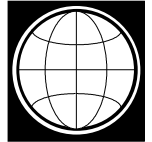




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## Regional Infrastructure Strategies and Projects in South East Europe

### Working Table 2 of the Stability Pact Sofia, 17 May 2005

#### Introduction

The Infrastructure Steering Group (ISG) was set up in September 2001 with the objective of facilitating the development of regional infrastructure in South East Europe and the integration of the countries to the European networks. The Group consists of experts from the European Commission, World Bank, European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Council of Europe Development Bank and the Office of the Special Coordinator of the Stability Pact.

In February, 2004, an ISG meeting, held at senior management level, concluded that the ISG continued to be an effective instrument for supporting the development of regional infrastructure, to ensure a level consistency and prioritization of sustainable investment strategies and to provide a forum to enhance consistency of conditionality and policy approaches among the different members. It was agreed that it should focus its work in particular on the following issues:

- Preserve an overview and strengthen the consensus among the members, as well as the countries of southeast Europe, on the regional approach and on investment programs in the energy and transport sectors
- address increasingly environmental issues in analyzing mechanisms for developing a regional approach in the environment sector (e.g. the regional environmental reconstruction program – REReP), in particular on cross country issues such as water management
- Continue the dialogue with the countries of the region and with bilateral donors.
- Maintain and update at least twice per year, the database on regional infrastructure projects held by the Joint Office for Southeast Europe and continue to identify and address the main impediments to implementation

The ISG has also met at working level in May 2004 and organized a High Level Steering Group meeting on Regional Transport, on October 25-26, 2004, which offered a successful opportunity for key donors and government representatives from the region to review Transport policies and activities in support of the Core Transport Network. Prior to the High Level meeting, on October 14, 2004, the ISG facilitated a Coordination Meeting on Rail Transport in South East Europe, which focused on two main issues: a more general discussion of the reforms needed in the rail sector in South East Europe (SEE), and the problems, mostly delays, that occur at border crossings. The most recent ISG meeting was held in March 2005. Substantial discussion covered: EU Assistance in support of infrastructure development and environment; public investment and indebtedness capacity of the countries of the region; progress in the transport, energy and environment (water) sectors.

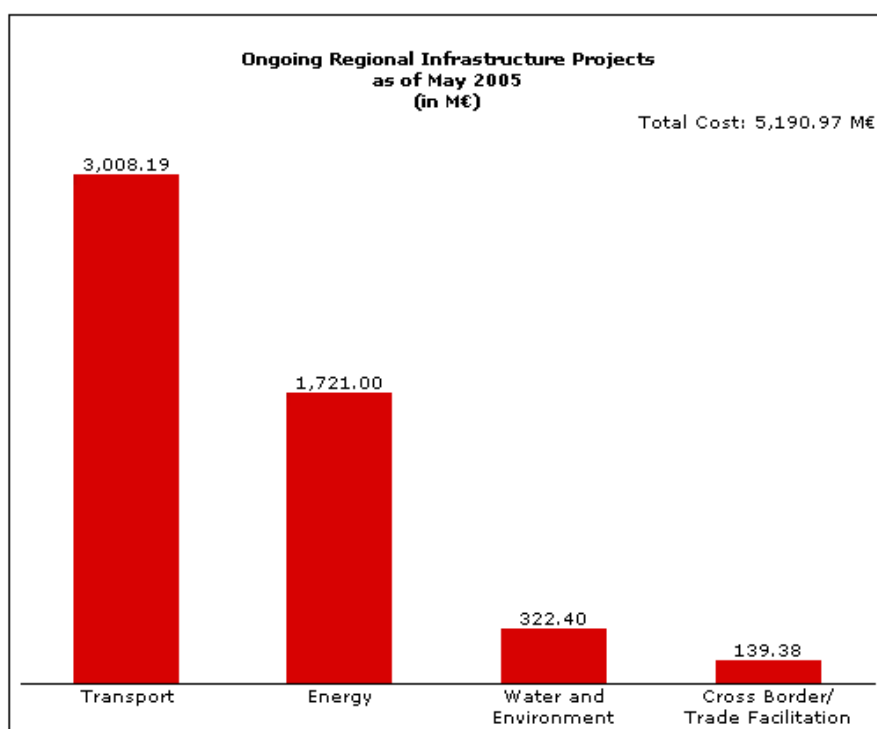
This note reports in this first part on the implementation status of the regional infrastructure projects which are included in the databank maintained by the Joint Office. In the second and third part, the note takes stock of achievements in developing a regional approach for infrastructure and related support by the ISG and its members, respectively in the transport and environmental sector.

