

**A FAIR EXCHANGE:
AID TO YUGOSLAVIA FOR REGIONAL STABILITY**

15 June 2001

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A FAIR EXCHANGE: AID TO YUGOSLAVIA FOR REGIONAL STABILITY

EXECUTIVE SUMMARY

The donors' conference for the Federal Republic of Yugoslavia (FRY), planned for 29 June 2001 in Brussels, will set the pattern of international economic assistance to Belgrade for the next year or more. In return for substantial donor support, the international community should require the FRY to undertake a number of specific steps that are essential for increasing regional stability.

An effective strategy of conditionality would require donors to find a new clarity of purpose and cohesion in their relations with the governing coalition in Belgrade. To date, the United States is the donor that has most explicitly and operationally conditioned assistance on meeting political objectives, though there are some indications that Washington may be prepared to narrow those conditions substantially, if not yet to drop them. If they refuse to adopt a strong policy on conditionality, whether from misplaced fear of weakening the coalition in Belgrade or for other reasons, major donors will overlook the fact that the gravest threat to Serbia's fledgling democracy is not the weak economy. It is rather the powerful legacy of extremism, war crimes and attempted territorial conquest. If this legacy is inadvertently strengthened through donor aid, regional instability will continue and the threat of renewed conflict remain.

Aid conditionality is an effective tool because the FRY's shattered economy relies on donor support for numerous social programs, as well as electricity, debt relief, restructuring, and, in the winter, heating. The events leading up to Milosevic's arrest in the early hours of 1 April 2001 demonstrated the viability of conditionality-based policies.

This report argues that major donors should use their leverage by conditioning assistance on concrete actions from the FRY government to fulfil its obligations on three issues vital to regional stability:

- cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague;
- relations between the FRY and Bosnia and Herzegovina, in particular with the Serb-controlled entity, the Republika Srpska; and
- cooperation with the UN Mission in Kosovo (UNMIK).

Until the FRY cooperates with the Tribunal, Serbian democracy will remain frail. However, the FRY has failed to continue the limited degree of cooperation it appeared to embark upon when Milosevic was arrested. Serbia today is a safe haven for indicted war criminals; according to ICTY's own calculation, some twelve indictees currently reside there. Although the Federal and Serbian Justice Ministers have stated publicly that war criminals can be transferred to the Tribunal under existing FRY law, Federal President Vojislav Kostunica continues to insist that cooperation requires a new law which he has not used his influence to obtain. Unwillingness to cooperate with ICTY also impedes full normalisation of Serbia's relations with Bosnia, Croatia, and Kosovo's ethnic Albanians population. It likewise hinders improvement of relations with Montenegro, which, in contrast, has actively assisted ICTY. By protecting Milosevic-era cronies still in office in Belgrade, non-cooperation undermines the Federal and Serbian governments' ability to implement needed reforms. ICTY officials believe that Belgrade's reluctance to cooperate with the Hague Tribunal encourages the authorities in Republika Srpska that – along with Serbia itself – is the other Balkan safe haven for war criminals.

FRY policy towards Bosnia is cause for serious concern. The Bosnian Serb Army (VRS) remains essentially a dependency of the Yugoslav Army (VJ), and Belgrade continues to support the intelligence service and police in Bosnia's Serb-controlled entity, the Republika Srpska. FRY officials at the highest level, including President Kostunica and Foreign Minister Goran Svilanovic, openly link the status of Republika Srpska with the future status of Kosovo. Senior members of the governing coalition in FRY publicly support extremist Serb parties in Bosnia.

In Kosovo, Belgrade has backed Serb community leaders' refusal to establish normal working relations with the international administration led by the United Nations. The FRY government has facilitated Kosovo Serb obstruction of the UN mission (UNMIK) and the NATO-led Kosovo Force (KFOR) by subsidising parallel institutions in the northern part of the province. Belgrade's stance delays productive movement towards resolving Kosovo's difficulties. Refusal to express regret for atrocities committed against Kosovo's Albanians has helped keep wounds from healing. Continued statements to the effect that the FRY wants to return its army and police to Kosovo, as well as recent calls for partition, increase distrust in the province and instability in the region. Such actions also hinder economic development, causing more Serbs to flee the province due to lack of a viable income. If the Serb community is to register for and participate in the Kosovo assembly elections scheduled for November 2001, international pressure will need to be applied in Belgrade.

The international community has a chance to influence the FRY leadership to adopt more constructive policies in all three of these key areas if it acts resolutely and in unison at the forthcoming donors' conference. The opportunity must not be missed.

RECOMMENDATIONS

1. Donor governments and international financial institutions (IFIs) should condition aid and financial assistance on progress by Serbia (the FRY) in three key areas:
 - (a) cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague;
 - (b) cooperation in securing international community objectives in Bosnia and Herzegovina; and
 - (c) cooperation with the United Nations Mission in Kosovo (UNMIK).
2. Required cooperation by FRY with the ICTY should take the form of:
 - (a) arresting and transferring indicted FRY citizens to The Hague;
 - (b) arresting and transferring indicted Bosnian Serbs from the FRY to The Hague;
 - (c) sharing documentation and other information with ICTY investigators; and
 - (d) ensuring that any law concerning the ICTY facilitates cooperation and in no way qualifies or obstructs it.
3. Required cooperation by FRY in relation to Bosnia should take the form of
 - (a) severing immediately all funding for the Bosnian Serb military, intelligence service and police;
 - (b) removing all Yugoslav Army officers and non-commissioned officers from the ranks of the Bosnian Serb Army (VRS); and
 - (c) stating unequivocally that Bosnia's Serbs must make their future in Bosnia and Herzegovina, and that Republika Srpska can have no existence outside Bosnia and Herzegovina.
4. Required cooperation by FRY with UNMIK in Kosovo should take the form of
 - (a) enabling and encouraging voter registration of internally displaced persons from Kosovo inside the FRY;
 - (b) actively supporting Kosovo Serbs' participation in the forthcoming electoral process;
 - (c) expressing support for the administrative structures established under the Constitutional Framework for Provisional Self-Government in Kosovo (based on UNSCR 1244);
 - (d) distancing both publicly and practically from the parallel structures in the northern part of Kosovo;
 - (e) emphasising that the future of Kosovo's Serbs lies in Kosovo, regardless of the eventual settlement of the province's political status; and
 - (f) establishing a clear and transparent governmental mechanism in Belgrade, enabling UNMIK to interact with one government organ.

5. The U.S. and EU should agree a common approach to, and strategy for the 29 June donors' conference and its follow-up, including these elements:
 - (a) That the conference will be postponed indefinitely unless and until Serbia (FRY), as a token of good faith, satisfies both parties on one or more aspects of the above cooperation.
 - (b) That during the conference, the U.S. and the EU should each tie their pledges of assistance to satisfaction by Serbia (FRY) of the above conditions, while acknowledging that not everything can be done at once, that respectable progress should be recognised, and that there may be reasonable grounds for donors to reach different conclusions on the priority to be accorded individual steps.
 - (c) That following the conference, the U.S. and EU should establish a mechanism, or utilise an existing mechanism such as their periodic political director/assistant secretary of state level consultations under the New Transatlantic Agenda, through which to consult regularly on the progress achieved toward satisfaction of the conditions and the measures they should take with respect to fulfilment of their pledges and their votes in the IFIs.
 - (d) That a further conference to consider additional assistance should only be convened upon joint assessment that cooperation in all three main areas outlined above has been substantial.

