



**Sharing Experience of Visegrad Countries' EU Economic
Integration and Georgia's Successful Institutional
Reforms for Albania and Kosovo**

REPORT

Projects partners



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For detailed information about the project as well as information about involved experts from Albania, Kosovo, Georgia, Hungary, Czech Republic, and Slovakia please visit the project website: <http://www.alks.ippm.al/>

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Accronyms

B2B Business to Business
CEBRE Czech Business Representation to the European Union in Brussels
CEN/CENELEX European Committee for Standardization/ European regional standards organization
C2B Company to Business
C2C Company to Company
CEE Central and Eastern Europe
DCG Department Coordination Group
DEA Data Exchange Agency
EBRD European Bank for Reconstruction and Development
EC European Commission
ERNP Economic Reforms National Programme
EU European Union
FDI Foreign Direct Investments
GDP Gross Domestic Product
GE Governmental Enterprises
GGN Georgian Governmental Network
GIZ Gesellschaft für Internationale Zusammenarbeit
G2B Government to Business
G2C Government to Company
G2G Government to Government
HITA Hungarian Investment and Trade Agency
ICT Information and Communication Technology
IFI International Financial Institutions
IMF International Monetary Fund
IP Internet Protocol address
IPA Instrument for Pre-Accession Assistance
IPAS Java Initial Pilot Aptitude Screening Java
IPR Intellectual Property Rights
ISO International Organization for Standardization
IT Information Technology
LEPL Legal Entity of Public Law
MBP Mediumterm Budget Programme
MJ Ministry of Justice
MEI Ministry of European Integration
MFA Ministry of Foreign Affairs
NATO North Atlantic Treaty Organization
NPAA National Programme for Acquis Adoption
NPI National Programme on Integration
NSDI National Strategy for Development and Integration
OECD Organisation for Economic Co-operation and Development

OGP Open Government Partnership
PAR Public Administration Reform
SAA Stabilisation and Association Agreement
SPA Strategic Partnership Agreement
SAP Stabilisation and Association Process
USA United States of America
SLIP Reforms on Stabilisation, Liberalisation, Institutionalisation and
Privatisation
VAT Value Added Tax
UN United Nations
UNDP United Nations Development Programme
UK United Kingdom
WB World Bank
WTO World Trade Organisation

Executive Summary

This report analysis state of play of Albania's and Kosovo's EU integration, it assesses the challenges and perspectives these countries meet in the process. Also, it presents experience of Georgia's, as EU associated country's successful insitutional reforms that are relevant for Albania and Kosovo.

The second part of the report is focused on presenting experience and lessons learnt of Visegrad countries (Hungary, Slovakia and Chezh republic) in EU Economic integration process. This part highlits the challenges these countries faced and develops recommendations to be considered by Albania and Kosovo.

The first chapter speaks about the Albania's European Integration process and its challenges ahead.

The second chapter focuses on the State of Play of Republic of Kosovo's European Integration keeping an eye on its Economic Integragtion considering the challenges and perspectives.

The subsequent chapters speak about successful reforms of Georgia (fiscal and tax policy, property registration and e-government reforms) that largely contributed to the economic growth of the country in the last decade.

The fifth chapter will have an overview on Slovakia's experience with European Union Integration.

The sixth chapter will treat the Policy Reforms and Crisis Management in the case of the Hungarian experience in the European Union economic integration.

The last chapter will focus in the Czech Republic European Union integration process giving a detailed overview on the everall coordination and communication mechanism between the government and business sector.

Albania's European integration - a long process with many challenges

Based on structural reforms and on some economic and social achievements, after a very difficult start, Albania is considered as one of the countries that have successfully performed for the EU Inegration¹. Albania promotes and supports regional cooperation and Euro-Atlantic integration of the Western Balkan countries. It is considered a reliable partner in international cooperation for peace and prosperity of the Balkans. During the process of European integration it seems that after any concrete step towards EU membership, some prerequisites become more stringent and the challenges more difficult². Visegrad countries joined the EU in 2004 through a political process, while Balkan countries are integrated through a technical process. For their membership in the EU (i) set a particular model, as is the Stabilisation and Association, (ii) were created special financial instruments, and (iii) since 2002 through the progress report was decided a monitoring and evaluation system.

Historical Context for the Albania - EU relations

Before the 90s Albania was considered the most isolated and poorest country of Europe³. The Constitution forbade political pluralism, property and private activity. The planning and directing of the economy was completely centralized. Prices and wages were controlled by the state. It was forbidden to take foreign loans and aid. Foreign trade was a state monopoly. Central Bank was part of the Ministry of Finance, while commercial banks were state banks. Foreign companies were forbidden to operate in the Albanian economy. The fall of the Berlin Wall created the hope of changing economic and political system in Albania. Events in Romania created fear among the old political leadership urging them not to undermine changes. For an isolated country, Western Europe was the inspiration for the future. "We want Albania like the whole Europe" was the hymn of the protests that toppled the communism. In 1991 after about 45 years of complete isolation, Albania applied for establishing diplomatic relations with the EU that started in 1993. The European perspective of the Western Balkan countries was highlighted at the Zagreb Summit (2000) and at the Thessaloniki summit (2003). In 2003 Albania opened negotiations for the Stabilisation and Association Agreement that ended in 2006. The Stabilization Agreement entered into force in 2009. Albania since 2007 is a member of NATO. In 2009 Albania applied to become an EU member country and finally in 2014 it received the status of candidate country. Since December 2014 the country is awaiting the opening of negotiations.

¹ 25 years of Transition Post-Communist Europe and the IMF
http://www.imf.org/external/pubs/ft/reo/2014/eur/eng/pdf/erei_sr_102414.pdf

² http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-albania-progress-report_en.pdf

³ Albania: From Isolation Toward Reform. <https://www.imf.org/external/pubs/cat/longres.aspx?sk=50.0>

Advantages and delays

Twentyfour years after the fall of the Berlin Wall we have achieved are the only EU candidate country. Public dissatisfaction about delays in the process of integration is also due to the already high public support for European integration (over 90%), Albania has three essential features that could have accelerated the integration of our country to the EU. Firstly - the country has no ethnic conflicts; secondly - there are no religious conflicts and thirdly - public and political institutions are not influenced by hesitant or blocking attitudes for cooperation with and among all Western Balkan countries, but internal political developments have produced the crisis and delay. The political culture where "the winner takes it all", not only the governance of the country, but also the control of independent institutions, damages and controls the principle of separation of powers and the culture of impunity of corruption, are considered major obstacles. Therefore, in the dynamics of the integration process, Albania is often conditioned with preconditions. In the 2011 progress report the EU determined 12 priorities/prerequisites before granting the candidate status. Currently the country has five specific conditions from the EU to be fulfilled before the opening of negotiations. The more we approach the EU, the more stringent and detailed become conditions for fulfilling the criteria of Copenhagen. This lesson applies to countries aspiring to join the EU.

Main challenges

Three are the main challenges in the development and economic integration of Albania.

I. Political consensus and cooperation for integration as a national priority

Although integration is estimated as a national priority, often it is hindered and delayed by political crises. In many cases their suspension and resumption of cooperation is achieved by EU conditionality for further integration steps. In this context, the integration process has accelerated the emergency exit from political crises and has achieved the approval of required reforms. Partisan interests or nepotism often undermines the quality of their implementation.

II. Structural reforms for the business environment

Scanning economic and political developments through several international indexes, comparison with other countries and the dynamics with themselves, facilitates the identification of problems and difficulties facing our economy.

II/1. Economic Freedom Index 2015

Albania is generally free, at 65.7 from a maximum of 100. The country ranked 63rd place globally and in the 29th out of 43 European countries. The function of the rule of law remains a priority. The Index of freedom of property is only 30 out of 100 and Albania is ranked 94th/186. Freedom from corruption is 31/100, and has 118/186 ranking.

II/2. Corruption Perception Index shows a wide spread of this issue sacrificing the quality of public services and business environment. National anti-corruption strategy is supported with concrete projects of good governance and

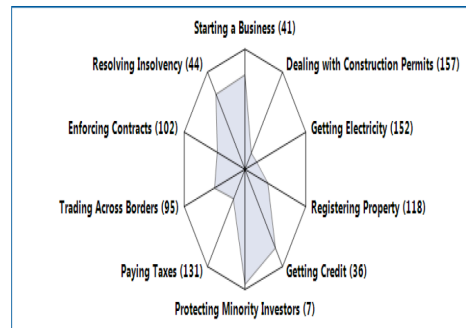
public awareness. Electronic platform to fight against corruption are now at the service of citizens. Monitoring of anti-corruption strategies and projects should be made by NGOs with public credibility. This could boost public confidence and make them part of success.

II/3 According to "Doing Business 2015" the country has made progress over the last year. In 2015, there was a significant improvement with about 40 degrees, from place 68 to place 108. There are worries on some several important elements such as: Dealing with Construction permits (157), Getting Electricity (152), Paying taxes (132) and Registering Property (118).

Figure 1: Doing Business 2015, Albania

THE BUSINESS ENVIRONMENT

Figure 1.3 Rankings on Doing Business topics - Albania
(Scale: Rank 189 center, Rank 1 outer edge)



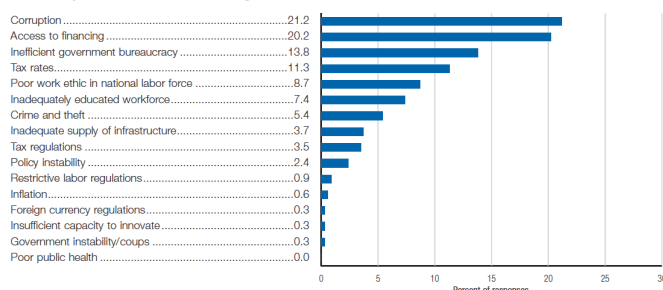
II/4. According to the Global Competitiveness Index 2015, the country has some serious obstacles to be competitive where the most important are the quality of institutions (103/144); macroeconomic environment (122/144), underdevelopment of financial markets (114/144) and low levels of links between universities, research and the challenges of the economy (114/144). While private business itself has identified corruption as the main obstacle, lack of access to sources of financing, inefficient government bureaucracy and tax level.

Figure 2: Global Competitiveness Index 2015, Albania

Global Competitiveness Index

	Rank (out of 144)	Score (1-7)
GCI 2014-2015	97	3.8
GCI 2013-2014 (out of 148)	95	3.8
GCI 2012-2013 (out of 144)	89	3.9
GCI 2011-2012 (out of 142)	78	4.1
Basic requirements (40.0%)	97	4.1
Institutions	103	3.4
Infrastructure	90	3.5
Macroeconomic environment	122	3.8
Health and primary education	62	5.8
Efficiency enhancers (50.0%)	95	3.7
Higher education and training	60	4.5
Goods market efficiency	93	4.2
Labor market efficiency	93	4.0
Financial market development	114	3.4
Technological readiness	91	3.3
Market size	105	2.9
Innovation and sophistication factors (10.0%)	114	3.2
Business sophistication	104	3.6
Innovation	120	2.7

The most problematic factors for doing business



III. Increasing the positive impact of the integration process

Some of them are: **Improving the design and implementation of the national strategy.** National Strategy for Development and Integration (NSDI) 2014-2020 is being reviewed. The whole process of drafting, adoption and implementation

of it aims for a better harmonization of sectoral priorities with European integration. NSDI priority should be supported with medium-term macroeconomic framework and reflected in the annual budget. Defining measurable targets for specific objectives, costing and their financing also with donor coordination remains the main challenges.

Improved coordination with the EU and within government institutions

During the period 2003-2014 as the cooperation and coordination were improved. **Currently the Strategic Planning Committee represents the highest level.** The Committee is chaired by the Prime Minister, and its main tasks are: (i) determination of policy priorities and strategic directions within a sound fiscal framework; (ii) deciding on cross-sectoral allocation of resources (MTEF ceilings) over the medium term - 3 years; (iii) review of the MPB draft prior to the preparation of the state budget; and (iv) receiving regular reports on progress in meeting the commitments of the Government. Another structural level is the inter-ministerial committee for European Integration. It is headed by the Minister of European Integration, with the participation of deputy ministers from each ministry and other institutions. MEI coordinates working groups of experts for negotiations by chapters. The third levels are the ministries and other agencies that have in the structure the Directorate of European Integration. They represent ministries in working groups; follow the approximation of EU legislation and fulfilling the obligations of their institutions.

Cooperation with EU operates also at parliamentary level. The Parliament has a committee for European integration headed by a member of the opposite wing of the parliament. EU and Albania have delegations for their cooperation that meet twice a year assessing the accomplishments and identifying priorities for the future.

Improving the governance structure

After the opening of SAA negotiations in 2003 was appointed the Minister of State for Integration and was created the department of European integration. In December 2003 was created Ministry for European integration. The main responsibilities of MEI are as follows: (i) Coordinate the implementation of the SAA, (ii) programming and monitoring of EU assistance; (iii) The translation of the EU *acquis* in Albania; (iv) The approximation of legislation with the EU *acquis*, etc. This structural change increased the commitment and responsibility of each line ministry and institution for a priority treatment for bilateral obligations and negotiations at every step of integration.

Increasing the capacity of public administration

European integration process becomes more and more technical. Therefore the increasing performance of working groups under several Chapters required continuous training. These groups were created in 2009 and their importance is determined by the nature of the negotiation process from the bottom – up approach. This means that experts must find solutions to any technical problems, while high levels should not be overloaded with purely technical issues or minor problems in coordination. Working groups are responsible (i) to prepare their

own chapter in the National Plan for European Integration, (ii) to report on the implementation of the NSDI and (iii) to prepare the Government's contribution to the Progress Report of the EC.

Improving the legislative process - preparation and adoption of laws

Before 2003, any legal act adopted by the government or parliament required prior certification by the Ministry of Justice to respect the constitution and the Ministry of Finance for budgetary costs. With the launch of SAA -2003, laws can't be adopted without the prior control of the Ministry of European Integration. The table of compliance became a mandatory part of any legal act. The contribution of MEI has been improving in the law certification it approves. Its authority has been increasing in the final decision on the adoption of legal acts only after its verification about compliance.