## 1. The Regional Infrastructure Project database – Current Status

The members of the Infrastructure Steering Group substantially support the development of the regional infrastructure network. The current database<sup>1</sup> maintained by the Joint Office on regional infrastructure projects comprises a list of some 54 projects, with a total cost of €5.19 billion. These 54 projects have financing secured or under preparation with the involvement of bilateral donors or international financial institutions, and were selected according to the agreed criteria of: technical, economical and environmental feasibility; submission by two or more countries of the region; and a marked regional character. The total number of projects completed since the establishment of the databank in 2001 is eleven, with a value of €431 million. These projects have been removed from the list, but details can still be consulted on the ISG regional infrastructure projects website. Two further projects have been removed from the list because they are suspended due in one case to revised design and cost increases and in the other case to a decision by the client government not to proceed with the project.

According to latest reporting by lead agencies, substantial progress has been made in getting projects started. The number of projects that were reported to have started by the end of May 2005 was 45 or €4.21 billion of investments (81% of the total financing). A further 6 projects are expected to start before the end of 2005 (for a total value of €767.52 million).

A breakdown by sector shows (see below) that the most heavily represented sector in the databank is transport (particularly road infrastructure) which represents 58% of the overall cost, equivalent to some €3.0 billion, and spread between 32 different projects. This high representation of the transport sector is partly explained by the fact that projects contained in this database have to be of a marked regional nature, which is more likely obvious in the case of transport projects being often situated on regional axis and the core transport network.



The energy sector comes second, with a cost of €1.7 billion (33%) for twelve electricity projects with a marked regional character and which have been reviewed by the ISG. The interim Energy Community Secretariat maintains and develops a separate and broader data set on donor activities in the energy sector, which is available on the seerecon website.

<sup>1</sup> <http://www.seerecon.org/infrastructure/projects/index.html>

At this stage, only four projects in the water and environment sector, with a total cost of €0.32 billion (8%), are on the Regional Infrastructure Projects list. In view of the increased interest of the ISG in the environment sector, a comprehensive stocktaking exercise of regional initiatives and active projects has been started by the Joint Office.

A further 3 % of the projects are cross-border or trade facilitation projects for a total cost of euro €0.14 billion or 6 projects.

Since the November 2004 report on the status of regional infrastructure projects, nine new projects have been added to the list, at the proposal of ISG members.:

- Romania – Electricity Market Project, Transelectrica is the borrower, similar to EBRD's National Grid reinforcement project, US\$114 (WB + EC for Technical Assistance component)
- Serbia and Montenegro – Transport Rehabilitation Project, main focus of rehabilitation will be links to Sabac + Loznica + Valjevo (not on Core Network) US \$61.25 (WB)
- Serbia and Montenegro – Energy Efficiency Project, US \$25 (WB)
- Bosnia and Herzegovina – Road Management and Safety Project, US\$ 41.35 (WB)
- Bosnia and Herzegovina – Regional Railway project, Corridor Vc, € 201 (EBRD/EIB)
- Serbia and Montenegro – Montenegro Regional Road Rehabilitation Project, elements of Core Network, €15.3 (EBRD / EIB)
- Adaptable Program Loan (APL) facility in support of the Energy Community, first constituent loan is a €66 million loan to the Romanian hydropower generator Hidroelectrica

Two major energy projects in Turkey financed by the World Bank have also been included by the ISG in view of their relevance for the development of the energy sector in the region: the National Transmission Grid Project, US \$502 million and the Renewable Energy Project, US\$ 282 million

## **2. Transport in South East Europe – implementing a regional strategy**

The need for further planning and prioritization of transport links and for ensuring compatibility of technical standards and border crossing procedures in South East Europe<sup>2</sup> was recognized at an early stage. Following a strategy paper produced by the European Commission and entitled “Transport and Energy Infrastructure in South East Europe in 2001, a process was started which culminated in the June 11, 2004 signature of a Memorandum of Understanding (MoU) on the Development of a South East Europe Core Regional Transport Network (hereafter Core Network). The signatories of this MoU, representing the countries and entities of the region and the European Commission, committed themselves to cooperate for developing a regional transport network in SEE.