Belgrade/Brussels, 15 June 2001



A FAIR EXCHANGE: AID TO YUGOSLAVIA FOR REGIONAL STABILITY

I. WHY AID SHOULD BE SUBJECT TO CONDITIONS

A. The Milosevic Arrest

Shortly before 5 o'clock in the morning on 1 April 2001, former Yugoslav president Slobodan Milosevic surrendered to the special forces of the Serbian Interior Ministry. The arrest followed a 26-hour armed standoff at Milosevic's residence in Belgrade's elite Dedinje neighbourhood. Speculation that his arrest was imminent had been rife for weeks, fuelled by the 31 March deadline set by the U.S. Congress¹ and statements by the Yugoslav ambassador to the United States.

Milosevic's arrest could represent a tentative yet important step towards cooperation between the Yugoslav and Serbian authorities on one side, and the International Criminal Tribunal for the former Yugoslavia (ICTY) on the other. Yet, many ambiguities remain. Prominent officials – particularly FRY President Vojislav Kostunica – continue to send mixed signals as to whether the arrest inaugurated cooperation, or was merely a tactical attempt to retain U.S. aid and support within international financial institutions (IFIs), such as the World Bank and International Monetary Fund (IMF).

Serbia's Interior Ministry forces did not arrest Milosevic for war crimes, but rather for corruption and abuse of public office. Although the recent discovery of a mass grave near Belgrade may begin to change perceptions, most Serbs do not yet consider his conduct of Serbia's various wars in the 1990s to have been criminal. To the contrary, many believe that Serbs were justified in their actions, and that these were largely defensive.² Although it gained good international publicity, Milosevic's arrest did not

¹ The U.S. Congress had imposed 31 March 2001 as the deadline for Yugoslavia to meet three conditions in order to qualify for continued aid and U.S. assistance in obtaining help from international financial institutions. The conditions were as follows: 1) cooperation with ICTY, 2) progress in the field of human rights and judicial reform, and 3) cut-off in aid to Bosnian Serb military and security forces. 106th Congress Report, House of Representatives 2nd Session, 100 997, "Making Appropriations for Foreign Operations, export Financing, and Related Programs for the Fiscal year ending September 30, 2001, and for other purposes", Section 594. On 7 June, Senators Leahy and McConnell, the authors of the bill behind the 31 March deadline, wrote to Secretary of State Colin Powell, urging a U.S. boycott of the donors' conference unless the FRY's cooperation with ICTY improves.

² See the Strategic Marketing public opinion poll commissioned by B92, "Perception of Truth in Serbia", May 2001. More than half the citizens polled were unable to name a single crime committed by Serbs in the past decade. (Among the survey's other findings, an overwhelming majority of respondents believed

in itself amount to cooperation with ICTY, and the FRY stance towards the Tribunal remains ambiguous when it is not hostile.

B. Background to Conditionality

The declared purpose of the June donors' conference is to gather pledges of additional aid for the FRY. Belgrade hopes for approximately U.S.\$1.2 billion. The figure bilateral donors and the World Bank will actually be prepared to commit is still a closely guarded secret. Both the World Bank and the European Commission suspect that the U.S.\$1.2 billion target can probably not be met even under a best-case scenario. Should the U.S. not participate in the conference, aid will be greatly reduced.

In a context such as that of Serbia today, where a popular governing coalition is finely balanced between pro- and anti-Western opinions, conditionality can help politicians to make the difficult choices needed to bolster a fledgling democracy. As the timing of Milosevic's arrest suggests, U.S. conditionality has helped pro-Western politicians in Belgrade by giving them leverage against domestic opponents. The release of nearly 400 ethnic Albanian political prisoners, initiatives to reform the judicial system by dismissing corrupt Milosevic-era judges, the arrest and transfer of one Bosnian Serb indictee to ICTY, and effective pressure on another indictee to turn himself over to ICTY were other positive Serbian actions in the early months of this year that documented the effectiveness of conditionality. A coordinated, sustained international policy would likely achieve even more. This coordination should be prepared before the upcoming donors' conference and applied there transparently.

1. The EU and Aid Conditionality

In October 2000 – immediately following the 5 October revolution against Milosevic – the EU launched a 200 million Euro emergency package to the FRY to cover energy, food, health and other basic humanitarian needs, as well as to support the independent media. On 10 April 2001, the European Commission approved the initial 151 million Euro tranche of a further 240 million Euro aid program for the FRY that represented a first step away from an emergency program towards longer-term assistance. The immediate focus is on energy, health, agriculture, small and medium sized enterprises, political and legal advice, and technical and administrative assistance. The declared long-range goal is the FRY's eventual integration with the EU.³

The EU has in place a Stabilisation and Association Process (SAP) with five Western Balkans states, including the FRY.⁴ The SAP sets the framework for relations between the EU and the FRY and encompasses all the steps and facets needed to move the country towards eventual accession. This includes multiple forms of assistance, trade concessions, and political dialogue. By its

that Croatian and Muslim nationalism, the U.S., NATO and Europe were far more responsible than Serbian nationalism had been for the disintegration of the former Yugoslavia.)

³ ICG interview with sources inside the European Commission.

⁴ For details, see ICG Balkans Report No. 108, *After Milosevic. A Practical Agenda for Lasting Balkans Peace*, pp. 249 ff.

very nature, the SAP contains elements of conditionality, with the exception of humanitarian and democratisation assistance, which the EU considers must be without strings. The SAP is meant to lead, eventually, to negotiation of a Stabilisation and Association Agreement (SAA) between the EU and FRY.

The bulk of EU assistance to the FRY (and the Western Balkans as a whole) comes under the CARDS program (reconstruction, development, stabilisation). The CARDS regulation includes the same political and economic conditionality that applies to the SAP. Since 1997, the European Commission has been responsible for monitoring each country's compliance with the conditionality set out in CARDS/SAPs. It regularly releases so-called "conditionality reports".

The exact nature of the applicable conditionality (all five western Balkan countries have the same conditions) was laid down by the General Affairs Council (Foreign Ministers) in April 1997⁵ and further elaborated by that body in June 1999.⁶ The Commission seeks to determine whether an aid recipient fulfils a broad list of conditions covering areas such as democratic reforms, respect for human and minority rights, return of refugees and displaced persons, market economic reforms and regional cooperation. Failure to meet these conditions can lead to the suspension of assistance, as happened in 1998 with Republika Srpska in Bosnia and Herzegovina. The Commission is presently threatening to delay its next tranche of assistance to Kosovo's Albanians.⁷ Reportedly, Montenegro, too, has in the past had tranches delayed for non-compliance. The EU will only begin negotiation of a Stabilisation and Association Agreement with the FRY when it is satisfied that these conditions are being satisfactorily met. Conditionality, therefore, is intrinsic to the Commission's mandate and is being practised.

