

## Capacities in the context of European integration

### Abstract

*The continuing development of the capacities of all governance and societal bodies is an important requirement for western Balkans countries. EU experience, with the implementation of the policy of economic, social and territorial cohesion through the Europe 2020 Strategy, provides important lessons to be learned for enlargement countries. Chiefly, modern societies should be cohesive ones, while all public and societal structures need to develop their capacities to provide the conditions which ensure that economic growth has a direct influence on human development and social inclusion. The European Social Model and the open method of co-ordination are very demanding challenges for the western Balkans. These issues are demonstrated through an explanation of the 'South-East Europe 2020' Strategy as well as through the example of Montenegro. The author concludes that the uncritical copying of the instruments and mechanisms of the European Social Model in western Balkans countries is likely to have very limited effects and that the EU integration process implies a need to strengthen the capacities of all societal bodies.*

**Keywords:** *European integration, development strategies, inclusion, capacity strengthening, structural and cohesion funds, European Social Model*

### Introduction

For the purpose of a better understanding of the main topics in this article, it is important to provide working definitions for the major terms it uses: European integration; social exclusion and inclusion; and capacity development.

### European integration

European Integration (EI) is the process of trade, political, legal, economic and, at a later stage, even the social and cultural integration of European countries which has come about after World War II through the various European Communities and, today, through the European Union (EU). One of the most successful policies under the umbrella of EI is its enlargement policy, which means the expansion of the EU through the accession of new member states. From the first six countries that started the EI process, the EU today includes 28 member states.<sup>1</sup>

The process of preparation for EU membership in acceding countries is, usually, termed European integration. This process refers to the intensification of co-operation between the EU (and its member states) and enlargement countries under which the latter gradually fulfil the political, economic and legal Copenhagen criteria, as well as

1 In June 2013, Croatia became the 28<sup>th</sup> EU member state.

criteria related to administrative capacities. Very often in transition countries, the EI process is simplified and presented as the main goal as much as the democratisation of their countries. Often, governments in these countries explain and justify reforms in the context of EI, forgetting that reforms do not need to be conducted for the EU but for the well-being of their citizens. In fact, EI is a tool which provides support for the easier overcoming of a number of objectively-existing economic and political obstacles to the necessary reforms in transition countries.

Accession to the EU requires compliance with the *acquis communautaire*, which often requires reform in the accession countries in various fields. Internal reform developments in accession countries, jointly with the EI process, push governments in these countries towards the gradual harmonisation of their national legislation with the EU *acquis*.

Harmonised laws are just the first stage; more important is the quality of the implementation of new regulations and rules, which means the gradual establishment of EU values and standards in those countries. So, the development of adequate capacities for the implementation of new legislation (harmonised with the *acquis*) is one of the most demanding tasks for the new democratic societies in the western Balkans and Turkey which aspire to EU membership. Regarding this, it is important to mention that the development of capacities cannot be seen as the task solely for the structures of government but for all public institutions, civil society organisations, business stakeholders and social partners.

### *Social exclusion and social inclusion*

Social exclusion is the situation of certain individuals or social groups being excluded from mainstream society by virtue of their poverty, a lack of competencies or as a result of discrimination. Not being able to access (proper) employment opportunities, and having a low income and low education, contributes to a creation of distances from social and community networks. Those excluded often feel powerless and unable to control the decisions affecting their lives. Social exclusion reflects a process of a progressive social rupture, detaching groups and individuals from social relations and institutions.<sup>2</sup> Social exclusion appears as a 'result' of intentional (systematic discrimination) or unintentional policies (a failure of the system adequately to respond to the needs of vulnerable groups).

It is important to mention that social exclusion is not particular to any specific group. It can happen to anyone; and it has happened to many in the turmoil of the transition, given certain circumstances and policies (or their absence). In its most extreme forms, social exclusion becomes marginalisation, often for member of minority ethnic groups or people with disabilities.<sup>3</sup>

In contrast, the EU defines social inclusion as a process which ensures that those at risk of poverty and social exclusion gain the opportunities and resources necessary

2 Sen, Amartya: Social Exclusion: Concept, Application, and Scrutiny, *Social Development Papers No. 1*, 2000, p 7, [http://housingforall.org/Social\\_exclusion.pdf](http://housingforall.org/Social_exclusion.pdf).

3 Regional Report Human Development Report "Towards Inclusive Societies", UNDP Bratislava Regional Centre, 2009.

to participate fully in economic, social and cultural life, and to enjoy a standard of living and well-being that is considered normal in the society in which they live. It ensures that they have greater participation in those decision-making processes which affect their lives as well as access to fundamental rights.

Regarding the European integration process, social policy is still largely in the hands of member states as it is very difficult to displace it from the national to the supra-national level due to the relatively high differences in the economic models of member states, demographics and differences in the systems of social protection and the values and traditions on which these policies are based. This means that the national institutions are, in the first place, responsible for the social protection and inclusion of their citizens. In this sense, it is important to stress the importance of the open method of co-ordination through which member states seek to align their social and employment policies.

