

# THE ROLE OF INTERNATIONAL ORGANIZATIONS IN CONTRIBUTING TO ECONOMIC SECURITY : RECONSTRUCTION OF THE BALKANS

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I am very pleased to represent the World Bank at this NATO Colloquium. The Balkans is a very important region both for the European Union and the world as a whole. The World Bank's role in the Balkans is of course in support of the affected countries, but also totally in support of the Stability Pact objectives as well as of the activities of the EC and of the EIB. I wish this to be very clear from the start. I also wish to explain that I take the region of SE Europe to include all the countries of ex-Yugoslavia, plus Bulgaria, Romania and Albania. Turkey and Greece are not included.

## Key Messages

- Reconstruction and economic recovery are key to peace and stability in the region.
- Economic activity for all countries of the region may be much more important than the additional opportunities offered by reconstruction. In order to achieve sustainable economic recovery, these countries need to follow market-oriented reforms, and the international community should stand ready to improve conditions for trade, encourage direct foreign investment, and provide assistance to help reduce the evident development gap. Since eventually it is the private sector which will be the engine of economic growth, it is especially important that the countries of the region pursue policies that promote private investment.
- Parallel to the importance of economic activity and productive investment, what is of paramount importance is **human capital reconstruction** - investment in social sectors in its widest meaning - **and institutional strengthening** - by-laws, regulatory frameworks, etc.
- Integration of the region into the rest of Europe, especially the EU, will be a key aspect of long-term recovery and regional stability. Furthermore, there are important opportunities for regional cooperation in transport, energy, and trade facilitation.

- Helping the region to catch up with the rest of Europe requires a concerted and sustained international effort. And we need to be realistic - this will be a long process with ups and downs. But fortunately, there seems to be enough political will, as demonstrated by the strong support behind the Stability Pact, to make this happen.
- Finally, without the development and integration of the FRY, the rest of South-East Europe will likely not develop and integrate, as shown by the experience of the last 10 years.

## **Economic Outlook and Short-Term Financing Needs of the Countries in the Region**

### *Countries around the FRY*

Six countries around the FRY (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia and Romania) have been hardest hit by the economic and social fall-out of the Kosovo crisis. As a result, budget and current account deficits have widened and average economic growth in the region is estimated at minus one percent in 1999. Things seem to be changing for 2000 with projected growth of 3.25%.

**Context:** the countries have a total population of 55 million -15% of the EU; a GDP of US\$50bn in 1998 or 0.7% of the EU; average GNP per capita is some US\$1,800 (no more than 10-15% of the EU average) ranging from US\$4,250 for Croatia to US\$750 for Albania; agriculture is very important - 20-30% of GDP (5% in the EU) - as is trade and transport.

### **Donor Response has been Quick**

- Country-specific donor meetings were held in April-May for Albania, Bosnia and Herzegovina, Bulgaria and the former Yugoslav Republic of Macedonia, co-chaired by the European Commission and the World Bank. Significant incremental resources have been raised, and, as of today, the financing gaps have been largely filled. From April through May 1999, Donors Meetings mobilised the following amounts: Albania - US\$200 million; Bulgaria - US\$275 million; former Yugoslav Republic of Macedonia - US\$252 million. This money was in all cases advanced to meet costs arising from the Kosovo crisis, as well as to assist in maintaining economic stability and continue economic reforms.
- The World Bank made available more than US\$200 million in total incremental assistance in 1999; total new lending to these six countries was close to US\$1 billion in 1999 and is expected to amount to about US\$900 million in the year 2000 (in such areas as infrastructure, agriculture, education and

health, small and medium enterprise development, economic and institutional reform).

- Aside from the existing, well-functioning, country-specific donor coordination mechanisms, a new region-wide donor-coordination mechanism has now been put in place, jointly led by the World Bank and the European Commission. This is to support region-wide impact assessments, donor mobilisation and support for regional cooperation and integration, in close coordination with the Regional and Working Tables under the Stability Pact. As part of this coordination effort, a joint EC-World Bank Coordination Office has been set up in Brussels.
- Hopefully, several regional initiatives can be proposed and refined in the next several months, allowing an early convening of a regional conference. This would permit an early start on making the goal of fostering regional integration and cooperation in South-East Europe a reality on the ground. At the recent Stability Pact Economic Round Table meeting in Bari, the WBG was asked to formulate a comprehensive regional economic recovery strategy, in cooperation with the EC and others.