Lessons learned

Before joining the EU our countries should learn from failures in some member states of the EU. Failure on implementation of necessary reforms in time and with proper accountability exposed these countries by hitting the crisis, reaching high levels of public debt and of unemployment, especially youth unemployment.

1. Conditioned Integration

The integration process results not easy and not fast. This will also apply to other countries, aiming at their European integration. During this process they will face many preconditions and not a few delays, therefore increasing expectations for quick membership could fuel political aggressiveness. EU integration process of Western Balkan countries used the policy of the stick and the carrot. Albania remains a model country with conditioned cooperation step by step throughout the process of European integration that is resulting in much longer than the expectations of the beginning and slower than other countries in the region. Some of them (Montenegro and Serbia) were launched later in the EU accession process and currently are ahead of our country.

EU PROGRESS REPORT 2011 TWELVE KEY PRIORITIES

- ① Proper functioning of Parliament on the basis of a constructive and sustained political dialogue among all political parties
- ② Adoption of pending laws requiring a reinforced majority in Parliament.
- ③ Appointment of the Ombudsman & High and Constitutional Court Judges.
- ④ Reform of the electoral code in line with OSCE-ODIHR recommendations.
- ⑤ Elections conducted in line European and international standards.
- ⑥ Public administration reform.
- ⑦ Rule of law.
- ⑧ Anti-corruption.
- ⑨ Fight against organised crime.
- ⑩ Property rights.
- ⑪ Protection of human rights.
- ⑫ Improvement of treatment of the detainees in police stations, pre-trial detention and prisons.

After applying in 2009 for the membership, the progress report of 2011, as a condition to give EU candidate status for Albania identified the 12 specific conditions. The monitoring process of their meeting dominated cooperation in any political and technical level between Albania and the EU.

In 2014 after gaining EU candidate status determined five main *priorities as a condition for opening negotiations according the specific chapters. They are: 1. Public Administration; 2. Judiciary; 3. Fight against Corruption; 4. Fight against Organised Crime and 5. Human Rights.* The opening of negotiations will depend on their fulfillment. The current majority has the parliamentary majority to adopt a series of reforms that are part of EU conditionality. These conditions should not be seen as a checklist of Brussels bureaucrats, but as necessary reforms.

2. (Un) absorption capacity of EU funds

According to official figures EU Balkan countries have a low capacity for absorption of EU funds. More specifically, for the period 2007-2012 Albania's absorptive capacity for IPA I was around 39%, while for IPA II only about 26%. The reasons are several ones, some due to the lengthy bureaucracy in Brussels, but some also from applicants administrative and implementation capacities of our countries. The costs of this low aptitude appear to prolong and delay the projects they support. Improved capacity for applying and implementing by the administrations of our countries should be a priority. From this failure of our countries should learn other countries, investing more and systematically to increase the absorptive capacity of EU funds and other donors.

3. Negotiating capacities - enabling of which requires to increase the involvement of external experts, researchers and business in the provision and negotiation of approximation of national legislation with the "*aqui communautaire*". Policies, instruments and funding by sector should be well known and used in the proper manner. Transparency and cooperation with business can bring positive reciprocal effects. The government can increase the quality of policy-making and negotiating capacity, while the business recognizes the time commitments and benefits of policies and funds of the EU. Knowing the failures of other countries within the EU for specific sectors and projects, can serve us to eliminate the same mistakes.

Conclusions

European integration is going through several stages. Regional cooperation is an important prerequisite to change the mentality and to test the competitiveness of our economies before full membership in the EU.

The current crisis shows that the EU, despite the fact that it is our common destination, is not a magic formula for our concrete problems, especially when it comes to high unemployment, growing inequality and high public debt.

Countries that did not reform their economies, countries that have not made the necessary reforms with clarity and quality needed, today, are facing economic and political crisis, with high rates of unemployment and public debt at critical levels.

It is very important that structural reforms / EU preconditions will not be viewed as a list of contingencies from Brussels bureaucrats, but as our obligations to improve our economic, social and political development.

Asymmetrical arrangements of the EU should be negotiated carefully about the extent and speed of the opening of sensitive sectors. Facing with high competitiveness from the EU, since the first trade agreements are needed clearer policy and funding support for the restructuring and modernization of these sectors. The potentially competitive domestic production sectors should be supported as one of the best opportunities for employment growth.

The current challenge of our country is to achieve a higher economic growth, higher employment, and inclusive economic growth. The reforms and economic policies aim to reduce uncertainties, time and costs of doing business. Despite the delays and disappointments, public support for European integration continues to be high. These positive synergies should be used to implement the needed political and economic reforms that will support sustainable economic and social development of our countries and regions.

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State of Play of Republic of Kosovo's European Integration with Focus on Economic Integration: Challenges and Perspectives

Background

The European Union launches a new framework of relations with the Western Balkans countries⁴ through the stabilisation and association process (SAP) with a perspective of accession based on merits of individual countries. This European perspective of Western Balkans countries was first recognised in the Feira European Council in 2000 and confirmed in the Council Conclusions of Thessaloniki Summit (2003). The SAP outlines a set of political, economic and other reforms criteria – the “Copenhagen Criteria” against which each country's progress will be evaluated. Each country enters into a binding contractual relationship through a stabilisation and association agreement. The process was accompanied by a financial assistance package to support the aspiring countries' reforms towards the integration in the EU.

Although this perspective for the region included Kosovo as well, due to its unique political situation and interim international administration under a UN mission, the SAP dialogue with Kosovo has been established in 2009⁵, much later than that of other neighbouring countries. EU has unilaterally adopted its Autonomous Trade Measures- a preferential treatment of Kosovo exports as early as in 2000. In 2004, the Council adopted the European Partnership for Serbia and Kosovo as an instrument of SAP.

The partnership intended to provide support for aspiring countries in identifying and implementing priority reforms, in particular with regards to areas of alignment of legislation with EU acquis. It also served as a guide for EU's financial assistance. In response, Kosovo authorities established an Office for European Integration within the Prime Ministers' Office. An implementation action plan was drafted immediately after (in 2005) with concrete objectives and measures to be implemented.

In 2005, the Commission publishes its first Progress Report and Enlargement Strategy for Kosovo. The two documents are key to the enlargement process, in this case of Kosovo. The former assesses the progress made in all areas organised under the three chapters of Copenhagen Criteria-political criteria, economic criteria, and European standards with regard to internal market and sectoral policies. The later outlines the way forward. In 2007, the Council reaffirms Kosovo's European perspective along with that of the region.

In early 2012, the Council gave its consent to the Commission's intent to launch a thorough feasibility study on Kosovo's readiness to negotiate an SAA. In October,

⁴ Bosnia and Herzegovina, Croatia, Serbia, Former Yugoslav Republic of Macedonia, Montenegro, Albania and Kosovo (then under UN Security Council Resolution 1244)

⁵ After Kosovo had declared its independence in 2008

the Commission initiated the assessment questionnaires followed by expert assessment missions⁶.

Domestic Management System for European Integration Affairs

The institutional setup for European integration in the countries of South East Europe and Western Balkans has been influenced by external and internal factors. Generally speaking, institutional dynamics can be summarised in two major framework models⁷: a set up driven by functionality and need for change, and a historically-influenced set up conditioned by the institutional background and administrative legacies of a particular country.

Given its recent past after the 1999 war and international interim administration, Kosovo underwent a process of institutional setup and consolidation. Under such circumstances, setting-up a functionality-based system of coordination and management of European integration was a natural step. This implied creation of structures in all institutions including independent and regulatory bodies in the earlier stages of the process. In brief the system has the following composition and roles:

Parliamentary Committee for European Integration - oversees and reviews the legal approximation and recommends changes to this process;

Ministry for European Integration – is the coordinator, facilitator and scheduler of the overall European integration process (SAP) and foreign assistance, including the programming of EU IPA assistance. It also oversees the legal harmonisation of domestic legislation with relevant *Acquis* including translation of *Acquis*.

Departments for European Integration and Policy Coordination in ministries – coordinate and support all policies including European integration matters in their ministry's portfolio. They liaise and facilitate the integration in areas of stabilisation association process and IPA assistance between the Ministry for European Integration and their ministries.

Legal Departments in Ministries – “managers” of the legal harmonization process in their institutions' portfolio. They carry the legal approximation process including the preparation of tables of concordance for all legislation. MEI only checks the conformity of the tables of concordance in an oversight capacity.

Officials for European Integration in Municipalities – coordinate integration-related files between their municipalities and central level institutions.

In addition, there are cross-institutional coordination structures established, similar to the other countries. These structures include the Ministerial Council for European Integration, The Committee for European Integration and seven executive commissions for European

Integration. It can be said they mirror to a great extent the composition of future monitoring and implementation mechanisms to be established jointly with EU. National Council was also formed as a forum of discussion for strategic perspective of the country and consensus building mechanism. The President of

⁶ SEE Heading on SAA for the next steps

⁷ See for instance: The Dynamics of Domestic Coordination of EU Policy in SEE Countries and other studies

the Republic chairs it with members from high-ranking state officials, academia, civil society and representatives of EU in country.

Recently, particular attention has been paid to the main triangle Office of Prime Minister-Ministry of Finance-Ministry for European Integration as an important axis to strategic policy planning and coordination of the government.

Stabilisation and Association Agreement

In April 2013, the Council authorised the Commission to open negotiations for a Stabilisation and Association Agreement after Kosovo had met the short-term priorities outlined in the Feasibility Study related to public administration, rule of law, protection of minorities and trade.

Negotiations started in autumn 2013 and were concluded in spring of 2014 after a number of technical Working Group meetings, consultations and three rounds of chief negotiators meetings. SAA has been initialled by the two chief negotiators in July 2014 and is now awaiting the legal procedures for adoption by the Commission, Council and the consent of the European Parliament in a procedure outlined by Article 218 of the Treaty on the Functioning of the European Union. Due to complications stemming from non-recognition of Kosovo by 5 EU member states, the Council Decision stated that “negotiation, signing and concluding such agreement cannot be construed as a sign of recognition of Kosovo as a state neither by the Union nor its member states”.

It is a fully-fledged contractual agreement regulating the political, economic and trade relations between the EU and Kosovo. It provides the legal basis for the next step in the integration aspirations of the country. By its nature the agreement also is a binding international agreement with reference to principles of the WTO in certain aspects. The SAA serves as a framework for political dialogue both with EU and at regional level with other countries that already have SAAs in place. It is also a framework for economic and trade relations establishing a free trade area for goods and services between Kosovo and the countries of EU. The trade provisions of the agreement are asymmetric since the agreement incorporates the previously instituted Autonomous trade preferences granted unilaterally to Kosovo goods. On the other hand, transitional periods are negotiated for the gradual opening of Kosovo markets to the EU in accordance with Kosovo's level of development and its capacity to compete in the European markets.

The agreement includes provisions on the approximation of Kosovo's legislation to the EU Acquis outlining that approximation shall focus on the internal market, trade and justice and home affairs at an early stage-as crucial components for the free movement of goods and services. It extends to over 25 areas of cooperation ranging from statistic, tourism to agriculture, transport, research and environment. The agreement foresees EU financial and technical support to Kosovo in implementing reforms and commitments taken.

First comprehensive review of its application shall be done in five years from entry into force by the joint implementation mechanisms.

Preparations for Implementation of SAA

Preparations are underway led by Ministry for European Integration for drafting a document for implementing the SAA whether be that a National Programme for Adoption of Acquis (NPAA) or National Programme for Integration (NPI). Consensus is building for a multi-annual document (possibly a 3 or 5 year one) that focuses in alignment of legislation in selective chapters of acquis and other reform priorities at an early stage⁸. A multi-annual document would allow for a strategic prioritisation and timely planning and analysis. It would also enable to link the implementation to the budgetary process and IPA assistance, both of paramount importance given the scarce resources available and limited space for manoeuvre in the policy context.

A series of customised trainings on the contents of Acquis chapters is currently taking place for line ministries with support from international donors such as GIZ and UNDP. On legal approximation, a regulation for approximation has been prepared by MEI and adopted by the government. As of last year, tables of concordance have been introduced for all legislation (including bylaws and regulations). Legal officers of all institutions have undergone a training and certification process for developing tables of concordance during the drafting of legislation.

A regulation on translation of acquis has been adopted outlining the translation procedures and process. Efforts are underway to obtain the translation software (tradoc). An agreement signed with Albania to exchange and make use of translated pages since both countries speak the same language.

Three Pillars of Enlargement

The enlargement process of EU towards the Western Balkans has been slow and sluggish at best in the last decade⁹. External factors related to dynamics and developments within the EU including the financial crises of 2008 and its consequences have influenced this process to some extent. But there is general consensus among professionals and international organisations that the main reasons lie in the limited capacity and ability of the Western Balkan countries to implement reforms, inefficiencies in the rule of law and their economic challenges. Circumstances have changed dramatically since the last block enlargement of 2004. All the countries now face similar economic challenges of high unemployment, uncompetitive economies, and debt burdens according to the latest reports from the Commission, IMF and World Bank. The pressure for delivery of reforms becomes greater.

Reflecting on these developments, the Commission has launched a "Fundamentals First" approach to the enlargement strategy for Western Balkans¹⁰. This is built around a three-pronged approach on fundamental reforms in rule of law, economic governance and public administration reform as the essential elements for speeding up the reforms and the integration of the countries towards the EU. In addition to the seven areas of the Stabilisation

⁸ in line with SAA provisions and Government priorities

⁹ With the exception of Croatia who managed to speed up the reforms and join the EU

¹⁰ See Enlargement Strategy 2014

Association Process framework of the traditional format, special mechanisms of structured dialogue have been established for Rule of Law and Public Administration Reform with all countries of Western Balkans. A new approach has been introduced recently¹¹ on economic governance that mirrors the EU semester. It consists of a preparation of a National Economic Reform Programme (NERP) by all candidate and potential candidate countries encompassing the macroeconomic stability and structural reforms. In addition, the Commission jointly with major IFIs are introducing a new policy framework initiative in effort to boost investment and connectivity in transport and energy between countries of WB and with the EU in hopes of generating additional growth and jobs.