This article deals with capacities, by which we mean:

*The ability of individuals, institutions and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner.<sup>4</sup>*

In other words: the set of competencies which leads to the performance of relevant tasks in an effective, efficient and sustainable manner. 'Effectiveness' means that certain actions deliver certain outcomes. 'Efficiency' means that implementation is performed in the right way, i.e. via the management of resources, the costs of activities, etc.<sup>5</sup> 'Sustainability' is perceived as the long-term consequences of the present actions.

### *Capacity development*

Capacity development is frequently defined as the:

*Process through which individuals, organizations and societies obtain, strengthen and maintain the capabilities to set and achieve their own development objectives over time.<sup>6</sup>*

In other words, it is a way of building the capacities of the organisation in order to accomplish its goals. Capacity development and the ownership of national development strategies are essential to the achievement of internationally-agreed development goals.

During the latest decades, a new approach has been introduced into the UN Development Programme which connects capacity development with human development

4 UNDP (2006) *Capacity Development Practice Note*, p. 3.

5 It is not unimportant to note that one can do irrelevant things in an efficient manner. The result is that relevance is a very important aspect which must be measured or evaluated. Thus, it is very essential to have in mind the principle of effectiveness: if some action does not produce a certain outcome, its efficiency is questionable.

6 [http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CEEQF-jAD&url=http%3A%2F%2Fcsr-dar.org%2Fsystem%2Ffiles%2FUNDP%2520Practice%2520Note\\_Capacity%2520Development.pdf&ei=suyBU-n6OofLONWmg-JAM&usq=AFQjCNGwFoddah0OHTtPGiSlk0JZ0C-qKhg&bvm=bv.67720277,d.ZWU&cad=rja](http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CEEQF-jAD&url=http%3A%2F%2Fcsr-dar.org%2Fsystem%2Ffiles%2FUNDP%2520Practice%2520Note_Capacity%2520Development.pdf&ei=suyBU-n6OofLONWmg-JAM&usq=AFQjCNGwFoddah0OHTtPGiSlk0JZ0C-qKhg&bvm=bv.67720277,d.ZWU&cad=rja).

and sustainability. Central to the Human Development approach is the concept of human empowerment which, in addition to income, treats access to education and health care, freedom of expression, the rule of law, respect for diversity, protection from violence and the preservation of the environment as essential dimensions of human development and well-being.<sup>7</sup>

Regarding the countries of the western Balkans, there are obvious deep interconnections between capacity development, human development and European integration. Countries which are in the process of joining the EU should have better institutional and administrative capacities in order to align their legislation and implementation practices with EU standards. And, again, this process should serve the best interests of their citizens.

In leading capacity development actions, two guiding questions should be answered: ‘Capacity for whom?’ and ‘Capacity for what?’ Regarding these questions, this article seeks to provide answers in the following way:

- *for whom?* For all state and non-state actors. Membership of the EU is not just a task for government officials; the European integration process concerns all of society. So, when we speak of capacities we think of the overall capacities within societies, not just on the capacities of the public administration. And, in the end, the most important question is:
- *for what?* This article argues the necessity of strengthening the capacities of public administration and of all stakeholders in societies for the achievement of their developmental goals. These goals, framed by Human Development, are relevant for western Balkans countries but, at the same time, in a similar way for all countries across the globe.

The OECD’s famous Paris Declaration on Aid Effectiveness stated that:

*The capacity to plan, manage, implement and account for the results of policies and programmes is critical for achieving development objectives from analysis and dialogue through implementation, monitoring and evaluation. Capacity development is the responsibility of partner countries with donors playing a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources.*<sup>8</sup>

Capacity development reflects the viewpoint that capacity resides within individuals, as well as at the level of organisations and within the enabling environment. The ‘enabling environment’ is the term used to describe the broader system within which individuals and organisations function, i.e. the one that facilitates or hampers their existence and performance. Capacities at the level of the enabling environment include policies, legislation, power relations and social norms, all of which govern mandates, priorities, modes of operation and civic engagement across different parts of society. The ‘organisational level’ of capacity comprises the internal policies, arrangements, procedures and frameworks that allow an organisation to operate and deliver on its

7 UNDP Strategic Plan, 2008-2011.

8 Paris Declaration on Aid Effectiveness, 2005.

mandate. At the ‘individual level’, capacity refers to the skills, experience and technical knowledge that are vested in people.<sup>9</sup>

Strengthening the capacity of some organisations or public institutions is a multi-layered process. There is, ultimately, a need to develop human capacity, i.e. to develop professional staff who are motivated, have institutional knowledge and know the rules and methods of horizontal and vertical co-ordination as well as how to connect various actors in order to resolve various issues. For states with long traditions and with public administration systems which have developed over many years, this is a much easier task. In new and young states and in transitional states, such as those in south-east Europe, this is, understandably, a much more difficult task.

The overarching goals established in the current strategic framework for EU development – *Europe 2020* – confirm this statement; an issue to which we return later in the article.

