

Economics: from International Assistance toward Self-Sustaining Growth

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The economies of South Eastern Europe (SEE)—Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Montenegro, Serbia,¹ Macedonia and Romania—today face a number of problems which are different from other transition economies, both in Central and Eastern Europe (CEE) and in the Commonwealth of Independent States (CIS). At the heart of the most pressing economic problems are the more general constraints posed by the “indigenous weaknesses” of SEE economies, deriving from internal constraints on growth, low level of development, and aid dependence; and by the “international inadequacies,” deriving from inappropriate international assistance policies and externally-imposed reform agendas.² Despite a large amount of international, particularly European Union (EU), multilateral and bilateral assistance extended to the seven SEE countries throughout the 1990s, this region has remained one of major political and economic instability, characterized by recurrent economic crises, reform backsliding, and reversals in macroeconomic stabilization and economic recovery.³ It is only over the past few years that the economic, political and international prospects of SEE seem to be improving, thanks to both internal political developments in two key countries, Croatia and Serbia,⁴ and to the fundamental change in international strategies towards SEE after the NATO bombardments of the Federal Republic of Yugoslavia (FRY) in 1999. Despite such brighter general prospects, however, a new major crisis has in the meantime emerged (Macedonia), while the status of some entities (Kosovo, Montenegro, Serbia) has still not been definitely settled, clearly indicating that even today, the risk of political and economic instability in SEE has not been completely removed.

This strategy report addresses the twin problems of “indigenous weaknesses” and “international inadequacies,” which are at the basis of the current relationship between

¹ All three entities – Serbia, Kosovo and Montenegro - are still formally part of one country, which used to be called, until March 14, 2002, the Federal Republic of Yugoslavia. Since the agreement signed by the representatives of Serbia, Montenegro and the Federation on that date, its name has changed into “Serbia and Montenegro.”

² On these concepts, see: Risk Reporting Strategy Paper.

³ For a good overview of major problems before 1999, see: J. Hoey and L. Kekic, What's Wrong with the Balkans, EIU Economies in Transition Regional Overview (London: Economist Intelligence Unit, 1997).

⁴ On the main factors that facilitated political change in Serbia, see: M. Uvalic, "La Serbia di Kostunica: dall'esclusione all'inclusione" Europa Europe 9.6 (2000).

SEE countries and various international aid and assistance delivery organizations and agencies, by focusing on their most important *economic* implications. Although the two groups of problems are essentially internal and external, they are obviously closely linked and interdependent. A key challenge for all SEE countries today is finding ways of creating sound conditions for self-sustaining economic growth and development, while trying to avoid or reduce excessive dependence on externally provided resources. In the short and medium term, however, a fundamental role will have to be played by western governments, international organizations and institutions, since economic and other forms of assistance will inevitably continue to be of major importance for SEE countries' economic development.

The report is structured as follows: The first section presents some of the key characteristics of the SEE economies that reflect the aforementioned indigenous weaknesses, while the second section identifies some of the main problems regarding international assistance policies and aid delivery processes in SEE. The third section discusses more general issues relevant for the process of preparing SEE countries for EU membership. The final section gives key policy recommendations on measures to improve the impact of international assistance in SEE in the future.

Indigenous Weaknesses of SEE Economies

Specific characteristics of South Eastern Europe set the SEE countries apart from other transition economies. The extreme political instability in the region throughout the 1990s has had a fundamental impact on all seven SEE economies, particularly the successor states of former Yugoslavia. A number of politically determined processes—the disintegration of former Yugoslavia, five armed conflicts involving all parts of former Yugoslavia (chronologically in Slovenia, Croatia, Bosnia and Herzegovina, Kosovo, FRY and Macedonia), costly policies of ethnic cleansing, nationalistic objectives focusing on political rather than economic priorities, international sanctions against FRY throughout most of the period, the Greek embargo against Macedonia, the NATO bombardments of FRY in 1999—have all had very negative implications for most SEE economies, especially those directly involved in these events. These processes ran parallel with the SEE countries' attempts to implement, at varying speeds, the transition toward market economies and multiparty democracies, which have also had, as elsewhere in Central and Eastern Europe, a number of negative economic consequences, including a substantial fall in output, high inflation, higher unemployment, social disparities and poverty.

Within such a general context of recent developments in SEE, two groups of interrelated problems are of particular interest for the present Strategy Report:

- Internal constraints on economic growth and development; and
- Aid dependency or even “aid addiction,” the risk that continuous reliance on external finance leads to excessive dependence on international financial assistance.

Internal constraints on economic development derive from some of the present characteristics of SEE economies. Macroeconomic instability, a characteristic feature of all SEE economies in the first half of the 1990s, may no longer be a major constraint for most countries' economic growth. However, average annual inflation remained a double-

digit figure in 2001 in the Republika Srpska (11%), Romania (34%), and especially Serbia (94%), in the last case mainly because of short-term effects of current price liberalization measures (Annex, Table A). Although medium-term growth prospects are fairly good,⁵ economic recovery after the deep recession of the early 1990s has not been sufficient to compensate for the earlier, very deep fall in output. Thus none of the SEE economies have reached the 1989 level of GDP achieved, except Albania, which has had exceptionally high growth rates throughout most of the 1990s (Annex, Table B).

As a consequence, most SEE countries are today poorer than at the beginning of the transition, although there is substantial heterogeneity within the region. In 2000, the richest country was Croatia, with a GDP per capita (at Purchasing Power Parity or PPP) of more than 6800 Euro, while the poorest was Albania, with a GDP per capita (at PPP) of only 2500 Euro, which corresponds to only 10 to 30 percent of the EU average (Annex, Table C). The level of development is also reflected in the structure of SEE economies, although the situation is differentiated across countries. Agriculture contributes a dominant proportion of output only in Albania (more than half of GDP), while all the other SEE countries are much more industrialized (Annex, Table C). During the 1990s, a process of deindustrialization has actually been taking place. As a result of closing down factories and industrial restructuring, part of the labor force has been returning to agricultural activities.⁶

The social costs of the transition have also been very high. By 2000, SEE unemployment rates were much higher than elsewhere in transition countries – especially in Macedonia (45%), Bosnia and Herzegovina (almost 40%) and Yugoslavia (27%), although other SEE countries are also not much better off (Annex, Table C). In addition, all countries have been seriously affected by the brain drain phenomenon, as the most qualified labor left its homelands to look for better-paid work elsewhere. An accompanying phenomenon is the large portion of activities concentrated in the informal (gray) economy. According to some recent estimates of the size of the informal economy in transition economies, it is generally larger in SEE than in CEE countries, ranging from 32 percent in Croatia to 45 percent in Albania and Macedonia, but smaller than in CIS countries.⁷ In all SEE countries, low purchasing power stimulates smuggling, illegal trade and the development of underground activities.⁸

The external sector of SEE countries is also characterized by high fragility, suggesting that export-led growth may not be easily attainable. Foreign trade is highly unbalanced, with the value of imports in several SEE countries being two, three, even four times the

⁵ For an overview of different forecasts, see: Transition Report 2001 (London: European Bank for Reconstruction and Development, 2001) 69.

⁶ See: Albania Country Report.

⁷ F. Schneider, "The size and development of the informal economy in Eastern Europe" World Bank - Bertelsmann Foundation Conference on the Informal Economy in the EU Accession Countries, April 18-19, 2002 (Sofia: 2002).

