

CHAPTER 27.

IMPORTANCE OF THE EU INTEGRATION PROCESS FOR THE IMPROVEMENT OF LEGAL ENVIRONMENT IN WESTERN BALKAN COUNTRIES¹

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Abstract:

This chapter aims to focus and further develop the issue of the importance of the EU integration process for the improvement of the regulatory quality and rule of law in Western Balkan countries. The process of legislative reforms started in parallel with their transition process from socialist to free market economies. It was mostly ad hoc and focused on key economic laws. The EU process accelerated legislative reforms, contributing to a more systemic approach in the creation of a new legal system. The improvement of the quality of regulations and their implementation is of crucial importance for the creation of a more favourable business environment, especially in the period of economic crisis. The region could benefit from the EU's "smart regulation" approach by making regulatory reform a key vehicle for promoting support for economic recovery in the post-crisis period. Institutional infrastructure is of utmost importance for the efficient implementation of laws. Regional co-operation is an essential factor for political stability and economic prosperity. The harmonization of national legislation with the acquis will lead to the harmonization of the legislation within the region as well, positively influencing the quality of regional legal and regulatory environment. The chapter begins with the chronology of the legislative reforms in the region. The second part gives the progress achieved in the EU accession process, while the third part analyses the influence of the EU accession process on their legal environment. The chapter concludes with the importance of

¹ This chapter is a part of research projects: 47009 (*European integrations and social and economic changes in Serbian economy on the way to the EU*) and 179015 (*Challenges and prospects of structural changes in Serbia: Strategic directions for economic development and harmonization with EU requirements*), financed by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

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the regional harmonization of the national legal systems, for the creation of a favourable investment climate on the regional level.

Key words: *Regulatory reform, EU integration process, legal environment, Western Balkans*

INTRODUCTION

The transition process of Western Balkan Countries from socialist economies to free market economies started in an environment in which legal systems were outdated and contained many provisions and concepts which did not comply with a market economy legal system (see also Jalilian, H., C. Kirkpatrick and D. Parker, 2007). The legislative environment was chaotic and non-transparent, with serious deficiencies such as: (i) lack of regulation in some areas, excessive regulation in other areas; (ii) a lack of capacity for drafting complex legislation; (iii) quick drafting and adoption of laws resulting in poor quality and difficulties in implementation; (iv) old-fashioned way of thinking – all problems can be overcome by regulating and lack of insight in alternative methods, etc.

In the early 2000s, the initial phase of transition from a socialist legal system to a market economy one, the intensive legislative reform agenda was mostly focused on creating market-friendly laws relevant to the functioning of a market economy and the reduction of unnecessary administrative burdens. The international community, the World Bank and the IMF in particular, have played an important role in the post-conflict period in the Western Balkan region, with the aim of accelerating the reform process, which would result in the transition of these countries to market economies with better economic growth prospects. In the early period of transition, characterized by an inherited legal system from the period of socialism not in line with market economy standards, these two international financial organizations have initiated the creation of a basic legal foundation for sound economic development. A number of other international and bilateral organizations and donors strongly supported this process, through financial aid and technical assistance (Penev, Marušić, 2009), (see also Thomas, M, 2007).

The process of legislative reforms started with a focus on deregulation and simplification, aiming to eliminate the inherited legislation from the former socialist period, in order to reduce regulator risks and barriers to private investment (domestic and foreign). However, due to lack of regulation in some policy areas (company law, taxation, competition), in addition to deregulation, it was necessary to engage in re-regulation in order to regulate these areas as well.

Due to the lack of capacities for drafting complex legislation, as well as fast drafting of laws without proper consultation, there was a practice of adopting legislative solutions from advanced economies, without simultaneous adjustment of the local legal environment causing problems of coherence and implementation.

