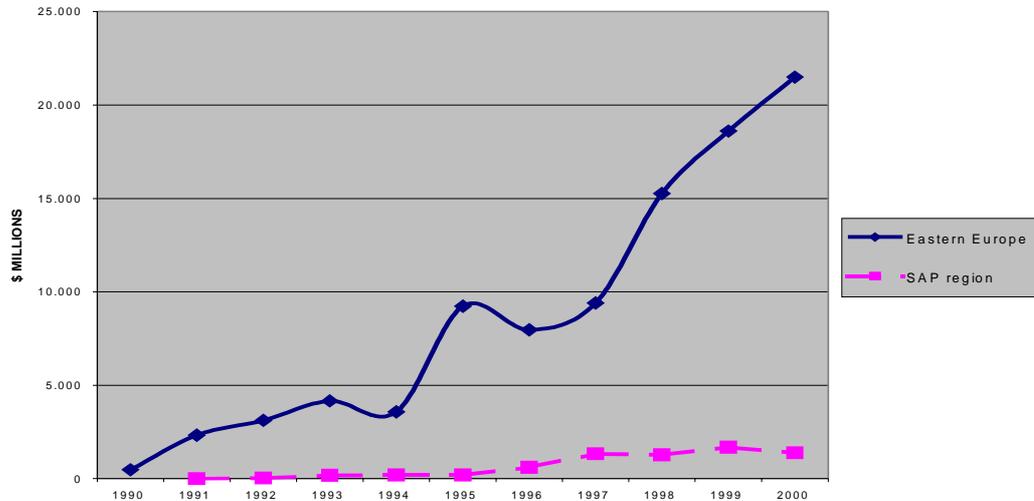
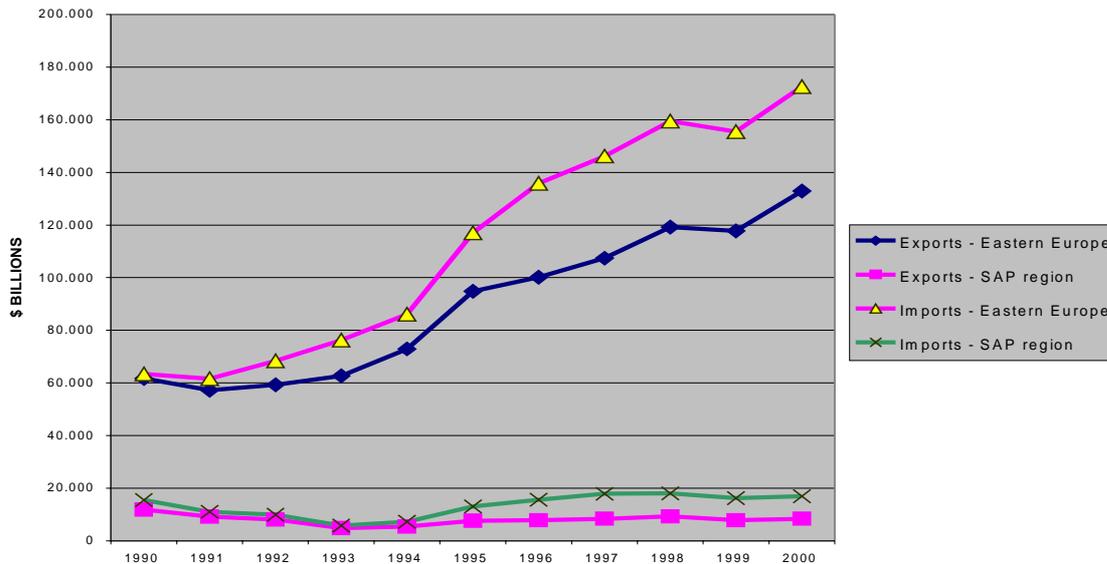


Figure 2 below shows a similarly negative picture as regards the region’s **trade performance** over the last decade. While exports from central Europe have more than doubled over the last ten years, the exports from the SAp countries have actually shrunk by one third. Again, Croatia has fared better than its neighbours, managing to keep its export levels steady. However, Croatia’s good performance is countered by substantial declines for the other countries with FRY exports shrinking from over \$4 billion in 1990 to less than \$2 billion in 2000 and BiH registering a similarly poor performance with exports falling over the same period from just under \$2 billion to \$675 million in 2000.

Even assuming that structural reforms are completed, economic growth will not be sustained at the rates required unless this trade and investment performance picks up. The limited size of each country's internal market (ranging from 1.5 to 10 million) means, quite simply, that they must trade to grow. In addition, aid flows will decline from the huge levels of the 1990's as political stability is regained and as the major work of reconstruction is completed. As such, countries must diversify their finances with more investment and trade based revenues to make up the shortfall.

Figure 2: Balance of Trade



Inward foreign direct investment will probably grow only slowly in the period to 2006 because political uncertainty is still too high for international investors, strategic privatisation remains incomplete, the regulatory environment is inefficient and, without free trade, the sale of goods regionally and internationally cannot be assured by investors.

In this way, free trade offers not only the best short to medium term prospects for wealth creation and diversification of government revenues but also, given investors reluctance to invest in one of these small countries without assured access to its neighbouring markets, is effectively a pre-condition to attracting significant foreign investment. The wealth generating potential of trade within the 25 million consumer market of the region is considerable, as shown with Croatia and BiH reporting a doubling of trade since reopening of borders and introducing near free exchange. However, with largely similar exports from each SAP country, this growth potential offered from intra-SAP countries cannot compare with the potential offered by access to the EU and candidate country market of over 500 million consumers. The door to expanded trade with the Union is now clearly open - with about 95% of exports from the region enjoying duty free access to the EU - but the countries have not yet managed to exploit fully this potential. This will improve as the trade environment and physical infrastructure improves and as the private sector (especially SMEs) in the region develops.

To realise the potential benefit of trade, countries need to enhance their capacities to make trade agreements that is consistent with WTO obligations and to strengthen their participation in the multilateral trading system. Secondly, trade facilitation measures

are needed if the trade agreements are to be actually implemented on the ground and if international trade is to flow and grow.

On the **trade agreements**' side, the countries' performance has been favourable:

- (1) The 2001 Memorandum of Understanding on Trade Liberalisation and Facilitation commits the SAP countries plus Romania and Bulgaria to establish free trade arrangements by the end of 2002. Developed through the Stability Pact with the active participation of the countries themselves, EC and international community, this Memorandum is a major step forward in regional cooperation.
- (2) The SAP countries also have signed numerous bilateral free trade agreements. FYROM now has Free Trade Agreements (FTA's) with EFTA, Croatia, Slovenia, FRY, Bulgaria, Turkey and Ukraine. Croatia has FTAs with Hungary, Slovenia and FYROM and others under negotiation with Albania, Romania and Bulgaria. Albania is now negotiating free trade agreements with Croatia, Hungary and FYROM. FRY and BiH are also making significant progress, albeit slower.
- (3) Albania and Croatia are now WTO members – an important element for the development of a coherent and legitimate trade policy - and are focusing on the difficult task of implementing their WTO commitments. BiH, FRY and FYROM membership negotiations are on-going with the WTO. WTO membership for all five SAP countries and their participation in the multilateral trading system will be an important means for aligning regional trade policies and thus enhancing regional and international cooperation.

The free trade agreement between FYROM and Croatia is particularly noteworthy as it shall form one of the pillars of the bilateral cooperation convention that, as SAA signatories, they are required to agree with each other. This will be the first such convention under the SAP and shall serve as a model as the network of conventions between SAA signatories expands.

While the conclusion of such bilateral trade agreements can be relatively straightforward, the implementation and monitoring of the commitments of the FTA is a difficult task. In fact, the bulk of the work is not in negotiating agreements but in complying with those agreements on the ground through **trade facilitation**, namely by putting in place efficient trading, customs, judiciary and transport systems that permits trade to actually expand:

- (1) National trade facilitation measures – notably, the removal of non-trade barriers and measures having equivalent effect in customs, norms and standards, reducing red tape or veterinary/phyto-sanitary controls - have unfortunately progressed slowly. Such systems are critical as they ensure SAP regional exports can easily leave the exporting country and will be readily accepted by importing countries.
- (2) International trade facilitation measures – notably developing systems of mutual recognition of standards, improvement of transport infrastructure and easing bottlenecks at border crossings - are equally important in that they ensure trade can physically flow across international borders to the destination markets but progress has been similarly slow.

### 3.2.2. *Regional infrastructure bottlenecks*

Infrastructure problems are clearly a major cross-border economic issue facing the region. The most obvious problem is that the region lacks coherent and cost effective regional strategies for solving their regional cross-border transport and energy problems.

Poorly maintained transport infrastructure that is not regionally interconnected and that bottlenecks at border crossings now actively hinders the flow of trade and restricts people's ability to travel and interact. The proliferation of new borders with the break-up of the former Yugoslavia has complicated the issue, especially as the countries have cooperated insufficiently with their neighbours on matters of inter-connection.

Energy supply and costs are hindering national economic recoveries. Alongside national production and maintenance problems, revitalising regional energy distribution networks between the countries would solve most of the region's energy problems.

The financing needs for this infrastructure work are high, not only due to war damage but also because interconnecting infrastructure between five independent countries places demands that were not present when discussing infrastructure within the one former Yugoslavia. Although infrastructure investment levels (circa 4% of GDP) compare favourably with central European countries, they are inadequate given the region's needs.

### 3.2.3. *Environmental infrastructure and sustainable development*

A decade of regional conflicts combined with insufficient institutional infrastructure, decaying industrial systems and the legacy of years of unchecked pollution have left the environment of South Eastern Europe in a state of serious neglect. In addition, the institutional and administrative capacity of national and local governments in the field of environmental policy is weak. Environmental civil society does not yet function as in the European Union. Air pollution, poor water quality and waste problems add to the other "hot spots" of environmental concern that can be directly attributed to the legacy of conflict. Together they continue to threaten the health of the local population.

## 3.3. MEDIUM-TERM CHALLENGES AS REGARDS REGIONAL COOPERATION

Based on the above regional analysis, four major challenges are identified where the countries face common problems and which must be dealt with in part through regional level solutions and enhanced levels of regional cooperation:

- (1) ***Manage international borders in a more effective way.*** This requires the countries to cooperate together to better tackle three inter-linked challenges:
  - (a) ***Reducing cross-border crime.*** Countries must develop more effective border control, not only for territorial security and stability reasons but also to combat cross-border crime, including illegal migration and the smuggling of arms, drugs and cigarettes. Given the nature of this challenge, countries cannot focus solely on their national levels, they must cooperate with their neighbours, the EU and candidate countries to ensure that international crime networks are combated effectively.
  - (b) ***Increasing regional and international trade.*** National trade facilitation efforts must be complemented by actions at the international level: (i) to

rehabilitate and upgrade transport networks and border crossing facilities; (ii) to ensure national trade facilitation procedures are compatible with neighbouring markets (eg. mutual recognition); and, (iii) implement bilateral and regional free trade agreements, including the revision of national trade regimes in view of implementing WTO agreements and/or WTO accession preparations.

- (c) ***Stabilising border regions.*** In certain countries, instability in border regions produces insecure and chronically low living conditions for the local population and undermines national efforts to promote stability and to control crime. In such cases, countries must address the developmental, social and political problems that afflict those border regions – either to raise their development or to boost cooperation across international borders – if long-term border stability is to be achieved.
- (2) ***Protect minority rights and boost civil society.*** Beyond national governments' continued efforts to facilitate refugee return, to safeguard democratic freedoms and respect for cultural, religious and linguistic diversity, greater cooperation between the governments of the region (especially on refugee return) is also necessary. Beyond the government arena, there is also a need for a more active civil society, requiring not only greater openness and accountability on the part of government but also access to funding to empower the general population, media and non-governmental organisations to generate this activity.
- (3) ***Build the capacities of and cooperation between state institutions.*** Countries must strengthen the institutional capacities of their administrations if their national and regional SAp goals are to be met. Countries must focus in the medium term on the most problematic areas of civil service reform, fiscal and financial management, negotiation and implementation of trade agreements and other related trade facilitation activities, and the overhaul of the justice and home affairs area (ie. police, prosecutors and judiciary). Familiarisation with the core elements of the EU/EC *acquis communautaire* as set out in the SAA's must also be addressed in terms of both enacting harmonised legislation, introducing relevant standards and ensuring their enforcement. While focused on institution building, the countries must also address accountability, anti-corruption and civil servant remuneration. These challenges is largely national but cannot be addressed solely at the individual country level - state institutions must cooperate with each other if the regional cooperation agenda is to be met.
- (4) ***Develop regional solutions to transport, energy and environment problems.*** Countries must work together to develop regional solutions to what are essentially regional transport, energy and environmental problems. National transport systems must be integrated into regional and Pan-European Networks. A regional electricity market needs to be developed. Lastly, regional environmental approaches are needed to reverse damage and preserve natural assets that will prove critical for quality of life and tourism development. Work has been started by the countries on these areas, often with European Commission and IFI support (including for regional infrastructure strategies in transport and energy and for a regional environment approach, programmes that were initiated through the Stability Pact) but further work will be needed.

