



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

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INTRODUCTION

The Stability Pact continued to serve as a political coordination mechanism – its work guided by the founding documents adopted in Cologne and Sarajevo in 1999. In addition, its activities were shaped by the “Thessaloniki Agenda”, in which the EU-Western Balkans Summit of 2003 called on the Stability Pact to facilitate the regional cooperation element of the European Union’s Stabilisation and Association Process in a complementary manner. During 2004, the Office of the Special Co-ordinator (hereinafter Stability Pact Secretariat) thus continued to encourage regional cooperation, and to coordinate international and local efforts to advance the political and economic development of South Eastern Europe. It focused its activities on further stabilising and democratising the region, and supporting the respective countries’ Euro-Atlantic aspirations, wherever possible.

The violence which erupted in Kosovo in March was a significant setback for the whole region, but South Eastern Europe (SEE) as a whole took several steps forward by taking ownership of a number of processes that were launched within the framework of the Stability Pact. Several political developments strengthened the region’s ties with the European Union (EU), among them the EU’s acceptance of Croatia as a candidate country, and the official application for EU membership by the former Yugoslav Republic of Macedonia (hereinafter FYR Macedonia).

The Stability Pact Secretariat continued to work on activities within all three of its Working Tables – focusing on democratisation and human rights, economic reconstruction, development and cooperation, as well as security matters – with the ultimate aim of preparing the region to eventually take full responsibility for existing initiatives. Under the leadership of Special Co-ordinator Erhard Busek (hereinafter SC Busek), the Stability Pact Secretariat shifted the emphasis

from encouraging the region to issue declarations and adopt legislation, to promoting the *implementation* of earlier commitments.

OVERVIEW OF ACTIVITIES

The Stability Pact marked its fifth anniversary during the Portoroz Regional Table in June by confirming the effectiveness of the regional approach to addressing problems of stabilisation and democratisation in the SEE region. In Portoroz, the International Organisation for Migration joined the Stability Pact as a participating organisation, and the Pact was widened to include Estonia, Latvia, Lithuania, Cyprus and Malta. The Table commended the initiative to engage the ten new EU member states in transferring knowledge and know-how on transformation experience to the SEE region.

The Portoroz Regional Table was also the first to provide an active venue for a cross-table discussion, with input from all Working Tables. Participants welcomed the initiative, noting that such a thematic approach (this time on migration) could deepen the dialogue and cooperation between the various Working Tables. The Portoroz Regional Table reaffirmed the Stability Pact’s commitment to fostering the integration of Kosovo into regional activities through enhanced cross border/boundary cooperation, in compliance with UN Security Council Resolution 1244. The Table also requested the Stability Pact Secretariat to consider ways in which the Stability Pact could support UNMIK in advancing the Standards Implementation Plan.

Throughout the year, the Stability Pact Secretariat closely coordinated activities with European Union institutions and member states. The Secretariat continued to meet the European Commission and the European

Presidency at regular “Informal Consultative Committee” meetings, also attended by representatives of the Chairmanship of the South East European Cooperation Process (SEECP). On several occasions, the European Council’s Working Group on the Western Balkans (COWEB) invited experts from the Stability Pact Secretariat to inform EU member states about various activities and regional developments. SC Busek also addressed the European Parliament’s Foreign Affairs Committee in October.

The Stability Pact Secretariat continued a close cooperation with the SEECP, and in particular with the governments of Bosnia–Herzegovina and Romania, which both chaired the process, in the first and second half of the year, respectively. The Stability Pact Secretariat also continued its fruitful collaboration with key Stability Pact partners, among them the OSCE, NATO, the Council of Europe, the OECD, the UN and its various specialised offices, the International Financial Institutions (IFIs), the member states of the EU, as well as the national governments of the US, Switzerland, Norway and Japan. Furthermore, SC Busek travelled to the United States twice for consultations regarding US involvement in South Eastern Europe, and received full support for the activities of the Stability Pact.

Jointly with the Friedrich Ebert Foundation and the Moldovan Foreign Ministry, the Stability Pact Secretariat organised a major international conference entitled “*Republic of Moldova in the Stability Pact – Achievements and Perspectives*” in March to assess the first three years of Moldova’s participation in Stability Pact activities. Throughout the year, SC Busek also continued a dialogue with the international community’s highest representatives in Bosnia–Herzegovina and Kosovo.

In an effort to further coordinate policy and to strengthen political support, SC Busek met high–ranking officials in most European capitals, including in Vienna, Berlin, Bern, and Athens. During the year, he also met EU High Representative Javier Solana, and EU Commissioner for External Relations, Chris Patten. During the month of October, he met

several commissioner–designates including Olli Rehn, the future Commissioner for Enlargement. He also addressed the OSCE Permanent Council in May, and participated in the OSCE Parliamentary Conference in Sofia in November.

Throughout the year, SC Busek’s key message was that South Eastern Europe’s governments needed to follow up their commitments with rigorous implementation. The Special Co–ordinator also highlighted that a better investment climate, as well as the creation of a common energy and a liberalised trade market would encourage much needed foreign investment into the region. Beyond promoting the above priorities, SC Busek and his Office also emphasised the importance of social cohesion during the complex and difficult transformation of the region’s economies, industries, and welfare systems.