Progress in these fundamental areas can strengthen the institutional and reform capacity of WB countries thereby bringing them closer to the EU.

The remainder of this report will touch briefly on the key areas of internal market given its importance for implementing SAA and trading with EU. It will then focus on the economic reforms in Kosovo and provide some linkages between economic governance, rule of law and public administration reform along the lines of this thematic three-pillar approach of enlargement.

Internal Market Key Features

The institutional setup for quality infrastructure is in place. Relevant bodies for standardisation, accreditation, metrology, conformity assessment, consumer protection and market surveillance have been established and operational. To date, some 7,000 standards have been adopted. The basic legislative framework has been developed. Due to non-membership to the UN, Kosovo is not a member of ISO and CEN/CENELEX. Hence, standards are adopted through the 'first page' method via Albania.

In the area of movement of services, a gap analysis is underway aiming to screen the current state of affairs in preparation for the partial transposition of the Services Directive. Kosovo is relatively free as concerns the movement of capital. There are no capital controls in place. An independent Competition Authority oversees any distortion of the market through the concerted practices, prevention of competition and abuse of dominant position in the market. On IPR, an Agency for Intellectual Property and an Office for Copyrights and Related Rights are the main bodies. Legislation in this area is gradually increasing its alignment with relevant acquis. A database system IPAS Java is operational in the IP Agency where data on patents, trademarks and industrial designs are recorded. The National Council for IPR has been set-up to strengthen the coordination and streamline the activities of relevant institutions in this area.

The Customs code is largely aligned with EU Customs. Customs procedures have been recently streamlined and shortened within the "Doing Business" reform. Risk-based management and an automated system for customs data have been in place allowing for speedy and electronic declarations, processing and payment

¹¹ As of this year

procedures. The public procurement system consists of a regulatory body and a remedy system for reviewing complaints of operators.

Looking ahead, further capacity development is needed in all areas of internal market. Enforcement efforts also need to be intensified. Annexed to the SAA are a considerable number of international conventions and protocols that have to be abided by Kosovo once the SAA is in effect. This requires additional resources both human and financial for a number of domestic institutions.

Economic Governance

The economic transformation process from the former socialist system under the former Yugoslavia to a market-based economy has started immediately after the war with the establishment of the International interim administration. A privatization agency was established in the beginning of 2000s. Regulatory bodies have been created for network sectors of the general economic interest such as telecommunications, energy, water and waste and so on. An independent Central Bank was in place to oversee the financial sector. Instead of introducing its own currency, Kosovo opted for the German mark as a legal tender. With the introduction of Euro in EU, the country naturally switched to this new currency.

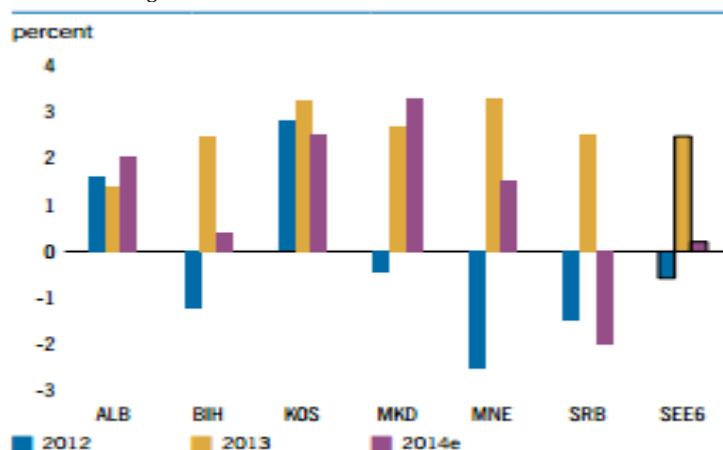
The economic reform process has continued with implementation of the essential reforms in the last few years. Transformation of the socially owned enterprises into newer private companies has taken place for the majority of SOEs. New corporate governance structures were introduced to the publicly owned enterprises. Deregulation has extended to several sectors previously restricted to the public sector. The telecom sector was liberalised. The energy distribution network privatised. The national airport was awarded to a 20-year concession thru a public-private partnership. Commissions' 2012 Feasibility Study concluded that the price setting mechanisms was mostly free with independent regulatory bodies regulating the prices of the so-called network industries.

The country has a relatively open economy with a trade openness index oscillating between 66% and 75% of GDP in last 5 years¹². It has a free trade regime under the Central European Free Trade Area. It enjoys a preferential trade regime granted unilaterally by the EU. Just recently the country has negotiated a free trade in goods agreement with Turkey, which is pending ratification by the respective Parliaments before it enters into effect.

The country has enjoyed relatively good levels of real GDP growth averaging around 3% in the period 2011-2013. In 2013 real GDP growth stood at 3.4%. In 2014 growth is estimated to be between 2.7% according to IMF estimates and 3.3% according to domestic preliminary estimates. As can be seen in the graph below, the country has had one of the highest rates of growth along with that of Macedonia.

¹² See World bank database

Figure 3: Real GDP growth 2012-14

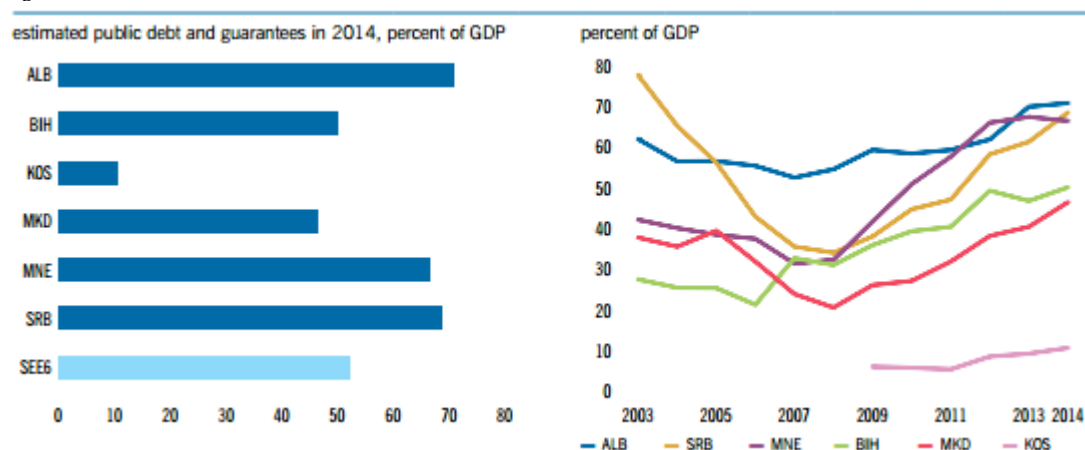


Source: World Bank South Eastern Europe Regular Economic Report No. 7

As regards the public finance, Kosovo has a simplified tax system with a relative small number of taxes (personal income tax, corporate income tax, VAT, excise tax, profit tax, property tax and customs duty tax). Majority of taxes are based on the flat rate taxation system, with brackets for certain taxes. The tax to GDP ratio varies around 22% of GDP, a comparable level to other southeastern countries.

The country has taken fiscal consolidation measures just recently. It has incorporated the Maastricht convergence criteria into its legislation setting a debt limit to 40% of GDP and introducing a binding fiscal rule for the budget deficit to 2% of GDP.

Figure 4: Public Debt as share of GDP, 2014



Source: World Bank South East Europe Regular Economic Report No. 7

Currently, its public debt stands at 10% of GDP, by far the lowest in the region.

Despite the relatively good rates of growth and a track record of public finances, the country has a high unemployment rate (30% according to the 2013 Labor Force Survey)¹³. The manufacture base has become obsolete due to the 1999 war

¹³ Statistics Agency of Kosovo

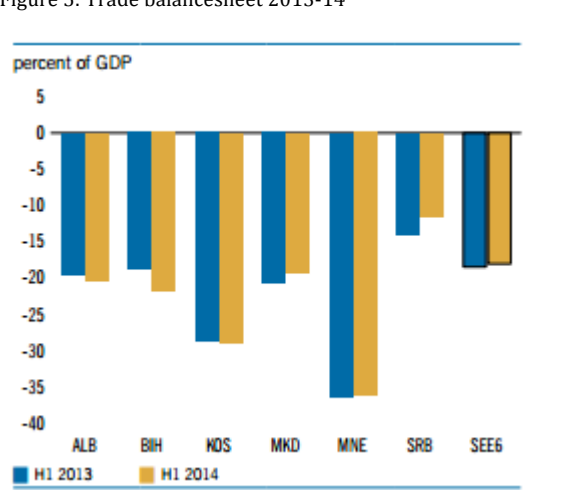
and inherited troubles afterwards. The once fairly well developed textile and food-processing industries could not survive the turmoil of the 90s. The mines and minerals sector remained weak with a few investments here and there despite its potential for growth and job creation. The massive indiscriminate privatisation of SOEs deteriorated the country's economic structure.

The EU is the largest trading partner. Despite a relatively high degree of trade openness, the country has a high trade deficit, standing at around 31% of GDP in 2013. Its export base consists of unprocessed minerals and metals. Other exports include some food items and plastics.

The major sources of growth consisted of private consumption public spending in infrastructure projects such as roads. In turn, private consumption is fuelled by the high level of remittances coming from a large Diaspora predominantly from Switzerland and Germany.

Significant further efforts are also needed in enforcing the contracts and fighting the grey economy. There are no accurate data on the level of informality in the economy. Nonetheless reports of international organisations cite this as an issue.

Figure 5: Trade balancesheet 2013-14



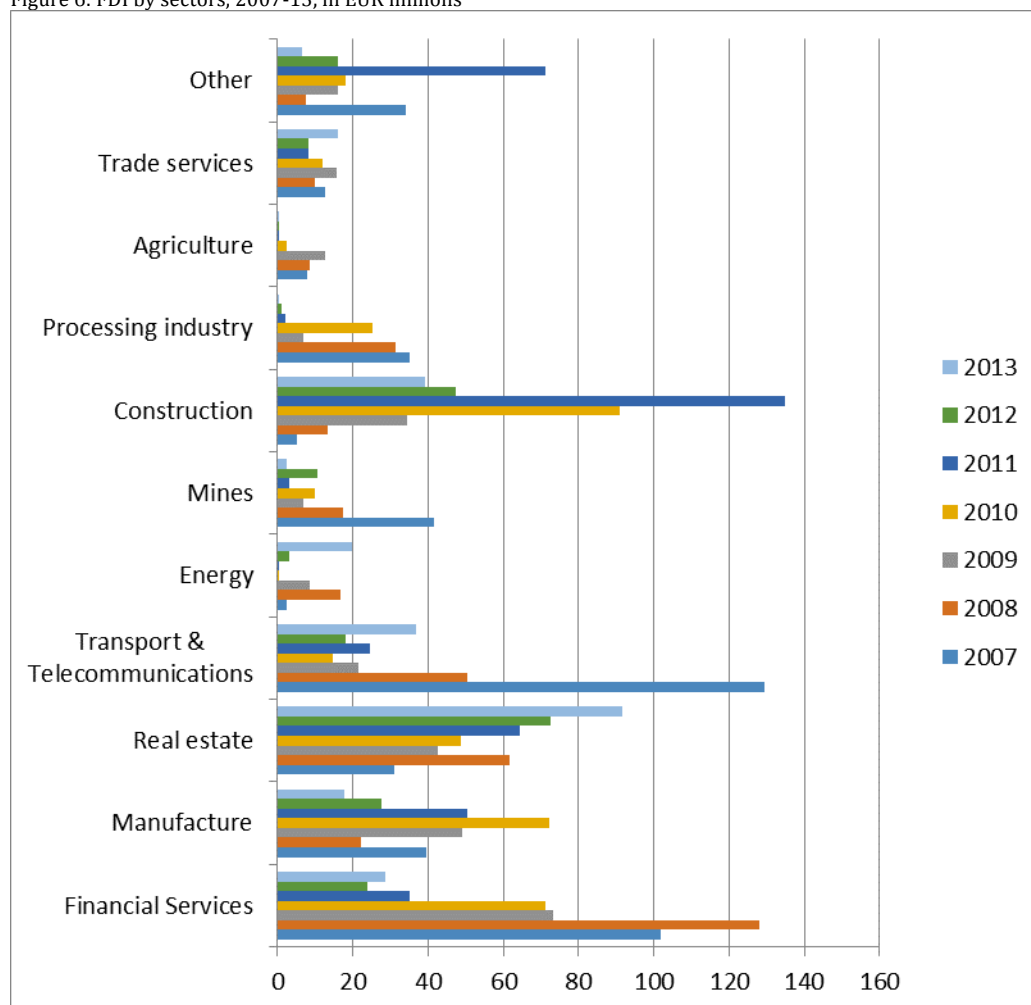
Source: World Bank SEE Economic Report

The government has recently adopted a strategy for prevention and fighting of informal economy. It is accompanied by an implementation action plan. The novelty of this strategy compared to previous one is the cross-sectoral approach. It has brought on board a wide range of institutions from rule of law, enforcement agencies, several ministries and tax and customs services. Closed monitoring and reporting mechanisms have been set up with the lead of the Ministry of Finance.

High levels of unemployment, in particular long structural unemployment signal a mismatch of labor supply and demand. Kosovo has one of the youngest populations in Europe. As a result, there is tremendous pressure on the labor market by a considerable number of new entrants in the labor market each year.

Although the country has enjoyed some inward foreign direct investments, partly linked to the privatization process, most of FDI went to the non-traded sectors of construction, real estate and financial services (see below).