### EU values and goals

The constitutional basis of the EU is laid out in the Treaty on European Union, Article 2 of which prescribes:

*The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.*

More explicitly, Article 3 states that the EU:

*Shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment...*

In another paragraph, Article 3 states that the EU:

*Shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.*

The next paragraph of Article 3 concludes that the EU:

*Shall promote economic, social and territorial cohesion and solidarity among Member States.*

The Treaty of Lisbon uses another innovative definition to stress the necessity of backing the European Social Model in the face of the prevailing neo-liberal tendencies in the new century and the era of globalisation: the former pride of Europe – the so-

9 UNDP (2008) Practice Note: *Capacity Development*, 2008, page 6 [http://www.undp.org/capacity/library\\_policy\\_notes.shtml](http://www.undp.org/capacity/library_policy_notes.shtml).

cial market economy – is now, in the Lisbon treaty, called the ‘highly competitive social market economy’, which shows how the EU has been obliged to adapt itself to the pressures of globalisation and global competitiveness.<sup>10</sup>

So, the Western Balkans countries, on their road to EU membership, need to show their readiness to share these values and to organise their development within the framework set out by these principles.

### *EU strategic framework for growth and social inclusion*

The strategic framework for growth and human development in the EU is intended to deliver its policy of ‘economic, social and territorial cohesion’. This policy serves to enable and support the harmonious and sustainable economic development of member states (and their regions); help increase the employment and quality of human resources; and enhance environmental conditions and improve the transport infrastructure.

The EU is gradually aligning the various segments of the social policies of member states on the grounds of the development of the single market. The European Social Model seeks to integrate common values and principles in the area of social policy, which are being permanently upgraded in line with social policy strategic documents. These principles include, among others: solidarity; social justice; social cohesion; gender equality; and equal opportunities in employment, health, social protection and education – in other words, equal opportunities for all the inhabitants within the society. In that regard, the requirements for future enlargements are going to be certainly much higher than was case with previous ones.

The Lisbon Treaty defines this policy as a ‘policy of economic, social and territorial cohesion’. It encompasses components of regional policy (aimed at decreasing the disparities between regions and at the revival of old industrial areas); economic policy (helping countries achieve the criteria for the use of the Euro through support for investments in the field of transport and the environment); social policy (combating long-term unemployment and dealing with equality issues, as well as the development of education and training); and a segment of the Common Agricultural Policy (the one referring to rural development). The most general objective of this EU policy is to stimulate the economic and social development of under-developed regions of the Union; contribute to the reduction of regional disparities; and help mitigate the problem of unemployment, particularly among certain groups of the population, such as young people, the elderly, women, the long-term unemployed, etc. This policy helps deepen and widen the European integration process.

Beside values, financial solidarity is the basis for economic and social cohesion in the EU. Thus, approximately more than one-third of the total EU budget is earmarked for achieving economic and social equality within the Union. Most of these resources are allocated through the so-called structural funds. The budgets for the structural funds have, since the late 1980s, been allotted through multi-annual financial frameworks, i.e. financial perspectives. Over the last several decades, the basic principles of cohesion policies have remained more or less unchanged (the principles of programming, con-

10 Article 3(3) of Treaty on European Union.

centration, additionality and partnerships),<sup>11</sup> while particular objectives and priority areas have been adjusted to the new needs and demands. The current financial perspective groups its goals into three areas: convergence; regional competitiveness; and employment and territorial co-operation.

EU cohesion policy promotes the harmonisation of regional and social development within the single market but, at the same time, it gives an additional incentive to the process of integration and acceptance of new member states. The initial focus of cohesion policy has shifted from the achievement of balanced economic development within the EU towards a strengthening of the global competitiveness of the European economy.

Economic justification for the existence and growing importance of cohesion policy has been at the core of numerous debates, while various authors have offered different arguments for and against such a policy. Arguments in favour of European efforts and budgetary investments in regional development<sup>12</sup> have often had a strong political dimension. Namely, if the process of economic integration brings some regions to a disadvantageous position in comparison to others, it may happen that economically less-developed countries could prevent the adoption of new EU legislation and hamper the integration process. In political terms, large differences in the level of economic development within a single market could potentially give rise to political aspirations that could endanger the very existence of the European Union. Recent hard discussions on EU support for member states influenced by the economic crisis (Greece, first of all) confirm this.

The gradual process of enlargement has contributed to growing differences in the level of development of different regions within the common market. Thus, each wave of enlargement has re-opened the question of support for achieving cohesion in an ‘increasingly diversifying Europe.’ A very complex system of using the structural funds has been established, and new EU member states have encountered the problem of a low absorption capacity for utilising these funds. The ‘historic enlargement’ of the EU towards central and eastern Europe has additionally affected the level of regional disparities.

