

Croatian accession to the European Union: institutional challenges

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Chapter 1

CROATIAN ACCESSION TO THE EUROPEAN UNION: INSTITUTIONAL CHALLENGES

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What Brussels has said, essentially, is that if we work hard, we will get into the EU. This means we will definitely not get in.

Ognjen Pribičević, director of Belgrade's Center for South Eastern European Studies. Quoted in the "Financial Times" of 7 July 2003.

ABSTRACT

The objective of this chapter is to sum up the results of the monitoring of Croatia's accession to the European Union (EU). This is a project in which a number of authors have taken part, each of them wanting in his or her own area to draw the attention of the politicians, experts, the media and the public to the requirements of the EU, and the weaknesses and strengths of Croatia, and to offer their recommendations for a better and faster accession to the EU, as well as a better and faster development of both the economy and society. After an introduction in which stress is placed on the importance of institutions for the development of the economy and society, the second part starts off optimistically with the opinions of others concerning us, goes on pessimistically with EU views about itself and its own development, and in part three the results are summed up in terms of topics – macroeconomics,

the budget deficit, poverty, inequality and social exclusion, the rule of law and the judiciary, governance and the public administration, consumer and environmental protection, and legal aspects of the protection of ethnic minorities, science and higher education, and social values. In the fourth part, there is consideration of what has changed in Croatia during the year since the printing of the previous book; in the fifth, the degree of Croatian preparedness to join the EU is discussed; in the sixth, recommendations are offered for as good an adjustment as possible; and in the seventh, conclusions. Very briefly, it can be concluded that Croatia is working hard at implementing the Stabilisation and Association Agreement (SAA) and at adjusting to EU requirements, but that a better implementation of regulations will be required, together with a more rapid establishment of new, and a better functioning of existing, institutions. Crucial in this respect are problems in the public administration, in conjunction with the establishment and strengthening of the institutions essential for market liberalisation. This project too shows, once again, that irrespective of developments within the EU itself and its attitude with respect to Croatia, the country needs to work on its own institutions, launch the necessary reforms as rapidly and thoroughly as possible, and achieve better results in knowledge and education; in addition, the active participation of all those involved in the process is also a matter of vital importance.

Key words:

European Union, Croatia, institutional adjustment

INTRODUCTION

After Croatia submitted its application for membership in February 2003, there were many speculations in the public at home and in Europe at large as to whether Croatia would be able to get into the EU in 2007, no matter whether Bulgaria and Romania will be able to enter, or whether it will have to depend on the development of events in those two countries. The basic hypothesis of this paper is that Croatia will be able to enter the EU at the moment it is ready for this, that is, when it meets all the necessary conditions, irrespective of the states of affairs in Bulgaria and Romania. As distinct from the amusing scepticism of the author quoted in the epigraph, the second hypothesis is that Croatia will indeed make the effort, and that it will meet the conditions for EU

entry. Whether this will be in 2007 or perhaps in 2010 is not the subject of this chapter. Of course, we should count on the situation in the EU possibly being at that moment, irrespective of Croatian efforts and success in meeting the conditions, such as to militate against the entry of any country at all, including Croatia, then.

And so this book, like that of last year, speaks of the degree of Croatia's preparedness to join the EU in terms of various selected topics. While last year we focused on economic and legal, this year we have attached particular importance to institutional, topics.

For it is increasingly manifest that it is the institutions that hold the key to the development of both the economy and the society. In the literature, too, these topics hold sway. The IMF (2003), for example, concentrated on growth and institutions. Briefly, the conclusion of the IMF is that the growth of the quality of institutions leads to a rise in the level and rate of growth of per capita GDP and reduces oscillations in growth. Developing countries can perform much better economically if they improve the quality of their institutions while at the same time maintaining a healthy macroeconomic policy.

This includes the necessity for institutions to protect the rights of ownership, to support the rule of law, to secure proper market protection, back up macroeconomic stability, encourage social cohesion and stability. The form of the institutions is not set hard and fast, rather must be adjusted to the local conditions in each country. Particularly important is to increase competitiveness, including the openness of the market, which will lead to reduction of the influence of interest groups, a better flow of information and greater transparency. The consequence will be a more effective handling of economic policy and a reduction of corruption. It is a good idea to make use of additional external opportunities such as, for example, joining the EU, which can contribute to the improvement of institutions. It is most important, however, that there should be the while a firm will for institutional reform, that there should be decisiveness and dedication within the actual country, and that they should not be imposed from outside.

