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This second issue of the European Balkan Observer explores a broad range of issues determined by the interrelationship of the Balkans and the European Union (EU), ranging from governance to economic development and the status of minorities. Such breadth indicates the increasing complexity of this relationship, which can no longer be grasped by looking solely at high-profile events, such as the EU summit in Thessaloniki in June 2003.

Two articles shed very different light on EU policy towards governance and reform in the region. Othon Anastasakis and Dimitar Bechev examine conditionality as a core principle in the EU's approach to the Western Balkans. They conclude that it is necessary to transform the conditionality approach into a 'positive conditionality', which would require the EU to offer a clear perspective regarding membership to the region and offer a partnership with its countries. David Chandler's article on the EU's policies in the Balkans suggests that the asymmetry in the relationship in fact 'short-circuits' domestic policy deliberations in the countries of the region. Ironically, this contributes to the delay in consolidating those democratic institutions and

practices that EU policy is ostensibly trying to promote. Two other contributions to this issue of EBO examine economic development in two countries of the region, Slovenia and Bosnia-Herzegovina, and highlight the significant disparities in the region. These two articles were presented at a meeting in Cavtat (Croatia) earlier this year, where economists from all over former Yugoslavia met to discuss the transition process in the Balkans. The Cavtat Declaration that resulted from this meeting is included in this issue of EBO. It sets out the most pressing concerns for economic development and affirms the commitment of the region's economists to hold annual meetings on this subject in the future.

The last article explores the interrelationship between the status of Roma in Macedonia and process of European Integration. Marta Schaaf argues that the EU integration process provides a unique opportunity to improve the status of Roma in Macedonia, and warns of the danger of neglecting the plight of this marginalised minority.

We hope you enjoy this issue of the European Balkan Observer. Comments and contributions are welcome!

Florian Bieber

## EU Conditionality in South-East Europe: Bringing Commitment to the Process

by Othon Anastasakis and Dimitar Bechev

Conditionality is at the heart of EU-Balkan relations, yet as a topic it has generated little policy-making and academic debate. The effects of conditionality have been more tangible in the Central and Eastern European candidate countries, where EU conditions have catalysed market and democratic reforms and encouraged the embrace of the Union's norms and practices. Beyond any doubt, the "visible and realistic" prospect of membership has been the main carrot along the way. In South East Europe (SEE) - a region comprising two 'candidate' (Bulgaria and Romania) and five 'potential-candidate' states (Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia-Montenegro), EU conditions have arguably seemed even more demanding due to the fragile state of Balkan economies, politics and societies and the legacy of conflict. The recent assassination of Serbian Premier Zoran Djindjic shows that the current process of reform and integration is particularly vulnerable. For its part, the EU shoulders great responsibilities as to the political stability and socio-economic progress in SEE. The 'exclusion' of the Western Balkans from the enlargement process and the 'Balkan fatigue' in many Western capitals means that the EU needs to devise a new visionary strategy vis-à-vis the region. Key element in it should be the making clear the link between conditionality, Brussels' most powerful tool,

and the objectives it is geared towards, including EU accession.

### Difficulties in applying EU conditionality in SEE

EU conditionality in the Balkans is omnipresent, multi-dimensional and multi-purpose geared towards reconciliation, reconstruction and reform. It is regional, sub-regional, bilateral and project-specific and relates to a number of economic, political, social and security related criteria. The existence of such powerful conditionality is a testimony of the great leverage and impact the EU has on the region. EU membership conditionality in post-communist Eastern Europe has functioned as an agent of differentiation, reform and agenda-setting. On all of these fronts the EU has been faced with major obstacles and unintended consequences, especially in the Western Balkans.

a. *Differentiation and Regional Antagonism*: In the context of enlargement, the EU requirements have resulted in differentiation between frontrunners and laggards, better performers and less satisfactory ones. The same dynamic is even more visible in the Balkan region, with the division between Bulgaria and Romania, on the one hand, and the Western Balkans, on the other. In the latter, differentiation and heterogeneity is even greater, as a result of various factors, one of them

being their capacity to meet the Stabilisation and Association Process (SAP) criteria. Croatia is well ahead the rest of the group and wishes to join Bulgaria and Romania in a future accession, taking place in 2007. Such differentiation contradicts another element of EU conditionality, which promotes a greater degree of regional cooperation. More often than not, it is unclear whether the EU is more committed to reinforcing existing regional schemes like the Stability Pact (SP) or to encouraging bilateral relations with those states that are relatively better equipped to meet its conditions. For their part, most Balkan states tend to regard regional schemes with suspicion, sceptical of the benefits they can bring or concerned that they contradict the principal goal of European integration. EU conditionality has failed to bring about in the region a context of healthy competition among states.

b. *Unsustainability of the Reform Process*: In principle, EU conditionality (with the rewards attached to it) is expected to function as an incentive for national authorities to pursue reform and prepare for integration. Yet reforms cannot be sustained without the presence of reformist parties and a broad consensus among the elites and the citizens as to the necessity of EU-guided democratisation and market reform. In Central and Eastern Europe, these factors coupled with the prospect of

EU membership made conditionality effective. In the Western Balkans, however, the 'potential candidacy' agenda have not improved the credibility of reformers. The promise of better relations with the EU did not dissuade the Bosnian electorate from supporting nationalist parties in the October 2002 parliamentary elections, nor did it tilt the balance in favour of the EU-minded reformers in Serbian elections. The pro-reform consensus is, at best, fragile and one often observes a growing gap between the EU-minded elites and the wishes of the local populations. Moreover, the poor level of economic reform fails to generate the virtuous circle of direct foreign investment, in sharp contrast with Central European counterparts.

*c. Priorities and lack of local input:* The third difficulty relates to the one-way nature of EU conditionality and the lack of regional input in priority-setting. Conditions are defined exclusively by the EU and accepted unconditionally by the east European countries. This unequal relationship has been aimed at the transposition of policy templates, which reflect EU preferences and practices. That is, for instance, the case with the third Copenhagen criterion, as regards the incorporation of the *acquis communautaire* in national laws and policies. This is particularly problematic in SEE, a region that has not pursued the 'classic' transition path and that is constrained by the scarcity of human and financial resources. The adoption of the *acquis* may contradict, in some cases,

the wider "development and growth" agenda in these countries. Conditionality under the second Copenhagen economic criterion can be equally problematic. In some of the Balkan countries, economic conditions advanced by both the EU and the IFIs at times clash with the corresponding political conditions. In FYR Macedonia, for instance, it is feared that IMF and EU demands for cuts in the administration expenditure contradicts the goal of inter-ethnic reconciliation and strengthening of Albanian representation in the central and local institutions. Such paradoxes reflect the shortcomings of the one-way approach in setting policy targets.

#### **Commitment deficit**

In the candidate countries, many of the above difficulties have been overcome due to the golden carrot of membership. The successes and failures of EU conditionality shows that commitment is central to its effective deployment. In the case of the Western Balkans, however, there is a lack of commitment both on the supply EU side as well as the demand regional side. On the supply side, the lack of EU commitment is reflected in a) the lack of a membership perspective; b) the lack of interim rewards tied to a structured and gradual prospect of accession; c) the prospect of diminishing funds for the region; and d) the diversion of international interest elsewhere. For its part, the EU has forged strategy towards the Western Balkans that is, at times, marked by

confusion. It brokers political deals and directs reforms, yet is unsure as to what sorts of relationship to promote with the countries of the region. It declares its readiness to take up the burden of peacekeeping in Bosnia and FYR Macedonia, but scales down the level of financial support. Most important, the EU shies away from indicating that membership is the end goal of its involvement, although that would undoubtedly empower its conditionality and render the SAP a much more credible framework. On the regional side, exclusion or halfway inclusion in the EU sphere tends to inhibit transition, in that it deflates local demand for more integration and reforms. This commitment deficit fuels a profound and widespread cynicism about EU motives. Conditions are seen not as steps in a structured process ending with accession but rather as an instrument for deferring membership. If the EU is 'the only game in town' for the Balkans, it is also true that halfway commitment is the name of the game for the policy-makers in Brussels and the players in the region.

#### **Towards a positive conditionality**

*a. Need for a membership vision:* Conditionality is a necessary instrument when the EU is dealing with its future member states. In order to achieve its objectives it has to be fair, consistent and long-term. In the troubled Western Balkans it has to be visionary, imaginative and more cleverly sold to the people. As a first long-term step, it is essential to address the SAP as a process leading

clearly to accession. To convince conditionality has to offer the carrot of membership. It should not be solely linked with short term financial benefits as so often is the case with western pressure regarding compliance with ICTY.

*b. Understanding local needs and the use of interim benefits:* While conditionality is inherently asymmetric and the EU must not step down from its role of reform-promoter, there is much to be done in terms of establishing a *viable partnership* with the Western Balkans. Beyond any doubt, conditionality has to be based on a process of adaptive learning by paying closer attention to the signals coming from the region. To do that the EU should enhance local human capacity and offer interim benefits as incentives to continue with the reform process. Part of the problem of limited or non-existent regional ownership, is due to the lack of experience of the administrations in many Balkan states in working with the complex body that the EU represents. The EU should, therefore, invest in people. What countries like Bosnia, Albania and FYR Macedonia need, are training programmes to build up local human capacity in all possible ways. Amongst other things, this will greatly help in achieving compliance with EU conditions under the second and, especially, the third Copenhagen criteria. The extent to which the local administrative and political elites are familiar with the Union's institutions, norms and policies, is one indicator of how advanced the process

is. Membership remains, in most cases, a long-term project, but it is not an end in itself. It is popular because elites and publics look at it as a recipe for high living standards and economic growth. This, in turn, gives the EU greater leverage. While it is unrealistic to foresee most of the Western Balkan countries as members of the EU in the present decade, the EU is in a position to respond to local demands. It is also imperative that the EU maintains its financial commitment beyond 2006. Coupled with the promise to enlarge in the direction of the Western Balkans, this would greatly boost Brussels' profile, which is likely to feed into the political process in the states in question. Taking on board the regional agenda would send a clear message to local policy-makers and constituencies that EU commitments will be substantiated in the short run.