Figure 6: FDI by sectors, 2007-13, in EUR millions



Source: Own calculations, based on Central Bank Data

The country has successfully concluded a Stand By Arrangement (Article IV) with IMF last year that contributed to further fiscal consolidation. This year for the first time a National Economic Reform Programme has been prepared and submitted to the Commission within the framework of economic dialogue with EU. The programme shall contribute positively to the strengthening of reform efforts and building policy development capacity of the country.

In its Progress Report assessment, the Commission notes that Kosovo needs to better target economic policies, address job creation and competitiveness, and promote private investment to achieve a more sustainable growth.

To address some of these challenges, authorities are biffing up efforts to stimulate the development of private sector through a number of policies and incentives for the productive and export-oriented industries. A national development strategy is being designed and a unified policy cycle and calendar is in the preparation.

Kosovo has made significant progress in the improving of business environment. In the Doing Business Reform, red tape has been reduced, several licences have been abolished, and business registration procedures are simplified through one-stop-shop services.

Figure 7: World Bank 'Doing Business 2014' ranking for Republic of Kosovo and select economies

Indicator	Rank	Change in rank	Regional Average	Rank of select comparator economies
Starting a business	100	↑ 26	58	Czech Republic (146), Bosnia and Herzegovina (174)
	136	↑ 16	116	Croatia (152), Albania (189), Bosnia and Herzegovina (175)
Dealing with construction Permits	58	↑ 17	59	Bulgaria (62), Slovenia (83), Bosnia and Herzegovina (96)
Registering Property	121	↑ 1	107	Bosnia and Herzegovina (107), Croatia (99)
Trading across borders	138	↑ 1	61	Bulgaria (79), Bosnia and Herzegovina (115)
Enforcing contracts	83	↑ 3	78	Bulgaria (92), Croatia (98)
Resolving insolvency				
Areas where Kosovo dropped its ranking in 2014				
Getting electricity	121	↓ -1	118	Bulgaria (135), Czech Republic (146), Albania (158)
Getting credit	28	↓ -4	53	Czech Republic (55), Bosnia (73), Slovenia (109)
Protecting investors	98	↓ -3	65	Czech Republic (98), Bosnia and Herzegovina (115), Croatia (157)
Paying taxes	43	↓ -1	91	Czech Republic (122), Bosnia (135), Albania (146)

Source: World Bank Doing Business

Export and import procedures have been simplified and number of required documents reduced. This has been reflected in the improved rankings in the World Bank's Doing Business Report. The country intends to continue its efforts to further improve the business environment in support of the private sector development and a favourable investment climate. Further efforts are needed in improving access to credit, ensuring a stable electrical supply and protecting investors.

Linkages of Economic Governance to Rule of Law and PAR¹⁴

Despite the recent reform effort in the rule of law sector, inefficiencies still persist in the sector. The court system is burdened with a backlog of unresolved cases. To ease this burden and facilitate the business disputes and enforcement of contracts, voluntary dispute settlement mechanisms have been established: mediation, arbitration and notary system. A mortgage database has been set up in the Central bank to assist the commercial banks in issuing loans backed by collateral.

The country has inherited a fragmented property system with complications due to missing documentation and ownership entitlement. To address some of these complications, a property agency has been established to deal with some of the property claims and disputes.

Administrative capacities are a cornerstone to the advancement of the integration process. Similarly, Integration process can be used as an accelerator for PAR. The two are inadvertently intertwined. Given this, Kosovo has in the last 2-3 years revised its civil service legislation to further align it with EU principles of an impartial, professional and efficient public administration. The grading system has incorporated incentivised sub-grades to promote performance. Human resource management is undergoing a process of e-management service that is currently in the pilot stage.

Recognising the important role of legal department and European integration and policy coordination departments and their potential for positive spillover to other governmental departments, Ministry for European Integration has recently coordinated a capacity assessment for these departments. The assessment will serve as reference for further capacity development.

Way Forward, Challenges

A natural next step in the integration process is the application for candidate status. This is of course pending on the effective implementation of the SAA and other external factors. In turn, implementing the reforms requires administrative capacities and resources. There is a limited scope for financing many competing reforms and addressing social pressure.

Under such an environment, a prioritisation and sequencing of reforms becomes ever more important. Wide consensus of all relevant segments of society is necessary for successful and sustainable reforms. This inevitably requires political commitments of all parties that so far has not been lacking - at least not in the European integration sphere.

Further efforts are needed in the effective implementation of the EU's IPA II assistance novelties related to the new sectoral approach and multi-annual programming. Currently Kosovo is under a so-called centralised management for IPA funds. A transition to the decentralised system requires particular attention and preparation. This requires creation of several structures related to

¹⁴ Public Administration Reform

procurement and payment procedures, ex ante evaluation and monitoring mechanisms. The country is also at the very early stages of preparing its capacities for utilising EU's direct budget support. Capacity absorption is needed to make use of future participation in the EU community programmes.

In conclusion, economic reforms yield positive effects to the economy and the welfare of citizens at least in the long run. To maximise the positive effects, our experience has shown that a carefully designed sequencing of reforms is of utmost importance. There should be a prioritisation of interventions and changes introduced to the economic system based on thorough ex ante analysis and benefits they bring to job creation and sustainable development of the country.

Doing Business and Fiscal Reforms in Georgia

Introduction

Georgia is one of the most promising doing business destinations in the South Caucasus. Georgia was transformed from a weak and highly corrupted to open and attractive economy married with modernization efforts of the government bodies. On its way of transition, Georgia implemented a smart and comprehensive reform strategy for institutional development and capacity building to foster business activity and attract investors. Successful reforms in the area of regulatory, administrative and civil service reforms included: Georgian Business Climate Reform; Tax and Customs Reforms; Public Administration Reform; Civil Service Reforms (public and civil registry); Public Procurement Reform; Treasury Service Reform. As a result, Georgia's excel in business regulatory framework together with disciplined fiscal setting and investor-friendly policies encouraged investments and economic growth. WB acknowledged the progress in Georgia with the title of the top reformer country.

1. Challenges preceding the reforms

As of 2003, Georgia was exposed to a set of shortcomings. Registration (business, property, construction permits) procedures were too complicated facing various institutional and administrative difficulties as well as bureaucratic barriers. The level of efficiency and effectiveness of state institutions and lack of control in the administration cause serious obstacles for economic advancement,

Georgian tax system had number of legislative and administrative deficiencies. Tax schemes and policies were inconsistent with business operations. Ambiguous legislation and unclear instructions were impeding tax procedures. Double interpretation of tax regulations provided grounds for corruption. There was no legal instrument for dispute resolution, other than common courts. As a result, tax compliance was too costly and burdensome for businesses, tax system was highly corrupt and budget revenue from taxes was very low.

All these problems reflected in high level of shadow economy and had negative effect on country's economic development.

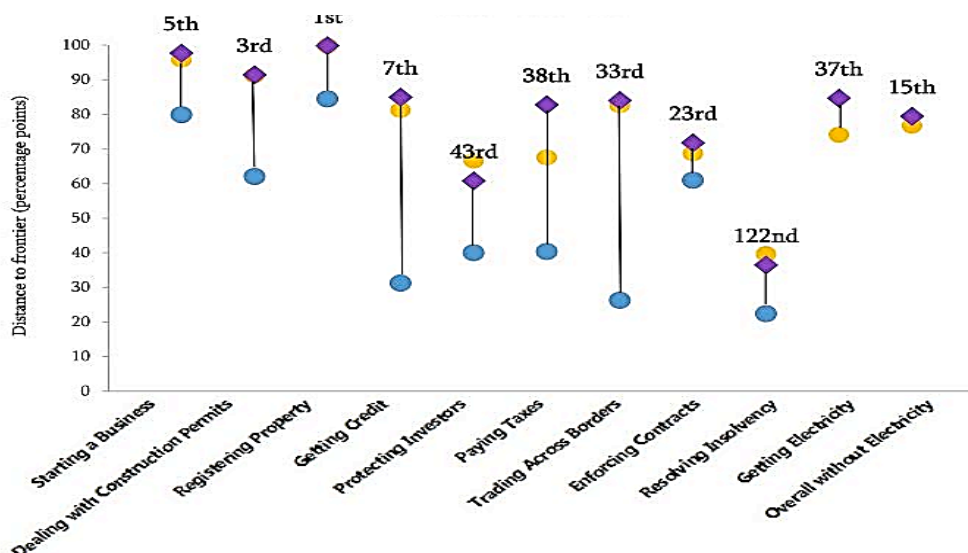
The Government of Georgia launched extensive reform strategy to overcome these challenges. Its main goal was to create favorable business enabling environment for private sector and attract FDI. The reforms targeted to:

1. Simplify business registration procedures
2. Reduce bureaucratic procedures for property registration and construction permits
3. Decrease of administrative burden for taxpayers
4. Create non-bureaucratic and effective public administrations, such as: Public and Civil Registry, Service Agency of the Ministry of Finance and Service Agency of Ministry of Internal Affairs
5. Develop transparent and non-bureaucratic state procurement system

2. Reforms in action

Georgian Government efforts to improve business environment resulted in substantial advancement. In particular, the best results in Doing Business Indicator (BDI)¹⁵ were achieved in the field of registering property (#1), dealing

Figure 8: How far has Georgia come in the areas measured by Doing Business?



with construction permits (#3), starting business (#5) and getting credit (#7).

Registering property hit the top first across 189 countries for three years already. First of all, reforms significantly cut the list of required documents and simplified registration procedures. Now the system is fully digitalized. A user can obtain prior information, apply and observe every step of each procedure, also get additional information and view results of registration in an electronic journal. Abstracts documenting the status of citizens' real property are also available online. The existing paper-based databases for public registry of land property were digitalized into a unified cadastral information system, supplemented with Geographic Information System (GIS). In this system, each plot size is determined with high accuracy. The cadastral information is presented in an electronic form to the registering body.

Public services were significantly modernized. Introducing electronic, simplifying processes, and de-bureaucratizing resulted in the creation of a unified space of public service, the House of Justice, which includes the majority of public services (public and civil registry services, etc.). In the new framework, starting a business takes only two days and costs of only 3.4% of income per capita.

Dealing with construction permits was much simplified. Total number of licenses and permits was reduced by 86%. Licenses and permits may be required only for: safety and health protection, security of living conditions and cultural environment of individuals, protection of state and public interests. Time required for issuing licenses was reduced to 30 days, for issuing permits – 20 days. "Silence is consent" - a permit or license is automatically granted if no government action is taken within statutory time limits.

Getting credit is now much easier for citizens. Georgia has highest score in the depth of credit information index. Favorable infrastructure and unified creditworthiness database, attracted many new banks to Georgian in the period from 2003 to 2014. There was a very big jump in DBIs for trading across borders and for paying taxes. This achievement is due to well-devised and enforced fiscal reform and customs administration reform.

Trading across borders was remarkably improved. Now Georgian system is one of the most liberal import duty systems in the world, with an average weighted import duty rate of 1.5% (90% of all imports have 0% duty). Import duties on agricultural goods and construction materials. Equal VAT and excise tax on imported and local goods. No export duties.

Paying taxes was significantly simplified with only six taxes at low rates (Income Tax, Profit Tax, VAT, Excise Tax, Customs Duty and Property Tax), easy e-filing and e-procedures, Appeals Board for dispute resolution.

Modernization of tax system resulted in substantial advancement. Tax authority has evolved into one of the strongest bodies in public sector after merging customs and tax departments in one single government agency responsible for customs control and tax administration – **State Revenue Service (RS)** under the Ministry of Finance of Georgia.

Tax code was fundamentally amended and substantially simplified. Administrative processes and procedures have been improved, reengineered and simplified through e-filing and e-procedures. Procession of tax declarations and procession of payments was streamlined after introduction of distinct bodies for each of these functions - service centers and centralized units, enhanced with digital technologies and e-services for taxpayers' data collection, storage and processing. A multifunctional webpage has been created, allowing the taxpayer to obtain information on new developments as well as access a taxpayer's personal webpage and conduct operations online.

Enforcement of tax collection was strengthened with institutions of local officer and mediation council. Now, in service centers, local officers provide full package of services for taxpayers. Taxpayer's complaints regarding inspection procedures are examined and reviewed from mediation councils. Furthermore, tax system is now supplemented with risk control system (Risk Management Software) that allows identifying the risk level of objects subject to inspection. Based on the risk level, taxpayers may outsource the tax audit services. In case of misunderstanding or conflict, taxpayers can submit paper or electronic appeals to the Tax Appeals Board. This body is responsible body for resolution of disputes. Headed by the Minister of Finance, board employs representatives from executive government and non-governmental agencies. Usually a case review takes 25-40 working days.

Now, tax code is simple¹⁶ with low universal rate taxes. Tax environment is competitive in regional and international level. Implementation of electronic systems simplified and minimized costs in the taxpayers' relations with the tax authority, while the authority itself processes information with much greater speed and efficiency. Data is protected and forgery is out of the question. With mechanisms in place, corruption has been expunged.

¹⁶ Tax types are Income Tax, Profit Tax, VAT, Excise Tax, Customs Duty and Property Tax

As a result of intensive reforms, tax system became more business-friendly and was upgraded to international level. More specifically, tax revenue ratio to GDP increased from 11.6% in 2003 to 20.6% in 2007, 29.3% in 2013. Shadow economy shrank and tax self-compliance rate increased, making taxes the major source of revenue - 87.7% of total revenue in 2013. Cordially, PMCG is proud to have contribution to these achievements.

3. Key achievements¹⁷

Economic performance well reflects improvements in business environment in the last decade. Namely, foreign direct investments (FDI) reached its peak in 2007 at the level of \$2041mln USD. In 2013, FDI was twice the level of 2004, and reached \$929.7mln, which is about 5.8% to GDP. Georgia gained confidence of investor. GDP growth rate reached 12.3% in 2007, 3.3% in 2013 proving Georgian rigidity to political and external economic shocks. The main sectors that contribute to GDP 2013 are Trade (17.1%), Manufacturing (14.6%), Transport & Communication (11.1%), Agriculture (9.7%) and Public Administration (9.5%).