⁸ V. Gligorov, "Trade and Investment in the Balkans" On the Way to Normality - The States on the Territory of Former Yugoslavia in the Postwar Period, eds. V. Gligorov and H. Vidovic, WIIW Paper 250 (Vienna: WIIW, 1998).

value of exports (Annex, Table D). The highest coverage of imports by exports is achieved by Macedonia (70%), Bulgaria (75%), and Romania (80%), while all the other countries are in a far worse situation, especially Albania (23%) and Bosnia-Herzegovina (36%). The current account deficit in 2001 was still higher than the dangerous threshold of 7 percent of GDP in several countries: Albania, Bosnia-Herzegovina, Macedonia and Yugoslavia (Annex, Table D). The imbalances have to be covered by capital inflows from abroad (debt financing, foreign aid, or FDI). As long as trade deficits can be financed by capital inflows, the likely impact on growth may be positive, but this critically depends on significant inflows of private capital through increased levels of FDI.⁹ This has not been the case in several SEE countries (see below), which have had to rely primarily on large inflows of foreign aid. In Bosnia and Herzegovina, capital inflows in 1999 amounted to as much as 31 percent of GDP, although they sharply decreased afterward (Annex, Table D).

Other major constraints on economic development in SEE are very low savings and investment rates, generally lower than in leading CEE countries (Annex, Table E). Low savings rates are the outcome of several interrelated factors, including low levels of income, falling living standards, underdeveloped capital and financial markets, various pyramid schemes (in Albania, Bulgaria, Macedonia, Serbia), delays in banking reforms, lack of confidence in official financial institutions, continued practices of savings held under mattresses, and high levels of corruption and criminality. In the four SEE countries for which data are available, savings rates in 1999 ranged from 14 to 17 percent of GDP. Given that most SEE countries have attracted limited foreign savings for investment purposes, investment rates in SEE countries have also been rather low, in recent years usually not surpassing 20 percent of GDP, thus substantially lower than in leading transition economies such as the Czech Republic, Hungary, or Poland. These CEE countries have in recent years experienced an investment boom (in 1999, they had an investment rate of more than 28 percent), often led by FDI.¹⁰

Such a boom is precisely what has not yet been happening in most SEE countries. The region has attracted very limited amounts of FDI so far, and this is another major impediment to faster economic growth in SEE. Since restructuring during the transition requires large amounts of resources that are not all available domestically, the difference has to be attracted from abroad. Private capital flows into the SEE region have been extremely low in comparison with CEE countries in transition (Annex, Table F), because of high political risk, major interest of foreign partners in other transition economies, and the smallness of the SEE markets, with Romania being the only possible exception. The cumulative net inflows of FDI into six SEE countries (excluding Bosnia and Herzegovina, for which data are not available) over the whole 1989-96 period, have amounted to only 2.8 billion USD, corresponding to 6.6 percent of total inflows into all 27 transition economies, or 9.1 percent of FDI into the 15 CEE and SEE countries. The

⁹ W. Bartlett, "The EU-Croatia Stabilisation and Association Agreement - a Stepping Stone to Membership or Semi-Permanent Satelisation?" *7th bi-annual conference of the European Association for Comparative Economic Studies (EACES)* (Forli: 2002).

¹⁰ *Economic Survey of Europe*, (Geneva: United Nations Economic Commission for Europe, 2001), 171.

situation has generally improved over the last five years, at least in absolute terms; since 1997, the annual FDI inflow into SEE has been at the level of around 3 billion USD, more than in the entire period 1989-96. However, the SEE share of total FDI in transition economies over the last few years has been declining, and new investments have concentrated mainly in Romania, Bulgaria and Croatia (Annex, Table F). The cumulative total invested into the seven SEE countries over the whole period 1989-2000 has amounted to 16.6 billion USD, which is barely 13.2 percent of total FDI net inflows into 27 transition economies, or 17.5 percent of total FDI into 15 CEE and SEE countries. Moreover, FDI has been concentrated in only a few SEE countries: during the whole 1989-2000 period: 60 percent of cumulative FDI in the SEE-5 has gone to Croatia, whereas 65 percent of FDI in the SEE-7, to Bulgaria and Romania.

More rapid economic growth in SEE is also hampered by delays in implementing some major economic reforms required by the transition to a market economy. The indicators on progress in transition from the European Bank for Reconstruction and Development (EBRD) suggest that there are no large differences between CEE and SEE on some reform measures that were generally easier to implement, including small-scale privatization, price liberalization, or reforms of the trade and foreign exchange systems (Annex, Table G). However, there are other fields such as competition policies, enterprise governance and restructuring, or development of securities markets and non-bank institutions, where far-reaching reforms in most SEE countries have indeed been substantially delayed. Even though in most countries the private sector share of GDP had, by mid-2001, exceeded 60 percent, privatization has left many problems unresolved, and poor corporate governance has substantially delayed microeconomic restructuring. It should also be borne in mind that the EBRD indicators cover the major reform areas, but do not reveal other economic problems a country may be facing that potentially could represent a serious threat to economic performance, especially in the medium term (e.g. various structural problems).

Most of the constraints on growth and development in SEE discussed above cannot be overcome quickly, but will have to be gradually removed through further institutional and other economic reforms, in line with the main objectives of the transition to a market economy. The short-term measures undertaken so far—macroeconomic stabilization, price and foreign trade liberalization—are certainly very important, but are not sufficient to pull the SEE region out of underdevelopment. The highly unsatisfactory situation in Bosnia and Herzegovina, where the currency board arrangement has provided nothing beyond monetary stability, clearly warns against simplistic solutions.¹¹ For the SEE region to receive the necessary “big push,” which could eventually lead to achieving self-sustaining economic growth, foreign resources will continue to be of fundamental importance, at least in the medium term.

Substantial amounts of international financial resources were directed toward SEE during the 1990s. In several countries, however, international finance has led to the problem of aid dependency. A vicious circle is at the basis of the aid dependency problem in SEE. Low levels of development impose the necessity of relying on external sources of

¹¹ Z. Papic, ed., International Support Policies to South-East European Countries, Lessons (Not) Learned in Bosnia-Herzegovina (Sarajevo: Muller, 2001).

finance to supplement domestic resources, in the case of SEE mainly donations and loans more than FDI. The largest part of foreign resources has not, however, been used for productive investment but rather for other purposes such as emergency programs, humanitarian assistance or food aid, and thus has not helped much to create the conditions for attaining self-sustaining growth. In several countries in the SEE region this has led to the problem of “aid addiction”: the risk of these economies virtually collapsing if aid were withdrawn.¹² Under such circumstances, SEE countries face additional difficulties in their attempts to achieve self-sustaining growth, as they continue to depend on uninterrupted inflows of foreign resources from abroad.

The phenomenon of “aid addiction,” transfers of large amounts of international resources without the creation of sound conditions for more permanent economic recovery and self-sustainable growth, is today an acute problem primarily in Bosnia-Herzegovina and recently also in Kosovo. It could also easily become a serious problem in Montenegro, Macedonia and Serbia. One of the most urgent tasks is therefore to stop, prevent, or reverse such trends by changing the focus and nature of foreign assistance programs.