*c. Linking the bilateral with the regional:* The EU should recast the balance between regional cooperation and bilateralism. Although conditionality leads, by definition, to competition, the Western Balkans also require a region-wide strategy. The EU must give all Balkan states the promise of membership and acknowledge that there may be different paths towards that goal, but it must also manage the political effects of disaggregation. While packaging the countries into a discrete region is not viable (and is hard to sell to countries like Croatia), the institutionalisation of the dialogue between Brussels and the Western Balkans is a step in the right direction.

Amongst other things, an upgraded regional dialogue could concentrate on the question of EU conditionality in the Balkans and the role of regional cooperation within this conditionality. It is imperative that the countries in the region be involved in setting the regional cooperation agenda. The EU should take a clear stand on the Stability Pact too. The initial overblown expectations were soon thwarted, but the SP has, nonetheless, done much to promote infrastructure development and the liberalisation of intra-regional trade. Overly ambitious it might have been, but the SP has carved itself a niche and produced some palpable results which should be recognised by the EU. The link between the SAP and the SP should be made more explicit than what it already is. Brussels should assume the leading role and find ways to coordinate the SP and the regional component of the SAP. Regionalism in South East Europe would, in that way, be more closely linked with the EU integration project than it is at present. Regional cooperation can be a stepping-stone to accession only when the EU acquires a stake in the overall venture. By making it clear that packaging is not its policy and that the SP is much more than merely a substitute for membership, the EU would help the Western Balkans transcend the regionalism vs bilateral dilemmaism dilemma.

Abbreviated version of the original policy paper. The full text is available at <http://www.sant.ox.ac.uk/ar-eastudies/EUconditionality.doc>

*Othon Anastasakis* is the Director of the SE European Studies Programme at the

University of Oxford's European Studies Centre. *Dimitar Bechev* is a doctoral

candidate at Oxford and research associate with the programme.

## The European Union and Governance in the Balkans: A Unequal Partnership

By David Chandler

Since the end of the Kosovo war in April 1999 the European Union has headed an ambitious international experiment in the SEE region. This experiment has been described as no less than 'reforming and reinventing the state in South Eastern Europe'.<sup>1</sup>

Although some ideas for the extension of external involvement in the region had developed prior to the Kosovo war, 'the NATO intervention undoubtedly acted as a catalyst in strengthening international political will for co-ordinated and preventive action in the region'.<sup>2</sup> The EU's Regional Approach of 1997 was replaced with a more ambitious one in April and May 1999, the Stabilisation and Association process (SAP). This process went beyond the offer of 'contractual relations' (Trade and Co-operation Agreements) to motivating reform through the prospect of potential member-

ship once the relevant conditions had been met. The prospect of future EU membership was explicitly offered to Albania, Bosnia, Croatia, Macedonia and FRY at the Feira European Council in June 2000. The SAP involved preferential trade concessions (see Economics Strategy Report), the Community Assistance for Reconstruction, Development and Stabilisation programme (CARDS) and a new contractual relationship of reform assistance, the Stabilisation and Association Agreement (SAA).

In July 1999, the Stability Pact for SEE was launched which also sought to shape governance in return for the promise of integration into Euro-Atlantic structures. Founded at the EU's initiative, in the Stability Pact's founding document more than 40 partner countries and organisations undertook to assist SEE states. Unlike the EU, the Stability Pact is not a formal international organisation. Following the earlier creation of ad-hoc international bodies to co-ordinate international activity in the region, the Stability Pact has no formal constitution and no independent financial resources, relying on the Special Co-ordinator and a 30-member team funded by the European Union and headquartered in Brussels. Under the aus-

pices of the Stability Pact there has been an international division of labour, through which different areas of policy-making have been guided by different international bodies. The leading role in infrastructure development, economic restructuring and in general private sector development has been taken by the World Bank, European Investment Bank, European Bank for Reconstruction and Development and the International Monetary Fund, with facilitating support from the European Community. Initiatives in post-conflict reconciliation, refugee return, good governance, democratisation and institution building have been led by the European Commission, bilateral EU member state programmes and other international organisations (for example, the Council of Europe and the Organisation for Security and Cooperation in Europe). States in the SEE region have also received support under the European Community Humanitarian Office aid programme, macro-financial assistance to stabilise national budgets and since 2001 in Macedonia, support from the Community's Rapid Reaction Mechanism. The international institutions, involved in stabilising and integrating the SEE states within European structures, view the ques-

<sup>1</sup> EastWest Institute and European Stability Initiative, 'Democracy, Security and the Future of the Stability Pact for South Eastern Europe: A Framework for Debate', April 2001, p.18. Available from: <<http://www.esiweb.org>>.

<sup>2</sup> 'About the Stability Pact', Special Co-ordinator of the Stability Pact for South Eastern Europe, p.1. Available from: <[http://www.stabilitypact.org/stabilitypac-tcgi/catalog/cat\\_descr.cgi?prod\\_id=1806](http://www.stabilitypact.org/stabilitypac-tcgi/catalog/cat_descr.cgi?prod_id=1806)>.

tion of governance as one of the three central issues (along with security and economic reform) which need to be addressed for a successful programme outcome. Within the sphere of SEE state governance, it is the key issues of institution-building and of civil society development which have attracted the focus of international regulatory bodies. Both institution-building and civil society development are fairly new areas for international policy-initiatives and both reflect the new found capacities of external institutions to take an active interest in questions which were previously seen to be ones of domestic political responsibility.

It is important to note that the problems identified in the governance sphere are not with the formal mechanisms of democratic government or the electoral accountability of government representatives but are concerns that go beyond procedural questions of 'free and fair elections' to the administrative practices and policy choices of governments and the attitude, culture and participation-levels of their citizens. Regarding institution-building, the European Commission asserts that:

"The lack of effective and accountable state institutions hampers the ability of each country to co-operate with its neighbours and to move towards the goal of closer integration with the EU. Without a solid institutional framework for the exercise of public power, free and fair elections will not lead to representative or accountable government. Without strong institutions to implement the

rule of law, there is little prospect that states will either provide effective protection of human and minority rights or tackle international crime and corruption."<sup>3</sup>

Where, only a few years ago, free and fair elections were seen to be the main indicator of representative and accountable government, institution-building is now held to be the key to democratic development. According to the Commission, strengthening state institutions is vital for 'assuring the region's future, being as relevant to human rights and social inclusion as it is to economic development and democratisation'.<sup>4</sup> While SEE states meet the traditional democratic criteria, necessary for the incorporation of new members, such as Spain and Portugal, into Europe-wide mechanisms in the past, they are held to fail to meet the new, more exacting, standards which are being laid down for membership of European bodies today.<sup>5</sup>

Regarding the second aspect of governance, civil society, the Commission is even more forthright in its condemnation of the aspiring members involved in

the Stability and Association process:

"...none of the countries can yet claim to have the level of vibrant and critical media and civil society that is necessary to safeguard democratic advances. For example, public and media access to information, public participation in policy debate and accountability of government and its agencies are aspects of civil society which are still largely undeveloped in all five of the countries."<sup>6</sup>

In this case, the member states from the SEE region cannot even make out a 'claim' that they can safeguard 'democracy' in their states. In fact, the Commission is clearly concerned by society in the region as much as by government, arguing that the aim of its new programmatic development is necessarily broad in order 'to entrench a culture...which makes forward momentum towards the EU irreversible'.<sup>7</sup>

The Commission argues that its focus on building the capacity of state institutions and civil society development reflects not only the importance of this question and the clear needs it has identified, 'but also the comparative advantage of the European

<sup>3</sup> 'The Stabilisation and Association Process and CARDS Assistance 2000 to 2006', European Commission paper for the Second Regional Conference for South East Europe, p.9. Available from: <[http://www.seecon.org/Calendar/2001/Events/src/ec\\_sap\\_cards\\_2000\\_2006.pdf](http://www.seecon.org/Calendar/2001/Events/src/ec_sap_cards_2000_2006.pdf)>.

<sup>4</sup> Ibid.

<sup>5</sup> Hugo Storey, 'Human Rights and the New Europe: Experience and Experiment', *Political Studies*, Vol.43, Special Issue, pp.131-151.

<sup>6</sup> 'Regional Strategy Paper 2002-2006: CARDS Assistance Programme to the western Balkans', European Commission, pp.10-11. Available from: <[http://www.europa.eu.int/comm/external\\_relations/see/docs/cards/sp02\\_06.pdf](http://www.europa.eu.int/comm/external_relations/see/docs/cards/sp02_06.pdf)>.

<sup>7</sup> 'The Stabilisation & Association process (SAP): First Annual Report', European Commission, Brussels, April 4, 2002 (COM(2002)) 163 final, p.8. Available from: <[http://www.europa.eu.int/comm/external\\_relations/see/sap/com02\\_163.pdf](http://www.europa.eu.int/comm/external_relations/see/sap/com02_163.pdf)>.

Community in providing **real added value** in this area' (emphasis added).<sup>8</sup> It would appear that the SEE states are fortunate in that their wealthy neighbours to the West have not only identified their central problems but also happen to have the solution to them already at hand.

### **The EU Accession Process: Bulgaria and Romania**

Two of the states in the region, Bulgaria and Romania, are tied into the EU Accession Process with aid to support the governance framework granted through the Phare initiative. Approximately one-third of this funding is given to support institution building, one-third for strengthening the regulatory infrastructure needed to ensure compliance with the *acquis*, and the remaining third to support policies of social and economic cohesion.<sup>9</sup> The financial support provided by the EU is an important resource for both these states, Bulgaria, for example, now receives around €300 million a year in Community grant-financed, pre-accession assistance, equivalent to over 2 per cent of its GDP.<sup>10</sup>

<sup>8</sup> 'The Stabilisation and Association Process and CARDS Assistance 2000 to 2006', p.9.

<sup>9</sup> Regular Report on Romania's Progress towards Accession', Commission of the European Communities, Brussels 13 November 2001, p.9. Available from:

<[http://europa.eu.int/comm/enlarge-report/2001/ro\\_en.pdf](http://europa.eu.int/comm/enlarge-report/2001/ro_en.pdf)>.

<sup>10</sup> 'Regular Report on Bulgaria's Progress towards Accession', Commission of the European Communities, Brussels 13 No-

The funding priorities are those that fit with the mechanisms of the EU, reshaping the domestic policy processes to follow external institutional requirements for EU relations both now and in the long-term future. In the direct field of governance reform, the framework for the reform of the public administration, civil service, parliamentary and executive procedures, the judiciary and policing is drawn up by the EU and the specific content is guided through 'twinning' mechanisms, whereby external civil servants and policy-makers are drafted in by the EU.

