



Summer Seminar for Young Public Servants



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CONTENTS

List of Contributors

List of Participants

Introduction

Irena Mladenova

Panel: EU Enlargement

Bulgaria's Progress in the Negotiations with the European Union

Russi Ivanov

Aspects of the Economic Criteria for EU Membership

Georgi Ganey

The Political Criteria for EU Membership – The Rule of Law, Minority Issues – Progress and Outstanding Issues

Martin Brusis and Mathias G. Junkert

Photos

Panel: International and Cross-border Cooperation

The Role of Cooperation within the Mediterranean and the Danube-Black Sea Geo-economic Areas

Marcel Moldoveanu

Stability Pact and Cooperation in the Region

Jani Bogoevski

South Eastern Europe: Regional Cooperation, EU Integration and the World Bank

Oscar de Bruyn Kops

The Transformation of the EU Pre-accession Instruments in the Context of Enlargement

Tsvyatko Velikov

Photos

Panel: Good Governance and Anti-corruption Policies in the Public Administration

The Issue of Good Governance

Martin Brusis

Anti-corruption Policies in Weak States – General Framework and the Case of Romania

Sorin Ionita

The Combat against Bribery Transactions in Romania

Dragos Condrea

Photos

Panel: Security in Europe

Security in the Balkans

Dimitar Mircev

Photos

Panel: Interim Assessment of the Convention on the Future of Europe

The SEE Perspective

Antoinette Primatarova

Photos

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Introduction

The Economic Policy Institute, Sofia in cooperation with the EURISC Foundation, Bucharest, initiated the Summer Seminar for Young Public Servants “Preparation for EU Accession” three years ago (September 2000), within the framework of the joint project of the Bertelsmann Foundation and the World Bank, Washington: “Towards European Integration – Network for Integration of Central and eastern European Countries into the European Union”.

This Summer Seminar seeks to provide expertise and insights through the participation of outstanding experts, governmental and EU officials. Special focus is put on urging active discussions amongst the participants and the speakers.

The Summer Seminar targets young public servants from countries in SEE region, who work in the field of European integration. The first two editions of the Seminar gathered participants from Bulgaria and Romania. And this year we managed to bring young public servants from Albania, Macedonia and Yugoslavia as well, and thus promoting regional networking on a broader basis.

We believe that cooperation and networking are crucial for promoting prosperity in the region. This initiative gives opportunity to young public servants from the region to get to know each other and share experiences. This Seminar is our contribution to promoting mutual understanding and exchange.

EPI maintains Summer Seminar participants’ network, and strongly encourages follow-up meetings and exchange. The positive feedback also encouraged us to continue with this initiative, and we hope to be able to sustain and even broaden the scope of participants next years.

We would like to thank all the organizations and governmental agencies who supported us during the past three years and made this seminar happen:

- Bertelsmann Foundation;

- Ministry of Foreign Affairs of the Federal Republic of Germany, the Embassy of the Federal Republic of Germany in Sofia;
- The Netherlands Embassy special fund for support to the Bulgarian transformation (MATRA KAP fund)
- The Assistance Programme for CEEC and NIS of the Federal Ministry for Foreign Affairs of the Republic of Austria;
- The Central European Initiative

We would like to thank also the Ministry of Foreign Affairs of the Republic of Bulgaria for supporting this initiative throughout the years.

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Summer Seminar “Preparation for EU Accession” 2002, Group picture

Bulgaria's Progress in the Negotiations with the European Union

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In the course of the past year Bulgaria has achieved a significant progress in the negotiations with the European Union. We opened negotiations on all remaining chapters and during the last two Presidencies of the European Union (EU) – the Belgian and the Spanish one, we have provisionally closed 10 chapters. In the course of the Spanish Presidency – the most successful Presidency for Bulgaria - we managed to close 6 chapters – Economic and Monetary Union; Social Policy and Employment; Institutions; Free Movement of Goods; Free Movement of Persons; and Taxation.

At the extraordinary session of the Intergovernmental Accession Conference held on 29 July during the Danish Presidency, Bulgaria provisionally closed also Chapter 25 - Customs Union.

Until now Bulgaria has provisionally closed 21 chapters, which means that we are close behind the 10 candidate countries that are more advanced in the negotiations.

By closing the Free Movement chapters (free movement of goods and free movement of persons) we successfully finished negotiations on those particular chapters that represent the very essence of the Internal Market. In this way, Bulgaria has actually proved that it has advanced in the fulfillment of the economic criteria for EU membership: functioning market economy and ability to cope with the competitive pressure and market forces in near terms.

Behind these figures there are a lot of efforts and some heavy and unpopular measures that we have to be introduced in our economy in order to be in line with the other candidate countries and be part of the fifth enlargement of the EU. For example, with regard to Chapter 1: “Free Movement of Goods”, Bulgaria has to introduce data exclusivity – a protection measure on generic pharmaceutical products as of the end of this year (2002). This is the same model like for Hungary, however Hungary will accede to the EU in 2004 and respective compensatory mechanisms will then help this country

with regard to this measure. This does not apply to Bulgaria. Until now we have not mutually committed a target date for accession. Another example is the introduction of VAT on all pharmaceutical products as of January 1, 2002. All these measures proved to be very hard for the newly privatized Bulgarian pharmaceutical industry, the public health funds and the Bulgarian citizens.

Bulgaria has identified very exactly and precisely these difficult moments in the negotiations and has put them in the supplementary information on various chapters. So these supplementary pieces of information contain a few but tangible and subject to monitoring commitments. Besides, we have laid down these commitments in the Action Plan elaborated for the periods of the respective EU-Presidencies and related to the Strategy on Acceleration of the EU-negotiations. By doing so Bulgaria wishes to facilitate monitoring on the commitments taken in the negotiations.

Actually, our achievements in the process of the EU-negotiations are reflecting the progress of reforms in the country, the compliance with the political and economic criteria for EU membership, and the establishment of a favourable business climate that would guarantee economic growth and security of society. This progress reveals our efforts to reform the judiciary system, to fight against corruption, to strengthen the administrative capacity of the country, to create suitable economic conditions for small and medium-sized enterprises, to build economic zones and to attract major investors. In short, Bulgaria is a different country today as compared to the time when it embarked upon the road of reforms. The process of negotiations takes into account the changes occurring in Bulgaria. By focussing our efforts on the rapid and effective introduction of reforms, we are simultaneously speeding up our preparation for accession.

What do we expect in the further negotiations:

Bulgaria considers realistic its schedule for completing negotiations till the end of 2003 and acceding to the European Union as of January 1, 2007. It has presented its position on the increased pre- accession financial assistance and market access, which are intended to fill the gaps that will emerge between Bulgaria and Romania, on the one hand and the 10 new EU member countries, on the other hand in the period from 2004 till 2007.

This gap will increase because the new acceding countries will benefit from their participation in the structural funds as well as from the direct payments system of the Common Agricultural Policy (even though they may receive at the beginning only 25 % from the EU-average level). This explains why the essence of our proposal was that the enhanced pre-accession strategy and financial aid should be equal to the allocation of funds and direct payments for the new EU members. Only in this context we could expect that the existing difference between my country and the ten from the first wave will be diminished. We expect an intensive dialogue on these issues in the period of drafting the enhanced pre-accession strategy, as promised by Commissioner Verheugen during his visit in Bulgaria last May.

We hope and expect that the 2002 Regular Report and the Strategy Paper will recognise Bulgaria's progress providing the necessary ground for the EU Summit in Copenhagen in December 2002 to confirm our target date, supported by a Road Map, enhanced Pre-Accession Strategy and increased financial aid.

Such clear messages are of a tremendous importance for the public opinion in Bulgaria. The unpopular and difficult economic decisions without being backed by concrete support may give rise to concerns that in spite of its efforts Bulgaria could be left for indefinite period out of the wider Europe. And this will not be a good example for the region of South Eastern Europe.

It is in the interest of all European countries to re-unite the natural geographic, geopolitical and cultural parts of our continent.

Aspects of the Economic Criteria for EU Membership

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The economic criteria for membership in the European Union (EU) have different aspects, which are relevant for the developments and the policies in Bulgaria until, and after the membership becomes a fact. They are related to both the formal, and the substantial aspects of the two economic criteria, and affect both the negotiation process, and the tasks of the Bulgaria public administration before and after the Bulgarian accession to the EU.

The present exposition deals with some of these aspects. They are, more concretely, the specific reasons for the choice of the two criteria, their individual “bureaucratic” life within the negotiation process, and their dynamic character and meaning for the actual integration of an accession country in the European Union.

- **Rationale of the economic criteria**

When the EU adopted the economic criteria for accession to the Union in the fifth wave of enlargement in Copenhagen in 1992, this decision was based on specific thinking about what it takes to be an equal and responsible partner in the common economic space. At the same time, the formulation of the criteria had to be such that they allowed both capacity for rigorous checking of the compliance, and flexibility to be adjusted to specific developments and individual circumstances.

Generally, the then members of the EU were concerned with two main aspects of the potential member states’ economies. The first was the inability of a certain country to introduce market distortions in the common market through specific policies, which strongly affect its macroeconomic balances, coupled with inability to use government intervention to put a country in a position to be eligible for significant aid through the EU structural funds in a manner, which is not justified by the philosophy of these funds.

The second concern of the then member states was that an acceding economy should be capable of having normal economic life and would not be forced by the competitive firms in the Union in a position to objectively need assistance due to inability of local firms to cope with the pressures.

These two concerns resulted in the two economic criteria for membership. The first concern was addressed through the demand that the candidates need to have a functioning market economy. Abstractly, when a functioning market economy is in place, the government cannot introduce significant distortions in the prices and in the market signals, which structure the incentives of economic agents. Thus, both introducing distortions affecting the whole common market and/or leading to the possibility of abuse becomes highly unlikely.

The second concern of the EU members was addressed by both criteria. The requirement for a functioning market economy meant that domestic firms in any candidate country would be put in an environment of authentic competition significantly before accession. The requirement for a candidate country to have an ability to withstand the competitive pressure of market forces in the Union meant that a significant proportion of the firms in the candidate country needed to demonstrate practical ability to compete with firms from the Union. To demonstrate this, a candidate country needed to show that its firms existed in approximately similar environment as their counterparts in the Union, and that they were sufficiently integrated in the production and distribution processes in the Union, so as to practically show their ability to cope.

- **The meaning of the economic criteria in the actual accession process**

Both criteria, thus, were rooted in specific and reasonable concerns of the current members of the EU. However, as anything put in words, they took a meaning of their own during the actual accession process and the negotiation for membership. Their formulation, with the goal of being flexible enough to allow adjustment to specific developments and circumstances, left large areas open to interpretation on the part of the EU.

In effect, the criteria turned out to be neither relative (the European Commission never stops explaining that comparisons between different candidate countries based on their regular reports about the economic criteria are unwarranted, because the criteria were not constructed to allow comparisons between different countries with their specific circumstances), nor to be absolute (there are no firm, quantitative and measurable

indicators which can point to a decision whether a country complies with the criteria or not).

The result is that there is a large amount of discretion on the part of the negotiating team of the EU with respect to whether a country complies with the economic criteria, and this discretion basically means that the opinion of the European Commission is by far the most important factor determining whether a candidate country is economically ready for membership. This discretion can, and often is, used as a tool in the negotiation process. This is a reality of accession, and should be recognized by the negotiating teams and the policy makers in the candidate countries.

Having said this, it needs to be noted that generally the European Commission has used its discretion reasonably to further the negotiation process, and, more importantly, the reform processes in the candidate countries. It has allowed the negotiators on the part of the EU to demand real rather than formal and nominal changes in the candidate countries, and to use a full range of “carrots” and “sticks” in their attempt to make sure that the future members indeed comply with the requirements and are “safe” from the point of view of the practical concerns of the member countries.

Thus the two economic criteria in practice boil down to actually convincing, based on real data and on the actual practices in the given candidate country, that the current EU members need not worry about the two initial concerns which stand behind the formal wording of the two economic criteria.

- **Dynamism of the economic criteria**

One very specific aspect of the economic membership criteria is their inherent dynamism, which renders them quite different from the political membership criteria. Changes in economic structure and procedures in the Union are much more, more regular, and quicker than changes in political structure and procedures. Therefore the environment in which the different economies of Europe function changes significantly, constantly and relatively quickly.

From the point of view of accession, this means that a candidate country may find its compliance with the economic criteria may change not only due to its internal reform processes, but also due to developments in the European market itself. Thus a country,

which at a given moment may have been in full compliance with the economic criteria at some point, may turn out to have an inadequate structure at another point of time. Also, elements of a country's economic structure, which may have been adequate under certain conditions, may turn out to be inadequate to support the other elements of economic structure unless they are significantly reformed.

For example, the experience of Bulgaria's legal system shows that with some qualifications it may be judged as adequate to secure the normal functioning of the market economy and can service the normal economic activity. However, it can easily be seen how if further significant reforms do not happen to this system, and if normal growth, adjustment and integration of the Bulgarian economy to the global one continue, this adequacy will quickly cease, and Bulgaria will again not deserve the qualification of being a functioning market economy.

Thus, at the policymaking level it is important to view the compliance with the economic criteria not as a state, but as a process, which includes the achievement of an appropriate level of flexibility and adaptability of the given country's economic structure to both internal and external changes.

The Political Criteria for EU Membership – Rule of Law, Minority Issues–Progress and Outstanding Issues

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In 1993 the Copenhagen European Council agreed on certain political criteria to be met by accession candidates, which meant in particular the stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for minorities and their protection.

Four years later, the Luxembourg European Council stressed furthermore that meeting the political criteria was an indispensable precondition before entering into accession negotiations, whereas the economic criteria should be considered in a dynamic, future-oriented perspective.

Institutional stability is different from “consolidation of democracy”. Consolidated democracies can, for instance, be defined by double change of government through democratic elections. Moreover, there is not necessarily a relation between the legitimacy of democracy and its efficacy. Even if there is a lack of institutional consolidation of constitutional organs, representative consolidation (which means the position of parties and interest associations), behavioral consolidation (are there veto actors and if, do they threaten stability?) and finally cultural consolidation (civic culture), the legitimacy of democracy is not touched necessarily.

According to the assessment of the European Commission and the Council, all candidates, except Turkey, met the political criteria in 2002. In 1997, also Slovakia did not manage to fulfil this criterion.

- **Problems Across Countries**

1. Reform of the Public Administration for more Efficiency, Transparency and Accountability

For years, the European Commission has been observing the candidates' efforts regarding the reform of public administration and is emphasizing the importance of efficiently implementing, not only adopting laws.

However, there does not exist any EU blueprint, because the specific design of public administration is essentially a domestic affair, and therefore a matter of national sovereignty.

In general, the European Commission requests a Civil Service Law, as well as independence, professionalism and stability for all candidate countries, including a Code of Ethics for civil servants and an Access to Information Law, as well as an overall decentralization of public administration.

2. Corruption

Since corruption is a great threat for market economies and free competition, the European Commission again and again requested anti-corruption strategies in all candidate countries. But corruption is still considered a reason for concern though all candidates have made more or less progress in this field.

3. Strengthening of the Judiciary: Does the Judicial System Work Efficiently ?

Concerning the judiciary, the Commission has always stressed the importance of an efficient and independent judicial system. On the one hand, progress has been noticed, for instance in the field of criminal proceedings. On the other hand, the Commission criticizes single candidate countries because of scarce budgetary resources for courts, lacking accountability of the police and insists on the modernization of Penal Codes.

5. Human rights and discrimination of Roma

With regard to human rights issues, single candidate countries need to deal with specific human rights concerns. In Romania, homosexuality has been decriminalized. The reform of the childcare institution is well under way, but living conditions should further be improved.