Apart from the IBRD and IDA activities described above, the **International Finance Corporation (IFC)** is increasingly launching regional risk capital funds and microcredit banks, supporting mainstream banks, investing in industries and enterprises, and developing important partnerships with the private sector. The IFC is also launching a new program of small and medium scale enterprise developments in the Balkan Region. Six main activities are proposed:

- enterprise level support - pre- and post-financing;
- training and education, with heavy emphasis on utilising and developing private sector service providers;
- business environment - property rights, collateral/mortgages, corporate governance, etc.;
- information/knowledge networking and dissemination;
- special Kosovo initiatives - microcredit, sector and legal studies;
- other initiatives - private health care, sector studies, contract TA management and portfolio monitoring for IFC, etc.

The IFC is also looking at the legal framework for leasing arrangements in the region and carrying out market survey studies for leasing potential since there seems to be promise for a big development of leasing companies in the Balkan region.

In addition to IFC's work, the **Foreign Investment Advisory Service (FIAS)** of the World Bank has been working in some of the countries of the region and has a program over the next year or two to get to all of them. This agency is looking at the current business climate using a well tested methodology, which has been successful in many countries of the world, to evaluate the barriers that businessmen face in trying to do business in the region. They are then designing remedial programs to simplify the business environment. Sometimes

it seems that rules and regulations are designed to prevent things from happening rather than facilitating the proper implementation of business activities. I believe that the FIAS program will be a useful contribution to all of our efforts.

### ***Kosovo***

We face five main challenges in our efforts to rebuild Kosovo:

- it is imperative to address the human challenge. It is not only the burned houses and destroyed schools that have to be fixed, but also people's psychological wounds that have to heal;
- UNMIK needs the full support of the international community to establish an efficient interim administration in Kosovo and lay the foundation for a future local administration;
- our efforts to help rebuild Kosovo must be comprehensive and not limited to the reconstruction of damaged economic assets. Much of the challenge will be rebuilding an economy that had already fallen into substantial decline prior to the latest crisis, and ensuring a sustainable economic recovery based on transition from a socialist to a market-oriented economy;
- international assistance to Kosovo needs to be quick to respond to the most urgent humanitarian needs and the funding requirements of the civil administration. Assistance must also be sufficient to allow Kosovo's economy to achieve a sustainable growth path, and should be additional in order to avoid the diversion of aid from other countries of the region;
- effective coordination of international assistance will be critical to the success of this complex undertaking.

The World Bank will provide US\$60 million during the next 12-18 months for the reconstruction and development of Kosovo. It will also play a major role, together with the European Commission, in the formulation of reconstruction and economic recovery programs, as well as in resource mobilisation and aid coordination.

### ***Federal Republic of Yugoslavia***

As for the FRY, there clearly has been a lot of physical damage from the crisis and the number of refugees and displaced persons is substantial. Ten years of economic blockade and mismanagement also have left a legacy of economic decline and impoverishment. As a result, there are major but as yet not fully known humanitarian, reconstruction and longer-term development assistance needs.

It is premature to talk about a donor assistance strategy in view of unsettled political questions regarding future donor involvement. However, there is an immediate need for humanitarian assistance which we should focus on. The

World Bank's scope for involvement is limited by the FRY's non-membership and sizeable loan arrears.

An early revival of the FRY economy, a normalisation of economic relations with its neighbours and integration into the broader economy of South-East Europe will be essential for lasting economic recovery and stability in the whole region.

## **Next Steps**

- On November 17, 1999, a Second Donors Meeting on Kosovo was held.
- In early 2000, the first Regional Conference will be held.

## **Conclusion**

The reconstruction and development of South-East Europe presents major opportunities both for the **countries of the region** (prospects for growth and economic prosperity from reconstruction, economic reform, and integration with each other and with the rest of Europe) and for the **international community** and the **private sector** (prospects for peace and stability in an historically unstable region of Europe, with a well-coordinated and generous external response). If we are to realise these great opportunities, special efforts and a flexible response by all concerned will be required. The World Bank stands ready to do its part.