In response to this issue, the EU has developed special programmes, introduced early in the pre-accession period, with the aim of enabling the gradual adjustment of state institutions in candidate countries for participation in the EU’s economic, social and territorial cohesion policy. In the previous enlargement wave, these instruments included the PHARE, ISPA and SAPARD programmes. Subsequent to 2007, the Instrument for Pre-Accession Assistance (IPA) has been operational as a new programme for the western Balkans and Turkey. The IPA replaced all the previous pre-accession support programmes, as well as CARDS, which was an instrument providing support

- 11 These principles are important, especially for enlargement countries, because they are mirrored in IPA (Instrument for Pre-Accession Assistance) programme guidelines.
- 12 ‘In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions.’ – Article 174, Treaty of the Functioning of the European Union.

for the stabilisation and reconstruction of the western Balkans and established in 2000 during the financial perspective ‘Agenda 2000’.

The overall objective of EU financial assistance to enlargement countries is to support their efforts for reform towards compliance with EU legislation in order to become fully prepared to take on the obligations of membership of the EU.

Within the new financial perspective 2014-2020, a new IPA (the so-called IPA II) has been established. There are some differences between the previous and the new IPA, but the main objective is the same: to help enlargement countries attain the criteria for EU membership and to prepare them for participation in EU Structural<sup>13</sup> and Cohesion<sup>14</sup> funds, as well as the Common Agricultural Policy and its funds. Absorption of the IPA resources requires the presence of appropriate structures for programming and implementation. The establishment of most of the structures related to this activity are, in fact, precursors of the structures required to be able to manage the structural funds once the country has become a member state.

On their path to full membership of the European Union, enlargement countries should gradually take on a leading role in the programming and implementation of EU funds. The change in status from potential EU candidate to EU candidate country requires a new role for the state institutions in terms of the management of the European funds. This process usually goes along with increased capacities in local authorities, civil society, social partners and the business sector for participation in the overall development programmes. The closer to EU membership are the countries, the stronger must be their internal capacities for absorbing the pre-accession and further structural and cohesion funds.

The new EU Multi-Annual Financial Framework for 2014-2020 again shows the importance of investments from the EU budget in growth and development.<sup>15</sup> Under the name ‘More Europe for the same money’, this seven-year programme cycle again shows how the EU budget may be used to support economic, social and territorial cohesion. The key task of this new EU multi-annual framework is to provide help in achieving the objectives of the ‘Europe 2020’ Strategy and to provide funds for peace and stability in EU neighbourhood regions, as well as to strengthen its role at the global level. The new financial perspective has had an influence on the characteristics of IPA II.

- 13 European Social Fund, as the first structural fund, was established in 1958, and European Fund Regional Development (EFRD) is established in 1875.
- 14 The cohesion fund was established in 1994 with the purpose of providing support for EU member states to achieve European monetary union. It has different goals and principles of work than the structural funds.
- 15 Previously, until 2006, the most common-used term was ‘financial perspective’. The first financial perspective ‘Delors I package’ (1988) followed the signing of the Single European Act (1986); the ‘Delors II package’ (1993-1999) ensued, subsequent to the implementation of the Treaty of Maastricht (1991); ‘Agenda 2000’ (2000-2006) prepared the Union for the historic enlargement; while the following financial perspective ‘Building our common future’ (2007-2013) integrated the structural funds in order to support the implementation of the Lisbon Strategy.



### *The EU's 'Europe 2020' Strategy*

The EU arrived in the second decade of the 21<sup>st</sup> century with many problems. The economic crisis increased unemployment and poverty in the wealthier parts of the world which, additionally, pointed to the necessity for stronger levels of investment in the development of the global competitiveness of the European economy. In addition, in the course of the next budget programme period after 2013, the EU has entered into a time of significantly-altered political conditions.

Previously, at the beginning of the new century, the EU recognised the overall changes caused by globalisation and, in this regard, the challenges brought by the new knowledge-based economy. Therefore, the objectives defined in 2000 with the Lisbon Strategy up to the end of the first decade needed additional instruments in order to ensure the competitiveness of EU economy in the new, globalised world. The famous strategic goal of the EU for this decade was:

*To become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.*<sup>16</sup>

These goals proved unrealistic. Additional problems in achieving the Lisbon strategy were caused by the international financial and economic crisis.

Based on that experience, in its new and changed conditions, the EU in 2010 adopted a new overarching strategic document for the new decade. The objective of the Strategy 'Europe 2020' is to provide smart, sustainable and inclusive development. 'Smart growth' means the development of the economy based on knowledge and innovation; 'sustainable growth' refers to the promotion of the economy with the efficient use of resources, which will be more competitive and more environmental; and 'inclusive growth' means the encouragement of an economy with high rates of employment, which will ensure social and territorial cohesion. The overall objective of Europe 2020 is to increase GDP in the EU by four per cent and to create 5.6 million new jobs.

Action Plans for the achievement of these objectives, both at the EU level and for each individual member state, have been defined. All this clearly shows the need, over the next medium-term period, for the EU budget to be used to support the achievement of the goals defined in this new strategic framework by 2020. In order to achieve the defined goals related to growth and jobs, the 'Europe 2020' Strategy has defined seven flagship initiatives. Within each initiative, both the EU and the national authorities have to co-ordinate their efforts so that they are mutually reinforcing. Under the umbrella of 'smart growth', there are three initiatives (the Digital Agenda for Europe; Innovation Union; and Youth on the Move) through which the EU plans to improve its performance in education, research, innovation and the digital society. 'Sustainable growth' has two flagship initiatives: a Resource-Efficient Europe; and An Industrial Policy for the Globalisation Era. Another two flagship initiatives (Agenda for New Skills and Jobs; and European Platform Against Poverty) fall under the umbrella of 'inclusive growth'.