Regarding police behavior in some candidate countries, more human rights training is needed, as cases of ill-treatment are reported to the European Commission. Furthermore, efforts need to be taken to fight trafficking in women and children. Since 2000, the EU has attached high importance to the implementation of the Directive No. 43/2000 on the equal treatment of persons, irrespective of their racial or ethnic origin.

6. Minority issues

In Slovakia, the use and protection of minority languages was enhanced, as well as in Romania, where university teaching in Hungarian has been established. In the Baltic States the integration of non-citizens and legislation on the state language continues to be an issue of concern and has been implemented.

• **Political Stumbling Stones**

Despite all positive steps towards EU enlargement, there are still certain topics that have remained unsolved so far.

1. The question of Cyprus is one very prominent example that could hinder the whole enlargement project for years. There is not any agreement yet between leaders of the Greek and the Turkish Cypriots regarding future re-unification. The EU supports the membership of one single Cypriot state, but has committed itself to accept the Greek Cypriot Republic as an EU member. Otherwise there would be a threat that the Greek parliament could block EU enlargement. If the envoys Denktasch and Klerides fail to agree on a form of federation, the Turkish part will not be integrated into the EU, which makes a severe Turkish reaction possible.

2. With regard to the post-war decrees of the Czechoslovakian president Benes (so-called Benes decrees), depriving ethnic Germans and Hungarians of their property and citizenship and being the basis of mass expulsions, it has been criticized that the decrees would be incompatible with the non-discrimination principle of the EU Treaty. Legal assessment was initiated, but recently it was confirmed that the Czech legal system does not contain any discriminatory provisions. Nevertheless, Austrian populist movement may oppose against EU enlargement due to the Benes decrees.

3. The referenda in Estonia and Latvia will decide on the integration of these countries into the EU. Since it is not clear yet, whether people will vote in favor of an accession, the EU could be confronted with another stumbling stone.

4. Finally, there have been disputes about the number of seats in the European Parliament for deputies representing Hungary and the Czech Republic, a conflict still to be settled.

5. However, on 19 October 2002, the EU got over another hurdle. The Irish people finally ratified the Nice Treaty, which describes the institutional framework of the enlarged Union. Without the Irish agreement, the enlargement would have been blocked for an uncertain period.

Schedule of the enlargement process

- Common Position on CAP, Regional Policy, Financial and Budgetary Provisions and Institutions already adopted;
- 23/24 October, the Brussels European Council names countries that could conclude negotiations; Council agrees on financial package in early November;
- 16 December 2002, the European Council in Copenhagen decides on those countries an accession treaty is to be concluded with;
- Spring 2003 - signature of the Accession Treaty; until December 2003 ratification of the Accession Treaties by the EU member states and the accession countries;
- 1 May 2004 - begin of membership. For Bulgaria and Romania, the European Council of Copenhagen will adopt an updated Road Map and a revised/enhanced Pre-accession Strategy.

With regard to the accession process, the European Union always tried to be seen as a partner within the negotiations and as a referee concerning accession preparation. But it should be mentioned that there has been a lack of clear sub-criteria measurement and equal standards for all candidates. It remains to be seen, if the accession preparation in the recent years has been the best way to improve the functioning of democracy. As a matter of fact, accession preparation proved to be a bureaucratic and technocratic process where executive power often stands against parliaments and citizens.

Panel: EU Enlargement



Irena Mladenova, Executive Director, Economic Policy Institute, Sofia and H.E. Christian Faber-Rod, Ambassador, Royal Danish Embassy, Sofia



Irena Mladenova, Executive Director, Economic Policy Institute, Sofia; Georgi Ganev, Program Director, Center for Liberal Strategies, Sofia and Martin Brusis, Senior Researcher, Bertelsmann Group for Policy Research, Center for Applied policy Research, Munich



Discussions during the Working Group on Economic Criteria for Accession .



Irena Mladenova, Executive Director, Economic Policy Institute, Sofia; Russi Ivanov, Head of Department, European Integration Directorate, Ministry of Foreign Affairs, Sofia; Radu Dobre, Senior Expert, EU Directorate, Ministry of Foreign Affairs, Bucharest

The Role of Cooperation within the Mediterranean and the Danube-Black Sea Geo-economic Areas

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The beginning of a new Century and Millennium brought the major shifts in the evolution of the political-diplomatic, economic and cultural-human international relationships, imposed a new philosophy on the architecture of the world having a favorable impact on the regional and global co-operation and integration process, manifested in:

- The deeper restructuring and economic and social reform in Central and Eastern Europe, as well as in other fields in the developing countries;
- The stronger international trade flows, as liberalization of world trade is progressing continuously;
- The gradual opening up of financial markets and the constantly wider international flows of capital, under the form of direct investments (the major actors being the transitional corporations);
- The extremely rapid developments of technology;
- The persistence of a strong gap between the developed and developing countries and of an enormous diversity within the latter, with a steady economic growth, occurring in South Asia and in certain regions of Latin America, but insufficient in a large number of African countries;
- More rapid development of co-operation at regional and sub-regional levels by creating viable nuclei revolving within the world's major geo-economic and strategic areas; the European Area, the North-American Area, strongly opening up towards Latin America; the Asia-Pacific Area.

“The Economic frontiers” have registered a greater mobility. The space for productive activity, for trade, as well as for circulation of goods and persons becomes globalized. I consider that the phenomenon of globalization of economy will be marked by the sharply stronger interdependencies between the states of the world, but on the background of conditions specific to the respective geographic areas and national realities.

One can appreciate that the interdependence and the relations of complementary between the various players in the world economy will lead – in the 21st century – to new approaches to the co-operation within the Adriatic-Mediterranean and Danube-Black Sea geo-economic and strategic areas. The strategy of co-operation within the two vast regions of the world will have to bring about the creation of a framework conducive to developing bilateral and multilateral relations and to correcting the negative trends, allowing an upturn in economic growth. Despite some limits and insufficiencies and some particularities pertaining to history, to material and spiritual culture, the Mediterranean and Danube-Black Sea countries belong to the same civilization and are subject to the same systemic shifts, just like other regions of the world.

The Adriatic-Mediterranean-Danube-Black Sea ensemble's European and universal vocation has a double significance, namely:

1. The wide opening up towards the African world, the Middle East's and Asia's world, which the Mediterranean region can achieve within the Euro-Mediterranean Partnership (Africa's and Middle East's world will be-long-in a new global context and at a new parameters – to the European area of influence);
2. The opening up towards the North, Central and Eastern Europe, which the Danube-Black Sea Area will be able to carry out as a result of setting in motion the Rhine-Main-Danube Canal.

I think that, in working out the co-operation equation, we must take into consideration the defining co-ordinates which will trace the evolution of co-operation ties within the Mediterranean and Danube-Black Sea ensemble in the 21st century, namely:

- a) The geographical proximity, having favorable effects on participants in the co-operation ventures, effects generated by: lower transportation cost; more rapid trade flows; better knowledge of market requirements and a more realistic evaluation of the degree of complementarity between various economies;
- b) The ample resources of mineral, agricultural and energy raw materials which can be turned to better use at regional and global level;

- c) The increased accumulation within some groupings, such as the custom unions and the free trade areas, exerting positive effects on inter-regional trade exchanges and on the share held by the member countries in inter-regional trade;
- d) The imperative of rapidly joining the new European and world structures, despite certain contradictions and peculiarities and the dialectical play between the forces favoring co-operation – on one hand – and those which still support polarization – on the other.
- e) The necessity to increase the power of negotiation at regional and global level.

In defining the guiding principles of co-operation, one should also take account of the fact that the two areas are in a crucial stage of shifts and restructuring, as there are strong tensions and gaps in their levels of economic and social development. The actual situation reflects the persistence of macro- and micro- economic disbalances, particularly within a large number of developing countries in North Africa and the Middle East, as well as of Central and Eastern European countries, which are in the midst of restructuring and reform process.

It is considered that setting up of the **World Trade Organization (WTO)** will bring an increased contribution by regional and sub-regional agreements to the strengthening and liberalization of the trade exchanges. Creation of WTO aims, in fact, as one of its major objectives, to reduce the risk of deviating the trade flows, thus causing unfavorable effects, especially on countries which are facing great economic difficulties, as these countries are not members of regional economic groupings or bodies. Illustrative in this sense is the unanimous position adopted by the 15 member states of the European Union at the multilateral trade negotiations, expressing the opinion that “regional groupings favor a system of world exchanges, which should be more open”. Moreover, the WTO ministerial meetings had as a main object settlement on the creation and implementation of an international framework leading to harmonization of world trade competition rules.

In this vision, many Mediterranean countries and those in the Danube or Black Sea areas, still outside the EU (undergoing the state of joining or that prior to this process

and experiencing major economic difficulties in their transition to a market economy) – will be able to use the opportunities offered by the new trade and co-operation agreements and conventions. With the rising absorption capacity of the Mediterranean-Black Sea regional ensemble, these markets – freed from a series of administrative and technical obstacles – will be able to trade a large range of domestic products which do not have access to the European Union or to other world markets.

I think that in defining and evaluating the development of the co-operation ties within the two regions, one must take into account the experience gathered (achievements, but also limits and insufficiencies) in this process in other regions of the globe.

The fact that the programs of regional co-operation and integration in Africa, Latin America and Asia have brought about neither an expansion of interregional trade - as required by the objectives set in this respect - nor a finality of some industrial or infrastructure projects, has resulted from both, the structural deficiencies of these economies (which have limited the potential efficiencies of the concluded agreements) and also from the incompatibility between some national and regional strategies.

Regional co-operation agreements and Foreign Direct Investment – FDI can and must stimulate competition, contribute to higher productivity through the introduction of up-to-date, non-polluting technologies, both in production, services and in the field of education. It is a positive fact that the negotiations within the OECD are heading towards the necessity to conclude a multilateral agreement on investments, by creating a common framework, sharing common interest and not as a North-South relationship.

It is essential that regional arrangements should eliminate discrimination against third parties.

The Adriatic-Mediterranean-Danube-Black Sea Areas (where some of the world's most important material, financial and human resources are concentrated, with an exceptional tourist potential and an infrastructure, which is being modernized) have the conditions conducive to carrying out efficient co-operation projects.

The principal fields open for co-operation are: the transport and telecommunication infrastructure, the energy system, ecology and tourism, the small and middle-sized

industries, trade exchanges. It is essential that we should think together over the possibility of carrying out programs to strengthen co-operation in the field of science and culture in order to bring about a viable cultural community.

The phenomena of economic recovery and upswing, conspicuous in many countries within the two areas (in the context of continuation of privatization process) and correlated with a strengthening of co-operation at regional level will lead to increased attraction of foreign direct investments. This phenomenon will perhaps be visible not just as a transfer of financial resources, but especially in quality terms, as a result of technological and managerial inputs.

The world economic trends reflect the deepening of the economic-social differences, the disfunctionalities on the international financial and currency markets and the rise of degree of concentration of the Foreign Direct Investments (FDI). In this way, while ten countries of the world receive two thirds of the total volume of the global investment, other ten countries have gained from only 1 % of this volume.

However, the countries in the Black Sea and Danube area received a low volume of external investments in the first half of this decade.

In working out the co-operation programs to be carried out within the two regions one must take account of the major factors stimulating **the Transnational Corporations and FDI** activities in this part of the world. Namely, the activities based on advanced, modern technologies, on a highly skilled labor force, the use of simple, efficient forms of economic and technological management.

The evaluation of viable ways and modalities of development co-operation ties within the geo-economic and strategic Mediterranean-Black Sea areas – in the context of the evolving regional and world integration and co-operation – requires a series of conclusions:

- The strengthening of co-operation will have to lead to a solid economic foundation, with positive effects on regional security and stability, and to increased negotiating power of this regional groupings in international relations;

- The sine qua condition for implementing a viable strategy – in the framework of world competition – within the two areas is the intermingling of two essential components, namely:
 - a) Promoting dynamic and efficient co-operation ventures at regional level, having positive effects on economic growth and competitiveness on world markets;
 - b) A large opening up towards the other major geo-economic areas of the world (the American Area and the Asia-Pacific Area), whose contribution to shaping the world's evolution is decisive.
- The strengthening and diversification of co-operation within the two regions is not an alternative to the general and objective process of European integration, but a complementarily intended to give full value to material and human efforts made by participants in the co-operation agreements, with a view to a more rapid development and modernization of economic and social structures;
- The development of economic, tech-scientific, as well as cultural and human co-operation within the two areas will bring about an adequate distribution of efforts, a mutual exchange of values and information, with favorable effects on the countries in the region;
- Co-operation ties must, however, evolve in the sense of pointing out veridical ways, which would remove the assumption and the reserves (fears) expressed by some analysts and executives, according to which the launch and multiplication of regional and sub-regional agreement will stray the international trade system towards closed regional blocs, which would hinder the globalization process;
- Development of economic, tech-scientific, cultural and human cooperation within the two areas will generate a better allocation of efforts, a reciprocal exchange of values and information, having positive effects on the countries in the region;
- The co-operation ventures to be concluded within the two areas can and must be an adequate instrument of attracting foreign investments, as they are considered the most efficient mechanism for implementing know-how and for carrying out large scale economic objectives. The development of free

zones in this region will offer – through the custom and tax facilities – opportunities for carrying out a number of complex economic activities, that might capture foreign investments, high technologies implicitly.

The financial regional institutions must be endowed with sufficient resources in order to sustain the structural reforms and to carry out projects of general interest. At the same time, the joint programs and projects to be carried out through co-operation must find audience with the European and world financial bodies. Carrying out – more efficiently – the co-operation programs implies – along with the own effort made at national and regional level – an increased contribution by the international financial institutions (the World Bank, the International Monetary Fund, the European Development Bank etc.). Important financial resources could be attracted to co-operation ventures, once the reconversion of the arms industry speeds up on a European scale. It would be unjust and uneconomic to destroy and not to efficiently use this huge military potential – built up through huge material efforts – for economic development.

In this sense, there is a need for stronger macro-economic stability of the states in the region, which would increase their credibility before foreign investors.

Completion and efficiency of some bilateral, three-partly or multilateral co-operation ventures is, however, conditioned to a great extent upon the existence within the grouping or the respective community of a well-developed transport and telecommunications infrastructure and of a modern marketing and distribution network.

The co-operation ventures and programs to be initiated and carried out in the Adriatic-Mediterranean and Danube-Black Sea Areas may represent – by their large scale and efficiently – attraction points for more countries, which - although not geographically belonging to the two areas – are receptive to new approaches to the world economic phenomena, obviously depending, on their economic interests and on the new world geo-political co-ordinates.

The future of co-operation within the two areas will have to be tackled according to the new dimensions of the strategy of development, namely the economic dimensions, and the political and the (subtle and constructive) diplomatic dimension, which will all be increasingly interdependent.