As a result of fiscal reform, now Georgia has corruption free environment. Tax Revenue is the major source of revenue, 90% of total revenue in 2013. In spite of increasing the tax burden, the ratio of tax revenues to GDP increased from 12% in 2003 to 24.8% in 2013. Informal Economy has been reduced from around 65 % to 10% of GDP

Customs Reform significantly improved external trade. The volume of export as well as the volume of import increased, the growth rate of export (22.4%) exceeded the growth of import (0.4%).

Banking Sector expanded and fostered economic activity. Total assets as a share of GDP have increasing trend in the period of 2002-2013. Now banks dominate the financial sector (more than 95%). International companies own more than 50% of total banking sector capital.

Finally, corruption-free environment was promoted with anti-corruption reforms through expanding the scope of public officials' asset declarations and by publishing directly awarded government contracts, including all small purchases, on the e-procurement portal. The government has also pursued reforms to pro-actively release more public data online and has improved the responsiveness to Freedom of Information requests.

Georgian experience proves once again that economic growth significantly depends on efficient institutions and effective enforcement measures. Smart and effectively enforced reform strategy with clear-cut targets is the key to prosperity and economic growth.

¹⁷ Above and hereafter statistical data is taken from National Statistics Office and the Ministry of Finance of Georgia.

Property Registration System Reform in Georgia

General Concept

Property registration reform in Georgia took around 5 years to bring the country from the corrupted, extremely bureaucratic and low-tech system of property registration to the one, which has been acknowledged as a world's most business-friendly system by WB.

This reform includes a set of regulatory and technological changes, including establishment of registration body as an autonomous, self-funding entity, introducing publicity, maintaining total transparency, running web-based services and procedures, and maintaining accountability to the users of the system.

Reform Targets and Factors of Effectiveness

The effective registration system is key to the development of economy and is a key element of public services provided to population and businesses.

An effective registration system facilitates: (a) Rapid development of the real estate market; (b) growth of investment in real estate; (c) high level of trust to the system of registration and (d) guaranteed protection of property rights.

The Georgian story highlights that the main factors of effectiveness are (a) focusing on the interests of consumers; (b) publicity and access to information; (c) simplified and more transparent procedures; (d) maximal involvement and participation of private and public sector into registration process. The more parties become part of the registration process, the more trust the system gets (see below for more information about involvement of third parties in the process of registration).

Division of Front and Back Offices

Georgian property registration system is based on a single centralized database, management and policymaking. At the same time, front office operations are decentralized and de-concentrated.

Front offices deal directly with the customer, receiving and handing out documentation. Territorial restrictions are abolished – each front office can receive registration application for any property regardless of location.

Back offices are focused on registration, working in quiet environment and having no immediate contact with the front. Front office applications are distributed by automatic system randomly to back office registrars.

Full Publicity of the Registry

Publicity is a key element to the effective registration system. In Georgia, all the information about the property is public to any interested parties. Information about the property is displayed in the automatically generated *Extract from Public Registry* (the same document that in other countries are called as Registration Certificate or property title).

The benefits of publicity are numerous, including a more trust from the users, improvement of monitoring by civil society, prevention of corruption and fraud.

Publicity is enhanced by the fact that any interested person can request property information (including the info about the owner, restrictions etc) online, via filing an online application and receiving the *Extract* that is generated automatically from the database and has no stamp or signature.

Not only textual information is public, but also graphic data including maps of individual parcels, as well as of administrative, zoning and other boundaries are freely available for viewing on the website of the Public Registry.

Financial Sustainability of Public Registry

As noted earlier, Public Registry is a self-sustainable state entity that is not receiving any subsidies from the state budget. The vast majority of income of the Registry is registration fees. Fees are standard and expedited¹⁸.

While the fees remained mostly stable during the last 5 years, the total income of Public Registry has risen from GEL 12 million in 2009 to GEL 30 million in 2013. This increase is almost fully attributable to the rise of number of transactions.

The extra income generated by the Public Registry is used for constant upgrade of the physical and software assets, innovation, staff recruitment etc.

Partnership with Private Sector

The public registry runs a system, where private authorized users are given the function of the front offices. This creates a beautiful synergy – removes strain and cost from the public registry's own front offices and creates valuable and comfortable service for the customers of the authorized users. Around 30% of total transactions are received at the front offices of private authorized users.

Public registry provides mandatory training and certification of private players before granting them status of authorized users.

Agreement Notarization Reform

In many parts of the world, notarization of agreements – a cumbersome and costly step – is a mandatory part of transaction. Georgia was the same, before introduction of the reform that makes the public registry personnel act as notaries for certain functions.

¹⁸ By the time of writing this report, a standard sales transaction fee is around \$25, and the expedited same-day registration fee is \$100 per piece of property.

If parties are not interested in confirming the contents of the document, but only in the confirmation of the signature they can do in the front office. There are sample standard contracts on the Registry's website and the price for signature confirmation is symbolic (less than \$3).

Simplification of Registration Procedures

The reform has taught us that there is almost no end to simplification – the more you simplify, the more opportunities you see for further streamlining.

This slide shows us what has been done to make the bureaucracy as light as possible. There is a set of guidelines to adhere to achieve streamlining of the bureaucratic procedures:

- For registration must be required only information which is necessary for registration itself;
- Ignorance of interests of other agencies, which prevents simplification of registration process (eg. Document about absence of debt)
- Should not be requested information/document already stored within registry
- Registration procedures must be outlined in advance and informing the citizens via web;
- Registration procedures are being displayed on the website so that the user trace the process;
- Informing customers about final and interim solutions with SMS.

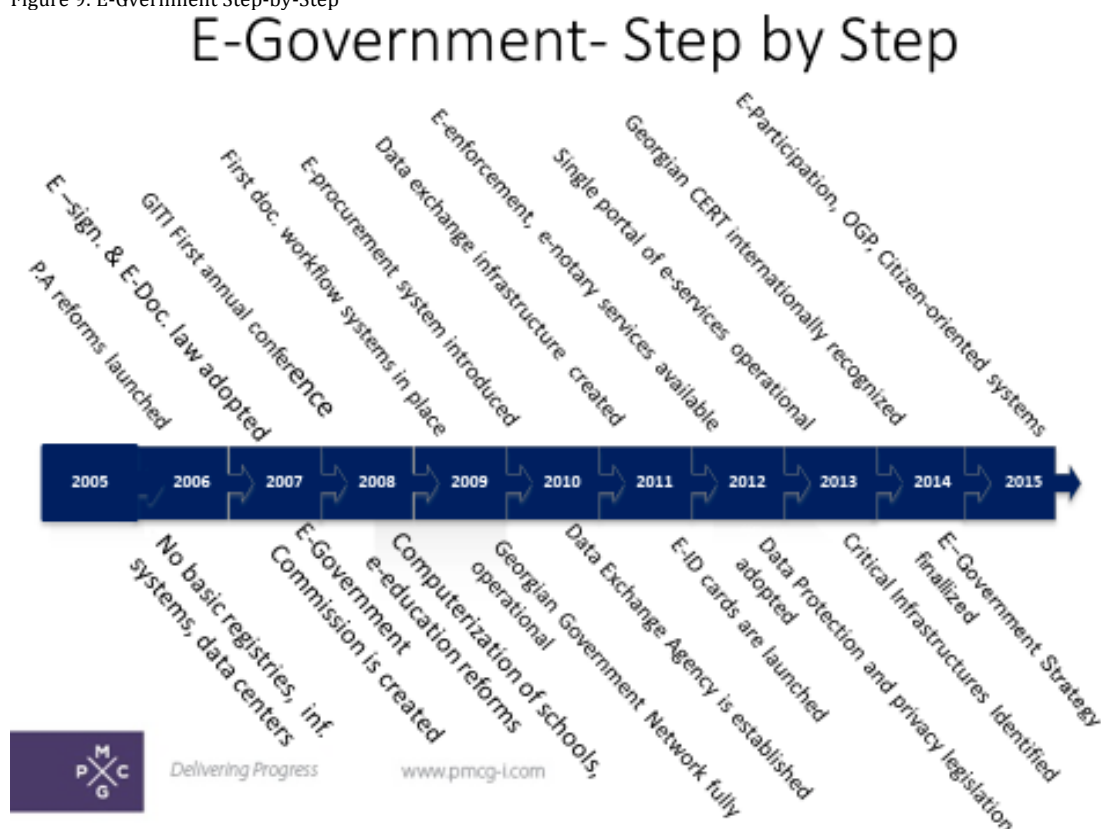
The success of the Georgian reform as highlighted by WB Doing Business ranking and other independent assessments demonstrates that with enough political will and dedication, developing countries are no less positioned to achieve reform success of global scale than the developed and rich nations.

Georgian E-Government Reforms

Introduction/Background info

The story of e-Governance development in Georgia, at the surface, is not one of long-term planning and strategic development; rather, it is a story that mirrors the relative dynamism of overall Georgian reforms in the past decade and beyond. E-government is a new concept in Georgia having a history of just 10 years back.

Figure 9: E-Government Step-by-Step



Starting from 2005, ICT component in public administration has quickly become a cornerstone and daily agenda in the reform process of the public sector initiated by Georgian Government. E-Governance became an integral part of Public Administration reform in Georgia, allowing Georgia to become one of the most dynamically developing ICT governance environments in Eastern Europe. Back at that time, public agencies had no basic electronic registries or data centers and electronic document exchange systems were not yet utilized. Georgia had limited budget for deploying ICT tools, it faced with unqualified employees, high infrastructural expenses, lack of IT standards and skills, problems of data incompatibility.

Georgian Government started reforms with:

- Creation of basic information systems;
- Digitalizing internal information resources;
- Automating information flows;
- Creating data centers;

- Establishing connection between agencies and regional offices.

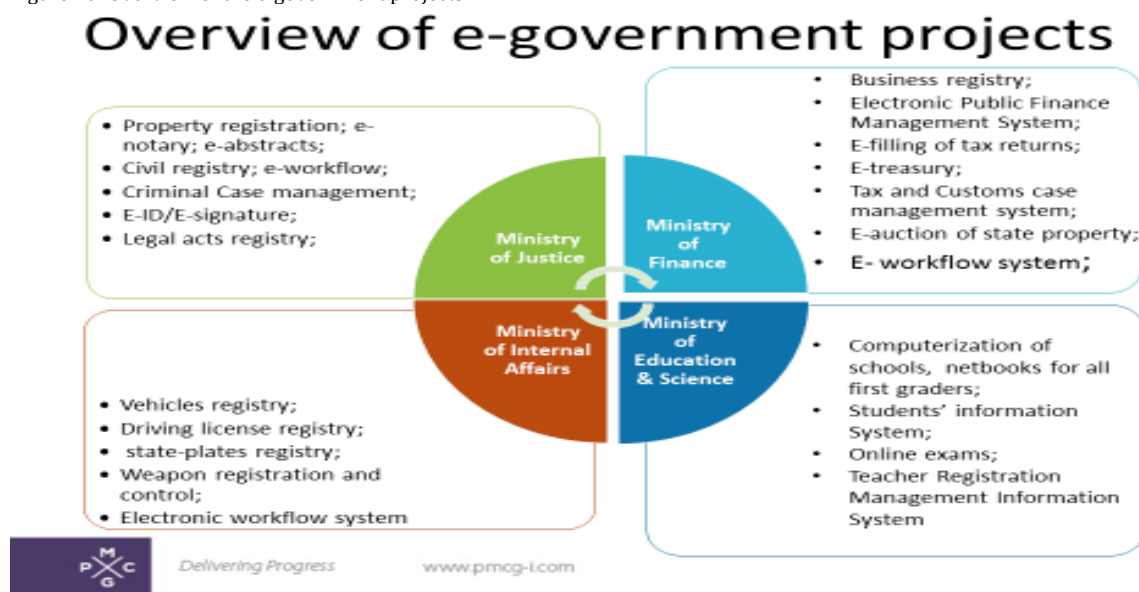
Achievements of Georgia as a dedicated reformer of public administration with the use of ICT have found international recognition and approval. Georgia is generally considered as a regional leader in development of ICT solutions for building transparent, modern and effective public service system. Based on the 2014 UN e-Government Survey, Georgia is ranked 54th (of 193 countries evaluated), advanced by 44 units within the period of 2010-2014. This is really a sizable progress.

Overview of e-government projects

Some of the most notable and unique solutions demonstrating achievements of the Georgian public administration in delivery of efficient IT-based services to the public can be unified in 4 blocks: Justice, Finance, Education and Interior spheres.

- E-government in Ministry of Justice is composed of the following systems: e-notary services; e-enforcement; property registry; civil registry; business registry; legal acts registry; criminal case management system, e-workflow system, e-ID.
- E-government in the Ministry of Finance is composed of the following systems: Electronic Public Finance Management System, including e-treasury and e-budget; electronic Debt Management System; electronic Human Resource Management System; Tax and Customs case management system; E-filing of tax returns; e-Auction; e-workflow system.
- E-government in the Ministry of Education and Science is composed of the following systems: computerization of schools; Education Management Information System; Teacher Registration Management Information System; computer adaptive certificate exams.
- E-government in the Ministry of Interior Science is composed of the following systems: vehicles registry; driving license registry; state-plates registry; Weapon registration and control; electronic workflow system.

Figure 10: Overview of the e-government projects



Organizational Frame

State Commission for Supporting E-Government development in Georgia under Government's Chancellery is responsible for horizontal coordination of e-government projects in Georgia. Commission is chaired by the PM, while the Minister of Justice serves as a deputy chair.

DEA - Data Exchange Agency (DEA) is the principle state institution responsible for e-government development in Georgia. DEA started its operation on January 4, 2010. The agency operates under the status of LEPL (Legal Entity of Public Law) and is governed by the Ministry of Justice of Georgia (MOJ). Decision of creating e-government agency under Justice Ministry had both political and practical reasoning: firstly, MOJ's strong political leadership was influential for successful implementation of horizontal e-government initiatives through different public agencies; secondly, MOJ led public administration reforms in Georgia and thus being a component of such reforms, e-government agency subsequently was created under MOJ umbrella.

