



SPECIAL CO-ORDINATOR OF THE  
**STABILITY PACT**  
FOR SOUTH EASTERN EUROPE

**WORKING TABLE II - ECONOMIC  
RECONSTRUCTION,  
DEVELOPMENT AND  
CO-OPERATION**

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**WT II STRATEGY AND APPROACH FOR  
2003 AND BEYOND**

**PROGRESS REPORT**

**MAY, 2003**

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## **1. INTRODUCTION**

The plenary meeting of Working Table II (WTII) on 26 May, 2003 will provide Stability Pact partner countries and organisations with an opportunity to review progress to date on WT II initiatives, particularly those that comprise some of the Stability Pact's core objectives. In addition, the meeting will allow us identify the challenges we face in reaching our goals in 2003 and beyond.

This document serves as a progress report on the implementation to date of WT II's Strategy and Approach for 2003 and Beyond that was endorsed at the Stability Pact's Regional Table meeting in Thessaloniki on 16 December, 2002.

Following a restatement of the overall objective of WT II, the report highlights the major achievements under each activity and identifies some of the challenges that lie ahead. This summary report is supplemented by individual progress reports on the respective initiatives that have also been prepared for the WT II meeting.

## **2. OVERALL OBJECTIVE, STRATEGY AND APPROACH OF WORKING TABLE II**

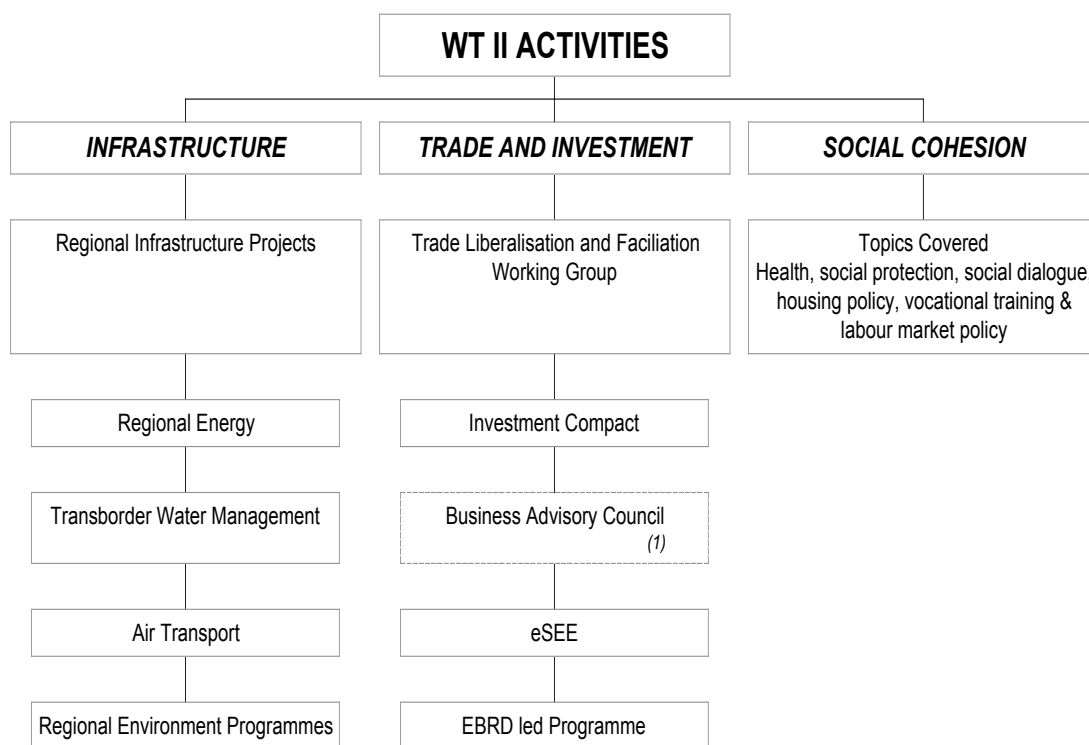
The objective of Working Table II is to promote economic reconstruction, development and co-operation in South Eastern Europe, as part of the Pact's overall objective of contributing to the stabilisation of the countries of the region and to their progressive integration into European and international structures.