The MoU provides for reciprocal consultations on transport policy and for institutional reforms needed to make investments sustainable; and, paves the way for the implementation of a major infrastructure program to develop the Core Network. This Core Network has been agreed among the countries in line with the technical Regional Balkans Infrastructure Study<sup>3</sup> (REBIS-Transport) finalised in 2003. It includes 4300 km of railways across the five SEE countries, 6000 km of roads, major ports and airports, and, the inland waterways Danube and Sava.

The MoU also provides for setting up a regional mechanism for coordination – the Regional Steering Committee, the purpose of which will be to supervise and promote the implementation of the Core Network. Its members are senior representatives from the signatory countries and the European Commission. The Committee is assisted by a South East Europe Transport Observatory (SEETO),

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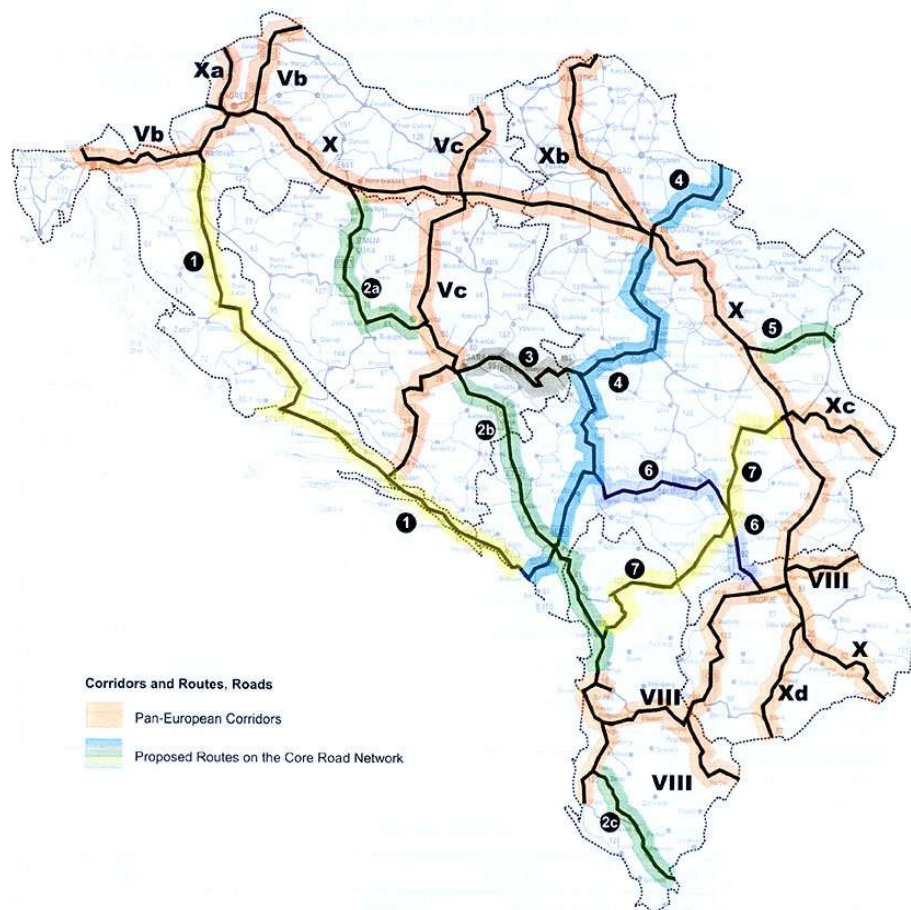
<sup>2</sup> Particularly the five countries participating in the Stabilisation and Association process and in the Trans-European Transport network

<sup>3</sup> The Regional Balkans Infrastructure Study - Transport (REBIS), aimed at assisting the SEE countries in developing coherent strategies for transport infrastructure development and at identifying priority investment in transport infrastructure. The REBIS study estimated a total of €4 billion for upgrading the existing road network to a level compatible with forecasted traffic by 2015 and a total of €12 billion for similarly upgrading the railway network.

headquartered in Belgrade. The first meeting of the Steering Committee was held on April 26-27 and addressed mainly procedural issues, agreeing on constitution and modus operandi. A second meeting, will be held in the second half of June 2005 in Sarajevo.