DEA's overall activity is divided into the following fields: E-governance development, managing data exchange infrastructure and ensuring information/cyber security.

All Ministries and state institutions, municipalities, judiciary and legislative branch are responsible for development of e-government projects in their respective agencies within their spheres of authority.

Infrastructural Projects

Georgian Governmental Network: In 2007 Georgian government announced a tender to build so called GGN (Georgian Governmental Network) across the whole Georgia with the aim to interconnect with each other different state agencies operating in rural and urban areas, territorial branches and head offices, different government structures. One of the biggest mobile – operator in Georgia, MagtiCom won the tender and built the infrastructure at its own cost in return for the government's guarantees of a minimum number of users. As a result of GGN, a modern, secure, high-speed and stable IP network has interconnected more than 400 government offices across Georgia. Services include Internet, telephone services, video-conferencing, and technical support. Rates for services were based on usage volume. The lowest rates—for at least 350 offices—have been achieved, saving government's agencies about 75% of previous costs. Innovative procurement by government expanded Georgia's information and communications technology (ICT) infrastructure, simultaneously reducing the government's ICT costs and improving its functions.

Data Exchange Infrastructure

In order to build a durable interoperability foundation for creating secure, trusted channels for the sharing and exchange of information, information systems and technologies in state agencies, local self-government territories, municipalities and private organizations, Government of Georgia created data exchange infrastructure, - Georgian Governmental Gateway (3G), which

represents the concept of Connected Governmental Framework. This is a virtual Gateway that improves an access to the information and insures its safety and reliability. Organizations just need data adapters in order to establish connection with unified system. Data Exchange Infrastructure gives numerous possibilities to launch new e-government projects.

Legal framework

Georgian Government sees legal system as a key enabler factor for successful implementation of e-government reforms. The key principles upon which Georgian e-government legal system is built on are the following:

- Technology independent legislation;
- Respect to information neutrality;
- Principle of openness and necessity;
- Concentration on Privacy and Security;
- Legal force of e-signature and e-document;
- Usage of electronic document flow systems;
- Strict regulations on G2B, G2G and G2C spheres, but flexibility with C2B, C2C, B2B transactions;
- Clear rules and guidelines, flexibility, result-oriented approach;
- Principles and standards on high legislative level, sector specific legislations in place;

E-Government Strategy

A Digital Georgia - E-Georgia Strategy and action Plan (2014-2018) is based on 11 thematic directions. The vision of e-Georgia is to become a more efficient and effective public sector offering integrated, secure, and high quality e-Services. Improved usage and participation enable an ICT driven sustainable economic growth.

Ongoing initiative and future plans

Georgian Government is committed to continue its efforts to strengthening citizen-oriented e-government tools and open government initiatives.

Single window concept for e-services (my.gov.ge)

In developing e-government projects, Georgian government fully shifted its former organization-centric approach to citizen-oriented tendencies. This transformation is clearly visible with the creation of citizen tailored e-services and in engagement of citizenry in government decision-making process, which on the other held, results in efficient and effective public policy planning. Citizen portal – is virtual single window concept for e-services. It's a one-stop shop for all electronic services in the government and private sector. Nowadays citizen's portal displays over 70 e-services. Citizen's portal is also important for carrying out open government initiative. Principles for portal functioning are: simplicity, flexibility, and security.

OGD initiatives in Georgia (data.gov.ge)

Georgia is the member of Open Government Partnership (OGP) initiative and is very much committed to use e-government and ICT tools in open government

reforms. In October 2013 Georgia was nominated by the UK Cabinet among the seven shortlisted entries for the Bright Spots awards for enactment of the legislation of proactive disclosure of public information and electronic application system to public authorities. Georgia's commitment of data.gov.ge – development of unified database of public information – gives citizen a chance to download already existing proactive public information, or request desired information electronically.

Lessons learned

Georgian case visibly demonstrated that technology plays a little role in e-government reforms process, rather there are other key enablers for successful launching of ICT tools, these are legal, strategic and governance frameworks combined with organizational settings with proper planning and implementation models, cooperation and coordination mechanism.

Reinventing the Wheel „syndrom“ is a clear obstacle for any reform direction and e-government is not an exception in this regard. Georgia paid due diligence to international best practice and very often benefited from international donors instruments in order to receive technical expertise from EU and USA experts in the field.

Georgian experience proved that sharing services and horizontal projects are cornerstones of e-government reforms, as they generally improve the cross-sector operation of e-government systems. Any e-project should be citizen-oriented and based on actual demand; that is why e-government local services need to be tailored to respond to local needs thus guaranteeing high take-up.

In Georgian reality, e-government, good governance and open government concepts are very much interlinked and interrelated, that is why open data, government transparency and public accountability projects are seen as next steps in e-gov reform initiatives.

Slovakia's experiences with EU integration

The Slovak Republic became independent on the 1st January 1993 after a peaceful split from Czechoslovakia. The Association Agreement between Slovakia and the European Union was signed in the same year. In the early 1990's, a fast transition from central planning towards a market economy has taken place. Slovakia has submitted an official application for full EU membership in 1995. However, the small Central European country became excluded from the main group of candidates in the following years. The reason for this was the violation of democratic principles by the Mečiar government.

Slovakia managed to catch up with EU negotiations after parliamentary elections in 1998. The newly formed pro-European and reformist government headed by Prime Minister Dzurinda has negotiated membership of Slovakia in the OECD, NATO and the EU during the same time. Slovakia became a member of the OECD in 2000. The decision to join NATO was made in 2002, while the decision to join the EU was made in 2003 after a successful referendum. Accession to both organizations was finalized in 2004. In the period of 2002-2006, under the second Dzurinda cabinet, Slovakia has also undergone a series of economic and institutional reforms aimed at improving its overall competitiveness. The most successful and internationally recognized of these reforms was the introduction of a 19% flat tax in 2004, which helped spur economic growth and investment.

Figure 11:



Source: Eurostat

Today, the benefits of European integration and economic reforms in Slovakia are clearly visible and universally acknowledged. In the period of 2000-2010, Slovakia achieved an average annual growth rate of 4.6%, the highest growth rate in the entire European Union, followed by Estonia. In 2006 and 2007, the Slovak economy grew by record rates of 8.3% and 10.7%, mainly thanks to the inflow of foreign direct investment into the automotive and electronics industry sectors. Slovak GDP per capita grew from 53% of the EU average in 2002 to 76% of the EU average in 2014. Slovakia is currently the world's largest producer of

automobiles per capita. With roughly 1 million cars per year, this small country inhabited by just 5.4 million people produces as many automobiles as Italy, Sweden and Austria combined.

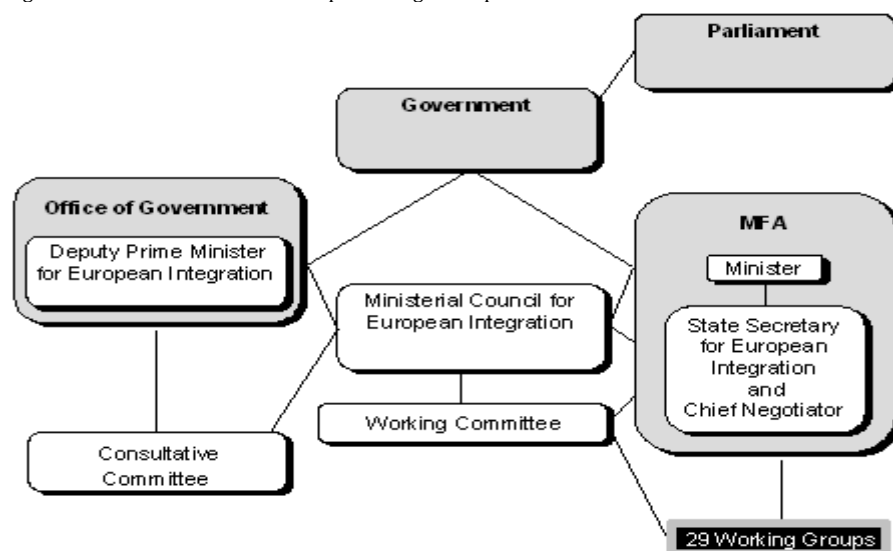
Institutions and negotiation structures in Slovakia's EU accession

The establishment of effective negotiation structures and institutions by the Dzurinda cabinet was crucial for successful completion of accession talks. At the parliamentary level, two committees were involved in forming a Joint Parliamentary Committee of the EU and Slovak Republic, namely the Foreign Policy Committee and the European Integration Committee. At the Office of Government, the position of Deputy Prime Minister for European Integration was formed with the Institute for Approximation of Legislation and the Section for European Integration working as two subordinate bodies. The Section for European Integration consisted of three departments: (i) Department for European Integration, (ii) Department of Foreign Aid, and (iii) Department for Capacity Building and Preparation of Inhabitants for EU Entry. At the Ministry of Foreign Affairs, the State Secretary for European Integration was put in charge as Chief Negotiator with the European Union.

The Ministerial Council for European Integration was formed to coordinate the efforts of the Ministry of Foreign Affairs and the Deputy Prime Minister for European Integration. The council consisted of ministers and top officials of both bodies as well as other ministers related to EU accession (e.g. minister of finance, minister of agriculture and others). Subordinate to the ministerial council was a working committee headed by the Chief Negotiator and consisting of 29 working groups composed from government ministries' specialists, with each working group specialized in one chapter of the accession talks. From these 29 groups, six working groups were established at the Ministry of Finance, another six at the Ministry of Economy.

Coordination of the European integration process in Slovakia

Figure 12: Coordination of the European integration process in Slovakia



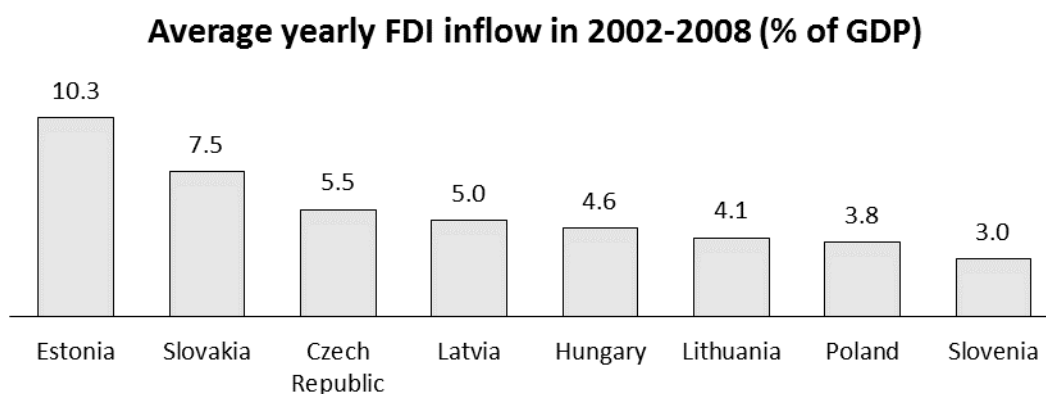
Source: Slovak Ministry of Foreign Affairs

Another important body was the Consultative Committee at the Ministerial Council. This body was composed from independent specialists and members of interest groups. The Deputy Prime Minister for European Integration headed it. The overall institutional arrangement was quite complex, but it enabled the government to put individual political responsibility for EU accession on two co-operating members of government, with the Deputy Prime Minister mainly responsible for the coordination of domestic approximation efforts and the Chief Negotiator mainly responsible for the handling of the talks.

Why do economic reform matter?

While successful accession to the European Union provided the essential fundamentals for Slovakia's economic success (i.e. access to the Single European Market), it was the economic reforms of the two Dzurinda cabinets in 1998-2006 that directly led to higher FDI inflow, high economic growth and reduction of unemployment. This can be proved by an international comparison between the eight former communist countries that entered the European Union on 1st May 2004. The largest long-term inflow of foreign direct investment went into countries that were most open for economic reform: Estonia and Slovakia.

Figure 13



Source: Eurostat

The reforms of the two successive Dzurinda cabinets can be divided into two groups:

Structural reforms (1998-2002):

1. Macroeconomic stabilization
2. Standardization of rules for the corporate sector, incl. implementation of the acquis
3. Restructuring and privatization of the banking sector (costs of 12% of GDP)
4. Restructuring and partial privatization of utilities (energy, water)

Public sector reform (2002-2006):

6. Reform of public finance management
7. Tax reform (introduction of 19% flat tax)

8. Pension reform (introduction of three-pillar system)
9. Social benefit reform
10. Labor market reform
11. Healthcare reform

Fiscal decentralization

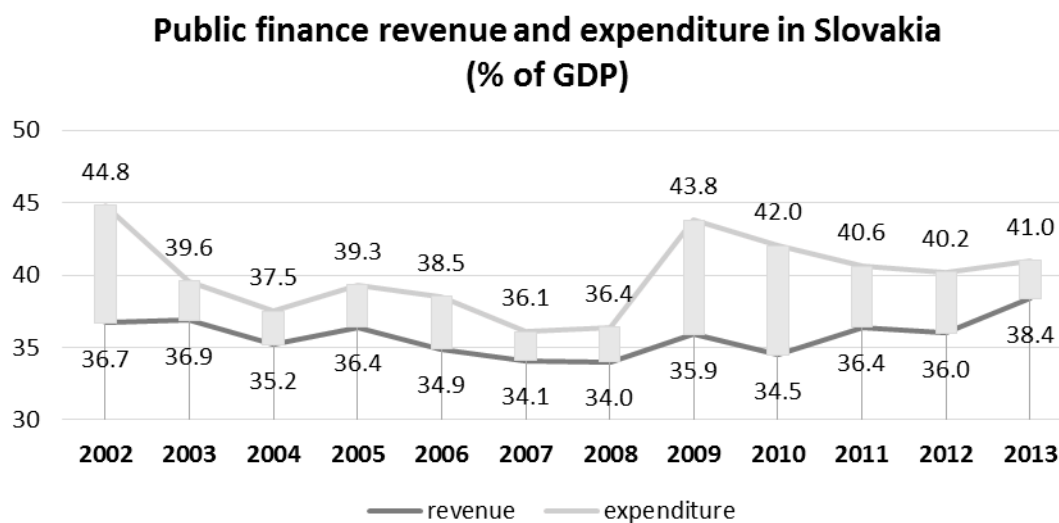
The implementation of a wide range of economic reforms in 2002-2006 led to Slovakia being proclaimed the world's leading reformer in the 2005 Doing Business report of the World Bank. Slovakia also improved its ranking in the Global Competitiveness Report 2006/2007 of the World Economic Forum, where it finished on rank number 37. In the years 2002-2008, unemployment in Slovakia was reduced from 19.3% to 9.6%, while real wages rose by 33%.