For the three signatories of the Dayton Peace Accords – Bosnia, Croatia and the FRY -- additional conditionality and obligations stem from the treaty, which the EU helped negotiate and supports as a basic element of its approach to the region. This includes cooperation with ICTY.⁸ The above mentioned 1997 conclusions of the General Affairs Council cited FRY cooperation with ICTY as an element of the broader requirement under the SAP to comply with obligations arising under international peace agreements, including Dayton, and UN Security Council Resolution 1244 concerning Kosovo. Swedish Prime Minister Goran Persson (representing the EU Presidency) and EU Foreign Policy High Representative Javier Solana have indicated that the EU considers Yugoslav cooperation with ICTY of primary importance for closer relations.⁹

⁵ Annex III, General Affairs Council Conclusions of 29-30 April 1997.

⁶ General Affairs Council Conclusions of 21 June 1999.

⁷ See, for example, the speech by Commissioner for External Relations Chris Patten, 23 February 2001, before the South East Europe Cooperation Process Summit, www.europa.eu.int.

⁸ The Commission monitors FRY compliance with ICTY and other issues regularly. A Commission Staff working paper dated 15 November 2000 stated that lack of extradition and cooperation would "have an impact on international community efforts to assist an otherwise democratic FRY."

⁹ "EU trazi izrucenje Milosevica", *Politika*, 1 February 2001.

The EU has not signalled willingness to require demonstrable cooperation with the Tribunal (or any other specific action) as a precondition for participation in the donors' conference. Nevertheless, any EU aid package pledged at that conference will, at least in theory, be conditioned in its entirety on a series of benchmarks, including cooperation with ICTY. The operative questions would then be how tightly the EU would choose to apply that conditionality, in what time frame it would expect a particular degree of FRY progress on any given aspect, and what priorities it might assign to specific issues within what are fairly broad categories. All these are matters that might usefully be discussed by the EU and the U.S. in order to maintain a coordinated approach.

2. The U.S. and Aid Conditionality

Had the U.S. Administration not been able to certify by the 31 March 2001 deadline referred to above that the FRY had made significant progress on rule of law and minority rights, the ending of assistance to the Bosnian Serb Army (VRS) and ICTY cooperation, the U.S. would have been legally obliged to suspend aid and oppose FRY World Bank membership and IMF assistance.

On 2 April, the Administration certified that Yugoslavia "had met the criteria of Section 594", thus allowing American economic assistance to continue.¹⁰ The U.S. Congress had appropriated U.S.\$100 million for Yugoslavia in 2000, half of which would not have been disbursed without this certification.

The certification was, however, explicitly qualified as follows: "The Administration intends to continue to press Yugoslav authorities to follow through on their stated intention to cooperate fully with the International Criminal Tribunal." Further, it was said, U.S. support for an international donors' conference would "depend on continued progress by Yugoslavia and Serbia toward full cooperation with the tribunal."¹¹ In his meeting with Kostunica on 9 May, President Bush reiterated that full cooperation with The Hague would be a condition of U.S. assistance.

That the FRY turned over Milomir Stakic, the former Bosnian Serb mayor of Prijedor, to ICTY and called for the voluntary surrender of other suspects were modest steps toward meaningful cooperation and clearly designed to allow certification to move forward. Recent visits by the Federal and Serbian justice ministers, Grubac and Batic, to The Hague, and the fact that Milosevic is in custody have been additional symbolic gestures.

¹⁰ 106th Congress Report, House of Representatives 2nd Session, 100 997, "Making Appropriations for Foreign Operations, export Financing, and Related Programs for the Fiscal year ending September 30, 2001, and for other purposes", Section 594.

¹¹ From U.S. Department of State press statement, 2 April 2001.

The political judgement in Washington at the end of March appeared to be that cutting off assistance would have been too severe given the FRY's limited, ambiguous but tangible efforts to demonstrate compliance. As the donors' conference date approaches, Washington claims to be holding firm to conditionality with respect to ICTY cooperation, which, however, seems to be narrowing increasingly to the Milosevic case. There is little sign of willingness, other than in parts of the Congress, to apply any broader conditionality, such as was employed before the 31 March deadline.

C. Why Conditionality Should Work

Particularly because of the FRY's crushing debt burden, the international community has considerable leverage over the direction and pace of Yugoslav reform if it chooses to use it.

During his thirteen years in power, Slobodan Milosevic destroyed an economy that had been among South Eastern Europe's most promising. Under cover of war, economic sanctions, shortages and hyperinflation, the Milosevic regime looted much of the country's hard currency reserves, private savings, and mineral, agricultural and industrial wealth. To finance his wars, Milosevic printed money to such an extent that beginning in February 1992, the FRY suffered protracted hyperinflation – with monthly inflation reaching triple-digit levels after December 1992. By October 1993, inflation was occasionally reaching triple digits on a daily basis. The situation was so bad that in 1993 the FRY government funded 99 per cent of its budget simply by printing money, eventually destroying the country's middle class.¹² Public expenditures plummeted, resulting in a significant fall in health care, education and agricultural output. Unemployment ran well over 30 per cent. Pensions were rendered worthless. The result is that today 20 per cent of Serbia's population survives on approximately U.S.\$30 per month, while an additional 73 per cent gets by on U.S.\$60 per month.¹³

Economically, the FRY retained many of the worst elements of communism while adding a pernicious criminal element. The NATO bombing in the spring of 1999 then destroyed significant portions of Serbia's heavy industry and infrastructure that, according to the independent group of economists G-17, could cost as much as U.S.\$4.1 billion to repair. By 1999, Gross Domestic Product (GDP) had fallen to approximately 57 per cent of its 1989 level. In per capita terms, GDP for 1999 was U.S.\$1,699, a 19.3 per cent drop over the previous year, and only 57 per cent of the per capita GDP recorded in 1989 (U.S.\$2,941).

Neglect and the NATO bombing also took their toll on infrastructure. The roads are crumbling, water systems are contaminated, and health care and education have slipped to such low levels that surgical operations and classes are sometimes carried out in facilities with no running water, electricity or heat. In spite of generous international aid since the October revolution, power cuts still occur, caused by the

¹² See James Lyon, "Yugoslavia's Hyperinflation, 1993-1994: a Social History", *East European Politics and Societies*, Volume 10, No. 2, Spring 1996.

¹³ "Kako zivimo danas I sta nas ceka na jesen", *Nedeljni Telegraf*, 6 June 2001.

inability of the electrical grid to handle the load, poorly maintained power plants to produce sufficient electricity to meet demand, and inability of the government to subsidise electricity imports. Daily electricity reductions are likely to increase in winter when demand peaks.