Hence, in this book we have decided to discuss macroeconomics, fiscal aspects, welfare, the rule of law and the Croatian judicial system, governance, public administration, consumer protection, environmental protection, the legal aspect of the protection of ethnic minorities, science and higher education, and social values.

In the first part of the text that follows we shall start off optimistically and ask what others think of us. In the second part pessimism

will descend as we wonder what the EU thinks of itself. In the third part of the text we shall ask what we think about ourselves and the EU, that is, briefly sum up the basic results of this project per chapter. In part four we shall indicate what has changed in the year that has elapsed since the printing of the previous work, and in the fifth we shall show the current degree of readiness in Croatia for joining the EU. In the sixth part we shall sum up the basic recommendations, and in the seventh provide the shortest possible conclusions.

LET'S START OPTIMISTICALLY: WHAT DO OTHERS THINK ABOUT US?

IMF experts in a survey of the state of affairs in the transition countries show that an external anchor, such as joining the EU, does speed up institutional reforms. The total transition indicator of the EBRD – which quantifies advance in areas such as market liberalisation and competitiveness, privatisation and corporate restructuring, financial sector reform – shows that there are much more powerful structural reforms taking place in accession countries than in the other transition countries. “Indeed, only one other transition economy (Croatia) currently outperforms any of the accession candidates” (IMF 2003:102).

Alesina and Spolare (2003) say that most of the ten richest countries in the world in terms of per capita GDP have populations below five million, and that for small countries success crucially depends on the openness of their markets and liberal trade. Hence in their view economic integration and political disintegration should go hand in hand, supporting each other, and the EU could by combining large economies of scale and political independence be ideal for small countries. From this we could conclude that for Croatia, with 4.3 million inhabitants, size itself should not be any obstacle at all, and EU accession could certainly help us in economic integration.

Bilek (2003) wonders whether Croatia can catch up with Romania and Bulgaria. According to certain economic indicators – per capita GDP, GDP growth, inflation, wages, foreign direct investment – Croatia is in any case much better off. Romania and Bulgaria, on the other hand, have better indicators regarding budgetary deficit, public debt and current balance deficit. Still, with the positive development of the economy and learning from the experience of the trailblazers, Croatia could conclude all the chapters of the *acquis* faster than those who ha-

ve gone on in front, and it will not need the three to four years that it took them. Croatia can enter the EU together with Bulgaria and Romania, perhaps not in 2007, but very likely between 2008 and 2010.

Even in that ever-sceptical journal *The Economist* one can read: "... the club of 25, and soon to be 27 or 28 members..." which might indicate that calculations are already being made about the entry of Croatia together with Romania and Bulgaria.ⁱ

Thus there are some reasons for optimism.

CONTINUING PESSIMISTICALLY: WHAT DOES THE EUROPEAN UNION THINK ABOUT ITSELF?

Some of the readers of last year's book complained about our scepticism regarding the future of the EU and the entry of Croatia. This year, many events – the failure of the EU constitution to be voted in, the fall in the popularity of the EU and the euro among EU citizens to the lowest level to date, dissensions about the failure to respect the rules about the amount of the budgetary deficit, the unequal treatment of old and new or big and small members – can only make observers from countries that hope to join the EU even more sceptical.

Although dissensions about the manner of voting are commonly blamed for the recent debacle in the negotiations concerning the EU constitution, it is increasingly apparent that there are more profound reasons. In fear that it will be difficult to coordinate a community of 25 members, there is increasing debate about the opportunities for the creation of a smaller community of countries or a pioneers' club within the EU, that is, a strengthening of the original founders of the European Commission (France, Germany, Italy and the Benelux countries).ⁱⁱ Yet there is little likelihood that this will be realised formally, for some of the countries are not interested, and there are legal obstacles within the EU to any such arrangements.ⁱⁱⁱ Still, it is fairly logical to expect that within such a large community an inner circle of countries, naturally the older members, the richer and the larger will, formally or informally, make the key decisions, while the more recent members, who are poorer and smaller, will ineluctably have a marginal role.