I would like, with your approval, to make some considerations on the future of co-operation within the Adriatic-Mediterranean and Danube-Black Sea Areas, mainly consisting of:

1. Working out a Gradual Co-operation Program, having as objectives:
 - a) Promotion of regional economic interests in relation with other geo-economic areas of the world;
 - b) Launching Partnership and Co-operation Agreements, which would define viable ways of developing trade and carrying out projects in fields of common interests;
 - c) Promoting foreign direct investment – under a medium – and long term strategy – which would allow a transfer of high-performance, non-polluting technologies, would help implement new management and marketing methods and would facilitate free access to the international network of information and marketing, especially those already present in the region. Preparation of the Program and monitoring the way it is carried out would have to be assured by a non-governmental group of analysts and experts.
2. In defining and wording the priority co-operation objectives, there is a need for combined efforts by analysts and decision-makers, which would – a priori – lead to harmonizing positions. This desire is brought about by the fact that – under certain circumstances – the co-operation strategy adopted by some bodies and institutions, sharing a regional vocation, might contradict – in some points – a number of differing options and priorities, which are considered as expressing national interests.
3. In defining the framework for co-operation and participation of various players in this process, we must not start from the temporary phenomena facing – in this stage – a large number of countries within the two major regions (particularly countries in South-East Europe, in North Africa or in the Middle East), but from an objective evaluation of their material, financial and human potential, which will be able to enter the regional and world flow of values, as well as the fundamental co-ordinates of their development strategy.
4. In working out the co-ordination programs, one must take account - at the same time –the better knowledge of the methods of work of the OECD

Development Center on giving assistance on this field, as well as adapting these methods to their national and regional peculiarities. It might focus its attention on organizing conferences, seminars, colloquies etc. And on working out studies and summary papers, tackling the fundamental problems of developing sub-regional and regional co-operation.

By the virtue of the postulate “form of national, through the regional towards the universal”, which today is more truthful than any time – we must start off from global reflections, but work at a national level, to carry out, through permanent negotiations, a viable co-operation strategy at regional and sub-regional level. In this prospect, there is a need of thinking over the ways to integrate the former Yugoslavia Area within the new European architecture, with positive effects on world peace and security.

In spite of some specific features – owing to their different stage of economic and social development, technological level, material and financial potential – the countries of the Mediterranean and the Danube-Black Sea Areas follow the same systemic changes like the other world regions and have common objectives concerning the economic objectives concerning the economic and social development, peace and security maintenance.

Defining responsibilities within the development strategy at the level of the Mediterranean and Danube-Black Sea geo-economic areas in the prospect of the early 21st century, however **calls imperatively for combining – on multiple levels – the own effort with that of the international community** which would give co-operation a new structure. Through its geo-strategic position and its sphere of culture and civilization, the Adriatic will undoubtedly be the bridge linking the Mediterranean and the Danube-Black Sea Areas, giving new dimensions to co-operation ties at sub-regional and regional levels.

The Stability pact and the cooperation in the region

Jani Bogoevski

Expert WT II - Investment Compact, Office of the Special Coordinator of the Stability Pact for South Eastern Europe, Brussels



Ladies and Gentleman,

First of all I would like to thank you for inviting me to participate in this seminar on behalf of the Stability Pact for South Eastern Europe. Allow me also to thank our hosts for the excellent organization of this seminar.

I will start my presentation with a short introduction of the Stability Pact and then I will speak more about trade relations and the prospects for investments in the region. I suppose that most of you will agree with the opinion that the Stability Pact was (and is!) the first serious attempt by the international community to replace the previous, reactive crisis intervention policy in South Eastern Europe with a comprehensive, long-term conflict prevention strategy. On 10 June 1999, at the EU's initiative, the Stability Pact for South Eastern Europe was adopted in Cologne. In the founding document, more than 40 partner countries and organizations undertook to strengthen the countries of South Eastern Europe "in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region". European and Euro-Atlantic integration was promised to the countries in the region. The Stability Pact is based on key experiences and lessons from worldwide international crisis management. Conflict prevention and peace building can be successful only if they start in parallel in three key sectors: the creation of a secure environment, the promotion of sustainable democratic systems, and the promotion of economic and social well-being. Only if there is progress in all three sectors can a self-sustaining process of peace be achieved. The Stability Pact is a political declaration of commitment and a framework agreement on international cooperation to develop a shared strategy among all partners for stability and growth in South Eastern Europe. The Stability Pact is not a new

international organization nor does it have any independent financial resources and implementing structures.

Organizationally, the Stability Pact relies on the Special Coordinator, Dr. Erhard Busek, and his some 30-member team. His most important task is to bring the participants' political strategies in line with one another, to coordinate existing and new initiatives in the region and, thereby, to help avoid unnecessary duplication of work. The headquarters of the Special Coordinator and his office are in Brussels.

One of the basic principles of the Stability pact is regional ownership. Cross-border and regional cooperation is of paramount importance for the stability and prosperity of the region. The infrastructure improvements are one of the most visible signs of progress for the people in the region. On the other hand we (the SEE countries) should be realistic in our expectations for financing of new projects, particularly in view of declining level of donor finance support.

There is substantial regional cooperation in energy, especially electricity. The EC-led Regional Electricity Market initiative is crucial in this and will be complemented by an assessment on prioritization of investment needs initiated by the Stability Pact and supported by the German KfW study.

The Special Coordinator chairs the most important political instrument of the Stability Pact, the Regional Table. There are three main priorities (within so called Working Tables) and added value from the Stability Pact:

- Assist the countries of the South Eastern Europe to come closer to the EU (through signing SAP and becoming full members of the Union);
- Cross-border and regional cooperation-building market economy;
- Keeping stability and helping in resolving the remaining political issues between the countries of the region.

The structure and working methods of the Stability Pact are modeled on the OSCE process. A special feature is that at Regional and Working Tables, representatives of the South Eastern European countries are, for the first time, on an equal footing with those of international organizations and financial institutions in advising on the future of their

region and in jointly setting priorities concerning the content of initiatives in all three working areas.

The European Commission and World Bank were appointed to coordinate the economic assistance measures for the region. They jointly chair a High-Level Steering Group in which the finance ministers of the G8 countries, the country holding the EU Presidency and the Netherlands work together with the representatives of international financial institutions and organizations and the Special Coordinator.

What does the European Perspective mean?

In the founding document, the EU, which has assumed a leading role in the Stability Pact, undertakes to draw South Eastern Europe "closer to the perspective of full integration... into its structures", including eventual full membership. The European Union and its Member States are collectively the most important donors in the region.

Moving toward European structures includes, in principle, the possibility of full membership of the EU. Countries wishing to be admitted must, however, first meet the minimum conditions defined by the Council on 29 April 1997 concerning democratic, economic and institutional reforms.

As a contribution to the Stability Pact and an interim step towards membership, the European Union set up a new generation of Stabilization and Association Agreements (SAA). They are aimed at the five South Eastern European countries which so far had no contractual relationship with the EU, i.e. Albania, Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia and Macedonia. The EU signed the first SAA agreement with Macedonia in April 2001. A similar agreement with Croatia was signed in October 2001.

I intend to speak more about trade relations between the countries of SEE and the prospects for attracting more investments.

The countries of South Eastern Europe recognize their responsibility to work within the international community to develop a shared strategy for stability and growth of the region and to cooperate with each other and major donors to implement that strategy.

Seizing the opportunity to address structural shortfalls and unresolved issues will accelerate democratic and economic development in the region.

“These small economies must depend on international trade and foreign investment to stimulate competition, introduce new technologies and increase productivity in order to raise living standards and reduce poverty.”

This comment from a World Bank report¹ on the countries of South Eastern Europe reflects the fully shared view of the Office of the Special Coordinator of the Stability Pact for South Eastern Europe (SP). Long-term sustainable economic growth in the region will only be possible if the countries are effectively integrated into the world economy. However, a decade of conflict and political instability led to economic disintegration in the region and delayed the introduction of market reforms.

Foreign investors are playing a significant role in the sustainable development of the SEE region, but capital flows have been modest relative to other emerging markets, neighboring Central and Eastern Europe in particular. Foreign investors remain cautious about the region's prospects for profitable investment opportunities. While FDI flows increased in 2001 (approx. 3 billion Euro in 2001 according to a recent EBRD report), the projected FDI flow to SEE for 2002 is virtually unchanged from that of 2001. This probably reflects, among other things, the decline in “big ticket” privatization and the danger of loss of momentum in the privatization process in some countries.

The impact of the conflict in the region and the resulting economic stagnation can be seen in the countries' trading relations. The EU is by far the biggest trading partner for these countries. However, the shift to EU has been less pronounced in a number of the SEE countries. Trade relations among the countries are quite varied, for example, each of the Bosnia and Herzegovina entities (the Federation and Republika Srpska) has strong relations with Croatia and FR Yugoslavia respectively, and little trade with each other. In 2001, there was still very little trade between FR Yugoslavia and Croatia and virtually none between Albania and Croatia. The composition of exports (merchandise trade) by product group has also changed little over the last decade. Conflict delayed

reforms, privatization and restructuring and this is reflected in the composition of exports.

From the outset, the Stability Pact identified trade liberalization and foreign direct investment as two key elements for the economic reconstruction of the region. In January 2000, the Stability Pact's Working Table II established the Investment Compact and the Working Group on Trade Liberalization and Facilitation. The main aim of both initiatives was to bring the countries of the region and the international community together to devise a way forward that will lead to sustained economic growth.

The SP Working Group on Trade provides a unique forum whereby senior trade officials from the eight countries of SEE, international organizations (European Commission, World Bank, WTO) and third countries (Germany, Switzerland, UK, USA) can work together to progress trade liberalization in SEE. The Group has been chaired by Macedonia since its establishment and the UK Government has provided funding for a small secretariat.

The remit of the Working Group – trade liberalization and facilitation – can be interpreted very broadly and the Group suffered initially from confusion among representatives as to its exact role and responsibilities. The decision to focus on trade liberalization and to define “a road map for liberalization” was vital to its success. It allowed the Group to devote its scarce resources to “doing a few things well” instead of trying to be “all things to all men”.

In January 2001, the Group, under the auspices of the Stability Pact, convened a Trade Policy Forum in Geneva in January 2001. This was followed immediately by a Ministerial meeting at which seven countries endorsed a Statement of Intent to liberalize trade in the region. They requested the Working Group to prepare a Memorandum of Understanding on Trade Liberalization and Facilitation before the end of the June 2001. On 27 June 2001, the Stability Pact Office hosted a special Ministerial meeting in Brussels. This meeting concluded with a formal Signing Ceremony for the Memorandum of Understanding on Trade Liberalization and Facilitation (MoU). The

¹ "Trade Policies and Institution in the Countries of South Eastern Europe in the EU Association and Stabilization Process." Poverty Reduction and Economic Management Group, Europe and Central

Signatories to the Memorandum (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Yugoslavia — Moldova associated itself to the process although with an extended timeline) also signed a Statement of Intent on Trade Liberalization and Facilitation.

This Memorandum is an ambitious document. It commits the Signatory Countries to take concrete trade liberalization and facilitation measures. These include:

- To complete a network of bilateral Free Trade agreements (FTAs) between all countries of the region by 31 December 2002, in accordance with specified provisions;
- To identify and abolish non-tariff barriers to trade;
- To assess the potential for regional cooperation in trade in services;
- To harmonize legislation across a number of trade related areas;
- To increase co-operation in areas such as standards and accreditation, competition and intellectual property rights; and
- To maintain open trade regime and pursue further trade liberalization within the context of the WTO.

This MoU was negotiated BY the Signatory Countries FOR the Signatory Countries, with support and encouragement from the international community. The Stability Pact generally operates under the assumption that this shared ownership is vital for the success of any initiative in SEE.

The task now facing the Working Group is to facilitate the implementation of these commitments by the Signatory Countries. The implementation process is monitored and facilitated through regular meetings of the Working Group, provision of technical assistance and on-going exchange of information on trade-related activities in the region.

The countries of SEE are making good progress towards achieving the first commitment of the MoU – finalization of a network of bilateral free trade agreements by the end of 2002. A total of 21 agreements are required (as Moldova came late to the process it is

not bound by this deadline). At the time of writing (July 2002), 10 agreements have been concluded, 9 are under negotiation and 2 negotiations are due to begin shortly.

While the finalization of the network of FTAs will represent a significant political and economic achievement, it is but a step (albeit a major one) in liberalizing trade in SEE. This is well recognized by the Stability Pact Trade Working Group. At the Ministerial meeting of the Group on 21 June 2002 in Sofia, ministers from SEE countries therefore endorsed a set of priorities for 2003. This ministerial statement, clearly identifies the key steps to be taken over the next year to:

- Implement the free trade agreements,
- Deepen integration; and
- Promote the new economic opportunities to the international business community.

The creation of a free trade area in South East Europe will act as a catalyst for increased trade and investment as businesses gain access to a consumer market of nearly 55 million people. Thus, the Stability Pact Working Group on Trade complements the activities of the Investment Compact.

The Investment Compact was created under the auspices of the Stability Pact in January 2000 as a mechanism to assist the countries of SEE to improve the investment climate in the region and to promote the region as a destination for much needed foreign direct investment (FDI). The Compact was originally co-chaired by the UK and the OECD. The OCED also provides the secretariat to the Compact. Austria has now succeeded the UK as co-chair.

The Investment Compact seeks to address all aspects of the investment climate including the legislative environment, competition, institutional strengthening, marketing and promotion. The creation of Country Economic Teams to research, promote and monitor improvements in the investment climate have given it unparalleled access to information on the region. The information provided by these sources allows the Compact to produce regular updates on the investment climate under its Monitoring Instruments series.

While improvements have been made in the investment climate, the continuing low level of FDI (compared to other regions) make it clear that significant reform challenges

remain. It is important to improve the overall investment climate and particular attention should be given to clear regulations, a level playing field, good governance and the application of the rule of law. There is an on-going need for institutional reform at all levels. The countries of the region have acknowledged the importance of institutional reform. On 18 July, 2002, they adopted a *"Declaration on Common Principles and Best Practices on Attracting Investment to SEE"*, which was prepared under the auspices of the Investment Compact.

This Declaration sets out the key principles and best practices that the participating countries will seek to apply in their efforts to improve the investment climate in the region. These include issues such as transparency, national treatment for foreign investors, simplification of administrative procedures, good corporate governance and removal of barriers to trade.

This Declaration represents a distinct awareness on the part of the SEE countries, that while financial assistance from the international community has helped SEE to begin the process of reconstruction and re-development, long-term sustainable economic development depends on private sector investment from both foreign and domestic sources.

It is true that the region has received inflows of foreign direct investment, but it is not nearly enough to address the capital, technical and managerial needs of the economies. The international community through the international financial institutions (IFIs) and the bilateral donors must continue to play a very active enabling role for private sector development in the region. However, countries of the region must act decisively to improve the investment climate in order to help themselves - no one else can or will do this.

The worldwide competition for mobile foreign investment is intense and the international marketplace is no place for the faint hearted. SEE requires greenfield investment to complement that secured through privatization. Countries must have a clear, long-term strategy to secure the most appropriate investment for their needs and must create a suitable investment climate to attract and *RETAIN* investors.

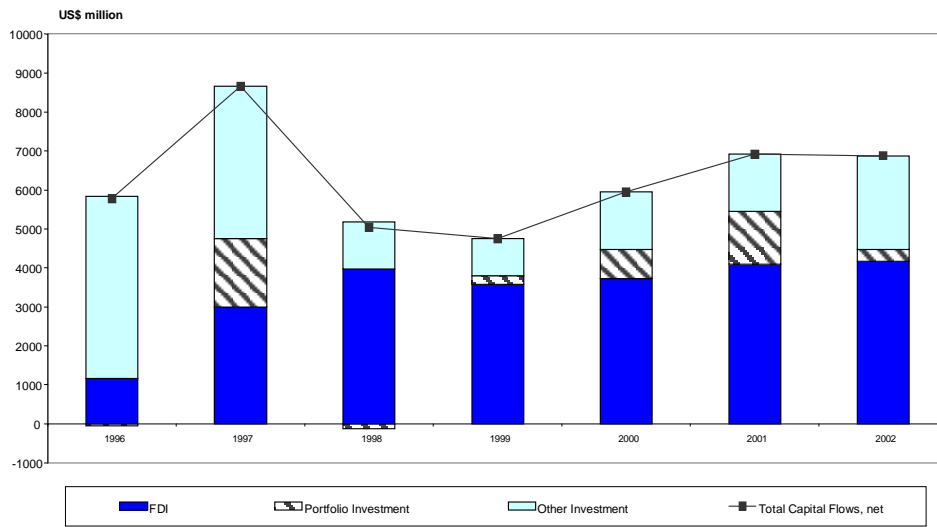
Therefore, the declaration is a very important signal to the investor community in the region and worldwide that SEE is serious about competing for international investment. Like the MoU on trade, the declaration is a vital first step – it must be followed by concrete actions to ensure these requirements are in place.

