

Accession and Reform

BACKGROUND PAPER
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The political context for enlargement policy

Enlargement is not popular in the EU today. The 2013 Eurobarometer survey showed that an absolute majority of EU citizens oppose further enlargement (52 per cent). Opposition was stronger among euro area respondents (60 per cent). Since then the crisis over Greek reforms and the rise of anti-EU parties has made the political context even more complicated. **What can be done to ensure that this reality does not undermine the credibility of enlargement in accession countries? How to argue for accession policy inside the EU?**

Enlargement as a motor of reform

In its 2015 enlargement strategy the European Commission describes its new, strengthened approach as follows:

“Enlargement is a **strict but fair** process built on **established criteria** and lessons learned from the past. Ensuring future Member States are well prepared is crucial for the credibility of enlargement policy, as well as for **public support** in both current and future Member States. Each country is assessed on the basis of its own merit so as to provide **incentives** to pursue far-reaching reforms.”

This Commission has introduced this year **a strengthened approach** to its assessments in the annual reports. Much more emphasis is put on the state of play in the countries and where they stand in terms of **preparedness** for taking on the obligations of membership. At the same time, the reports provide even clearer guidance for what the countries are expected to do in both the short and long term. **Harmonised assessment scales** are used to assess both the state of play and the level of progress, **increasing comparability** between the countries. The new style of reporting provides **greater transparency** in the accession process. This should facilitate **greater scrutiny** of reforms by all stakeholders.”

How can such an approach reenergize reforms throughout the region? Will the possibility of regional comparisons in different areas create further incentives for reform? How can the pre-accession process recapture the imagination of a general audience (NGOs working on these issues, business, interested citizens)?

Enlargement and economic development

The Western Balkan countries are poor and not catching up with the rest of the EU. Employment rates remains unacceptably low. This is compounded by serious structural problems: too few exports, too little foreign direct investment, problems of infrastructure, weak economic governance, legal uncertainty.

What can outsider institutions do, what is the potential of existing instruments, to bring about a convergence towards greater competitiveness which so far has proven elusive?

GDP per capita in 2014 (PPS)¹
Index EU28 = 100

Country	GDP/capita in 2014
EU28	100
Croatia	59
Turkey	53
Bulgaria (poorest EU country)	45
Montenegro	39
Macedonia	36
Serbia	35
Albania	29
Bosnia	28
Kosovo	21-25 (est.)

The Commission is trying to address this through a focus on “fundamentals first” and by demanding Economic Reform Programmes, addressing both the medium-term macroeconomic and fiscal policy framework as well as structural reforms. Based on the Commission's analysis of these programmes and its recommendations, finance ministers from the EU and the WB meet in May and adopt recommendations on the necessary reforms.

How to ensure that economic reform debates – and implementation of reforms – in accession countries really tackle fundamental and hard issues more successfully than in the recent past?

¹ Eurostat, [GDP per capita in PPS](#), data from 1 June 2015. Eurostat does not provide this data for Kosovo, so it is an estimate.

ANNEX A

Reality check I – the domestic context for enlargement policy

Reality check: credibility

Popular opposition to enlargement

Country	Autumn 2013 (%)
Austria	76
France	70
Germany	69
Finland	65
Luxembourg	64
Netherlands	64
Belgium	62
Italy	59
Cyprus	56
United Kingdom	55
Denmark	51
Greece	51

The trend in five years

Popular opposition to enlargement

Country	Spring 2008 (%)	Autumn 2013 (%)	Change
Cyprus	23	56	+33
Czech Republic	26	50	+24
Italy	37	59	+22
Spain	16	37	+21
Slovakia	21	42	+21
Slovenia	21	42	+21
Netherlands	46	64	+18
Portugal	31	49	+18
Estonia	25	40	+15
Ireland	31	46	+15

ANNEX B – Social and economic crisis

Reality check II: the case of Kosovo development

The [2015 Kosovo NERP](#) is 129 pages.

“Kosovo has been one of the very few countries in Europe and the region of South Eastern Europe that had **positive growth rates in every single year** in the period since the 2008 outbreak of the global financial crisis.”