The SAP countries have started the work necessary to meet the above challenges and their progress has been impressive, given their starting point and constraints. However, with their continued instability and restricted access to resources, the SAP countries will clearly need the continued support of the international community if they are to successfully meet the challenges set out above.

#### 4. PAST SUPPORT, COORDINATION, COHERENCE AND OWNERSHIP

The international community has provided over €10 billion to the region since the early 1990's. The international community's willingness to continue to provide substantial financial support has been shown by various funding conferences in 1999 and 2000.<sup>10</sup>

##### 4.1. PAST EC SUPPORT

By 2000, the EC had provided over €5 billion in aid to the region (see table below and Attachment 4).

**Table 1: EC Support to SAP Region 1990-2000 (euro million)**

Country	Total 90-95	Total 96-00	TOTAL
Albania	363	549	912
BiH	495	1665	2.160
Croatia	205	161	366
FRY (Montenegro/Serbia)	171	519	690
FRY – Kosovo	0	783	783
FYROM	97	314	411
Regional	98	129	227
Total	1429	4121	5.550

Source: European Commission 2001

In the first half of the 1990s, the EC focused on emergency support through the ECHO and Obnova<sup>11</sup> programmes to assist in the implementation of the Dayton/Paris and Erdut agreements and to restore basic stability to the region. In 1997, as part of the EU Regional Approach<sup>12</sup>, PHARE financial support was provided.

ECHO provided humanitarian aid in the form of emergency supplies, technical assistance and related support. Obnova was designed to meet the demands of a region emerging from conflict, emphasising reconstruction and rehabilitation, fostering reconciliation between the various parties and preventing resurgence of hostilities. Phare took a longer perspective, focusing on more developmental issues (eg. institution building).

Substantial macro-financial support has also been provided for countries suffering macro-financial crises due to transition. Lastly, resources have been provided to

<sup>10</sup> This international community response will obviously also involve continued external military and security support in containing situations while long-term political solutions and basic state architectures are put in place (eg. BiH). However, this is outside the focus of this RSP, although Community funds will be used in this area for financing temporary civil administration structures.

<sup>11</sup> By Council Regulation (EC) No 1628/96 as last amended by (EC) No 2454/99

<sup>12</sup> Council conclusions of 29 April 1997

support new government structures and civil administrations, including in BiH and Kosovo.

However, within this substantial total, regional programmes have been limited to: (i) cross-border, border crossings and related Phare support (€106,9 million); (ii) democracy, human rights and media support (€26 million); (iii) humanitarian aid through Echo (€94,5 million); (iv) statistical cooperation support (€2 million); and, (v) support through the European Training Foundation and the TEMPUS higher education programme.

Regional support was restricted until 2000 because of the countries' focus on national reconstruction and, until 2000, the lack of involvement of FRY and Croatia.

By 1999, the use of three Community instruments (ie. Echo, Obnova and Phare) was no longer relevant to the countries' needs and was in itself a cause of coordination and concentration problems. As such, the Commission consolidated its support under the single CARDS instrument at the time of launching the SAp.

Monitoring and evaluation of past Community support to the region identifies the need to adapt the CARDS instrument to reflect the end of the immediate conflict period and to better meet the more ambitious goals of the SAp. More detailed analysis of the lessons learned from past support in the priority areas identified in this strategy is provided in Attachment 5.

#### 4.2. OTHER PROGRAMMES AND ACTIVITIES

Other substantial resources are flowing to the region, alongside CARDS and other Community financial support, including funds from the international financial institutions (ie. International Monetary Fund, European Investment Bank, World Bank and European Bank for Reconstruction and Development), various United Nations agencies and bilateral aid programmes of the EU member states, US and other governments (see table below).

The scale of this aid to the region is large, similar to the per capita levels being given in the late 1990's to the candidate countries of central Europe.

**Table 2: Aid Receipts in the SAp region 1995-99 (\$ million)**

	1995	1996	1997	1998	1999	Total 95-99	Aid dependence (ODA/GNP % in 1998)
Albania	181	228	166	258	480	1313	8,27
Bosnia and Herzegovina	924	844	861	898	1 063	4590	22,77
Croatia	54	133	40	39	48	314	0,18
FYROM	79	106	98	92	273	648	2,81
FRY	95	70	97	107	638	1007	..
Ex-Yugoslavia	436	276	69	106	434	1321	..
Total	1 769	1 656	1 331	1 501	2 936	9193	

Source: OECD Development Cooperation Report, 2000

Within this overall total, certain lead roles and division of labour are emerging. The IFI's (ie. World Bank, European Investment Bank and European Bank for Reconstruction, Development and International Monetary Fund) with facilitating support from the European Community have taken leading roles in infrastructure development, economic restructuring and in general private sector development. The EC, other international organisations (eg. Council of Europe and OSCE) and the bilateral donors – including large amounts from member states' programmes - have

tended to lead on softer measures relating to reconciliation, refugee return, good governance, democratisation and institution building.

### 4.3. COORDINATION, COHERENCE AND OWNERSHIP

The Commission expends considerable resources on ensuring that the governments and beneficiaries of the region are fully involved in the EC's assistance programmes and that EC support remains coordinated and coherent with the actions of both national governments and the rest of the international community (see also CARDS Guidelines 2002-2006).

The issue of the *countries' sense of "ownership"* over Community assistance is addressed through all phases of the programme cycle. Countries are involved in the programming, including discussions on the current CARDS strategies and agreement on the Multi-annual Indicative Programmes. These discussions involve not only the National Aid Coordinator but also line ministries and potential beneficiaries, international financial institutions and interests of the non-government sector. Countries' authorities and beneficiaries are then closely involved in the various implementation stages from tendering through management to monitoring.

*Coordination and coherence* is particularly important in this region, given the large number of players involved, and has been highlighted to the Commission during consultations on this CARDS regional strategy as a continuing concern by the governments of the region. The Commission assures this through extensive work both at the international level and within the countries themselves.

First, the Commission co-chairs and is guided by the High Level Steering Group for South East Europe that provides overall guidance on donor co-ordination. Second, the Commission maintains a Joint Office with the World Bank to help coordinate and develop support to the region. The Joint Office has been key in organising regional donor meetings (eg. the Regional Funding Conference in March 2000 and October 2001).

Third, the Commission plays an active and leading role in the Stability Pact for South East Europe. The EU led in 1999 the international community to establish the Pact that has now become an important vehicle through which all the national and international actors involved can better coordinate and focus their work. The Pact is organised through three working tables covering Democratisation and Human Rights, Economic Reconstruction, Development and Cooperation and, lastly, Security and JHA Issues. By defining CARDS actions clearly through its strategies and by continuing to actively participate in all Stability Pact working tables, the Commission will further ensure coherence and complementarity of its actions with those of national governments and of the international community.

Fourth, the Commission maintains its own bilateral relations with governments to ensure its actions complement and build on national efforts, organised directly by headquarters or through its Delegations in each country. These discussions range from detailed trade negotiations through to implementing CARDS support alongside national authorities.

Fifth, the Commission delegation organises regular meetings in-country through the year with Member states, national authorities and other involved organisations (such as International Financial Institutions) to ensure monitoring and coordination on an on-

going basis throughout the programme cycle. An annual meeting reviews progress over the year and identifies any substantive issues on coordination.

These are sufficient tools to ensure a clear division of labour between the Commission and the other donors and IFI's in the region. They also assure a clear demarcation and coordination with military authorities (such as SFOR and KFOR) and other agencies (such as UNHCR) operating in the region. This coordination extends to the financing by the EC of civil administration structures in BiH and Kosovo.

These tools will be used to ensure the CARDS regional programme remains coordinated and thus effective. CARDS will avoid creating any new mechanisms. However, plugging into additional structures may be necessary for initiating regional cooperation projects and coordinating implementation. For example, for the area of JHA, the Sarajevo initiative on visa, migration and asylum launched in 2001 and the existing network of JHA contact points established between member states and candidate countries are obvious routes for guiding CARDS regional support to JHA and for boosting SAP and member state cooperation in this area.

## **5. CARDS REGIONAL RESPONSE STRATEGY**

### **5.1. CARDS REGIONAL SUPPORT PRIORITIES**

The CARDS programme budget for the period 2000-2006 is €4.65 billion. The bulk of this CARDS support to the countries will be financed through national CARDS support programmes.<sup>13</sup> Experience from PHARE and other Community programmes has shown that this subsidiarity ensures greater levels of national commitment and ownership, better targeting and impact of projects and greater efficiency in implementation.

However, the European Commission has concluded that complementing this basic national approach with a regional CARDS programme will ensure its objectives are achieved because either: (i) the problem addressed is truly cross-border and requires active regional cooperation between the SAp governments if it is to be corrected; or, (ii) there are significant gains to be obtained in terms of efficiency or enhanced impact by implementing through one regional programme instead of five national ones.

To this end, some 10% of available funds will be allocated through the regional programme to help countries achieve the regional cooperation objectives of the SAp. In the period 2002-2004, this will total €197 million.

Based on the previous sections, this Regional Strategy Paper identifies four priorities where CARDS regional funds will provide added value and will have greatest positive impact on realising the SAp's "regional cooperation" objectives: promoting integrated border management approaches; supporting democratic stabilisation and civil society, including minority rights, media and good governance; building the capacities of state institutions; and, reinforcing regional infrastructure and environmental development. The number of priorities is limited to ensure focus and a concentration of resources.

The focus and priorities for these regional funds are outlined below and further detailed in the Multi-annual Indicative Programme annexed to this Regional Strategy Paper.

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<sup>13</sup> This support is guided by five Country Strategy Papers, one for each SAp country.

Education activities are a high priority for the Commission in the region via the Tempus programme or activities of the European Training Foundation but are dealt with via the CARDS national programmes rather than in this Regional Strategy.

### **5.1.1. Promote integrated border management.**

The benefits of effective border management are obvious to the people of the region: it will enable them to live in a space of security and freedom where their businesses can trade more easily across borders and where they can travel more easily throughout the region, key prerequisites for economic growth and poverty reduction as well as for the development of multicultural societies that tolerate their neighbours and appreciate cultural, religious and linguistic differences.

Integrated Border Management is an approach that:

- (1) tackles in a comprehensive way the interrelated problems of trade and traffic bottlenecks at border crossings, insecurity, crime and smuggling across borders and, where relevant, the development problems of the border regions themselves.
- (2) requires the numerous authorities and agencies involved in these areas (especially border control and customs) to work together on common problems, rather than working separately and often at cross purposes.

The justification for the approach is that border management problems are so inter-linked that they cannot be effectively tackled separately. Countries must cooperate with each other on managing shared borders. Border crossings are inefficient - in terms of both flows of trade and people and of controlling crime - unless customs and border control agencies actively cooperate. Problems cannot be solved at the border alone – central ministries and national police must be involved and strengthened.

These issues are addressed with comprehensive supplies, investment and institution building programmes, based on a clear national strategy. Specifically, CARDS support will be used to:

- (1) Facilitate the flow of trade and people across borders by improving border crossings' infrastructure facilities, strengthening national institutions and procedures (eg. customs, veterinary agencies) and improving related infrastructure elsewhere within the country (eg. multi-agency information systems).
- (2) Enhance the control at the border by strengthening the infrastructure and institutional capacities of border guard agencies, supporting border demarcation and promoting cooperation with national police.
- (3) Develop border regions, where required, both through regional development programmes and through programmes for cross border cooperation. These regions may border the EU (eg. Greece or Italy), candidate countries (eg. Slovenia Romania) or be between the countries of the SAp region itself (eg. Presovo FRY/FYROM).
- (4) Actively promote cooperation between the involved agencies. It will be critical for countries to ensure coherence of their border management activities with those of their neighbours. This regional coordination aspect will also be supported by CARDS through its regional programme.