For a few years France and Germany have regularly run budgetary deficits in excess of 3%, but a majority of finance ministers of the EU at a meeting held in November 2003 deferred the undertaking of

any measures against these countries. As against this, in 2001, when Portugal overstepped its budgetary deficit of 3%, in response to severe pressure from the EU, it had to slash public spending and in 2002 keep the budgetary deficit within the given framework of 3%, the Portuguese economy as a result falling into a deep depression and hence taxation dropping and the budgetary deficit once again rising to 5% in 2003.

In recent times there has been a marked fall in the popularity of the EU and of its currency unit the euro. According to opinion research carried out by the European Commission in autumn 2003, only 48% of EU citizens were of the opinion that it had been a good thing for their country to join the EU. Only 52% of those who used it thought that it had been on the whole worthwhile bringing in the euro. Just a year before that these percentages had been much higher.^{iv}

In short, there are reasons in plenty for pessimism concerning the future of the EU. But in spite of scepticism concerning the outlook for the Union and Croatian entry into it, there is every reason to endeavour to meet the majority of the conditions that the EU requires, because the benefits from making the adjustments can be enormous for us. Imagine that we are living in a country with a proper judiciary, with universities whose degrees are recognised throughout Europe, with an efficacious public administration – “Europe” would then be here among us with or without the EU.

BUT WHAT DO WE THINK OF OURSELVES AND OF THE EUROPEAN UNION?

In this part of the paper we shall briefly abridge the views of the authors of this book on individual topics: macroeconomics, the budgetary deficit, welfare policy, the rule of law and the judiciary, governance and the public administration, protection of the consumer, of the environment and ethnic minorities, science and higher education, and social values.

The challenges of macroeconomic stability

Dubravko Mihaljek points out that Croatia, albeit with oscillations, has since 1995 recorded an average rate of growth of over 4%, and since 2000 an upward trend in economic growth. Despite widespread beliefs, the role of private consumption in this growth has not increased dramatically, and the share of consumption in GDP has not yet reached

the levels that are considered normal in this phase of development. Even more important, investment is growing, and its structure is improving, while government spending is no longer the main generator of growth. Although a more powerful contribution by exports to growth would naturally be very welcome, instead of the selective promotion of exports, the author suggests the establishment of a higher quality legal and judicial system, transparent regulation of market competition, provision of infrastructure, education and social services in cases when the market alone is incapable of providing for them properly. The greatest challenge to macroeconomic policy could be contained in symptoms of too great a success, that is, of large inflows of capital, and not lack of success, particularly in conditions of inadequately firm fiscal discipline. Hence it will be necessary to set interest rates at an appropriate level, because rates that are too high could lead to exaggerated inflows of short-term capital, and rates that are too low to over investment and inflation.

Can we enter the European Union with a budgetary deficit?

Judita Cuculić, Michael Faulend and Vedran Šošić have calculated that the net costs of Croatian membership in the EU in 2007 or the net loss to the budget could come to about 1% of the expected GDP. If we add these effects of membership to the Government's fiscal projection, according to which the budgetary deficit of general consolidated government in 2007 should come to 2%, we can predict a deficit of about 3%. It will be difficult with a deficit of this order to conduct a fiscal policy in line with the Stability and Growth Pact. The reasons for such predictions are changes in budgetary revenue and expenditure brought about by joining. Where revenue is concerned, a country gains transfers from the EU budget, revenue from excise rises, but customs duty revenue is lost. As for expenditure, there are adjustment outgoings, such as in transport and environmental protection, as well as a change in the structure of expenditure because of the joint financing of transfers from the Structural Funds.

Poverty, inequality and social exclusion

There are no express EU requirements to do with the adjustment of social policy. Predrag Bejaković therefore opts to compare the situa-

tion in Croatia with that in the members and the candidates. Absolute poverty is low in Croatia, while the characteristics of the poor are very similar to those in other countries. Above all, the poor are the unemployed and the inactive. Economic growth in Croatia, although at a reasonable level, does not create adequate opportunities for the poor, while they are anyway in a disadvantaged position with respect to taking advantage of those that do exist. In parallel with the reduction of the role of the state in the economy, its active intervention in critical areas where the market fails to provide an effective distribution is essential. Croatia spends considerable resources on social programmes, but it does not collect information and does not adequately monitor who is receiving aid or what the benefit of such aid is. There is no need to expect the impossible from joining the EU, rather one should look to the coordination, control and direction of assistance to areas where it is most necessary.