The declaration is also an important symbol of regional cooperation in SEE. It is recognition by the individual countries that potential investors look at the region as a whole – look at the importance of the network of bilateral free trade agreements in creating a free trade area. It is only by taking collective responsibility for the investment climate the individual countries of SEE will secure the FDI flows that are so necessary for future economic development. One bad story from the region can spoil 10 good ones.

The Stability Pact views the Working Group on Trade and the Investment Compact as valuable tools that are available to the countries of SEE. They each bring together a potent combination of resources, experience and expertise which the countries of SEE can avail of to assist with the implementation of much needed reforms and promote trade and investment opportunities to key target markets. To date, we can be pleased with the progress made. However, with the framework improved, it is up to the countries of the region to make the best use of these tools in order to maximize the benefits available.

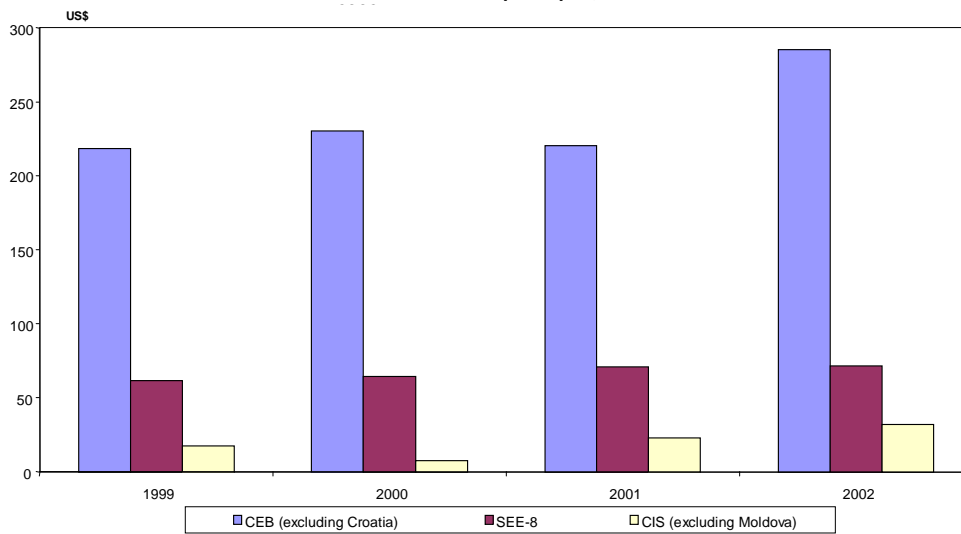
Thank you.

Chart 1: Total net capital flows to South-eastern Europe



Source: World Economic Outlook Database and EBRD Database
 Note: Figures for 2002 are forecasts

Chart 2: FDI flows per capita, 1999-



Source: EBRD Database
 Note: Figures for 2002 are forecasts

Table 3: Direction of Merchandise Trade 1992-2000 In Percent

EXPORTS															
MARKETS	ALBANIA			BIH			CROATIA			MACEDONIA			YUGOSLAVIA		
	1994	1996	2000	1994	1996	2000	1994	1996	2000	1992	1996	2000	1992	1996	2000
EU	77	86	90	39	44	65	59	51	55	40	43	44	32	38	38
OTHER DEVELOPED	13	2	4	14	7	3	3	4	6	15	10	17	n.a.	n.a.	n.a.
CEFTA	2	1	1	14	10	10	17	18	14	19*	9	4	4	6	9
W. BALKANS	5	3	2	11	34	11	10	14	15	17	28	33	n.a.	27	29
RUSSIA	0	0	1	17	0	3	3	3	1	n.a.	3	1	n.a.	5	8
DEVELOPING & OTHER	3	8	2	5	5	7	6	10	10	9	7	2	27**	19**	n.a.
IMPORTS															
SOURCE	ALBANIA			BIH			CROATIA			MACEDONIA			YUGOSLAVIA		
	1994	1996	2000	1994	1996	2000	1994	1996	2000	1992	1996	2000	1992	1996	2000
EU	77	76	77	18	37	44	59	59	56	36	39	38	44	42	42
OTHER DEVELOPED	10	8	7	6	5	3	8	8	9	11	11	10	n.a.	n.a.	n.a.
CEFTA	1	3	3	10	23	25	16	17	15	34	13	19	8	10	9
W. BALKANS	4	3	3	48	32	20	1	1	2	5	14	12	n.a.	10	11
RUSSIA	0	0	1	16	1	2	3	3	9	n.a.	8	9	n.a.	5	9
DEVELOPING & OTHER	8	9	9	1	2	5	11	12	9	14	15	14	n.a.	33**	19**

Totals may not add up to 100% because of rounding

* Includes Other Eastern Europe and former Soviet Union

** Includes Other Developed.

Source: Albania and Croatia, IMF (2001)



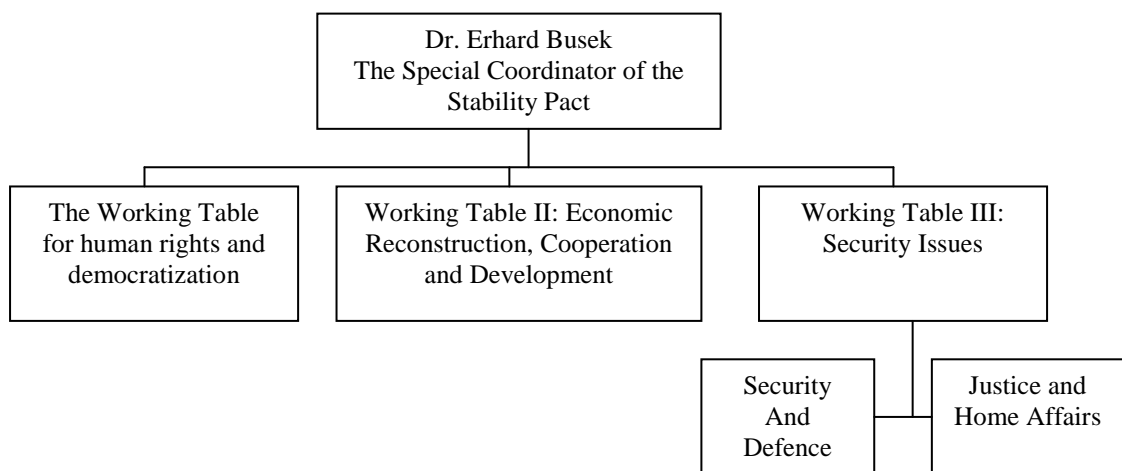
At the Ministerial Meeting, 27 June 2001 in Brussels, Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Republic of Macedonia, Romania and the Federal Republic of Yugoslavia signed the Memorandum on Trade, while Moldova signed a statement of intent to join the process.

Slides:

Stability pact and the cooperation in the region

- **Stability Pact-long-term conflict prevention strategy**
- **The Special Coordinator, Dr. Erhard Busek**
- **Three Working tables**

Organization Chart



Importance of Cooperation

- **European Perspective**
- **Precondition for EU membership**
- **Important element for stability**

Trade and Investments

Working Table for Trade liberalization and facilitation

Investment Compact for South Eastern Europe

No nation was ruined by trade-Benjamin Franklin

Trade relations before 2000 poor

Trade Working Group established February 2000

Ministerial meeting in Geneva – January 2001

Memorandum of Understanding

Signed on 27 June 2001 in Brussels

Seven countries plus Moldova

Basic principles of the MoU

- **To complete bilateral network of FTA's**
- **To identify and abolish non-tariff barriers**
- **To assess potential for trade in services**
- **Harmonization of legislation**
- **To increase cooperation in standards and accreditation, competition and intellectual property rights**
- **Maintain open trade regime according WTO**

Four elements of success

- **High level representation**
- **On spot expertise and advice**
- **Generous support of the International community UK, USA and EC**
- **Political will and support**

Investment Compact

- **IC Project Team**
- **Country Economic Teams-ministries, government agencies, international organization, private sector**
- **Three-phase process**
- **First - assessment of the investment conditions**
- **Second - identification of policy priorities**
- **Third phase – Implementation**

Investment Compact Strategy for 2002

- **The Monitoring Process**
- **Implementation of reform through selected RFI**
- **Private sector involvement**
- **Political Support for IC Activity**

Ministerial Declaration for Attracting Investments in SEE

- **Signed in Vienna 18.07.2002**
- **New investments – sustainable economic development**
- **Powerful messages to private business**
- **Important step for improvement of the investment climate in the region**

The Importance of the IC for SEE

- **Attracting and encouraging investment**
- **Improving the climate for investment**
- **Driving and monitoring the implementation policy reform**
- **Ensuring private sector involvement in policy reform**

South Eastern Europe: Regional Cooperation, EU Integration and the World Bank

Oscar de Bruyn Kops

Country Manager, World Bank Office, Sofia

Outline

- **Overview of World Bank Group**
- **Towards Regional Cooperation**
- **EU Integration and the World Bank**
- **Country Case - Bulgaria**

The World Bank Group

- **The International Bank for Reconstruction and Development (IBRD)**
- **The International Development Agency (IDA)**
- **The International Finance Cooperation (IFC)**
- **The Multilateral Investment Guarantee Agency (MIGA)**
- **The International Centre for Settlement of Investment Disputes (ICSID)**

What Does the World Bank Do?

- **One of the world's largest sources of development assistance**
- **Primary focus: helping improve the welfare of poor disadvantaged people**
- **It works in more than 100 developing countries and transition economies**
- **In fiscal 2001, it provided more than US\$17 billion in loans and credits**

World Bank Business Products

- **Lending Products:**
 - **Investment loans and credits**
 - **Adjustment loans**
 - **Programmatic loans**

- Analytical and Advisory Activities:
- Economic and sector work
- Policy dialogue/technical assistance
- Donor coordination & outreach
- Fee-based advisory services

Corporate Priorities

The World Bank Mission:

*Fighting Poverty with Passion and Professionalism
for Lasting Results*

Global Public Goods Priorities:

- Communicable diseases
- Environmental commons
- Information & knowledge
- International financial architecture
- Trade and integration

Corporate Advocacy Priorities:

- Investment climate
- Public sector governance
- Empowerment, security and social inclusion
- Education
- Health

Towards Regional Cooperation

The SEE Region

	1998 Population (millions)	1998 GNP (billions)	GNP Per capita
Albania	3.4	3.1	810
Bosnia&Herzegovina	4.2	4.0	920
Bulgaria	8.2	12.5	1.230
Croatia	4.6	21.3	4.520
FY Yugoslavia	10.6	17.4	n.a.
FYR Macedonia	2.0	3.5	1.290
Romania	22.5	38.1	1.390
SEE-7 Total	55.5	99.9	2.223

World Bank Assistance at Regional Level

SEE Cooperation with European Commission:

- **Coordinate economic recovery, reform and reconstruction, and aid mobilization**
- **Stability Pact for South Eastern Europe**
- **Regional Strategy for South Eastern Europe**
- **Opinions and regular reports**
- **Trade and transport facilitation program**

Comprehensive Regional Strategy

- **Regional strategy provides comprehensive framework for international community and SEE countries**
- **Two conditions were identified:**
- **A stronger and more consistent commitment to reform by the SEE countries**
- **Establishment of a credible and predictable path to European integration, to anchor expectations and provide incentives for reform and cooperate**

Comprehensive Regional Strategy

Four broad areas where progress is required across SEE countries:

- **Promote trade integration and create a stable, transparent and non-discriminatory environment for private sector development**
- **Strengthen institutional capacity, governance and anti-corruption efforts**
- **Foster social cohesion and social change**
- **Invest in regional infrastructure, including initiatives to safeguard the environment**

South Eastern Europe - The Key Challenges Ahead

Emergency and reconstruction have been dealt with, longer term challenges remain to be addressed:

- **Poverty:** low incomes, high poverty, high unemployment, inequality
- **Governance:** weak institutions, high levels of corruption, weak rule of law, limited and politicized civil society
- **Social cohesion:** unresolved tensions, access to services by IDPs and refugees, unresolved property rights, minority rights, Roma
- **Aid and financing issues:** decline in level and concessionality of aid flows, shift of attention to other parts of the world, insufficient mobilization of private investment

World Bank's role vis-a-vis SEE challenges

Bank priorities based on comparative advantage and complementarity with other donors:

- **Poverty:** Macro stability; investment environment; trade reform; energy and other infrastructure bottlenecks; health and education reform; environment
- **Governance:** Public expenditure management; public administration reform; anti-corruption; decentralization
- **Social Cohesion:** Social protection, social inclusion and local institutions building, community development in multi-ethnic or conflict-afflicted areas, youth programs
- **Aid:** Assessment of policy performance, investment priorities and funding needs; donor mobilization and coordination

EU Integration and the World Bank

The Dual Challenge of Transition and EU Accession

- **Transition:** economic, social and institutional reforms to move SEE to fully functioning market economies
- **EU Accession:** key objective and major driving force for candidate countries' economic and structural reforms
- Building stable and competitive economies is key to both transition and accession, and determines extent candidate countries can benefit from EU accession
- EU accession is culmination and completion of the transition process

The Framework for EU-World Bank Cooperation

- **Agenda 2000**
- **Memorandum of Understanding (MoU):**
 - between EC, EBRD, IBRD, IFC, NIB, NEFCO and CEDB. EIB also participates in MoU working groups
 - recognizes centrality of accession process and commits to program coordination, particularly under the three pre-accession instruments
- **Regional Strategy for South Eastern Europe**

Principles of World Bank Support in EU Accession Countries

- **Improvement of living standards and poverty reduction**
- **Support for adoption of *acquis communautaire* through individual country programs defined in Country Assistance Strategies (CAS'es)**
- **Complementary programs in other areas – eg, education, health, social services, pension reform, good governance, knowledge economy**

WB Assistance and EU Accession

Lending operations to support:

- **Systemic policy reforms - fiscal sustainability and efficiency, enterprise and financial sector reform**
- **Establishing market institutions - upgrading legal and regulatory frameworks; reforming cadastre, property law and registration and titling systems**
- **Accession related investments – railways, roads, rural development and environment, solid waste management, renewable energy**

WB Assistance and EU Accession

Analytical and advisory activities:

- **EU-Accession related Country Economic Memoranda**
- **Public expenditure reviews which consider budgetary impacts and expenditure changes for complying with the *acquis***
- **Technical and Research Papers**

World Bank Compared to Other Support Institutions

- **World Bank** provides long term development assistance for poverty reduction
- **IMF** provides short-term BOP support for macroeconomic stabilization
- **EU** provides pre-accession assistance through its Phare, SAPARD and ISPA programs
- **EBRD** fosters transition towards open market-oriented economies and promotes private and entrepreneurial initiative
- **EIB** as EU's "in-house bank" aims to link accession countries to EU infrastructure – roads, rail, water, environment