SC Busek continued to maintain high–level political contacts in the region, and urged various governments to resolve existing deadlocks in key policy areas. He addressed the annual SEE Prime Ministers Meeting in Salzburg, and attended several ministerial meetings hosted by the SEECP, among them the Summit of Heads of Governments. He also conducted high–level consultations with the governments of Bosnia–Herzegovina, Bulgaria, Croatia, Romania, as well as Serbia–Montenegro. Beyond political negotiations, SC Busek also appeared at numerous high–level political roundtables and conferences, and spoke at various universities, including the London School of Economics, the University of Sarajevo and Georgetown University in Washington DC.

The Stability Pact Secretariat continued to support the efforts of the SEECP, and in particular the joint campaign to fight corruption and organised crime, which was launched by the Romanian government in May. In addition, close cooperation was ensured with other regional initiatives to avoid the duplication of activities. In its efforts to further integrate Kosovo into the regional processes, the Stability Pact Secretariat also closely worked with UNMIK and the Provisional Institutions of Self–

Government in Kosovo. The Stability Pact Secretariat welcomed the appointment of Soren Jessen-Petersen as Kosovo's fifth SRSG, who – prior to his appointment – had acted as the Chair of the Stability Pact's Migration, Asylum and Refugee Return Initiative (MARRI).

The engagement of both the European Union, and non-EU governments continued to be substantial. The biggest bilateral non-EU donor partners of the Stability Pact

Secretariat were governments of the United States, Switzerland, Norway, Canada and Japan. The US engagement was reaffirmed by the secondment of another senior US diplomat to the position of the Deputy Special Coordinator. Michael C. Mozur began his tenure in August, replacing John Riddle, who returned to Washington DC and now directs the Office of Performance Planning at the US State Department.

WORKING TABLE ON DEMOCRATISATION AND HUMAN RIGHTS

Working Table I continued to focus on the two core objectives – media development, and local democracy/ cross-border cooperation. Further activities covered such issues as parliamentary cooperation, gender, and education. Working Table I Chair, Elisabeth Rehn, resigned from her post in June, but agreed to stay on to perform essential functions until her position is filled. In November, Goran Svilanovic, former Foreign Minister of Serbia-Montenegro, was nominated by SC Busek as the new Chair.

MEDIA DEVELOPMENT (CORE OBJECTIVE)

The Media Task Force (MTF) brings together all key organisations and NGOs active in the democratisation of South East Europe's media systems. The executive secretary and a network of nine national working groups determine priorities and coordinate action with the European Commission, the Council of Europe, various donor governments, as well as the main international NGOs working in media development. The task force also coordinates action with the SEE Ministries of Foreign Affairs.

Throughout the year, the nine national Media Working Groups issued statements and provided reports on developments in the media. The Working Groups' reports were

distributed to a network of professionals working on media development in South Eastern Europe – within international organisations, Ministries of Foreign Affairs and member organisations of the Stability Pact. In cooperation with the Working Groups, the executive secretary discussed the need for media reform, particularly legislation and regulation, with local authorities and international organisations involved. During the Special Co-ordinator's visits to the region, he raised various issues of concern with governments of Moldova, FYR Macedonia, and Croatia.

The Media Task Force continued to endorse project proposals which enhance regional cooperation between media outlets, improve media legislation, and/or promote quality productions of television programmes. During 2004, 15 projects were funded by international donors within the Stability Pact framework. These include the production of television programming and documentaries addressing corruption, reconciliation, youth culture, social issues and the post-war separation of communities. In addition, the MTF supported the cross-border exchange of television programmes to enhance information-sharing, and closely cooperated with the European Commission on the development of support to television production under the CARDS regional program.

During 2004, the Media Task Force prepared, together with the working groups and relevant organisations, an *Overview of Media Support to South Eastern Europe*, as well as country-by-country reports on support to the media. The executive secretary continued to update the monthly Media Legislation Matrix. In addition, the MTF helped to coordinate, support and advise donors on their media assistance. In particular, the executive secretary discussed future strategies for media support with several development agencies and Ministries of Foreign Affairs. MTF also continued to cooperate with the European Commission's External Relations Directorate-General and EuropeAid on media assistance under the CARDS program.

Extensive discussions were held at both the MTF meeting in May and the Portoroz Working Table meeting in June about the media's role in fuelling the March violence in Kosovo. The Stability Pact Secretariat called upon donors to make a particular effort to establish quality control mechanisms with regard to the various projects and media outlets they are funding. The task force agreed to invite Kosovar journalists to engage more widely in an exchange amongst professional peers and to study more closely the mechanisms and instruments of self-regulation applied elsewhere in SEE. During the year, the executive secretary and the Stability Pact Secretariat explored the possibility of establishing a Working Group within Kosovo as well. This approach, unlike other existing or planned efforts in Kosovo, would convene both international and local media experts around the same table.

During the MTF meeting in May, participating organisations also discussed the position of public broadcasters, the reform of libel legislation, and strategies regarding the channelling of media assistance funds to the SEE media. In November, the MTF discussed the European Commission's (EC) future media policy towards SEE.