### **5.1.2. Promote Democratic Stabilisation.**

The scale of the democratic stabilisation needs in the SAp region is large. For this reason, all possible support from the European Community shall be brought to bear on helping the countries resolve this problem.

Alongside the continued activities of the CARDS national programmes and the European Initiative for Democracy and Human Rights (EIDHR), additional funds will be provided from the CARDS Regional Programme to support work of existing foundations and international organisations on programmes involving more than one country.

Of particular priority will be good governance and the rule of law, the promotion of a free and independent media and of freedom of opinion, the protection of minorities, respect of cultural, linguistic and religious diversity, the fight against racism and xenophobia, and conflict prevention and resolution. In addition, non-governmental activity in the area of sustainable development will be promoted.

### **5.1.3. Build the capacities of and cooperation between state institutions, including for JHA.**

The scale of needs in this area are again very substantial. As such, national and regional CARDS support shall be focused primarily on overall civil service reform and on strengthening public administration capacities in fiscal and financial management, procurement, Justice and Home Affairs, trade agreements and related trade facilitation activities, and familiarisation with the *acquis communautaire*.

The national CARDS programmes will be the main route for institution building support (including “twinning” arrangements) but will be complemented by CARDS Regional Programme actions in this area that are most efficiently delivered at the regional level.

These CARDS regional programmes will include an Institution Building Facility for the SAp - for small technical assistance assignments and for networking and meetings – focused on the above priority areas. In addition, specific programmes will be provided in the areas of Justice and Home Affairs, government statistics and environment, reflecting the unique characteristics and needs in these areas.

### **5.1.4. Develop regional infrastructure approaches.**

In the area of infrastructure, the regional CARDS programme will support the development by the five countries of transnational transport, energy and environment infrastructure strategies that are interlinked with the wider networks of the European Union. Project preparation and, in certain cases, catalyst support to infrastructure investments will be undertaken through CARDS national programmes.

## **5.2. RELATION BETWEEN CARDS NATIONAL AND REGIONAL SUPPORT**

The European Commission has designed the CARDS regional programme to complement and be coherent with the five CARDS national programmes. Priorities are only being addressed through the CARDS regional programme where there is a clear comparative advantage to be gained:

- (1) **Tackling cross-border problems.** Certain of the countries’ problems cross frontiers and require truly regional solutions based on close cooperation between the five countries. Examples under the regional programme include:

- (a) Integrated border management where it is crucial that neighbouring countries cooperate directly, for example on prioritising main border crossings, agreeing common approaches on border security or developing cooperation programmes in regions spanning borders.
  - (b) Regional infrastructure strategies whose subject is by definition cross-border and whose development requires agreement between the countries of the region and indeed those in the EU and candidate countries.
- (2) ***Obtaining Efficiencies through a Regional Approach:*** Certain national problems may benefit from being supported through one CARDS regional programme rather than five separate national programmes. Examples include:
- (a) *Developing common approaches.* The impact of certain CARDS actions is enhanced if they are based on common approaches set regionally among the five SAP countries and if harmonised with approaches applied in the EU. Examples are development of harmonised national statistics' systems, of common visa regimes and of regional refugee return agreements.
  - (b) *Building regional networks of experts.* Regional programmes require the five CARDS beneficiary countries to work together and are thus useful in building concrete links between previously reluctant national authorities.
  - (c) *Attaining economies of scale.* Economies of scale can be obtained through regional programmes, such as providing expertise from member states' administrations that is scarce and most efficiently employed when addressing all five SAP countries together. An example is familiarisation with the *acquis* among all five countries' administrations. CARDS regional support is also best placed to tap into the experience of central and eastern European applicant countries (eg. in the area of JHA).

The CARDS regional programme has obviously focused not only on ensuring complementarity with CARDS national support but also with other Community support, especially in the areas of democracy (ie. with the European Initiative for Democracy and Human Rights), Justice and Home Affairs (eg. on-going initiatives such as through the Council) and with cross border cooperation (ie. with the EU Structural Funds Interreg programme). A full analysis of coordination mechanisms is presented in 4.3.

The priorities targeted under the CARDS regional programme serve not only the direct policy goals of the SAP (eg. justice and home affairs), as required by the CARDS regulation, but also the critical objective underpinning all EC support of ***poverty reduction***. Poverty reduction requires a comprehensive but focused approach among all donors that ensures the country's macroeconomic, structural and social policies and programs reduce poverty as well as promoting growth.

The SAP in itself is both an instrument of EU external policy and also a strategy for poverty alleviation by aiming to stabilise the region's economies and make their development toward the EU sustainable, thereby enabling the targeting of resources on poverty reduction and reinvestment in not only economic but social spheres. This

approach is shared with the World Bank whose poverty reduction strategies have been coordinated with the CARDS strategies.

However, the balance of actions between CARDS, other donors and IFI's in the area of poverty reduction must reflect each donor's comparative advantage and budget limitations, permitting each to focus on helping the countries in those areas where the donor in question can have a real impact. By coordinating actions closely and sharing out the areas for action, donors can avoid spreading their resources too thinly when trying to cover the massive demands of poverty reduction, ranging from administrative capacity building through to primary health care.

On *implementation*, CARDS regional support programmes in the priority areas of democratic stabilisation, institution building and regional infrastructure will provide services to all five SAP countries equally and, as such, are most efficiently implemented centrally by the relevant Commission authorities at headquarters.

Integrated border management requires a different approach. Border management problems are regional (ie. involving borders between two or more countries) and so must be programmed in a regionally coherent manner and then coordinated during implementation at the international level. To this end, a small allocation for coordination has been made and will be managed centrally.

But the bulk of the integrated border management funds will be directed to institution building, supplies and infrastructure projects in each country whose implementation involves so many national players and touches on such sensitive national policies that it must be done at the national level if it is to be effective and if it is to enjoy full government commitment. For this reason, the bulk of CARDS regional funding for integrated border management is being reallocated back into the CARDS national programmes, as detailed in the annexed Multi-annual Indicative Programme.

### **5.3. CARDS CONDITIONALITY**

Achievement of the SAP's goals are assisted by conditionality. However, this will be applied flexibly. CARDS addresses conditionality at three levels – at the SAP, programme and project levels.

The *SAP's conditionality* builds on that defined by the European Council in 1997 for the region of:

- (1) evidence of credible commitments to democratic reform and progress in compliance with the generally recognised standards of human and minority rights, including commitments on facilitating refugee return.
- (2) a credible commitment to engage in economic reform.
- (3) willingness to develop regional economic and political relations and commitment to good-neighborly relations.
- (4) compliance with the obligations under the Peace Agreements and with ICTY
- (5) respect of other conditionalities defined by the Council. If these principles are not respected, the Council, acting by qualified majority on a proposal from the Commission, may take appropriate measures through the SAP review mechanism. Where SAP conditionality is not respected, assistance may be frozen or granted through other means.

In addition, *programme conditionality* may be imposed including specific reform targets or adoption of sectoral policies. In this context, cross-conditionality may be applied.

*Project level conditionality* includes specific conditions necessary to achieve projects' immediate objectives and the commitment of the beneficiary authority (eg. financial control measures).

Programme and project conditionality will be defined in the Financing Memorandum that will also reiterate the political conditionality in order to facilitate the suspension of ongoing programmes if the need arises. Failure to comply with this level of conditionality may result in the delay, suspension or cancellation of the planned or committed assistance without the possibility of reallocating the funds to another sector.

## **ANNEX**

### **MULTI-ANNUAL INDICATIVE PROGRAMME 2002-2004.**

The CARDS Regional Strategy Paper identifies four priorities where CARDS regional funds will be focused and which are further detailed in this Multi-annual Indicative Programme (MIP): promoting integrated border management; supporting democratic stabilisation; building the capacities of state institutions; and, reinforcing regional infrastructure and environmental development.

The CARDS regional support budget in the period 2002 to 2004 is €197 million. Detailed programmes and projects will be derived from this MIP and will be set down in Annual Action Plans in 2002, 2003 and 2004 by the relevant Commission services responsible for implementation. All programmes in this MIP (with the exception of the bulk of funds under integrated border management) will be implemented on a centralised basis, as explained below.

#### **6. INTEGRATED BORDER MANAGEMENT**

##### **6.1. INTRODUCTION**

###### **6.1.1. *Justification***

The benefits of efficient and effective border management are obvious to the countries and people of the region: it will enable the citizens to live in a space of security and freedom where their businesses can trade more easily across borders and where they can travel more easily across borders. However, the analysis section above shows that border management is at present often highly inefficient and ineffective.

Countries have not generally taken a comprehensive approach to border management with inevitable negative results. Taking a more integrated and all encompassing approach to border management is the only way forward because the problems are so inter-linked that they cannot be effectively tackled separately:

- (1) Neighbouring countries must cooperate more than they have on managing their shared borders – agreeing priorities, cooperating on crossings, and so forth.
- (2) National agencies (especially customs and border control) must cooperate more if border crossings are to be made more efficient in terms of both flows of trade and people and of controlling cross-border crime.
- (3) Border management often cannot be improved solely by trade facilitation and border control - the development and exclusion problems of the border regions themselves must also be considered (eg. border regions of FRY and FYROM).
- (4) Border management problems cannot be solved through actions at the border alone, they must involve actions elsewhere within the country. For example, trade will not automatically increase across a border simply by improving crossing facilities, one must also address the national customs operations and other trade facilitation measures.

### 6.1.2. Definitions and Scope

Integrated border management helps countries better use their scarce resources in this area by tackling in a comprehensive way the interrelated problems identified above of trade and traffic bottlenecks at border crossings, of insecurity, crime and smuggling across borders and, where relevant, the development problems of the border regions themselves. At its heart, integrated border management involves two key processes: *cooperation* and *strategic planning*.

First, promoting two types of cooperation are central to raising border management efficiency and effectiveness under this new approach:

- (1) Inter-agency cooperation between customs and border control services is key. There are three types of such inter-agency cooperation that can be usefully promoted at the border and internally within the country:
  - (a) Coordinated processing at border crossings. Border security and customs control should take place at the same time at the border, although the border security agency may lead overall. There should also be a clear demarcation of who checks what and in what sequence.
  - (b) Integrated information technology systems that cover border security, national police and customs information. Maintained centrally, these will permit multi-agency access and sharing of information.
  - (c) Awareness building and joint responsibilities. Initially focused simply on awareness building, this may lead to actual shared responsibilities between agencies in the medium term. For example, border security and police agencies may undertake certain customs procedures during spot checks inland as well as their criminal detection tasks.
- (2) Between SAP countries and with their EU and candidate country neighbours on:
  - (i) agreeing which common borders and border crossings to prioritise; and,
  - (ii) coordinating controls, from the mundane (eg. opening times of border crossing stations) to the more sophisticated (eg. shared facilities between two countries).

Practically, integrated border management starts with the creation of an *inter-agency working group* that gathers all the players involved (primarily trade, border control and police bodies), clarifies their respective roles and oversees the *development of a strategy* and work plan for how to obtain greater efficiencies and effectiveness in border management. This inter-agency working group continues its work after the strategy is finished, overseeing its implementation and moving to greater integration over time as capacities and opportunities permit.

The strategy will detail the *interlinked programmes* needed, primarily comprising:

- (i) *institution building* for involved agencies, especially border guards and customs, whether at the border or within central ministries;
- (ii) development of *coordinated and harmonised procedures* between agencies involved, especially between customs and border control agencies at border crossings;
- (iii) *information technology systems* providing for inter-service data exchange; and,
- (iv) *equipment supply and infrastructure works* for border control and trade facilitation (eg. border demarcation if required, surveillance equipment, customs processing facilities, etc). Infrastructure and supply investments are not enough on their own, they must be preceded and supported by institution building and technical assistance.

Not only does the integrated border management approach tend to focus existing national policy, it also promotes *greater concentration and coherence* between external donors' and IFI activities in this area. The integrated border management approach is used to good effect within the EU and increasingly in the candidate countries of central Europe. The approach thus has advantages for the SAP countries as they move towards becoming candidate countries.

The approach must be *feasible*. In this way, the level of integration at the outset may be limited simply to better coordination between agencies and only gradually evolve towards more complex integration overtime. For example, two candidate countries in central Europe started by simply agreeing common opening times on either side of a border crossing but, five years later, are now considering one shared facility between the two countries involving integrated customs and border control. Such joint crossing points represent a useful and cost-effective tool in promoting co-operation across the border.