### **The Stability and Association Process: Albania, Bosnia, Croatia, Macedonia, Serbia and Montenegro**

Launched in May 1999, SAP is the cornerstone of EU policy towards SEE development through 'anchoring' the region permanently to the development of the EU itself.<sup>11</sup> This 'anchoring' is seen as crucial to the encouragement of reforms, in the governance sphere, relating to the rule of law and democratic and stable institutions. The legitimacy of the EU's relationship of regulation is based on two grounds, the promise of aid and of EU membership at some point in the future. The policy of aid in return for the EU's regulatory control over the reform process is underpinned by the

vember 2001, p.12. Available from:

<[http://europa.eu.int/comm/enlarge-report/2001/bu\\_en.pdf](http://europa.eu.int/comm/enlarge-report/2001/bu_en.pdf)>.

<sup>11</sup> 'The Stabilisation and Association Process and CARDS Assistance 2000 to 2006', p.3.

CARDS assistance programme providing €4.65 billion 2000-2006. The legitimacy of this buying of external influence is bolstered by the promise of EU integration, i.e. 'on a credible prospect of membership once the relevant conditions have been met'.<sup>12</sup>

The European Union General Affairs Council argues that, for the SEE states, the process of formulating the SAP contract is 'both pedagogical and political'.<sup>13</sup> The 'pedagogical' aspect of the process highlights the relationship of subordination involved. As the EU reports 'the "Consultative Task Force/ High Level Steering Group" approach has proved an effective means of focusing authorities' minds on essential reforms and of engaging with them **in a sustained way to secure implementation**' (emphasis added).<sup>14</sup>

The Community's desire to impose a pre-established agenda of governance reform, which seems to assume that there is a 'one size fits all' method of strengthening SEE government institutions, its desire to enforce its 'leverage' over the SEE region through a number of mechanisms of conditionality, and the stress upon EU managerial control and 'co-ordination' of external directives, together leave little doubt that the SAP process is far from one of 'partnership'.

<sup>12</sup> Ibid.

<sup>13</sup> 'Review of the Stabilisation and Association Process', European Union General Affairs Council Report. Available from: <<http://www.seerecon.org/Calendar/2001/Events/2536GA-Annex.pdf>>.

<sup>14</sup> 'Review of the Stabilisation and Association Process', IIIC.

### Quasi-protectorates

In many ways the relationship of inequality between elected representatives in the region and the external regulatory bodies, such as the EU, is highlighted in the international protectorates of Bosnia and Kosovo. Bosnia and Kosovo, rather than standing out as exceptions because of the indefinite restrictions on local sovereignty and self-government – thereby institutionalising, or formalising, a relationship of inequality and external domination – in fact, indicate with greater clarity the problems of governance and civil society in the context of an unequal 'partnership'.

Bosnia and Kosovo both highlight the key problem with the unequal 'partnership': the lack of accountability for policy-making. There is a peculiar relationship of 'dual power' where elected representatives, presidents and parliaments co-exist with international administrators, developing policy through co-ordination with international institutions.<sup>15</sup> These policies are then placed before the elected representatives and, if necessary, imposed through international edict under the threat that elected presidents and parliamentarians may be dismissed from their posts if they are held to be 'obstructing' the work of the international community.

### Conclusion

It seems that rather than EU membership being con-

<sup>15</sup> David Chandler, *Bosnia: Faking Democracy after Dayton*, 2<sup>nd</sup> ed. (London, Pluto Press: 2000).

sidered as important for the development of SEE states, for the EU the relationship of tutelage is the key factor, making the process more important than the goal and in many cases an end in itself. As one leading adviser stated 'the process of pursuing that goal is more important' than gaining membership.<sup>16</sup> While the gains of institutionalising external regulation appear clear to external policy-makers, they may not be so apparent in the SEE region itself. The focus on the process rather than the end point has also meant that little analysis has been devoted to the artificiality of much of the governance / civil society programme.

The Stability Pact is seen as a 'two-way street' whereby SEE states 'must first implement appropriate reforms' in regard to economic and political processes and, in exchange, donors undertake to support the construction process through assistance and credits.<sup>17</sup> This is portrayed to be a reasonable exchange or a contractual relationship of a partnership, the problem is that in this process the domestic political process is marginalised. In effect the SEE states are expected to sacrifice domestic policy-making for the promise of financial aid and integration into European and Euro-Atlantic structures.

There are risks attached to this contractual exchange, which stem from the internationalisation and weaken-

ing of domestic mechanisms of conflict resolution and policy bargaining. The Country Reports highlight that the political process is important for cohering society and legitimising governing institutions. The imposition of the governance agenda from outside risks undermining the stability it aims at and clearly harms the goal of representative democracy.

### Policy Recommendations

1. At present there is little compatibility between the EU framework and the Commission's stated aims in the governance sphere. There needs to be an open and public recognition that the process of external governance, in managing the 'integration' of SEE states through the SAP, risks weakening the standing and capacity of SEE state institutions and marginalizing democratic processes (at least in the short term). Unless the problems of state institution-building and civil society development are addressed in the context of the historically unprecedented level of external regulation the risk of unintended outcomes will be magnified enormously.

2. As long as SEE state institutions and political processes are judged solely in relation to compatibility with EU mechanisms (or an idealised view of political processes in Western Europe) rather than in relation to domestic political, economic and social constraints there is a risk that the agenda of governance reform will fail to address key domestic questions. It is important that SEE governments have more of an input into SAP and CARDS

<sup>16</sup>Petar Karaboev, 'The Road to NATO is more Important than Membership', *Dvenik*, 17 March 2002. Available from: <<http://wire.tol.cz>>.

<sup>17</sup> 'About the Stability Pact', p.13.

priorities to avoid EU funds being spent unproductively.

3. Rather than focus on integration through the secondment of EU officials working through an EU agenda, it would be better to put resources into training SEE civil servants and investing in government infrastructure. The failure of 'low-intensity' institution-building in Bosnia provides no evidence from which one can conclude that the 'high-intensity' direct management of public administration is necessarily the way forward for the region. In fact, the available information tends to suggest that this more interventionist approach poses clear problems of sustainability and of external dependency.

4. The imposition of EU policy should not be seen as a short-cut to institutionalising 'good governance' practices because this raises the problem of artificiality. There is a danger of imposing external policy

frameworks which can then result in paper institutions with little influence over, or relationship to, society, as illustrated in the Bosnia and Kosovo Country Reports.

5. There needs to be international recognition that the encouragement of 'government by task force', and the creation of new policy-institutions outside the formal democratic framework of the SEE state, may result in unintended consequences, such as the weakening of state capacity. This is particularly a danger when these ad hoc bodies seek to influence state policies through appeals to external bodies rather than relying on domestic political processes.

6. Civil society-building needs to feed into the domestic political process rather than take resources away from this process. Civil society groups need to be judged on their membership and articulation of social needs rather than

their policy. The Country Reports highlight the danger that a 'civil society' that relies overly on external financing may be unable to provide an alternative 'voice' or develop broader policy-making discussion and involvement.

The article is a condensed version of 'Governance: the Unequal Partnership' in Wim van Meurs (ed.) *South Eastern Europe: Weak States and Strong International Support, Prospects and Risks Beyond EU Enlargement*, Vol. 2 (Opladen: Leske and Budrich/ Bertelsmann Foundation, 2003).

David Chandler is a Senior Lecturer in International Relations at the Centre for the Study of Democracy, University of Westminster, London. He can be contacted at: d.chandler@westminster.ac.uk.

## Slovenia: Past Trends, Current Issues and Future Challenges

By Franjo Štiblar, Peter Stanovnik, Mojmir Mrak

In all fields of economic transformation—from its macroeconomic policies and the restructuring of the real and financial sectors to the implementation of liberalisation and privatisation processes—Slovenia has opted for a gradual approach. Despite objections from international financial institutions and foreign advisors, the resulting positive effects confirm that it was the right way to go. Any analysis of Slovenia's economic performance, however, must take into account the conditions under which the country began the transition process,

i.e., the highest level of development and the most open economy among all post-socialist transition countries.

Eleven years after independence – in 2002 – Slovenia was offered full membership in the EU and NATO. Today, most of the *Acquis communautaire* has already been adopted with some provisions only entering into force after accession to the EU in May 2004. Despite a drop in GDP growth from more than 4% to 3% with the recent global economic slowdown, macroeconomic results remain satisfactory. Slove-

nia's budget deficit is within the Maastricht criteria of 3%, surplus on the current account is regular, and the unemployment rate has declined to 6.4% according to ILO standards. At 7.5%, inflation continued to be a problem in 2002. As far as monetary policy is concerned, it has been mildly restrictive over the past ten years, with interest rates taking on a more important role only recently. The country uses a managed floating exchange rate regime that helped it to avoid the kind of financial crises that were so common in

other transition economies throughout the 1990s. Indeed, in 2002 the Slovenian economy performed better than the economies of most other transition countries. GDP grew at a rate of 3%, the current account recorded a surplus of close to 0.3 % of GDP, and inflation fell to 7.5%, while there was no significant increase in the budget deficit. The *Table* below provides a select number of macroeconomic indicators for the period 1999 – 2002,

remains positive, but the budget deficit could grow such that re-balancing may be necessary.

Slovenia is expected to join the EU in 2004. With this in mind, GDP growth is expected to accelerate to 3.5% in 2003 and 4% in 2004, while inflation is predicted to decline to 5% in 2003 and to 4% in 2004. This is important because the exchange rate will be fixed during the two-year preparation period for membership in ERM-2 as

to remain positive with financial inflow still a feature, but less so than in 2002. The country's economy will face numerous challenges in the years to come.

*Firstly*, a balanced budget seems to be more and more difficult to achieve. As EU membership approaches, new institutions will be established and more public servants will be needed. This will create significant additional costs for a small country of only two million people. In addition, it appears

that Slovenia may become a net contributor to the EU budget upon entering into EU, with up to 1% of GDP as net outflow to Brussels.

*Secondly*, inflation is currently the highest among new EU candidate countries, and Slovenia's ability to keep it under control may be threatened by external events.

