



STABILITY PACT
FOR SOUTH EASTERN EUROPE



Working Table II: *Economy*

Working Table II

Summary Progress Report – 2007

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1 INTRODUCTION

This document serves as a summary progress report on the various initiatives that operate under the auspices of Working Table II (WTII) of the Stability Pact (SP) for South Eastern Europe. It covers the period since the last meeting of WT II in Bucharest in November 2006 to the end of November 2007.

This period has seen the South Eastern European (SEE) countries assume greater responsibility for many of the regional co-operation processes in the field of economy in line with the overall transition of the role of the SP to the Regional Co-operation Council (RCC). Significant developments include the launch of the SEE Investment Committee; the signing, ratification and entry into force of the single free trade agreement for the region (CEFTA 2006); the completion of employment policy reviews under the Bucharest Process; and the signing of the Memorandum of Understanding on the Social Aspects of the Energy Community Treaty. This latter event illustrates one of the key objectives of WT II: to ensure that economic reform and social cohesion are intertwined.

Given that this is the last WT II progress report, the remaining challenges in each of the initiatives where the Table is active are highlighted in this report, as is the potential role of the RCC in addressing these. Some specific conclusions regarding the development of regional co-operation based on the experiences of WT II initiatives are also outlined.

Following an uncertain start, exacerbated by the misperception that the SP was some form of Marshall Plan for SEE, the SP has devised and launched a number of regional co-operation processes that have contributed to the stability and development of the region and its ever closer integration into the EU and international bodies. The SP's success to date would not have been possible without the considerable political, technical and financial support provided to the various initiatives by the SEE parties and the international community. Members of or donors to specific initiatives are not listed in this report as it would make it far too long but are contained in the initiative specific documentation.

2 OVERALL OBJECTIVE, STRATEGY AND APPROACH OF WORKING TABLE II

The overall objective of WT II is to promote economic reconstruction, development and co-operation in SEE as part of the SP's overall objective of contributing to the stabilisation of the countries of the region and to their progressive integration into European and international structures.

The specific objective of WT 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 public and private sector financial resources available. WT II also seeks to ensure that the need to underpin necessary economic reforms with measures to enhance social cohesion is addressed by all.

In line with all SP activities and as highlighted in the Thessaloniki Agenda, the various initiatives under WT II complement the on-going EU processes – Accession, Stabilisation and Association and the Neighbourhood Policy – in the region. 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

WT II activities are divided among three areas: - 1) Infrastructure including energy and regional transport 2) Trade and Investment and 3) Social Cohesion and Housing and Urban Management. Our activities in infrastructure, energy, trade, investment and employment are core objectives of the Stability Pact. The three areas should 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 and generate employment). WT II staff assigned to one initiative can thus contribute to several activities in the same area.

3.1 Infrastructure

3.1.1 Overall Objective

The aim within this area of activity is to ensure that both the countries of the region and the international community take a regional strategic approach to infrastructure development, including transport, energy and environment, based on co-financing and institutionalised partnerships. A further objective is to prioritise capital investments in order to benefit from economies of scale and encourage all to utilise the regional institutional mechanisms that have been put in place.

The Infrastructure Steering Group, now the International Financial Institutions Advisory Group, chaired by the European Commission, provides an overall co-ordination framework for development of the infrastructure sector in SEE. Its activities are supplemented by the various institutional structures and taskforces that have been activated to prepare and implement regional strategies in the different sub-sectors, e.g. the Energy Community Secretariat in Vienna, the South Eastern European Transport Observatory (SEETO) and the Working Group on Functional Airspace Block Approach (under the European Common Aviation Agreement).