Dependency on the West and western “interference” probably represents a greater problem in economics than in the other two areas covered by the present project, security and governance.¹³ This is because of the specific nature of economic dependence on the West. Models of fast economic growth cannot successfully be copied, nor can conditions for high savings and investment be created overnight. If domestic resources are scarce, there are no alternatives, at least in the short and medium term, to relying on western “interference”: foreign resources provided from the outside, whether public capital made available through official international assistance programs (both grants and loans), or private capital (commercial loans and FDI).

Inadequacies of International Assistance Policies in SEE

For the right formulation of policy prescriptions regarding international assistance to SEE in the near future, it is important to briefly recall the main features of the pre-1999 policies of the EU and the wider international community. Following the break-up of Yugoslavia in 1991, EU intervention and assistance policies in most of SEE have mainly been shaped in response to emerging crises, most frequently on a purely *ad hoc* basis. In the early 1990s, the EU did not develop a long-term, comprehensive and general approach towards the whole SEE region. In the light of the unanticipated events of the early 1990s and the first armed conflicts in the region, the EU was initially rather cautious towards most successor states of former Yugoslavia, while being much more generous towards the other three SEE countries.¹⁴ Although former Yugoslavia was also

¹² On the problem of aid-addiction, see the excellent article: L. Kekic, "Aid to the Balkans: the Addicts and the Pushers" Journal of Southeast Europe and Black Sea Studies 1.1 (2001).

¹³ See: Governance and Security Strategy Reports.

¹⁴ M. Uvalic, "European Economic Integration - What Role for the Balkans?" The Balkans and the Challenge of Economic Integration - Regional and European Perspectives, eds. St. Bianchini and M. Uvalic (Ravenna: Longo Editore, 1997).

included into the Phare program in 1991, this lasted very briefly; the break-up of the country in mid-1991 was not followed by the automatic extension of the program to its successor states. Whereas Albania, Bulgaria and Romania were among the CEE countries to which the EU almost immediately offered financial assistance (through Phare), contractual relations and preferential trade access through Trade and Economic Cooperation Agreements (TECAs) or Association Agreements (AAs),¹⁵ all the other SEE countries from former Yugoslavia were long excluded from EU programs supporting transition. In most if not all cases, this was done for very obvious and understandable political reasons; yet if economic and other reforms have been slower in some SEE countries than in others, this is also due, at least in part, to very limited EU support of the transition, especially in the initial period.

It was only in 1996, after the end of the war in Bosnia-Herzegovina and the conclusion of the Dayton Peace Agreement, that the EU launched its Regional Approach, directed towards five of the SEE-7 countries (the western Balkans, or SEE-5). The Regional Approach, however, lacked substance and concrete measures of support. Even more importantly, the internal conditions were not there for its fruitful implementation because there was no willingness, on the part of the two key countries—Croatia and Yugoslavia—to apply regional cooperation. Soon afterward, the EU created the Obnova program of financial assistance for war-affected SEE states, but the amount of resources secured was fairly limited. If we consider Croatia and FRY, the two countries for which Obnova was the principal form of EU financial aid (as they were never included in Phare), over the 1996-99 period they received through Obnova a little more than 218 million Euro, of which the largest part (140 million Euro, or 64 percent of the total) went to Kosovo in 1998-99.¹⁶ In 1996, the EU included Bosnia and Herzegovina and Macedonia into the Phare program, but not Croatia and FRY.

Similarly, trade concessions were offered to countries from former Yugoslavia only after 1996. Macedonia was the only country among the successor states of former Yugoslavia within the SEE group that was able to conclude a Trade and Economic Cooperation Agreement with the EU (in 1996, entered into force in 1998). The other three countries were only offered autonomous trade preferences (also in 1996), which are far less limited in scope than Trade and Economic Cooperation Agreements, and which were again suspended in 1998 for the FRY.

With this background, the international community decided in the immediate aftermath of the March-June 1999 military conflict in Kosovo/FRY to elaborate a new, more comprehensive, and long-term strategy for SEE.¹⁷ This led to the adoption of the Stability Pact for South Eastern Europe in Cologne, Germany, on 10 June 1999, which

¹⁵ See: D.M. Nuti, "European Community Response to the Transition: Aid, Trade Access, Enlargement" *Economics of Transition* 4.2 (1996).

¹⁶ Through the Obnova program, Croatia received 46,08 million Euro (1996-99), while Serbia and Montenegro 31,90 million Euro and Kosovo 140,16 million Euro (1998-99); based on Attachment 4 in: *Regional Strategy Paper 2002-2006: CARDS Assistance Program to the Western Balkans*, (Brussels: European Commission, 2002).

¹⁷ The new strategy for SEE is presented in detail in: *The Road to Stability and Prosperity in South Eastern Europe: A Regional Strategy Paper* (Washington DC: World Bank, 2000).

was to help the reconstruction efforts of the SEE-7 countries affected by the 1999 military conflict (the SEE-5 plus Bulgaria and Romania). The main partners, in addition to the beneficiaries and the neighboring states, include the European Commission, the OSCE, NATO, all major international financial organizations, the EU member states, the United States, Japan, Russia, Canada and a few other countries. Its main mechanism is the Regional Table that coordinates the three Working Tables (I for Democratization and Human Rights, II for Economic Reconstruction, Development and Cooperation, and III for Security). Under the framework of the Stability Pact, several major international conferences have been organized, to determine priority projects, verify the availability of finance, and collect offers from international donors. At the first Regional Conference, held in March 2000 in Brussels, 2.4 billion Euro were raised to fund 244 projects in the Quick Start Package (QSP). At the Regional Conference held in October 2001 in Bucharest, another 3 billion Euro were committed, mainly for infrastructure (2.4 billion Euro) and refugee issues (0.5 billion Euro). These two conferences secured total funding for projects worth 5.4 billion Euro.¹⁸

In line with the above initiative, in mid-1999 the EU launched a new approach for the SEE-5, as a follow up to its 1996 Regional Approach. The Stabilization and Association process (SAP) was devised exclusively for the five non-candidate SEE countries. The SAP proposes a new type of contractual relationship between the EU and the SEE countries—Stabilization and Association Agreements (SAA)—through which, for the first time in the past decade, these five countries have also been offered prospects for future EU membership. On 7 June 2000, the Commission also proposed an extension of the existing autonomous trade preferences for the western Balkans. It also removed these countries from the General System of Preferences, having decided to consolidate trade preferences for the SEE-5 in a single new regulation, to make the trade regime with these countries more transparent. (These measures included abolishing remaining tariff ceilings for certain industrial products from Albania, Bosnia and Herzegovina, and Croatia, as well as improving access for agricultural and fishery products from these three countries; extending these preferences to Kosovo; and granting tariff quotas to Montenegro for its aluminum products.) The proposed trade concessions are subject to the commitment of the SEE countries to engage in both effective economic reform and regional cooperation. These autonomous trade preferences were extended also to FRY starting from 1 November 2000, after political changes brought an end to the Milosevic regime.