*Finally*, on the positive side, entry into the EU and continued expansion to the markets of central,

south and east Europe may accelerate domestic economic growth.

**Slovenia: Selected Macroeconomic Indicators, 1999- 2005**

	1999	2000	2001	2002e	2003p	2004p	2005p
GDP (in %)	5.2	4.6	2.9	3.2	3.1	3.9	4.6
Inflation (in %, average)	6.1	8.9	8.4	7.5	5.5	4.3	4.0
Balance of trade (million \$)	-1537	-1384	-893	-572	-500	-580	-600
BoP current account (million \$)	-698	-548	31	58	86	-10	-20
Unemployment rate, ILO (in %)	7.6	7.0	6.4	6.5	6.2	5.9	5.7
Foreign exchange reserves (million \$)	4115	4376	5747	8152	8500	8800	9000
External debt (million \$)	5400	6217	6717	8799	9100	9400	9600
Budget balance/GDP (in %)	-0.6	-1.4	-1.4	-3.0	-1.5	-1.0	-0.8

Sources: National Statistical Office, Bank of Slovenia, Institute of Macroeconomic Analysis and Development, EIPF, e- estimation, p-prediction

as well as projections through 2005.

In 2003 the economic climate has been improving: inflation is decreasing towards 6%, nominal depreciation of the domestic currency (tolar) is slowing towards 2.5%, and interest rates are declining with the bank prime rate already below 10% in nominal terms. The current account

precondition for joining the EMU, and will start around 2005.

On the domestic front, consensus among social partners should keep wage growth under control, while increased competition should help keep inflation in check. External inflationary pressures, however, will be more difficult to control. The current account is expected

### **Developing Technological Development and Human Capital**

In the process of carrying out the requirements for the transition, EU accession, and the shift to a knowledge-based para-

digm, the Slovenian economy will have to substantially increase its overall competitiveness. National competitiveness is defined here as the capacity to sell products and services on international markets under free and fair conditions in such a way that ensures sustainable development and sufficiently high living standards. As Slovenia doesn't possess any significant natural resources, its ability to remain competitive is dependent upon its human resources and the technological development that arises from domestic innovation efforts or technology transfer and diffusion from abroad.

In comparison with other CEE countries, Slovenia benefited from some of the features of the previous science and technology system. As part of the system of social ownership, the business sector possessed relatively strong intramural R&D capacities which have not significantly decreased during the transition. Overall gross R&D expenditures have been maintained at a relatively high level (1.5% of GDP in 2001). Despite high investment into developing the knowledge-based resources of the country, the commercialisation of research results has been unsatisfactory. This is due to poor collaboration between universities, government labs and business firms, as well as low levels of innovation in firms and efficiency in intermediary institutions (technology centres, technology parks, regional agencies, etc.).

Slovenia devotes significant public resources to education, even when compared to EU and OECD countries

(in the period between 1995 and 2000, the total expenditures—including the pre-primary level—amounted to between 5.5% and 5.7% of GDP). Despite improvements in developing human capital over the last decade, the educational system faces serious problems, including a low average rate in the functional literacy of adults, a low rate in the participation of adults in education, and low average number of years of schooling (16 years). Particularly problematic is the low percentage of the population with tertiary education (13%), as well as the relatively low percentage of those with upper secondary education (60%). There are too many drop-outs in tertiary education, and a relatively low proportion of graduates in engineering, the natural sciences and medicine compared to graduates in the social sciences and humanities. The percentage of adults in Slovenia who participate in life-long learning (5.1%) lags behind the average in other EU countries (8.9%).

Technology policy in Slovenia should focus on the following key objectives:

- *Building an innovative culture and entrepreneurship.* Due to the short period of experience most Slovenes have with a functioning market economy, there is a need for a broad-based campaign to raise awareness about the importance of exploiting current innovations in production processes and organisational management. Strategies on the part of firms and the government should be focused on overcoming the inability of

many companies—especially SMEs—to cope with technical progress. This inability is largely caused by inappropriate work organisation, poor management techniques, and the lack of effective procedures to incorporate new technologies.

- *Leveraging R&D.* There is a need for new approaches to stimulate market-driven research. In particular, policy should create conditions that provide greater scope and incentives to private initiative and are less dependent on government financial support. On the other hand, support should be increased for enterprise R&D, for R&D co-operation between firms, and to improve the ability of firms to absorb and exploit R&D innovations. National science policy should conform to the entrepreneurial model of knowledge generation and diffusion. The government's objective for GERD in 2010 is 3% of GDP. The proportion of state R&D expenditures should be 2/3 in the business enterprise sector and 1/3 in public institutions (universities and research institutes).

- *Enhancing technology diffusion.* The Slovenian government needs to balance its support to integrated basic research in universities and other public research organisations, with its support to the technology-intensive part of the industrial sector as well as support aimed at fostering innovation and technology diffusion throughout the entire economy. In this context, there is a significant need for measures that address the mismatches in risk capital

markets and that improve conditions for high-tech spin-offs and start-ups.

- *Promoting networking and clustering.* Policy regarding research and technology development and innovation should focus on the ability of research organisations and firms to interact with other EU enterprises and organisations.

The following key measures should be taken in the field of education and investment in human capital. *First*, increase total investments in education and training, especially in the field of adult education. This includes introducing individual education accounts and appropriate employment policy programmes. *Second*, provide high quality education and training at all levels of the education process. Develop the certification system on the principle of acquiring publicly recognised education in different ways. Increase the flexibility of education, international mobility, and the comparability of results, particularly at the university or graduate level. *Third*, raise the education level of adults and implement the concept of life-long learning. Develop counselling services for adult education, including education for personal and other needs that are not related to work activity. *Fourth*, improve the writing skills of the entire population and ensure a more uniform regional distribution of such skills. This is to be accomplished by establishing a selective system of financing education and counselling services for adult education in regions, by creating regional strategies for raising the level of

writing skills, and by increasing the participation of adults in education and training. *Fifth*, increase the level of responsibility and motivation of employers to educate employees through diverse mechanisms, such as preparing long-term and medium-term employee education plans, setting company education goals, organising education and training for the employees, and establishing self-learning centres and inter-corporate education centres.

### **The Financial Package for Slovenia's Accession to the European Union**

In its negotiations regarding the financial package, Slovenia opted for conditions that would allow it to meet the following two objectives: *First*, the final agreement with the EU should allow Slovenia to continue the process of real convergence, that is, the process of further reducing the gap between Slovenia's development and the EU average. *Second*, the agreement should not deteriorate Slovenia's public finance position as this would cause difficulties in its ability to fulfil the fiscal part of the Maastricht criteria.

In terms of meeting Slovenia's development and public finance goals, the results of the financial package negotiations may be presented and assessed from two points of view. The first is the short-term perspective, that is, the period from the time when Slovenia becomes an EU Member State (foreseen to be May 2004) to the end of the present financial perspective (the end of 2006). The

second point of view is the long-term perspective, that is, the period of the next seven-year financial perspective (2007 - 2013).

The negotiations regarding the financial package began in January 2002 with the publication of the European Commission document "Common Financial Perspective 2004 - 2006". In this document the European Commission defined the basic framework guiding discussion about the financial aspects of accession of candidate countries to the European Union (agriculture, structural funds and regional policy, and contributions to the EU Budget). Negotiations first proceeded through three phases. The *first phase* lasted from the publication of the European Commission document in January 2002 to the Brussels European Council meeting at the end of October. During this time, Slovenia's activities were oriented first, at explaining our position and basic approach to the financial part of negotiations, and second, at forming and presenting a set of well-justified proposals to the Commission and Member States that would reflect in an adequate manner Slovenia's specific problems regarding the financial part of negotiations. The *second phase* of financial-package negotiations took place in November 2002, i.e., in the period from the Brussels European Council meeting to the first proposal of the Danish Presidency on 26 November. This proposal contained positive and less positive elements for Slovenia. Its basic positive characteristic was the increase or introduction of figures of the financial

package that were important from the perspective of Slovenia's long-term development and that represented a good starting point for the negotiations about the next financial perspective. On the other hand, the first Danish Presidency proposal was less favourable for Slovenia regarding its ability to achieve short-term public finance goals, i.e. the goals for the period 2004 - 2006. The *third and the last phase* of negotiations took place in the period from the first Danish Presidency proposal to the European Council meeting in Copenhagen. As the long-term structural goals of the financial part of the negotiations were achieved in the previous phase, all the efforts in this last phase were focused on attaining the public finance goals in the period 2004 - 2006. The financial package solutions that resulted from these negotiations are balanced for Slovenia in the short as well as in the long term. The agreements

reached in the area of quotas and reference quantities, in topping up direct payments from the national budget, in the amount of rural development funds and funds for co-financing the Schengen border, as well as regarding the agreement about Slovenia's possibility for regionalisation at NUTS 2 level, all indicate the financial package's long-term orientation. These elements will not only have important effects on Slovenia's development but will provide a solid basis for our country to remain a net recipient of funds from the EU Budget during the next financial perspective, i.e. from 2007 to 2013. Undoubtedly, this is an adequate solution for Slovenia, given its level of development in comparison with other Member States of the enlarged European Union. In addition, it will contribute to the long-term stability regarding public finance in our country. The financial package agreed upon with the Euro-

pean Union is also relatively favourable for Slovenia's short-term perspective. According to the conclusions of the Brussels Economic Council, Slovenia should already be a net beneficiary of funds from the EU Budget in the period 2004 - 2006. However, with the increased amount of lump sum payments that was agreed upon in the final phase of the negotiations, the already positive net budgetary position of Slovenia *vis-à-vis* the European Union will be strengthened in this period, and consequently also reduce potential public finance risks.

*Peter Stanovnik* is a professor at the Economic Research Institute in Ljubljana. *Franjo Štiblar* and *Mojmir Mrak* are professors at the University of Ljubljana.