Despite the overall international effort, the region's media landscape continues to be problematic, and bringing up media legislation standards to the level of Western

European principles remains a difficult task. Controversy remains over the public service broadcasters in Serbia, Bulgaria and Moldova, and some basic legislative reforms are outstanding in the FYR Macedonia and Albania. The passage of the Macedonian broadcast legislation remains outstanding, despite the efforts to provide expertise and despite the high-level joint inquiries sent by the Secretary General of the Council of Europe, the SC of the Stability Pact, and the Head of the OSCE Spillover Mission to Skopje.

Given that international donor funds are decreasing, or are being replaced by loans, it is increasingly crucial that the current efforts are coordinated. Following a request by donors, the executive secretary distributed a strategy paper entitled "*Support to Media in SEE, Strategy 2005–2007*" in October, discussing both an overall strategy and country-specific recommendations. The efforts under the MTF will continue with dynamism despite the fact that Parliamentary Cooperation will replace Media development as one of the six Stability Pact core objectives from 2005 onward.

LOCAL DEMOCRACY AND CROSS-BORDER COOPERATION (CORE OBJECTIVE)

The Local Democracy and Cross-border Cooperation Task Force (LODE/ CBC) continued to coordinate the work of both international and local actors to underpin regional cooperation in SEE, with a view to strengthening local democracy through local governance reform. Together with its key partners, the Council of Europe, the Network of Associations of Local Authorities of South Eastern Europe (NALAS), the Association of Local Democracy Agencies (ALDA), and international NGOs, such as the EastWest Institute (www.iews.org) and the Open Society Institute, the task force also sought to enhance cross-border cooperation, economic convergence, capacity building, as well as social cohesion and citizens participation.

The task force provided political support for the development and implementation of

concrete local and regional cross-border activities relating to trade, economic development, educational, cultural and social programmes, and for addressing key political obstacles to cross-border cooperation. In addition, the task force promoted capacity building projects in the framework of NALAS through education and training programmes, partnerships, and the transfer of “transformation experience” from the new Central European EU member states, at both local and national levels of government.

Throughout the year, the LODE/CBC task force closely coordinated the activities of the various international organisations, national development agencies, international NGOs and regional partners. One main outcome of the coordination effort was the approval of the NALAS Action Plan for 2004–2007 in March, and the transformation of NALAS from a network to an official association during the 11th Plenary Session of the Congress of Local and Regional Authorities of the Council of Europe in May. The NALAS Secretariat, the activities of which have been handled on a rotational basis by countries of the region since May, began to prepare for a transfer of its activities from Strasbourg to South Eastern Europe.

During the year, the Stability Pact Secretariat assisted the Council of Europe in preparing a comprehensive concept paper for a regional ministerial conference on local and regional democracy, held in Zagreb in October. Organised by the Council of Europe, the Stability Pact, and the Government of Croatia, the conference achieved the first joint political agreement by ministers of the region to improve governance on a local level.

Through a Memorandum of Understanding, the region’s governments adopted a clear commitment to reform public administration procedures and to eventually transfer more competencies to regional and local levels. They pledged to implement comprehensive domestic work programmes – so called “*Work Programmes for Better Local Government*” – which will extend to capacity building, fiscal decentralisation, local economic development and social cohesion.

The conference also provided an opportunity to conduct a dialogue between central governments and representatives of the national associations of local authorities, as well as civil society and NGO representatives.

In a joint effort with international and local partners, and in particular with the EastWest Institute, the Stability Pact Secretariat continued activities regarding various existing Euro-Regions, such as the South Adriatic, Sava-Drina-Majeвица and the Preševsko-Kumanovo-Gjilane/Gjilan micro-regions. It also worked on preparing the establishment of the Ohrid-Prespa micro-region, which will be officially inaugurated in December 2004. Furthermore, the pilot programme for mapping donors’ contribution on local government issues – prepared by the Stability Pact Secretariat, OSI/LGI and OECD – has proved successful and further implementation of the project is currently underway.

ADDITIONAL ACTIVITY AREAS

In an attempt to focus more international and regional attention on the role of parliaments, a senior advisor was commissioned by the Stability Pact Secretariat to prepare a comprehensive strategy for increased Stability Pact involvement in the area of **SEE Parliamentary Cooperation**. The German government supported the information gathering process on the needs of various parliaments in the region, and in preparing a long-term strategy on how parliamentary cooperation could be promoted and supported by the Stability Pact.

The senior consultant and the Stability Pact Secretariat held discussions with partners both within and outside the region, and the plans were presented at several high-level conferences, including the conference of the Presidents of SEECP Parliaments in March, the Summit of Heads of State and Governments of the SEECP in April, and a conference of the Parliamentary Troika (European Parliament, OSCE, Council of Europe) in November.

The initial findings were presented during the Portoroz Working Table meeting, and a complete report was delivered to the Working Table meeting in Skopje in November. According to the report there remains a strong need to increase efficiency within parliamentary offices, and the strengthening of the regional dimension could bring about tangible changes. Therefore, the activities of various international organisations, governments and NGOs – such as the EastWest Parliamentary Practice Project (www.ewppp.org) and the EastWest Institute – should be coordinated, and the emphasis should be placed on activities of regional nature, the report concludes.