The rule of law and the Croatian judicial system

Alan Uzelac states that the judiciary is faced with many problems, such as the shortage of experience and knowledge, poor decision making, the impossibility of obtaining unbiased and fair trials for some categories of parties and cases. One of the greatest problems lies in the long court cases, or, put in another way, in the necessity to ensure a trial within a reasonable period. The Ministry of Justice is optimistic, but the author is sceptical concerning the success of reforms because of the lack of any clear vision or conception of changes. He stresses the absence of any serious or sincere will for thoroughgoing reforms and the lack of readiness of justice and the ruling elites for the shock that an effective and high quality justice system would have to lead to. The essential adjustments must be institutional, and not just in the letter of the law. Unfortunately, the process is lengthy and difficult to implement, but it is nevertheless essential not only for joining the EU but also for the construction of a liberal democracy and a successful market economy.

Governance and the public administration

Marijana Bađun claims that Croatia lags behind the EU and the CE candidates in terms of all governance indicators used – rule of law, democracy, corruption, political stability and the effectiveness of go-

vernment – as well as in terms of the quality of the public administration. There is nevertheless a positive side in that all these indicators are slowly improving. The problems in the civil service derive from inappropriate education for contemporary needs, inadequate monitoring of the performance of officials, a high degree of politicisation, an absence of an appropriate organisation culture and inherent values, an inheritance of clientelism and paternalism, and a lack of orientation to the citizen. Unfortunately, there is no clear short-term plan of implementation or strong political will for reform. Nevertheless, the Government has provided for a halt to the expansion of the civil service, for horizontal decentralisation, increased rationality and economy, and training for the EU. This is particularly important because the civil service will have to carry out many legislative reforms in the country, and should also provide high-quality representatives in the EU who will be able to face the competition from representatives of other countries.

The SAA places particular responsibilities upon the Croatian civil service in the areas of protection of competition and the rules for the giving of government or state aid. Ana-Maria Boromisa points out the weaknesses of institutions that are the consequence of ill-defined priorities and timetables for the implementation of measures. First of all, there is no defined strategy for the development of the public administration; there are frequent adjustments, legal uncertainty reigns, there is no trust in institutions, and stronger control is necessary. Effectiveness is not monitored, financial control is weak, and the budget is not activity-based. The European Commission complains of the weakness of the institutions charged with effective collaboration with the ICTY and the implementation of other obligations from the peace agreements. Reform of the public administration is essential in order to increase effectiveness, to meet deadlines better and to enhance trust in government. Here the experience of the accession countries needs using, as well as the technical and financial assistance that is available through, for example, CARDS.

Consumer protection

The SAA imposes on Croatia the obligation to adjust to both the legal system and the real protection of consumers in force in the European Community. Aida Liha shows that in this area Croatia is unfortunately a fair way behind not only the member countries but also the accession countries. The Consumer Protection Law was adopted only in

2003, and it constituted nothing more than a start to the long-term creation of a society on a consumer scale. Croatia will have to harmonise and adjust its laws, as well as to promote an active policy for consumer protection, for greater provision of information, the development of independent consumer associations, effective legal protection of consumers for the sake of improvement of the quality of products and the maintenance of appropriate safety standards. Protection is essential also for the proper functioning of a market economy, and the development of the administrative infrastructure is a precondition for control of the market and the implementation of laws. Croatian institutions are the while confronted with difficulties in the legislative and institutional spheres, as well as those of information and education.

Protection of the environment

Within the framework of the *acquis* that all the candidate states have to take on there is a special chapter on the environment, and in the SAA there are particular concrete obligations designed specifically for Croatia. Rapprochement with the EU in this area is exceptionally complex, demanding and expensive, because of the marked differences in the standards, in the legislative and administrative system, and in the actual state of affairs in the environment to date. Alida Ban analyses environmental protection with an emphasis on the institutional framework, on the information system, the educational system and public participation. For the moment, within the given periods, Croatia is successfully putting into effect the obligations deriving from the SAA, is carrying out international projects, making studies and analyses of comparative regulations, a national strategy and a national plan have been adopted, and a project has been submitted for the CARDS programme. The legislative background is fairly good, particularly in some segments, but the problem is in the poor coordination of the numerous structures of the state administration and the meagre involvement of citizens in the environmental protection procedure.