3.1.2 Activities and Achievements November 2006 to November 2007

(i) IFI Advisory Group

Following a review period prompted by concerns expressed by several members including the SP, that the potential of the Infrastructure Steering Group was not being fully exploited, the EC proposed, in early 2007, the creation of the International Financial Institution Advisory Group (IFIAG) as a successor body. The IFIAG's core objective remains the same – to facilitate the implementation and maintenance of necessary infrastructure as well as supporting institutional capacity building and policy reforms in the region through the promotion of co-ordination among the IFIs and the EC. However, the remit of the Group has been broadened. In addition to energy, transport (mainly road and rail) and environment, it also seeks to address social issues. Its geographic scope has been extended to cover Turkey as well as the Western Balkans and its membership has been widened to include regional and bilateral banks active in SEE such as the Black Sea Trade and Development Bank, the Nordic Development Bank and Kreditanstalt für Wiederaufbau (KfW).

Following the first plenary meeting of the IFIAG in March 2007, the EC as chair and the Secretariat (provided by the EC/World Bank Joint Office for SEE) adopted the recommendations of several members to create technical working groups that could provide the necessary information and recommendations for the Group across the range of issues it covers. Four Working Groups have been established – transport,

energy, environment and social issues. To date, three of these have held their first meetings and it is hoped that the fourth – social issues - will meet in December 2007. These sectoral meetings have provided a good forum for sharing and updating information on activities being undertaken by all members of the IFIAG in the different fields, to propose new initiatives (e.g. a regional approach to railway development) and to identify obstacles to development. A particular focus of the EC is to ensure that the funds being made available under the regional IPA programme for project preparation in different infrastructure sectors are fully utilised.

Transition Strategy - IFI Advisory Group

The IFIAG's scope of work and other founding documents foresee that the SP's seat on this Group will be assumed by the RCC.

Challenges for the IFI Advisory Group

The IFIAG has the potential to provide a unique forum for the identification of obstacles to the development of the necessary regional infrastructure in SEE and the development of co-ordinated approaches by the IFIs and the EC in terms of both policy development and project implementation. The initial meetings of the Working Groups are promising but it remains to be seen whether the IFIAG will serve solely as a useful forum for exchanging information or whether it will provide the necessary platform for a more co-ordinated approach. While IFIs may compete for certain projects, the overall improvement of the policy environment for infrastructure will benefit all.

The inclusion of Turkey into the remit of the Group and the scale of infrastructure development required has the potential to reduce the attention paid to the other SEE countries. Co-operation and collaboration with the regional co-ordination bodies such as the Energy Community Treaty Secretariat, the SEE Transport Observatory and the Regional Environment Centre (REC) is vital to ensure the work being undertaken and the assistance being provided to all of these bodies is fully utilised.

The RCC will act as the "voice of the region" in this forum. Therefore, continuous monitoring and gathering of information regarding infrastructure developments in the region (and beyond) will be a key task for the Secretariat if it is to represent its constituency properly.

(ii) Energy

This initiative illustrates a successful regional co-operation process that was launched under the auspices of the Stability Pact but for which the region and other relevant parties – in this case the European Commission, particularly Directorate- General Energy and Transport (DG TREN) – have since taken responsibility.

Since the setting up of the Energy Community secretariat in Vienna early in 2006 and the entry into force of the Energy Community Treaty (ECT) on 1 July 2006, the Stability Pact's activities have evolved and are now aimed mainly at ensuring regional political support, encouraging private sector involvement in restructuring and investment in the sector and ensuring that proper attention is paid to the social aspects of the energy treaty. This role involves actions on the part of the Special Co-ordinator as well as the Director and expert of WT II.

The Treaty provides for a legal and institutional framework that enhances security of supply both in SEE and in the EU by creating competitive energy markets compatible with sustainable development. The EC-financed Secretariat is effective in its support of the various bodies established under the Treaty to facilitate its implementation. The Secretariat is headed by a senior Bulgarian official as Director and its staff doubled in September 2007 with an influx of experts from SEE and the EU, reflecting the strategic importance of the Energy Community

The Stability Pact has participated in several Ministerial Councils and Permanent High Level Group meetings that **oversee the overall implementation** of the Treaty, in particular the *acquis communautaire*. The SP also participates in the Electricity and Gas forums created under this Treaty.