Recognising the substantial advances made in this area since the 1990's, the approach seeks not to replace but to build on *existing initiatives*. For example, in BiH, the CARDS approach will provide additional resources to and promote cooperation between the government's customs operations with Cafao and the State Border Service and will help to implement the recent agreement with Croatia on priority crossings.

Notable **past support** in this area include the World Bank's Transport and Trade Facilitation Programme for South East Europe (see also 6.3), past EC support in the area of cross border cooperation and other bilateral programmes from the US, UK and Switzerland on trade facilitation (see also Annex 5 - Lessons Learned From Past Support). A key point of departure for work on trade facilitation, as outlined in the main strategy, is the 2001 Memorandum of Understanding on Trade Liberalisation and Facilitation developed within the Stability Pact.

The integrated border management approach must also be *differentiated* to reflect the great diversity of situations between the countries. Croatia's border issues focus on trade facilitation and combating crime that transits its territory and are entirely different to those of FYROM. While some broad themes can be found within the area of border management, clearly no one standard approach can be designed to fit all the countries.

### **6.1.3. Government commitment and scheduling**

Integrated border management touches upon highly sensitive national policies. With such national policy implications, obtaining a commitment from government to the approach is essential if it is to be successful.

To this end, CARDS support in 2002 to 2003 will focus on helping the countries discuss the initiative, develop coherent national Integrated Border Management strategies and programmes and to ensure their coherence with those of their neighbours.

However, priority border management programmes that are identifiable and needed now will be financed during this period (eg. already identified border crossing improvements or border security supply and institution building programmes). From 2003, CARDS will focus on financing the substantive interventions outlined in each national strategy.

#### **6.1.4. Regional coordination but national funding and implementation**

Integrated border management plays such a central role in the CARDS Regional Strategy because it is so clearly international (ie. involving borders between two or more countries). To ensure CARDS support to this area is programmed and implemented in a coherent manner across the whole SAP region, a small allocation has been made - and will be managed centrally - to coordinate strategies and approaches between the countries.

However, the implementation of the strategy's work plan (ie. the numerous institution building, supplies and infrastructure projects required) must be undertaken through the CARDS national programmes because (i) there are too many national players involved who could not be effectively coordinated through centralised implementation from headquarters; (ii) the necessary integration with linked national actions cannot be easily achieved through centralised implementation (eg. customs, norms and standards, national police support, etc); (iii) the specific situations of each country require tailored solutions and make any "one size fits all" centralised approach impossible; and (iv) centralised implementation would prevent the critical requirement of ensuring countries' "ownership" of such sensitive border management issues.

For these reasons, the CARDS regional funding for border management has been reallocated back into the national CARDS programmes. In consequence, the integrated border management issue is also addressed in the five Country Strategy Papers and the financial allocations specified in their respective Multi-annual Indicative Programmes. These funds will then be committed through annual action programmes and implemented via existing national programmes' implementation systems as used for other CARDS national support.

#### **6.1.5. Financial Allocation**

€117 million shall be provided from the CARDS regional budget to this area over the three years to 2004. Given current absorption capacity problems and need for initial strategy development, the bulk of these funds will be provided towards 2004 (see Table 2 in Attachment 6 for allocations per country for Integrated Border Management).

Additional and greater support will be provided in 2005 and 2006 from the CARDS regional budget to this area.

Work on integrated border management has commenced in 2001 with some 25 meur of CARDS support that has been allocated for strategy, preparation of individual measures and emergency programmes (eg. supplies and border crossings).

In addition to these funds from the CARDS regional budget, allocations under the CARDS national programmes will also be made to areas linked to integrated border management, reflecting the very substantive costs involved and the numerous sectors touched upon both directly and indirectly by border control and trade facilitation. Most notably, additional CARDS national funds will be allocated in the areas of norms and standards, customs assistance programmes (eg. continued support to CAFAO, CAM A and CAM K), regional development (including in border regions) and national police and judiciary programmes. Coordination of support from CARDS national and regional programmes to these linked areas is made all the easier by the approach of channeling the regional funds through the national programmes, as explained in 6.1.4.

The next four sections outline CARDS support programmes that will be financed: support for developing the overall border management strategies in each country and

then for implementing it in the three main areas of trade facilitation, border control and border region cooperation. These are dealt with in separate sections for ease of understanding but are inter-dependent and inter-linked parts of the proposed integrated border management approach.

## **6.2. STRATEGIES AND REGIONAL COORDINATION**

*Objectives:* to develop a commonly agreed and operational Integrated Border Management Strategy for each of the five countries concerned, in order to improve the inter-agency co-operation between national agencies involved in border administration and with their corresponding agencies in neighbouring countries.

*Expected Results:*

- (1) An Integrated Border Management Strategy in each of the five countries that has been nationally agreed in 2003.
- (2) Coordination and agreement of national strategies with neighbouring countries for issues of common interest (eg. shared priority border crossings, common customs approaches or demarcation of frontiers) in 2003.
- (3) Preparation of specific integrated border management projects, derived from the strategies, ready for financing and implementation.

*Programmes to be implemented:* Two main interventions will be undertaken: (i) technical assistance will be provided to the countries to undertake the development of these national border management strategies and to develop specific projects; and, (ii) a smaller allocation will be made in 2002 and 2003 to ensure efficient regional level coordination of these national strategies, specifically financing regional networks and meetings to ensure each country's strategy is coherent with that of its neighbour.

This strategy process – generally managed through a national inter-agency working group led by the border control and customs agencies - will: (i) detail each country's border management problems and goals; (ii) identify priorities, programmes and indicators of achievement; (iii) coordinate strategies with neighbouring countries; (v) coordinate and focus external (ie. CARDS, IFI and others) financing with that of the national budgets; and, (vi) prepare a feasible and integrated work plan that will ensure implementation of the strategy in the three target areas detailed in 6.2, 6.3 and 6.4.

Working groups have already been established in the candidate countries of central Europe for border management issues and can provide a useful input for the development of SAP country strategies, including the adapting of their procedural approaches for use in the SAP region.

The resulting national border management strategy must be operational. In this regard, CARDS regional funding will be used to develop specific projects as derived from the strategy and work plan.

Given the international nature of the SAP countries' border management policies and their impact on EU member states and candidate countries, the bodies involved in programming the EU Structural Fund's Interreg shall be fully associated with the development of the national integrated border management strategies so as to ensure maximum coherence and complementarity not only with EU Interreg programmes for cross border cooperation (eg. Italy and Greece) and transnational cooperation (eg. CADSES) but also with candidate country Phare cross border cooperation programmes (eg. Slovenia, Hungary, Romania and Bulgaria).

This coordination with Interreg and Phare will be key not only in ensuring that Border Region Cooperation programmes and projects complement activities on other sides of the borders but also in seeking similar synergies with programmes developed for the border control and border crossings areas or other CARDS support in border regions in which cooperation with Interreg could represent an advantage.

*Complementarity - CARDS Regional versus National Programmes:* Complementarity with CARDS National Programmes will be guaranteed by the fact that these regional funds are being reallocated back into the CARDS country strategies and will be implemented using normal national programme channels (see 6.1.4 and 6.1.5 for detail).

*Indicators of Achievement:* (i) production of national border management strategies by end 2002 or early 2003; (ii) agreement between neighbouring countries on key issues of common interest; (iii) coordination mechanism, including regular meetings, between relevant national authorities to secure coordination of national strategies; and, (iv) specification of border management projects ready for implementation before end 2003.

*Implementation:* Implementation of support for the development of national integrated border management strategies will be undertaken through normal deconcentrated CARDS national programme channels for the funds specified in Table 2 of Attachment 6. Implementation of support for the coordination of all five countries' national strategies (ie. €2 meur as specified in Table 1 of Attachment 6) will be undertaken on centralised basis by the relevant Commission services at headquarters.

### **6.3. TRADE FACILITATION**

*Background:* While each country must develop its own particular approach, given their different situations, certain common approaches on trade facilitation can be identified:

- (1) The customs authority should act as the lead agency for the processing of commercial trade (ie. outside of criminal and border security aspects). Customs are best placed to develop integrated procedures between the various agencies involved in this area (eg. phyto-sanitary and veterinary agencies). In this regard, the customs programmes (CAM-A, CAFAO and CAM-K) financed already by the CARDS will play a leading role in working with the national customs' authorities to steer and manage CARDS support to trade facilitation.
- (2) The customs authority need not undertake all processing at border points. Once sealed at a border, after border guard checks are complete, vehicles may be more efficiently checked at an inland clearance facility. Spot checks by customs inland to ensure a vehicle's compliance with its transit and clearance requirements must also be developed. The result of this approach is far faster processing at the frontier and more cost effective and efficient clearance of the goods overall.

*Objectives:* to facilitate the flow of trade and people across international borders within the SAp region and between the SAp region and its EU and candidate country neighbours.

*Expected Results:*

- (1) Increased levels of regional trade and more efficient processing at frontiers.

- (2) Upgraded border crossing infrastructure, systems and procedures, as specified and scoped in the national integrated border management strategy:
  - (a) fully integrated facilities by 2006 (ie. border control, customs and phyto-sanitary/veterinary) at the major border crossings on Trans European Networks and main feeder routes that criss-cross through the region.
  - (b) less substantial facilities on second priority crossings where agreed by the two neighbouring countries and included in their national strategies.
- (3) Enhanced institutional capacities of key agencies involved, including cooperation with counterpart agencies in neighbouring countries, so strengthening the region's capacity to make and implement trade policy consistently with WTO obligations.

*Programmes to be implemented:* Technical assistance, supplies and infrastructure interventions will be financed through the Cards programme as prioritised and specified in the integrated border management strategy for each country for the following areas:

- (1) Upgrading of specific border crossings. This will involve measuring crossing times, identifying trade flow problems and financing improvements. These will be as often procedural (eg. closure times of border posts on either side of a border or undertaking border control and customs checks at the same time) as infrastructural (eg. building new sheds or upgrading feeder roads).
- (2) Strengthening of national institutions (primarily customs and veterinary and phyto-sanitary agencies) involved in processing and handling trade.
- (3) Improving infrastructure located away from actual borders, such as centralised information technology systems and new (or indeed improving the efficiency of existing) inland customs clearance facilities.

The World Bank and Commission have agreed to cooperate closely in this area, given the similar nature of the Bank's Transport and Trade Facilitation Programme for South East Europe (TTFSE) activities. This shall be achieved through regular review mechanisms and direct cooperation. Clear demarcation of activities between the two programmes will be covered within the national integrated border management strategies. This demarcation will respect the lead taken through on-going programmes (eg. CARDS customs support programmes CAM A and CAFAO in Albania and BiH) and will specifically avoid overlap and crowding out by grant funds of TTFSE loan-funded projects in Croatia, FYROM, BiH and Albania. Other targeted areas of cooperation are:

- (1) Institution building and technical assistance projects identified through TTFSE and CARDS that are more appropriately addressed using CARDS grants rather than TTFSE loan funds.
- (2) Shared identification, preparation and financing activities. For example, CARDS financing may be allocated to border crossing improvements that have been designed by the TTFSE in Croatia, BiH or FRY.
- (3) Developing with the countries common approaches for traffic flow studies and indicators of achievement for use on both TTFSE and CARDS programmes and common procedural efficiencies (eg. concept of single payment for border clearance covering customs, weighing, veterinary costs, etc).

*Complementarity - CARDS Regional versus National Programmes:* Complementarity with CARDS National Programmes will be guaranteed by the fact that these regional funds are being reallocated back into the CARDS country strategies and will be implemented using normal national programme channels (see 6.1.5 and 6.1.6 for detail).

*Indicators of Achievement:* Volumes of people and traffic passing over the border, border crossing times for people, customs processing times for commercial traffic and level of inter-agency cooperation (especially of coordinated processing by border control and customs authorities). A key output indicator is finalisation of fully integrated facilities on TEN border crossings by 2006.

*Implementation:* Implementation will be undertaken through existing CARDS national programme channels for the funds specified in Table 3 of Attachment 6.

#### **6.4. BORDER CONTROL**

*Objectives:* to establish greater security at international borders that will diminish cross-border crime and illegal transit migration.