Comparison of EU and WB Assistance Instruments

EU	WB
Accession Partnership – framework for all forms of EU support for each country	Country Assistance Strategy (CAS)
PHARE – support for institution-building and investment	AAA Investment loans, adjustment loans IDF grants
SAPARD – aid for agricultural development	AAA Investment loans, adjustment loans
ISPA – structural aid for transport and environment infrastructure	AAA Investment loans, adjustment loans
Multicountry programs (Leonardo da Vinci, Socrates, Erasmus, YOUTH program, EU programs for NGOs)	Cross-country programs (eg TTFSE) Networking (EU integration network, cities of change, knowledge economy)

Country Case – Bulgaria

Bank Involvement during 1990's

- **In the early years:**
 - establishing foundations for macroeconomic stability
 - transforming Bulgaria to a market economy
 - debt restructuring
- **After 1997:**
 - sustainable growth
 - poverty reduction and social protection
- **Lending:** 28 operations, total loan amount of \$1.55 billion (58% adjustment lending)

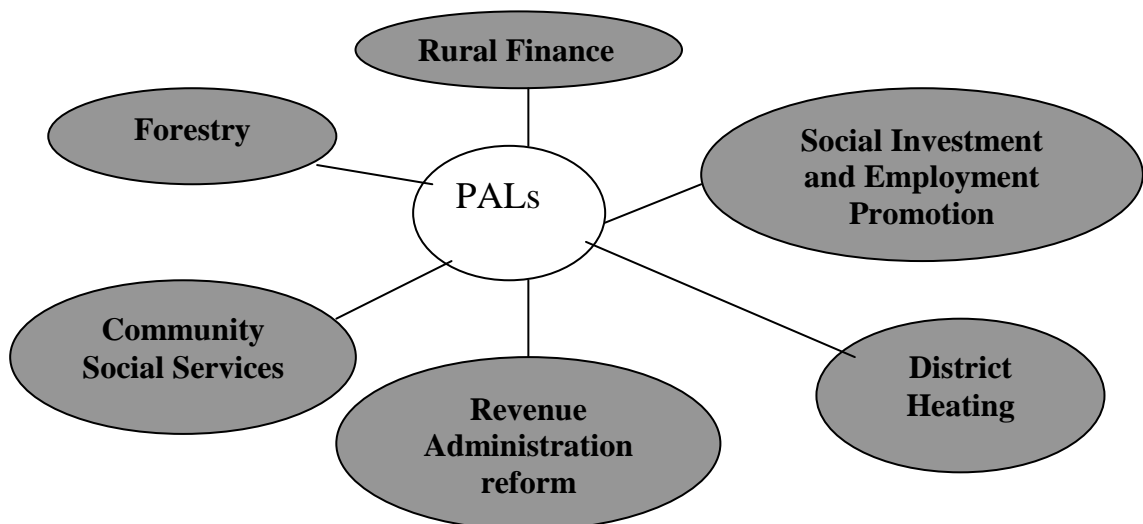
Overall Directions of Three-Year Country Assistance Strategy

- **Objectives:**
- Reduce poverty, raise living standards
- Support move towards EU accession
- **Main themes:**
- Promote competitive private sector-led growth
- Strengthen public administration and anti-corruption
- Mitigate social impacts of restructuring and delivering social services more effectively

Three-Year Lending Program

- **Base (High) Case - Up to \$750 mln**
- Up to \$450 mln in adjustment lending
- Up to \$300 mln in investment lending
- Series of Programmatic Adjustment Loans (PALs) in support of Government reform program
- Investment projects for employment creation, rural development, education and health, and delivery of public services

PALs as Cornerstone of Lending Program



PAL Program Pillars

- **Sustaining structural reforms**
- **Strengthening market institutions**
- **Deepening the financial sector**
- **Improving governance**
- **Investing in human capital and strengthening social programs**

Complemented by Analytical and Advisory Assistance

- **Poverty analysis**
- **Public expenditure and institutional review**
- **Private sector assessment**
- **Aspects of EU accession**
- **Sectoral reviews**

The Transformation of the Pre-accession Instruments in the Context of Enlargement

Tsvyatko Velikov

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European Integration and International Cooperation Directorate

Public Internal Financial Control Agency, Sofia

Introduction

Upon accession the current applicant countries will no longer receive aid through the three pre-accession Instruments: PHARE, ISPA and SAPARD. The new Member States will be eligible to receive financial support from the Structural and Cohesion funds, which are the instruments of the regional policy of the EU. However financing under the Structural and Cohesion funds could be granted and used efficiently only if a country is prepared to absorb it.

The experience of the Member States proves that assimilation of the EU regional policy is a difficult task that requires significant administrative capacity. It was a difficult task even for the well-developed countries of the 1995 enlargement (Austria, Sweden and Finland). In the first years after accession, Spain was a net contributor to the budget of the European Community because the country was not prepared to manage the Structural Funds aid.

Structural Funds implementation requires a timely preparation which should start at the pre-accession stage. It is now when the future Member States have to determine how they intend to establish the necessary management structures so that in the last years before accession capacity can be significantly increased in the right places. The efforts to boost the absorption capacity of candidate countries are also important with respect to get maximum benefits from the pre-accession external aid.

The aim of this paper is to explain why the experts refer to PHARE, ISPA and SAPARD as the shadow forms of EU programmes currently benefiting the Member States. The first part provides an overview of the economic and social cohesion as a rationale for the Structural

operations. It also presents some basic principles and the general scheme for channeling the Community assistance to the Member States. The second part lays down how the assistance granted through the pre-accession Instruments supports the preparation of the candidate countries for the post-accession implementation of the EU Regional Policy. This is the basis for understanding the third part, which presents the decentralization of the implementation system for managing PHARE and ISPA as a step to prepare for the management of the Structural and Cohesion Funds. The efforts to achieve further decentralization are part of the general problem for setting the necessary institutional structures and administrative capacity that will enable candidate countries to participate in the Regional Policy of the EU.

I. Basic Information on the Structural and Cohesion Funds

The Concept of Economic and Social Cohesion

Under the provisions of the Maastricht Treaty strengthening of the economic and social cohesion has been formally introduced to be one of the objectives of the EU. This objective has become a priority for two key reasons:

- To address the increasing internal disparities resulting from successive enlargements of the European Community to less well-off states;
- To tackle the growth in regional disparities likely to result from the developing of the Single Market, and so prevent barriers arising to deepening economic integration.

The Structural and Cohesion Funds - basic principles and objectives

The main instruments that support the achievement of the economic and social cohesion within the framework of the EU Regional policy are the Structural Funds - the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Financial Instrument for Fisheries Guidance (FIFG), the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Cohesion Fund. At present, the structural operations are the second biggest expenditure item for the Union, which reflects the growing political importance that has been given to the economic and social cohesion in recent years. For the candidate countries the economic and social cohesion forms part of their

strategies for convergence with the EU and therefore it is set as an important priority in the Accession Partnerships².

Since 1988 there have been three programming periods of the EU Regional policy: 1989-1993, 1994-1999 and 2000-2006 each embodied by a different set of regulations. Although rules for managing the EU assistance have changed, every round has been shaped by the same fundamental principles:

- Concentration - focusing on a few major priority objectives (see table 1.);
- Programming – working through multi-annual development programmes;
- Partnership – involvement and cooperation of the European Commission with relevant national and regional authorities and social/voluntary partners throughout the programming process;
- Additionality – ensuring that the Commission assistance complements Member States’ contributions to regional development and does not replace it.

Table 1

	<i>Definition</i>	<i>Specific features</i>	<i>Which Structural Fund</i>	<i>Share of the budget</i>
Objective 1	Promoting the development and structural adjustment of regions whose development is lagging behind (per capita GDP of less than 75% of EU average; thinly populated regions of Finland and Sweden and outermost regions)	Lack of infrastructure resulting in: - low investment levels; - a higher than average unemployment rate; - lack of services for people and business; - poor basic infrastructure.	ERDF ESF EAGGF Guidance Section FIFG	70% (22% of the population)
Objective 2	Supporting the economic and social conversion of areas facing structural difficulties	Declining traditional economic activities: - industrial or service sector subject to restructuring; - loss of traditional activities in rural areas; - declining urban areas; - difficulties in the fisheries sector.	ERDF ESF FIFG	11.5% (18% of the population)
Objective 3	Supporting the adaptation and modernization of policies and systems of educations, training and employment	A frame of reference for human resources measures	ESF	12.3%

Source: Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds; DG Regional Policy website, http://www.europa.eu.int/comm/regional_policy/index_en.htm

² Document agreed by the Council setting out the Union’s view of priorities in accession preparations in the short and medium term for candidate countries

General Procedures to absorb the Structural and Cohesion Funds

The Council decides on the budget for the Structural Funds and the basic rules governing its use. The Structural Funds are broken down by country and by Objective. The Commission lays out the areas, which may benefit from this funding and proposes common thematic guidelines.

On the basis of the Commission's guidelines each Member State or region draws up its proposals and groups them in a development plan. Actors in economic and social affairs are involved in this exercise. Once completed the plans are sent to the Commission. The Member States and the Commission discuss the contents of these documents and the appropriate funds (national and Community ones) to be used.

The Commission adopts the resulting documents either as Community Support Frameworks or as Single Programming Documents³. A payment on account is made so that Member States may begin implementing the programme.

The details of these programmes, namely the Programme Complements, are decided by the national or regional authorities. The Commission is kept informed. Approved Programme Complements⁴ enable the authorities to launch projects according to their operating methods (calls for project proposals, calls for tenders for the construction of infrastructure, etc). The programmes then become operational.

The relevant authorities select the projects which best correspond to the goals of the programme and inform the tenderers of their choice.

The appropriate authorities monitor regularly the progress of programmes, keep the Commission informed and provide it with proof that the money is being used in the best way possible. The Commission keeps track of the audit systems put in place and gradually pays out the remainder of the contribution from the Structural Funds. The Commission analyses the development of the monitoring indicators and evaluation studies and conducts theme exchanges.

³ Definition and further explanation is given in Art. 9(d), Art. 9 (g), Art. 17 and Art. 19 from *Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds*

⁴ Definition is given in Art. 9(m) from *Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds*

Unlike the Structural Funds, the Cohesion Fund does not co-finance programmes but projects or clearly defined stages of projects. These projects are submitted to the Commission by the Member States, managed by the national authorities and supervised by a Monitoring Committee.

II. The Role of the Pre-accession funds for Structural Funds preparation

The three pre-accession instruments: PHARE, ISPA and SAPARD, have been introduced in the candidate countries to support institution building and public administration reform (including economic and social cohesion), transport and environmental investment and agricultural measures. A central rationale for these instruments is to prepare candidate countries for the post-accession implementation of the EU regional policy provided through the Structural and Cohesion Funds.

Promoting Economic and Social Cohesion under PHARE

At the present programming period PHARE focuses on two main priorities: Institution Building and Investment. In the context of the Regional policy the aim of the Institution Building is to develop administrative capacity and multi-annual planning. This is mainly achieved through the Special Preparatory Programme for Structural Funds. The programme aims to assist the identification of regional disparities in the candidate countries, the definition of priorities and objectives for structural programmes and the elaboration of structural development programmes.

The second PHARE priority aims in particular at investment in economic and social cohesion designed mainly to 'pilot test' the relevant institutional structures through programmes focussed on mitigating the economic and social costs of restructuring or complying with the EU acquis in a particular industrial sector⁵.

PHARE support under this priority is supposed to be used for interventions similar to those supported by the Member States through the ERDF and the ESF. As with Objective 1 programming under the Structural Funds, the EU support is provided to achieve the priorities

⁵ PHARE can provide only a tiny proportion of the funding needed. Instead it plays a key role in catalyzing co-financing with and coordinating activities of the partner countries and the international financial institutions, such as the European Bank for Reconstruction and Development, the World Bank and, to some extent, the European Investment Bank.

identified in a preliminary National Development Plan (pNDP). The pNDP sets out the strategy, the priorities and the programme for promoting economic and social cohesion. Once drawn and approved by the responsible authorities of the country concerned and by the Commission, the pNDP is to be annexed to its NPAA⁶ and thus to become an important document in terms of programming the PHARE assistance. Upon accession the pNDP will develop into the type of NDP⁷ required for Objective 1 regions inside the EU.

The establishment and implementation of the pNDP should be based on the partnership principles: the national regional and local authorities of the candidate countries as well as relevant non-governmental actors should increasingly be involved in the process.

At present PHARE moves towards a more programmatic approach that will lead to a better alignment of the cross-border programmes under PHARE with its Structural Funds version – INTERREG⁸.

ISPA

Apart from providing support to the applicant countries to improve their environmental and infrastructural standards, the most important aspect of ISPA appears to be the opportunity to learn the procedures and to establish the institutions which administer Cohesion and Structural Funds support.

The Regulation establishing ISPA⁹ follows the approach of the Cohesion Fund. ISPA is project-based unlike the Structural Funds which are programme-based. At the selection stage projects under ISPA submitted through the National ISPA Coordinator¹⁰ are appraised by the Commission following the procedure established for the Structural Funds.

SAPARD

⁶ The candidate country's own timed and costed action programme for accession preparation.

⁷ Definition is given in Art. 9(b) from *Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds*.

⁸ INTERREG is one of the four Community Initiatives which promotes cross-border, transnational and interregional cooperation.

⁹ Council Regulation (EC) No1267/1999 of 21 June 1999 establishing an Instrument for Structural Policies for Pre-accession.

¹⁰ The National ISPA Coordinator is a senior official acting as the main manager of ISPA projects in the candidate country and is the main interlocutor of the Commission for programming, implementation and evaluation issues.

The main priorities of SAPARD are to contribute to the implementation of the acquis concerning the Common Agricultural Policy and related policies and to solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries. The implementation of SAPARD is based on two basic principles¹¹: Development of each applicant country of a programme for agriculture and rural development covering the period 2000- 2006 on the basis of the principles applied under the Structural Funds.

The management of SAPARD aid is conferred on a fully decentralized basis with ex-post control by the Commission based on the principles of EAGGF Guarantee finance management.

III. Moving to the Structural Funds

Further Decentralization of the Management of Pre-accession Assistance

The introduction of the Extended Decentralized Implementation System (EDIS) of the programming of the pre-accession assistance is an important step that would facilitate the transition to the Structural Funds management. Decentralization involves the transfer of responsibility of the Contracting Authority from the Commission to the recipient country. At present for PHARE and ISPA¹² the Commission exercises ex-ante controls. This means that the decisions concerning the procurement and award of contracts (taken by the Contracting Authority) are referred for the prior approval of the Commission. Under EDIS this requirement could be waived if minimum criteria and conditions are met as described in the Annex of the Regulation 1266¹³. The decision to move to EDIS can only be undertaken by the Commission on the basis of a case-by-case analysis of national and sectoral programme/project management capacity, financial control procedures and structures regarding public finance. The procedures for the extended decentralization follow as far as possible the approaches of the Structural Funds while respecting the limits imposed by the Financial Regulation on external aid.

¹¹ Report from the Commission to the Council, The European Parliament, the Economic and Social Committee and the Committee of the Regions, SAPARD Annual Report Year 2000, COM(2001)341 final

¹² As the implementation of SAPARD is taking place from the outset on the basis of EDIS, a framework of and timetable of the process has already been established

¹³ Council Regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending regulation (EEC) No 3906/89

The Bulgarian authorities developed a working document explaining the concept of moving to EDIS under the responsibility of the National Authorizing Officer¹⁴. The introduction of EDIS specifically requires improved administrative capacity under the negotiations on chapter 28 “Financial Control”. The timetable elaborated in the working document determines March 2004 to be the deadline for submitting a request for EDIS.