From these findings, the Stability Pact Secretariat envisions focusing the Stability Pact’s attention towards:

- Promoting the harmonisation of legislation with EU standards;
- Enhancing the exchange of information on parliamentary cooperation activities;
- Developing links between committees of different parliaments dealing with similar issues;
- Institutionalising training programmes for newly elected MPs and parliamentary staff;
- Promoting twinning between parliaments (within the region and between SEE and EU parliaments, especially new EU member states);
- Supporting networks of women and young parliamentarians.

Furthermore, it is also envisaged that a website portal will be created to serve as a central platform for information-sharing between parliaments and the partners involved in parliamentary projects. The parliamentary cooperation initiative will endeavour to bring a parliamentary dimension to the work of all the existing Stability Pact task forces.

The Stability Pact Secretariat also continued to coordinate the activities of the region’s governments with regard to the “**Education Reform Initiative** of South Eastern Europe” (ERI SEE), which had been established in the

framework of the Task Force on Education and Youth. Throughout the year, the task force focused on establishing a secretariat which would work on regional capacity building in the field of education and training, and would assist SEE education ministries in the implementation of European Union standards. The Croatian government successfully applied to host the secretariat, and the office was opened in Zagreb in November.¹

The work of the task force continued to be guided by the Joint Action Plan of May 2003, in which ministries from the region identified nine priority areas for education development and reform. These include the harmonisation of relevant legislation and curricula with EU standards, the decentralisation of education management and administration, the development of life-long learning strategies, as well as the widening of access to quality education. The task force also organised several capacity-building activities, including a regional expert seminar in the field of life-long learning strategies, and in the field of human rights education. The OECD-led project entitled “Education Development for Disabled and At Risk Students” was also successfully continued and entered into its second phase of implementation.

The Stability Pact Secretariat also continued to support the **Gender Task force** (GTF) which sought to advance gender equality throughout SEE. In the framework of the Stability Pact and the SEECP, the Assembly of FYR Macedonia, the GTF and the International Institute for Democracy organised the “*3rd Conference of Women Parliamentarians of South Eastern Europe*” in June. Through the cooperation of the GTF with the Norwegian People’s Aid and OSCE Missions in Serbia–Montenegro and FYR Macedonia, training activities continued to focus on capacity building for women in

¹ The secretariat consists of a Governing Board of SEE ministry representatives and a Consultative Body including representatives of the Council of Europe, OECD, European University Association (EUA), the European Training Foundation, the European Commission, donor countries and institutions contributing to the ERI SEE, as well as additional education experts.

political parties, and in local decision-making positions. Several national advocacy campaigns were conducted and hundreds of women were trained.

The “SEE Women’s Parliamentary Caucus” project – which connected women MPs in Montenegro, FYR Macedonia and Bosnia–Herzegovina – successfully closed in May 2004. Meanwhile, the “Social Dialogue–Empowerment of Women in Trade Unions” project – which holds field seminars – began in Bosnia–Herzegovina and Montenegro in January, and held “national strategic sessions” in June. The task force also sought to initiate social dialogue on gender issues, and in June, it secured funding to hold a regional consultative meeting to redefine the regional gender equality strategy. In September, preparations were started for a new regional project for Roma women. In

addition, the GTF continued its cooperation with its institutional partners, and co-organised a number of major conferences and seminars throughout the year.

Regarding the **Ombudsman Initiative**, a Regional Conference of SEE Ombudsman Institutions was held in Belgrade in September. The meeting was organised by the Stability Pact Secretariat, the Eunomia Project of the Greek Ombudsman, the OSCE Mission in Serbia–Montenegro, and the Ministry of Local Self Government of the Republic of Serbia, and discussed the responsibilities and challenges facing the ombudsman institutions in the SEE region as well as prospects for future regional cooperation.

WORKING TABLE ON ECONOMIC RECONSTRUCTION, DEVELOPMENT AND COOPERATION

The key goal of Working Table II is to facilitate sustainable economic development through modernising infrastructure, particularly energy and transport, as well as through trade liberalisation, and investment promotion. A particular aim is to ensure that both the countries of SEE and the international community take a regional strategic approach to economic development in order to make full and effective use of the available public and private sector financial resources. The Working Table also seeks to ensure that the importance of social cohesion is addressed by all.

ENERGY AND OTHER REGIONAL INFRASTRUCTURE (CORE OBJECTIVE)

In the field of energy, the Stability Pact is fully involved in the development of a regional energy market, under the initiative known as the Energy Community in South Eastern Europe (ECSEE). The European

Commission leads this process and the Stability Pact Secretariat’s role is a complementary one that seeks to ensure regional political support and ownership, to promote a common strategy among the donors, and to encourage private sector involvement to foster restructuring and investment in this sector.

Throughout 2004, the Stability Pact Secretariat promoted the implementation of two Athens Memoranda of Understanding signed earlier by SEE governments, and it actively supported the decision of the European Council in June to grant a mandate to the European Commission to negotiate a legally binding agreement with the participating SEE countries.

Formal negotiations on the treaty were launched in July and the Commission and the participating governments hope to reach agreement on the key provisions of the text by the end of 2004, and to progressively open electricity and gas markets in the coming

years. In the course of the process, SEE governments will adopt all relevant EU directives on energy and environment, and hope to undertake comprehensive modernisation projects with the help of international financial institutions (IFIs), and foreign investors. Once EU standards are implemented, SEE countries will also gain access to the EU's internal energy market, irrespective of the status of their membership negotiations.

