



## Office for South East Europe

European Commission / The World Bank



4, rue du Trône – 1000 Brussels – Belgium  
Phone: (32-2) 504 09 90 Fax: (32-2) 504 09 99  
INTERNET: <http://www.seecon.org>

November 15, 2005

### **The Infrastructure Steering Group – Progress in 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. 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.

Over the course of 2005, the ISG has met twice at working level, in March and September. The ISG also convened a meeting to discuss environmental sector issues in April and, in September, held a bilateral donor coordination meeting on regional infrastructure and project preparation.

This short paper will provide an update on the main activities and conclusions reached during these meetings on the various sectors covered by the group: transport, energy, environment and regional infrastructure projects monitoring.

#### **1. Transport**

Between 2003 and 2004, the ISG organised four High Level Meetings with the countries of the Western Balkans, which paved the way for the agreement upon a Regional Core Transport Network and its implementation. This was detailed in a Memorandum of Understanding (MoU), signed by participating countries in June 2004, on the development of the main and ancillary infrastructure of the multimodal Core Transport Network and to enhance policies in this area which facilitate such development.

There has been much progress in 2005, with the establishment of a Network Steering Committee, composed of high level representatives of the participants, which co-ordinates the joint work of the MoU; and, the establishment of a South East Europe Transport Observatory (SEETO). The core mandate of SEETO is to assist the Steering Committee in implementing the MoU to ensure that the signatories co-operate on the development of the main and ancillary infrastructure on the Network and, as mentioned above, enhance policies in this area which facilitate such development.

In October 2005, the Steering Committee tabled a draft Core Transport Network Development Plan 2006-2010. The ISG is encouraged that the resolution passed at the Annual Steering Committee Ministers of Transport meeting, held on November 10, calls on participants to select a limited number of priority projects and measures of regional interest, on the basis of criteria provided by the MoU and the Steering Committee. The resolution has also requested that the plan place strong emphasis on measures such as harmonization and compatibility of technical standards, alleviation of institutional weaknesses, including issues relating to monitoring and maintenance capacities and budget.

This resolution is broadly in line with much of the discussions held within the ISG over the course of this year. Members of the ISG have, in particular, stressed the importance of better policies to enhance the overall efficiency of the regional transport system. For the ISG, this does not only include a better knowledge of the network, the construction and maintenance of infrastructure, but also a

focus on sector management and financial sustainability, administrative capacities, procedures at the borders, regulatory procedures and technical standards in line with EU norms.

For its part, the members of the ISG will continue to work closely with the Steering Committee and with SEETO to establish a work program which has the potential to improve overall transport efficiency, sector management and be translated into bankable projects.

## **2. Energy**

The ISG has been monitoring developments in the energy sector and very much welcomes the positive achievements of 2005. The countries, with a strong support of the European Union, agreed to conclude an International Treaty establishing an Energy Community for SEE. This provides for a stable regulatory framework for competition, public and private investment and trade, based on the full implementation of the Acquis communautaire on energy. The implementation of the Treaty will in particular follow a regional approach for determining investments in power generation. The Treaty was signed in Athens on October 25.

Concerning an investment program for the sector, the ISG has discussed the Generation and Investment Study (GIS), which will offer a common platform for energy authorities, Ministries of Finance, energy companies, IFIs and private investors. The main result of the GIS is that the region will need to invest about US\$15 billion over the next 15 years in the rehabilitation of about 11,570 MW of existing power plants and the construction of about 11,000 MW in new power plants. This does not include associated investments in transmission and distribution which are probably of the same magnitude, i.e. no less than US\$10 billion.

ISG members concur that these high investments needs have to be placed in the context of the limited borrowing capacity of the countries and limited 'fiscal space, as well as competing needs in other sectors for infrastructure and environmental development. As highlighted in the GIS report, regional cooperation will be of key importance for reducing overall costs and will help to improve efficiency.

## **3. Environment**

The ISG has agreed in previous meetings to pursue a pragmatic approach for the environmental sector based as a first stage on identifying environmental hot spots to be addressed as a priority. During 2005, the ISG has worked closely with the Regional Environmental Centre (REC), which acts as secretariat for the Regional Environmental Reconstruction Program for South-East Europe (REReP)<sup>1</sup>. In particular, the REC has been responsible, together with SEE national environmental authorities, for implementing a CARDS regional project on the 'Priority Environmental Investment Programme for SEE' (PEIP). This project supports national environmental investment planning in SEE, through institutional strengthening and capacity building.