16 According to the Conclusions of the European Council in Lisbon, 23-24 March 2000, paragraph 5.

It should be borne in mind that the ‘Europe 2020’ Strategy is relevant not only for EU member states but also represents a significant challenge to candidate and potential candidate countries for EU membership and the direction of their further reform processes. This is visible in the European Commission’s document which underlines how the Strategy and the ‘expanding area where EU rules are applied’ could help enlargement countries better to ‘anchor their own reform efforts’.<sup>17</sup> The ‘Europe 2020’ Strategy has offered enlargement countries an anchor for their reforms and western Balkans countries have been invited to follow the priorities of the Strategy and to adapt its main challenges within their own national and regional context.

Their response to this statement came two years later. In 2012, the governments of south-east Europe countries adopted the ‘SEE 2020’ Strategy under the name ‘Jobs and Prosperity in a European Perspective’.

### Challenges for western Balkans countries

In enlargement countries, public administration reform witnesses the problem of the transition of state structures and the need to strengthen their capacity. It can be summed up as a need for the professionalisation and de-politicisation of the public administration (and the judiciary), as well as for a strengthening of its efficiency and effectiveness. There are many factors, including political, economic, cultural habits and others, that result in a slow implementation of reform in public administration and, consequently, all the other sectors influenced by it. Public administration is not pushed by entrepreneurial initiative, since there is no profit to act as the main motivating factor;<sup>18</sup> the purpose of state administration work is the common good, which means that it is pushed and lead by the mission for which it exists.

Regarding the European integration process, enlargement countries are able to confront the main challenges in the field of public administration capacities. However, at the same time it is worth recalling that all governments, right across the globe, are facing many challenges. They are expected to create better conditions for economic development and the development of human capital; mobilise financial and human resources for development; promote private entrepreneurship; protect socially vulnerable groups; combat poverty; and protect the environment – all in a democratic, participatory, efficient, effective, accountable and, in a word, fair political administrative system focusing on the interests of all citizens. With or without the European integration process, these tasks should be in the focus of the administrations of countries in the western Balkans. The accession process further complicates things but, at the same time, it also provides useful guidelines and support.

Progress towards meeting the Copenhagen criteria and European standards (described in the 35 negotiation chapters of the EU *acquis*) are regularly monitored during the negotiations process with each candidate country. Chapter 22 of the *acquis* concerns

17 European Commission (2010): Communication from the Commission: *Europe 2020 A strategy for smart, sustainable and inclusive growth* p. 23. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>.

18 Nevertheless, the New Public Management approach advocates the stronger involvement in public institutions of working methods and tools developed in the private sector.

regional policy and the co-ordination of structural instruments. The standards in this chapter refer to the rules and conditions for participation in the EU's economic, social and territorial cohesion policy. Candidate countries need to have sufficient capacities at central and local level to manage the EU funds. Regarding this particular chapter, it is obvious that European standards encompass various particular policies – for instance: competition; public procurement; transparency; accountability (because of the potential for corruption); efficiency; the de-politicisation of government structures; the independency of justice; social policy and employment; etc.

In order to attain the efficient and effective utilisation of the funds aimed at providing support for economic growth and overall development, central and local governments, as well as all other stakeholders, require to have sufficient capacities for the preparation and implementation of projects.

EU pre-accession programmes, and future structural funds, provide an unprecedented development opportunity for the western Balkans countries and Turkey. The European Commission has, since 2010, been gradually shifting IPA financial assistance from support for individual projects to a more global, sector-wide approach focusing on justice and home affairs; public administration; the development of the private sector; transport, energy, environment and climate change; social development; and agricultural and rural development. IPA II will provide a unique opportunity for the countries of south-eastern Europe to merge their own national development priorities with European integration priorities.

### *‘SEE 2020’ Strategy*

Like the ‘Europe 2020’ Strategy, the ‘SEE 2020’ Strategy is based on a set of five interlinked development pillars:<sup>19</sup>

1. integrated growth: through the promotion of regional trade and investment linkages and policies that are non-discriminatory, transparent and predictable
2. smart growth: by committing to innovate and compete on value-added rather than on labour costs
3. sustainable growth: by raising the level of competitiveness in the private sector, the development of infrastructure and the encouragement of greener and more energy-efficient growth
4. inclusive growth: by placing greater emphasis on developing skills, creating employment, inclusive participation in the labour market and on health and well-being
5. governance for growth: by enhancing the capacity of public administration to strengthen the rule of law and reduce corruption, the creation of a business-friendly environment and the delivery of the public services necessary for economic development.

19 For more on ‘SEE 2020’, see the specific website developed by the Regional Co-operation Council: <http://see2020.rcc.int/> The text of the Strategy could be found at: <http://www.rcc.int/pubs/0/20/south-east-europe-2020-strategy>.