The main characteristic of this initial phase of the legislative reforms in the region is that it was mostly ad hoc and focused on the key economic laws, but it also created the necessary preconditions for more systemic reforms which started with the initiation of the process of EU accession of Western Balkan Countries. The EU accession process not only significantly accelerated activities in the area of legislative reforms, but also contributed to a more systemic and comprehensive approach in the creation of a new legal system. However, this process was gradual and often, if national identity run counter to democratic requirements, this 'blocked' compliance by framing it as inappropriate action (Freyburg T and S. Richter, 2010)

The national plans for harmonization with the EU *acquis communautaire* represented the basic platform for the implementation of the harmonization process in all countries in the region (except Bosnia and Herzegovina). From this a more systemic approach to legislative reforms was initiated in Western Balkan Countries.

The better and smart regulation agenda in the EU has a significant impact on Western Balkan Countries legislative reform. Most of the countries in the region have undertaken reforms to simplify and render more competitive the EU Better Regulation Action Plan, which was perceived as one of the most crucial milestones for achieving the ambitious Lisbon Goals highly influenced the regulatory reform agenda in the Western Balkan Countries.

Their business environment, and in that context the continuation of EU harmonization process and the implementation of some segments of EU better and smart regulation agenda, should be among the key concerns for the countries in the region.

Simplification efforts have evolved in recent years in the context of growing pressure from businesses to reduce administrative burdens and improve economic performance, in particular in the context of the current global financial and economic crisis. Even at the EU level, simplification is an important part of the regulatory reform agenda, as seen through the goal of reducing administrative burdens by 25% and establishing the Impact Assessment Board. In the period of economic crisis, the improvement of the quality of regulations and the reduction

of unnecessary administrative burdens that affect business activities and investments of both foreign and domestic investors in Western Balkan countries are of crucial importance for the creation of a more favourable business and investment environment.

EU ACCESSION PROCESS IN WESTERN BALKAN COUNTRIES

The EU accession process of Western Balkan Countries was formalized through the signing of the Stabilization and Association Agreements (SAA), The SAA provides the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU. Macedonia was the first country of the region to sign the SAA (2004), followed by Albania (2006), Montenegro (2007), and Serbia and Bosnia and Herzegovina (2008). Although the Western Balkan countries are at different stages of integration into the EU, all consider full membership their main political and development objective. The EU accession process and the fulfilment of Copenhagen Criteria have become especially important for the Western Balkan countries in the context of the global economic crisis, which has affected them greatly. As the economic crisis affected all Western Balkan countries, slowing down their progress in reforms and affecting their progress towards the EU, structural and regulatory reforms would have to be intensified.

The European Council meeting held in June 1993 in Copenhagen identified the economic and political requirements candidate countries need to fulfil to join the EU. These requirements are known as the Copenhagen Criteria:

- political criteria: stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
- economic criteria: the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union;
- acceptance of the Community acquis: the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

Any country that wishes to join the EU, including the Western Balkan Countries, must meet these criteria. However, for the European Council to decide to open negotiations, the political criteria (respect for human rights and democracy) must be met. Once accession negotiations have been opened, the Commission assesses the ability of the candidate country to satisfy all the Copenhagen Criteria.

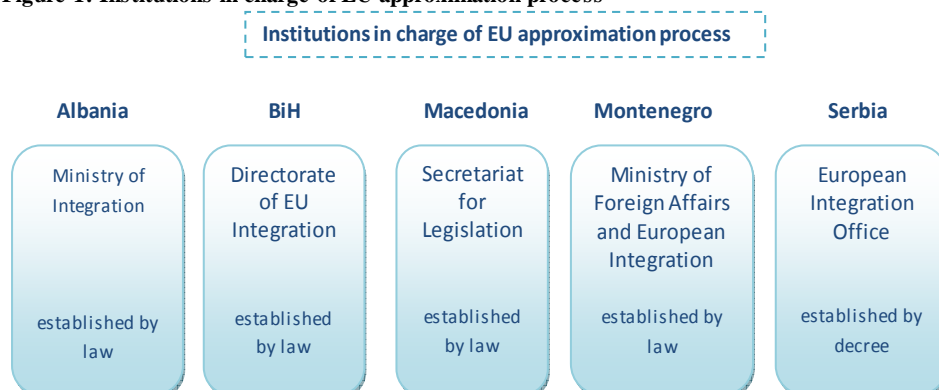
In June 2003, the Thessaloniki EU-Western Balkans summit confirmed the EU's support for the European perspective of the Western Balkan countries; as a result,

the countries in the region strengthened their efforts toward EU accession commitments, fair and rigorous conditionality and better communication with the public, combined with the EU's capacity to integrate new members. The Lisbon Treaty's entry into force (December 2009) ensures that the EU can pursue its enlargement agenda.