Public finance in Slovakia during EU accession

A key role of Slovakia's economic success in 2000-2010 can be attributed to reforms in public finance and taxation. Both Dzurinda cabinets pursued a policy of reducing public finance deficit and debt, reducing public expenditure, and simplifying the tax code. This was seen as a necessary step to stabilize the macroeconomic situation, improve the quality of the business environment, and strengthen Slovakia's competitiveness in attracting FDI vis-à-vis other EU member states.

In the year 2000, public gross debt in Slovakia peaked at 49.6% of GDP as a result of a necessary bailout of formerly state-owned banks. Long-term interest rates were at 13% and inflation stood at 8.4%. The average public finance deficit in 1999-2001 was 8.7% of GDP. To respond to this unsustainable situation, the Slovak government has decided to privatize large public enterprises, especially gas, electricity, water, and telecoms. The proceeds from the privatization were used to reduce the level of public debt. At the end of the privatization process in 2006, public gross debt was reduced to 30.7% of GDP. In 2008, it declined further to 28.2% of GDP.

Figure 14



Source: Eurostat

Another way to improve the sustainability of public finance was a reduction in public expenditures. The second Dzurinda cabinet reduced public expenditure during its 2002-2006 term from 44.8% to 38.5% of GDP, mainly by reducing social expenditure. Public revenues were reduced as well, from 36.7% to 34.9% of GDP. The public finance deficit declined to just 1.9% of GDP in 2007. The government also reformed public finance management by introducing transparent and credible macroeconomic forecasting mechanisms, by establishing an autonomous debt management agency, by replacing cash-based accounting in public sector with accrual accounting, and by fostering program budgeting. The result of these reforms was a significant improvement in the country's credit rating and a reduction of interest rates. According to Standard&Poor's, Slovakia's credit rating improved by four levels, from non-investment grade BB+ to investment-grade A- in 2002-2006. Slovakia's current credit rating with S&P stands at A with a positive outlook.

Tax reform in Slovakia

The flat tax was introduced in 2004. The Slovak government was of the opinion that Slovakia's complicated tax system needed to be simplified, and that all the different rates should be replaced by a single flat rate. The main rate of corporate income tax was reduced from 25% to 19%. The progressive personal income tax was replaced by a system where only a 19% tax rate applied. However, a universal personal allowance (the non-taxable part of the tax base) kept the system genuinely progressive. VAT rates were unified at 19%. Dividend taxes were also abolished. This was done with the aim of spurring private investment and attracting FDI by creating a system with very low taxation of capital income. Gift and inheritance taxes were abolished altogether. This constituted a significant shift from direct to indirect taxation as the main source of government income.

Table 1. Change in tax rates

Change in tax rates		
(in %)	2003	2004
Personal income tax	10; 20; 28; 35; 38	19
Corporate income tax	15; 18; 25	19
Withholding tax	1; 5; 10; 15; 20; 25	19
Value added tax	14; 20	19

Source: Slovak Ministry of Finance

The tax cuts were financed by a combination of raises in indirect taxes, elimination of tax loopholes, and cuts in public spending. High-income employees and receivers of capital income were the main beneficiaries of the tax reform, in terms of the effect on individual tax wedges. Lower income groups, on the other hand, benefited from the increase of the tax-free income. Middle-income groups were expected to lose purchasing power due to a rise in indirect taxes. This was, however, generally offset by acceleration in nominal wage growth that was faster than tax-induced inflation, so that real wage growth remained positive in 2004. One of the benefits of the Slovak tax reform was the creation of a business-friendly image of the country, especially in countries like

Germany and Austria, who are the largest foreign investors in Slovakia. The reform put Slovakia on the map in a time of intense competition for FDI.

Table 2: Tax revenue in Slovakia in proportion to GDP

	2003	2004	2005	2006	2007	2008
Direct taxes	6,7%	5,5%	5,6%	5,7%	5,9%	6,0%
Personal income tax	3,3%	2,6%	2,7%	2,5%	2,6%	2,7%
Corporate income tax	2,6%	2,4%	2,7%	2,9%	3,0%	3,0%
Withholding tax	0,8%	0,4%	0,3%	0,3%	0,3%	0,3%
Indirect taxes	11,2%	12,2%	12,6%	12,0%	11,1%	10,4%
Value added tax	6,6%	7,7%	8,0%	7,9%	6,7%	6,9%
Excise taxes	3,3%	33,0%	3,7%	3,2%	3,5%	2,7%
Wealth taxes	0,1%	0,2%	0,0%	0,0%	0,0%	0,0%
Local taxes	0,7%	0,7%	0,9%	0,8%	0,8%	0,7%
Other taxes	0,5%	0,3%	0,1%	0,1%	0,1%	0,1%
Total tax revenue	17,9%	17,7%	18,3%	17,7%	17,0%	16,4%

Source: Slovak Ministry of Finance.

Policy reforms and crisis management – Hungary's experience in EU economic integration

Introduction

Hungary together with other seven Central and Eastern European (CEE) countries as well as Cyprus and Malta joined the European Union (EU) in May 2004. The accession and in particular the economic integration, however, was a long procedure that provides several lessons to be learned for those countries that intend to join the EU in the future. In this chapter first we overview the context and the key challenges of the Hungarian economy before and since the accession, then we discuss the most important positive as well as negative experiences of the Hungarian integration process. Finally, we provide recommendations that could be useful when planning the EU integration process for hopeful future EU member states in the Western Balkan and the Caucasus.

Context of the Hungarian economic integration

Since the collapse of the state socialist regime in 1989, 'there has been a large degree of consensus among Hungarian political forces in support of Hungary's objective of EU membership' (see *Agenda Hungary 2000*, European Commission 1997:11). Indeed, in Hungary the process of shifting towards Western Europe (also called 'Europeanization' or 'Westernization') started already in the '80s when Hungary gradually redirected its economic and political institutions towards Western Europe. Thus for a longer period of time among the CEE member states Hungary was in many respect a frontrunner in the European integration process.

An important thesis concerning this early period that the integration of Hungary into the EU was supported not only by a domestic consensus but also promoted by a wide range of international actors (not only the European Commission /EC/). The role of the EC became outstanding in the bureaucratic procedure of the accession negotiations (legal harmonization, transposition of the *acquis* into national law) – a well-known procedure in any country that has entered into some meaningful stage of the European integration negotiations framework. But in fact, the economic integration of Hungary was a long process that started around 1990 and when the issue of 'satisfying the Copenhagen economic criteria' emerged during the effective process of integration negotiations, many of the requirements were already completed.

Beside EU institutions, three other international actors played a particularly significant role in shaping Hungarian economic policies from the early nineties: the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF) and the World Bank (WB). The role of the IMF was specific in the Hungarian case as in time of the transformation period (indeed, already much before it as well) the country suffered from high level of both external and public debt. Accordingly, the IMF was an influential actor, a major international watchdog in shaping the Hungarian fiscal policy and public debt management.

The World Bank and the EBRD had probably even more substantive impacts on the Hungarian economic policy agenda as they actively promoted the 'SLIP' policy measures: stabilization, liberalization, institution building and privatization. It is noteworthy that in the early nineties these international institutions tried to support the construction of capitalism in CEE countries based on direct application of textbook measures and/or analogies of developing countries (Murrel, 1995). Consequently, in adopted policy measures following major international policy advisers two key policy elements were typically neglected: on the one hand, the institutional and historical context of post-socialism (Csaba, 2003) and on the other hand the political procedural elements of policy-making (i.e. ensuring long-term support of reform policy measures by a meaningful involvement of citizens, business sector and civil society representatives as well as other stakeholders).

The importance of these contextual features was not necessarily evident in the early phase of the transition. As considerable efforts of governing Hungarian elites to adopt quickly the SLIP agenda brought about mainly positive results, from the mid-nineties till the EU accession the Hungarian economy produced rather high growth rates and it seemed that the country was successfully navigating towards integration with Western Europe not only in structural economic terms, but also in competitiveness terms as well as concerning the well-being prospects of Hungarian citizens. However, from the second half of the 2000's, especially in time of the global financial crisis and the subsequent European debt crisis when Hungary proved to be one of the most vulnerable economies of the EU, many of the previously adopted reform measures were reversed.

Moreover, at present there is a widespread disappointment about the well-being outcome of the EU membership of the country and the public support of market-oriented and liberal economic reforms are generally limited. In other words, the quick top-down implementation of comprehensive economic policy reforms without involving the stakeholders strikes back today. Previous policy successes were not consolidated and a growing part of the population has become dissatisfied with the 'market', more precisely, with the perceived outcome of liberalization and privatization practices as it was applied in the Hungarian context.

Key challenges

Nevertheless, concerning its content, the implementation of the SLIP agenda was important and proved to be undoubtedly useful in tackling the main challenges of the country. In several aspects, the Hungarian economy has become more competitive than some of those Mediterranean economies (e.g. Greece, Portugal) that joined the European Union in the eighties.

At the beginning of the transformation, the major challenges of the Hungarian economy were:

- Debt management as both public debt and external debt levels were one of the highest among CEE countries;

- Solving the twin-deficit problem as the general government deficit was coupled with serious imbalances in trade and current account balances;
- Structural transformation of the economy as most of the operating companies were not competitive in international markets under liberalized conditions;
- And last but not least, managing serious the labor market problems and the massive unemployment that accompanied structural changes.
- Some of these challenges were tackled successfully, while in some areas the results are rather controversial or negative ones.

Lessons to be learned

Debt management and fiscal stabilization proved to be particularly painful issues for Hungarian economic policy-makers. Indeed, fiscal austerity packages had to happen several times: not only in the early nineties and in the mid-nineties, but also after the EU-accession as in the period of the global financial crisis and the subsequent European debt crisis Hungary was one of financially most vulnerable EU member states. Though public and external debt levels of Hungary are not low even today, they have been at least stabilized and government debt to GDP ratio at present is slightly below the EU average (though together with Slovenia and Croatia it is still the highest among CEE countries).

One of the most successful areas of the Hungarian economic integration has been the achievement of external trade and current account surplus – thanks to high level of foreign direct investment (FDI) inflow and the related restructuring of the manufacturing sector. As the country is resource-poor (lacking natural resources), without a strong positive trade balance of other economic sectors producing traded goods, Hungarian external indicators tended to be alarmingly imbalanced. Accordingly, the creation of an internationally competitive manufacturing sector was a key issue already from the early nineties. Moreover, later the competitiveness of the manufacturing sector (especially two sub-sectors: automotive industries and electronic and electrical industries) played a crucial role in the fact that the financially vulnerable Hungarian economy has resisted better than the Mediterranean economies in the period of the European debt crisis.

The policy focus from the nineties on ensuring property rights and rule of law combined with privatization and green-field investment incentives meaningfully supported the rapid restructuring of the Hungarian manufacturing sector. Several waves of business environment reforms – following World Bank Doing Business reform agenda and e-government reforms in particular – had positive effects on boosting investment of multinational companies in the manufacturing sector. It is noteworthy that even in recent years when governing political elites imposed sectoral surtaxes on financial, energy and retail sectors, they made specific efforts to ensure favourable business environment for manufacturing companies. In order to provide incentives for re-investment of the multinational companies operating in the country, the Hungarian Investment and Trade Agency (HITA) applied specific policy tools, first and foremost through the Strategic Partnership Agreements (SPAs).

Though FDI inflow and manufacturing restructuring fuelled competitiveness of the Hungarian economy and fundamentally contributed to turn the previously alarming current account deficits into high surplus, they could not solve another major policy challenge, namely the low level of employment especially in the lower educated segments of the population.

Because of obvious weakness in education and training policies, the dual character of the Hungarian economy and the segmented character of the labour market has even been reinforced: while a competitive manufacturing sector and some related service branches mainly employ high-skilled people in few relatively developed areas of Hungary, larger territories of the country (the North-Eastern regions in particular) are characterized by high inactivity and/or unemployment among low-educated people. In these regions public work is one of the main source of employment but there are no experiences about a shift towards employment at private companies (or self-employment through entrepreneurship). In other words, the labor market has a basically non-inclusive character and marked skill mismatches between labor supply and demand has remained. The Hungarian education and training policies reproduce educational inequalities and youth coming from poorer families face with blocked opportunities – this is particularly valid in the case of Roma youth who also experience various forms of hidden discrimination practices.

Thus the history of Hungarian economic integration provides both positive and negative examples and several lessons to be learned for hopeful future EU member countries. In addition to the mentioned policy issues it is important that economic policy-makers understand that the economic integration process is also a political project. This practically means that beside learning and adopting economic policy 'best practices' from the experience of other countries, policy-makers have to construct a strong domestic alliance network among citizens, local business and civil society stakeholders to ensure the survival of the reform agenda in critical periods. Forcefully implemented reforms – under 'no time' and/or 'no alternatives' perceptions, sometimes pressured by major international actors as well – sooner or later will likely have negative consequences as procedurally neglected domestic actors tend to block reform policy implementations and they may even reverse reform policies when power configurations change.