Meanwhile, the overall targets defined by ‘SEE 2020’ are:

- a) increase average GDP per capita in south-east Europe, relative to the EU average, from 36.4% to 44% in 2020
- b) boost total south-east Europe trade in goods and services, from €94.4bn to €209.5bn in 2020
- c) reduce the south-east Europe trade deficit from -15.7% of GDP (the average in 2008-2010) to -12.3% in 2020. The consequence of such a reduction should be the creation of one million new jobs in the south-east Europe region by 2020.

Indeed, the priorities and objectives stated in the ‘Europe 2020’ Strategy had been formulated in such a way that they could easily be introduced to other countries, which might produce the incorrect impression that these objectives could be easily taken on by western Balkans countries and aspired to as their own goal.

The objectives of both strategies are similar, as already stated, but the targets and the indicators differ. This is logical. In many cases, we can see under-developed infrastructure; inadequate education; insufficient investment in the environment; technological backwardness and dependency; and ultimately, inadequate capacities among various stakeholders at all levels. These represent major obstacles to the setting of appropriate objectives and, of course, for their achievement. Starting from national to local public institutions, and right across the social partners, education institutions and business companies, the under-developed capacities of a number of stakeholders are visible. Consequently, convergence is not an easily achievable task and these countries cannot efficiently use the same development objectives. Easily-prescribed, and ‘nicely worded’, European initiatives, or the simple copying of institutional mechanisms established in developed countries cannot, it is clear, provide successful results in transition countries.

The ‘SEE 2020’ Strategy is trying, with the use of ‘Europe 2020’ as a model, to provide an autonomous regional response to developmental challenges. We could even say that ‘SEE 2020’ has used some of the lessons learned in the EU and, as a result, included a specific cross-cutting pillar on Governance for Growth. Regarding the story on capacities, this pillar is particularly important. The establishment of this pillar could be understood as a result of the strong discussion on the quality of economic governance and on the responsibility of public policies and public institutions for the improvement of the level of competitiveness in specific economies. This pillar has three dimensions: Effective Public Services; Anti-Corruption; and Justice.

In order to achieve convergence with old EU member states, the countries of the western Balkans need to improve economic governance. The main question is how to measure this and what kind of indicators could be used to prove that economic governance has been improved. One indicator seeks to answer the question of how much (or indeed whether) progress is being made toward a certain objective. The fifth Pillar of the ‘SEE 2020’ Strategy is a story of the ability of governments in western Balkans countries to formulate and implement sound policies and regulations that promote European integration and, at the same time, integrated, smart, sustainable and inclusive growth.

The Governance for Growth pillar is a cross-cutting one and almost all the objectives, goals and targets in the other pillars could be used as general proxy, indirect indicators for the objective of the fifth. The achievements in this pillar comprehensively influence all the other pillars of the ‘SEE 2020’ Strategy.

The leaders of the World Bank project on Governance Indicators underline that good governance is a fundamental ingredient in sustained economic development.<sup>20</sup> For example, one simplified proxy indicator of the quality of governance, measured by economic growth and development, could therefore be GDP per capita, which is used as one of the overarching targets of the Strategy. This also means that, by measuring the level of the informal economy, then we measure at the same time the quality of governance. Similarly, better governance improves the business environment, which positively influences intra-regional trade and increases FDI (which is connected with the first pillar, on integrated growth). In addition, increased government effectiveness promotes and facilitates the easier start-up of businesses and a higher employment rate in society, the things which are important to the other pillars.

South-east European countries are the beneficiaries of IPA II and have the chance to develop strategic regional programmes and projects which could be financed through multi-country IPA support mechanisms.

Regarding this, the global financial crisis and the fragile security situation call attention to the role of states and the capacities of governments to implement policies and programmes. Public administration is extremely important in the improvement of governance and human development. However, the conditions related to enhancing competitiveness do not belong only to public institutions: all stakeholders must develop their capacities to deal with these tasks. Public administration, at national and local levels, plays an important role in establishing the environment for economic development, but it is also an instrument for influencing more effective governance and legitimate, cohesive state-society relationships.

Enlargement countries are confronted with new tasks related to policy co-ordination and the drafting and implementation of new legislation harmonised with the EU *acquis*; and they have to develop the capacities of all public institutions in order to make them more effective in the delivery of their mandates. At the same time, the overall challenges facing enlargement countries are similar to the challenges facing all other governments: their structures, both at national and local level, should develop institutional and human capacities in order to respond to modern needs in changing societies.

The 'SEE 2020' Strategy could be recognised as an opportunity for western Balkans countries, opened with the EU accession process, appropriately to analyse their development challenges and provide their own joint way of responding to them. In the future implementation of this Strategy, the opportunity for the replication of experience with the open method of co-ordination and the further adaptation of western Balkans countries to the European Social Model should be utilised.

### *Challenges for Montenegro in preparation for the open method of co-ordination*

How is Montenegro, in the early years of the 21<sup>st</sup> century, preparing itself for the global competitive framework, for EU membership and, more precisely, for the European Social Model? Many comparisons are being made, but we have space to enumerate only a few here.