*Expected Results:*

- (1) Effective border security systems linked with national police structures and migration management authorities that are charged with dealing with illicit activities at border crossings and across the national territory more generally.
- (2) Physical demarcation of agreed national borders where agreed by the national governments concerned.

*Programmes to be implemented:* Support on border control will emphasise equipment and infrastructure but, as a conditionality, will be complemented by institution building, technical assistance and twinning-type arrangements to ensure coherence, sustainability and the overall enhanced effectiveness of the border control institutions involved.

The approach to be taken by each country will be dictated by existing national policy and any additional approaches developed in the integrated border management strategy. However, certain broad approaches for further elaboration can be identified:

- (1) Border control approaches will depend on the type of border involved:
  - (a) External SAp borders (ie. green and blue borders with EU states or with candidate countries). Particular emphasis will be placed on boosting control on borders with Romania, at international airports and on sea approaches and harbours.
  - (b) International borders between the five SAp countries. Control here shall require a three pronged approach: (i) an emphasis on control at major border crossing points; (ii) the development of appropriate state border services; and, (iii) strengthening police and other agencies' capacity nationally and regionally to tackle crime and illegal migration within their national territories away from the actual border itself<sup>14</sup>.

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<sup>14</sup> This investigative capacity can be built inside the border police service or eventually, regarding local situation, within the criminal police.

- (2) Coordination nationally between border control authorities, national police authorities and customs agencies is highly productive in strengthening border controls, including sharing of information and joint investigations.
- (3) Co-ordination internationally must be developed both at the preventive level (eg. exchanges of information) and at the reactive level (eg. joint investigations against smuggling or repatriation of illegal immigrants)<sup>15</sup>.

Certain regional particularities must be born in mind. The policy in BiH of developing the State Border Service is fully consistent with the CARDS approach on border control and will be supported through Cards integrated border management programmes. The situation of Albania and Kosovo needs more comprehensive and tailored responses because they are important both as regards transit and sources of illegal emigration.

CARDS support shall conform with the European Council's commitment to the inviolability of borders, territorial integrity and sovereignty of the countries of the region.

A key contributor to enhanced border control will also be the development of a common approach on visa, asylum and migration policy, including regionally standardised procedures and information systems. This will be addressed through the regional police and judicial cooperation programme (see 8.3).

*Complementarity - CARDS Regional versus National Programmes:* Complementarity with CARDS National Programmes will be guaranteed by the fact that these regional funds are being reallocated back into the CARDS country strategies and will be implemented using normal national programme channels (see 6.1.5 and 6.1.6 for detail).

*Indicators of Achievement:* Diminished levels of cross border crime as measured by seizures, arrests and the dismantling of smuggling operations measured through police/border control statistics at borders and internally within the country concerned.

*Implementation:* Implementation will be undertaken through normal deconcentrated CARDS national programme channels for the funds specified in Table 2 of Attachment 6.

## **6.5. BORDER REGION COOPERATION**

*Introduction:* Often border management cannot be significantly improved unless the development problems of the border region or cooperation between regions across international borders are also addressed. To help countries in this regard, Border Region Cooperation programmes will be financed. While a key element in the national integrated border management strategies, inter-agency cooperation with border control and customs agencies is not a major issue under border region cooperation.

*Objectives:* to promote regional reconciliation and to ease border region tensions.

*Expected Results:*

- (1) Greater levels of economic growth and social development within border regions.

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<sup>15</sup> Preliminary work on reactivating the Interpol network has started in 2001.

- (2) Greater levels of cross-border cooperation between border regions.

*Programmes to be implemented:* Where this type of support is identified as a priority, the selection of regions and preparation of the specific programmes will be focused on in 2002. Three types of beneficiary region are possible:

- (1) Between neighbouring SAP countries (eg. FRY with BiH)
- (2) With prospective EU member states (eg. FRY with Hungary).
- (3) With EU member states, complementing measures undertaken by the Interreg programme (eg. Albania to Greece or Italy).

The limited funds available for this work – not exceeding 30% of integrated border management allocation within a country - means that focus on one or two regions will be essential for impact. Equally, there must not be a proliferation of implementation mechanisms which are inefficient and expensive, so the existing procedures and structures for national programme implementation will be used .

The following regional development or cross-border cooperation actions may be financed through this programme:

- (1) Business related infrastructure. This will focus on infrastructure projects that directly benefit productive sector activity and the local business environment.
- (2) Capacity of human resources. This will target support on improving employability, developing entrepreneurship and encouraging adaptability of businesses and their employees.
- (3) Civil society and NGO activities, especially where cross border cooperation links in the social and conflict resolution spheres are involved.

In general, productive sector support (eg. credit, TA and restructuring support) for the border region concerned will be supplied through targeting funds for the region from existing national productive sector schemes (eg. national SME credit schemes).

Any support to border regions must be coherent with national policies on overall regional development.

Each country has its own particular requirements as far as border region cooperation is concerned, aspects which are taken up in each of the Country Strategy Papers.

The cooperation and coordination started with the Structural Funds' Interreg and the Phare programmes for all CARDS border programmes during the border management strategy stage (see 6.2) will be particularly important in regard to Border Region Cooperation.

*Complementarity - CARDS Regional versus National Programmes:* Complementarity with CARDS National Programmes will be guaranteed by the fact that these regional funds are being reallocated back into the CARDS country strategies and will be implemented using normal national programme channels (see 6.1.5 and 6.1.6 for detail).

*Indicators of Achievement:* Specific programme indicators will be specified according to the nature of the programme in question. These indicators will include: (i) impact indicators including job creation and employment indicators; (ii) number of cross border cooperation measures; and, (ii) increase in the stability of regions, as indicated through press and national data.

*Implementation:* Implementation will be undertaken through existing CARDS national programme channels for the funds specified in Table 2 of Attachment 6. Commission implementation authorities will ensure lessons learned from evaluations of past Cross Border Cooperation support in the SAp and Phare regions will be incorporated into future border region cooperation support under CARDS.

## 7. DEMOCRATIC STABILISATION

*Objectives:* To foster civil society and international organisation activities that strengthen emergent democratic processes, promote independent media and protect minority rights, including the facilitation of refugee return.

*Expected Results:* Enhanced levels of civil society activity (including NGO) and greater public participation in the efforts for democratic stabilisation.

*Programmes to be implemented:* The scale of the needs as regards democratic stabilisation in the SAp region is large. For this reason, support from the European Community shall be brought to bear on helping the countries resolve this problem – not only from the CARDS national programmes but also from the European Initiative for Democracy and Human Rights (EIDHR) and the CARDS regional programme.

In line with the Commission Communication (ref: COM.252 of 8.5.2001) on the EU's role in promoting human rights and democratisation in third countries, a clear division of tasks will govern the respective involvement of these three Community instruments.

CARDS national programmes will continue their current extensive support in this area *inter alia* to refugee return, media and other key democratic stabilisation issues (eg. education and awareness raising for human rights).

The CARDS Regional Programme will focus on funding programmes that involve more than one country in the region providing support *inter alia* to: the development of a free and independent media, refugee return especially in facilitating the implementation of the AREA agreement between BiH, Croatia and FRY, the fight against trafficking in human beings, the strengthening of the democratic process (eg. the rule of law, good governance, public accountability and freedom of opinion) and the development of regional non-governmental activities for sustainable development.

Lastly, the EIDHR will continue its support measures that underpin the future democratic stabilisation of the region including *inter alia* with a thematic focus on international tribunals (eg. ICTY) and the fight against torture, racism and xenophobia (including minorities) and the Death Penalty.

*Complementarity:* Given the extensive activities of other donors in this area, such as the UN, OSCE, Council of Europe and major bilateral donors (including EU member states such as Germany, France, Italy, UK and non-EU donors such as the US), the Commission will place great priority on maintaining close donor coordination through the Stability Pact Working Table 1 and through other coordination mechanisms such as on-the-spot activities in the region (see also 4.3).

This support – often cofinanced with Community funds – has been directed to regional support of human rights and national minorities (focused in awareness raising, legal and policy measures, civil society contribution and academic research/cooperation), media (legal framework, public service broadcasting, independence, access to information, protection of sources, media ethics), parliamentary cooperation, education

and youth and refugee matters (see also Annex 5 - Lessons Learned From Past Support). In addition, the Commission needs to involve more closely the civil society in the development of the EIDHR and regional CARDS support programmes, an aspect that will be addressed through regional meetings and discussions.

To maintain and monitor complementarity and coherence between the Community instruments, the CARDS annual report shall include a dedicated section on democratic stabilisation in the SAp, summarising activities undertaken and their cooperation with other donors and governments in this field .

*Indicators of Achievement:* expanded levels of civil society (including NGO) activity, open discussion on minorities and vulnerable groups, measures of political debate and of NGO pressure group activity and increasing cross border links between civil society groups in the SAp region.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

## 8. INSTITUTION BUILDING

### 8.1. INTRODUCTION

The need for stronger institutions is not only a major SAp challenge facing the region but is also one where the CARDS national and regional programmes has and can continue to make a significant difference.

**Past Support:** Past support in institution building has focused on general advisory support and, despite advances, clearly much remains to be done:

- (1) While legislation may be in place, the institutional capacity to implement that legislation is low in most national administrations.
- (2) Past support has been useful but not sufficient – support to an institution needs to be more sustained and the range of instruments expanded beyond short term TA advice, especially with the new requirements resulting from the SAp.
- (3) A greater focus on a limited number of priority areas is critical if advances are to be made in the medium term.

Clearly, the demands placed on institutions as a result of the SAp means that CARDS institution building support needs to be further developed in the period 2002-2006, both in terms of focus and instruments.

**Priority Areas:** In terms of focus, overall CARDS support will emphasise the following priority institution building areas to 2006:

- (1) Familiarisation with the *acquis communautaire* as countries start to move their legislation – especially on areas covered under the SAA – more into line with the approaches used inside the EU. This will focus on core *acquis* issues relating to the internal market, as outlined in the 1995 White Paper on the Approximation to the Acquis. Advice on the energy sector may also be provided in the context of the development by the countries of the region of an internal market for energy.

- (2) Civil service reform, assisting in the basic reform programmes underway in each country including support to civil service law, professionalisation and development of administrative procedures in conformity with EU standards. Work in this area – specifically in designing administration reform strategies - has begun under the Sigma programme.
- (3) Fiscal and financial management including internal financial control, procurement and external audit.
- (4) Trade and customs involving institution building to help administrations meet their responsibilities in concluding trade agreements (including WTO issues and bilateral conventions arising from Stabilisation and Association Agreements) and developing a trade-related regulatory and policy framework, compatible with international rules, which will encourage trade and investment.
- (5) Justice and Home Affairs including strengthening of legislative frameworks and institutional capacities for police, justice, prosecution and penitentiary agencies.

**National versus Regional Support:** The CARDS national support programmes will be the major route for CARDS financing to institution building. Traditional technical assistance programmes will be complemented under the CARDS national programmes by twinning arrangements whereby member state civil servants shall be seconded to work directly with their counterpart officials in national SAp administrations. However, twinning assignments for the SAp countries will not be on the same scale as seen with applicant countries – they will be for shorter terms and will focus on a few key priority areas only (eg. JHA).

The CARDS regional support will complement this CARDS national programme focus with four specific programmes where a regional intervention will be the most efficient and effective:

- (1) support in the targeted priority areas above through an Institution Building Facility for the SAp, providing specific training, seminars, plus supporting short-term technical advice and studies that promote the implementation of the SAp in general and of the Stabilisation and Association Agreements in particular, with a particular focus on the approximation of legislation and policies towards the EU acquis such as in the internal market.
- (2) specific institution building and policy support in three areas whose unique characteristics and priority for the region require separate approaches, namely:
  - (a) regional cooperation in the area of Justice and Home Affairs
  - (b) development of government statistics and their integration into European statistical systems
  - (c) participation of SAp countries in the wider EU networks for environmental protection.

**Past support:** Institution building and general public administration reform has been a major recipient of funds from the EC and other donors over the past ten years. This past support provides various lessons that can be incorporated into the design of future CARDS support (see Annex 5). From the EC in recent years, this has focused on support nationally on institution building for central and local government in key areas such as financial control and at the regional level through the Sigma programme that provides primarily short term support for public administration reform. From IFI's and

other donors such as the US, Germany, Austria, UK, France and Italy, support has focused on training for civil service and the promotion of good governance. CARDS support will be closely coordinated with these major donors to avoid overlap and ensure coherence and complementarity.