In July, prior to the official launch of the negotiation process, the Stability Pact Secretariat organised a meeting of senior advisers to SEE Prime Ministers to highlight the key political issues that would emerge during the negotiations. At the request of the European Commission, the Stability Pact Secretariat also organised, in conjunction with the Romanian Chairmanship of the SEECP, a conference for the region's parliamentarians and social partners to inform them about the ECSEE process.

Held in Bucharest in October, the conference discussed the challenges facing the restructuring of the energy sector, including the costs and benefits of creating a regional energy market in line with the EU's single market and its implications for tariffs and employment. Delegates also examined the technical modernisation needed to ensure the security of energy supply in the region, as well as the reforms necessary to harmonise legislation with the EU's *acquis communautaire*. Over a hundred participants attended the event from the region, together with representatives of IFIs and of ECSEE observer governments.

The Stability Pact Secretariat continued to provide input regarding the draft text of the ECSEE treaty, and participated in numerous high-level working meetings, and political events discussing the plans. Furthermore, it supported the two SEE "Energy Weeks" organised by the European Commission. Hosted by the Greek government in Athens, the events served as forums for a series of meetings by different governing and coordination bodies established under the Athens MoUs.

While the main focus is on the ECSEE process, the Stability Pact Secretariat also undertook activities in support of regional energy issues such as a seminar on the particular needs of the energy sector in Prishtina, Kosovo in May.

The **Infrastructure Steering Group (ISG)**, created under the auspices of the Stability Pact and chaired by the European Commission, continued to be the main coordinating body for activities of the IFIs in support of regional infrastructure. A High Level Meeting of the ISG in February reaffirmed the support of all members for the Group and expanded its mandate to cover environmental infrastructure particularly in the field of water management. The Group also decided to seek new ways to improve the implementation of infrastructure projects in the region such as the proposed co-ordinated approach for transport projects in Albania.

In May, several projects were removed from the list of Regional Infrastructure Projects following their completion, while five new projects were added. The number of current projects totalled 51 at the end of 2004, at a total cost of € 4.1 billion, of which 39, valued at € 3.45 billion, are under construction. In October, the European Commission appointed Michel Peretti as the new Chair of the ISG.

Regarding transport infrastructure, 2004 witnessed the signing in June of a Memorandum of Understanding on the Core Transport Network by the five SAP countries and UNMIK/ Kosovo. This MoU summarises an agreed regional strategy for this key infrastructure sector that has been developed by the ISG and the SEE countries over the past two years, based on the EC-funded study on regional transport infrastructure in the Western Balkans.

In July, the Stability Pact Secretariat brought together partners to work in an informal task force on Public Private Partnerships (PPPs), in order to gain a better understanding of the potential PPP environment and to expedite the use of PPPs in the region. The task force will seek to promote the implementation of pilot projects in different infrastructure

sectors and in different SEE countries. Task force members were drawn from IFIs and the business community and work is underway to develop a shortlist of potential projects. As part of the Stability Pact's mandate to facilitate resolution of project implementation issues, the Stability Pact Secretariat also participated in joint field missions with the European Investment Bank and the EBRD – most recently to Bosnia–Herzegovina in July, in order to study the problems in the implementation of specific infrastructure projects.

TRADE AND INVESTMENT (CORE OBJECTIVE)

In the field of trade, the Trade Working Group (TWG) continued to be the key forum to implement the regional strategy for trade liberalisation, as set out in the Trade Memorandum of Understanding of June 2001. The TWG provides a forum for coordination among senior trade policy officials from the SEE countries, the European Commission, World Bank, World Trade Organisation and several bilateral donors. During 2004, the TWG held three meetings – in Budapest (March), Brussels (July) and Belgrade (October) – reviewing progress on the ratification and implementation of the 28 free trade agreements.

The year also saw considerable progress on the EC-funded project to assist SEE countries to identify and eliminate non-tariff barriers that was launched at the request of the TWG. The joint OECD–Swedish International Development Agency (www.sida.se) project to promote and liberalise trade in services was completed in June and follow-up to this important project will now be undertaken through another EC/CARDS project. Throughout the year, a range of workshops and seminars were held under Stability Pact auspices to promote the FTA process.

In the autumn, the Stability Pact Secretariat led the preparation of the TWG's Strategy and Action Plan for 2005, and the first draft was discussed at the Belgrade meeting. The Plan focuses on full implementation of the

FTAs, eliminating selected non-tariff barriers, promoting trade in services and further harmonisation of the FTAs. In addition, the TWG will also prepare options for future direction and management of the trade liberalisation process in the region for review and agreement at a ministerial meeting in 2005. One of the options under active consideration is to move to a single, multilateral free trade agreement as a way of fully exploiting the opportunities offered by the regional trade liberalisation process. Throughout the year, SC Busek raised the issues of delays in ratification and implementation with several SEE governments, and continued to promote the benefits of the FTA process to the domestic and international business community.