20 Kaufmann, D and A. Kraay *Governance Indicators: Where Are We, Where Should We Be Going?* <http://elibrary.worldbank.org/doi/pdf/10.1093/wbro/lkm012>.

From the standpoint of human development, Montenegro was, in 2013, placed 52<sup>nd</sup> among 187 countries and is – therefore – one of the countries with a high level of human development.<sup>21</sup> In the last World Bank ‘Ease of Doing Business’ report covering 2014, Montenegro is in 44<sup>th</sup> place among 189 countries.<sup>22</sup> Regarding economic freedom, Montenegro is in 2014, from among 186 countries, in 68<sup>th</sup> position,<sup>23</sup> as a result of which Montenegro is classified in the group of moderately free countries. Meanwhile, the experience of corruption has been lowered: from the standpoint of the Corruption Perceptions Index, compiled by Transparency International, Montenegro occupied 67<sup>th</sup> spot in 2013 on the list of 177 countries. In comparison, Montenegro was in 97<sup>th</sup> place in 2005 among 159 countries while, in 2007, out of 179 countries, it was in 84<sup>th</sup> place.<sup>24</sup>

Perhaps most interesting would be a comparison of the wealth of the citizens of Montenegro in relation to the EU and a selection of EU member states, as well as with the citizens of other western Balkan countries. This comparison is reflected in Table 1:

**Table 1 – Comparison of selected countries in terms of GDP per capita (purchasing power parity)**

	2005	2006	2007	2009	2011
<b>EU-27</b>	100	100	100	100	100
Eurozone	110	110	110	109	108
Luxembourg	254	267	267	266	274
Germany	116	115	116	116	120
Slovenia	87	88	89	87	84
<b>South-east Europe</b>					
Croatia	57	58	61	62	61
Romania	35	38	42	47	49
Bulgaria	37	38	40	44	45
Montenegro	31	36	40	41	43
Serbia	32	32	33	36	35
Macedonia	29	30	31	36	36
Bosnia and Herzegovina	25	27	28	31	29
Albania	22	23	23	28	31

Source: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=te c00114>

21 <http://hdr.undp.org/en/statistics>.

22 <http://www.doingbusiness.org/data/exploreeconomies/montenegro/>.

23 <http://www.heritage.org/index/ranking?src=home>.

24 <http://cpi.transparency.org/cpi2013/results/>.

It is obvious that all western Balkans countries (except Croatia) are very far from the average GDP per capita at EU level: all stand below 50 per cent of the EU-27 average and only Montenegro comes relatively near the poorest EU member states, Romania and Bulgaria.

It is apparent that Montenegro is able to determine a position on the list of medium-developed countries. The process of the negotiation of accession to the EU will contribute to the gradual improvement of the quality of work and life of the people living in it. It will certainly affect adjustment to the standards and practices of the European Social Model. It must, however, be pointed out that that, in fact, the soft social *acquis* as well as the open method of co-ordination present specific challenges.

Among them, a global challenge is related to changes in the world of work and society as a whole. Adult vocational and educational training, in terms of non-formal learning after the end of formal schooling, is carried out within the EU in places where adults live and work, and therefore contributes to the development of a learning society. The content of the curriculum complements the numerous, diverse, short and modular training and additional education systems, with these being based also in actual practice. On average, seven per cent of adults in the EU annually go through some form of educational programme. At the same time, the labour force in Montenegro is, on average, old, inflexible and insufficiently educated and trained. Workers do not have the knowledge and skills necessary for a modern economy that can withstand the challenges of competitive globalisation while, at the same time, only 3.2 per cent of the unemployed participate in some aspect of training.<sup>25</sup>

Due to global competitiveness and the need to achieve sustainable growth, the labour force must constantly adapt, further train or increase their own levels of competence – i.e. a combination of the knowledge, skills and attitudes that correspond to a given context. Key competences are those that are necessary for all people for their personal fulfilment and development, an active participation in social life, social inclusion and employment. When we consider the new demand for lifelong learning, key competencies include: communication in the mother tongue; communication in foreign languages; mathematical literacy and a basic knowledge of science and technology; digital competence; learning how to learn; social and civic competences; a sense of initiative and entrepreneurship; and cultural awareness and expression.<sup>26</sup>

How is the concept of these key competences understood among different social groups in Montenegro? And, most particularly, among those who are the most vulnerable, including the so-called ‘losers in the transition’? Formal education is a central part of the lifelong learning process but, in addition, adequate training and further learning is organised outside schools and universities, through involvement, employers, trade union organisations and voluntary associations. Not only governments but also individuals themselves, companies and local communities need to provide multiple opportunities for lifelong learning. This includes new educational needs and should be

25 Government of Montenegro: *Montenegro Employment Strategy 2007-2010*.

26 *Recommendation of the European Parliament and the Council on key competences for lifelong learning* (2006/962/EC), 18 December 2006: available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:394:0010:0018:en:PDF>.

reflective of the offer of new markets for training, for example. However, according to the UNDP, in 2008 only 6.8 per cent of employers in Montenegro offered some form of training to their employees.