The official unemployment statistics of 27.9 per cent are deceptive. They do not include a large number of hidden unemployed, who are on "waiting" status at largely defunct state-owned firms, or many of the approximately 700,000 refugees, who do not appear in the unemployment statistics because they have no official legal status. Many workers in the state-owned sector do not receive regular salaries, and pensions are months in arrears. In the meantime, Serbia's industry is operating at less than 37 per cent of its 1989 level.¹⁴

Resolving the debt burden is critical. Milosevic left the FRY saddled with over U.S.\$12 billion in external debt, nearly equal to the 1999 GDP of U.S.\$14.2 billion. The internal debt is also massive. At year's end 2000, the banking sector had approximately U.S.\$4.81 billion in accumulated uncovered losses, equal to over 40 percent of the country's gross domestic product. This did not include the additional U.S.\$3.2 billion owed to citizens by both the banks and the government for hard currency savings the Milosevic regime froze in the early 1990s. By mid-February 2001 the National Bank claimed this debt had swollen to approximately U.S.\$10 billion.¹⁵

In February, under severe budgetary strain – including possible bankruptcy – and facing the possibility of U.S. opposition to World Bank and IMF assistance, the Federal government stated that it would cooperate with ICTY and started to draft legislation for this purpose.¹⁶ This cooperation has yet to be forthcoming other than in the limited degree described above in connection with the 31 March U.S. Congressional deadline. There can be no question, however, that the FRY remains susceptible to economic pressure and the carrot of economic aid.

II. COOPERATING WITH THE HAGUE TRIBUNAL

Internationally, cooperation with ICTY has become widely viewed as the clearest, most easily understood litmus test of Belgrade's willingness to break with the past. For most international officials this is a rather straightforward matter. UN Security Council Resolutions 827 and 1034 call explicitly for Yugoslavia and neighbouring countries to "cooperate fully" with ICTY. This includes the arrest and transfer of individuals suspected of war crimes, as well as granting ICTY access to evidence, documents, and witnesses. As a co-signatory of the Dayton Peace Accords, Yugoslavia is committed to cooperate fully with ICTY. The EU and the U.S. have both urged this, and U.S. law required the Administration to certify progress on this

¹⁴ All economic statistics are taken from BILTEN G-17, No 11, November 2000, and the G-17 web site, <http://www.g17.org.yu/>.

¹⁵ *VIP News Agency*, 16 February 2001.

¹⁶ "Hag ili bankrot", *Politika Ekspres*, 16 February 2001. See also "Yugo minister says Hague cooperation economic key", *Reuters*, 15 February 2001.

score by 31 March 2001 in order for the FRY to remain eligible for American economic and financial assistance.

The international community has not rejected out of hand a possible trial of Milosevic in Belgrade on ordinary criminal charges such as corruption and abuse of power. That kind of trial could open a discussion on responsibility and recent history among Serbs, and allow some of the political passions surrounding Milosevic's fate to cool. However, it would not satisfy the obligation that Milosevic, as well as other Serb indictees, must face ICTY charges.

The required cooperation was not forthcoming under Milosevic, and the issue was not pressed hard, even by the Tribunal itself, in the politically sensitive weeks before the 23 December 2000 election firmly established a democratic government in Serbia. The arrest of Milosevic on 1 April 2001 was considered an important first step toward accountability. However, wider cooperation with ICTY has been withheld. The international community must now determine how best to pursue not only the trial of Milosevic under international law, in an international court, for the war crimes for which he has been indicted but also the further aspects of cooperation with ICTY that is widely agreed to be central to any serious effort to move beyond the Balkan horrors of the 1990s.

Since taking power following the 24 September and 23 December 2000 elections, the Democratic Opposition of Serbia (DOS) has been divided over The Hague Tribunal. Some DOS members have spoken out openly against cooperation, claiming ICTY is illegitimate and anti-Serb. Others have cautiously affirmed an obligation to cooperate. These differences of opinion have given policy a somewhat schizophrenic air and have led serious observers to ask what the official policy actually is. However, serious disagreements exist within the FRY and Serbian governments, and the debate is ongoing. The outcome will be influenced heavily by both the international community's attitudes and domestic politics, including the strong possibility that the issue could be seized upon by nationalist forces in the next, as yet unscheduled, elections.

There does appear to be near unanimous agreement among Serbia's politicians that Milosevic should be tried for crimes. Most, however, feel that he should – at least first – face a domestic court for actions against his own people. Many Serbs clearly wish to see Milosevic tried on charges of domestic criminal activity. Many also appear to feel he should be punished for failing to achieve the "Greater Serbia" for which many of them voted repeatedly during the 1990s.¹⁷ How delicate the issue of transferring Milosevic to The Hague to answer a war crimes indictment remains is indicated by polling data that show almost half the Serb respondents continue to regard Radovan Karadzic and Ratko Mladic as heroes.¹⁸

¹⁷ For breakdowns of how Serbs voted during the Milosevic era, see Robert Thomas' *Serbia under Milosevic: Politics in the 1990s*, London: Hurst, 1999.

¹⁸ See the Strategic Marketing public opinion poll commissioned by B92, "Perception of Truth in Serbia", May 2001.

The divisions between Yugoslav President Vojislav Kostunica and Serbian Premier Zoran Djindjic that characterise much of the political landscape in Belgrade are also evident on this issue. Kostunica supports the notion of trying Milosevic before a local court on criminal charges. However, he has continued Milosevic's policy of non-cooperation with ICTY, and has refused to order either the arrest or transfer of indicted war criminals.¹⁹ At least twelve individuals indicted by ICTY are presently in Serbia.²⁰ Kostunica claims ICTY is politicised and anti-Serb, and that too many Serbs have been indicted. He does not accept the argument that the ICTY process can help Serbs shed the stigma of collective guilt for the war crimes that were committed, arguing instead that ICTY is attempting to force such collective guilt on his people.²¹ His meeting with Milosevic in early 2001 and failure to inform DOS coalition partners and the public fully about that encounter created an impression that he was protecting his predecessor.

Kostunica and Federal Minister of Internal Affairs Zoran Zivkovic have claimed that the FRY constitution prevents the government from transferring its citizens to the Tribunal.²² In contrast, both the Federal Justice Minister, Momcilo Grubac, and the Serbian Republic Justice Minister, Vladan Batic, have stated that existing FRY and Serbian law presents no barriers to transferring an indictee to The Hague.²³ Nevertheless, Kostunica's position has frustrated ICTY's work for five months. During this time the government prepared a draft law that would allegedly permit cooperation with the Tribunal and that Kostunica says he supports. There are serious concerns, however, that the draft bill includes clauses that would permit local political vetoes on cooperation.

The January 2001 visit to Belgrade by ICTY Chief Prosecutor Carla Del Ponte went badly. Kostunica initially refused to meet her on the ground that she was too junior, then insisted he was too busy, before acquiescing under pressure from his own DOS coalition and foreign diplomats. Responding to negative international media reports, Kostunica told reporters in Stockholm at the end of January that the FRY was co-operating fully with ICTY.²⁴ Montenegrin President Milo Djukanovic, engaged in a wider political dispute with Belgrade over the future of the Montenegro-Serbia relationship, responded that the attitude of the new authorities in Belgrade toward the Tribunal did not differ from Milosevic's.²⁵

¹⁹ 'Yugoslavia—War Crimes', *Associated Press*, 19 February 2001.

²⁰ "U RS se krije 26, a u SRJ 12 optuzenih", *Nezavisne novine*, 24 May 2001.