But what do relative growth figures really tell us? Here is an attempt to capture the reform challenge in six numbers in the Kosovo 2015 NERP:

EXPORTS **305 million Euros** – the total value of goods Kosovo **exported** in 2013

An annual export number of 305 million Euro is abysmally low. For comparison: [Estonia exported goods worth 12.3 billion Euros in 2013](#). In 2013 two thirds of these exports were “base metal and mineral products.” This means there are barely 100 million Euro of other exports (food, vegetables, plastics) that produce added value. Kosovo *extracts* minerals from the earth and sells them – but it *produces* very little.

IMPORTS **2.3 billion Euros** – the total value of goods Kosovo **imported** in 2013

This is very high compared to Kosovo’s exports. So how is the gap financed? How do Kosovo importers obtain these 2.3 billion Euros to import goods? One must assume that they obtain much of this from Kosovars *who earn this money abroad*.

REVENUES **1.3 billion Euros** – 2013 revenues (**income**) of the government in 2013.

No less than 871 million of this comes from border taxes on imports. This means that the state – 70 percent of its total revenues – depend on imports taxed at the border (customs, excises, and VAT on imported goods). Even if government revenues and spending are in balance (with a low government deficit), and even if the debt of Kosovo’s government is relatively low as a share of GDP, the structure of public finances is very fragile.

EMPLOYMENT **220,000 people** – registered as employed in 2013

There are *two* ways to measure how many people work. One way is to look at *registered jobs*. These are jobs which are known to public authorities and which are taxed. The second way is to do a representative survey of the labour force, based on samples. In the Kosovo Labour Force Survey (LFS) “employment” includes *anyone in the family of working age* who works “for family gain” on a small plot of land, milks the cow, looks after vegetables during the reference week, even if nothing is sold for cash. In 2013 this number was 338,000 people.

There are 77,000 jobs in the public sector (paid by the state). This leaves 143,000 jobs in the *registered* private sector. Then there are another 118,000 people “employed” (LFS) without being registered. Kosovo’s resident population of 1.8 million people divides into some 297,000 households. This yields barely one “employed” per household.

FDI **241 million Euros** – Foreign Direct Investment (**FDI**) in 2014

This is very low by any standards: it means that very few foreign companies show any interest in using Kosovo as a base for their production and transfer their machinery and know-how here. And, as the NERP notes, FDI has been decreasing in recent years:

“Since 2007, net FDI inflows have been volatile and with an overall negative trend ... the sectorial composition of FDI has shifted towards real estate and construction between 2009 and 2013.”

Will Kosovo businesses – existing or new ones – develop more competitive products for new markets in the coming years?

COST OF CREDIT 10 percent – the annual interest rate on **loans** in November 2014

In November 2013 it was 12 percent. This is very high. Again, look at Estonia ([European Central Bank data](#)): loans to non-financial corporations – depending on specific conditions – carry around 3 percent annual interest at the end of 2014.

Summing up the Kosovo development challenge:

- **Export of goods** is very low; given current trends of declining FDI and high costs of borrowing for businesses in Kosovo this is unlikely to change anytime soon. The NERP projects a best case scenario in which the export of goods *increases from 305 million Euro to 441 million Euro by 2017*.
- There is **little structural change** in the Kosovo economy compared to one decade ago. The GDP growth that *has* happened has been the result of households spending money (consumption) based on transfers from abroad and increases in public sector salaries (funded largely through border taxes on imports of goods, which are bought largely with money transferred from abroad).
- The **employment rate will remain very low** in the foreseeable future. If new jobs are created in the next years in the private sector one might expect some subsistence farmers to turn away from non-cash production to other – regular – employment. In order to really increase employment rates and create new jobs Kosovo would need levels of investment and export growth that are simply not on the horizon for many years to come.
- This makes public policy in many areas hard to formulate. Take the issue of skills needed for the labour market. What jobs does today’s generation of young Kosovars need to be prepared to take? What skills will they need? Unless there is a realistic job of more jobs in the foreseeable future this question is impossible to answer.

ANNEX C – pre-accession and reform

The strengthened methodology 2015

A new approach was first applied by the European Commission in 2015 to a number of specific chapters and reform areas, including the rule of law and fundamental rights (functioning of the judiciary, corruption, organised crime, freedom of expression) and chapters such as public procurement, statistics, financial control.

In each of these and other pilot areas the state of play was assessed according to a five-tier scale: *Early stage – Some level of preparation – Moderately prepared – Good level of preparation – Well advanced.*








We can translate the assessment scale into five grades and the three colours of a traffic light.