Legal aspect of the protection of minorities

Snježana Vasiljević considers the legal aspect of protection of minorities in Croatia, above all their position before and after the Con-

stitutional Law on the Rights of Ethnic Minorities came into force in 2002. Looked at from the point of view of the law, Croatia has made a major breakthrough in the protection of minority rights, both for Croatia and for the countries of the whole region. It is the duty of states, irrespective of the tragic experiences of the past, or perhaps rather because of these experiences, to ensure the coexistence of all individuals, irrespective of their ethnicity. It is not just a matter of the requirements of the international community and the EU, but a question of the construction of a democratic, multicultural and multiethnic state. And after all, the Croatian constitution too guarantees the right to ethnic equality, as well as the equality of all individuals before the law. But as in some other areas, so in the protection of minorities, the actual laws, if they are not appropriately implemented in practice and if they are not in accordance with the real needs and capacities, will not be adequate to ensure rapid accession to the EU.

Science and higher education

Darko Polšek has discussed the outlook for the development of Croatian higher education and its incorporation into the Bologna Process, that is, the European unification and reform of higher education. Croatia does not stand out from the higher education standards of the accession countries or the countries in the region, but it is faced with many problems, such as insufficient university autonomy, inadequate processes for the recognition of degrees, students and faculty that are insufficiently mobile, employment problems, financial irrationality, a poor state administration, a dubious double system (university and polytechnic), inadequate control of the quality of education, lack of lifelong learning and poor collaboration with the economy. Requirements are met only nominally, that is, the regulations that have been set are accepted in theory but are not brought to life in practice. The poor government administration and university administration will be hard put to prepare us for the keen competition, the introduction of new programmes, international programmes with international degrees and greater student and faculty mobility. By way of consolation, there are very similar problems in the most developed European countries, which in higher education are finding it difficult to keep up with the more successful United States.

Social values

The majority of Croatian citizens want the country to enter the EU, hoping thereby for a higher standard of living and general progress.^v At a time when, according to the European Commission research already mentioned, among the actual citizens of the EU belief in the Union and its institutions is falling, Ivan Rimac and Aleksandar Štulhofer analyse social values in Croatia, endeavouring via them to assess how ready or unready Croatia is to join the EU. In connection with post-materialism and social capital, Croatia is similar to the average of the accession countries, and is sharply distinct from the mean of countries outside the EU. Citizens of Croatia have a poorer opinion of democracy and authority in their country than the citizens of the accession countries, which is probably the consequence of the ineffectual handling of the transition in the nineties. Since citizens often judge transnational institutions in the light of their knowledge of national institutions, it is essential to undertake measures to facilitate and accelerate integration into the EU, and what is even more important, to create a greater level of social trust, economic performance and political stability.

WHAT HAS CHANGED IN CROATIA IN THE YEAR SINCE THE PUBLICATION OF THE PREVIOUS BOOK?^{vi}

Looked at from a macroeconomic point of view, it is encouraging that thanks to a rise in private spending and investment economic growth has accelerated (coming to over 5%), the inflation rate has fallen below the EU level (coming to 1.5%), the stability of the kuna together with a favourable access to the international capital market has been maintained, and the budgetary deficit reduced (below 5% of GDP); in addition, positive structural reforms have been carried out, for example, in the labour market, in capital transactions and in the securities market. But unfortunately, the deficit in the current balance of payments has been considerably increased (6% of GDP), and foreign debt has risen (70% of GDP), while privatisation and the restructuring of state-owned corporations is proceeding too slowly, which has resulted in the further growth of government guarantees for public (as well as private) firms.

In the recent period many new laws and regulations have been passed, often according to the parliamentary “urgent procedure”, various bodies and agencies have been set up in order to meet the demands of the SAA and the EU. However, the situation in practice is often very dubious. The reason for this is the low quality of the public administration and the absence of any real will (for example, for the agencies to be genuinely independent) as distinct from the mere formal fulfilment of the requirements. Regulations have often been passed without appropriate preparation and/or even the intention to implement them.