The SP has also focused on **increasing awareness** of energy issues among SEE parliamentarians. To this end, WT II facilitated and participated in both the European Parliament's inter-parliamentary colloquium on the EU Energy Policy and the Candidate countries in April and in the Parliamentary Conference on Developing the Energy Community in SEE in Sofia in May.

Regarding **social issues**, WT II liaised frequently with the European Federation of Public Service Unions (EPSU) and in particular met representatives of SEE trade unions at a Social Forum organised by the EPSU in Sofia in June. Following joint efforts made by all stakeholders, SEE Ministers of Social Affairs gathered in Vienna on 18 October 2007 to sign a Memorandum of Understanding on Social Issues in the context of the Energy Community. This memorandum encourages the signatories to ensure that 1) power utilities meet their obligations of public service, wherever customers live, 2) public authorities address the affordability problems experienced by the most vulnerable customers and 3) Social Partners are involved in the restructuring process of power utilities by requiring them to consult each other, to manage change and to improve the adaptability of low skill workers through investment in human capital and life-long learning.

As regards **promotion of investments**, WT II played an active role in the working group that prepared the Investment Conference held in Athens on 28 September 2007. It helped identify interested investors and project promoters and ensured that their areas of interest were taken into account in the organisation of the conference. It fulfilled its traditional role of honest broker between DG TREN and the International Financial Institutions in order to agree on the specific aims and agenda of the conference.

WT II participated in the first meeting of the Energy Working Group of the IFI Advisory Group organised by the EU-WB Joint Office on 25 September 2007. The meeting was dedicated to the current status of the development of the Energy Community, the regional perspectives of EU energy policy regarding greenhouse gases, renewables and energy efficiency and the programmes of the IFIAG members in the region. DG Enlargement and the SP discussed the possibility of deepening the involvement of the future RCC in the identification of projects that may be eligible for upcoming Infrastructure Project Facility.

Transition Strategy - Energy

As far as the handover of SP's activities into the RCC is concerned, given the geopolitical and economic importance of energy supplies for SEE, it is envisaged that the RCC will assume the SP's seat on the Permanent High Level Group and the Energy

Community Ministerial Council and that the RCC will continue the monitoring and facilitation role currently performed by WT II.

Remaining challenges - Energy

The region faces a structural electricity deficit in the short term, which is unevenly spread across the region. Investments in power capacity, an issue consistently promoted by the SP, are lagging behind schedule and the situation may worsen if delays in sourcing equipment materialise and prices continue to rise. In the short to medium term, the only solution is to reduce technical losses in transmission lines, introduce energy efficiency/saving measures and increase cross-border inter-connection capacity so as to buy electricity from neighbouring countries with some spare capacity (Italy, Greece, Slovenia and Austria).

Other challenges which must be addressed include:

- resistance by SEE Government to price hikes requested by utilities;
- the need for fully independent regulators to balance the interests of power utilities, household and non-household customers;
- the design and funding of social action plans for the most vulnerable customers;
- the opening up of national markets and movement towards transparent and unconstrained trading of electricity across the borders;
- issues regarding gas including the need to source gas from different suppliers (Caspian Sea, Algeria, ...), to reduce over-dependence on Gazprom, the necessity to create a local anchor load (gas-fired power plants) to secure the return on investment in expensive pipelines and the strategic role of SEE as a gas transit and storage area for European markets.

In view of these challenges, the RCC will have to clearly define its future contribution. In addition to overall political troubleshooting, some proposals include:

- Helping DG Enlargement to identify priority projects eligible for Infrastructure Project Facility and to work as a political trouble shooter for specific projects.
- Creating political awareness and acceptance for energy efficiency/saving.
- Continuing efforts aimed at including Moldova and Ukraine in the energy community and promoting UNMIK/Kosovo energy development.
- Encouraging the development of renewable energy sources in the region and providing support where necessary.

