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SUBJECT: BACKGROUND ON BALKAN RECONSTRUCTION ISSUES

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ACTION DATA SUMMARY REPORT

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3817

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20504

[redacted]

June 7, 2000

INFORMATION

MEMORANDUM FOR JOHN PODESTA

THROUGH: MARA RUDMAN

FROM: RICK HOLTZAPPLE

SUBJECT: Background on Balkan Reconstruction Issues

Current Issues
Balkan assistance issues generally divide into two categories: aid to Kosovo, and aid to the rest of Southeast Europe. In both categories, Congressional concern has focused on the issue of burdensharing. While we are not currently under any specific legislative requirement, several proposals have been made for FY01 bills that would cap U.S. aid at 15 or 18 percent, although definitions of how this should be measured are varied and unclear. A related concern of Congress (as in the defeated Byrd/Warner amendment, and still alive in the Kasich amendment to the FY01 Defense Authorization bill) is whether the Europeans are delivering on their promises of aid to Kosovo.

Kosovo
Despite some dicey moments earlier, assistance to Kosovo to date has succeeded in averting a humanitarian crisis over the past winter and allowed the UN Mission in Kosovo (UNMIK) to cover the budget of its local administration. Needs for reconstruction and economic development are great and have not necessarily all been met, but substantial international resources have been committed (approximately $1 billion dollars at the World Bank's 1999 donors' conferences). Of great concern, however, is whether UNMIK and others have the administrative capacity to use all the money well. We continue to press the EU to get more and better staff to UNMIK's EU-led "pillar" for economic reconstruction. This pillar has relied heavily on USAID-contracted personnel. Other priority areas for assistance in Kosovo are funding for the Kosovo Protection Corps (to keep the demobilized Kosovo Liberation Army constructively engaged) and assistance to the judicial system.

Italy is not one of the bigger contributors of financial assistance to Kosovo. Our data shows them providing only $8 million in 2000, including the cost of their 57 UN police officers. The Italians, like all EU members, will note that they contribute to the $310 million in European Commission (EC) aid, but perhaps more importantly Italy is the largest troop contributor to KFOR, with 6600 troops deployed and an Italian general will take over the command of KFOR in the next rotation. The U.S. is second largest troop contributor. In terms of Warner/Kasich, Italy still has $1.1 million outstanding on its $3.1 million pledge to UNMIK's local budget. It has done better disbursing its (fairly small) humanitarian and reconstruction assistance. And it has 100 percent of its police pledge deployed (although it unfortunately chose to achieve this by recently reducing its pledge from 82 to 57 officers, rather than by deploying more police).

The U.S. remains fully engaged in assisting Kosovo's stabilization and revitalization. Our 550 police and 5600 KFOR troops are just under 15 percent of those forces. Our $168 million in foreign assistance (including the costs of our police contingent) is about 14-15 percent of total bilateral aid. While European assistance includes substantial amounts of bricks-and-mortar reconstruction, our aid is predominantly technical assistance, economic development and budget support. Congress has prohibited us from funding "large-scale physical infrastructure reconstruction." We have requested $93 million in FY00 supplemental funds for Kosovo, but the Senate so far has refused to approve any, and the House approved only $12.4 million (for additional police). In FY01 we have requested $175 million.

Rest of Southeast Europe

Italy **is** among the larger bilateral donors to the region as a whole, pledging about $140 million in 2000 (again, it also notes its share of the EC's further $1.2 billion in aid). Italy is particularly active in Albania, in part because of the domestic impact of instability there. It has also been supportive of the Stability Pact for Southeast Europe (an Italian official, Fabrizio Saccomani, chairs the Pact's Economic Working Table).

The U.S. is providing $385 million to the region in FY00, which we calculate to be about 15-18 percent of total bilateral aid. Although not under the same legal prohibition as in Kosovo, our funds are again predominantly for technical assistance on economic reform and democratization, with little bricks-and-mortar reconstruction. We have also requested $102 million in FY00 supplemental funds, largely to support democratic regimes in Croatia and Montenegro (we have been pushing the EU to increase aid to Montenegro as well). Congress is on track to provide about $70 million of this, though possibly not until FY01. Our FY01 request is for $435 million ($90m for Bosnia, $55m for Montenegro, $30-40m each for the other countries), higher than our FY00 original request, but lower than FY00 with the supplemental.

As important to economic growth in Southeast Europe as reconstruction assistance is promoting growth through trade. We have proposed legislation to Congress to further open our market, but the EU market is vastly more important to these countries. We hope Italy will support efforts in the Commission to lower barriers to Southeast European exports to the EU.