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## **Bosnia- Hercegovina: Economic Trends 1998-2002. Problems and Perspectives**

By Vesna Bojčić-Dželilović, Fikret Čaušević, Rajko Tomaš

Following the end of war in 1995, Bosnia-Hercegovina's (BiH) economic environment and development priorities have been primarily determined by the requirements of post-war reconstruction. Implementing the reforms necessary to create a free-market economy were identified as a medium-term priority, to be undertaken once the basic infrastructure and institutional prerequisites

for the normalisation of economic activity were in place. A special feature of BiH's economic development and its transition context is the place of external actors in the economic management of the country. The international community plays a decisive role in setting up economic policy and reform agendas (the internationally appointed High Representative is effectively the su-

preme authority). The international presence might suggest that the important issue of political consensus-building regarding reforms that has conditioned the pattern and pace of reform in other transition countries has been less of a problem in BiH. In reality, however, once the implementation of economic reforms was underway the true scope of (dis)agreement between the local parties became

visible and a clear factor in shaping any reform agenda. Combined with the political conditionality attached to economic assistance, the relative (in)ability of governing parties to come to a consensus has affected the context and dynamics of the implementation of economic reforms. Another crucial difference between BiH and other successor countries to the former Yugoslavia, is the exceptionally high level of international assistance the country has received, which has played a key role in determining economic trends. Finally, the short, two-year political cycle which has characterised most of the period since the end of the war has had a significant impact on the economic management of the country in general, and the dynamics of reform in particular.

Until 1998, the focus of international assistance was primarily on the emergency reconstruction and rehabilitation of basic public services. Institution-building and economic reforms were hampered by the uncooperative stance of local political elites. The introduction in 1998 of a common currency for all of BiH was a turning point, making possible the creation of an economic reform agenda that could re-build BiH as a single economic space.

Maintaining macroeconomic stability was the main thrust of economic policy in the post-war period, based on conservative fiscal policy and strict implementation of the currency board regime. Public sector reform was an on-going priority throughout this period, with structural reforms only gathering pace recently as

part of a significant effort aimed at strengthening the business environment.

### **Initial conditions**

Although it is difficult to determine direct economic losses of the 1992-1995 war with any precision, estimates put the number at somewhere between \$60-\$80bn, not including lost output. At the beginning of 1996, BiH's GDP stood at some 20% of its 1991 level, amounting to \$500 in per capita terms. Industrial output was down to 5% of its pre-war level and the rate of unemployment was estimated at 70-80%. With an average salary of DEM90, and paid irregularly, most people survived on humanitarian aid. In addition to the change in the country's economic structure, large scale internal and external migration has sharpened labour market rigidity, constituting an important constraint in generating and sustaining economic recovery. Estimates of exports in 1995 ranged from as much as \$295m to the much more modest amount of \$90m, the latter being probably the more realistic figure. At the end of 1995, foreign debt stood at \$3.5bn, most of which was owed to London and the Paris Club of creditors.

Another important effect of the war was the political and economic fragmentation of the country and the establishment of three more or less separate economic and political entities; in other words, the institutional framework for macroeconomic management of the country was non-existent. None of the other successor countries to the

former Yugoslavia had to begin economic reform under initial conditions as complex and difficult as those in BiH.

### **Main Economic Trends 1995-2002: Growth with Poverty**

The overall reconstruction effort, estimated to have channelled some \$5bn in international assistance to BiH, was the single most important source of GDP growth until the middle of 2000. By the middle of 2002, most reconstruction was completed and the emphasis shifted to commercial projects. The crucial role that reconstruction projects played in kick-starting the economy was reflected in all major economic indicators. They initially grew at a very high rate, but slowed due to delays in implementing reconstruction projects that were caused by political obstruction at the local level. Economic growth was further hampered by the decline in the overall volume of assistance and a stop-and-go pattern of reform. Some decline from the immediate post-war highs was to be expected as the reconstruction effort settled into a more sustainable routine. Another major source of growth was personal consumption, while exports—although on the rise—played only a marginal role, particularly in the first half of this period. GDP grew strongly between 1995 and 1998 at an average of 30% and thereafter growth continued, albeit at a rapidly decelerating pace; by 2002, GDP growth was down to 3.9%. Growth in industrial output was strong, but it proceeded

from a low base and was concentrated in a number of low value-added sectors as the recovery failed to spread across the industry. In 2002, industrial output was still at only 40% of its pre-war level, suggesting a profound and persistent deindustrialisation. Despite recovery in the manufacturing sector, the share of electricity and mining in the total industrial output remained at over 30% in 2002. Recovery in agricultural production was sluggish throughout, as this sector was particularly hard hit by the destruction and population displacement caused by the war.

Investment, mainly public and financed by donor assistance, accounted on an average for 21% of GDP from 1998-2002. The slowdown in reconstruction was reflected in falling rates of investment; reversing this trend remains crucial for sustaining the economic recovery initiated by the reconstruction program.

Investment in reconstruction-related activities was the main source of job creation during this period. Overall, the number of registered employed rose in 1997-2000. From 2000 on, however, the official employment rate has shown a downward trend, while the number of registered unemployed has continued to rise; the rate of unemployment in 2002 was estimated at around 40%. These more recent trends reflect the end of reconstruction and the difficulties facing the business sector in starting an investment cycle with high short-term credit interest rates and lack of long-term finance. In this environment, employment has been growing

primarily in sectors with high turnover, e.g. trade, catering, and construction. At the same time, the employment rate in some manufacturing branches, mining, and electricity production has fallen.

Wages did grow strongly throughout 1995-2002, despite a decline in employment toward the end of the period. Predictably, this resulted in a significant increase in personal consumption, which in the Federation was estimated to have contributed to a 50.6% increase in nominal aggregate demand. Overall growth in aggregate demand was much higher due to unrecorded income from informal employment and remittances. Another important factor fuelling consumer demand was strong growth in credit to households as a result of reforms in the banking sector, buttressed by the strong and stabilising presence of foreign banks. Credit to the commercial sector remained modest, as banks continued to perceive it as a high-risk transaction. An increase in consumption resulted in an increase in public revenues derived from customs duties and excise and turnover taxes. On the other hand, corporate tax, despite reforms, reflected little change. The fact that an expansion of final demand failed to boost investment poses a question about BiH's prospects for sustaining growth and creating new jobs. Moreover, growth in the consumer credit fuelling import demand presents a threat to the current account balance as well as the sustainability of the currency board.

Inflation in BiH was brought under control through strict implementation of the currency board regime and improvement in cooperation between the entities. Indeed, in 2002 BiH had one of the lowest rates of inflation in the region. The rates of inflation in the two entities began to converge in 2000-2002, suggesting an improvement in reunifying BiH's economic space.

Demand for public resources has been particularly high in BiH due to post-war reconstruction and rehabilitation; for example, public spending amounted to 64.5% of GDP in 1998. Despite progress in fiscal consolidation that resulted from the requirements of the terms of two successive stand-by arrangements, public spending remained high in 2002 at a rate of 56.2%. Public finance reform, which in its first phase focused on pension reform, war veteran benefits and military spending, did bring about cuts in expenditures but at the cost of accumulating public sector arrears (these only began to be cleared up in 2002). Public debt was estimated at 71% of GDP in 2002, which when combined with an inherited pre-war and war-time public debt of roughly the same scale, underlines the seriousness of BiH's public finance position. Fiscal deficit, including a grant component, stood at 4% in 2002.

BiH's external position has been unfavourable throughout the post-war period. Strong imports and modest exports have resulted in a high trade deficit, which in turn fuels a large current account deficit, estimated at 23% of

<b>Bosnia-Herzegovina: Main Economic Indicators 1998-2002</b>					
	1998	1999	2000	2001	2002
Real GDP, %	9.9	10.6	4.5	2.3	3.9
CPI Inflation; average; %					
Federation	5.2	-0.7	1.9	1.7	1.5
R Srpska	-14.0	14.1	14.6	7.3	4.4
Unemployment, %	37.4	38.9	39.7	40.1	41.0
Budget deficit, % GDP (after grant)	-7.8	-9.1	-9.9	-4.0	-2.1
Current account deficit, % GDP	-20.9	-20.8	-21.6	-23.1	-21.3
Foreign debt % GDP	68.1	69.6	67.4	57.7	62.0
€ bn	2.6	3.1	3.2	3.0	3.0
Debt/export %	236	239	218	183	192
FDI % BDP	2.3	2.0	3.4	2.9	5.0
€ mill	89	85	163	145	259

*Source:* IMF; World Bank; European Commission

GDP in 2002. The current account deficit has been primarily covered by external assistance and, to a marginal extent, by foreign direct investment.

Most of BiH's post-war foreign debt has been contracted on favourable terms, which coupled with debt write-offs and re-scheduling brought foreign debt down to 52% of GDP in 2002. External debt servicing amounted to some 8.3% of exports in 2002, which is significantly below the 25% threshold.

The pattern of aid-dependent development, which was established within the framework of post-war reconstruction of BiH, has resulted in growing poverty; in 2001 the percentage of the population below the poverty line reached 19% (16% in the Federation and 25% in Republika Srpska). The uneven distribution of aid between the two entities is the main reason why Republika Srpska lags behind the Federation in development terms.

### Problems and Prospects

Bosnia-Herzegovina's economy is characterised by declining output growth rates, rising unemployment, and widespread poverty. Seven years after the end of the war, export and investment performance is weak as enterprise sector have failed to respond to improvements in the macroeconomic environment. Progress in implementing market reforms has been among the slowest of transition economies. Internal and external disequilibria present major risks regarding the country's medium-term development prospects. Both the public sector deficit and the foreign account deficit have long surpassed the critical threshold. A primary budget deficit of around 9% is unsustainable. Public finance reform is at an initial stage, and major measures to further cut expenditures and change their composition away from recurrent spending

still lie ahead. Other problems notwithstanding, the present political organisation of the country—resulting in a bloated and redundant public administration workforce—limits the degree to which this can be accomplished. The structure of public expenditures is rigid, with a high share made up of wages and welfare benefits for invalids. Budgetary pressure is high due to the increased funding requirements of central state institutions, pre-war and wartime arrears, higher demands for health-care and education services for returning refugees, etc. The fiscal burden is already one of the highest among transition economies, giving rise to a large grey economy and undermining investment. Strict fiscal policy and international aid have been vital for sustaining the present fiscal stability, but major adjustments are needed regarding the currency board. To assess the sustainability of BiH's external position more realistically, it would be necessary to know the composition of transfers. Even so, BiH's external position is precarious given the country's modest export earning capacity and problems in attracting foreign direct investment, despite a number of foreign assisted investment guarantee schemes. The precise impact of an expected decline in international assistance is difficult to assess, but it is plausible that it could undercut the large volume of imports. These trade imbalances are the result of the state of the real economy, which remains at a low level of output, is subject to significant oscillations.

tions, and suffers from a lack of competitiveness. Private investment and domestically financed public investment are low and the level of savings, although on the rise, is still modest in terms of the amount of investment needed for a healthy economy. Although BiH is only a moderately indebted country, its modest export earning potential, high current account deficit and fairly unfavour-

able composition of foreign debt in terms of possible debt-rescheduling, all suggest that unless there is an improvement in economic fundamentals, the country's foreign debt position could deteriorate.