## 8.2. INSTITUTION BUILDING FACILITY FOR THE SAP

*Objectives:* to increase the efficiency and effectiveness of public institutions so as to implement more efficiently and effectively their core public administration duties, especially as regards the SAP and SAAs.

*Expected Results:*

- (1) Improved efficiency and effectiveness levels of public administrations in the priority areas as specified above.
- (2) Clear work plans relating to the implementation of the regional cooperation components of SAAs, including bilateral conventions between SAA signatories.
- (3) Greater competence and awareness among SAP country officials on how to implement key acquis and general public administration policies and functions.

*Programmes to be implemented:* In the priorities areas specified above (ie. familiarisation with the *acquis communautaire*, fiscal and financial management, trade and customs, Justice and Home Affairs and civil service reform), this Institution Building Facility for the SAP will finance:

- (1) ***specific advisory assignments*** that strengthen the capacities of national institutions. Based on in-country work, these will focus generally on identifying needs and developing work plans in focused areas that will then be followed up through more comprehensive programmes of support, generally financed through the CARDS national support programmes. CARDS national programmes will also obviously finance needs assessments where not covered by this Facility. For trade, specific advisors may be provided to ministries of trade through the Facility to guide and advise on trade policy development. In this area, the Facility will borrow from the experience gained under the Sigma Programme.
- (2) ***training seminars, meetings (including travel costs), legislation data-bases and supporting technical assistance*** that promote awareness and technical knowledge of the priority areas above (especially of the *acquis*) among public administration officials in the SAP region. This support may *inter alia* may involve: (i) delivery of *acquis* related inputs by Directorates General of the European Commission; (ii) implementation advice for EC/EU legislation in the priority areas, including seminars with member states' officials; and, (iii) meetings for coordination and networking of institution building approaches, including where required for JHA matters (eg. contact points meetings). In this area, the Facility will borrow from the experience gained under the TAIEX programme provided to the candidate countries of central Europe, in a manner reflecting the pre-candidate stage of the SAP countries.

A specific type of intervention under the Facility will involve the financing of feasibility studies relating to the implementation of the regional cooperation conventions, as announced in the Zagreb summit. These conventions will guide and

govern the specific cooperation between SAA signatory countries for: (i) bilateral free trade agreements in line with WTO provisions and based on continued asymmetric trade liberalisation with the EU; (ii) mutual concessions concerning the movement of workers, establishment, supply of services, current payments and movement of capital; and, (iii) provisions on cooperation in other fields (eg. Justice and Home Affairs). The studies will be used in part to monitor countries' compliance with their SAp regional cooperation obligations.

These feasibility studies will identify obstacles that prevent cooperation developing in each area covered by the Convention (eg. trade / mutual recognition / rights of establishment / visa and travel, etc). In addition, the studies will develop a work plan based on agreement with the two governments concerned for removing the obstacles.

*Complementarity - CARDS Regional versus National Programmes:* The Facility will often kickstart the institution building process in a particular area in a country, ensuring coherent and common approaches are being developed and needs are accurately assessed. However, after an initial phase, such technical assistance may potentially overlap with more substantive support from the CARDS national programmes. To avoid duplication of effort, any planned assignments will be approved by the responsible national CARDS authorities in-country (ie. Delegations and relevant ministries) before implementation.

The Facility's seminar and meeting activity will be a service used by the national programmes. Countries or the Commission will identify a specific need for training, networking, seminar or TA and the Facility will organise the necessary support. In this way, overlap in this area will be avoided with CARDS national programmes.

*Indicators of Achievement:* (i) greater awareness and efficiency of public administrations in implementing their activities in the priority areas identified above; (ii) work plans for substantial institution building programmes in the above priority areas that are then taken up and implemented through CARDS National Programmes; (ii) feasibility studies relating to implementation of cooperation conventions between SAA signatories; (iii) satisfactory completion of individual tailored assignments, with the specified objectives and results being achieved for each; and, (iv) satisfactory delivery of interventions that raise awareness on specific issues in the priority areas above.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

### **8.3. REGIONAL COOPERATION IN JUSTICE AND HOME AFFAIRS**

In addition to the border control support within Integrated Border Management, CARDS regional support will be provided for more general regional cooperation and common approaches between the SAp countries on Justice and Home Affairs (JHA) issues.

*Objectives:* to support national police forces, judiciary (including prosecutor's offices, the penitentiary system and the legal profession in general) and national migration authorities of the region to be more effective in fighting national and international crime, including illegal migration, and in developing common visa, migration and asylum approaches.

*Expected Results:*

- (1) Functioning Interpol network in the region (including national bureaux in capital and antennae in entities in FRY and BiH) fully interconnected with rest of the Interpol network and, on an increasing basis, with Europol.
- (2) Functioning networks of judiciary (both civil and criminal) throughout the region.
- (3) Joint investigations and prosecutions dealing with cross-border crime.
- (4) Implementation of measures in the area of visa and entry policies, migration management and asylum systems with a view to make them compatible with the EC/EU acquis.

*Programmes to be implemented:* Given the trans-national nature of organized crime and related illegal smuggling activities, a regional capacity in the fight against crime is essential not only between the countries of the region but also with international partners.

First, the national Interpol bureaux system in the SAp region will be strengthened that, after a decade of war, has been left largely ineffective in certain countries. Any effort to seriously fight cross-border crime must first address the collapse of this Interpol structure.

At the level of each state, an effective national Interpol bureau will be established (if not already in place) that will be able to cooperate on international criminal investigations and will be supported in the initial phase of operation before its full integration into the national budgets. These national bureaux shall then be integrated within each country (ie. between the relevant state investigative services) and regionally in an effective information exchange network, thereby helping the national police forces of the SAp region and beyond to tackle cross-border crime.

After basic networking and capacity building, specialised training, intelligence gathering and strategies will be developed for the main criminal activities being tackled through the Interpol system (ie. illegal migration, drugs and stolen goods).

Second, a key contributor to more effective JHA policies will be the development of a common approach on visa, asylum and migration policy, including regionally standardised procedures and information systems. This development will need coordination and support at the regional level not only between the involved migration authorities and interior ministries but also with police and border control agencies. At a minimum, this approach will involve the development of visa requirements that are coherent between the five countries and the relevant EC/EU acquis and do not leave loopholes for exploitation by international illegal immigration rings.

The 2001 Sarajevo Declaration is a significant point of departure for CARDS support in the area of JHA, notably in the area of facilitating a common approach to visa, asylum and immigration policy.

Third, additional interventions will be undertaken to promote judicial and prosecution service effectiveness at the regional level. This may include building connections with European networks of justice agencies. This will address not only criminal issues but also civil judicial matters.

The support in this area will be closely coordinated with on-going initiatives to avoid overlap and to promote complementarity, including with the Stability Pact Table 3 and

other initiatives such as the SECI Bucharest centre on crime and corruption. CARDS will avoid creating any new mechanisms for coordination and development of its support, given the already wide number of existing initiatives already underway in the region. As much of the expertise that the SAp countries are seeking in this area rests in member states' administrations, easing and expanding access for SAp countries to existing JHA networks will be key (eg. through the contact points network established between member states and candidate countries). In addition, maximum cooperation and coordination will be sought by CARDS with activities undertaken by the Council High Level Working Group on Asylum and Migration (eg. budget line B7-667).

*Complementarity - CARDS Regional versus National Programmes:* CARDS national support will be the main route through which JHA needs are addressed. The above CARDS regional programmes will complement this national focus by ensuring regional coherence of national police, justice and visa/migration policies and by promoting SAp country participation in EU and international JHA networks (eg. Interpol).

*Indicators of Achievement:* (i) existence of Interpol bureaux network and expanded cooperation with Europol, including reports from Interpol on perceived efficiency and effectiveness of cooperation with satellites/antennae in the SAp region; (ii) existence of visa and migration procedures and conditions between the five countries that are increasingly compatible with EC/EU standards; and, (iii) increase of number of international criminal cases being processed by the police and prosecuted by the judiciary.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

#### **8.4. REGIONAL STATISTICAL COOPERATION**

*Background:* The problems that are addressed by this programme are poor harmonisation with EU and international standards and weak infrastructure (including human resources) leading to poor data quality and a resulting lack of confidence in national statistics.

*Objectives:* to harmonise the five national statistical systems and make them compatible with EU concepts and standards in certain key areas by 2006.

*Expected Results:* The programme will aim at achieving the following specific results:

- (1) Improved quality of national and regional statistics that may *inter alia* include macro-economic and price statistics, business statistics, social statistics, including labour market statistics, external trade and agriculture statistics as well as possible further improvements on the core statistical areas of trade, business activity and prices<sup>16</sup>.
- (2) Harmonisation of the statistical output in key areas based on participation in Eurostat working groups and traineeships in Eurostat.
- (3) Greater confidence in national statistics, as shown by producing publications of key data, most notably a *Statistical Yearbook of the SAp countries*.

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<sup>16</sup> These areas were addressed in 2001 CARDS programming.

*Programmes to be implemented:* Interventions in 2002-2006 shall finance training activities and networking with Eurostat in a number of statistical fields and specific pilot projects. 2.5 meur of CARDS support in 2001 was provided to start this process. This builds on the 18.4 meur to national and regional programmes for statistical co-operation in the SAp region that has been provided from the Commission since 1992.

The beneficiary institutions are the National Statistical Institutes of the CARDS beneficiary countries.

*Complementarity - CARDS Regional versus National Programmes:* The focus of regional support is thus to promote coordinated and harmonised actions and methodologies across all five countries. This will not replace the substantive investment programmes necessary to raise the quality of the statistical infrastructure (eg. supply programmes and software development) and to support survey operations in each country that will continue to be a focus of national CARDS programme support.

*Indicators of Achievement:* (i) timely output of good quality data in certain statistical areas; (ii) generation of statistical yearbooks and increased confidence of users; and, (iii) networks of cooperation between National Statistical Institutes in SAp and EU countries.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

## **8.5. EUROPEAN NETWORKS FOR SUSTAINABLE DEVELOPMENT**

*Objectives:* to increase the level of environmental cooperation between SAp countries and between SAp countries and the EU.

*Expected Results:*

- (1) Full country/regional environmental reporting, including within the European Environment Agency's "State of Europe's Environment" Report.
- (2) Increased awareness of environmental issues and enforcement methodologies in public administrations.

*Programmes to be implemented:*

- (1) Support the countries participation in the European Environment Agency's work
- (2) Support the countries participation in the Balkan Environmental Regulation Compliance Enforcement Network (BERCEN) and strengthening its cooperation with the EU's environmental enforcement network termed IMPEL.

*Complementarity - CARDS Regional versus National Programmes:* The regional envelope will finance issues that require direct regional cooperation (eg. EEA) or involve cross border issues (eg. environmental reporting and monitoring). CARDS national programmes will support the implementation of national actions emerging from the regional strategies as well as implementing the National Environmental Action Plans.

*Indicators of Achievement:* (i) reporting on the state of the region's environment; (ii) more effective enforcement of environmental legislation at national SAp levels; and,

(iii) willingness of national governments to finance participation in EEA and Impel activities using own funds after 2006.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

## **9. REGIONAL INFRASTRUCTURE DEVELOPMENT**

### **9.1. INFRASTRUCTURE DEVELOPMENT**

*Objectives:* to assist the countries in developing coherent strategies for infrastructure with an international dimension in transport and energy.

*Expected Results:*

- (1) Regional infrastructure priority study and discussion process for the extension of Pan European Networks system into the SAp region, using the same approach as seen under the Transport Infrastructure Needs Assessment (TINA) process in central Europe.
- (2) Regional infrastructure priority study and discussion process for energy infrastructure, including progress on the development of a regional internal electricity market and its integration with that of the EU.
- (3) Regional infrastructure priority study and discussion process for environment, building on the initial Regional Priority Environmental Investment Programme undertaken under the Regional Environmental Reconstruction Programme (REReP).

*Programmes to be implemented:*

- (1) Support to meetings and networking to ensure governments, IFI's and European Commission can discuss and agree on strategic options and choices.
- (2) Support to the development of regional infrastructure studies in the three target areas of energy, transport and environment.

The results already achieved through existing activities (eg. EIB and EBRD studies) and regional initiatives (eg. Stability Pact, IFIs, SEEC) shall be taken into account in order to ensure CARDS activities in this area are relevant and useful.