To support this new approach toward the SEE-5 and within the SAP, a new EU program of financial assistance for the five SEE countries has been devised, initially called the Community Association and Reconstruction Assistance (CARA) program. The program's name was soon changed to Community Assistance to Reconstruction, Development and Stabilization (CARDS), and it has replaced the Phare and Obnova programs. Through the CARDS program, around 4.65 billion Euro will be provided to

¹⁸ See documents at the web site of the Stability Pact: <http://www.stabilitypact.org>.

assist reconstruction and development in SEE over the 2000-06 period.¹⁹ To increase efficiency in aid delivery, the EU has also established the European Reconstruction Agency, which is in charge of managing the implementation of economic reconstruction in SEE and was officially inaugurated in Thessaloniki, Greece, in March 2000. Offices were later set up in several major cities in the SEE region.

These initiatives clearly demonstrate a turnaround in overall policies of the international community, and of the EU in particular, towards the SEE region, which ought to prove beneficial for SEE countries in various ways. The initiatives should facilitate the inflow of western financial resources, through donors' reconstruction and assistance programs and possibly also significant FDI. They should also ensure greater access of SEE products to EU markets through asymmetric trade liberalization and the new SAAs (so far concluded with Macedonia, in April 2001, and with Croatia, in October 2001). They should further serve as an anchor for speeding up the transition with ongoing economic, political and legal reforms. Taken together, these measures should therefore also lead to closer integration of SEE countries with the rest of Europe, preparing the grounds for their future EU membership.

To obtain the best possible results from all current international initiatives supporting SEE countries, it is important to improve the effectiveness of foreign assistance programs. If we consider the total amount of funds that has been directed towards the SEE-5 (including EU, bilateral assistance, and EBRD funds), we see that the amount has been quite substantial: more than 8.2 billion Euro over the period 1991-1999 (Annex, Table H). However, the largest share of EC-EU resources has been in humanitarian aid provided under the ECHO program (almost half of total EU funds), which stands in contrast with the minimal amount provided by the European Investment Bank (EIB), which until 2001 extended to only one country, Albania. Because most of these countries are today poorer than they were in 1989, it is clear that these funds have primarily gone into consumption and not investment. Until recently, Western assistance has helped these countries merely to survive, rather than develop and prosper. To enable the transformation of SEE into an economically prosperous region, it is therefore extremely important that the CARDS resources are utilized to contribute much more to the growth and development of all SEE countries.

In the near future, finding ways to increase the efficiency of international assistance to SEE will be of paramount importance, and this will not be an easy task. A large empirical literature suggests that aid and assistance programs can be problematic instruments of policy.²⁰ While such programs may, on the one hand, fill resource gaps and stimulate growth, on the other hand they may perversely remove the urgency for domestic policy-makers to introduce economic reforms and may block indigenous

¹⁹ See: Council Regulation (EC) No. 2666/2000 of 5 December 2000 on Assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia, (Brussels: European Communities, 05.12.2000).

²⁰ For an excellent overview of the main issues debated regarding international aid policies, see: V. Bojicic-Dzelilovic, "International Aid Policies - a Review of the Main Issues" International Support Policies to South East European Countries - Lessons (Not) Learned in Bosnia-Herzegovina, ed. Z. Papic (Sarajevo: Muller, 2001).

processes of economic reconstruction and modernization. Although the empirical literature has yielded inconclusive general results of foreign aid's impact on growth, it does suggest that in the absence of supportive domestic policies and institutions, the impact of aid will probably be weak. Aid disbursements can be appropriated by local elites, whose aims and objectives differ from their intended purpose, and little "additionality" is achieved.²¹ Even where aims and objectives are aligned, aid may reduce the pressure on governments to adopt difficult economic reform policies and distort the recipient governments' commitment to poverty alleviation.²² It has even been suggested that aid can also make matters worse by inducing the recipient government to slow down reform and adopt positively harmful economic policies.²³ Appropriate conditionality may be one mechanism to alleviate these dangers, but conditionality also has its negative aspects. These findings have obvious and direct relevance for SEE. Moreover, large amounts of international assistance can easily lead to aid dependency or even aid addiction, as has been the case in several countries in SEE. International intervention in SEE has also led to reform agendas imposed completely from the outside, by international financial organizations or major donors, rather than independently developed by national authorities.

It is clear that not all SEE countries are equally affected by the inadequacy of international interference and assistance policies. Protectorates such as Kosovo, or semi-protectorates such as Bosnia and Herzegovina or Macedonia, have been most affected, but several other SEE countries also currently face the risk of being put in a similar situation, both regarding aid dependence and externally imposed reform agendas (e.g. Montenegro or Serbia). The recent agreement between Serbia and Montenegro, concluded on 14 March 2002 primarily thanks to EU mediation, is a clear example of such interference.²⁴ Although there are positive elements in the agreement, primarily that it represents the first step towards a more permanent definition of Serb-Montenegrin relations, many internal commentators, for various reasons, have evaluated it rather negatively. Many observers in Serbia consider the agreement more beneficial for Montenegro. Others have criticized the agreement because it simply postpones the definite settling of the issue of Montenegrin independence

To formulate recommendations on how to improve the effectiveness of future international assistance in SEE, it is necessary to identify some of the main causes of deficiencies of existing foreign assistance programs and policies, on the part of both the donors (western governments, organizations and institutions) and the recipients (the

²¹ See: Ch. Benson and E.J. Clay, "Additionality or Diversion? Food Aid to Eastern Europe and the Former Soviet Republics and the Implications for Developing Countries" *World Development* 26.1 (1998).

²² J. Svensson, "When is Foreign Aid Credible? Aid Dependence and Conditionality" *Journal of Development Economics* 61.1 (2000).

²³ H.M. () Schwalbenberg, "", , 20(5): 669-675., "Does Foreign Aid Cause the Adoption of Harmful Economic Policies?" *Journal of Policy Modelling* 20.5 (1998).

²⁴ See: Montenegro Country Report.

SEE countries). On the donors' side, several areas of interrelated problems have caused inefficiencies in delivering international assistance to SEE.

- ***Lack of coordination among donors.*** Since the launching of the Stability Pact, the agents of international assistance in SEE have proliferated, and there is generally insufficient coordination among donors as well as among their respective programs. The agents include not only the main international organizations—in addition to the EU, the EIB, the EBRD, the International Monetary Fund (IMF) and the World Bank (WB), to mention just the most important ones—but also practically all western governments involved through their representative aid delivery ministries (usually for development or for international cooperation), and a number of NGOs that have been active in initiating civil society and other projects in all possible fields. The main axis of assistance to SEE within the Stability Pact framework is the Brussels EU-WB office, which is officially in charge of reconstruction assistance and was created to provide a functional link between the most important donors and the SEE aid recipients. However, given the complexity and uncertain nature of donor funding, the office has not been able to always ensure a fully efficient coordination of aid. There has been no harmonization, for example, of NGO projects of assistance to SEE, which often leads to funds being allocated for very similar projects, while certain other projects remain unfunded. When applying for funds earmarked for assistance to SEE, there is *de facto* competition among NGOs within their respective countries, and the best projects are not always chosen.
- ***Overlapping competencies*** between some of the main actors is a related problem. In particular, the initial rather vague division of tasks, spheres of intervention and responsibilities between the EU institutions (the European Commission) and the Stability Pact (the Office of the Special Coordinator), has often resulted in insufficient efficiency in implementing specific objectives, although they were fully in line with agreed wider programs of assistance to SEE.
- ***Diverging interests*** of various donors have also delayed the efficient delivery of assistance. There have been cases of confusing messages resulting from diverging objectives and strategies on the part of the key international players (EU, WB, EBRD). The World Bank has to primarily consider the interests of its main shareholders, and the same holds for other international organizations and institutions. Different objectives of the EU's involvement in the SEE region and of the main international financial institutions also reflect a broader problem of diverging interests between the EU and its member states on the one hand and the USA on the other. Certain financial issues (such as debt repayment) are more important for the Bank than for the EU, while development of regional cooperation is a top priority of the EU, but is of little relevance for an institution such as the World Bank.
- ***Overly rigid approaches*** also characterize the practical implementation of programs. The attitudes of international players are frequently too rigid, shaped by narrowly defined objectives of the organizations they represent. Within the EU, there is a rather strict division of competencies among the various directorates, which does not always facilitate cooperation and harmonization of EU policies applied towards different groups of SEE countries: on the one hand, the two SEE accession countries, and on the other, the five countries of the western Balkans. A related question is that