Despite quite stable macro-economic conditions and sufficient levels of international reserves, a reduction in budget and quasi-budget deficits in BiH has failed to achieve sustained growth.

To make any progress in this regard, stepping up systemic/structural reforms is crucial.

*Vesna Bojčić-Dželilović* is a professor at the London School of Economics; Prof. *Rajko Tomaš* is a professor of economics at the University of Banja Luka; Prof. *Fikret Čaušević* is a professor at the Economic Institute, Sarajevo.

## **Cavtat 2003 Declaration on Economic Development and Policies in the Region of Former Yugoslavia**

*Economic experts from all countries of former Yugoslavia met in Cavtat, Croatia, on May 8 – 10, 2003. The Conference was sponsored by the Peace and Crisis Management Foundation with the aim to discuss the achieved level of transition, the current economic situation, and the prospects for the countries in this region.*

The participants of the Conference have taken a decision to organize themselves as an independent Scientific Council with the key objective to discuss regularly, i.e., once a year, the economic and social situation in this region. For each annual Conference, the participants will prepare country studies for all the countries in the region as well as some sector and issue specific studies.

In addition, each Conference is expected to come out with a Declaration on economic development and policy measures needed in the region. The Declaration below is the first document of this kind. The declarations, based on a realistic assessment of the current economic situation in the region, are expected to provide some concrete and specific suggestions for policy measures that are needed either for all or for some individual countries in the region. These should

help them in their efforts aimed at intensifying the transition processes and at speeding up the accession to the European Union.

The Declaration is conceived as an advice to all those who are directly or indirectly responsible for the design and implementation of the economic policy in countries of the region. The document provides this group's own assessment of the existing economic situation and contains suggestions for policy measures. It is directed both towards the domestic authorities in all countries in the region and to various international organisations that are involved in the transformation of the region, such as the World Bank, IMF, EBRD, other specialized UN agencies, the Stability Pact, and the European Union.

This Declaration is the first economic policy document since the dissolution of the former Yugoslavia that has

been prepared in a cooperative and friendly atmosphere by economists from all new sovereign states created on this territory. The document represents a genuine view from within the region and therefore indirectly addresses the frequent criticism that the region is not able to articulate its views and to outline its proposals.

The specific feature of this Declaration is that it has been prepared by a group of independent economic experts who live in the countries of the region and therefore have a first hand and in-depth understanding of the problems. The advantage of this group's analysis of the economic developments and policies in the region vis-à-vis similar analyses prepared elsewhere are the following:

- the analysis provides a more realistic assessment and understanding of the situation in the field,

- it is able to make a better evaluation of the quality of statistical data,
- the analysis can make a more complete set of policy suggestions based on (i) the better understanding of the specific situation in each country and on the comparisons of practical experiences in each of these countries, and on (ii) intense exchange of views during the two days of deliberations at the Cavtat Conference.

It is the intention of the Peace and Crises Management Foundation and of this Scientific Council to organize the Cavtat Conference regularly, each year in May. Each Conference is expected to (i) produce a declaration on economic development and policies for countries from former Yugoslavia, and (ii) publish the proceedings of the Conference.

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### **Declaration on the Economic Development and Policies in the Region of Former Yugoslavia**

#### **a) General issues**

1. **The final goal** of all the countries of former Yugoslavia is to transform their economies into viable market economies and to integrate the countries into the European Union. The process of accession to the European Union is considered as a key instrument for executing successfully far-reaching measures of domestic transformation. Countries in more advanced stage of transition should assist those countries in the region that are currently

lagging behind in their transition processes with their experience, and by relying on well established connections among the countries and on good understanding of the actual situation in the region.

Although the individual countries of the region are at very different stages of integration into the EU, they all see full membership in the EU as their main political and developmental objective. The process of integration into the EU, i.e. its speed and sequencing, should be adjusted to the specific characteristics and needs of each individual country in the region within the common process of accession now called Stabilisation and Association Process (SAP). It is expected of the countries of the region that are in the more advanced stages of EU integration to play an important catalytic role in the EU accession process for the other countries of the region.

It is of utmost importance that EU member states at their forthcoming summit in Greece give a clear message to the countries of the region that EU enlargement process will continue and that all countries from South Eastern Europe, including all the countries of the former Yugoslavia, will have an opportunity to become members of the enlarged Europe in a not too distant future. A decision of the EU member states to put countries in South East Europe on the so-called "EU accession track" is expected to strengthen substantially accession efforts of the countries in the region, especially if accompanied with an appropriate volume

and structure of pre-accession funds.

2. **Statistical data** on the socio-economic situation in the region produced by international institutions and by international consultants are very often incomplete, unrealistic and far from reflecting the true state of affairs, and sometimes they are simply wrong. It is, therefore, of utmost importance that authorities in these countries supported by international institutions intensify their efforts to improve statistical data coverage. Larger quantity of statistical data and especially their better quality are a precondition for having a realistic picture of the economic and social situation in the region.

3. Experiences indicate that **assessments of the current economic situation in the region and policy advises made on this basis are often not realistic**. At present, policy advises are too often not sufficiently adapted to the specific needs and circumstances of the country concerned. Therefore, it is not surprising that these advises may result in unanticipated negative consequences. It is necessary for analyses produced by various international organisations to introduce (i) more in-depth understanding of the local environment, and (ii) more specific policy recommendations adapted to the specific situations in each country.

4. The group is of the opinion that **monetary convergence (stability) should not take priority over real convergence**

**(growth and structural changes aimed at improving productivity and competitiveness)** in the early stages of transformation and especially in countries in post-war situations. The two goals – nominal and real convergence – should be treated with equal importance and perhaps also with different sequencing of priorities than conventionally advised by international institutions. This applies also to the consequences of the reforms for social sustainability, which, if not addressed properly in early stage of transition, can jeopardize the whole transition effort and leave domestic political authorities without popular support.

#### 5. **Financial support of the international community to the region**

should be continued at this critical moment (given the current situation in Serbia, Macedonia, and also in Bosnia and Herzegovina, Montenegro and Kosovo) and the phasing out of official development aid inflows should be very gradual. With the continuation of the financial support provided to the region by international institutions, especially international financial institutions and the EU, and by bilateral donors the international community will give a clear signal that they believe in the reforms in these countries and will thus pave the way for the increased confidence of the private sector in the developed countries to invest in this region.

6. The countries in the region need fast capacity growth which can be achieved with **tailor made**

**economic policy measures.** Both supply and demand side economic policies should be used with equal importance and in the appropriate way without the constant priority given to either of them.

#### b) **Specific issues**

1. **Average GDP growth rate of over 3% and rather closer to 5%** should be the mid-term policy goal for the region in the 2003-2005 period. With these growth rates, countries of the region will be able to embark on a solid real convergence track aimed at reducing the development gap vis-à-vis the countries of the European Union.

2. **Increased employment and decrease of unemployment** should be the primary goal among all the other macroeconomic goals (disinflation, fiscal and external balances) for countries in the region, because it will add to social stability (elimination of poverty) and thus to political stability in the region. This goal is very often either neglected or is given relatively low priority in policy advises provided by international institutions.

3. Some countries of the region should consider easing of the **monetary policy** in order to establish conditions for capacity growth.

4. As far as **exchange rate policy is concerned**, it should not allow too high real appreciation of domestic currency.

5. **Both deficits, current account and fiscal**, repre-

sent an important obstacle for economic development of the countries in the region in the years to come. It is of utmost importance that authorities keep them under control; if too large, they cause additional risks, insecurity and thus damage welfare. Due to relatively poor export performance in most countries of the regions, it is realistic to expect that some of them will be faced with **debt servicing problems** in the years to come. The existing pattern of current account financing is namely not sustainable on the longer run. The only realistic solution to address this issue from a longer-term perspective is to intensify structural reforms and through this process to increase export generating capacities of the countries concerned.

#### 6. **Economic cooperation among countries in the region, i.e. intra-regional trade and investment**

should become an important component of economic development for all countries of the region. Intra-regional trade is expected to be stimulated by the creation of a free trade zone regime among them. In addition, the EU should grant special preferential status with asymmetric regime of customs and non-customs barriers to all countries of the region. Free access to EU markets is of key importance for economic transformation of the region and is on a longer term even more important than donations.

7. Economic **stabilization** as a goal in the region should be complemented with the new goal - **inte-**

**gration.** For that purpose, EU financial resources available in the existing financial perspective for the period 2004 – 2006 (under the heading “pre-accession”) could be partially used for efficient preparation of countries in the region for accession to the EU.

8. On the institutional side, **reform of the financial sector and declining interest rates and margins** are the relevant institutional changes, where residency should play a significant role.

9. Also, **privatisation** of enterprises and the financial sector can proceed gradually without shocks. Immediate selling of all blue chips to foreigners is not necessarily the optimal solution. Similarly, infrastructure should not be sold

all at once; a better solution is to borrow human and financial capital and restructure the sector first.<sup>1</sup>

10. Issues of improving **corporate governance** and increased **competitiveness** related to technical progress and improved education (quantity and quality of human resources) of the economies should increasingly become important if the complete transformation of countries in the region of former Yugoslavia is to take place.

**Scientific Council members:**

Maja Bačević, University of Podgorica.

Prof. Ivo Bičanić and Vojmir Franičević, University of Zagreb.

Prof. Gligor Bišev, University of Skopje.

Dr Vesna Bojičić-Dželilović, London School of Economics.

Vladimir Gligorov, The Vienna Institute for International Economic Studies.

Dr Petar Ivanović, University of Podgorica.

Prof. Fikret Čaušević, Economic Institute Sarajevo

Prof. Mojmir Mrak, University of Ljubljana.

Prof. Mihail Petkoski, University of Skopje.