In the field of investment facilitation, under the leadership of the OECD, the **Investment Compact (IC)** continued to undertake a range of activities including technical assistance, promotional events and the development of institutional structures. A key concern of the IC was to ensure that the countries implemented the agreed reforms designed to improve the investment climate. An independent evaluation of the Investment Compact (www.investmentcompact.org) was carried out and the final report, published in July, highlighted the positive impact of the initiative on the investment climate in the region, including the investment flows and the employment-generation impact.

The key political event under this initiative was the ministerial conference in Vienna in July, during which SEE governments endorsed a political declaration to improve investment climate. Among others, the region's governments promised to reduce administrative burdens for company registration and licensing, and undertook to facilitate appeals procedures and information exchange, as well as to strengthen institutional capacity at central and local government level. The Vienna conference also featured a business forum, and a ceremony to present the "South East Europe International Investors of the Year" awards. In addition, the IC's regional chairmanship was handed over from Romania to Bulgaria.

Private sector involvement in the IC has been strengthened through the activities of the Foreign Investors Councils that have been established, or are in the process of being established, in each of the countries. Several of these councils have produced “White Books” on the investment climate in their respective countries and have presented these to governments as their input into policy development. Together with the Friedrich Ebert Foundation, the Investment Compact also organised, in September, a conference to highlight the role of parliamentarians in implementing economic reforms. The need to ensure that MPs and local government representatives are better informed regarding economic development issues is emerging as an important topic across several Stability Pact initiatives and will be followed-up.

In addition, the Trade Working Group and the Investment Compact, the Stability Pact Secretariat also worked closely with the **Business Advisory Council (BAC)**. The BAC held four meetings in 2004 – in Sofia, Bled, Istanbul and Zagreb. It also organised business missions to Chisinau (21–22 October) and Tirana (14–15 November) to enhance a direct exchange of views between the public and private sector on the investment climate in individual countries. In 2004, the BAC institutionalised its partnership with the network of Foreign Investors Councils, as well as SECIPRO committees (trade and transport facilitation bodies) in the region.

ADDITIONAL ACTIVITY AREAS

The Stability Pact’s strategy and approach for its **Initiative for Social Cohesion (ISC)** was revised substantially during 2004. The initiative sharpened its focus and redefined its overall mission statement, establishing concrete objectives for its five areas of activity – employment, social dialogue, social protection, housing, and health. A newly created Advisory Group consisting of the Co-chairs, representatives of the leaders of each sector and the Stability Pact Secretariat now guides the overall strategy and approach for the initiative.

The ISC has made progress in each of the sectors under its responsibility. Work in reviewing national employment policies as agreed during the Bucharest Ministerial Meeting on Employment in 2003 continues under the leadership of the Council of Europe and the International Labour Organization. Several countries have submitted reports and Albania and Croatia are being subjected to an in-depth peer review. In the health sector, national plans for food quality and safety have been agreed and in many cases endorsed, while new projects in areas such as blood safety have secured funding. The Health Network has commenced detailed preparatory work for the Ministerial Meeting on Health planned for 2005.

While social dialogue is still weak in SEE, the ISC’s activities in this area are achieving results as evidenced by the outcome of the third joint meeting of the European Trade Union Confederation Balkan Forum (www.etuc.org) and the South East European Employers’ Forum that took place in Sofia in October. A series of consultative meetings cumulating in a joint forum brought together unions and employers to discuss how to further strengthen social dialogue in the region, and in particular how to settle labour disputes. In the field of social protection, the Stability Pact Secretariat supported the establishment of the EC funded regional coordination centre for social policy issues in Skopje.

The progress made under the **Housing and Urban Management** umbrella (inherited from Working Table III’s MARRI initiative) was highlighted at a high level conference on the issue of informal settlements in SEE in Vienna in late September. Ministry representatives from Albania, FYR Macedonia, and Serbia–Montenegro signed a declaration, reaffirming their commitment to formalising existing informal settlements and to facilitating access to education, health care and infrastructure services.

In addition to the ministerial meeting, the conference also included workshops and seminars involving governments, NGOs, practitioners, and academics, where wide-ranging discussions allowed participants to

share best practice on issues affecting housing in the region and to agree on a number of common activities.

In line with the conclusions of the plenary meeting of Working Table II in Tirana in December 2003, the Stability Pact Secretariat worked to stimulate cooperation and synergies among its “classic” economic development activities and its social cohesion activities. Together with the OECD, the Irish EU Presidency and the Romanian SEECF Chairmanship, the Stability Pact Secretariat co-organised an international conference on **enterprise development and employment generation** in Bucharest in May. The conference discussed the social consequences of market restructuring, as well as the necessary steps to improve the business climate. It emphasised the need to bring about a vivid change in South Eastern Europe, establishing a culture of entrepreneurship and SME development, combined with improved employment, education and training policies.

One of the key conclusions of the conference was that a more comprehensive, horizontal approach is needed to stimulate entrepreneurship and to attract investment to individual regions throughout SEE, as well as to address the problems created in the region by substantial industrial restructuring. The conference agreed that the development of a template of practical implementation measures on regional development strategies, including strategies to deal with industrial restructuring, would be constructive and useful.