the EU and the Stability Pact objectives are not always fully aligned because they are directed toward two different groups of beneficiaries (SEE-5 and SEE-7, respectively). At various meetings and conferences, representatives of Bulgaria and Romania have put forward their complaints because they felt unsatisfied with the attitude of the EU representatives, who were considering primarily the priority objectives of the SAP for the SEE-5, and not of the Stability Pact for the larger group of SEE-7.

- ***Slowness in implementing multilateral assistance*** has also proved a problem. Comparing various assistance programs, those of international and regional organizations have sometimes been less effective than bilateral forms of assistance from western governments, because in most cases multilateral assistance requires a longer procedure, and therefore more time, to be approved and implemented. There is, in particular, need to improve the effectiveness of the Stability Pact, which has been criticized for its slowness in assistance delivery, although implementation has recently improved.
- ***Incentive mechanisms*** for donors' efficient delivery of aid are practically non-existent. There are no measures to ensure the effective implementation of projects selected for funding, nor penalties if initial norms and contracted terms are not respected, so that the eventual divergence from the initial concept of a program is often not even detected, and therefore accepted and tolerated.
- ***Growth-enhancing objectives*** have not, until very recently, been the main focus of international assistance programs in SEE. Foreign assistance has so far contributed to a very limited extent to economic development in the SEE-5 (with the exception of Albania through the EIB) because, as already noted, the larger part of EU assistance in SEE has been devoted to humanitarian programs. The important relationship between international aid, economic policies and growth has so far been neglected in policy-making circles, and should therefore be given top priority in future international assistance programs.
- ***Insufficient specification*** of assistance programs is a closely related problem. Sometimes specific objectives of assistance programs are not even known in advance or are not clearly specified. Similarly, it is not always clear to whom these programs are primarily directed and what the envisaged channels of delivery are.
- ***National priorities*** of SEE governments are not always considered in international donors' programs. This is certainly not intentional. In most cases, donors do try to consult the relevant SEE organs in advance, but sometimes due to the pressure of time or lack of information on which institutions to contact, appropriate meetings to formulate the best possible policy cannot be organized. Consequently, it is not rare that assistance programs are not fully in line with national priorities, as they are frequently prepared by western experts, on the basis of *their* perceptions of priority needs in the recipient country, with limited consultations with the receiving institutions. Within the Stability Pact's Quick Start Package, money earmarked for several large projects has initially gone exclusively to western institutions, as they were undertaken by international experts, with little involvement of SEE experts.
- ***Limited amounts of fresh money*** have been a typical feature of many international programs. Technical assistance for the implementation of a project, provided by the

same donors, is usually paid out of the grant donated, and can represent a very large percentage of the overall sum. Similarly, new loans from major international financial institutions have usually been made conditional on paying back debt incurred in the past, so that new loans serve in part, sometimes also substantially, to repay past debts.

On the positive side, the European Commission has recently undertaken important steps to reduce inefficiencies in aid delivery in SEE, not only through the creation of the European Reconstruction Agency, but also through attempts to introduce more longer-term planning regarding the use of funds, particularly within the CARDS program. For the first time in many years, the European Commission has produced a series of detailed documents on the SEE-5. Today we have an Annual Report from the Commission on the SAP, a CARDS Regional Strategy Paper for the 2002-2006 period, separate stabilization and association reports for each SEE-5 country as well as country strategy papers for the use of CARDS resources in each beneficiary country. These measures ought to contribute to improvements in the use of EU resources.

Similarly, on the recipients' side, there are several groups of problems that generally contribute to the low effectiveness of international assistance programs in SEE.

Inadequate domestic institutional networks are one of the main reasons for the limited impact of certain international assistance programs. As it is important that donors funds are subject to specific coordination mechanisms, it is equally important that appropriate institutions exist within SEE countries for organizing, in a coordinated and efficient way, the receipt, allocation, and distribution of international finance. The institutional setting of organizations receiving aid presently varies widely among SEE countries, where various agents are in charge, such as aid coordination units within ministries, consultant companies, specific government agencies and local NGOs. For the moment, there are no mechanisms to prevent local elites from appropriating aid disbursements because of the frequent lack of transparency of foreign aid programs. Countries such as Albania, Bulgaria and Romania, which have had a longer experience with international, including EU, assistance in the 1990s, may have developed better aid-absorption capacities and more established practices in aid allocation than the other SEE countries, which only later became major beneficiaries of EU funding. Better horizontal and vertical harmonization of institutions receiving aid and of their policies should in any case be a top priority.

Monitoring project implementation: Aid delivery has often not been efficient for reasons other than inadequate aid-receiving institutions. There seems to be an *a priori* assumption that the implementation of projects will run smoothly (therefore efficiently) throughout the duration of a given project, without the need to monitor its implementation. Certain projects have, for various reasons, been blocked halfway, or have ended up focusing on objectives very different from those initially announced. Bureaucratic procedures have also slowed down aid delivery: various types of problems occur, such as the need to get official approval of requests for imports of specific items offered through donations, excessively long and complicated customs procedures, problems of double taxation, or other unnecessary obstacles to the smooth delivery of aid. These formal procedures should be simplified as much as possible without reducing the transparency of assistance programs.

Preventive assessment of assistance: Measures should be put in place in SEE countries which would allow, in advance, a thorough examination of proposed assistance programs, in order to minimize the risks of negative effects of interventionist policies. The present lack of this type of strategy is linked not to the inability of SEE recipients to devise and implement such measures, but rather to the simplistic perceptions of aid, the diffuse uncritical approach toward international assistance in SEE. Too frequently, foreign assistance in SEE countries is simply evaluated in terms of financial benefits irrespective of their envisaged final use or their contribution to attaining certain key national objectives.

Preparing SEE for EU Membership

There are many uncertainties regarding future integration processes for SEE countries and their accession to the EU. Accession will depend not only on their eventual readiness for membership, but also on the readiness of the EU to absorb new members. Therefore it is almost impossible to foresee, from today's perspective, the dynamics, path and possible year of entry of individual SEE countries into the EU. Still, it is likely that most countries from the SEE region will not enter the EU before the end of this decade, or even more likely, the beginning of the next. What should be done in the meantime? Given the long-term framework of SEE countries joining the EU, how can we facilitate and speed up their integration with the EU? On the SEE countries' trajectory towards eventual EU membership, are there additional measures that could render their future integration with the EU less burdensome? How should the gap between now and the rather distant perspective of EU membership be bridged?