As far as WT II is concerned, key initiatives are in the areas of reconstruction and modernisation of a destroyed or inadequate infrastructure; creation of a liberal environment for trade; attracting foreign direct investment and encouraging domestic private sector development without neglecting the important dimension of social cohesion.

In line with all SP activities, the various initiatives under WT II complement the on-going EU processes - the Accession Process for Bulgaria and Romania, the Stabilisation and Association Process for the five Western Balkans countries and the Partnership and Co-operation Process for Moldova. They also strengthen processes originating in the region, particularly the SEECP and those that secure regional involvement in international structures e.g. WTO membership.

## **3. ACTIVITIES**

Following the rationalisation of the Stability Pact in 2002, WT II activities are divided among three areas: - (i) Infrastructure and Environment (ii) Trade and Investment and (iii) Social Cohesion. Of the various activities undertaken by WTII, those in infrastructure, energy, trade and investment are core objectives for the Stability Pact.



The three areas can also be seen as clusters of complementary activities (e.g. adequate infrastructure will underpin the free flow of trade which in turn will stimulate investment.) WT II staff assigned to one initiative can contribute to several activities in the same area.

### 3.1 INFRASTRUCTURE

#### *Infrastructure and Energy – SP Core Objective*

Ensure that both the countries of the region and the international community take a regional strategic approach to infrastructure development based on co-financing and institutionalised partnership including transport (roads, rail, air), energy and telecommunications, with a view to prioritising capital investment in order to benefit from economies of scale.

#### *Achievable 2003*

By end of 2003, 15 more approved regional projects under construction, several new projects added to the list on basis of agreed methodology. Launch regional gas initiative; implement electricity MoU signed in Athens on 15 November, 2002; secure agreed framework to determine priority electricity infrastructure investments.

#### (i) Transport Infrastructure

##### *Actions Undertaken*

(1) The BAC activities are also linked with those of Working Tables I and III

The Infrastructure Steering Group (ISG) created under the auspices of the SP and chaired by the EC is the main co-ordinating body for regional infrastructure including energy. The ISG meets approx. 3 times per year.

The focus to date has been on the process to secure agreement to the main components of the core transport network in South Eastern Europe, particularly in the 5 SAP countries of the Western Balkans. The meeting in Luxembourg in February between ISG members and the SEE countries, presented the EC-led REBIS study (based on the Trans European Transport Network - TEN) and secured agreement from both SEE countries and IFIs for next steps including a review meeting in June and a Ministerial meeting in Autumn to sign an MoU on Regional Transport Network. Along with the electricity MoU (see below), this means that there will be an agreed regional strategy for key infrastructure sectors in SEE.

Five new projects have been added to the list of Regional Infrastructure Projects that have secured financing and approximately 50% of the 51 projects are under construction.

### ***Evaluation***

The ISG has gained momentum and increasing support from the IFIs, the EC and the SEE countries as a mechanism to develop a strategic regional approach to infrastructure development in SEE. The consultation process on REBIS and the plans to have an MoU on a Core Regional Transport Network are tangible evidence of this.

### ***Challenges***

To generate the political consensus necessary to secure agreement among the EC, the IFIs and the countries of the region on the projects that will comprise the Core Regional Transport Network and hence get agreement for the MoU. Continue to facilitate identification and removal of bottlenecks to project implementation by SEE countries and IFIs.

## **(ii) Energy**

### ***Actions Undertaken***

The electricity MoU of 15 November, 2002 commits the SEE countries to create by 2005 a regional electricity market and to introduce the principles of the EU Electricity Directive with a view to preparing their integration into the EU's internal electricity market. While this so-called Athens process is driven by the European Commission, the SP's particular role is to ensure regional political support and ownership, to promote a common strategy among the donors as well as to encourage private sector involvement to foster restructuring and investment in this crucial sector for the overall economy of the region.

The SP organised the first Industry Round Table, hosted by the Czech Government in Prague in February. About 20 representatives of major international energy companies attended the meeting, which provided feedback from the private sector on key issues for the success of the Athens process.