²¹ "Kostunica, War Crimes Chief Clash in Belgrade Talks", Reuters, 21 January 2001. See also "To nije smelo da se napravi", *24 Casa*, 26 March 2001.

²² "Zivkovic: za Hag nema pravnih uslova", *Danas*, 27 March 2001.

²³ "Sudicemo ratnim zlocincima", *Blic*, 18 February 2001; "Nema velike prepreke za saradnju sa Tribunalom", *Politika*, 20 February 2001. This is of course also the position taken by ICTY Chief Prosecutor Carla Del Ponte.

²⁴ "Kostunica: Hag nije dovoljan", *Politika*, 1 February 2001.

²⁵ *VIP News Agency*, 7 February 2001.

On 14 February 2001, the Federal government adopted a statement that it would cooperate with ICTY. However, immediately prior to and following this, both Kostunica and Federal Prime Minister Zoran Zizic announced that the FRY would make its own determination of what cooperation required and that this did not necessarily mean transferring indictees or turning over documents. Carla Del Ponte replied that there was an "absence of a manifest will to cooperate from Belgrade."²⁶

In mid-March, following the Serbian government's arrest and transfer of a Bosnian Serb, Milomir Stakic, to The Hague, Kostunica said publicly that he hoped this was an exception, and "it should never have happened".²⁷ FRY Premier Zizic added that "as long as I am at the helm of the federal government, Milosevic's extradition to The Hague Tribunal is out of the question."

While the positions of Kostunica and Zizic appeared popular with the public, the army, the Federal police, and the Serbian Academy of Arts and Sciences,²⁸ the president moderated his views in late March. With the U.S. legislative deadline of 31 March 2001 looming, he indicated that it was up to the "courts to decide" on the matter of transferring Milosevic to The Hague. His strong comments about the need to observe Yugoslav law during the battle over the former dictator's arrest seemed to some a signal of further movement toward acceptance of international accountability. Others interpreted the remarks rather as a tactic to quell potential domestic displeasure and unrest over the government's action. After Milosevic's surrender, Kostunica stated that the ICTY question was a low priority and, again, that cooperation with the Tribunal did not necessarily entail extradition.

Kostunica has continued to demonstrate reluctance about ICTY cooperation even after his recent trip (9 May 2001) to Washington and New York, during which he met with President Bush and Secretary of State Powell.²⁹ Throughout the struggle over the draft law on ICTY cooperation, which Kostunica claims to believe is legally required if Serbian citizens are to be transferred, he has failed to make a public case for the bill. His one real statement on the subject, expressing agreement with opponents of the draft legislation that perhaps a law

²⁶ "Give us Mladic as marker, Tribunal tells Belgrade", Reuters, 19 February 2001.

²⁷ "To nije smelo da se napravi", *24 Casa*, 26 March 2001.

²⁸ See the Strategic Marketing public opinion poll commissioned by B92 "Perception of Truth in Serbia", May 2001. However, regular opinion surveys by Belgrade's Institute for Social Sciences find that the proportion of citizens favouring Milosevic's transfer to The Hague is growing steadily, standing now at 37 per cent, while those opposed are 45 per cent. (*Glas javnosti*, 14 June 2001.) The recent discovery of mass graves of Kosovo Albanians, near Belgrade, may serve to alienate the public from the establishment's virtual indifference to Serbian war crimes. This official unconcern has been pointed out and condemned by Miroslav Filipovic, a Serbian journalist who spent five months in prison in 2000 for writing about atrocities perpetrated by FRY forces in Kosovo. Speaking to *Politika* daily newspaper (2 May 2001), Filipovic stated that "Only the VJ has launched proceedings against its members, and only the army is talking about the crimes and calling openly on witnesses to refer to the judicial bodies. Neither the parliament, nor the government, nor the Serbian Academy of Sciences and Arts, nor the Serbian Orthodox Church, nor the [Belgrade] university, have done so."

²⁹ "Obezbediti mehanizme da Hag ne bude pravno nedodirljiv," Radio B92, 26 May 2001.

was only needed on the republic, not the federal, level, was ambiguous.³⁰ Many observers considered this an attempt to shift public displeasure over the issue from himself on to other factions within DOS. He has yet to make an unequivocal statement supporting the transfer of indictees to the Tribunal and appears unlikely to do so without significant international pressure.

While no important Serbian politician has championed ICTY as such, a number have spoken openly of the need to transfer Milosevic and other indictees, as well as to cooperate with the Tribunal in gathering evidence. These figures include Serbian Premier Djindjic, Serbian Minister of Justice Vladan Batic, Federal Minister of Justice Momcilo Grubac, Federal Deputy Prime Minister Miroljub Labus, and Federal Foreign Minister Goran Svilanovic.³¹ Labus even threatened resignation if Kostunica maintained his policy toward the Tribunal.³² Djindjic in particular has made it clear that he both knows this attitude is unpopular in Serbia,³³ and fears that the U.S. and EU will continue to restrict participation in key international organisations, such as the IMF and the World Bank, if the FRY remains uncooperative on this key issue.³⁴

Non-cooperation with ICTY thus risks splits within the DOS coalition. More broadly, the greatest domestic danger is the prospect that as long as war crimes indictees are at large, political life will remain unstable, and DOS will have difficulty consolidating its power and introducing the reforms necessary to pull Serbia out of the Milosevic-induced chaos.

Non-cooperation also threatens to cause broader problems in the region. Extremist forces in Croatia and secessionists (both Serb and Croat) in Bosnia will draw encouragement if Belgrade refuses to work with The Hague. Likewise, it complicates the delicate Montenegro-Serbia relationship. Montenegro's president, Milo Djukanovic, has been praised by Carla Del Ponte for his cooperation. Reliable sources in ICTY and Western embassies report that all indictees in Montenegro have either been turned over to the Hague Tribunal or have left for Serbia or RS. It is the pro-Milosevic Montenegrin party, the Socialist People's Party (SNP), which holds all of that republic's seats in the Federal parliament, that has blocked passage in Belgrade of the ICTY cooperation bill. Recently, the SNP has suggested that the practical business of cooperation should be left to the Serbian government, so conveniently sparing the Federal authorities from having to make an unpopular decision. As this report goes to press, the SNP still refuses to accept that cooperation with ICTY involves transferring indictees. If failure to pass an appropriate law or otherwise satisfy the international community on ICTY cooperation should cause the donors' conference to fail, the Djukanovic camp is likely to feel confirmed in its conviction that Montenegro must achieve independence to avoid being denied access to badly needed assistance because of Belgrade's actions.

³⁰ "Razgovori DOS – SNP bez dogovora," Radio B92, 5 June 2001.

³¹ See, for example, "Batic: Nema prepreka za saradnju SRJ sa tribunalom", *Blic*, 25 January 2001.

³² According to the Montenegro daily, *Dan* (2 June 2001), Labus again threatened to resign after the SNP party rejected the draft law on cooperation with ICTY.

³³ See the Strategic Marketing public opinion poll commissioned by B92 "Perception of Truth in Serbia", May 2001.

³⁴ The FRY will need assistance from both the World Bank and the IMF in restructuring its current debt.