The ISG and its members are prepared to closely work with the regional Transport Steering committee and the SEETO. It is expected that the primary aim of SEETO will be to assist in implementing the Memorandum of Understanding on the regional transport network, to provide the basis for the signatories of the MoU to co-operate on the development of the main and ancillary infrastructure on the Network and enhance policies in this area which facilitate such development. This will involve in particular networking of transport authorities, strategic overview of the realization of the core network, institution building and support to sector policies; and, maintaining an information database. SEETO will also develop an Action Plan for the core network, the starting point for which is the information provided by the REBIS study and other relevant sources, including the participating countries, donor countries and IFIs.

**Fig 1 – The Core Road Network**



According to the REBIS study, extensive investment is required to eliminate the bottlenecks in the road and railway sector and to bring the network to an “acceptable European standard” and one compatible with forecasted traffic by 2015. In general the roads mostly have sufficient capacity to carry present traffic volumes but lack of maintenance has meant that road conditions of often very poor. Over 70% of the road network was found, in the REBIS, to be in need of some form of pavement renewal for rehabilitation. The key finding was that adequate maintenance and rehabilitation of existing roads and rail links in the network is in general more important than the construction of new infrastructure.

On several occasions, the members of the ISG discussed issues related to the development and implementation of the Core Transport Network. Overall, projects have been progressing well, with a

trend to less implementation issues being reported by ISG members. Nevertheless, some projects still encounter difficulties which result in delays to the start of or during the construction. Difficulties encountered point often to the need for better budgetary planning for ensuring that local contributions to a project are delivered. In addition, capacity within ministries and/or road and rail authorities needs to be increased in order to effectively process tenders and supervise contracted works. In some instances, project implementation units need to be more quickly established and staffed with well qualified individuals. In addition, countries often need to establish a fair process for defining compensation for acquired property and completing land expropriation.

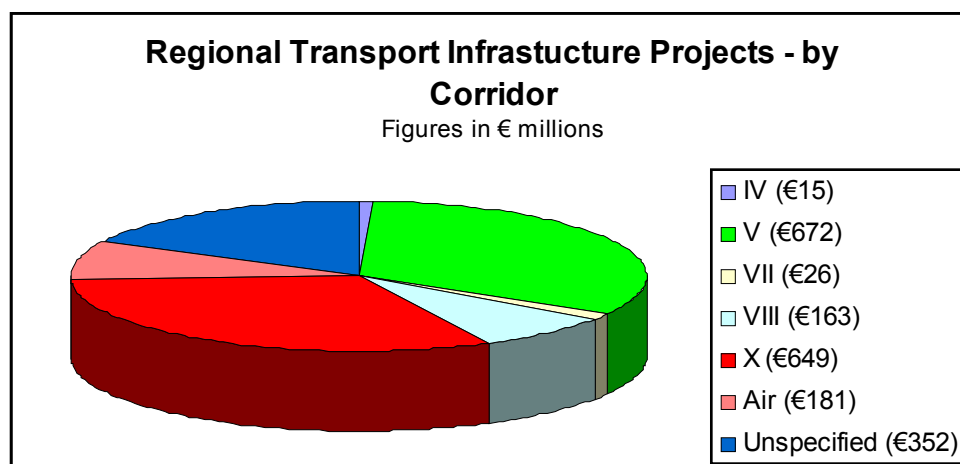
At the sector level, one of the themes that have been regularly discussed by members of the ISG is the need for careful prioritization of projects in view of the limited fiscal space and indebtedness capacities of the countries and for planning effective and lasting programs of road maintenance. Other key issues include the need to develop a balanced approach between various transport modes, while putting the railway companies on a financial sound basis and economically viable path will require significant effort. Continuing to resolve border crossing issues will be the key to improving performances in regional transport.

Ongoing and past activities of the members of the ISG already substantially support the development of the Core transport Network. There are 43 transport projects that have been included on the ISG list since it has been established, including those which have been completed (11) **for a total cost of €3.43 billion**. Almost half of this amount (€1.37 billion) has been in support of eleven projects in Bulgaria and Romania and Moldova, and located on Corridors IV, VIII and IX.