Among the new or amended laws one might mention in particular the Law and the Ordinance on State Aid, the Constitutional Law on the Rights of Ethnic Minorities, the Law on Elections, Amendments to the Labour Law, the Law on Foreign Currency, the Law on Equality between Men and Women, the Law on Homosexual Unions (although there was a great deal of resistance, Croatia is now one of the few countries to regulate this matter in a special law) and the Law on Protection Against Violence in the Family.

As well as the new and amended laws and newly-formed agencies, we can include the following among the positive steps:

- Further liberalisation of trade in the region, although unfortunately with bilateral and not multilateral agreements.
- Croatia became a member of CEFTA. It is true, when they join the EU, some of the countries will leave CEFTA, making the association less important.
- Labour legislation has been made more flexible and a start has been made on the drawing up of the National Action Plan for Employment.
- The National Foundation for the Development of Civil Society has been founded, and work started on the elaboration of a Development of Civil Society Strategy.
- Thanks to the fine work of MEI, the transparency of the harmonisation process has been enhanced, and on the MEI Web site there are many documents, such as the Interactive Plan for the Implementation of the SAA.
- The visa regime for citizens of Serbia and Montenegro has been temporarily suspended.
- Equality between men and women has been strengthened not only by the passage of the relevant new statute, but also by the inclusion of certain essential provisions (e.g., the introduction of the principle of equal pay for equal work and that concerning sexual harassment) into the Labour Law.

- Similarly, an attempt has been made to palliate the position of victims of family violence not only by the passage of the Law on Protection against Violence in the Family, but also through adjustments to the Civil Proceedings Law preventing suits being dragged out, which is of particular importance to victims of family violence.

And yet, there are still many very serious problems.

In the SAA Croatia assumed the obligation to found an operationally independent body to monitor government aid. The new body has not been established; rather the task has been entrusted to the Agency for the Protection of Market Competition. The condition has been nominally satisfied, but because of unresolved personnel and financial matters, the Agency is not yet properly equipped for the task.

Similarly the Croatian Energy Regulation Council is only formally independent, and the shortage of personnel is a serious constraint on the development of its institutional capacity.

The laws that are passed are often poorly harmonised. From the Constitutional Law and the Election Law it was not clear whether minorities were allowed to vote twice – for the minority and then for the party list, and this led to numerous debates just before the election. Some of the laws are deficient or do not take in all the essential provisions of EU directives (e.g., the Equality between Men and Women Law) and the courts will have numerous problems in applying them.

An ill-founded optimism reigns among Croatian politicians. Projections and plans of adjustment are often unrealistic. Often the work done is scanty and feeble. Often there is money, there are instructions and support, but the plans are weakly implemented. In fact, it often seems that there is no will for genuine implementation of the harmonisation process.

ARE WE WORKING WELL AND TO WHAT EXTENT ARE WE PREPARED?

In some of the areas dealt with there are concrete EU or SAA requirements (for example, environmental protection, consumer protection, ethnic minority protection) and in some of them there are no concrete demands, rather we have focused more on a comparison with the actual state of affairs and processes in the members, the accession countries and Croatia (for example, in the case of social values, welfare policy, higher education).

In most of the areas we can say that plenty is being done, considerable effort is being invested, as well as resources, and yet the outcomes are not always as we would have them be. There is in principle a commitment to reform, there are many instructions, support programmes, new laws are passed, those that already exist are changed and adjusted, and the formal side is often more than satisfied. But unfortunately, a poor public administration, weak coordination among the institutions, poor statistics and monitoring of information, an optimism that is frequently unfounded, sometimes even an absence of any real will for reform, an ineffective judiciary, weak supervision of the political decision-makers: these are some of the basic weaknesses and shortcomings that are holding back the reform processes.

In welfare policy, for example, many different programmes have been launched, but the role of government in the redistribution is uncoordinated and there are no proper statistics; programmes and their results are not monitored. The courts are not effective and there seems to be no real desire for a thoroughgoing reform in this area. There are also serious gaps in the legal framework necessary for the development of civil society – although quite a lot has been done in this area – and an environment conducive to development is not being created.