As part of the process of implementing this recommendation, the Stability Pact Secretariat, in cooperation with the Investment Compact, the OECD and the government of FYR Macedonia, held a one-day seminar in early November on local

aspects of enterprise development and employment generation. This seminar emphasised the importance and value of community based approaches to this issue, particularly when a region is affected by industrial restructuring. A series of practical measures to facilitate the implementation of such an approach were discussed and the organisers will now seek to incorporate these into a template of best practice activities that can be used by all stakeholders.

During 2004, the Regional **Environmental Reconstruction** programme continued the process of developing and implementing environment related legislation and practices in SEE in line with EU directives and standards. The Regional Environmental Center (REC) Secretariat in Hungary provides on-going technical support to the various countries, and in particular has developed an initial overview of some of the investment requirements in the SEE environment sector.

After the completion of the parliamentary ratification process in Bosnia–Herzegovina, Croatia, Serbia–Montenegro and Slovenia, the Stability Pact Secretariat participated in a ceremony establishing the **Sava River Commission** in Belgrade in June. The multilateral treaty establishing the Commission, the seat of which is in Zagreb, was signed in Kranjska Gora (Slovenia) in December 2002. It introduces a comprehensive river basin management concept addressing the needs of navigation, sustainable water management, hydro-electricity and environmental protection. The Sava countries signed legal documents, which state that the Republic of Slovenia will serve as depositary for the Sava Commission’s legal instruments.

WORKING TABLE ON SECURITY ISSUES

In 2004, Working Table III continued to work on its core objectives, the fight against organised crime and managing population movements. It also continued efforts in security and defence related issues (core areas of activity) including defence conversion and weapons control, as well as border management, and disaster preparedness. The Working Table meeting in Portoroz in June focused on fighting organised crime and corruption as well as military conversion, while a separate cross-table discussion was held on issues of migration.

FIGHTING ORGANISED CRIME (CORE OBJECTIVE)

In this area, the Stability Pact Secretariat continued to focus on capacity building, awareness raising and legislative reforms in the framework of the Stability Pact Initiative against organised crime (SPOC). Together with the Police Forum, SPOC continued to facilitate result-oriented dialogue between local, regional and international agencies. In an attempt to promote the implementation of the 2002 “London Statement on Defeating Organised Crime in SEE” and the related conclusions of the EU-Western Balkans Summit (Thessaloniki 2003), SPOC engaged in political advocacy to help SEE governments to formulate relevant strategies, and to improve regional cooperation on criminal matters.

Following the SEECP Justice and Home Affairs ministerial conference in Bucharest in May, which agreed to the Romanian Chairmanship’s proposal to launch a joint campaign to fight organised crime and corruption, the Stability Pact Secretariat provided assistance to this campaign through intensified cooperation among its network of legal, law enforcement and judicial experts and practitioners. Among others, it worked on facilitating a closer cooperation with Europol and Eurojust. Meanwhile, the Stability Pact’s related initiatives assisted in the design of a

database and assessment methodology for the SEECP campaign.

SC Busek urged governments to implement the UN Convention against Trans-national Organised Crime (Palermo TOC) and to design adequate mechanisms in this area. The Stability Pact Secretariat continued to closely monitor developments regarding the implementation process and raised awareness about the status of implementation at various ministerial and working level meetings both within and outside the region.

During the year, the **Police Forum** continued to work on specialised projects – among others, a series of trainings for senior police officers, the Stolen Vehicle Project, the anti-drug networking, the border checkpoints projects, as well as the so-called Organised Crime Training Network (OCTN). OCTN aims at training middle-ranking officers of specialised organised crime units in SEE, focusing on capacity-building and network creation. Meetings were held in Vienna (June), Brussels (July) and Zagreb (September) to prepare the launching of the initial phase of the OCTN project. Close coordination and cooperation with the Association of the European Police Colleges (AEPC) – a partner in this endeavour – and the Association of the Police Chiefs in SEE (SEPCA) was ensured.

The Stability Pact Secretariat also continued to facilitate dialogue between the Bucharest-based **Regional Center for Combating Trans-Border Crime** and other law enforcement agencies, particularly Europol, with the aim of increasing formal operational exchanges on organised crime investigations. In September, SC Busek welcomed the EU’s expert-level assessment, which aimed at evaluating the Center’s contribution to fighting organised crime in the region, as well as its compatibility with similar efforts by existing European Union mechanisms.

The report concluded that the Center, which supports joint trans-border crime fighting efforts through liaison officers, played a major role in developing law-enforcement cooperation, and had contributed to the stabilisation of the region's security situation. The independent evaluation also said that the Center has the potential to become a regional office for Europol. In order to achieve that, the participating states should make more systematic use of the Center as an instrument for regional law enforcement operations.

In the first half of the year, the Stability Pact Task Force on **Trafficking in Human Beings** worked on promoting the implementation of the statements on commitments signed by SEE ministers in Palermo (2000), Zagreb (2001) and Tirana (2002). Following the appointment of Helga Konrad, Chair of the Stability Pact Task Force on Trafficking in Human Beings, as OSCE Special Representative on Combating Trafficking in Human Beings, the Stability Pact Task Force was gradually disbanded. The Stability Pact Secretariat welcomed the appointment, and began cooperating with the new structure, while at the same time, undertaking a refocusing its activities to law-enforcement aspects.