Implementation of the *acquis* is an important precondition for the improvement of the quality of the regulatory environments of Western Balkan countries, aimed at increasing competitiveness of their economies. Approximation of EU regulation based on the third Copenhagen criterion, has been the fundamental element of their regulatory reform.

All Western Balkan countries with the exception of Bosnia and Herzegovina have adopted comprehensive National Programs for Integration into the European Union, providing for approximation of their national legislation to the EU *acquis*. The countries in the region have established institutions responsible for the EU approximation process, which differ among them according to the position which they have in the government structure and according to the legal instrument by which they were established. Albania is the only country in the region in which a separate ministry is responsible for the EU integration agenda, while Montenegro abolished such a ministry, and established the General Directorate for EU Integration which is not part of the Ministry of Foreign Affairs. In the other countries of the region, the EU integration agenda has been placed in either an independent directorate established by law (BiH) or a separate European integration office established by Decree (Serbia). The Secretariat for Legislation is the institution in charge of the control of the approximation process in Macedonia, in addition to its basic competence – harmonization of proposed laws with the legal system in general and the constitution (See Figure 1. and Table 1.).

Figure 1: Institutions in charge of EU approximation process



Source: WEB sites of the institutions in charge of the EU integrations

Table 1: EU Institutional Structures in the Western Balkan countries

EU Institutional Structure				
Albania	BiH	Macedonia	Montenegro	Serbia
Ministry of Integration EU co-ordination mechanism, including: <ul style="list-style-type: none"> • Strategic Planning Committee, chaired by the Prime Minister • Ministerial Committee on EI, chaired by the Prime Minister • Inter-Institutional Coordinating Committee whose membership is at general secretary or director-general level • 35 expert working groups, chaired by the deputy minister of the lead ministry 	Directorate for EU integrations; Institutions in charge of EU co-ordination among the state and entity level: <ul style="list-style-type: none"> • State level: Directorate for EU integrations; • FBiH level: PM's office • Republika Srpska: Ministry for economic relations and regional development 	Secretariat for European Affairs (SEA) EU co-ordination mechanism, including: <ul style="list-style-type: none"> • The Working Committee on European Integration, <i>chaired by the Deputy Prime Minister</i> responsible for European Integration • A sub-committee on European integration, <i>chaired by the State Secretary of the SEA</i> 	Ministry of Foreign Affairs and European Integration Structure for negotiations: <ul style="list-style-type: none"> • Negotiations Collegium of the Government of Montenegro chaired by the Prime Minister and comprising of the Vice Prime Ministers, Minister of Foreign Affairs and European Integration and the Main Negotiator • State Delegation • Negotiations Group • Working Groups • Office of the Main Negotiator • Secretary of the Negotiations Group 	European Integration Office EU co-ordination mechanism, including: <p>The inter-ministerial co-ordination arrangements for EI are the following:</p> <ul style="list-style-type: none"> • The Council for European Integration, chaired by the Prime Minister, • The co-ordinating body for the accession of the Republic of Serbia into the EU chaired by the Prime Minister • The expert group of the co-ordination body, • 35 sub-groups of the expert group corresponding to the various chapters of the <i>acquis communautaire</i>, • EI units in all ministries

Source: WEB sites of the institutions in charge of the EU integrations

Macedonia has been a candidate country since 2005, but has not yet started negotiations with the EU. The last progress report (12 October 2011) confirms that the country is ready to start accession negotiations. However, the problem with the name issue with Greece remains to be resolved. The European Council officially granted the country candidate status to Montenegro on 17 December 2010 and it is expected that negotiations will be opened in 2012. Serbia was

granted candidate status in March 2012, but the opening of the negotiations depends on the progress of the negotiations between Serbia and Kosovo related to the normalization of the ties between Serbia with its former province of Kosovo through EU-mediated negotiations in Brussels. Albania has ratified Stabilization and Association Agreements (SAAs) and the European Commission has adopted opinion on its membership application, recommending that accession negotiations be opened once the country has achieved the necessary degree of compliance with the membership criteria. Bosnia and Herzegovina is a potential candidate country that has signed the SAA with the Commission (Table 2).