The EC/SP organised “SEE Energy Week” hosted by the Italian Government in Rome on 24 – 27 March 2003 included a series of meetings of the different governing and co-ordination bodies established under the MoU.

The SP will organise a high level meeting of senior advisers to SEE Prime Ministers in Vienna on 3 June, which will be important in terms of ensuring full political backing for the process and of paving the way for the possible transformation of the MoU into a legally binding document.

The EC is currently preparing a draft concept paper on the options for adopting a similar approach for the creation of a regional gas industry. This should be launched in September.

Constant information exchange and regular meetings ensure close co-operation between the SP and EC (DG Tren). One of the foundation documents of the Athens process is the Strategy on a Regional Electricity Market that sets out the roles and responsibilities among the different donors and a schedule for works. Finally, key officials from the SP and DG Tren report regularly to the ISG as the overall co-ordination body for the infrastructure sector.

### ***Evaluation***

All events to date have been successful in terms of raising awareness and support for the Athens process, identifying key issues for its success and defining a road map with specific steps to be undertaken by all stakeholders, including donors. SEE countries are making concrete progress in implementing the MoU and the various donors are supporting their efforts.

### ***Challenges***

Need to ensure political support in the various member countries up to the highest levels as well as private sector involvement. A second Industry Round table will be organised by the SP and the EC in Greece in September/October 2003, with the participation of CEOs from the major SEE electricity companies as well as international companies.

### ***Other Infrastructure related activities***

***Transboundary Water Management – Sava River Basin:*** The successful completion of negotiations on the International Framework Agreement (IFA) for the Sava River Basin and the elaboration of an Action Plan for the development of the Sava River Basin constitutes a remarkable achievement, which would not have been possible without the active and intensive involvement of the SP.

In order to maintain momentum, the Stability Pact organised a meeting of interested parties on 12 March in Brussels. Representatives of the three Sub-Working Groups presented the components of the Sava River Basin Interim Action Plan to the international community. The Government Representatives of the four Sava countries pledged the full co-operation of their governments towards implementing the Action Plan, including shouldering their part of the cost of the priority projects indicated in the

Action Plan. A number of international organisations and bilateral governments expressed support for the implementation of the Action Plan. However, the failure of the four governments to agree on a seat for the Sava River Basin Commission was criticised by many, including the Special Co-ordinator Dr. Busek.

The role of facilitator of this initiative has now been passed to SECI. Working Table II will monitor progress and will ensure political support as required.

**Regional Air Traffic:** The European Commission has recently launched a comprehensive study designed to identify the needs and the potential sub-projects and actions required to improve air safety and air traffic management in SEE countries (contract signed 10 April 2003). This study is being undertaken by Eurocontrol and the Joint Aviation Authorities (JAA). Following the production of preliminary results, the possible role and added value of Stability Pact involvement will be discussed by the various parties. The EC reports to the ISG on this study.

## **3.2 TRADE AND INVESTMENT**

### ***Trade Liberalisation and Investment Promotion – SP Core Objective***

Support a business climate conducive to investment, trade and employment, through the implementation of the free trade agreements and the use of the monitoring process and in particular, the critical time bound targets of the Investment Compact, thereby fostering capital and know-how transfer and thus the basis for sustainable economic development in South Eastern Europe.

#### ***Achievable 2003***

Further development of a liberal business environment and promotion of business opportunities including implementation of free trade area, identify and progressively reduce key non-tariff barriers; open all FTA negotiations with Moldova (associated to the free trade process); integrate UNMIK/Kosovo into the Trade Working Group; meet critical time bound targets for investment enhancement in each country and organise major business promotion events.

#### **(i) Trade Liberalisation**

##### ***Action Undertaken***

The network of 21 Free Trade Agreements (FTAs) required under the SP Trade MoU was completed in February. Twelve agreements are in force, the remainder are at different stages of the ratification process – all agreements should be in force by July 2003. Two agreements with Moldova have been finalised and negotiations on 2 others have been opened. UNMIK attends the SP Trade Working Group (TWG) meetings and is participating in relevant TA activities organised under the auspices of the TWG.