The starting point for CARDS support to regional transport and energy strategies is contained in the June 2001 Commission paper "Transport and Energy Infrastructure for South Eastern Europe". The paper identifies the broad priorities for transport and energy infrastructure development in the region (including rail, road, sea ports and general development of the Danube Corridor VII), incorporating the various initiatives launched and work completed already over the last decade in this area, and presents the criteria for further prioritisation of corridors and specific projects in transport and energy. This basic blue-print is already being developed through the studies financed by CARDS and other donors in 2001 that cover energy (ie. on electricity, gas and oil) and transport, notably the Transport Infrastructure Regional Study. Future interventions under the CARDS Regional Programme will build on this basic work, including the elaboration of investment programmes and other initiatives, such as an regional energy market.

A basic regional approach for the development of environment infrastructure, complementing detailed work such as that being undertaken by the EBRD on water, is already being developed under CARDS support through the Regional Environmental Reconstruction Programme. The methodology for this draws on work being undertaken for the Danube river basin and Adriatic and Ionian coastal zones. It will facilitate countries' efforts to identify the main policy and investment priorities. The outcome and conclusions of this approach will be integrated into National Environmental Action Plans. Further support will be required to turn this basic hot spot identification study into a full priority investment strategy for environment.

*Complementarity - CARDS Regional versus National Programmes:* The CARDS regional programme will only finance strategy development for infrastructure with a clear cross-border and international dimension. Actual infrastructure investment programmes will be implemented by the countries largely from national and IFI sources of funds.

CARDS National programmes may be used to help catalyse key infrastructure investments in certain priority cases where such support is critical to ensuring that priority project's implementation but will generally focus on other areas outside pure infrastructure which are less financial viable and which cannot attract IFI lending.

*Coordination with IFI and other donor activity:* The Infrastructure Steering Group (composed of experts of the EC, WB, EIB, EBRD and the OCSP) will be key in guiding CARDS support in the area of infrastructure. In this regard, the leading role of the IFI's in the process will be pivotal as they shall be the primary source of external funding for the projects (see also Annex 5 - Lessons Learned From Past Support).

*Indicators of Achievement:* (i) regional studies on energy, transport and environment infrastructure development that national governments agree to incorporate into their national strategies; and, (ii) agreement of IFI's to develop project pipelines based on the regional approaches.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

## **9.2. AIR TRAFFIC CONTROL**

*Objectives:* to strengthen institutions involved in air traffic safety and control.

*Expected Results:*

- (1) Strengthened capacities in target institutions.
- (2) Networks of target institutions within the Eurocontrol system.
- (3) National work plans and structures for air traffic control improvement.
- (4) Proposals for financing of actual improvements that will be taken up in a second implementation phase by other financiers (eg. governments or IFI's).

*Programmes to be implemented:* Institution building programmes and technical assistance, including coordination and exchange programmes with Eurocontrol, for the achievement of the above results.

*Complementarity - CARDS Regional versus National Programmes:* The regional programme will undertake the necessary institution building phase. A second

implementation phase for setting up the actual air traffic control structure - conforming to International Civil Aviation Organisation, Eurocontrol and EU norms - will be undertaken by national government and IFI financial sources.

*Indicators of Achievement:* (i) completion of regionally coherent national work plans for improving air traffic control; and, (ii) capacity of air traffic control institutions in the region to secure IFI and national funding for implementation of their work plans.

*Implementation:* Implementation will be undertaken on a centralised basis by the relevant Commission services at headquarters (see Attachment 6 for financial allocation).

## **10. OTHER - ADMINISTRATIVE TECHNICAL ASSISTANCE AND RESERVE**

The CARDS regulation provides for administrative technical assistance (ATA) expenditure for programming and implementation of the programmes. Expenditures covered are: (i) temporary support staff involved in preparation, management and supervision of the programme or projects; and, (ii) studies, meetings, information and publications linked to achieving the programme's objective.

€3 million per annum has been provisionally earmarked for such ATA expenditures. This has been subtracted from the regional envelope and has no effect on the attached MIP tables in Attachment 6.

A small reserve is also held back to cover emergency expenditures that frequently arise in the SAp region.

*Indicators of Achievement:* (i) the efficient administration of the CARDS regional programme; and, (ii) flexibility to address emergency measures as they arise.

## **ATTACHMENTS TO CARDS REGIONAL STRATEGY AND MIP**

- 1. Map – South East European Region**
- 2. Commonly Used Acronyms**
- 3. Basic Economic Data and Performance**
- 4. European Community Support to the SAp Region 1991-2000**
- 5. Multi-Annual Indicative Programme – Indicative Financial Breakdown**

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**ATTACHMENT 1:**

**MAP - SOUTH EAST EUROPE REGION**



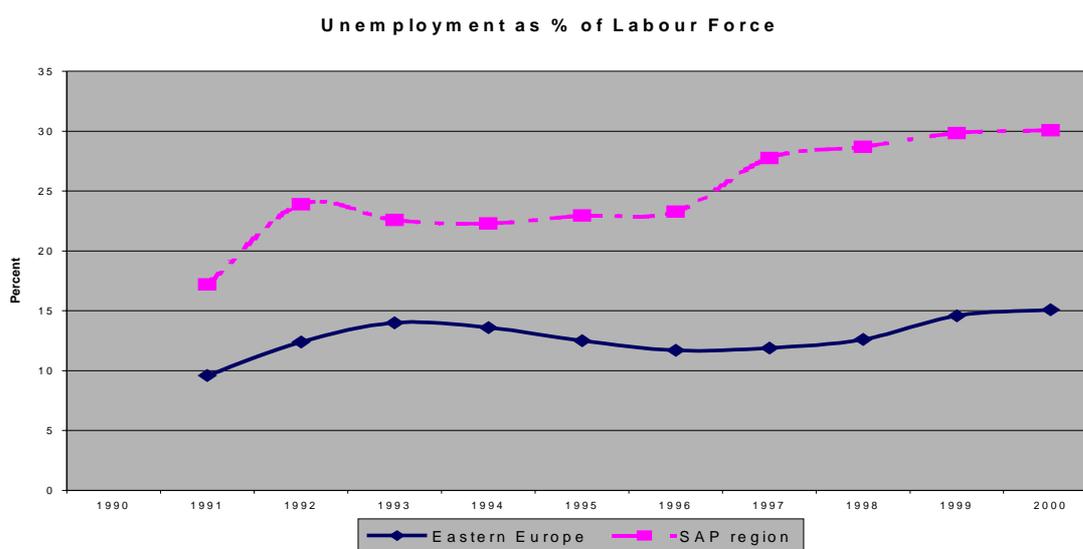
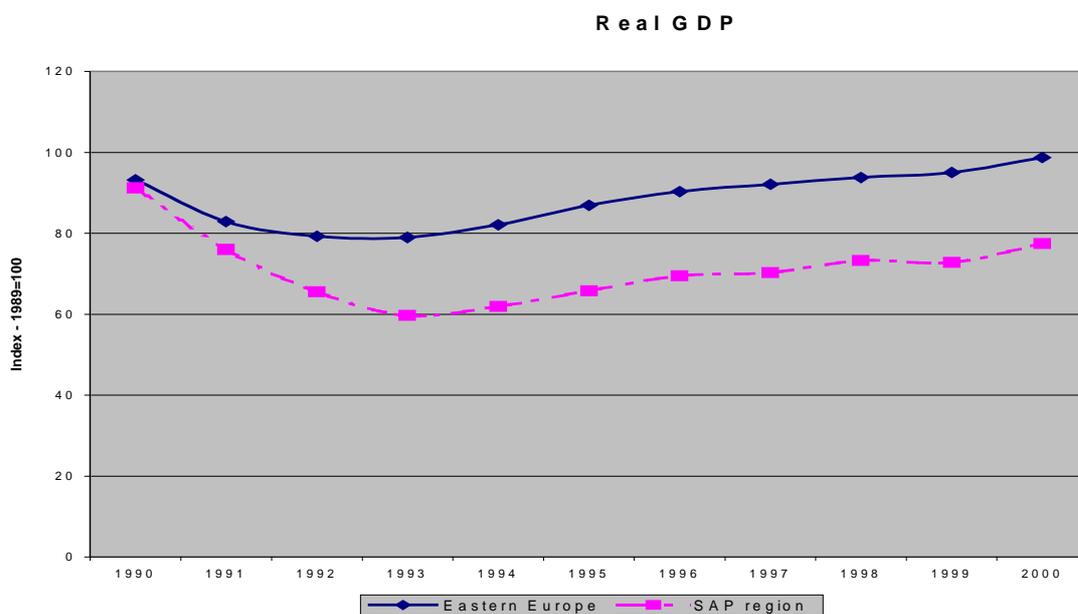
**ATTACHMENT 2:  
COMMONLY USED ACRONYMS**

<i>Acquis communautaire</i>	legislation as covered by the Treaty Establishing the European Communities
ATA	Administrative Technical Assistance
BiH	Bosnia and Herzegovina
CAFAO	Customs and Fiscal Assistance Office in BiH
CAM-A	Customs Assistance Mission in Albania
CAM-K	Customs Assistance Mission in Kosovo
EC	European Community
EEA	European Environment Agency
EIDHR	European Initiative for Democracy and Human Rights (commonly referred to as the Democracy Programme)
EU	European Union
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
ICTY	International Criminal Tribunal for Yugoslavia
IFI	International Financial Institution
IMPEL	network of enforcement agencies involved in this initiative for “Implementing Community Environmental Law”.
Interreg	Border Region Development programme of the EC’s Structural Funds
JHA	Justice and Home Affairs
K FOR	International Forces in Kosovo
NGO	Non-governmental organisation
OBNOVA	EC emergency support programme for the western Balkans
PHARE	Assistance programme for central Europe
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SEECF	South East Europe Co-operation Process
SFOR	International Forces in Bosnia
TTFSE	World Bank Transport and Trade Facilitation Programme for South East Europe
UNHCR	United National High Commission for Refugees
UNMIBH	United Nations Mission in BiH
WTO	World Trade Organisation

**ATTACHMENT 3:  
BASIC ECONOMIC DATA AND PERFORMANCE**

	<i>1998 population (million)</i>	<i>1999 GDP € billion</i>	<i>1999 GDP Per capita €</i>
Albania	3.4	3.7	930
BiH	3.9	4.4	1210
Croatia	4.5	20.4	4530
FRY	10.6	9.0	849
FYROM	2.0	3.5	1660