Setting up of the Administrative and Institutional Capacity to Manage the Structural Aid

Besides the similarities among PHARE, ISPA and SAPARD on the one hand, and the Structural Funds on the other, they are not the same instruments. While managing the pre-accession assistance, the candidate countries administrations acquire useful experience that could be applied afterwards. This, however, will not provide the ultimate solution for the structures to manage the assistance after accession. The scheme established to absorb the pre-accession aid is subject to improvement and it will consequently be changed.

In this way, it is necessary to address a more global problem i.e. to define the responsibilities for programming and management of the Structural and Cohesion Funds in compliance with the Regulation 1260. Necessary structures should be established at horizontal level (establishment of effective inter-ministerial coordination, identification of the institutions at national level) and at vertical level (decision about the role of the regions and bodies, which will participate at regional level). Basically, there are two reasons, which could obstruct the decision on the institutional scheme. The first one is the lack of political consensus; the second one is the lack of experience. The pre-accession instruments address particularly the second problem as well as the development of administrative capacity to manage the Structural Funds. A basic document which defines the institutional framework for the participation of Bulgaria in the Structural and Cohesion Funds is the Strategy adopted under Decision No 312/28.05.2002 of the Council of Ministers. At present, its practical implementation remains of key importance for the preparation of the country.

IV. Concluding Remarks

It is clear now why the fulfillment of the Commission requirements for accession to the EU under Chapter 21 “Regional Policy and Coordination of the Pre-accession Instruments” should be considered as a priority. Clear programming documents, a functioning legal and

¹⁴ The National Authorizing Officer is the head of the National Fund and bears the overall responsibility for the financial management of the pre-accession funds granted to the Republic of Bulgaria.

institutional framework that will underpin the preparation, monitoring and evaluation of the planning documents and projects and effective mechanisms and procedures for financial control should be developed. This will improve the absorption capacity of the national administration to manage the EU Funds and will be a precondition for provisionally closing the negotiations under Chapter 21. At the same time, this will be beneficial for a candidate country with respect to the forthcoming agreement on the financial perspective for 2007-2013 and its future position as a member of the EU.

Panel: International and Cross-border Cooperation



Iani Bogoevski, Expert WT II – Investment Compact, Office of the Special Coordinator of the Stability Pact for South Eastern Europe, Brussels; Liviu Muresan, Executive President, EURISC Foundation, Bucharest and Marcel Moldoveanu, Deputy Director, Institute for World Economy – Romanian Academy, Bucharest

Picture_7.jpeg



Oscar de Bruyn Kops, Country Manager, The World Bank, Sofia; Liviu Muresan, Executive President, EURISC Foundation, Bucharest and Tsvyatko Velikov, Chief Expert, Public Internal Financial Control Agency, Sofia



Discussions in the Working Group on International Financial Institutions and EU Funds

The Issue of Good Governance

Martin Brusis

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I. Good Governance and EU Integration

“Good governance is epitomized by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law.”¹⁵

Administrative capacity is an indispensable pre-condition for good governance and is therefore a key issue for accession preparation. This position was confirmed by the Laeken European Council. Prime ministers and heads of state called upon the candidate countries to continue their efforts energetically, in particular to bring their administrative and judicial capabilities up to the required level.

Whereas the EU lacks a common concept of good governance and a “European administrative space” has so far been only vaguely delineated, sectoral targets and orientations for the accession countries are clearly specified. Take, for example, the management of EU cohesion policy. Accession countries and their regions have to build an administrative capacity to elaborate regional development plans, ‘operational programmes’ guiding the utilization of structural funds resources and projects eligible under these programmes. Furthermore, these reforms request arrangements for inter-ministerial coordination and the involvement of regional administrations, social and economic actors (“partners”). With regard to better coordination, regional committees need to be established. In order to ensure programme implementation, an effective monitoring and evaluation are essential. It is further required to define territorial units corresponding to the classification of territorial statistics (NUTS) applied in the EU and disaggregate indicators of the national

¹⁵ World Bank: Governance. The World Bank’s Experience, 1994

economic and social statistics for NUTS levels. Central and regional government budgets must be organized in a format that enables multi-annual programming and identifies the national budgetary resources used to co-finance projects funded from the structural funds. Government units envisaged as future ‘paying authorities’ have to be institutionally separated from Ministries and departments managing programmes. Finally, public procurement procedures need to be in place as well as functionally independent public internal financial control and independent external audit capacities.

However, the Commission’s vagueness on administrative capacity maybe reminds us of the famous American judge who was asked to define pornography: “I do not know what it is, but I know it when I see it.” There is not any general *acquis* for systems of governance. Since individual member states are free to organize their administrations as they see fit, the EU does not have a general body of European law in the public administration sphere. Public administration structures and regulations vary a great deal among the present EU member states. All of them jealously guard their independence on this issue. They all recognize an applicant’s right to do the same.

The EU Governance White Paper established five Principles of Good Governance, which are openness, participation, accountability, effectiveness, and coherence.

As far as public administration is concerned, the SIGMA report “European principles for public administration” identified the principles of reliability, predictability, accountability, transparency, technical and managerial competence, organizational capacity and citizens’ participation to serve as guidance for public administrations in CEE in their reform efforts. Since 1998 the twinning project has been in action, which means long-term secondment of member state civil servants. It is considered to be more efficient than expensive western consultants. But it has to be admitted that it presents only an insular approach of public administration reform with a low impact, depending on member state preferences and offers on the one side, on accession countries’ choices on the other.

In first quarter of 2002, the Commission agreed with the accession countries action plans to increase capacities in the administrative and judicial areas. The aim is to develop a horizontal public administration reform approach. Action plans contain negotiation commitments, implementation measures, community financial support, additional monitoring measures

including peer review. Peer review as instrument was taken from the Lisbon process, where the Commission lacks expertise, while member states are responsible for the implementation. Europe Agreement institutions are envisaged to monitor commitments undertaken in accession negotiations.¹⁶

The Commission is in favor of a classical Weberian model of public administration, not a new public management. For that, a civil service act including a code of ethics is needed as well as career civil service and a depoliticised public administration.

II. Problems and Responses of Public Administration Reform¹⁷

1. Depoliticisation of Civil Service

This means above all the legacy of politicized state apparatus. A legally codified recruitment and dismissal procedures need to function. This aims at a clear separation of political and administrative-professional roles. Hungarian governments may serve as negative examples: Prime Minister Antall replaced 9 of 14 administrative state secretaries, Horn 9 of 13; Orbán 13 of 15, and Medgyessy 12 of 15 – this may, however, also indicate necessary politicisation in the sense that political government needs qualified bureaucrats that are also able to think politically.

2. Strengthening Political Government

During Communism, the Executive in Eastern Europe was subordinated to the respective party leadership and was depoliticized while representing part of an overly politicized state apparatus. Post-Communist reforms in several countries aimed at strengthening the constitutional position of the Prime Ministers, e.g. by constructive vote of confidence and their positions in the Cabinet. In addition, the role of the Centre of Government is to be increased. The same applies for strategic planning and management capacities, which means above all the transformation of the Secretariat of the Council of Ministers to a quasi-Ministry of the Prime Minister (“chancellery“ in Poland and Hungary).

¹⁶ KOM(2002) 256 fin. of 5 June 2002.

¹⁷ findings from a comparative research on CEEC

Limiting the powers of Presidents (e.g. Poland), of Parliaments (i.e. by increasing government control over governing coalition parties, ability to prioritize government-sponsored bills) are part of the same trend towards strengthening political government.

Other important aspects are to enable Prime Ministers to appoint Deputy State Secretaries as well as administrative secretaries or to equip Ministers with personal cabinets of political advisors outside the ministerial hierarchy.

3. Overcoming Sectoral Fragmentation

Nearly all post-communist countries were confronted with the legacy of fragmented Executives, which meant for instance Ministries as interest group representations with a high degree of autonomy as well as intra-governmental bargaining. Therefore, branch ministries and central agencies had to be integrated and cabinet committees to be developed. To manage EU programmes and to coordinate national interest representation on the EU level, inter-ministerial co-ordination has to become more efficient. The EU has induced an increase of semi-independent agencies charged with specific sectoral governance functions.

4. Centralisation of the Budgetary Process

There is still a concern deriving from history due to non-transparent budget-making, information monopolies of budget chapters, and structural budget deficits. The task is therefore to integrate extra-budgetary funds and to introduce a treasury system. Other reforms have introduced mid-term financial planning and performance-based budgeting.

III. Executives and Economic Performance

The conventional view in this field is that unconstrained executive authority is needed. Constraints may be a weak parliamentary majority or in some cases a coalition government, in particular if the governing parties represent widely differing political objectives and constituencies. Also a president with a strong constitutional position, who is affiliated with a party different from the governing party (“cohabitation”) and/or intervenes into the policy formulation, can hinder governments from acting. And finally further veto actors such as a Constitutional Court with an activist interpretation of its mandate or strong economic actors, for instance trade unions or independent central banks.

This conventional view has been challenged by scholars who argue that constraints may be facilitating coalition building and sustained economic reforms. Winners of the first reform

stage (asset stripping enterprise insiders, commercial bankers profiting from distorted markets, local officials with monopoly rents and mafiosi) – and not the losers of the reform – can “stall the economy in a partial reform equilibrium that generates concentrated rents for themselves while imposing high costs on the rest of society.” More frequent elections and shorter executive tenures (i.e. more constraints to executive authority) have contributed to overcome reform resistance of these groups.¹⁸

IV. Conclusion

A new public management has not yet taken root in Eastern Europe. To establish budgetary and operational discretion for decentralized units, it is necessary to have the information about the countries’ performance in specific fields as well as monitoring results regarding single targets. In contrast, the enlargement project still has to cope with the fact that new public management and decentralization presuppose the rule of law, independent judiciary, enforceable property rights, merit-based civil service, efficient use of public funds, robust internal control.

¹⁸ Cf. Hellman

Anti-corruption Policies in Weak States – General Framework and the Case of Romania

Sorin Ionita


Senior Researcher, SAR Romanian Academic Society, Bucharest

Slide 1

Anti-corruption Policies in Weak States

General framework and the case of Romania

Sorin Ionita
ROMANIAN ACADEMIC SOCIETY



Albena, september 2002

Slide 2

Anti-corruption policies (ACP) must be relevant

- Real causes should be identified
- Assumed impact of anti-corruption policies (ACP) should be made clear

There should be a logical connection between the two – which often in practice does not exist.

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Corruption

- Is a ***symptom*** of deeper problems: weak governance
- Is ***not monolithic***: there are various types and combinations
- As a result, is ***country-specific***
- Is deeply ***political*** in nature, so local (national) leadership is determinant – for good and for bad

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Types of corruption

- Petty (bureaucratic) corruption: *individual civil servants abusing their office in exchange for personal gain*
- Grand corruption: *Theft/misuse of vast amounts of public resources by a coordinated network of top officials*
- **State capture:** *private interest groups 'capture' portions of the public sector for their own purposes – and shape institutions, thwart public policies, etc.*

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C. State capture

- Coexists with the other two types – but is their opposite: private actors exploit public resources on a large scale
- A weak state does not provide public goods any more (property rights, law and order, enforcement of contracts, access to markets); instead, private actors get customized packages according to their lobby power

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Corruption in Europe

	CORRUPTION	GOVERNANCE	PRIORITIES
WESTERN	Low, marginal	High	<ul style="list-style-type: none"> • Anti-corruption agencies • Codes of conduct, high-profile cases prosecuted
CENTRAL EUROPE	Medium	Medium	<ul style="list-style-type: none"> • Decentralization • Results-oriented public management
BALKANS	High, extensive state capture	Weak	<ul style="list-style-type: none"> • Reduce size and scope of government • Transparency rules; rules against conflict of interest • Consolidate horizontal accountability • Independent justice

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Why

- The higher the corruption (and the more prevalent the state capture), the more ACP should focus on the underlying causes: weak governance and state capture
- General priority: reducing the gap between **formal rules** and **informal norms** (pays légal / pays réel)
- In the Balkans, this gap has been historically larger

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Balkan peculiarities I

- **Communist inheritance:** the old system was not based on rules or a plan, but on perpetual informal negotiations and soft budgetary constraints; the old habits of central agencies die hard
- **Privatization:** does not necessarily promote openness; first entrants may use the weak and over-extended public mechanisms in order to block competition

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Balkan peculiarities II

Pre-modern attitudes:

- Elites develop clannish network based on personal allegiance; “amoral familism”; social transactions are regarded as zero-sum games
- Bureaucracies in these rural, traditional societies are not fair and impersonal. Discriminative service may be provided even without personal financial gain – just to establish / or confirm / superior social status

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9

ACP in weak states (extensive state capture) I

ACP should tackle the larger flaws – even without mentioning the word “corruption”

- Reduce the size of government, and the amount of regulation
- Do not duplicate agencies, by setting up new ones to try again where the old have failed
- Make the public sector more transparent (FOIA, sunshine law, program budgeting) – and pay attention to enforcement

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10

ACP in weak states
(extensive state capture) II

- Strengthen horizontal accountability
- Criminalize the conflict of interest, make the representatives accountable
- Strengthen the judicial system – impartial, backed by credible enforcement
- Let justice do its job; do not duplicate it with special investigation offices, commissions, task forces, etc – controlled politically

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ACP in weak states
(extensive state capture) III

Key point:

- *The **political will** is crucial*
- *and the litmus test is the use of instruments already at hand, not institutional hyper-creativity*

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Slide 13

What can a Balkan NGO do

- **Monitor**, analyse professionally and issue warning signals; the demand is strong for this kind of product
- **Assist** the public sector in capacity building and implementing new policies (FOIA, program budgeting, etc)

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Slide 14

The image shows the cover of a report. It features a central vertical red bar. To the left of the bar, the text reads: **WARNING ON CORRUPTION** and **ROMANIAN ACADEMIC SOCIETY (SAR)**. To the right of the bar, the text reads: **Early Warning Report** and **2001 yearly**. At the top of the red bar, it says "Country Office Romania". At the bottom of the red bar, it says "Romanian Academic Society" and "Bucharest 2002".

Slide 15

1. Romania – state of affairs I

Achievements

- FOIA: adopted, reasonable provisions, implementation will be difficult
- Sunshine law: to be adopted this year, reasonable provisions
- Program budgeting in public institutions: it has begun, but it is far from being fully understood

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15

Slide 16

1. Romania – state of affairs II

Still not done

- Criminalization of the conflict of interests
- Transparentization of political money (parties, public officials)
- Prevent political interference in justice
- Terminate opaque allocations of budgetary funds
- Empower the citizens – for example, by government-NGO partnerships

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16

2. SAR: Assisting the implementation of FOIA

- Develop a portfolio of good practices, based on the regional experience
- Develop a set of standard documents for the use of public institutions in the new context (activity report, financial report for outside users, policy memo)
- Cooperate with the MIP, participate in training the civil servants
- Monitor a sample of institutions, benchmarking

The Combat against Bribery Transactions in Romania

Dragos Condrea

Director, Control Unit of the Prime Minister, Romanian Government, Bucharest

The phenomena and the actual states of corruption are ever more closely scanned internationally. This abominable scourge originates way back in the history of mankind and unfortunately it has reached down to the present, taking a frightful toll mostly on poorly developed countries and nations. In those geographic areas, corruption freely crosses all frontiers and infests the respective societies. The more advanced democratically the more powerful a state and able to set up solid structures against the putrid, spreading rot of corruption.

Corruption in Romania is not a new product of social and economic relations set in place after 1989; it also existed during the totalitarianism regime, which gives to its evolution both elements of continuity and discontinuity.