An exercise to identify non-tariff barriers impeding regional trade so that action can be taken to progressively eliminate these has been launched by the TWG, including seeking views from the private sector. Several workshops/seminars have been held under SP auspices focused on FTA implementation including resolution of trade

disputes, customs co-ordination and information exchange/public awareness. Discussions have also commenced on options for ensuring greater harmonisation of the various FTAs in the shorter term and possibilities for further trade liberalisation in the region in the medium term, including the creation of a Free Trade Area and development of suitable regional structures to support this.

Following the resignation of Macedonian Chair of the TWG, Ms. Violeta Madzova, a new Chair, Ms. Adriana Civici, Senior Official from the Ministry of Economy of Albania, has been appointed.

Co-ordination of strategy and activities is achieved through the TWG, which comprises senior trade policy officials from the SEE countries, the European Commission, World Bank, WTO and several bilateral donors.

### ***Evaluation***

The peer pressure and transparency inherent in the functioning of the Trade Working Group contributed to the finalisation of the network of FTAs. Independent analysis of the agreements commissioned by the TWG has concluded that the agreements in general comply with the stringent terms of the MoU.

The Group's regular meetings and constant information exchange are providing a forum for identification and resolution of barriers to FTA implementation e.g. discussion on issues affecting implementation of FTAs by Serbia and Montenegro at recent TWG meeting. They also provide a good medium for co-ordination and co-operation of strategy and technical assistance among the international community e.g. exchange of policy reports, listing of all trade related TA projects, US/EC co-operation on seminars.

### ***Challenges***

In the short to medium term, we need to maintain the momentum gained during negotiations phase to ensure that FTAs are fully implemented. The Group also needs to agree on a road map for further trade liberalisation, including strengthening of regional institutional structures.

### **(ii) Investment**

#### ***Action Undertaken***

A key concern of the SP's Investment Compact (IC) is to ensure that the countries implement the agreed priority critical time bound reforms. The new version of the Monitoring Instruments report on progress has been published and widely circulated. A variety of workshops and meetings have been held under individual IC components including Promotion of Private Investment, SME support and Governance and Regulatory Reform. A meeting of the main donors took place on the 7<sup>th</sup> of February to ensure better co-ordination.

Other IC activities included the publication of a White Book on Investment in Serbia issued by the Serbian Foreign Investment Council, efforts to strengthen individual Country Economic Teams (CET) and a mission of the IC Project Team to Macedonia. A

Ministerial meeting will take place in Vienna on 16 July. This meeting will ensure that the momentum launched through the Ministerial Declaration of July 2002 is maintained and built upon. Additional missions will take place later in 2003 to Serbia and Montenegro and Moldova. Regional roundtables on investment promotion are planned in Switzerland, Japan and the USA.

### ***Evaluation***

The SEE countries have stated that the Monitoring Instruments are valuable instruments for creating awareness, facilitating inter-ministry discussion on policy issues and highlighting progress made. The interim review concluded that over half the reforms have been completed and that most countries are on track. The publication of the White Book on Serbia is a very positive sign of the serious dialogue between government authorities and foreign investors via the Foreign Investors Council. Such Councils have now been established in all SP countries. The donor meeting on 7 February resulted in firm commitments for further support to the Investment Compact. The IC is currently co-chaired by Austria, the OECD and Romania. The appointment of a regional co-chair in early 2003 contributes to improved regional ownership of this initiative.

### ***Challenges***

The main short-term challenge is to maintain pressure for completion of the critical time bound reform priorities. While considerable progress has been made in terms of passing legislation, the new rules must now be fully implemented and the next set of priorities identified. Excellent relations must be maintained with all members of the IC project team both donors and SEE countries. Greater involvement of the private sector should also be ensured in policy development and promotion of improved investment opportunities.

### ***Other trade and investment related activities***

***Business Advisory Council (BAC):*** The input from this association of high-level business representatives assessing the evolving business climate in SEE and advising the SEE governments, the SP and the IFIs is of substantial benefit for different SP activities not only those under WT II. The creation of an SEE BAC through the merger of the SP and the SECI BACs on 11 December, 200 provides for broader representation and improved co-ordination from 2003 onwards. The BAC meeting in Sarajevo in March 2003 provided an opportunity for BAC members to meet top officials from Bosnia & Herzegovina and to convey important messages on how to improve the local investment climate. The challenge will be to ensure that the merged BAC maintains its informality while remaining focused, sustaining high quality exchange of information and advice. WT II will devote resources to this.