Table 2: Timeline of the signing of the SAA and acquiring candidate status

	Signing of the Stabilization and Accession Agreement	Decision by the European Council to grant candidate status
Macedonia	2004	2005
Albania	2006	/
Montenegro	2007	2010
Serbia	2008	2012
Bosnia and Herzegovina	2008	/

Source: <http://ec.europa.eu/enlargement/>

INFLUENCE OF THE EU ACCESSION PROCESS ON THE LEGAL ENVIRONMENT IN WESTERN BALKAN COUNTRIES

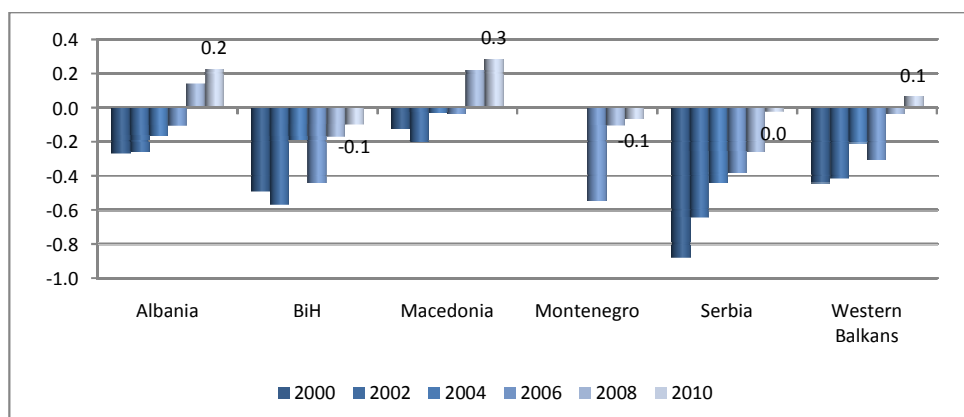
With the initiation of the transition process in the Western Balkan countries, their inherited legal systems were outdated and contained many provisions and concepts from their socialist past. In addition, the legislative environment was chaotic and non-transparent, with serious deficiencies such as (i) excessive regulation in certain areas, (ii) a lack of necessary regulation in other areas, (iii) a lack of capacity for drafting complex legislation, and (iv) low quality of some new laws due to excessively fast drafting and enactment of laws (Penev, Marušić, 2009). The transition process was focused on the change of the legal system from a socialist system to a market oriented one, having some positive influence on the quality of laws (Figure 1) (see also Thomas, M. 2007).

The intensification of the EU accession process, including the progress in the EU approximation, had further positive impact on the improvement of the quality of laws. According to the Commission's annual Progress Reports which monitor and assess the political and economic situation in the countries of the region and the implementation of reforms and related measures, all the countries of the region

have been consistently making progress in the approximation of their legislation, but further efforts are needed to strengthen administrative capacities for the implementation and enforcement of legislation (see more in European Commission, 2011). These findings are also confirmed by the World Bank Governance Indicators, which measure the quality of laws and their implementation in more than 200 countries (see Figure 2.).

In the last decade, countries of the region achieved notable improvement in the quality of laws. This improvement was directly influenced by the progress each of the countries in the region achieved in their EU accession process. Macedonia, which has been an EU candidate country since 2005, has achieved the biggest progress in regulatory quality in the region. Similar progress was achieved in Albania, while the other countries in the region are slightly lagging behind them.