In 2004, the Stability Pact Secretariat assisted the establishment in March of the Sarajevo-based secretariat for the **Stability Pact Anti-corruption Initiative** (SPAI), which was created to provide expertise for the design and implementation of national anti-corruption strategies.

MANAGING AND STABILISING POPULATION MOVEMENTS (CORE OBJECTIVE)

In 2004, the Stability Pact's Migration, Asylum and Refugee Return Initiative (MARRI) gradually moved under the auspices of the SEECP. The overall goal of the initiative has been to achieve a common framework for a comprehensive and streamlined regional action by participating governmental and civil society actors, as well as international organisations. By establishing the MARRI Regional Forum in April and

signing a Memorandum of Understanding in July, the governments of Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, and Serbia-Montenegro took full responsibility for implementing MARRI's objectives jointly.

The Stability Pact Secretariat provided assistance through fundraising and policy guidance in the establishment of the Regional Secretariat in Skopje. The secretariat was opened on 18 November, one day prior to the Skopje Regional Table meeting. Discussions between SC Busek and the Albanian government, representing the Presidency of the MARRI Regional Forum subsequently concluded that the Stability Pact Secretariat would continue to provide political support for the issues of concern to the Regional Forum. It was also decided that the Stability Pact Secretariat would actively participate in the meetings of the "Friends of the Regional Forum" which had been created to provide recommendations regarding the Forum's activities.

The Stability Pact Secretariat provided guidance throughout the year to participating governments on pressing issues pertaining to remaining refugees and internally displaced people, promoting a gradual move toward a broader approach of non-discriminatory access to rights and citizenship. The so-called "Access to Rights" initiative identifies weaknesses and gaps in the national legal frameworks, and seeks to establish consultation mechanisms between state and non-state actors. It advocates that governments should accord "unimpeded and non-discriminatory access" for all refugees and displaced citizens to their property rights and social rights as well as health, education, employment and citizenship rights. The Office also worked on encouraging the creation of sustainable national and regional mechanisms for monitoring and reporting on relevant progress.

The Stability Pact Secretariat also worked on establishing a related Regional Information Exchange (RIE) programme, which aims to fill gaps in information management and cross-border information exchange, as well as data protection. In addition, SC Busek

welcomed the initiative of OSCE, UNHCR and EU offices in the region to jointly assist governments of Bosnia–Herzegovina, Croatia and Serbia–Montenegro in finding solutions to remaining refugee issues, and pledged to support their work in the future.

ADDITIONAL ACTIVITY AREAS

In 2004, the Stability Pact Secretariat increased its activities in the area of security sector reform, and particularly **defence conversion**. The Stability Pact Secretariat participated in a conference of SEE Ministers of Defence in April in Sarajevo, and in cooperation with NATO, it worked on facilitating programmes to assist the conversion of military bases to civilian use, and to support the transition to civilian life of discharged military personnel. The Stability Pact Secretariat closely cooperated with all international partners in this area, including UNDP, OSCE, the International Organisation for Migration, the Geneva Center for the Democratic Control of Armed Forces (www.dcaf.ch), and the Bonn International Center for Conversion (www.bicc.de). It also initiated a dialogue with international financial institutions on future project financing. SC Busek also discussed the issue of defence conversion and the Ohrid Border Process with the NATO Secretary General Jaap de Hoop Scheffer in September.

During the year, the **Ohrid process on border management and security** entered the implementation phase, and the participating governments prepared national reports on the harmonisation of border management practices with EU standards. The second review meeting on progress in the development of an integrated border management system was held in Tirana in October, attended by all participating governments as well as the Stability Pact Secretariat, the European Commission, OSCE and NATO. Developments during the year confirmed that all participating countries made significant progress on the path designated by the Ohrid “Way Forward

Document” in 2003. All countries started to bring their national legislations in line with the commitments undertaken in Ohrid, in particular regarding legislation on civilian border authorities and related laws on foreigners and asylum.

The **collection of small arms and light weapons** (SALW) also stayed firm on the agenda. Supported by the European Commission, the South Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (www.seesac.org) continued to play a central role in the Stability Pact’s work on SALW issues. According to a joint Stability Pact/ UNDP/ and donor assessment, SEESAC remained the leading actor in the field of combating the threat of uncontrolled and excess SALW in the region. Meanwhile, the Regional Arms Control Verification and Implementation Assistance Center (RACVIAC) concentrated its activities on providing a regional forum for more comprehensive discussions on political military issues, and the retraining of discharged military personnel.

The **Disaster Prevention and Preparedness Initiative** (DPPI) continued to facilitate cooperation and coordination between regional governments and participating organisations such as the International Federation of Red Cross and Crescent Societies (www.ifrc.org), the UN Office for the Coordination of Humanitarian Affairs (<http://ochaonline.un.org>), the Office of the High Representative in Bosnia–Herzegovina, UNDP, NATO, OSCE, the European–Mediterranean Seismological Centre and the EastWest Institute. A number of training events on core DPPI issues were held, and a joint fire–fighting exercise was organised between Bosnia–Herzegovina, Croatia and Serbia–Montenegro in May. DPPI also continued to support the countries in establishing a legal framework for border crossings to ensure rapid disaster or humanitarian assistance.