***Electronic South East Europe (eSEE):*** The signing of the eSEE Agenda at the ministerial meeting in Belgrade on 29 October was a notable achievement for the SP office and the Yugoslav chair of this initiative. It is based on the e Europe and e Europe + initiatives of the EU and the Candidate Countries and uses benchmarking and peer pressure to assist the process of regional and national strategies and regulatory reform. The focus to date has been on specific elements of implementation including the

development of guidelines for the national information society strategies and terms of reference for the creation of cabinet level advisory groups.

***EBRD-led private sector development programmes.*** These operates under the auspices of the Stability Pact and provides much needed stimulus for private sector development in SEE particularly to the SME sector through a combination of financial instruments and technical assistance. Assistance is focused on trade facilitation (e.g. back-up guarantees for letters of credit), SME financing (micro credit banks and equity funds) and SME support (turnaround management). All programme have shown marked increase in activities and up-take. In addition, they provide the SP office with a valuable framework to obtain information and advice on private sector development and SME policy requirements.

WT II continues to encourage and respond on an ad hoc basis to suggestions and proposals on private sector development in SEE including maintaining contact with important intermediaries such as chambers of commerce, investment promotion agencies and industry associations. For example, WT II is currently co-operating with the EU (DG Enterprise) to encourage the SEE countries to sign up to the European Charter for SMEs to the SEE countries.

### **3.3 SOCIAL COHESION**

WT II continues to emphasise the importance of ensuring a social dimension to economic reconstruction, development and co-operation. WT II's Social Cohesion Initiative (SCI) brings together decision makers and experts in SEE countries with experts from the international community, including the Council of Europe, the WHO and the ILO. A new chair, Ms. Miet Smet, MEP and former Belgian Minister of Employment and Labour, has recently been appointed. Ms. Jela Bacovic, Director of Multilateral and Regional Co-operation, Ministry for International Economic Co-operation, Serbia and Montenegro, continues as co-chair.

SCI has focused on three main areas in the past few months:

Social Dialogue, - contributing to the drafting of relevant legislation in different countries and publishing a comparison between the legal basis for labour relation in SEE and the EU.

The Social Protection element of the SCI contributes to the reform of the pension systems in SEE. The initiative specifically focuses on improved collection mechanisms, upgrading legislation and concluding agreements among the SEE countries for the exchange of pension benefits. Terms of Reference for the development of national reports on contribution collection have been finalised and bilateral and multilateral agreements on cross border exchange of social benefits, particularly pension are under preparation.

Under its Health component, regional standards for community health services in SEE have been approved, tailored curricula for advanced programmes in health services have been agreed and a public health school is under reconstruction.

In addition, the initiative worked closely with the Council of Europe Development Bank and the World Bank as well as with the Housing Secretariat of the SP's MARRI initiative to organise the April 24 Ministerial Conference on the development of appropriate housing policies and financing mechanisms in SEE. Preparations are also underway for a ministerial meeting on Employment Policy.

#### **4. CONCLUSIONS**

WT II's activities continue to be guided by the three core principles of the Stability Pact, namely that they contribute to regional co-operation, expedite integration into European structures and secure the region's involvement in relevant international organisations.

Overall good progress has been achieved across all initiatives, although many challenges remain. The continuing use of instruments such as MoU or Ministerial Declarations illustrate the effectiveness of these tools as "road maps" for sustainable economic development and multilateral co-operation among the SEE countries. They also provide an excellent framework for the identification, provision and co-ordination of international technical and financial support.

Several initiatives e.g. trade and electricity have made excellent progress in putting in place the necessary agreements and/or legislative framework required under their respective MoUs and now face the challenge of translating these statements of political willingness into concrete action. It is important that regional and international support (both political and technical) is provided to ensure that the ambitious momentum is maintained.

We are confident that the unique fora provided by the various WT II initiatives that combine the technical and political skills of experts from the region, international bodies and bilateral governments will continue to ensure that progress is sustained.