Figure 2: World Bank Worldwide Governance Indicators: Regulatory Quality, 2000-2010

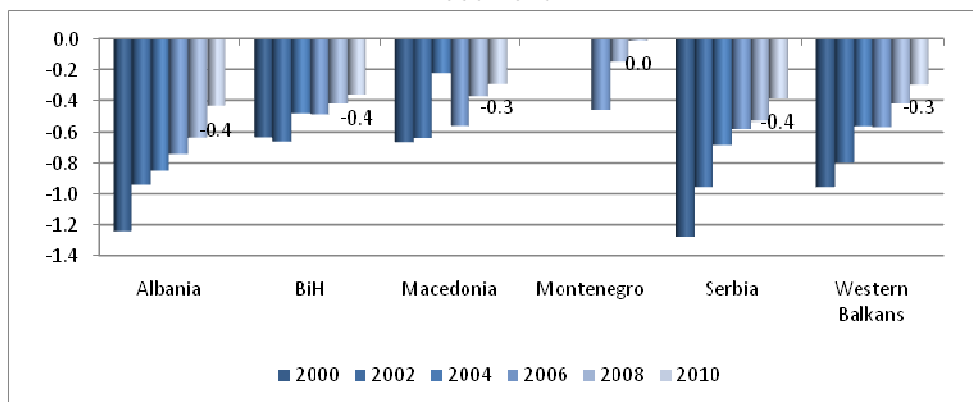


Source: World Bank Governance Indicators Database

Note 1: The values of indicators range from -2.5 to 2.5, with higher scores corresponding to better outcomes

In addition to the reforms of the legislative framework, building of institutional infrastructure is of utmost importance for the efficient implementation of laws and rule of law. Progress in the implementation of laws is significantly lagging behind the achieved progress in legislative quality, as the institutional building process requires serious reform efforts, which is confirmed by the World Bank Governance Indicators which measure the achieved level of the rule of law implementation (Figure 3). According to this data, Montenegro has achieved the biggest progress in securing rule of law in the region, followed by Macedonia, while all the other countries in the region are below the average of the region.

Figure 3: World Bank Worldwide Governance Indicators: Rule of law, 2000-2010

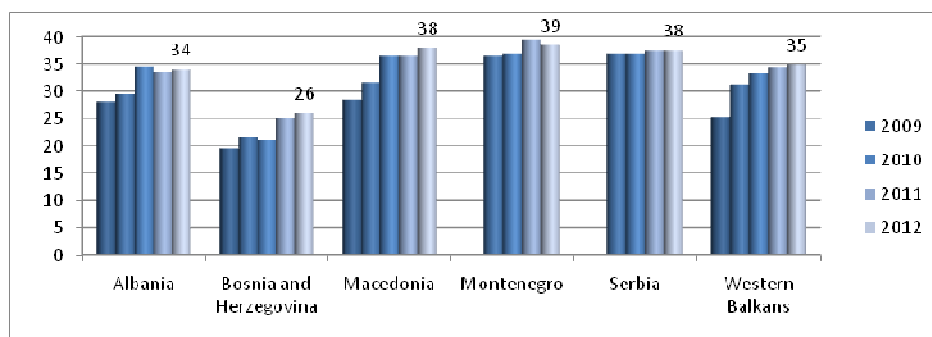


Source: World Bank Governance Indicators Database

Note 1: The values of indicators range from -2.5 to 2.5, with higher scores corresponding to better outcomes

The findings related to the quality of the rule of law of the Heritage Foundation⁴ only confirm the findings of the World Bank Governance Indicators (see Figure 4). According to the Heritage Foundation data related to the rule of law, Montenegro has also achieved the biggest progress, followed by Serbia and Macedonia, while Bosnia and Herzegovina and Albania are below the regional average.