Prof. Pavle Petrović, University of Belgrade.

Prof. Peter Stanovnik, Economic Research Institute, Ljubljana.

Prof. Franjo Štiblar, University of Ljubljana.

Prof. Rajko Tomaš, University of Banja Luka.

Prof. Milica Uvalić, University of Perugia

Prof. Veselin Vukotić, University of Podgorica.

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## Left Out in the Cold? The Roma of Macedonia and European Integration

By Marta Schaaf

On February 24, 2003, the Former Yugoslav Republic of Macedonia (hereafter Macedonia) announced that it would formally ask to join the European Union (EU) by the end of the year<sup>18</sup>. The EU should use the opportunity provided by the accession process to promote policies that improve the status of the Roma in Macedonia. The Macedonian government should endeavour to ameliorate the socio-economic and political disenfranchisement of this marginalised ethnic group

as a fundamental part of its work toward accession.

The accession process offers many mechanisms through which to advance the position of the Roma in Macedonia. For instance, Macedonia has already signed a Stabilization and Association Agreement with the EU, the goal of which is to promote “the gradual integration of the countries of South East Europe into the structures of the European Union”<sup>19</sup>. The stabili-

sation and accession process entails working toward the realisation of the Copenhagen Criteria. Adopted by the EU in 1993, the Copenhagen Criteria include three major pillars, the first of which is “stability of institutions guaranteeing democracy, the rule of law, *human rights, and respect for and protection of minorities*”<sup>20</sup>. Membership will only be granted to those countries that meet these

2006”. *European Union Online*. <[www.europa.eu.int](http://www.europa.eu.int)>.

<sup>20</sup> European Commission. “EU Enlargement : An Historic Opportunity”. *European Union Online*. <[www.europa.eu.int](http://www.europa.eu.int)>. Emphasis added.

<sup>18</sup> *Dow Jones International News*, 24.2.2003.

<sup>19</sup> European Commission, External Relations Directorate General. “Cards Assistance Program: Former Yugoslav Republic of Macedonia, 2002-

requirements, in addition to criteria related to the presence of a competitive market economy.

For the period 2002 – 2006, the bulk of EU financial assistance to Macedonia will focus on aspects of pillars two and three, including funding the development of local infrastructure; integrated border management; and private, financial sector, and trade development. All in all, this assistance is foreseen to amount to a total of €75 million. While the comparatively small amount of €9 million is allocated to promote democratisation and implement the rule of law, this should not be taken as an indicator that less importance is placed on these requirements than the economic or institutional pillars. Indeed, in its Macedonia Country Strategy Paper the European Commission states that:

“respect for democratic principles, human rights and the rule of law is a specific requirement of the SAP [Stabilization and Association Process] and according to article 2 of the SAA [Stabilization and Association Agreement] ‘shall form the basis of the domestic and external policies of the Parties and constitute essential elements of this agreement.’ The European Commission’s response strategy is designed to help the country establish solid democratic institutions and develop a climate favourable to increased political stability and inter-ethnic integration”<sup>21</sup>.

<sup>21</sup> European Commission, External Relations Directorate General. “Former Yugoslav Republic of Macedonia: Country Strategy Paper”. *European*

EU financial assistance dedicated to democracy-building in Macedonia is currently earmarked to fund improvements in inter-ethnic relations and strengthen civil society. Recent civil conflict in Macedonia has highlighted the fragile ethnic relations between majority Macedonian Slavs and minority ethnic Albanians, but the Roma, comprising as much as 10.9% of the population of 2 million, have received insufficient attention in domestic political debate and European Union assistance priorities<sup>22</sup>. Countries slated to join the EU in 2004 have for the most part made slow progress in improving the rights and socio-economic status of Roma, and are coming under increasing EU pressure to remedy this situation before accession. Given the time-frame required for obtaining meaningful impact in the area of minority rights together with Macedonia’s recently stated intention to request EU membership this year, an immediate and sustained increase in EU attention to the Macedonian Roma would be opportune and have a greater chance for long-term success. Rather than waiting until the accession date nears and the cost of intervention in-

*Union Online.*

<[www.europa.eu.int](http://www.europa.eu.int)>.

<sup>22</sup> Macedonian population figure from: United Nations Development Program. “Human Development Report”. *UNDP Online.* <[www.undp.org](http://www.undp.org)>. Accessed 15 February 2003. Roma population estimate from: U.S. Agency for International Development. “Roma Support Program, RFA 194-03-07”. December 2002. *USAID Online.* <[www.usaid.gov](http://www.usaid.gov)>.

creases, the EU, in cooperation with the Macedonian government, should seize the opportunity to use the accession process and related financial assistance to ensure that the development of effective human rights mechanisms in Macedonia includes a comprehensive Roma strategy in which Roma participate, and tangibly improves the status of Roma in Macedonia.

### **Social Protection of the Roma Minority in Macedonia**

Although Human Rights Watch stated in a 1996 report that “generally speaking, the Roma community in Macedonia is better off than in other countries of the region,” the fact remains that Roma in Macedonia face disproportionately low levels of educational enrolment, employment, and access to essential services<sup>23</sup>. This disenfranchisement perpetuates their low socio-economic status and contributes to poor health<sup>24</sup>. For example, Roma life expectancy is substantially lower than that of the average Macedonian, infant mortality rates among the Roma are twice as high as the Macedonian average, and Roma children suffer from extremely high rates of diarrhoea and respiratory illness<sup>25</sup>. Poor health in turn

<sup>23</sup> Human Rights Watch. *A Threat to ‘Stability’: Human Rights Violations in Macedonia* (New York: Human Rights Watch, 1996), p. 56.

<sup>24</sup> See, for example: Karen Plafker. “The Social Roots of Roma Health Conditions”. *EUMAP.* Online. <[www.eumap.org](http://www.eumap.org)>.

<sup>25</sup> Ina Zoon. *On the Margins: Roma and Public Services in*

erects further obstacles to successful employment and education. Indeed, the employment disparities are striking. In 1996, approximately 32% of the Macedonian labour force was unemployed; the rate among the Roma population was 80%<sup>26</sup>.

Designing effective interventions is a difficult task. Successful projects must address interrelated political and socio-economic factors that stem from discrimination as well as self-perpetuating marginalisation. Moreover, accurate population data and socio-economic indicators are largely unavailable, further curtailing the Macedonian government's ability to successfully identify and address particular needs. In the absence of baseline data, the practice thus far has been to identify priority areas by observation, and improvements (or lack thereof) are difficult to discern.

### **Efforts to Improve the Social Protection of the Roma Minority**

Despite the paucity of data, there is a clear need for multi-faceted assistance in Macedonia. Programmes must address the factors that perpetuate the Roma's marginalised position in Macedonian society, such as the proximity of schools, the prohibitive costs associated with school attendance, and unnecessary (and sometimes illegal) bureaucratic obstacles limiting access to proof of citizenship and, consequently, to some forms of social

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Romania, Bulgaria and Macedonia (New York: Open Society Institute, 2001), p. 102.

<sup>26</sup> As cited in Zoon, p. 67.

assistance and health care. Recognising the many roots of Roma poverty in Central and Eastern Europe, the EU, UN, European donors, and the American government have responded by dedicating increased resources to create and implement comprehensive programmes in countries with a clear timetable for EU accession. For example, the United Nations Development Program released a report in January of 2003 based on large-scale household surveys conducted in candidate countries with sizable Roma minorities—Bulgaria, the Czech and Slovak Republics, Hungary, and Romania. Aiming to dispel myths, identify priority areas, and provide non-governmental and governmental entities with data with which to measure progress, the report argues:

[T]he five CEE countries... will become successful members of the EU if the Roma (as well as other vulnerable groups) become integrated productively into their home societies... without an overall development framework to guide the process, the opportunity provided by EU accession may quickly disappear. *The risk is that, if postponed, the cost of finding solutions for marginalized groups will be immeasurably higher and will have few chances of success*<sup>27</sup>.

Indeed, increasing the number, scope, and efficacy of government programmes in short-term

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<sup>27</sup> United Nations Development Program. "Avoiding the Dependency Trap: The Roma Human Development Report". *UNDP Online*. <www.undp.org>. p. 2. Emphasis added.

accession candidate countries is urgent. The example of Slovakia, whose population includes a similar proportion of Roma citizens as Macedonia and is likely to join the EU in 2004, provides a useful illustration of gaps and delays surrounding state and EU policies, illuminating priorities for accession process improvement. The socio-economic portions of the Slovak government "Strategy for Roma," adopted in 2000, have been unevenly implemented. The Open Society Institute EU Monitoring Accession Project reports that projects established to increase the school enrolment of Roma pupils have not been accompanied by supportive legislation, such as laws prohibiting the unnecessary relegation of Roma children to classes for the mentally disabled. Few measures are in place that would prohibit the discriminatory allocation of municipal resources, and few concrete steps have been taken to improve Roma access to health care<sup>28</sup>.

The lack of sufficient improvement regarding the state of the Roma in Slovak society has become a matter of some concern for the EU as it gauges Slovakia's readiness for full membership. Recent European Commission Regular Reports, the primary means of EU communication to candidate countries regarding their progress in fulfilment of the Copenhagen Criteria, lament the "gap between policy formulation and im-

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<sup>28</sup> Open Society Institute. "Slovakia," *Monitoring the EU Accession Process: Minority Protection* (New York: Central European University Press, 2001).

plementation" when it comes to the Slovak government strategy on Roma<sup>29</sup>. In early February 2003, the European Parliament asked the Slovak government to provide information regarding initiatives addressing the Roma<sup>30</sup>. Over time the issue has only grown in importance as other accession criteria have been achieved. For instance, the 1998 Regular Report on Slovakia included two paragraphs describing the continued poor status of the Roma, while the 2002 Report contains sixteen, and states: "The recognized minorities in Slovakia (numbering more than ten) have continued to be comparatively well integrated into Slovak society, with the exception of the Roma minority"<sup>31</sup>. Reflecting the relatively low priority or importance the issue held as a constitutive element of the accession process, there was little pressure felt by the Slovak government to pay significant attention to the position of the Roma. Indeed, rather than designing and adopting a Roma strategy at the time the association partnership was signed, Slovakia waited until 2000. Lack of meaningful improvements in the status of candidate country Roma populations has emerged as a significant issue and possible barrier to accession.