The safety of the position of workers can not be equated with the inertia of the workplace and a guaranteed income. There is a need to develop a willingness towards constant learning as a new method of providing adequate income during a working life. Using these resources, and investing in their quality, are the main factors in development. At a time of rapid change, knowledge and skills, once acquired, rapidly becoming obsolete and, therefore, may not be sufficient to last a lifetime, as was possible in the time of classic technology. Bejaković puts it thus:

*Knowledge enough for today, is not sufficient for tomorrow.*<sup>27</sup>

All these challenges can not be resolved by the government alone. In a collision with them is the whole of society, so the wider economy, the social partners and civil society organisations must all adapt themselves to European methods, especially to the open method of co-ordination.

It should be noted that the most important strategic documents regarding employment in Montenegro have significantly drawn upon experience developed in the EU. Such documents follow the guidelines, objectives and criteria laid down for the development of employment policies in EU member states on the basis of the European Employment Strategy. All of this will facilitate an approach to the further development of the strategic document for Employment and social inclusion,<sup>28</sup> in accordance with the open method of co-ordination. These documents will, very soon, appear on the agenda, as will other Montenegrin responses to the challenges posted by ‘Europe 2020’ as well as ‘SEE 2020’.

Montenegro needs to localise and adjust its circumstances, abilities and needs towards the objectives defined by these strategies. Autonomous and participatory development has defined the strategic framework of Montenegro but this has, in any case, to take into account the objectives and mechanisms defined in ‘Europe 2020’ in order to ensure compliance with the European economic and social model. However, lightly transcribed and neatly-worded European initiatives or, as also happens, copying of the institutional mechanisms established in developed countries, can not give successful results in countries in transition, such as Montenegro.

For example, one of the Union’s objectives for inclusive growth is attaining the level of a 75% employment rate for women and men aged between 20 and 64. This is envisaged as being achieved by introducing more people into work, especially women, young people, the elderly and low-skilled people and legal migrants. This goal stems from the current situation in the EU, where the employment rate is 68.7 per cent. In

- 27 Bejaković, Predrag (2005) ‘How prepared is Croatia for a knowledge-based society?’ in: Katarina Ott (Ed.) *Croatian Accession to the European Union, Facing the Challenges of Negotiations* Institute of Public Finance, Friedrich Ebert Foundation: Zagreb, pp. 107-125.
- 28 Successor to the Joint Memorandums on Social Inclusion and the National Action Plans for Combating Poverty and Social Exclusion, which were used in the previous financial perspective.



Montenegro, however, counting the population aged between 15 and 64, the current employment rate is only 46.2 per cent while the unemployment rate is 20.1 per cent. Thus, large differences in the baselines must, logically, be recognised in different objectives and methods.

How far Montenegro is from the EU starting point in defining its strategic development goals is further shown by the following example: only nine per cent of Montenegrins have higher education compared to the EU average, which stands at 18 per cent. Another example, related to the objectives of ‘Europe 2020’ is that, at the European Union level, investment in research amounts to 1.85 per cent of GDP, with the ultimate goal being to increase this to 3 per cent. In Montenegro, the baseline for the same goal in this area is 0.12 per cent of GDP.

## Conclusions

Montenegro is passing a historic crossroads between conflict and peace. After years of ethnic and ideological conflict, and attempts to resolve concerns about the status of the state, a period of the stabilisation of political relations has begun. Having established its independence, Montenegro has slowly come to a ‘classic’ transitional approach to political conflicts such as issues of social standards, poverty, wages, corruption, privatisation, etc. From an economic and social point of view, the present process in the field of industrial relations could be described as a transition from industrial and social conflicts to a social peace that needs to be built and accomplished through functional mechanisms of social partnership.

However, the key institutions in Montenegro, as well as the wider public, do not yet show a strong enough awareness of the importance of adaptation to the European Social Model. This is evidenced by opinion polls that continually show that most citizens support the process of accession to the EU without having a substantial knowledge of this process or of the EU as such.

The European Union has continuously developed its own way of linking sustainable economic development, poverty reduction and the development of an inclusive society. The open method of co-ordination and the European Social Model, with specific budgetary support for economic growth and human development, are an additional challenge to all accession countries. It is very important for them to be on time and adequately prepared for participation in the EU policy of economic, social and territorial cohesion. The country is closer to EU membership and, as such, it needs to develop a stronger absorption capacity for the utilisation of the pre-accession funds, as a prerequisite for the absorption of the much higher structural and cohesion funds when it becomes a member state.

There have been attempts towards the uncritical and mechanical copying of the instruments and mechanisms of the European Social Model in western Balkans countries. Some mechanisms can, in certain social situations, be very effective but, in other circumstances, or in a different social environment, the same mechanisms may have very limited effects. They could constitute no more than an empty form, without substantial meaning. That is why the EU integration process, for western Balkans countries, means the need to strengthen the capacities of all societal bodies, including the social partners, for efficient and effective participation in the European Social Model.