Figure 4: Rule of law* - Heritage Foundation Index, 2008-2012



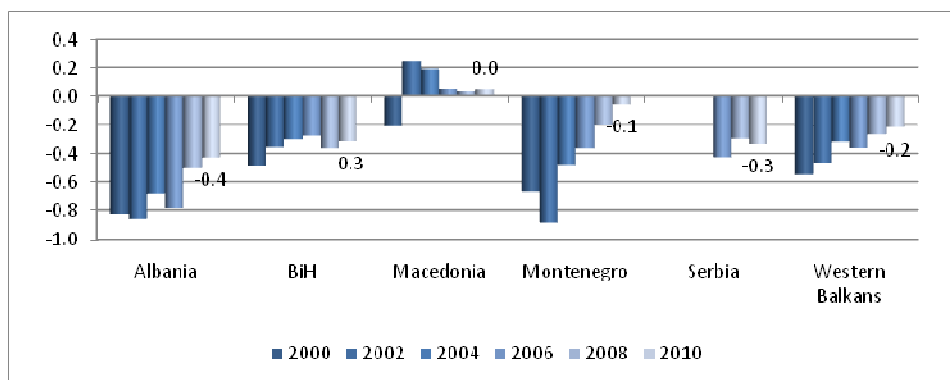
Note 1: The values of indicators range from 0 to 100, with higher scores corresponding to better outcomes

*Rule of law (property rights, freedom from corruption);

⁴ The Heritage Foundation’s report sets principles related to the rule of law including: (i) the separation of powers between the judicial, executive and legislative branches of government, (ii) compliance with the law by government and the proper functioning of the judiciary, and (iii) the consistent application of fair procedures by the administration.

The essential preconditions for safeguarding the rule of law are to secure a judiciary which is independent and efficient and which has high standards of impartiality, integrity and quality of adjudication. In addition, the rule of law is strongly inter-related to the level of corruption in a country. A sound legal framework and reliable institutions are necessary in order to underpin a coherent policy of prevention and deterrence of corruption (EU 2011 analytical reports for the Western Balkan Countries). According to the World Bank Governance Indicators, Macedonia is the country in the region with the lowest level of corruption, followed by Montenegro, while the level of corruption in Albania is the highest in the Region (Figure 5).

Figure 5: World Bank Worldwide Governance Indicators: Control of Corruption, 2000-2010



Source: World Bank Governance Indicators Database

Note 1: The values of indicators range from -2.5 to 2.5, with higher scores corresponding to better outcomes

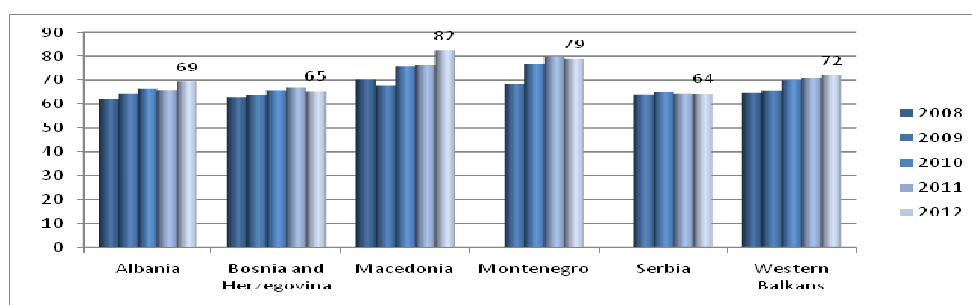
The countries in the region have initiated reforms of the judiciary and they have established the relevant institutional and legal framework to combat corruption, but these reform areas are among the most demanding and dependent on strong political support. Therefore, in the areas of judiciary reforms and anti-corruption policies, considerable and sustained efforts are still needed to align these areas with the EU *acquis*.

The slow progress in this area represents an impediment for the progress in the implementation in other key areas relevant for the establishment of a functional legal system characteristic for a market economy.

Regulatory efficiency also represents an important indicator related to the quality and implementation of laws. The Heritage Foundation's regulatory efficiency encompasses three indicators: business, monetary and labour freedom. The

business freedom is a quantitative measure of the ability to start, operate, and close a business. The Labour Freedom component is a quantitative measure that looks into various aspects of the legal and regulatory framework of a country's labour market. The monetary freedom combines a measure of price stability with an assessment of price controls. Both inflation and price controls distort market activity. In these indicators Macedonia has also the top position in the region, followed by Montenegro, while Serbia and Bosnia and Herzegovina are lagging behind the regional average (see Figure 6).

