

**The Road to Europe – Program of Accounting Reform and Institutional Strengthening**

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Ladies and Gentlemen,

- While we are here to discuss the Road to Europe - Program of Accounting Reform and Institutional Strengthening (REPARIS), I would like to stress that the REPARIS is not conducted in a vacuum. As you may know, the accounting and auditing ROSC reports have been conducted in over 30 countries worldwide, including all new EU Member States and most countries of South Central and South East Europe. In the region, these reports have formed the analytical underpinnings for the “Road to Europe - Program of Accounting Reform and Institutional Strengthening”, dubbed REPARIS.
- We have named this regional program the “Road to Europe” because it is very much about enacting, implementing and enforcing the relevant portions of the European Union’s *acquis communautaire*, aimed at improving financial reporting. The policy recommendations that we will discuss today could be implemented under the REPARIS program.
- Before getting into specifics about reforming corporate financial reporting, I would like to highlight the unique and historical transition that has taken place over the last fifteen years. The region of Central and Eastern Europe has undergone an economic transition from central planning to a market economy. At the same time, there was a political shift from authoritarian political systems to pluralistic democracies. And in May 2004, the European Union went through its fifth and the largest enlargement since the creation of the European Community. It admitted ten new countries, eight of which are a part of the Europe and Central Asia Region of the World Bank.
- The European Union stressed several times that the historic process of Europe's unification will not be complete until the countries of the Balkans join the Union.

- The Copenhagen European Council (in December 2002) confirmed the European perspective of the countries of the Western Balkans, as potential candidates, and underlined its determination to support their efforts to move closer to the European Union. Later the European Council (in March 2003) reiterated that the future of the Western Balkans is within the EU and pledged its full support to promote economic development. The Balkans will be an integral part of a unified Europe. The ongoing enlargement should inspire and encourage the countries of the Western Balkans to follow the same successful road of reforms and to increase their efforts in that direction.
- The responsibility for the Western Balkans was recently transferred from DG Relex to DG Enlargement. It is a strong signal to the Balkan countries concerned that they are part of the process of European integration, and the shared goal is their future membership in the EU.
- The benefits of joining the EU are numerous: growth, development of foreign direct investments, growth of population's savings and investments, enlargement of capital markets (new capital flows, diversity of financial products), business and private sector development, encouragement of competition, access to the EU labor market and substantial rise in population's living standard. In fact, according to a study carried out by the European Commission, enlargement can raise annual GDP growth in acceding countries by between 1.3 and 2.1 percentage points.
- However, joining the EU brings with it, added responsibilities. The European Council has agreed on a set of criteria for membership that prospective members must meet in order to be admitted to the Union. Among them, applicant countries must have a functioning market economy and the capacity to compete within the EU's single market.
- The entire body of EU laws is known, collectively, as the *acquis communautaire*. For enlargement negotiations, the *acquis* has been divided into 31 chapters. Chapter 5 (Company Law) has greatest relevance to private sector accounting and auditing.

- The European Commission underlined in the CARDS strategy paper that Western Balkans need “familiarization with the *acquis communautaire*”. This has to be focused on core *acquis* issues relating to the internal market. Further the Commission noted in the CARDS paper that the Region has to: “...develop administrative procedures in conformity with EU standards and a trade-related regulatory and policy framework compatible with international rules, which encourage trade and investment”.
- There are no short cuts on the road to European integration. Enlargement is a difficult process, it requires determination, commitment and dedication for reforms.
- Among such reforms, a key challenge is to enhance the quality of corporate financial reporting in the South Central and South East Europe, which in turn will contribute to private sector growth and financial stability through mitigating the risk of financial crises. Over the long run, this translates into long-term prosperity and the improvement of living standards. However, financial stability and growth cannot be achieved without the creation of a transparent policy environment and effective institutional framework for corporate reporting.
- Macedonia suffers from weaknesses in this regard. But we are not alone. The United States and the European Union know all too well, the implications of lax accounting and auditing standards (examples such as the Enron, WorldCom and Parmalat). Therefore, there is a huge amount of work that we must undertake. Achieving a robust financial reporting framework is crucial for all countries, as weaknesses in financial reporting have been associated with illicit corporate behavior, as well as increased fraud and corruption. Such problems have negative implications on investor sentiment and confidence and, consequently, can lead to reduced foreign direct investment and lower economic growth.
- Accounting scandals in the United States as well as in Europe have made it clear that there is a pressing need for accounting and auditing standards that are harmonized across countries and completely enforced.

- The European Commission advocated the importance of the regional cooperation in the CARDS strategy paper 2000 – 2006, stating: “Regional cooperation is a critical component, essentially extending the EU's own philosophy to the Western Balkan region that deeper cooperation with neighboring countries is a route to national as well as regional stability. Greater economic stability in the region can only develop if the countries establish normal relationships between themselves.”
- The REPARIS is a regional program. The primary focus of REPARIS is the strengthening of institutionalized incentives based on the acquis that leads to the rigorous application of high-quality corporate financial reporting standards in the private sector. Since the timetable differs for the Region’s countries to join the European Union, some may adopt the acquis earlier than others.
- I would like to conclude with a message. Corporate financial reporting is a basic building block of the financial infrastructure. Accounting is not an end; it is a means: a means to provide transparent and reliable financial information to a wide array of users who make informed decisions based on that information. Progress has been made to date, and must continue in the future. For progress to be made, we need the active and concerted cooperation of all parties with a stake in the process.
- We have a historic opportunity: an opportunity to undertake proactive reform as a united group, on the path to joining the European Union. Let us take advantage of this valuable opportunity and advance forward to achieve far-reaching gains for the economy and, more importantly, for the citizens of Macedonia.
- Thank you.