Considering the role of the international community, we should primarily examine the policies of the EU. What should the EU undertake over the next ten years to help SEE countries to integrate with the rest of Europe?

Conditionality: EU conditionality used in bilateral relations with individual SEE countries is at present probably the most important instrument for implementing certain EU objectives. The criteria SEE countries are expected to fulfil are well known to SEE governments,²⁵ but foreign assistance programs are not always fully in conformity with these criteria, nor do they necessarily respect the interests of the beneficiaries. This is because they are frequently not formulated based on local interests in SEE countries, but based on the interests of the country or organization offering assistance. Obvious examples are the various humanitarian assistance projects. Certain foreign projects in Serbia that have provided for constructing houses for refugees and internally displaced persons have been total failures; many refugees who were allocated new apartments built by foreign construction companies have not remained in them, but have instead sold them because the location or characteristics did not correspond to their needs. In

²⁵ The general conditions include the Copenhagen criteria regarding political, economic, and legal requirements formulated for all transition economies aspiring to join the EU, while for Bosnia and Herzegovina, Croatia and FR Yugoslavia there are two additional criteria: respecting international obligations (Dayton Peace Accords, collaboration with the Hague Tribunal), and implementing regional co-operation in SEE.

this case, a better alternative would have been to enable the construction of houses by the final users according to their own needs and priorities.

It would probably be useful to provide a stronger link between existing EU conditionality criteria and the concrete objectives of assistance programs, because at present many projects financed through the Stability Pact or individual government programs are really “donor-driven.” To make donors’ projects more recipient-driven, greater flexibility on the donor side to take more consideration of recipients’ concrete needs would be highly desirable. One possibility would be to introduce mechanisms to screen external interference within the SAp, linking finance from aid-delivering western agencies to compliance with certain criteria. This measure would also increase the effectiveness of the SAp, although it could have negative side effects if it is interpreted as additional EU interventionism and interference in domestic policies.

Economic development: Given their present low level of development, most SEE countries are likely to face serious difficulties in catching up with the more developed countries, present and incoming members of the EU. To prevent further broadening of the development gap between present and future EU members, new mechanisms will probably need to be devised to help SEE development efforts. Whereas the problem has been explicitly addressed by the EU for countries such as Bulgaria and Romania through the program of measures adopted in Agenda 2000, as well as through funding provided by the EIB, much less has been done for the other SEE-5 countries. Once the present candidates in CEE join the EU, they will be receiving more financial assistance than the SEE countries, which will increase the development gap even further.²⁶

The western Balkan countries are currently receiving almost as much aid as the worst-performing applicants, after the EU has made emergency funds available to stabilise the region. Total aid to the western Balkans in 2000 was 565 million Euro, equivalent to around 22.5 Euro per head for those five countries. By contrast, Bulgaria and Romania received only about 30 Euro per head in 2000 as official applicants. However, unless there is a significant change in EU policy, from 2005 all the Balkans will receive much less aid than the new EU members.

Since after 2005 SEE countries may be receiving less EU assistance, this could lead to widening the development gap if EU policies are not changed in the direction of helping their development efforts.

Conditionality versus development needs: Current accession requirements that are at the basis of EU conditionality are actually quite unsuited to the development needs and objectives of SEE countries:²⁷

The EU accession process is based on the model for previous EU enlargements, rather than being designed specifically to assist and encourage transition economies. As a result, the structure of incentives and constraints that it imposes

²⁶ H. Grabbe, "The Effects of EU Enlargement on the Countries Left Outside" Country Forecast - Economies in Transition - Eastern Europe and the former Soviet Union - Regional Overview (London: Economist Intelligence Unit, 2001) 4.

²⁷ Ibid., 7-8.

on economic and regulatory policies may be inappropriate for countries facing acute development and/or reconstruction problems.

It continues to be assumed that accession and transition require the same policies, which obviously is not the case. Given the long term horizon for EU membership of most SEE countries, it would be more useful to adopt criteria designed specifically to assist development and transition efforts of SEE economies, rather than insisting on criteria which are only likely to become important at a later stage, at the moment of EU accession. It may be preferable that SEE countries devote their scarce resources to reforms and development, rather than to harmonizing their laws with EU legislation.

- ***Incentives for transition:*** The EU may need to offer additional incentives to SEE countries not likely to join the EU soon to avoid the risk of backsliding in the reform process. The present very distant perspectives of membership may prove insufficient as an anchor to keep the momentum of accelerated reforms in the economy and other areas. One measure could consist in offering the SEE countries a clearer, better defined, time path for future enlargements, so that potential EU candidates from SEE could plan their own integration strategies in line with the time horizons of future EU accessions.
- ***Creating a regional economic area:*** In relations between the EU and SEE countries, creating a regional economic zone may be a useful initiative, following the example of the EFTA experience. The creation of the European Economic Area was a transitory solution between non-membership and full membership in the EU, which indeed proved useful for the EFTA countries in their pre-accession period. Similar procedures could be applied to SEE as well long before actual membership, and this would reduce the burden of future adjustments.

On the part of the SEE countries, there are several groups of measures that could be considered useful for speeding up SEE-EU integration.

- ***Creation of regional institutions:*** Over the past three years, many positive results have been achieved in regional cooperation, thanks both to the changed climate in the region after political changes in Serbia and Croatia, and the promotion of regional cooperation through the Stability Pact, the EU's CARDS program, and other international initiatives. By the end of 2002, seven countries in SEE will have concluded bilateral free trade agreements, as envisaged by the Memorandum of Understanding on Trade Liberalization and Facilitation, signed in Brussels in June 2001, thus practically creating a free trade zone for the entire region. Would it be desirable to go in the direction of even greater regional integration through a customs union or other forms of functional integration? These could include regional institutions for resolving specific problems in the areas of banking, payments or specific sectors, as was done in Western Europe after World War II. The main objective of the Marshall Plan was the integration of countries in Western Europe not only with financial assistance but also by stimulating regional linkages through the creation of common institutions, e.g., European Payments Union, or the European Committee for Economic Co-operation, which later led to the creation of the OECD.

- ***Removing obstacles to regional cooperation:*** It is, however, important to remove remaining obstacles to even closer economic cooperation in the SEE region. Despite all the positive results achieved in regional co-operation in SEE over the last few years, there are a number of open problems: borders, visa regimes, return of refugees, property, legal insecurity, system of payments and transport links. The remaining visa regimes and the lack of adequate transport, primarily air transport, still greatly hampers the renewal of cooperation in different fields among countries in the region. The Novi Sad conference in late March 2002, convened under the auspices of various organizations, including the OSCE, to discuss the possibility of mutually abolishing visas among neighboring SEE countries was therefore a welcome initiative.
- ***Resolving internal political problems:*** Regional cooperation will not be sufficient to convince the EU that SEE countries are ready to integrate with EU structures as long as internal disputes continue. It is therefore important to find ways to speed up the resolution of a number of political questions *within* individual countries, which still today may represent a threat to stability in the SEE region. These include southern Serbia, possible re-emergence of conflict in Macedonia, the unresolved status of Kosovo, fuller integration of Bosnia and Herzegovina, and redefinition of relations between Serbia and Montenegro.
- ***Desirability of homemade proposals:*** Although the EU and the wider international community will certainly shape future developments in SEE-EU relations, to a large extent the key responsibility lies primarily with the countries of the SEE region, which must find for themselves the most suitable solutions for the fastest possible integration with the rest of Europe. For SEE countries it would be both advisable and useful to devise regional strategies to develop a more coherent approach towards the EU, in conformity with the need for regional ownership of policies. More initiatives, also on regional cooperation, should come from within the region. The main problem remains the question of how to combine SEE strategies based on regional ownership with the predominance of externally provided donor assistance. However, if the SEE countries were better organized, and more frequently collaborated in jointly preparing projects of common interest and submitting them for funding to foreign donors, they would probably be able to obtain major international assistance more in conformity with their own needs and priorities.