Preparedness	Grade
Well advanced	1
Good level of preparation	2
Moderately prepared	3
Some level of preparation	4
Early stage	5

These are the results (where countries achieve the same score, we order them alphabetically):

Chapter 18: Statistics








Statistics scorecard²

Country	Grade
 Macedonia	3
 Serbia	3
 Turkey	3
 Albania	4
 Montenegro	4
 Bosnia	5
 Kosovo	5

² European Commission, “[Strategy and Reports](#)”, 10 November 2015.
Note: where countries achieved the same score, we ordered them alphabetically.








Chapter 5: Public Procurement

Public procurement scorecard³

Country	Grade
 Macedonia	3
 Montenegro	3
 Serbia	3
 Turkey	3
 Albania	4
 Bosnia	4
 Kosovo	5

Chapter 32: Financial control

Financial control scorecard⁴








Country	Grade
 Turkey	2
 Albania	3
 Macedonia	3
 Montenegro	3
 Serbia	3
 Bosnia	5
 Kosovo	5

³ European Commission, [“Strategy and Reports”](#), 10 November 2015.

⁴ European Commission, [“Strategy and Reports”](#), 10 November 2015.








Public administration reform

Public administration reform scorecard⁵

Country	Grade
 Albania	3
 Macedonia	3
 Montenegro	3
 Serbia	3
 Turkey	3
 Kosovo	4
 Bosnia	5

Functioning of the judiciary

Functioning of judiciary scorecard⁶








Country	Grade
 Montenegro	3
 Bosnia	4
 Macedonia	4
 Serbia	4
 Turkey	4
 Albania	5
 Kosovo	5

⁵ European Commission, [“Strategy and Reports”](#), 10 November 2015.

⁶ European Commission, [“Strategy and Reports”](#), 10 November 2015.








Fight against corruption

Fight against corruption scorecard⁷

Country	Grade
 Albania	4
 Bosnia	4
 Macedonia	4
 Montenegro	4
 Serbia	4
 Turkey	4
 Kosovo	5

Fight against organised crime

Fight against organised crime scale⁸








Country	Grade
 Albania	4
 Bosnia	4
 Macedonia	4
 Montenegro	4
 Serbia	4
 Turkey	4
 Kosovo	5

⁷ European Commission, [“Strategy and Reports”](#), 10 November 2015.

⁸ European Commission, [“Strategy and Reports”](#), 10 November 2015.








Freedom of expression

Freedom of expression scorecard⁹

Country	Grade
 Albania	4
 Bosnia	4
 Kosovo	4
 Macedonia	4
 Montenegro	4
 Serbia	4
 Turkey	4

Existence of a functioning market economy

Table 9: Existence of functioning market economy scorecard¹⁰








Country	Grade
 Turkey	1
 Macedonia	2
 Albania	3
 Montenegro	3
 Serbia	3
 Bosnia	5
 Kosovo	5

⁹ European Commission, [“Strategy and Reports”](#), 10 November 2015.

¹⁰ European Commission, [“Strategy and Reports”](#), 10 November 2015.

Capacity to cope with competitive pressure

Capacity to cope with a competitive pressure scorecard¹¹

Country	Grade
 Turkey	2
 Macedonia	3
 Montenegro	3
 Serbia	3
 Albania	4
 Bosnia	5
 Kosovo	5

¹¹ European Commission, [“Strategy and Reports”](#), 10 November 2015.

OVERVIEW

Chapter/issue	Turkey	Macedonia	Montenegro	Serbia	Albania	Bosnia	Kosovo
Chapter 5: Public procurement	3	3	3	3	4	4	5
Chapter 18: Statistics	3	3	4	3	4	5	5
Chapter 32: Financial control	2	3	3	3	3	5	5
Public administration reform (Political criteria)	3	3	3	3	3	5	4
Functioning of the judiciary (Political criteria, rule of law)	4	4	3	4	5	4	5
Fight against corruption (Political criteria, rule of law)	4	4	4	4	4	4	5
Fight against organised crime (Political criteria, rule of law)	4	4	4	4	4	4	5
Freedom of expression (Political criteria, human rights)	4	4	4	4	4	4	4
Existence of a functioning market economy (Economic criteria)	1	2	3	3	3	5	5
Capacity to cope with competitive pressure and market forces in the EU (Economic criteria)	2	3	3	3	4	5	5
OVERALL SCORE	30	33	34	34	38	45	48