Figure 6: Regulatory Efficiency- Heritage Foundation Index (2008-2012)



**Regulatory efficiency (business freedom, labour freedom, monetary freedom);*

Note 1: The values of indicators range from 0 to 100, with higher scores corresponding to better outcomes

When it comes to other indicators relevant for regulatory efficiency, the World Bank Doing Business rankings measure performance in 183 countries in the overall ease of doing business, as well as its sub-indicators which include starting a business, dealing with construction permits, protecting investors etc. The World Bank Doing Business rankings are considered to be quite important in the countries in the region, and some countries, such as Montenegro and Macedonia, include in their regulatory reform strategies activities related to the improvement of these rankings. The entire region lags significantly behind the average rankings of the EU 10 member states, with the exception of Macedonia, which is ranked as the 22 among 183 countries of the World by the overall ease of doing business, due to the successful implementation of the Government program on the improvement of the business environment. According to the average rankings for the Western Balkans per dimension in Doing Business 2012, protecting investors is the dimension with the best performance, while dealing with construction permits has been one of the most burdensome administrative procedures for enterprises (see also Sanfey, P. and S. Zeh, 2012).

Table 3: World Bank Doing Business Rankings, 2012

	Albania	Bosnia and Herzegovina	Macedonia	Montenegro	Serbia	Western Balkans	EU 10 [□]
EASE OF DOING BUSINESS RANK	82	125	22	56	92	75	47
Starting a Business	61	162	6	47	92	74	72
Dealing with construction permits	183	163	61	173	175	151	91
Registering Property	118	100	49	108	39	83	44
Protecting Investors	16	97	17	29	79	48	69
Paying taxes	152	110	26	108	143	108	98
Trading Across Borders	76	108	67	34	79	73	54
Enforcing Contracts	85	125	60	133	104	101	50
Resolving insolvency/Closing business	64	80	55	52	113	73	59

Source: World Bank Doing Business 2012

Note 1: Ease of Doing Business Rank among 183 countries in 2012

Note 2: Values above the Western Balkans average are marked by grey

EU HARMONIZATION PROCESS AND REGIONAL HARMONIZATION: PROGRESS ACHIEVED AND CHALLENGES AHEAD

The Stabilization and Association Process is not simply a bilateral process with each country. The Zagreb Summit placed considerable emphasis on the central need for regional co-operation as part of the EU's "contract" with the Stabilization and Association Process countries. Similarly, enhanced regional co-operation is one of the major objectives set down in the Thessaloniki Agenda. The Stabilization and Association Agreements include a clear commitment to regional co-operation. The EU's policy objectives are principally: (i) to encourage the countries of the region to behave towards each other and work with each other in a manner comparable to the relationships that now exist between EU Member States, (ii) the creation of a network of compatible bilateral free trade agreements which means that there are no barriers to goods moving between the countries of the regions themselves nor with the EU and, in effect, neighbouring candidate countries, (iii) the gradual re-integration of the Western Balkan region into the

infrastructure networks (TENS) of wider Europe (transport, energy, border management); (iv) to persuade the authorities in the countries of the region to work together to respond effectively to the common threats to the region's and the EU's security which come from organized crime, illegal immigration and other forms of trafficking. In many cases, e.g. on visa policy, a common approach by all the countries will be needed to deal with the threat effectively.

Regional co-operation in the Western Balkan is an essential factor for political stability and economic prosperity and the only way for the countries of the region to successfully address key common challenges (such as energy shortages, pollution, transport infrastructure, cross-border criminal activities etc.).

The EU is involved in numerous activities of regional relevance to the Western Balkan countries and their EU agenda, including the signing of the CEFTA, as a major step forward for regional economic cooperation, with the aim of creating a free-trade area for the Western Balkans. This process strongly influenced the level of EU harmonization of the chapters related to this economic area, which resulted in a relatively high level of harmonization among the countries in the region. Deeper regional integration can be achieved by a regional approach to the improvement of the legal and regulatory environment in the Western Balkan region. This is why CEFTA could be a good model for the creation of a harmonized legal framework in the Western Balkan region as a whole. Similar cooperation in other policy areas would accelerate the level of regional harmonization in other *acquis* spheres.