During the adaptation of the global social system to the conditions of the competitive market economy, risk factors have multiplied and corruption is threatening to become a structured, specialized and professional phenomenon, which via informal networks of organizations and persons may bring corrupt decision-making factors at high levels of the political, legislative, administrative and justice spheres. The underground economy, the lack of synchronization between political and normative acts, the economic irregularities, axiological and moral mutations keep on feeding this phenomenon.

The diagnosis operated by the World Bank in the year 2000 points to the fact that this phenomenon contributes to the growth of poverty and to poorer services; unofficial sums of money for certain public services were declared to have been paid, including health care and education, or connections to public utilities. The captive state harms the very creation of laws

and regulations, numerous enterprises saying they are affected by the state being made captive in particular through parliamentary votes rigged in favor of certain private interests.

The possibility exists for companies actively engaged in this mechanism to make political contributions and participate in administrative corruption, too.

Corruption is nurtured by the weak links of the public administration. Within the state sector the level of corruption is lower in bodies with better management systems. Corruption is perceived as extensive, and the reforms for fighting it enjoy little credit with the population. The actual state of corruption in Romania is mirrored by the following statistics.

Thus, the Ministry of the Interior, early in 2001 instituted more than 4,000 penal cases and files, with more than 5,000 persons being investigated for approximately 8,000 corruption acts. The misdeeds were: bribery, subornation, influence peddling, graft. The subjects of the respective misdeeds were dignitaries, general managers, directors, bank clerks, custom officers, control clerks, head of commercial companies or public utilities (regies autonomes). In the year 2001, 684 persons were arraigned within the Public Ministry as to 388 in the year 2000, a 76.29% rise (236 persons were sent to trial being put in preventive custody).

The 684 defendants sent to trial for corruption charges committed 977 misdeeds as follows:

- 399 bribe-taking cases;
- 294 bribe-giving cases;
- 239 cases of influence peddling;
- 45 graft cases or misdeeds assimilated to corruption.

The structure by social and professional categories of the persons sent to trial for corruption misdeeds changed significantly, the cases sent to trial referring to 13 directors, 21 managers of commercial companies, 5 judges, 2 prosecutors, 3 clerks of the court, 3 officers of the court, 4 lawyers, 4 mayors, 4 doctors, 13 inspectors and 57 watchmen, 21 militaries of the Ministry of the Interior, 4 officers of the Ministry of National Defence and 2 militaries subordinated to the Ministry of Justice.

The Ministry of Justice revoked 8 magistrates, issued 21 investigation warrants for judges and 6 for prosecutors, 50 for notaries public, 10 for officers of the court, 6 arraignment notes for judges, 120 disciplinary penalties for the auxiliary staff of courts and 10 to magistrates.

The drive for European integration has become in Romania the focus for democratic and economic reforms. Important progress has been achieved during the past decade in the field of rule of law. Romania now disposes of a variety of laws and regulations and institutions intended to prevent bribery and corruption. As such, it has already a fairly complete legal and institutional framework in place.

As a result of the anti-corruption actions undertaken by the Government, perceptions of the general public and of foreign investors on the level of corruption in Romania slightly improved over the past few years. One form of corruption that was more particularly pointed out by numerous firms doing business in Romania was the paying of the bribes to public officials to avoid taxes and regulations.

Under Romanian legislation, bribing a domestic public official with a view to obtaining or retaining business or other improper advantage is a criminal act. Penalties range from six month to 10 years of deprivation of liberty for the bribe giver. The country has also taken steps to help companies to overcome pressure for bribes from the officials. Officials who solicit, request or accept a bribe can be punished by imprisonment.

Bribing a public officer in business transactions is a criminal offender under Article 255 of the Criminal Code. The offense is defined as the act of promising, offering or giving, by any natural person, directly or indirectly, of pecuniary or other benefits, to a public official in order that the official performs or not perform or delay to perform an act related to his/her public duties or in order to perform an act contrary to his/her duties.

Thus, bribing an official would be prohibited whatever the purpose of the bribe is (obtaining a business, being awarded a public contract, obtaining a permit), and regardless of the form of the bribe as long as it consists of a pecuniary or another benefit. The officials who may not be bribed are broadly defined to include any person who holds a public office in Romania, whether appointed or elected, or who exercises a public function, including a public agency or enterprise, and any person exercising duties or tasks to perform official duties. The

officials who may not be bribed are also persons who participate in or influence decision-making within the public sector, in public companies, or other state-owned companies, co-operative product units and other companies.

Romanian law provides for two defences (constrain by the official and when the giver of the bribe has informed the authorities about the bribery transaction).

The Government has made a priority of cleaning-up business deals and enhancing transparency and integrity of companies. The Romanian legal system does not provide for the criminal responsibility of legal persons. This implies that criminal law does not impose criminal sanctions on legal persons for committing the offence of bribery of public officials. In those cases companies may be sanctioned by administrative fines. However, the Government is currently preparing a new legislation, which will insert a special section on corporate liability on the modification and completion of the Criminal Code that intends to introduce the criminal liability institution on legal persons. The new legislation will guarantee that adequate sanctions can be imposed on companies that bribe public officials.

A person who commits a criminal offence on behalf of commercial company according shall be sentenced to imprisonment from six months to five years, with a possible increase of five years in aggravated cases.

According to article 254 in the Criminal Code, other punitive measures include the seizure and confiscation of the bribe and its proceeds. A gift or benefit that is received or the value equivalent in money thereof shall be declared forfeited to the State from the offender or from the person on whose behalf or in whose favor the perpetrator has acted. The anti-corruption law no. 78/2000 on the Prevention, Finding and Punishing the Corruption Deeds provides for measures of conservation to be taken with regard to the perpetrator's wealth if any of the offences in the law are committed. Furthermore, Law no. 21/1999 on the Prevention and Punishment of Money Laundering addresses the laundering of the bribe and the proceeds of bribing a public official by establishing as an offence the concealing, converting, transferring, etc. of property and goods derived from criminal activity. Laundering is punished by imprisonment from three to 15 years and the confiscation of any good that is related to the offence, or its equivalent in money.

Under Government Resolution 763/July 26, 2001 the National Committee for the Prevention of Crime was set up with a view to drafting, approximating, coordinating and monitoring

government policy in crime prevention nationwide. The central group of analysis and coordination of corruption prevention activities, set up within the Committee will assure the implementation and will monitor the National Program for the prevention of corruption, as well as the National Plan of Action against corruption.

The National Committee for the Prevention of Crime expresses the Government's political will to apply in a coordinated manner the reforms leading to the prevention of corruption as well as the need of partnership with the social groups interested in applying and monitoring these reforms.

Panel: Good Governance and Anti-corruption Policies in the Public Administration



Discussions at the Working Group on Good Governance



Discussions at the Working Group on Anti-corruption Measures

Security in the Balkans

Dimitar Mircev

Director, Centre for Security Policy Professor on Post-Graduate Studies for European Integration, Skopje University, Skopje

We all, living in the Balkans today, sincerely believe and hope that the disputes, conflicts, wars and violence that featured the last decade, are now well behind us. That a new age of reconciliation, peace, stability, democracy and prosperity in the region is now taking place, making so its fuller integration into Europe easier and feasible. Many questions of the reasons and grounds for the last waves of turbulence, conflicts and instability on the soil of former Yugoslavia and the Balkans altogether still remain unanswered, many of them require additional studies. One of the relevant questions was whether the events in the region have had endogenous causes only or external and foreign factors also had played an active role in their production.

However, what is out of any doubt is the fact that the international community has accomplished an indispensable mission in resolving and calming down the conflicts in the region. Moreover, particularly in the later stages of the conflicts, in Bosnia, Kosovo and Serbia, as well as in the disturbances in Macedonia, the international community proved to be efficient, harmonized and well coordinated, apart from manifesting a firm common will in pacification and stabilization of individual parts and the region as a whole.

Many components of the collective system of security in Europe and the world altogether, in this case have been put and worked jointly, providing so a practical and effective framework for the process of peace, stability and democracy in the Balkans. As a matter of fact, the developments and the events on the territory of former Yugoslavia and wider, required parallel or successive implementation of a variety of measures, missions and tasks, possible to carry out only in a well established, institutionalized and coordinated system. This comprises for instance- conflict prevention and resolution diplomacy, forces deployment and direct military intervention, conflict and crisis management, separation of armed sides, disarmament and arms control, peace keeping and monitoring, peace and confidence building measures, even institutional building of democratic structures.

In the case of the Balkans in the recent years, the implementation of the variety of such operations and missions, both demanded and helped to create an accomplished security model for the region as well as to test, examine and adjust the functioning of the wider collective security system. Certainly, it is a matter for further analysis and debate, how efficient and accorded this model was in practice, how individual segments have worked and what factors have had favorable or unfavorable impact on its performance. But it is out of doubt that it worked, that it prevented the spillover of the conflicts and violence, reduced or resolved many of the conflicts and disputes and proved to be capable of restoration of peace, order, respect for democratic institutions and human including ethnic rights.

The pillars of this system have certainly been grounded in inter-active roles of:

- United Nations, providing international legal and political basis as well as an overall responsibility of the UN Security Council for keeping and maintenance of peace and security in any region, including involvement of UN-forces.
- The European Union, which, particularly after the Maastricht Treaty on the EU that came into force in 1993, included an intensive development and application of the Common Foreign and Security Policy (CFSP). Apart from that, since the mid 90-s, the EU countries members of NATO as well, launched the policy of European Security and Defence Identity (ESDI) to be built within NATO and, so far, it gave positive results. Since 2000, regular joint meetings of the EU Political and Security Committee and the North Atlantic Council take place providing regular and close cooperation in security issues like the position in the Balkans. In the mid of the same year, the Alliance and the Union established even an Ad hoc Joint Working Group to secure better operational links.
- The OSCE, which following the All-European Summit in 1990 and the adoption of “The Charter of Paris for a New Europe”, has developed an entire network of bodies, policy-documents and infrastructure to answer the challenges of the peace and security in Europe as a whole and particularly in the sensitive and risky regions. The missions, initiatives, monitoring and other task-bodies of OSCE, particularly interacting with other pillars, proved to play indispensable and most productive role in stabilization and peace

process in the region. At OSC Summit in Istanbul, 1999, 54 countries signed a new Charter for European security, providing so a largest basis and support for OSCE missions even in the Balkans.

- The Western European Union and the Council of Europe take not less part in shaping the new European security architecture, contributing considerably to the Balkans regional framework of security cooperation and peace process.
- NATO by all means represents and serves as a key factor in providing and stabilizing the peace, secure environment and favorable relations in the region. Following the London Summit and the Declaration of NATO in July 1990, the Alliance has undertaken major measures to transform itself and create a new security ambience. The policy of friendship and cooperation was launched in that time and offered to all European countries, while many earlier defence and security concepts have been reconsidered. In 1991, the North Atlantic Cooperation Council (NACC) was established, bringing so together the NATO member-countries and Central and Eastern European countries in their efforts to maintain and advance the peace and dialogue on common interests. Later on, in 1997, this council was succeeded by the Euro-Atlantic Partnership Council (EAPC), a new development structure for cooperation in the field of defence and security.

However, for the Balkan region, a turning point in building up the matrix and practices of collective security was probably the Brussels meeting of the NATO Council in 1994, when a major initiative was introduced - to institutionalize the Partnership for Peace (PfP). PfP was a scheme, which considerably helped shaping the new security position in Europe and the Balkans. More than 30 countries joined the PfP, a close cooperation with NACC and OSCE was set up, while the strategy adopted meant involvement of all partner-countries in defence-related cooperation, mutually or with NATO. It equally meant expansion of political and security cooperation throughout Europe as well as facilitation of the accession to NATO of all partners interested. Political and Military Steering Committee of PfP has open 23 areas of cooperation and most Balkan countries got involved in them. Several more became candidates for full membership of NATO, among them Slovenia, Bulgaria and Romania.

In addition to this, NATO has launched the South-East Europe Initiative, with its Consultative Forum, activating four pillars of cooperation as well as the Mediterranean Dialogue programme, offered also to the Balkan countries.

The role of regional structures and treaties in resolving conflicts and preserving the peace and stability in the Balkans has also been visible and useful. The activities of the coordinating bodies, summits and cooperative fields of the Central European Initiative (CEI) have had more than favorable impact on relaxation and peace process in the region. Similar effects have been generated through the operation of SECI, the Southeast European Cooperative Initiative, launched in December 1996 and the Stability Pact for South Eastern Europe adopted in 1999. This pact, particularly its Working Table III on Security and Defence Issues, greatly encourages and streamlines the efforts on SEE-countries political, economic and security integration in Europe.

Owing to the performance of the entirety of this system, to the interaction of all of its pillars and jointly with national and local forces striving for peace, democracy, human rights, for social and economic reforms, the Balkans is now slowly increasing its own capacity to secure lasting peace, to develop democratic political orders and practices, favorable neighborly relations among the states, tolerable and good inter-ethnic relations. Armed conflicts, open inter-ethnic conflicts, acts of genocide, war crimes, emergency states, large and uncontrolled arms supplies, disrespect and offenses of human rights on a large scale, undemocratic political practices and governance are either eliminated or gradually disappear. The last parliamentary, presidential and local elections in several Balkan countries, including Bosnia and Herzegovina and Kosovo, but Serbia with Montenegro and Macedonia as well, speak well of this now prevailing trend. Most of the countries have now their own programmes and policies of accession to the EU and other Euro-Atlantic integrative structures. Accession to EU and NATO is, for instance, a policy of all Balkan states and governments as well as of all significant political parties in countries which have not stepped into the integrations yet, and this factor considerably stimulates the adjustment process and overall advancement of each individual country and of all of them together.

It was great success for both the international community and the region as well that since recently, all Balkan countries have recognized themselves mutually and have also established diplomatic relations. The economic exchange and regional market are already renewed and

reestablished in addition to improved links in the areas of transportation, energy, communications, free-trade agreements and practices, education and culture etc. Some trans-or-all Balkans projects like the transport corridors 8 and 10, electrical-energetic systems linkages, preventing the illegal traffic of drugs, arms, emigrants etc. are well in progress. Certainly, many serious problems, which could directly affect the present position and security in the Balkans still remain unresolved and make a latent basis for disturbances. The position and status of Kosovo, of the state of BiH and of the Union of Serbia and Montenegro are still undefined and potentially may cause disputes. But at least, preventing mechanisms, political institutions and encouragement for dialogues, negotiations and harmonization of all partners do exist together with good common will of the countries to overcome any dispute or conflict.

Despite all the favorable developments and trends described above, one can not state that the Balkans is now stabilized, fast developing in sense of economy and production, in sense of democracy and inter-state relations, that is to a great extent secure and that long-lasting peace-arrangements already produce effects. A significant advantage is, no doubt, sharing of common values, horizons and ideas, particularly among the elites and leadership in the direction of European integration and civilization. In addition most countries have signed agreements of different types with EU and NATO for integration, committing them to harmonize with EU standards, systems and policy-directions. It is out of question that the Balkans as a whole could realistically count on full integration in the European structures and security systems in a decade or less.

However, challenges and temptations to the peace and security in the Balkans do exist, moreover, there is an objective ground on which such temptations and even factors of instability and contrasting interests appear. One of these factors is the differing political status and position of most countries, relating to the European integrative and security structures. For example, two of the Balkan countries are already members of NATO, three other are very close to that status and would probably acquired it till the end of the year. Couples of them are members of PfP and EACP, the rest do not have any status or are assistance-receivers, even having a protectorate status. The same is true of the position of each country relating to the EU.