Source: IBRD World Development Report 2001



Source: UN ECE Statistical Survey

**ATTACHMENT 4:**

**EUROPEAN COMMUNITY SUPPORT TO THE SAP REGION 1991-2000**

(€ millions) (note: includes data for Phare and Obnova)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
Phare	10,00	75,00	40,00	49,00	53,00	53,00	70,40	42,50	99,90	35,45	528,25
Democracy & Human Rights					1,00	0,60	0,40	0,80	0,17	0,52	3,49
Specific actions									2,60	1,92	4,52
Humanitarian aid (ECHO)		4,13			1,15	1,65	16,30	11,00	97,07	3,40	134,70
FEOGA (DG AGRI)		120,00									120,00
Food security (DG DEV)							10,80		5,50		16,30
Macroeconomic (DG ECFIN)		35,00	35,00		35,00						105,00
<b>ALBANIA Total =</b>		<b>368,13</b>			<b>90,15</b>	<b>55,25</b>	<b>97,90</b>	<b>54,30</b>	<b>205,24</b>	<b>41,29</b>	<b>912,26</b>
Phare / Obnova						228,12	207,07	188,26	118,36	100,85	842,66
Specific actions					70,00	65,40	39,90	15,00	30,90	3,96	225,16
Media [1]				0,21	0,65	1,65	4,09	2,24			8,84
Democracy & Human Rights					0,70	4,80	4,80	1,80	0,79	0,62	13,51
Humanitarian aid (ECHO)		495,26			145,03	142,45	105,00	87,95	58,90	0,40	1.034,99
Macroeconomic (DG ECFIN)									15,00	20,00	35,00
<b>Bosnia &amp; Herzegovina Tot =</b>		<b>495,47</b>			<b>216,38</b>	<b>442,42</b>	<b>360,86</b>	<b>295,25</b>	<b>223,95</b>	<b>125,83</b>	<b>2.160,15</b>
Obnova						10,99	8,59	15,00	11,50	18,34	64,42
Media				0,09	0,31	0,72	1,67	0,59			3,39
Democracy & Human Rights						0,70	2,20	0,60	0,21	0,97	4,68
Specific actions								1,00	0,42		1,42
Humanitarian aid (ECHO)		204,77			38,43	21,15	14,50	6,95	6,50		292,30
<b>CROATIA Total =</b>		<b>204,86</b>			<b>38,74</b>	<b>33,56</b>	<b>26,96</b>	<b>24,14</b>	<b>18,63</b>	<b>19,31</b>	<b>366,20</b>
Obnova								5,00	26,90	208,95	240,85
Media				0,37	1,18	0,37	3,83	5,38			11,12
Democracy & Human Rights					1,90	0,70	0,80	2,50	2,05		7,95
Specific actions									1,76		1,76
Humanitarian aid (ECHO)		170,25			36,87	23,40	13,50	11,20	93,70	59,64	408,56
Macroeconomic (DG ECFIN)										20,00	20,00
<b>FRY - Serbia and Mont. Tot =</b>		<b>170,62</b>			<b>39,95</b>	<b>24,47</b>	<b>18,13</b>	<b>24,08</b>	<b>124,41</b>	<b>288,59</b>	<b>690,24</b>
Obnova								13,16	127,00	439,90	580,06
Democracy & Human Rights										0,38	0,38
Specific actions										6,00	6,00
Humanitarian aid (ECHO)									111,70	28,84	140,54
Food security (DG DEV)									20,90		20,90
Macroeconomic (DG ECFIN)										35,00	35,00
<b>FRY - Kosovo Total =</b>								<b>13,16</b>	<b>259,60</b>	<b>510,12</b>	<b>782,88</b>
Phare / Obnova		60,00			25,00	25,00	33,00	25,00	68,20	21,20	257,40
Media				0,05	0,28		0,21	0,28	0,50		1,32
Democracy & Human Rights							0,50	0,20	0,10	0,52	1,32
Humanitarian aid (ECHO)		36,52			9,15				39,81	5,35	90,83
Macroeconomic (DG ECFIN)							40,00			20,00	60,00
<b>FYROM Total =</b>		<b>96,57</b>			<b>34,43</b>	<b>25,00</b>	<b>73,71</b>	<b>25,48</b>	<b>108,61</b>	<b>47,07</b>	<b>410,87</b>
Phare / Obnova		81,00						7,00	0,20	18,75	106,95
Media				0,44	0,61	0,15	1,45	1,40	2,00		6,05
Democracy & Human Rights							5,30	0,90	6,40	7,36	19,96
Specific actions										2,71	
Humanitarian aid (ECHO)		17,10			20,00			17,00	39,32	1,08	94,50
<b>REGIONAL Total =</b>		<b>98,54</b>			<b>20,61</b>	<b>0,15</b>	<b>6,75</b>	<b>26,30</b>	<b>47,91</b>	<b>29,90</b>	<b>227,45</b>
<b>GRAND TOTAL =</b>		<b>1.434,20</b>			<b>440,26</b>	<b>580,85</b>	<b>584,30</b>	<b>462,70</b>	<b>988,35</b>	<b>1.062,10</b>	<b>5.550,05</b>

## **Attachment 5:**

### **Lessons Learned from Past Support**

Evaluation and assessment of past Community and other donor support provides valuable lessons that are being incorporated into the design of future CARDS regional support, as set out in this CARDS Regional Strategy Paper (RSP). Some of the principle lessons learned for each priority area within the CARDS Regional Strategy are presented below.

***Institution Building.*** The main support in this area under the RSP is proposed funding of the Institution Building Facility for the SAp that will organise seminars, networking meetings and supporting technical assistance in the core legal approximation and policy development areas of the SAp. As this facility is modeled on the Phare Taiex programme, a recent assessment of Taiex provides interesting pointers for the design of the Institution Building Facility for the SAp.

Performance is most efficient when management of key functions is covered by Commission staffers and when the travel and meetings' activities – a major part of the programme's activities – are delivered by external contractors (eg. event organisers, private travel agencies, etc) with tight control by Commission management. Effectiveness of seminars, training and technical assistance is greatest when expert inputs are provided by actual practitioners from member state or candidate country administrations and, in certain cases (eg. awareness raising of *acquis*) by relevant Commission services.

Sustainability can only be assured where the functions closely involve partner country administrations (eg. legislation). Impact is maximised and overlap minimised when close coordination exists with national programmes of institution building support. Taiex's legislation data-bases have proven very useful for the countries, including both tailored dbases and provision of access for partner countries through Taiex to the Commission's internal legislative dbases such as Celex.

***Justice and Home Affairs.*** Several preconditions must be assured if CARDS training and supplies support to JHA is to be successful - ownership, common interest and sustainability. This requires at its base close involvement of national authorities and ensuring national financial allocations are made for maintenance and upkeep. CARDS resources will only be used efficiently and effectively if there is a clear national strategy and if its implementation is led by one national coordinating ministry that coordinates the other ministries involved.

External expertise is not sufficient – links and networking between practitioners (eg. the Phare national contact points system) and the use of member state officials on projects through twinning arrangements are key ingredients to success in JHA. Lastly, impact has been reduced where supplies have been provided without supporting technical assistance, maintenance cost coverage by national budgets and complementary institution building support to involved agencies and ministries.

***Integrated Border Management - border region cooperation.*** Evaluations of past Cross Border Cooperation (CBC) support will be useful in steering future CARDS Integrated Border Management support.

On efficiency, past CBC evaluations have indicated that delays and inefficiencies are caused by overly cumbersome programming procedures and inappropriate implementation structures. To ease this, the government inter-ministerial committee in

each country that will develop the Integrated Border Management strategy will also define priorities in the area of Border Region Cooperation. In addition, interested parties linked to structural funds' bodies from neighbouring EU member states (eg. Greece and Italy) or, where relevant, neighbouring candidate country bodies will be involved in this strategy development to ensure there is maximum coordination and complementarity with programmes on the EU and candidate countries' sides of the SAP's borders. Lastly, the same central structure used for implementation of CARDS national programmes will be used to implement all Border Region Cooperation Support.

On impact, the most positive contributions came from the transport and economic development priorities, whilst the environment, utilities and person-to-person priorities contributed less. Small project funds have proved useful but must be limited in scale and closely controlled centrally by the implementation authority.

**Customs Support.** CARDS support through Integrated Border Management to customs will be substantial. Certain useful lessons can be learned from past Community support in this area:

- (1) Support of computerisation should be restricted to installing package software (eg. ASYCUDA and EC-CUDA) and, where telecoms infrastructure support is required, a short compliance audit and Customs IT expert should be included in all reviews of applications for funding. Experience has shown that it is better to use a standard accepted system rather than developing bespoke new systems.
- (2) More funds should be provided to detection and laboratory equipment but ensuring that the equipment is technically suited and, most important, there is adequate funding for maintenance and complementary institution building.
- (3) Support in legislation should focus on providing help in legal drafting (especially of the detailed implementing provisions), troubleshooting inconsistencies in laws and giving more emphasis to the downstream support in implementation and enforcement.
- (4) The balance of support for training should be focused between training of operational staff and more sustainable work, concentrating on the latter so that trainers are trained, training schools are set-up and curricula (and their maintenance) provided for.

**Civil Society and Democratic Stabilisation:** Certain very valuable lessons can be learned from Community support in this area. The EIDHR has played a crucial role in ensuring NGO's activity in areas of civil society development, conflict resolution, good governance and minority protection.

The nature of the SAP region's needs and of NGO activity means that support is best managed locally through national programmes, not only for refugee return, good governance and media but also in promoting NGO activity and civil society involvement. In terms of impact, NGO's must be involved closely through some form of national NGO forum. Locally managed micro-funds and requirements for local NGO partners in projects are particularly useful in ensuring this local dimension is assured. Involvement of international NGOs is also highly beneficial but where coupled with local partners to ensure sustainability.

Coordination with other donors is critical in this area, most obviously for the SAP countries through the Stability Pact's structures but also locally and in other fora.

Simple implementation procedures are necessary for efficiency and management by players with proven track records whether in the Commission (eg. EIDHR) or externally (eg. certain UN organisations), often extending to the sub-delegation of implementation responsibilities to such bodies by the Commission. Lastly, the framework must be in place to permit the development of civil society, including legislation for the establishment and operation of NGOs.

**Infrastructure:** The general strategy support at regional level started under CARDS in 2001 needs to be deepened and continued. The Transport Infrastructure Needs Assessment (TINA) process undertaken in the central European countries shall be used as a model for future CARDS support in transport as well as environment and energy as this is key in ensuring country commitment and involvement of key financial players, such as the international financial institutions.

The role of the Infrastructure Steering Group (composed of experts of the EC, WB, EIB, EBRD and the OCSP) will be key in the donor co-ordination process of project selection and project prioritising, as agreed within the Stability Pact Working Table II. In this regard, the leading role of the IFI's in the process cannot be overstated as they shall be the primary source of external funding for the projects. Equally important has proven the inclusiveness of countries in the TINA process – in this way, TINA has shown that debate and process are as important as drafting specific reports.

Prioritisation is key in avoiding a long list of project “wishes” being produced. A first step in this process is assured by the June 2001 Commission paper “Transport and Energy Infrastructure for South Eastern Europe” and other prioritisation support such as through the Stability Pact. Pre-investment studies at the regional level are key but must also be supported by legislation approximation and feasibility study support at national levels. At regional level, studies on traffic forecasts for transport and infrastructure costs proved useful in the Phare countries for focusing debate and prioritising between investments.

## **ATTACHMENT 6:**

### **MULTI-ANNUAL INDICATIVE FINANCIAL BREAKDOWN 2002-2004**

The total budget for the CARDS Regional Programme in the years 2002-2004 is € 197 million.

The allocations are broken down by priority and year in the two tables overleaf.

**Table 1** presents CARDS regional support programmes that will be **implemented centrally** by Commission Headquarters authorities by priority and year and include those programmes for democratic stabilisation, institution building and regional infrastructure development. In addition, a small allocation is made in this area of centralised implementation for the regional coordination of work in integrated border management.

**Table 2** presents by country and year the CARDS regional support to **integrated border management** that will be **implemented at the national levels**. These funds have been included in the multi-annual indicative programmes of each respective Country Strategy Paper so they may be implemented at the national level through existing CARDS national implementation channels.

All figures – in € million - presented are indicative and may be subject to adjustment depending on decision taken in the annual budgeting procedure.



**Table 1: CARDS REGIONAL PROGRAMME ALLOCATIONS – CENTRALISED IMPLEMENTATION**

*Million €*

Priority	Measures	Implementation (deconcentrated or centralised)	Annual Allocations			
			02	03	04	Tot 02-04
1. Integrated Border Management	1.1 Regional support (networking/ coordination)	centralised - by headquarters	1	1	0	2
2. Institution Building	2.1 Institution Building Facility for the SAp	centralised - by headquarters	8	12	0	20
	2.2 Regional Police and Judicial Cooperation	centralised - by headquarters	8	5	0	13
	2.3 Regional Statistical Cooperation	centralised - by headquarters	0	3	0	3
	2.4 European networks for sustainable development	centralised - by headquarters	4	4	0	8
3. Democratic Stabilisation	3.1 Civil Society (NGO - media / minorities)	centralised - by headquarters	7	5	0	12
4. Regional Infrastructure	4.1 Regional Infrastructure Development	centralised - by headquarters	9	2	0	11
	4.2 Air Traffic Control - institution building	centralised - by headquarters	5	0	0	5
5. Other	5.1 Reserve	centralised - by headquarters	3	3	0	6
<b>GRAND TOTAL</b>			<b>45</b>	<b>35</b>	<b>0</b>	<b>80</b>

**Table 2: INTEGRATED BORDER MANAGEMENT – DECONCENTRATED IMPLEMENTATION**

**These figures have been reallocated into the Country Strategy Papers and their MIP's.**

*Million €*

Integrated Border Management (Deconcentrated)	Implementation	Annual Allocations			
		2002	2003	2004	Total
Albania	deconcentrated - by national programmes	4	4	12	20
BiH	deconcentrated - by national programmes	3	6	14	23
Croatia	deconcentrated - by national programmes	4	5	14	23
FRY	deconcentrated - by national programmes	10	10	11	31
FYROM	deconcentrated - by national programmes	4	6	10	20
<b>TOTAL</b>		<b>25</b>	<b>31</b>	<b>61</b>	<b>117</b>