III. REPUBLIKA SRPSKA

Republika Srpska (RS) is the Serb-controlled "entity" that covers almost 49 per cent of the territory of Bosnia and Herzegovina. It was proclaimed in January 1992 by the political leadership of Bosnia's Serb community. From April 1992 until Summer 1995, the Republika Srpska was consolidated and made ethnically homogenous through armed aggression and "ethnic cleansing", involving massive and systematic violations of human rights, culminating in the slaughter of more than 7000 people at Srebrenica. Most of the original wartime leadership (including Radovan Karadzic, Momcilo Krajisnik and Biljana Plavsic) has been indicted by ICTY for these "state-building" activities. RS is still a safe haven for indicted war criminals, some 26 of whom currently reside there, including Karadzic and General Ratko Mladic, the two "most wanted" individuals on ICTY's list after Milosevic.³⁵

Under the terms of the Dayton Peace Accords, Republika Srpska committed itself to upholding international human rights standards including the right of refugees to return. This has not happened. RS politicians have consistently and flagrantly obstructed most efforts at Dayton implementation.³⁶ Refugees who attempt to return are liable to be met with terror, bombings, shootings, and arson, some of which is organised by the Republika Srpska police.³⁷ The Bosnian Serb grouping that more than any other has consistently and openly violated the letter and spirit of the Dayton Peace Accords is the Serb Democratic Party (SDS), formerly led by Karadzic and still influenced by him.

The Milosevic regime provided financial, political and personnel support to Republika Srpska, particularly for the military. This support continues, and the current Belgrade government has not shown willingness to begin to change the situation. In contrast to Croatia, which began cutting support to Bosnia's Croat extremists following the death of President Tudjman in December 1999, the FRY still supports RS both financially and politically. As a result, the RS leadership continues to oppose international community policy, civilian implementation remains slow and sporadic, and security throughout the entity is highly uncertain for non-Serbs. Until Belgrade changes its policy on Republika Srpska and the SDS, NATO will need to maintain a substantial and expensive military presence in Bosnia. For this reason alone, the issue of FRY support for Republika Srpska is of vital interest to both EU and U.S. policymakers.

³⁵ ICTY officials believe that Belgrade's reluctance to cooperate with the Hague Tribunal encourages similar resistance by the authorities in Republika Srpska. What is clear is that the debate in Belgrade on the need for a law on cooperation has been echoed by identical claims in Banja Luka, where Serb authorities likewise argue that a law is a prerequisite of substantial cooperation with ICTY. (See *Politika*, 17 April 2001, and *Nezavisne novine*, 5 June 2001.)

³⁶ See *Bosnia's Refugee Logjam Breaks: Is The International Community Ready?*, ICG Balkans Report No.95, 30 May 2000; *Is Dayton Failing*, p.41-44. International Crisis Group, Balkan Report No. 80, 25 October 1999.

³⁷ See *No Early Exit: NATO's Continuing Challenge in Bosnia*, ICG Balkans Report No. 110, 22 May 2001, pp. 6-7.

A. Support for the Security Services

The single largest area of Belgrade's support is the entity's army, the VRS. At least 1,730 VRS officers and approximately 2,100 non-commissioned officers (NCOs) hold dual rank in the Yugoslav Army (VJ).³⁸ Although the Republika Srpska Minister of Defence has stated publicly that only 300 military personnel receive salaries from Belgrade, it appears that all officers and NCOs receive not only their paycheques from Belgrade, but also their retirement pensions. The VRS chain of command does not stop in the Republika Srpska capital of Banja Luka. It continues up to the General Staff in Belgrade, as evidenced by the fact that all senior military appointments are taken after consultation with Belgrade. All VRS officers receive free schooling at the Military Academy in Belgrade.

The FRY finances the VRS in a non-transparent manner that makes it impossible to ascertain exact figures. Republika Srpska regularly reports to the Organisation for Security and Cooperation in Europe (OSCE), as required under Annex 1-B of the Dayton Accords, that it receives military funding from the FRY. Much of this support, however, never shows up in the FRY government budget but rather appears to be transferred through "black" funds by the VJ and Yugoslav security services. For example, the 2000 FRY budget does not mention aid to Republika Srpska, and the Yugoslav Ambassador to Washington, Milan St. Protic, has publicly denied that the FRY still assists the Republika Srpska.³⁹ However, Republika Srpska itself reported in 2000 that FRY aid amounted to either 28 million or 17 million German Marks (DM), out of a total military budget of 105 million DM.⁴⁰ The exact amount is unknown and may be larger, as the Republika Srpska budget is also non-transparent.⁴¹

Indeed, suspicion exists that the VRS received and is receiving far greater amounts of aid from Yugoslavia than officially reported. For example, in 1999 Republika Srpska officially informed the OSCE that it received U.S.\$13.3 million in military aid. For the same period, the Bosnian Croat Army, the HVO, reported that it received U.S.\$55.8 million from Croatia.⁴² It is unlikely that the far smaller HVO actually received so much more from its then patron than the VRS did from Belgrade. Some in the Republika Srpska government have reported that Yugoslav aid has dwindled to between U.S.\$8.5 and U.S.\$15 million but accurate financial estimates for 2000 and 2001 are not available.⁴³ Although Belgrade reportedly promised earlier this spring in connection with President Kostunica's visit to Washington that it would cut off at least financial payments to officers and NCOs of the VRS, there is no clear sign that this has happened. ICG analysts have continued to observe the free movement of military vehicles across the Bosnia—Serbia border in both directions. In sum, the VRS may be considered a branch of the Yugoslav Army.

³⁸ ICG interview with OSCE.

³⁹ Statement by Milan St. Protic at a 6 March 2001 Commission on Security and Cooperation in Europe briefing in Washington, D.C.

⁴⁰ This figure was initially placed by the VRS at 28 million DM, but was later revised downward without explanation. No figures are as yet available for 2001. ICG interview with OSCE.

⁴¹ ICG interview with OSCE.

⁴² During 2000, the Croat component (HVO) of the Federation Army numbered 8,500, while the VRS numbered 11,982. ICG interview with OSCE.

⁴³ ICG interviews with Republika Srpska government officials.

The Yugoslav government also funds KOS, Republika Srpska's Counterintelligence Service, which controls espionage networks in Bosnia and the neighbouring states. KOS in Bosnia is directly subordinate to KOS in Belgrade and reports directly to Belgrade on most matters.⁴⁴ Similarly, the FRY appears to be funding the Republika Srpska Interior Ministry, which controls police forces throughout the entity. No accurate information exists regarding the levels of support either of these institutions receives from Belgrade.

It is widely known that a VRS detail protects indicted war criminal Ratko Mladic. If FRY funds are still used to pay officers and NCOs associated with this protection, as seems likely, and the VRS continues to be subject to the VJ chain of command, which seem clear, Belgrade shares direct culpability for Mladic's continuing freedom.