Another instructive lesson from Hungarian experiences is that maintaining fiscal stability is a precondition of any meaningful policy reform as unstable fiscal conditions may both financially and politically undermine otherwise consistent reform programmes. The failure of the Hungarian pension reform after its early results (successful introduction of the 'three pillars' pension system) and the reversal of regulating informal payment in healthcare clearly illustrate the importance of the mentioned theses of fiscal stability and democratic involvement of stakeholders in policy reform procedures.

Finally, policy reformers should keep in mind that though the most visible spheres of the European integration process are the legal harmonization (through the transposition of the *acquis*) and that political elites tend to focus

mainly on absorption capacity related to EU pre-accession funds (and later sources from EU cohesion and structural funds) a successful integration process is equally or even more dependent upon traditional long-term economic growth factors. Accordingly, ensuring a professional public administration that is able to manage the necessary framework of property rights, rule of law and market supervision regulations as well as an education and adult training policy that tackles legacies of educational inequalities through providing mobility channels and upgrading skills also for poorer households play a crucial role in the success of economic integration on the long run.

Recommendations

1. Based on the Hungarian experiences of the economic integration process, we summarize our findings in six recommendations.
2. European integration should be considered as an opportunity but not a guarantee; in addition to the focused 'Europeanized' policy areas (legal harmonisation and improving absorption capacity of the relevant public administration units) focus on long-run economic growth factors (human capital, education and training and technological modernization) should not be neglected either.
3. Economic policy-makers in Albania, Kosovo and other countries aspiring future European Union membership should ensure the long-term support of implemented policy reforms through the meaningful involvement of business sector representatives, civil society organisations and other stakeholders into the policy-making procedure when designing the reform steps towards European economic integration. This practically means that besides following policy best practices, reformist elites should also use smart and convincing political communication tools and sensitive to feedbacks coming from stakeholders in order to be successful in policy reform procedures in the long run.
4. Maintenance of fiscal stability as well as properly educated and trained public administration staff should be considered as prerequisites of any kind of economic policy reform.
5. Transparent and as simple as possible regulations should be used that can also be supported by e-government policies.
6. Major efforts should be done in order to boost external competitiveness of manufacturing sectors through improved business environment, privatisation and FDI inflow incentives. Successful restructuring of the manufacturing sector plays a crucial role not only in technological modernization but also in ensuring external financing and addressing economic and social tensions in crisis periods.
7. Policy-makers have to ensure the inclusive character of economic growth and an upgrading of human capital of the population. This means a policy focus on improvement of education and adult training also in lower-educated segments of the population that suffer from blocked opportunities and skill mismatches on the labour market.

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Czech Republic's EU Integration Process – Overall Coordination and Communication Mechanism Between The Government and Business Sector

Integration process of the Czech Republic

Integration process of the Czech Republic to the EU is tightly connected to the political, economic and social transition of the country. One of the main slogans of the Velvet revolution that started the process of democratic changes in Czechoslovakia in November 1989 was "Return to Europe". Czechs always considered themselves, as part of the Western hemisphere and four decades during which they belonged under the influence of Soviet Union was perceived as injustice. Quick integration to the European Union and NATO was a top priority for every government that ruled the country since start of the transition. The Czech Republic negotiated first association treaty with the EU already in 1991 as a part of Czechoslovakia. This association treaty however never entered into force (although implementation of the economic part of the treaty had started already in March 1992 on the basis of an interim agreement). Due to the split of Czechoslovakia, both newly born states, the Czech Republic and Slovakia had to negotiate a new treaty. The Czech Republic did so in 1993, and the treaty entered into force in February 1995 after it was ratified in all EU member states. Main aims of the association treaty included creation of a free trade zone between the EU and the Czech Republic by 2002, through asymmetric¹⁹ lifting of tariff and non-tariff trade barriers and preparation of the country for the EU membership.

The Czech Republic opened accession negotiations in 1998 when political transition of the country was completed and there was a strong track record of functioning democratic institutions. At the start of negotiations, the country already had a functioning market economy, although one main obstacle in the area of economic transition remained. Most of the banks were in very bad conditions (due to large proportion of non-performing loans in banks' portfolios) and they were state owned. Restructuralisation of the banking sector (non-performing loans were transferred to state consolidation agency) that took place at the end of the nineties and subsequent privatisation of banks into the hands of strong international banking houses paved way for completion of the economic transition of the country and strong economic growth during the first decade of the 21st century.

The Czech Republic negotiated conditions of the accession to the EU between 1998 and 2002. This was also the period when most of the EU-related reforms took place because the country had to incorporate most of the EU legislation (i.e. *Acquis Communautaire*) into its own legislation. Negotiations were different from those that are currently conducted with Western Balkans countries (Montenegro, Serbia). They were much more political and less technical and did not contain so many conditions; such as benchmarks and the track record in implementation of the EU legislation was not followed so strictly as today. Principle of *regatta* (when negotiations took part with 12 countries

¹⁹ The EU was lifting its trade barriers on a faster pace than the Czech Republic.

simultaneously) enabled comparison with other negotiating countries and created additional pressure on the government and parliament to speed-up the reform process and implementation of the EU legislation.

As the membership in the EU and its conditions affected business more than the other sectors, government developed both consultation mechanism and communication strategy towards businesses. Following chapter will focus not only on the cooperation during the accession treaty negotiations, but it will also point out recent positive examples of cooperation.

Cooperation mechanisms between the government and businesses

Accession negotiations

There are several ways how the Czech government co-operates with business on EU related issues. However the process lacks systematic features and usually is very informal, incoherent and with exceptions done on ad hoc basis. State institutions prefer to deal with representatives of business associations (such as Chamber of Commerce, Agrarian Chamber, Confederation of Industry of the Czech Republic) rather than with entrepreneurs directly. The only formal institutionalized way of cooperation during the accession negotiations was the so-called Council of Economic and Social Agreement (Tripartite body), composed of government representatives and representatives of employers and trade unions. The Council was created already in 1990 as a voluntary body of social partners that serves as a coordination body between government and social partners striving to achieve an agreement in essential issues of economic and social development. Tripartite was included also in the negotiations of accession of the Czech Republic into the EU, by discussing draft positions of the Czech Republic for accession negotiations. In 1998, Working Team for EU Integration was created within the Tripartite. This team served as a main official entry point for the businesses (through employers associations) how to influence the accession negotiations on the government level. After the accession to the EU in 2004 the team was renamed to Working Team for the European Union and according to the representative of Confederation of Industry of the Czech Republic (Svaz průmyslu a dopravy ČR) its importance as well as the frequency of meetings diminished. It is also important to mention that influence of Tripartite on government is generally rather limited (as it doesn't have a veto right on governmental proposals) and dependent on government's attitude toward social partners (socialist governments tend to cooperate with Tripartite while right wing governments tend to ignore it).

The main coordinating body of the accession negotiations was the Ministry of Foreign Affairs. Deputy minister for EU integration was also Chief negotiator of the accession treaty. The Department for EU Policies within the MFA was responsible for finalisation of the negotiating positions. For Chamber of Commerce of the Czech Republic this department served as a main entry point for influencing the Czech position in a certain area.²⁰ However negotiating positions were drafted within the line ministries. Relevant line ministries created

²⁰ Largest and most representative business association in the Czech Republic representing small, medium-sized and large companies, self-employed entrepreneurs, associations, unions and craftsmen organizations comprising of over 14.000 members.

their departments for EU integration (directors of these departments were together with deputy ministers members of the Working Team for EU Integration of the Tripartite). These departments consulted with businesses on ad-hoc basis draft positions of the Czech Republic for EU accession negotiations. Usually it was representatives of business associations that were invited, but exceptionally also representatives of individual companies that were mostly affected by the EU accession could participate.

Negotiations and implementation of European legislation

As far as the implementation of commitments from the EU accession negotiations and implementation of the EU legislation concerns, the Czech Republic applies standard legislative procedure. All the legislative drafts have to contain a so-called "compatibility clause" that shall state whether, to what extent and with which specific provisions, a draft regulation is compatible with EU regulations. The entry point for businesses for the implementation of the EU legislation is a consulting procedure organized by responsible ministries.

In case of draft legislation, the so-called Department Co-ordination Group (DCG) that is responsible for preparation of the Czech position for the EU negotiations discusses this within each line ministry. These groups consist of representatives of the ministry and of other central administration bodies affected by the legislation. Other stakeholders can be invited to the DCG, including (but not exclusively) the representatives of businesses that have a relation to the subject discussed within each DCG. Although this is in discretion of the head of each group (representative of the ministry), whether or not he or she will invite the business representatives, according to the informal agreement reached in the Tripartite Working Team for the European Union, representatives of social partners (including businesses) have the right to attend meetings of all the DCGs. This option is thanks to the limited capacities of businesses used very rarely, mainly when piece of sensitive legislation is discussed. Some of the ministries also created special working groups discussing important EU related issues (EU draft legislation, EU funds distribution, Czech positions vis-à-vis different trade measures decided by the EU within Common Agricultural or Common Commercial Policy), where representatives of sectoral business associations are invited. According to the previous research carried out by EUROPEUM, for example Ministry of Agriculture consults on a regular basis implementation of EU legislation with businesses. In case a new implementation measure is being prepared, Ministry automatically notifies relevant business association (such as the Czech Moravian Poultry Producers) and they receive an invitation to provide their input. Especially in case of very specific and sensitive legislation (where even the capacity of ministries is limited) these inputs may serve as a basis for preparation of Czech position or implementing measure²¹.

National Convention on the European Union

The newest platform that offers space for discussion between the government and businesses on EU related issues is the National Convention on the EU. This mechanism was created in order to debate and define national interests of the

²¹ Several years ago investigative journalists revealed that Czech position in very sensitive energy related issue for completely prepared in a Czech Energy Company (biggest Czech energy producer) and as such adopted by the Ministry of Industry and Trade as the official Czech position.

country in EU affairs. It gathers key stakeholders such as representatives of state administration, businesses, trade unions, civil society, academia and politicians. These actors debate in specific working groups (for example: energy security, cohesion policy, science and research, employment) national interests of the country and draft recommendations for the government how to act in the EU affairs. The convention is managed by the Office of Government of the Czech Republic that is at the same time main co-ordination body of the EU policies in the country. This provides a unique opportunity for the businesses and civil society to influence government and to advocate their interests. Once a year a plenary session with the presence of country leaders is organized in order to debate the general aspects of the Czech EU policy.

Representatives of different businesses are also regularly (at least four times a year) consulted by the Ministry of Industry and Trade through the so-called Business Panel – a forum aimed at discussion of different topics related to government – business relations (but the topics are not exclusively EU related).

Government information activities towards business related to EU issues

Communication strategy of the country on EU integration was adopted in 1997 for the first time – already before the start of EU accession negotiations. The institution responsible for the strategy was the Ministry of Foreign Affairs that created a special department responsible for its co-ordination. In 2001 also Inter-ministerial Co-ordination Committee for Implementation of the Communication Strategy was established. Main aim of the strategy was to provide public with the information on essential aspects of the EU integration.

Businesses represented one of the main target groups of the strategy. Government in co-operation with business association prepared and distributed different publications, leaflets, brochures and guides informing about different aspects of EU integration and their impact on businesses. Government created official webpage (www.euroskop.cz) gathering information on the EU integration and a special toll-free telephone information line was established to answer questions of the broad public (including representatives of businesses) related to EU issues.

In 1999, regional European Information Centres focused especially on business community were established together with local partners. Euro Info Centre always operated within a host organization, which were institutions supporting entrepreneurship – such as chambers of commerce, regional development agencies, financial institutions, etc. Regional information centres focused on providing information and consultancy in areas related to EU integration such as: internal market, trade agreements, procurement, research, development and technology transfer legislation - technical standards, taxes, customs, etc.

Already in 1998 Chamber of Commerce of the Czech Republic created the Centre for European Integration that operated until 2008. Its main task was to provide businesses with information related to EU integration and to monitor EU related legislation. The Centre also organized training and educational activities. For

example between 1998 and 2004 hundreds of entrepreneurs graduated in a certified course "Manager at the EU internal market". The Centre also organized tens of seminars in regions and produced specialized brochures and leaflets covering different important changes in the legislation caused by the accession to the EU. In 2002, Czech Business Representation to the EU (CEBRE) in Brussels was founded by the most important cross-sector Czech entrepreneurial and employers' organizations - Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic, Confederation of Industry of the Czech Republic and Czech Chamber of Commerce. The Ministry of Industry and Trade of the Czech Republic together with CzechTrade - its trade promotion agency, funded its creation and operation. CEBRE has been providing entrepreneurs and their organizations with the information and services facilitating their operation within the European market, providing up-to-date relevant information, customized training for managers and analyses of EU affairs but also represented Czech businesses interest vis-à-vis the EU institutions.

It is also important to mention creation of the www.businessinfo.cz webpage in 2001 aimed at providing business with all the information necessary for running their business in one place. This webpage is also the main communication portal of the Czech government towards business and includes all the available information on EU related issues relevant for entrepreneurs.

Conclusions

Cooperation between government and businesses on EU related issues was very intensive during the negotiations process of the accession treaty and also during the first years after the accession to the EU. Since then it seems that the cooperation weakened in many areas. This can be explained by the fact that after more than 10 years of EU membership, businesses got used to functioning within the EU internal market and they also managed to establish other ways of influencing the EU decision making through their associations or representatives present directly in Brussels (such as above mentioned CEBRE, or European associations). Another reason was general rather negative attitudes of past Czech government towards the EU integration. Government that was established after elections in 2013 changed general approach of the Czech Republic towards the EU integration and promised to listen more to the opinions of other stakeholders, such as civil society and businesses. Hence, it created above-mentioned National Convention on the EU that provides a unique opportunity for the businesses to influence Czech EU policies.

The need for provision of new EU related information diminished, as the EU internal market and its regulations became familiar to businesses. Business associations and biggest companies are also represented either directly in Brussels or through supra-national business associations; hence they have direct access to information from the European Union.

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