Policy Recommendations

To transform SEE into an economically prosperous region, future international assistance programs must be designed in such a way as to contribute much more to self-sustaining growth. For this purpose, it is important to identify ways in which the potential defects of aid can be reduced and its potential benefits maximized to speed up the processes of recovery, economic transition and integration of SEE countries with the rest of Europe.

Although some concrete proposals on how to improve international strategies towards SEE were made in the previous sections, the following are the most important policy recommendations:

- **Better balance among various forms of aid:** There should be a better balance among humanitarian, reconstruction and development aid, the last of which has so far received far too little attention. This balance requires more attentive and more efficient policies of coordination among the various international organizations, governments and other agencies involved in delivering assistance. The present priorities of the CARDS program ought to be more focused on growth-enhancing objectives, particularly in the countries that are poorest in terms of GDP per capita and other development indicators.
- **Better coordination:** Today there is frequent competition among international donors, rather than systematic coordination. There is a need for more coordination among donors, particularly in the initial phase of project formulation to prevent the simultaneous implementation of very similar projects, while funding is not provided for other valid projects.
- **Better monitoring:** Today there is no guarantee that international projects will be implemented according to certain norms set in advance. This is because at present there are no penalties whatsoever if certain agreed upon procedures are not respected. Monitoring the implementation phase of international projects is therefore required, which would ensure greater transparency in the use of funds. This could be accompanied by concrete incentives and penalties linked to realizing the final aims of a given project.
- **West-SEE partnerships:** More collaboration in assistance programs must be secured between foreign partners and domestic institutions. In preparing internationally funded projects for SEE, mixed teams—partnerships between western and SEE institutions—would be highly desirable, as this would ensure higher quality projects, benefiting from the complementary expertise. Some resources should be planned for the SEE institutions to be able to engage young western experts, who are familiar with EU standards and methodologies, in the preparatory phase of projects. Similarly, engaging only very costly high-level experts, which is presently more often the case, should be avoided.
- **International norms:** Certain general principles and norms on assistance and aid programs in SEE could be formulated at the international level, perhaps within the EU. These principles would cover development aid (a percentage of the funds of certain project types would have to go for development purposes), the minimum involvement of local experts (a minimum percentage of personnel fixed in advance), or standard fees for foreign and local experts, to prevent the present practice of their extreme variability on a purely *ad hoc* basis.

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Selected publications: *Investment and Property Rights in Yugoslavia* (Cambridge: Cambridge University Press, 1992); *The Pepper Report* (Brussels: European Communities, 1992); *Privatisation Surprises in Transition Economies* (Cheltenham: Edward Elgar, 1997, reprinted 1999); *Advances in the Economic Analysis of Participatory and Labor Managed Firms, Volume 6* (1998), *Transition in Central European Initiative Countries - Lessons learned* (Ravenna: Longo Editore, 2002)

Annex 1. Country and Regional Data

Table A. Inflation in SEE Countries, 1989-2001 (change in annual average retail/consumer price level, in percent) ¹

	1989	1990	1991	1992	1993	1994	1995
Albania	0.0	0.0	35.5	226.0	85.0	22.6	7.8
Bulgaria	6.4	26.3	333.5	82.0	73.0	96.3	62.0
Bosnia & H.	1,268	588	144				
<i>Federation</i>				73,1	44,069	780	-4.4
<i>Rep. Srpska</i>				7,461	2,233	1,061.0	12.9
Croatia	N.A.	609.5	123.0	665.5	1,517.5	97.6	2.0
Macedonia	1,246	608.4	114.9	1,664.4	338.4	126.5	16.4
Romania	1.1	5.1	170.2	210.4	256.1	136.7	32.3
Yugoslavia	1,269.0	593.0	121.0	9,237.0	116 bn	3.3	78.6
Mean in 27 transition countries	316.4	219.2	120.7	1,080.3	1,074.5	1,262.2	176.3
	1996	1997	1998	1999	2000	2001	
Albania	12.7	33.2	20.6	0.4	0.1	3.5	
Bulgaria	123.0	1,082	22.2	0.7	9.9	8.0	
Bosnia & H.							
<i>Federation</i>	-24.5	14.0	5.1	-0.3	1.9	3.3	
<i>Rep. Srpska</i>	16.9	-7.3	2.0	14.0	14.7	11.0	
Croatia	3.5	3.6	5.7	4.2	6.2	5.7	
Macedonia	2.5	1.5	0.6	-1.3	9.2	6.2	
Romania	38.8	154.8	59.1	45.8	45.7	34.2	
Yugoslavia	94.3	21.3	29.5	37.1	60.4	93.6	
Mean in 27 transition countries	85.6	68.7	16.7	27.2	20.6	15.6	

¹ Transition Report 2001 (London: European Bank for Reconstruction and Development, 2001) 61, 125.

Table B. Growth in Real GDP in SEE Countries, 1989-2001²

	1989	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	GDP level in 2000 (1989=100)
Albania		9.8	-10.0	-28.0	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0	7.3	7.8	7.0	103
Bosnia & H.		N.A.	-23.2	-12.1	-30.0	-40.0	-40.0	20.8	86.0	37.0	10.0	10.0	5.0	5.0	N.A. (40)
Bulgaria		0.5	-9.1	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-6.9	3.5	2.4	5.8	4.0	71
Croatia		-1.6	-7.1	-21.1	-11.7	-8.0	5.9	6.8	6.0	6.5	2.5	-0.4	3.7	3.8	80
Macedonia		0.9	-9.9	-7.0	-8.0	-9.1	-1.8	-1.2	1.2	1.4	2.9	2.7	5.1	-4.0	77
Romania		-5.8	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6	4.0	77
Yugoslavia		1.3	-7.9	-11.6	-27.9	-30.8	2.5	6.1	7.8	10.1	1.9	-15.7	5.0	5.0	47
Average in 27 transition countries		0.3	-5.0	-7.9	-9.1	-5.1	-6.1	-0.4	-0.1	2.2	-1.1	3.0	5.5	4.3	72

² Ibid. 59.

Table C. Some Indicators for SEE Economies in the 1990s³

	Year recovery began	Reversal in trend after recovery?	Registered unemployment (% of labor force) 2000	Sectoral structure of GDP, 1999			GDP per head at PPP, 2000	
				Agriculture	Industry	Services	USD	% of EU average
Albania	1993	Yes (1997)	16.9	52.6	25.4	22.0	2,503	10.7
Bosnia & H.	1995	No	39.4	10.0	29.4	60.6	3,017	12.9
Bulgaria	1994	Yes (1996)	17.9	17.3	26.8	55.9	5,105	21.8
Croatia	1994	Yes (1999)	22.6	9.2	31.6	59.2	6,881	29.4
Macedonia	1996	Yes (2001)	44.9	11.0	31.1	57.8	3,227	13.8
Romania	1993	Yes (1997)	10.5	15.5	36.2	48.3	4,332	18.5
Yugoslavia	1994	Yes (1999)	26.6	18.1	38.9	43.0	2,901	12.4

The data on unemployment rates in Bosnia and Herzegovina exclude the Republika Srpska, and in FR Yugoslavia exclude Kosovo and Metohia. Data on sectoral activity in Macedonia refers to 1998 instead of 1999.