As for the protection of ethnic minorities, formally, everything is fine, and the law provides for many good approaches, such as the dual franchise, councils and representatives of ethnic minorities in units of local self-government, councils for minorities at government level, and yet there are many ambiguities that need resolving, that is, the letter of the law needs to be harmonised with real needs and capacities.

If the social values in Croatia are compared with those in the member states, the accession countries, and countries completely outside the EU, we can see that we are equally as well prepared as the accession countries. Some trends are positive; and yet the role of the state, that is, of politics, is still too great in the economy; education and the judiciary are still ineffective. For this reason the mark given to democracy and satisfaction with the political authorities in Croatia is closer to the mean of countries outside the EU than to that of the accession countries.

RECOMMENDATIONS

Each chapter of this book contains recommendations that relate to specific areas. Here we shall endeavour to sum up those recommendations that are common to most of the authors and that are most often repeated.

Take most of the steps as soon as possible, without waiting for Croatia to become a member of the EU. This requires considerable fiscal adjustments in the next few years. A decision on adjustments will not be easy to make because there are great requirements for public expenditure, and the deficits can at the moment be relatively easily financed. In particular it is necessary to make a realistic evaluation of the structural bottom line of the budget and the effect of the budgetary stabilisers, develop an active fiscal strategy capable of rapidly and flexibly enlarging or diminishing the budgetary deficit in accordance with the movements of the business cycle, and draw up long-term projections of fiscal adjustment. In the case of the public administration, for example, institutional changes are needed that cannot be carried out overnight and that cannot wait, because the whole process of joining will depend above all on the quality of the public administration.

Become a part of international programmes that already exist. In many areas, such as environmental and consumer protection or education, there are international programmes in which Croatia as state, or some of its regions, cities, institutions, firms, NGOs, can be involved already, and advantage should be taken of this. This would improve the situation in Croatia, contacts can be made and experience gained, and the conditions created for better collaboration after the eventual joining of the EU.

Carry out institutional and not merely formal legal adjustments. It will not be enough for changes in the judiciary just to change the laws; rather, more profound personnel and social changes are required, even a change in the mind-set of judges, attorneys and public notaries. Along with changes in the letter of the law, linked objectives have to be achieved according to a plan: a quality and stable legislation, a competent and efficacious judiciary, respect for the results of proceedings, and an effective enforcement of judicial decisions and other decisions founded on law.

Reforms have to be comprehensive. In all areas it is necessary to define the objectives, strategies, order, deadlines, organisation and responsibilities. In the reform of the public administration, for example, this means a clear demarcation of the authorities of the bodies of the government administration from those of institutions with public authority; the determination of the organisation of all institutions; the reduction of the number of ministries, and the improvement in the coordination among them; establishment of performance criteria, and the foundation of budgets upon performance. In environmental protection, for example, the competent ministry has to adopt a single strategic docu-

ment for the overall procedure of harmonising regulations concerning the environment.

The public administration is of crucial importance. Croatia should devote particular attention to reinforcement of the civil service so as to make sure that the appropriate ministries can properly carry out the many legislative reforms they have committed themselves to (European Commission, 2003). Of particular importance here will be coordination, team building, motivation, accountability and internal and external control, in each and every segment of the public administration.

Strengthening the rule of law and order. In order to restore the trust of citizens, it is essential to have an effective executive branch, greater professionalism, depoliticisation, more transparent work by the ministries and the Government, and a precise definition of accountability. In order to increase trust in institutions in Croatia (and so indirectly in the EU as well) the fight against corruption is essential, to slow down the cynicism and opportunism met particularly among the young. In some segments, as for example in the protection of ethnic minorities, the harmonisation of the law is required not only with international and European laws, but also with the Croatian Constitution. In addition, the passage of a comprehensive anti-discrimination law to prevent discrimination against individuals on any basis, and not just the ethnic, is required.

Independence and transparency. To enable the better functioning of institutions and the enlargement of public trust in them, it is necessary not only to found but also to enhance the independence and transparency of independent bodies in areas like energy, environmental and consumer protection and government aid.

Statistics and research. For the better coordination and monitoring of welfare policy programmes, for example, improved statistics are essential, which holds too for further investigations into social and welfare problems.