B. Support for "Greater Serbia"?

Leading Belgrade political figures appear at odds with important elements of international community policy in Bosnia. Since coming to power, President Kostunica has acted to strengthen those Serb forces that hinder implementation of the Dayton Accords. During the November 2000 general election campaign in Bosnia, officials of Kostunica's Democratic Party of Serbia (DSS) openly campaigned inside Bosnia for the Serb Democratic Party (SDS).⁴⁵ Kostunica's support for the SDS has encouraged secessionist forces – including the moderate Republika Srpska Premier Mladen Ivanic -- to speak openly about the possibility of joining the FRY.⁴⁶ In this spirit, Serbian Premier Djindjic, usually reckoned as Belgrade's leading pragmatist, has also sent conflicting signals. A few weeks before his successful 12 June 2001 visit to Sarajevo, he told a Serbian journalist that Bosnia was a "provisional state".⁴⁷

Although the FRY has recognised Bosnia diplomatically, Kostunica has refused to apologise for war crimes committed by FRY and the Serbs.⁴⁸ Nor has he denounced Republika Srpska's ambition to secede from Bosnia, as Croatian President Stipe Mesic has done regarding Bosnian Croat pretensions to join Croatia, or discouraged those who attempt to link the final status of Kosovo to possible RS secession from Bosnia.⁴⁹

⁴⁴ ICG interview with OSCE.

⁴⁵ See *Bosnia's November Elections: Dayton Stumbles*, 18 December 2000, ICG Balkans Report No.104. The SDS polled significantly better in the November 2000 general elections, receiving 35.1 per cent in the Republika Srpska parliament, than it had done in the 1998 general elections (21.7 per cent).

⁴⁶ "Nema stabilne vlasti bez SDS-a", *BH Dani*, Br.182., 24 February 2001.

⁴⁷ See Djindjic's statement: "Bosna i Hercegovina je jedna provizorna drzava", in "Obavljam istorijski posao uvođenja reda u Srbiju", *Nedeljni telegraf*, 9 May 2001.

⁴⁸ One contrast is with Montenegro's President Djukanovic, who apologised on 24 June 2000 "to all citizens of Croatia and especially of Dubrovnik" for the role of Montenegrins in the war against Croatia. (On that occasion, Kostunica promptly criticised Djukanovic; see Radio Free Europe/Radio Liberty's *Balkan Report*, 30 June 2000.)

⁴⁹ On 9 June, in the context of international preparation for the donors' conference, President Kostunica joined President Mesic in explicitly disowning territorial ambitions in Bosnia. While this statement was welcome, concerns over Kostunica's attitude to Republika Srpska must remain until FRY policy has changed in the ways proposed in this report.

The recent Agreement on the Establishment of Special Parallel Relations between the Republika Srpska and the FRY does not signal a more constructive approach, either in its content -- for example, it does nothing to reduce FRY military support -- or its preparation, which ignored Bosnia's state authorities. The date of the signing -- 5 March 2001, on the most significant Muslim holiday of the year, Bajram -- prevented Bosnia's Foreign Minister, Zlatko Lagumdžija, from attending the ceremony, where Kostunica received a hero's welcome from Serb crowds. On 7 June, the agreement was ratified by the Republika Srpska parliament despite opposition by its Bosniak (Muslim) and Croat members. A better portent was Djindjić's visit to Sarajevo on 12 June, during which the Serbian delegation met with Bosnia's central government.

IV. COOPERATION ON KOSOVO⁵⁰

A. Political Obstruction

Vojislav Kostunica's victory in the September 2000 FRY presidential election enhanced the stature of Kosovo Serb politicians who had refused to cooperate with the United Nations-led mission in Kosovo (UNMIK) and weakened the moderate "Gracanica Serbs", who had sometimes cooperated with it. Since then, both the Federal and Serbian governments have continued to support Serb obstruction of UNMIK and of the NATO-led KFOR security forces and to advance counter-productive political initiatives. For example, FRY officials have called for the return of Yugoslav (Serbian) troops and police to Kosovo. While this would conform to the letter of UN Security Council Resolution 1244, a return by FRY security forces would certainly jeopardise public security, stabilisation and inter-ethnic reconciliation in Kosovo. The recent proposal by Serbian Deputy Prime Minister Nebojsa Covic that Kosovo be partitioned heightened suspicion of Belgrade's intentions among Kosovo Albanians.

As a community, Kosovo Serbs have not been willing to work within the institutions of the autonomous Kosovo called for by UNSCR 1244 on an interim basis, let alone consider final status talks. Almost all Serbs refused to register and vote in the October 2000 municipal elections in Kosovo. While some Kosovo Serb leaders have cooperated on a local level with UNMIK, most have sought to create parallel power structures in the north of Kosovo, an effort that Belgrade has supported.

The latest area of obstruction lies in the response to the proposed November 2001 elections and the new Constitutional Framework for Provisional Self Government for Kosovo presented by the UNMIK head, Hans Haekkerup.⁵¹ The Albanian and Serb leaders in the province both attempted to frustrate creation of this framework to varying degrees. Since it was announced, however, the Albanian leaders have confirmed that they will participate in elections and the new structures. The Kosovo Serb leaders, on the other hand, have with Belgrade's approval conditioned their participation in the November elections on a number of self-evidently unattainable

⁵⁰ A more detailed discussion of the complexities of the political situation in Kosovo may be found in the book-length ICG Balkans Report No. 108, *After Milosevic: A Practical Agenda for Lasting Balkans Peace*, April 2001, available at www.crisisweb.org

⁵¹ For a full discussion of this issue, see "Self Government in Kosovo", *Institute for Strategic Studies Strategic Comments*, Volume 7, Issue 4, May 2001.

demands.⁵² This indicates that Belgrade and the Kosovo Serbs will make a calculated political decision on participation nearer the date of the elections.

Although Kosovo Serb leaders and, behind them, the FRY and Serbian governments, have objected to Haekkerup's plans, they have advanced no credible alternative proposals. Even in Belgrade, few believe that Serbian rule will be restored in Kosovo, but many persist in the highly unrealistic belief that Kosovo Albanians will be satisfied with some form of autonomy short of independence, with Serb communities governing themselves through a set of comprehensive parallel structures. There is widespread recognition within FRY and Serbian government circles that Serbia would be best served by divorcing itself from Kosovo, or at least by partition, though such ideas are rarely discussed publicly. Kosovo Serb leader Marko Jaksic has suggested that the Serbs should move towards autonomous self-government in four areas within Kosovo, a concept that, if implemented, would pave the way to secession by Serb-dominated northern Kosovo. Covic echoed this and called for Kosovo to be divided into Serb and Albanian-governed segments,⁵³ but the trial balloon, if such it was, was shot down immediately by both UNMIK and other DOS members, although for different reasons.

It is remarkable that two years after the adoption of UNSCR 1244, neither the FRY nor the Serbian government has created a structural mechanism to coordinate or liaise with UNMIK on governance and security issues in what is still, *de jure*, a Yugoslav province. Although Kostunica has publicly and positively stated that Kosovo Serbs should register for the November elections,⁵⁴ he has left the matter of actual participation open. No mechanism yet exists to register internally displaced Kosovo Serb voters in the FRY for those elections, and the Serbian government has yet to give permission to the Republic Commissariat for Refugees to sign a memorandum of understanding with the International Organisation for Migration (IOM) on this issue.