<sup>29</sup> European Commission Regular Report on Slovakia. (2002). *European Union Online*. <www.europa.eu.int>.

<sup>30</sup> *BBC Monitoring European*, 17.2.2003.

<sup>31</sup> European Commission Regular Report on Slovakia. (1998 and 2002). *European Union Online*. <www.europa.eu.int>.

In all likelihood, however, given the momentum of enlargement, the EU will overlook these failures so long as candidate governments can demonstrate that they have made some effort. A European Commission Spokesman on Enlargement explained that "it [the status of Roma] is a problem, but it has not decisively influenced our decision on the readiness of candidate countries to join the EU"<sup>32</sup>. The example of Slovakia is again particularly illuminating. Even though the European Parliament and the fifteen legislatures of current member states exercise a veto over accession, the political ramifications of allowing the Czech but not the Slovak Republic to join outweigh concern for ongoing poverty and civil rights violations disproportionately affecting the Slovak Roma<sup>33</sup>. This acknowledgement sends a dangerous signal to other accession countries: knowing that EU membership will not be threatened as long as superficial improvements are made, candidate countries will feel little pressure to invest adequate time and resources into designing and implementing programmes targeting the Roma.

The EU can avoid making this mistake in Macedonia. Once Macedonia formally requests membership, the Commission and Macedonian governmental authorities should work to establish clear benchmarks to measure progress in the field of minority rights,

<sup>32</sup> As quoted in: *The Guardian*, 8.1.2003.

<sup>33</sup> *World Markets Research Center Daily News Analysis*, 12.2.2003.

thereby providing a map to realise this portion of the Copenhagen Criteria. The EU should capitalise on experience and knowledge gained from the successes and failures of near-term candidate countries in this regard, and develop a framework to provide regular technical assistance and share best practices elicited from the region. The UN and other international stakeholders should establish baseline data in Macedonia (as well as in Serbia and Montenegro) at the *beginning* of the accession process. The Commission ought to stress the importance of taking concrete steps from the moment an accession partnership is signed, rather than increasingly focusing on the Roma as the accession date nears. Moreover, this emphasis must be accompanied by insistence on the importance of reaching benchmarks *as a condition of accession*. Empty or vague criteria will not encourage candidate states to tackle such a difficult problem<sup>34</sup>.

### **Democratic Participation of Macedonian Roma**

The poverty described above is compounded by the current political situation in Macedonia. When Macedonia gained independence in 1991, Roma participation in political life was more developed than in much of the region. However, as political rela-

<sup>34</sup> See James Hughes and Gwendolyn Sasse. "Monitoring the Monitors: EU Enlargement Conditionality and Minority Protection in CEECs". *Journal on Ethnopolitics and Minority Issues in Europe*. Issue I (2003).

tions have become increasingly polarised, the Roma are becoming more politically disenfranchised. Tension between the Slavic Macedonian majority and the ethnic Albanian minority has been the primary motor driving political relations in recent years, resulting in armed conflict in 2001<sup>35</sup>. As a result, political elites have become increasingly deaf to the demands of the Roma population<sup>36</sup>. An insufficient political force by themselves, Roma political parties often support mainstream political parties in an effort to gain leverage. However, Roma votes are sometimes "bought," and political promises are subsequently discarded. For example, in the past the left-leaning Alliance for Macedonia approached Roma parties for support, oversaw infrastructure improvements in Roma communities prior to elections, benefited from the Roma vote, and then failed to complete the improvements<sup>37</sup>. Although they are frequently represented at the local level, Roma are unable to effectively advocate for themselves at the national level. Conflict among Roma non-governmental organisations and political parties further

fragments their potential political clout.

As Roma have been largely unsuccessful at placing their issues on the national agenda, they are currently unlikely to be able to exploit the concept of minority rights that is a fundamental part of the EU accession process. Indeed, there are numerous examples of the ways in which Roma representatives are shut out of negotiations that directly affect their communities. In a meeting organised by the Project on Ethnic Relations regarding state policies toward the Roma in Macedonia, Roma participants noted that discussions regarding the "Roma problem" are usually held between the Macedonian government and the Albanian community<sup>38</sup>. Moreover, a representative of the European Commission participating in the meeting went on to explain that during the accession process, the Commission would deal with ministerial representatives, implying that Roma political parties would be unable to influence the process unless they were part of the Macedonian government<sup>39</sup>. This is not to say that the issue is one only for outsiders to address. As prominent Roma rights activist and OSCE Advisor on Roma and Sinti Affairs Nicolae Gheorghe explains, Javier Solana (the former NATO Secretary General) may not know that Roma in Macedonia exist, but the job of Roma political parties is to redress this gap rather than merely complain about it<sup>40</sup>.

Remedying political disenfranchisement must indeed be addressed by the Roma themselves, but the EU should also institute mechanisms for Roma participation in the accession process. The acutely polarised political field in Macedonia, divided as it is between Macedonian Slavs and Albanians, amplifies the obstacles to Roma participation and increases the need for additional assistance.

### **EU and International Donor Contribution to Roma Democratic Participation**

Some minority issues get more attention from the EU than others, and for good reason. Similar to their prioritisation of the more politically explosive ethnic Hungarian/Slovak dispute in Slovakia, the EU and the international donor community continue to prioritise the Macedonian/Albanian conflict in Macedonia. Conflict between these two groups undoubtedly threatens the integrity of the Macedonian state and the stability of the region, and requires concerted effort to manage and reduce points of contention. However, these efforts should not preclude attention to other ethnic groups in Macedonia, including the Roma. For example, despite the dismal health indicators and lack of Roma political participation cited earlier, the Macedonia Strategy for 2003 of the United Nations Office for the Co-

<sup>35</sup> Carsten Wieland. "One Macedonia with Three Faces: Domestic Debates and Nation Concepts". *Columbia International Affairs Online*, (2001) Online.

<sup>36</sup> See Project on Ethnic Relations. "State Policies Toward the Roma in Macedonia". *Conference Report, Skopje, Macedonia*. (13-14 October 2000). <www.per-usa.org>.

<sup>37</sup> European Roma Rights Center. "A Pleasant Fiction: Roma Rights in Macedonia". (1998). Online. <www.errc.org>. p. 86.

<sup>38</sup> Project on Ethnic Relations, p. 12.

<sup>39</sup> Ibid, p. 15.

<sup>40</sup> South East European Educational Cooperation Network.

"Roma Under the Stability Pact". *Conference Report, Kumanovo, Macedonia*. (10 June 2001). Online. <www.see-educoop.net>.

### European Balkan Observer

Editor-in-Chief: Florian Bieber  
 Editing/Proofreading: Andrew Gilbert  
 Vitanovačka 23  
 11000 Belgrade  
 Serbia and Montenegro  
 Tel: +381/63/274522  
 Email: bieberf@gmx.net

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ordination of Humanitarian Affairs focuses approximately \$40 million in dedicated funds towards bringing "peace and stability to the country," including support for the return of those displaced by the conflict, promoting confidence within conflict-affected

communities, and meeting the needs of those families who continue to be internally displaced<sup>1</sup>. No sizable Roma population lives in these communities. The "inter-ethnic relations and civil society" portion of the European Commission CARDS (Community Assistance for Reconstruction, Development and Stabilization) Program Strategy highlights the conflict between Macedonian Slavs and ethnic Albanians and the need for civil society building to combat these cleavages, but does not mention the Roma at all.

Rather than repeating the mistakes in Macedonia that it made in Slovakia (as well as the Czech Republic, Bulgaria and Romania), the EU should make increased Roma political participation a current priority, and should outline the possible

<sup>1</sup> Organization for the Coordination of Humanitarian Affairs. "Former Yugoslav Republic of Macedonia: Humanitarian Strategy – 2003". Online. <[www.reliefweb.int](http://www.reliefweb.int)>. Funds are from UN agencies, the ECHO, governments in western Europe and the US among others.

mechanisms to achieve it. This would ensure that the accession process has comprehensive stakeholder ownership; it would strengthen current programmes; and it would lay the groundwork for a minority rights system that is responsive and effective.

### Conclusion

As Macedonia transitions from a post-conflict zone to a state striving toward EU membership, the importance of Roma political and economic integration will increase. While the low political stakes involved may make it easy for the Macedonian government and the EU to ignore the issue of disenfranchised Roma for the moment, if improving the status of all minorities is a serious issue for EU membership then the financial and political costs are likely to increase the further along Macedonia progresses toward EU accession. The difficulties associated with developing and implementing successful programmes targeting the Roma, the timeframe required for achieving meaningful progress, and the fact that Macedonian Roma do not comprise a sufficiently potent political presence to demand participation on their own, indicate that European and Macedonian government efforts in this sector should intensify immediately. The EU should take the opportunity afforded by

Macedonia's upcoming request for membership to emphasise the importance of progress regarding the socio-economic status and rights of the Roma population. This should include dedicating funds to provide concrete assistance, as well as devoting sufficient political will to implementing a rigorous evaluation process. In the absence of any such action, the plight of Macedonia's Roma will likely be relegated to the political backburner until the accession date nears. Inadequate last-minute efforts would increase the chances that Western EU countries will need to fund Roma development programmes in a country that, now a member, no longer seeks to gain EU approval. Moreover, the cost of implementing such programmes will be closer to the Western European level. Thus the EU should capitalise on the leverage it now has, and the Macedonian government and the Roma population should take the opportunity to create conditions for sustainable change.

*Marta Schaaf* is an M.A. candidate at the Columbia School of International and Public Affairs. She previously worked in Kosovo and Macedonia.

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*Address:* Vitanovačka 23, 11000 Belgrade, Serbia and Montenegro

*Info telephone:* (+381) 63 442 442  
*Fax:* (+381 11) 646 025  
*E-mail:* info@becei.org  
*Internet:* www.becei.org

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*Director of Research:*

**Michael Landesmann**

*Managing Director:*

**Ingrid Gazzari**

*Deputy Director:*

**Peter Havlik**

*Address:* Oppolzergasse 6  
 A-1010 Vienna  
 Austria

*Telephone:* (+43 1) 533 66 10-0  
*Fax:* (+43 1) 533 66 10-50  
*E-mail:* wiiw@wsr.ac.at  
*Internet:* www.wiiw.at