Some countries are full members of EU, some are first ring candidates for full membership, and some have only Association and Stabilization agreements with EU, other have Trade and Cooperation Agreements. The position of a few countries in this sense has not been defined yet and will probably not be defined in the near future. This variety of statuses is surely an unavoidable fact and could produce even some common benefits: competition to achieve more, faster, at a higher quality etc.. Nevertheless, it also has some, if not numerous handicaps for the entire region. The trade regimes, visa-regimes, custom-procedures, investment-insurances and many other aspects of exchange, of the flow of goods, capital and people etc. are different. This has unfavorable impact on the development and performances of individual countries as well as of the region as a whole.

Several treaties, pacts and policies, the Pact of Stability is a typical example, try to frame institutions or provisions to balance those differences or to create an environment of unique and unified prerequisites for the interregional cooperation. The attempts so far have not produced more visible results. A conviction exists among prominent experts circles that harmonizing the position of at least the bulk of the states in the region, the promotion of unified prerequisites and instruments for strengthening their mutual cooperation, common advancement and balanced or sustainable development is essential for long-lasting stability and peace in the Balkans.

The following factor having similar nature and impact on the stability, is in the contrasts and discrepancies of socio-economic and political, cultural, educational etc. development among the countries within the region. Statistics indicates that considerable disparities in social, economic and human development exist among the countries in the region and then, among regions in each individual countries. The latter is even more important since as a rule, underdeveloped regions are populated by ethnic minorities which social position and living standard usually unfavorably differ from that of the average or the majority. Socio-economic disparities of larger extents have various undesirable effects. For instance, protection of the more advanced positions and interests or territories, closing down borders and free flow of people, maintenance of privileges or deprivations frequently connected with positions of ethnic groups. Altogether social conditions of group, communities and even state development, reproduction etc. are different and often generate policies or measures of protection or aggression, or perhaps production of stereotypes, prejudices, disputes etc.

According to the UN and World Bank statistics (See as an illustration “Human Development Report 2001” of UNDP), all 162 UN members that had produced HD-report were ranked by their global Human Development Index. The Balkan countries are ranked on that list in the following order: 23.Greece; 29.Slovenia; 46.Croatia; 57.Bulgaria; 58.Romania; 60.Macedonia; 82.Turkey; 85.Albania.

Other countries did not produce reports, but it is assessed that HDI index of Serbia is around the rank of Macedonia, that the HDI of Bosnia and Montenegro is a few ranks lower. Discrepancies in the development are in any way considerable and this picture differs greatly from that of the list of EU countries or from other European regions like- Scandinavia or the Baltic republics etc. A couple of statistical tables demonstrating this is annexed to these remarks.

HDI is nevertheless only a very general index. It consists of three groups containing 30 specific economic, education and health indicators. If individual groups or individual indicators are concerned, differences and disparities look even greater. For instance, the ratio between the GDP per capita of Slovenia or Greece and Albania is almost 5:1. While adult literacy rate in Slovenia is 99,6%, in Bulgaria and Romania- 98%, in Albania and Turkey it is only 84%. We would not here continue presenting, for instance, data on employment or unemployment, indices of poverty, of women’s discrimination. etc. Discrepancies within individual countries are also extremely large. Much larger than the corresponding rates of difference within countries of EU or other regions in Europe.

Such discrepancies combined with economic stagnation, backwardness, primitive agrarian production, low living standard etc. generate dissatisfaction among many social groups, collision of interests, social unrest and frequently, particularly if related to ethnic communities position, to interethnic and even broader conflicts. This is why the even, balanced and sustainable social and economic development of the region, development which should primarily rely upon collective utilization of the regional resources and potentials, human, natural, cultural etc. is an essential prerequisite for the efficient collective security system for the Balkans.

Panel: Security in Europe



Dimitar Mircev, Director, Centre for Security Policy; Professor on Post-Graduate Studies for European Integration, Skopje University, Skopje; Liviu Muresan, Executive President, EURISC Foundation, Bucharest and Wim van Meurs, Senior Researcher, Bertelsmann Group for Policy Research, Center for Applied Policy Research, Munich

Interim Assessment of the Convention on the Future of Europe - the SEE Perspective

Antoinette Primatarova

Project Director, Center for Liberal Strategies, Sofia

The task to talk about the SEE perspective on the Convention on the Future of Europe is much more difficult compared to the one of the previous speaker Mr. Kremer who had to talk about the EU Member States Perspective. The reasons for this difficulty are twofold:

Whereas it is more than clear who the EU Member States are, the concept Southeast Europe is quite often changing its content depending on the context – a purely geographical one, a geopolitical one, a historical one, an economic one etc. With regard to the Convention we have first to define what the relevant content of SEE might be.

Once we define what SEE means in the context of the Convention, we might look at whether there is any such common SEE perspective and if not, come up with some proposals for the possible content of such a SEE perspective.

Defining Southeast Europe in the Context of the Convention

Officially, the Convention does not apply a special notion ‘SEE-countries’. The countries involved in the Convention do belong to two major groups – **Member states** and **candidate countries**. Obviously, the decision which countries to involve was taken on the basis of the type of relations of the respective countries with the EU – **membership** or **prospects for membership**.

Here the question arises what about the so-called ‘**potential candidates**’ – the 5 countries from the Western Balkans: **Macedonia, Albania, Croatia, Yugoslavia, Bosnia & Herzegovina**. In geographical terms, all of them are no doubt SEE countries. All of them have according to the ‘potential candidates’ formula prospects for membership as well.

Commission’s representatives have made on several occasions statements, which create the impression that membership for these countries can be envisaged in some 10-15 years perspective. It is well known that Croatia most probably will launch its application for

membership early next year, Yugoslavia is talking about launching 2009 or 2010 as its target date for accession etc.

The President of the Convention, Mr. Giscard d'Estaing invited during the opening session of the Convention its members to formulate their vision of an Europe in 50 years from now. So, the countries of the Western Balkans fall both into the scope of countries with prospects for membership and into the stated time framework for the envisaged reform of the EU. They are however not involved in the Convention in any form.

The consequence of the above mentioned is that we can't include Macedonia, Albania, Croatia, Yugoslavia and Bosnia & Herzegovina in the group of SEE countries in the Convention.

As regards the countries invited to participate in the Convention, there are several ones, which in different frameworks are mentioned amongst SEE countries. Geographically speaking, even the Member State Greece does belong to that category. Hungary and Slovenia are sometimes mentioned amongst countries in SEE and sometimes not. But if we do concentrate only on candidate countries in the Convention, we will see that there are two further potential distinctions:

- between the **12 negotiating countries**, on the one hand, and **Turkey** – an **formal candidate not yet involved in negotiations**, on the other hand and
- amongst the 12 negotiating countries: between the **10 expected to become members of the EU in 2004**, on the one hand and **Bulgaria and Romania**, on the other hand.

Even if Turkey geographically speaking does belong partly to Europe and partly to Asia, we can conclude that for the purposes of this presentation, there are good reasons to consider as SEE countries Bulgaria, Romania and Turkey due to potential similarities with regard to their role in the Convention.

The participation of Bulgaria, Romania and Turkey does not give us any reasons to assume that there is any kind of coordination of their participation in the Convention or of a common view. Thus, the following remarks are to be regarded as a proposal what a common stance of the three SEE countries might be rather than taking stock of the present situation.

Some Elements of a Possible Common Stance of Bulgaria, Romania and Turkey in the Convention

The previous speaker on the EU Member States perspective Mr. Martin Kremer mentioned in his presentation several times the necessity to find the right **balance between vision and realism** relating the concept of realism to the one of concerns which have to be met.

My intention was to talk from the perspective of the three SEE countries about the necessity of striking the right **balance between vision and fears**. So, let me examine in how far we are talking about one and the same problem or not.

The Bulgarian participants in this seminar are aware of an emerging debate on the necessity to consider changes in the Bulgarian Constitution from the early nineties. In this context Mr. Ivan Krastev, the Director of the Centre for Liberal Strategies I am working for, suggested that the existing Bulgarian constitution might be read as a 'book of fears': fears Bulgarian politicians involved in the elaboration of the Constitution had by that time, the result being a Constitution with provisions how to prevent what the than politicians (or at least some of them) were afraid of and wanted to avoid.

Tempted to apply this metaphor to the Convention, I started looking at the questions provided for in the Nice and in the Laeken declarations. These are questions the Convention will have to provide answers to. It didn't take much time to discover that most of the questions asked were provoked by problems identified as such by the present Member States. Whether we would call these identified problems 'concerns' or 'fears' is an issue of style rather than substance. That is why I fully agree with Mr. Kremer that the Convention has **to find the right balance between vision and realism, e.g. between playing visionary and taking into account existing concerns or fears**.

There are however two problems in this respect. Firstly, the agenda of the Convention is dominated by 'concerns' whereas the members of the Convention are invited by its President to play true visionaries. Secondly, the agenda of the Convention has been formulated by the present Member States and inevitably mirrors their concerns/ fears. Concerns/ fears in the

present Member States do however not necessarily reflect concerns and fears in the candidate countries.

In the following remarks I will try to identify some common concerns/ fears for the SEE countries in the Convention as a base for a possible common stance. I hope very much that the future Constitution/ Constitutional Treaty of the EU will not read simply as a 'book of fears' (be it the ones of the present Member States or the ones of the candidate countries). It would however go beyond the scope of this presentation to go into elements of a possible common vision. Since some of the concerns are the result of lack of vision in the Nice and Laeken agenda, meeting them might nonetheless provoke more of vision in the final document.

A first concern is the one related to the narrow content of SEE in the framework of the Convention and even more so in its envisaged follow up – the IGC.

By way of introduction I already hinted at the controversy of talking about the EU in 50 years from now but not involving the 'potential candidates' from the Western Balkans. For some present Member States and even some candidate countries the option might be to have some kind of close cooperation with the respective countries without really considering their membership. However, for Bulgaria, Romania and Turkey an EU without the countries from the Western Balkans can't be the solution proper. And it is the common interest of these three countries to make their position clear in the framework of the Convention. The three SEE countries can't involve the Western Balkans in the Convention proper but they could and should speak on their behalf as well. Voicing their concerns about the place of the Western Balkans in the future EU Bulgaria, Romania and Turkey could at the same time express their vision about future enlargements.

As regards the follow up IGC, according to the Nice and Laeken formula, countries which will have concluded negotiations by 2004 will be allowed to participate in it as observers. Bulgaria aspires to conclude negotiations in 2003, Romania – in 2004. So, both of them have a potential chance to participate in the following IGC as observers. As regards Turkey, however, there is no chance for this country to remain involved provided the present formula would not be changed.

There are too many statements within the Convention, which refer to changes necessary with regard to the enlargement with ten more countries in 2004. There are of course other ones referring to an Union of 27, 28 or more than 30 members. Under these circumstances an IGC with only 25 participating countries can't be interpreted otherwise but than a potential danger for narrowing down the scope of the envisaged reforms and for building further obstacles to the accession of the countries in SEE. (A narrowing down even of the scope of the Convention might be triggered in the case of a 'no' in the second Irish referendum on Nice but let us hope for an 'yes' and neglect this scenario.) Thus, all the three countries should be concerned about their participation in the future IGC and voice these concerns individually or jointly. Ideas already launched – to extend the work of the Convention beyond summer 2003 and to have it operate in one way or the other in parallel with the IGC is only one solution, which might be welcome under this perspective.

A second concern relates to the controversy between supporters of the Community method and supporters of the intergovernmental method or rather to the way the complicated coexistence of both methods is presented. The opponents to the Community method go sometimes that far as to speak on behalf of candidate countries and to attack on their behalf “Brussels”, i.e. the Commission. In this context parallels are drawn between the Soviet Union and the European Union the assumption being that countries that just recently got their freedom back will not be eager to be dominated again by another ‘Union’. A presentation of the EU according to such lines is no less than damaging especially in Southeast Europe in the broader sense, including the Western Balkans. In such a context the parallel could be drawn further – why replace Belgrade by Brussels? The uniqueness of the European Union as a very special model of keeping the right balance between the national and the supranational could be used as a special argument in favor of speeding up the integration of the Western Balkans into the EU. An intergovernmental Europe dominated by a directorate of some few states would be however much less attractive to the countries in the region. Moreover, one has to bear in mind that in the Balkans there is a strong feeling that the complicated historical heritage of the region reflects the controversies between the big powers and their interference. Thus, the whole of SEE has reasons to be concerned about too much of intergovernmentalism in the future enlarged EU.

A third concern (and the next one to follow) is not necessarily one only for the countries in SEE . It should be a concern common rather to all candidate countries. This is a concern

about the **principle of solidarity** and the place it is going to have in the future Constitution of the EU. Whereas the concern of the present Member States about the proper application of the **principle of subsidiarity** is on the agenda of the Convention there has been no official mentioning of a concern about the application of the principle of solidarity. On the contrary, one might read some concerns about the application of the principle of subsidiarity going as far as to raise the question of re-nationalization of already introduced community policies as fears about the financial implications of the extension of the principle of solidarity to the new members.

Candidate countries should be really concerned about the proper reflection of the principle of solidarity in the work of the Convention and voice this concern especially against the background of the summary of the Convention's listening phase presented by Mr. Giscard d'Estaing to several European newspapers shortly before the summer brake. According to this summary discussions in the Convention did show that whereas in the first fifty years of its existence the EU was rather inward oriented time had come now to concentrate rather on its outward role. Taking such a perspective would mean overestimating the role of accession to the EU of the Central and East European countries in the overall process of unification of Europe. Unification will be by far not completed upon the date of accession. CEE countries, SEE countries including, will need an even stronger community policy for economic and social cohesion. Thus, inward orientation for the EU will be a must in the years ahead if enlargement has to become a success story.

A fourth concern may be identified as regards the discussion about the Unions competencies. As we well know the whole **competence debate** has been brought into the Convention more or less as a German concern for which no solution was found during the previous IGC. This debate partly overlaps with the debate on subsidiarity. But here I want to raise one special competence for which SEE should show a special interest to see it more and more as an EU competence. This is the competence related to Justice and Home Affairs (JHA). Bulgaria and Romania already made the experience how important it is to have more of a common policy in the field of JHA as regards the visa issue. As long as the EU didn't have a common visa policy both countries were stuck in a vicious circle with no chance to get visas abolished. As regards the future all three SEE countries in the Convention as well as the 'potential candidates' might benefit from more common policies in the field of JHA. I would even go further than that and suggest that with regard to the next enlargement with the

countries from the Western Balkans the EU should try to reconsider its approach and instead of starting as until now with establishing a free trade area concentrate much more on integrating the future candidates in a common area of justice, freedom and security and putting them on the 'white' visa list as soon as possible. As regards the proposals to consider common border police all SEE countries should be in favor of such an approach. The possibility might be considered to include in the preparation of a common border police even countries who are not members yet but have a clear perspective to become ones in the near future.

Let me conclude by saying that I do hope that the Convention is going to find the right balance between vision and fears, on the one hand, and balance between the fears of present and future member states, on the other hand.

Panel: Interim Assessment of the Convention on the Future of Europe



Martin Kremer, Planning Staff, Federal Foreign Office, Berlin and Antoinette Primatarova, Project Director, Centre for liberal Strategies



Andrea Wicke, First Secretary, Embassy of the Republic of Austria, Sofia; Irena Pladenova, Executive Director, Economic Policy Institute, Sofia and Gabriele Schoeler, Program Officer, Central and Eastern Europe, Bertelsmann Foundation, Guetersloh during the presentation on the Austrian Experience in Regional Cooperation



Irena Pladenova, Executive Director, Economic Policy Institute, Sofia; Gabriele Schoeler, Program Officer, Central and Eastern Europe, Bertelsmann Foundation, Guetersloh and Liviu Muresan, Executive President, EURISC Foundation, Bucharest during the final discussion at the Summer Seminar



View to one the venues of the Working Groups at the Summer Seminar