Education. In order to reduce the educational gap with the EU average it is essential to improve the quality of education in all areas and at all levels. In higher education, for example, it is necessary to resolve the current problems of unlawfulness in legal, property and academic matters, the problem of recognition of degrees, to collaborate with foreign countries, to introduce curricula taught in English, new interdisciplinary curricula, and set up doctoral courses.

Public information. It is crucial to strengthen the openness, independence, critical ability and responsibility of the media in order to improve the quality of both media and government, to achieve a better

level of information about the EU itself and about the concrete problems, as well as the capacities of the society in for example welfare policy, environmental and consumer protection, and the protection of minorities.

CONCLUSION

At the end we may conclude that Croatia's accession to the EU is moving in the right direction, but that there are still causes for concern, and that it would be wrong to be duped by exaggerated optimism. Croatia is still not ready, does not meet many of the conditions, but with effort and exertion could well be ready even before the EU wishes to accept the country. In any event, it would be good to meet most of the EU requirements even if there were no EU.

There is in Croatia an amazingly low level of interest in the real effects of membership. And yet one should approach the costs and benefits very seriously. If not because of the desire to live in a country that is as clean and beautiful as it may be, then at least because of the great costs that await us in this area, we should look for example at the costs of adjustment in environmental protection. If Croatia entered the EU in 2007, adjustment costs in environmental protection alone would in that year come to about 300 million kuna, or about 0.1% of the predicted GDP for 2007. Since the EU offers many funds that can be used for adjustment in this area, it is essential to build up a system capable of absorbing as many as possible of these EU resources.^{vii} It is especially important to stress here that important resources – depending upon our own capacities – can be used already, even before EU accession. But for this, knowledge is required and the coordination of the bodies of government, at all levels, as well as the participation of business, of the non-governmental sector and members of the public.

It is interesting that there is a gap in Croatia between the real situation and the perception. For example, in opinion research concerning the most important problems in Croatia, an ineffective civil service was in thirteenth place out of twenty. And yet, all authors of this book, and the European Commission itself, put forward precisely the weaknesses of the public administration. Perhaps the most essential thing will be depoliticisation, because as long as recruitment to the civil service is not done according to merit, but often on grounds of political acceptability, it is impossible to expect any essential improvement in the state of affairs.

It should be stressed in particular that the procedure for joining the EU is a lengthy and painful one, and that it should be initiated as soon as possible, especially since Croatia is planning to become a member in a period of time shorter than all the candidates to date. Decisive moves in the reform of the public administration should be taken as soon as possible, because the changes take a long time, improvements cannot be waited for, and the whole procedure of the current negotiations with the EU actually depends on a high-quality public administration.

One should bear in mind that the accession of neighbouring countries will have considerable consequences for Croatia. When Slovenia for example has to apply EU regulations to do with Krško NPS, the same regulations will have to be implemented in Croatia. Hence in questions to do with preparations for emergencies, nuclear safety and supply security Croatia will have to accept EU regulations even before the time provided for in the SAA.

We may, then, in brief conclude that Croatia is working hard to implement the SAA and adjust to the demands of the EU, but a better application of rules and a faster establishment of new, and the better functioning of existing, institutions will be required. Thus the problems in the public administration, and particularly in the judiciary, as well as the establishment and strengthening of institutions that are essential for the deregulation and liberalisation of the market are of crucial importance.

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- i* *The Economist*, November 22, 2003, p. 14 “European Union Enlargement – Clubbing Together”.
 - ii* *There are frequent articles on this in The Economist.*
 - iii* *Obstacles decline with time, but it is still necessary for at least eight members to agree with some form of enhanced collaboration.*
 - iv* http://europa.eu.int/comm/public_opinion/archives/eb/eb60/eb60_en.pdf.
 - v* *Poll results can be found at www.mei.hr.*
 - vi* *Here I would particularly like to thank those authors – Predrag Bejaković, Ana-Maria Boromisa, Ramona Franić, Marina Kesner-Škreb, Dubravko Mihaljek, Mia Mikić, Snježana Vasiljević, Igor Vidačak and Aleksandar Vukić – who made the effort to update their papers from last year.*
 - vii* *For more on estimates of the costs and benefits of a possible accession in 2007, see the chapter by Cuculić, Faulend and Šošić.*

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