B. Internal Security

Kosovo's internal security difficulties stem largely from communal violence between ethnic Albanian and Serb communities and from the existence of armed underground political and criminal groups affiliated with both communities. The ethnic violence has fuelled charges by President Kostunica and other members of the FRY government that UNMIK and KFOR are not doing their job and are prejudiced in favour of the Kosovo Albanians. They have used these claims to bolster calls for the return of Serbian troops and displaced civilians to the province.

Communal clashes are not, however, the only type of violence in Kosovo. Armed groups operate beneath the surface in both the Serb and the Albanian communities. Under Milosevic, Serbian security and intelligence forces appeared to continue to operate throughout Kosovo. After withdrawing from Kosovo at the end of the 1999

⁵² As conveyed to ICG analysts on the day following the Kosovo Serbs' meeting with Yugoslav leaders in Belgrade, these conditions are: the return of FRY customs to the border with Macedonia; the return of VJ to Kosovo; the complete return of displaced Serbs; the solution of all cases of missing Serbs; the provision of freedom of movement and full security; and an extensive revision of the Constitutional Framework.

⁵³ See the speech given by Covic: "Kosovoski fitilj za Balkansko bure baruta", *Danas*, 21 May 2001.

⁵⁴ The registration period is planned to commence on 30 July 2001 and to run for six weeks.

war, Serbian police, including the State Security Service (DB), established a base in Raska, 35 kilometres north of the border with Kosovo. DB personnel operate routinely in the north of Kosovo, and residents of the enclaves have also reported their presence. It was widely believed that some of the so-called "bridge watchers" – young thugs who guarded the Serb side of the line in the divided city of Mitrovica – were employed by the Belgrade police. On 25 January 2001, the bridge watchers seriously assaulted a Russian OSCE staff member, setting off tit-for-tat incidents that culminated in rioting by both Serbs and Albanians that required KFOR reinforcements to be brought in, as in February 2000, to restore order.

V. CONCLUSIONS

The FRY hopes to receive assurances of significant aid at the 29 June 2001 donors' conference. It will be entirely appropriate for donor countries to seek, as the *quid pro quo*, specific steps to increase regional stability. Without positive progress by Belgrade, the risk of renewed conflict will continue to haunt the region.

The international community can readily influence the Yugoslav leadership by placing conditions on all bilateral and multilateral aid, including assistance from and Yugoslav participation in international financial institutions (IFIs), such as the World Bank, International Monetary Fund, and European Bank for Reconstruction and Development. The three key areas of conditionality should be: cooperation with ICTY; supporting international community policy in Bosnia by ending military aid to Republika Srpska and weakening the position of secessionist Serb forces there; and cooperation over Kosovo with UNMIK.

Belgrade still holds many of the keys to Balkan regional stability. Rather than risk strengthening inadvertently Serbian nationalist forces through politically unrestricted dispersal of aid, donors should require Belgrade to take concrete, practical action that will also strengthen its own democracy and increase confidence among its neighbours.

The donor community must realise that – given current politics in Belgrade and the condition of public opinion throughout Serbia – Yugoslav action to allay regional fears and create regional cooperation will not occur without significant international pressure. The international community must use the very real leverage the FRY's economic and financial plight gives it to advance a positive agenda of regional stabilisation.

During the past nine years, the U.S. and EU have generally cooperated well over policy toward the FRY. Despite frequent disagreement on the fine tuning, they maintained effective sanctions, opposed and reversed Slobodan Milosevic's policy of "ethnic cleansing" in Kosovo, and assisted the political opposition and civil society elements that contributed to Milosevic's electoral defeat in September 2000 and his peaceful overthrow the following month. Ironically, this transatlantic cooperation threatens to fray at the moment when democratic processes and economic imperatives are slowly, inconsistently, but with a powerful logic forming a Serbia

(FRY) that can again play a prominently constructive role in the Balkan region and more generally in Europe.

Tactics, rather than ultimate objectives, today threaten to separate the U.S. and EU. The contention arises over the question of whether economic assistance should be withheld until major policies of particular concern to the international community have been adopted by the Yugoslav and Serbian authorities.

Briefly stated, the U.S., especially the legislative branch of its government, has been inclined to make such assistance conditional on the meeting of relatively explicit criteria like Milosevic's fate. The EU has considered that the policies desired by the West will be more readily adopted and genuinely applied if the aid is offered with fewer strings attached. Nevertheless, the EU applies and monitors progress on relatively broad categories of conditions such as respect for human rights and satisfaction of international obligations.

The International Crisis Group believes that recent events have given support to Washington's approach. However, U.S. views have become internally inconsistent. They divide, though not precisely, between the Congress and the Administration. The former initially set three conditions on American aid – cooperation with the ICTY, but also progress on human rights and minority rights (including political prisoners), and cessation of financial assistance to Republika Srpska security institutions in Bosnia. The latter has generally sought to narrow conditionality to ICTY cooperation, or, even more restrictively, to the Milosevic case alone. There are indications that the Administration would be content to achieve appropriate concessions from Belgrade on the ICTY generally, or on Milosevic personally.⁵⁵ More worryingly, it might be prepared – in the broader interests of transatlantic unity – to compromise even on this minimal conditionality when President Bush visits Europe in mid-June.⁵⁶

It would be a mistake for the international community to give up the conditionality tool, but it would also be mistaken to apply that tool as narrowly as many in Washington, let alone in European capitals, would be happy to do. At the same time, the U.S. and the EU should not split over the tactical question that threatens to divide them, in particular whether to hold the donors' conference on 29 June as planned. If the question of conditionality should widen into a rift, Belgrade might be able to obtain most if not all the bilateral and IFI assistance it needs by playing the EU against the U.S. If this were to happen, the negative effects would not be limited to shrinking Western influence on Serbian policies. U.S.- EU cooperation elsewhere in

⁵⁵ This inconsistency was evident in the 12 June 2001 decision by the IMF to grant a stand-by loan of some U.S.\$249 million to the FRY. The U.S. voted against the loan, citing legal problems over inadequate cooperation with ICTY. Yet, the FRY authorities recognised the significance of the fact that the U.S. had not lobbied others against the loan. "If the U.S. had wanted to block the decision, it would have found a way to do so", an economic adviser to the FRY government told Radio B92.

⁵⁶ U.S. law would appear to limit the degree to which American policy could retreat from conditionality. In addition to the McConnell-Leahy legislation that required the 31 March 2001 certification, for example, the 1996 Lautenberg amendment forbidding U.S. bilateral assistance to or support of IFI assistance for a governmental entity that does not cooperate with ICTY remains in force. Lautenberg has been used to block assistance to non-cooperative communities in Bosnia, including in Republika Srpska, but its scope is broader than Bosnia, and it can apply to national as well as local governments.

the Balkans would probably suffer as well, including in those places where it is most needed: Bosnia, Kosovo and Macedonia.

ICG believes, therefore, that it is essential to do three things:

- Maintain political conditionality on assistance to Serbia (FRY)
- Apply that conditionality to a range of issues and in a realistic, graduated fashion over a period of time rather than on a one-shot, single issue basis
- Apply that conditionality in a manner that keeps the U.S. and the EU together.

Belgrade/Brussels, 15 June 2001

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