³ L. Kekic, "Assessing and Measuring Progress in the Transition" Country Forecast - Economies in Transition - Eastern Europe and the Former Soviet Union - Regional Overview 2nd Q. 1996 (London: Economist Intelligence Unit, 1996).; Economic Survey of Europe, (Geneva: United Nations Economic Commission for Europe, 2001), 106, 34.; Transition Report 2001 (London: European Bank for Reconstruction and Development, 2001).; Grabbe, "The Effects of EU Enlargement" ..

Table D. External Balances of SEE Countries, 1999-2001⁴

	Foreign trade in 2001 (proj.)			Current Account Balance (% of GDP)			Net capital inflows (% of GDP)	
	exports (bn USD)	imports (bn USD)	coverage of imports by exports %	1999	2000	2001	1999	2000
Albania	0.28	1.19	23	-7.2	-6.9	-7.5	7.3	6.6
Bosnia & H.	0.88	2.48	36	-21.4	-21.2	-20.4	31.2	18.3
Bulgaria	5.10	6.80	75	-5.3	-5.8	-5.8	9.5	8.9
Croatia	4.80	8.16	59	-6.9	-2.1	-4.1	9.7	6.5
Macedonia	1.40	2.00	70	-4.0	-8.4	-13.7	8.0	10.2
Romania	11.56	14.45	80	-3.8	-3.8	-5.8	4.3	6.3
Yugoslavia	2.06	4.51	46	-7.5	-8.3	-9.6	8.2	6.2

⁴ Based on Transition Report 2001 (London: European Bank for Reconstruction and Development, 2001) 65. and the country assessments tables in Economic Survey of Europe, (Geneva: United Nations Economic Commission for Europe, 2001), 156.

Table E. Savings/Investment Balances in Selected SEE Countries, 1994-1999 (in percent of GDP)⁵

	1994	1995	1996	1997	1998	1999
Bulgaria						
Gross domestic investment	9.4	15.7	8.4	11.4	16.9	19.0
Gross domestic savings	9.1	14.6	7.8	15.0	16.4	13.7
Foreign savings	0.3	1.1	0.6	-3.6	0.5	5.4
Croatia						
Gross domestic investment	17.4	17.6	21.9	28.2	23.2	23.2
Gross domestic savings	23.0	9.9	16.2	16.6	16.0	15.9
Foreign savings	-5.7	7.7	5.8	11.5	7.1	7.3
Macedonia						
Gross domestic investment	15.5	20.8	20.1	22.4	23.0	21.0
Gross domestic savings	10.8	15.8	13.6	14.9	14.2	17.0
Foreign savings	4.7	5.0	6.5	7.5	8.8	4.0
Romania						
Gross domestic investment	24.8	24.3	25.9	20.6	21.4	19.9
Gross domestic savings	23.4	19.3	18.6	14.6	14.3	16.1
Foreign savings	1.4	5.0	7.3	6.1	7.2	3.8

⁵ Based on Ibid., 173.

Table F. Net Inflow of FDI in SEE, 1989-2001 (million USD)⁶

	Cumulative FDI net inflow 1989-96	Annual FDI net inflow Estimate/Projection					Cumulative FDI inflow 1989-2000	Cumulative FDI inflow per capita 1989-2000
		1997	1998	1999	2000	2001		
Albania	295	42	45	51	141	207	595	174
Bosnia & H.	N.A.	0	100	90	150	164	340	79
Bulgaria	450	503	537	836	1,000	500	3,286	404
Croatia	564	347	835	1,445	827	470	4,274	938
Macedonia	38	18	175	27	169	350	437	219
Romania	1,434	1,267	2,079	1,025	1,009	900	6,732	301
FR Yugoslavia	0	740	113	112	25	200	990	116
Total FDI in 7 SEE	2,781	2,917	3,884	3,586	3,321	2,791	16,654	N.A.
FDI in 27 transition Countries (mn USD)	42,002	18,484	22,122	24,051	23,831	25,382	126,229	498
SEE-7 share in total (%)	6.6	15.8	17.6	14.9	13.9	11.0	13.2	N.A.
FDI in 15 transition Countries (mn USD)	30,708	10,370	16,417	19,763	21,529	19,590	95,402	N.A.
SEE-7 share in total (%)	9.1	28.1	23.7	18.1	15.4	14.2	17.5	N.A.

⁶ Transition Report 2001 (London: European Bank for Reconstruction and Development, 2001) 68. and own calculations reported in M. Uvalic, "Regional Cooperation in South-Eastern Europe" Journal of Southeast and Black Sea Studies 1.1 (2001)..

Table G. Progress in Transition in SEE, Mid-2001⁷

	Private sector share of GDP (%)	Large-scale privatization	Small-scale privatization	Governance and enterprise restructuring	Price liberalization	Trade and foreign exchange system	Competition policy	Banking reform and interest rate liberalization	Securities markets and non-bank financial institutions
Albania	75	2+	4	2	3	4+	2-	2+	2-
Bosnia & H.	40	2+	3-	2-	3	3	1	2+	1
Bulgaria	70	4-	4-	2+	3	4+	2+	3	2
Croatia	60	3	4+	3-	3	4+	2+	3+	2+
Macedonia	60	3	4	2+	3	4	2	3	2-
Romania	65	3+	4-	2	3+	4	2+	3-	2
Yugoslavia	40	1	3	1	3	3	1	1	1

Scale of 1 to 4+ with 4+ representing standards and performance typical of advanced industrial economies

⁷ Transition Report 2001 (London: European Bank for Reconstruction and Development, 2001) 12-14.

**Table H. European Assistance to the Five SEE Countries, 1991-1999
(commitments, million Euro) ⁸**

	Albania	Bosnia & H.	Croatia	FR Yugoslavia	Macedonia	Total
PHARE	616.4	754.5	49.6	41.7	236.7	1,708.6
Humanitarian Aid	41.2	1,032.1	290.8	262.8	45.7	1,908.7
Food Aid	16.5	-	-	-	-	16.5
Balance of Payment	20.0	60.0	-	-	40.0	120.0
EIB	46.0	-	-	-	-	46.0
Other	122.8	221.2	9.3	17.5	2	385.1
Total EC-EU	862.9	2,067.8	349.7	322	324.4	4,184.9
EU Bilateral *	712.8	507.9	1,165.9	712.4	178.2	3,277.2
Grand Total	1,575.7	2,575.7	1,515.6	1,034.4	502.4	7,462.1
EBRD	68.0	70.0	511.0	0.0	143.0	792.0

* EU bilateral aid includes only the period 1990-97

⁸ W. Bartlett, From the "Humanitarian" War to a Humanitarian Peace? Approaches to Post-War Reconstruction in the Balkans, (Bristol: University of Bristol, June.1999)., based on EU Press Release PR 33/99 May 1999.