All of the other 31 completed or ongoing transport infrastructure projects, representing **€2.06 billion** of investments, have supported the development of the Core Transport Network, most of them being implemented on Corridor V and on Corridor X.

**Figure 2 – ISG monitored projects by Corridor (excludes Romania and Bulgaria) – Figures in € Millions**

Corridor	Ongoing		Completed		Total	
	Projects	Cost	Projects	Cost	Projects	Cost
IV	1	15	0	0	1	15
V	5	554	2	118	7	672
VII	0	0	1	26	1	26
VIII	5	163	0	0	5	163
X	4	638	1	11	5	649
Air	2	126	1	55	3	181
Unspecified	4	139	5	213	9	352
<b>Total</b>	21	1,635	10	423	31	2,058



### 3. Environment

In 2001 under the CARDS regional assistance programme the European Commission launched an initiative to develop a Priority Environmental Investment Programme (PEIP)<sup>4</sup> to provide a framework for investment to address the main environmental threats facing the region. Using the extensive work done by the Regional Environment Centre in Szentendre, the first step of this approach was to identify the main environmental threats from a regional rather than national perspective. This strategy took the following approach in its first phase.

- Identify regional priorities based upon a uniform methodology for the region rather than a national based approach.
- Analyse indicators of actual environmental pressures to identify the priority sectors.
- Use 'hotspot' mapping to identify the geographical location of environmental problems and identify areas where the natural environment is considerably worse than in other areas.

A list of 79 priority projects was then compiled by screening proposals from the environment ministries of the region against a number of weighted criteria developed within this framework. The criteria were:

- Strategic (consistency with national priorities, regional co-operation)
- Geographic (regional effects, population density etc.)
- Health impact
- Legal (ownership issues etc.)
- Technical (priority to modern solutions)
- Environmental
- Social (public support etc.)
- Economic and Financial (cost effectiveness)
- Level of project development (from priority to most advanced).

Following the example of the Danube-Black Sea (DABLAS) initiative the ISG was then used to consider the results of this first phase with a view to identifying a limited number of projects that would seem to offer the greatest chance of attracting IFI finance and assisting the South East European countries to align with EU environmental norms and standards<sup>5</sup>. It should be emphasised that it remains the responsibility of the countries to present these projects in the context of their discussions with the IFIs and development of future financing strategies.

The eventual aim of this work is to develop a methodological approach to an environmental project pipeline for the region with the Ministries responsible for financing investments placing greater emphasis on environmental infrastructure than is presently the case. The project pipeline developed through this work will continue to be updated to meet evolving circumstances.

Following an initial meeting of the ISG at the end of April 2005, members affirmed that they are prepared to engage in a long-term effort of cooperation with national authorities to prepare environmental investments with a view to EU integration. Some twelve projects were seen as possibly having a positive chance of securing financing from international financial institution, although, as highlighted above, the list of projects is a dynamic one; there may be projects currently on the list which do not materialize and others which will appear on the list at a later date. A number of issues were raised in the context of financing environmental investments in South East Europe:

- To be financed, projects need to fit into an agreed national public investment programmes. Countries need to actively alert their colleagues in other ministries to the existence of this exercise so that it can be taken into account when planning investment programmes.

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<sup>4</sup> <http://www.rec.org/REC/Programs/REREP/PEIP/>

<sup>5</sup> At present the work focuses, among other tasks, on updating the pipeline of projects from 2003. The aim is to present the updated pipeline on the PEIP Regional Meeting for decision makers and IFIs in September 2005.

- This exercise does not bypass existing strategies for IFI financing, but the results should be fed into discussions on future strategies.
- Some IFIs expressed the view that authorities need to consider how best to involve civil society in any consultation exercise concerning the development of projects.
- For legacies from industrial pollution, members agreed that there was a lack of clarity concerning the responsibility for environmental liability in the context of newly privatized companies
- Successful implementation of projects will require increased capacity, particularly at local level, with one of the most pressing requirements being improved intra governmental communication
- Projects identified through this exercise have not been endorsed or given priority by the donor community – they have simply been identified as those projects that seem to offer the best chance of attracting finance – if national governments support them.