In April, the ISG hosted a meeting with the REC during which members screened 79 investment projects on the PEIP list, with the objective of identifying two to three priority projects per country that seemed to stand a positive chance of securing financing from international financial institutions<sup>2</sup>. 13 projects were selected as being potentially viable. These projects were presented at an Environmental ministries contacts point meeting in May, organised by REC, and listed in the updated PEIP projects list, which was presented at the PEIP regional meeting held in September 2005.

In addition, the ISG agreed a set of conclusions that were delivered to Ministries of Environment via the REC. In particular, members are keen to ensure that projects proposed by the countries of the region fit into agreed national public investment programmes. Ministries of environment need to

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<sup>1</sup> REReP brings together the countries in Central, Eastern and South East Europe with the International Financial Institutions (IFIs: EBRD, EIB, World Bank), the European Commission, the Stability Pact, interested EU Member States and other bilateral donors. It provides a platform for regional cooperation, donor coordination and peer review. The main focus is on assisting the administrative reforms. It supports activities in the area of capacity building and institutional strengthening to develop and implement environmental legislation

<sup>2</sup> A number of considerations were taken into account during the screening: (i) Did the project address an environmental threat of regional importance?; (ii) Is there a link to the *acquis communautaire*?; and, (iii) Is the project financially viable?

actively alert their colleagues in other ministries, especially the ministry of finance, of the existence of the PEIP, so that it can be taken into account when planning investment programmes. ISG members have also expressed some concern about the large number of 'priority' projects emerging from the PEIP exercise and that key impediment to investment pipelines was often due to weak capacity / enforcement of legislation and weak environmental monitoring.

#### **4. Fiscal Space**

In 2005, the ISG has discussed the constraints on investment in the region imposed by the increasingly limited 'fiscal space' in most countries. Fiscal space is defined as the amount of budgetary room that a government has to provide resources for a desired purpose without prejudice to the sustainability of its financial position. With increasingly limited fiscal space, the prospects for borrowing are diminishing. As a result, a broad consensus has been reached among ISG members that new infrastructure investments must be subjected to rigorous cost/benefit analysis, and supported by strong reforms/ regulatory framework in line with the EU Aquis, and enhanced cross-country cooperation. Moreover, Public Investment Programmes need to be very well prioritized and will be closely followed by the ISG.

#### **5. Bilateral Donors meeting**

On September 21, 2005, the Infrastructure Steering Group (ISG) met for the first time with bilateral donors to review progress in enhancing regional cooperation to effectively implement regional strategies in key infrastructure sectors such as transport, environment and energy.

During the meeting, the European Commission encouraged donors to support the aforementioned regional initiatives and informed delegates of new resources, both at national and regional level, which the Commission will direct towards project preparation<sup>3</sup>. Delegates also took note of a World Bank presentation on the issue of 'fiscal space'.

Donors welcomed ongoing initiatives and provided a useful overview of their respective infrastructure projects, technical assistance and project preparation facilities, currently under implementation or in preparation.

It was agreed that a meeting with bilateral donors be held once a year. In addition, donors were requested to send to the Joint Office any details of those projects that they feel could be linked to the Project Preparation Facility to see whether they might be eligible

#### **6. The Regional Infrastructure Project database – Current Status**

Since its inception, the ISG has been monitoring regional infrastructure projects. This initially focused on a set of 34 Quick Start regional infrastructure projects, identified in advance of the first Stability Pact Regional Conference of 2000. By the time of the second Regional Conference the Joint Office had screened more than 230 project proposals submitted to the ISG by the countries of the region. These projects were sorted by sector and put into a database, which has been continually maintained to update the status of implementation of each project, as well as to reflect decisions taken by the ISG.

The current database<sup>4</sup>, last published in May 2005, comprises a list of some 45 projects, with a total cost of €3.96 billion. These 45 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 last ISG report on these projects is attached.

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<sup>3</sup> The CARDS Regional Programme will intensify support to investment project preparation / implementations facilities (PPF). For 2006, the European Commission has earmarked €8 million for a Project Preparation Facility to cover the Transport, Environment and Energy sectors.

<sup>4</sup> <http://www.seerecon.org/infrastructure/projects/index.html>