The importance of regional cooperation was subsequently reiterated in numerous Commission and EU Council documents, including the Commission's enlargement strategy 2009-2010 (European Commission, 2009) and the conclusions of the General Affairs Council (December 2009). Regional cooperation is a cornerstone of the EU's policy framework for the Western Balkans — the stabilization and association process, which offers the possibility of eventual EU membership. EU integration goes hand-in-hand with regional cooperation; the former is the decisive factor in stimulating the latter (Delevic, M. 2007).

Deeper regional integration might be achieved via regional approach to the improvement of the legal and regulatory environment in the Western Balkan region.

CONCLUSIONS

The process of legislative reforms started with the initiation of the transition process of Western Balkan Countries from socialist economies to free market economies. It was mostly focused on deregulation and simplification, aiming to eliminate the inherited legislation from the former socialist period.

The process of legislative reforms in the region was mostly ad hoc and focused on the key economic laws, but also created the necessary preconditions for more systemic reforms which started with the initiation of the process of EU accession of Western Balkan Countries. The EU accession process not only significantly accelerated activities in the area of legislative reforms, but also contributed to a more systemic and comprehensive approach in the creation of a new legal system. Implementation of the *acquis* is an important precondition for the improvement of the quality of the regulatory environments of Western Balkan countries, aimed at increasing competitiveness of their economies. Approximation of EU regulation based on the third Copenhagen criterion, has been the fundamental element of their regulatory reform.

In the last decade, countries of the region achieved notable improvement in the quality of laws. This improvement was directly influenced by the progress each of the countries in the region achieved in their EU accession process. Western Balkan countries could benefit from the EU's "smart regulation" approach by making regulatory reform a key vehicle for promoting support for economic recovery and growth in the period of crisis and post-crisis.

Even though countries of the region have made different progress with adopting legislation aligned with the EU *acquis*, the region as a whole has particularly progressed in the following economy related areas: Customs Union, External Relations, Enterprise and industrial policy, Company law and Taxation. Free movement of goods and Agriculture and rural development are the economic areas in which the region has to invest considerable and sustained efforts to align with the EU *acquis* and to implement it effectively in the medium term.

In addition to the reforms of the legislative framework, building of institutional infrastructure is of utmost importance for the efficient implementation of laws and rule of law. Progress in the implementation of laws is significantly lagging behind the achieved progress in legislative quality, as the institutional building process requires serious reform efforts. The essential precondition for safeguarding the rule of law is to secure a judiciary which is independent and efficient and which has high standards of impartiality, integrity and quality of adjudication. In addition, the rule of law is strongly inter-related to the level of corruption in a

country. A sound legal framework and reliable institutions are necessary in order to underpin a coherent policy of prevention and deterrence of corruption. In the areas of judiciary reforms and anti-corruption policies, considerable and sustained efforts are still needed to align these areas with the EU *acquis*. The slow progress in this area represents an impediment for the progress in the implementation in other key areas relevant for the establishment of a functional legal system characteristic for a market economy.

Regional co-operation in the Western Balkan is an essential factor for political stability and economic prosperity and the only way for the countries of the region to successfully address key common challenges.

The regional approach to improving the legal and regulatory environment, which underscores the necessity of regional cooperation in regards to improving quality and implementation of laws at the regional level, should be strengthened and continued.

Deeper regional integration might be achieved via regional approach to the improvement of the legal and regulatory environment in the Western Balkan region. The regional approach to improving the legal and regulatory environment, which underscores the necessity of regional cooperation in regards to improving quality and implementation of laws at the regional level, should be strengthened and continued. The harmonization of national legislation with the *acquis* will lead to the harmonization of the legislation within the region as well, thus establishing a harmonized regional legal and regulatory framework.

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