(iii) Transport

The various bodies within the South East Europe Transport Observatory (SEETO) have continued to refine the Multi-Annual Plan (MAP) 2008-2012 for the Development of the South East Europe Core Regional Transport Network. The Steering Committee (SC) of SEETO consists of senior transport officials from the countries concerned and is co-chaired by the European Commission and Albania (Chairman in Office) and the Secretariat is based in Belgrade. The SEETO SC met in Dubrovnik, Croatia, to work on the text of the Addendum to the SEETO Memorandum of Understanding for the establishment of the South East European Rail Transport Area (see challenges below) and to discuss the MAP 2008-2012. Both topics are due to be formally adopted at the third SEE Ministerial Meeting on Transport scheduled for 3-4 December in Tirana. Some adaptations have been made in light of the comments received from the IFIs who have reviewed earlier drafts of the document.

Transition Strategy- transport

The establishment of SEETO in 2005 with the support of the EC, which co-chairs the Steering Committee and provides technical and financial support to the SEETO Secretariat, means that the region has already assumed greater leadership of the much-needed prioritisation process for transport infrastructure projects. Since SEETO reports to the IFI Advisory Group (the successor of the ISG) through the Transport Working Group, the future RCC will be able to both monitor its progress and encourage closer co-operation with IFIs who will fund part of the priority investments identified. Furthermore, DG Enlargement envisages giving the RCC a greater role in the identification process of regional priority transport projects eligible for technical assistance funding under the forthcoming Infrastructure Project Facility.

Remaining Challenges – transport

The main challenge lying ahead will certainly be the identification by SEETO of appropriate projects in its Multi-Annual Plan so as to attract much needed investments from the private sector and the IFIs. It is also important that the need for intermodality between the transport modes is not neglected. It is necessary that the transport ministries of the region implement the necessary institutional reforms, collect reliable data on a timely basis and conduct affordability studies, i.e. ensuring that users can afford to pay the tolls of new infrastructure so as to secure a decent payback.

Regarding railways, as discussed at the IFIAG Working Group on Transport in September, it is believed that the Energy Community could serve as a model to improve the current situation. The poor management of railway, drastic decrease in users and the poor productivity (due to low traffic intensity) are the main sources of their rapid decay. Therefore, since each railway in the region is highly dependent on the structure of neighbouring countries, a South East European Rail Transport Area as discussed by the IFIAGA Transport Working Group could achieve synchronized restructuring and modernisation of the railways system. This Community should be built on the following pillars:

- Institution building: effective regulatory institutions for rail sector
- Unbundling, management independence, market orientation and social dimension
- Access to the market, interoperability and railway safety
- Financial stability and transparent involvement of the governments
- Facilitation of border crossings

As mentioned earlier, the legal basis underpinning the transport area will consist of an Addendum to the SEETO Memorandum of Understanding. The incentives of local policy makers to create a Railway Transport Area are similar to those behind the decision of SEE governments to embark on of the Energy Community: the urgent need for investment and modernisation in a context of limited fiscal means, an obligation to provide a public service, the opportunity to draw on the EU's extensive regulatory practice and the desire and willingness of SEE governments to become further integrated into the EU. However, there is a significant difference –as railways can be substituted with roads and airways – whereas there is no substitute for energy - SEE governments might be less inclined to implement difficult reforms which will trigger significant redundancies in the railway

As a result, it will be of utmost importance to pre-empt social conflicts early in the process in order to galvanize political will around the South East European Rail Transport Area. Furthermore, active co-ordination between the policymakers and the

IFIs will be needed to ensure that the latter concur in their conditionality by requiring compliance with the above-mentioned Addendum. In addition, the establishment of an ad hoc donors group meeting at the margins of the SEETO Steering Committee (with a view to providing technical assistance) may be of benefit.

(iv) Regional Infrastructure – Other

Single Sky for South Eastern Europe – Functional Air Space Blocks

The signing of the European Common Aviation Area Agreement by the countries of SEE and UNMIK/Kosovo in June 2006 was yet another example of the region becoming part of the EU's internal market in a specific sector in advance of actual membership. The Stability Pact facilitates implementation of a component of the ECAA in the framework of the Working Group on the South East European Functional Airspace Block Approach (SEE FABA), co-chaired by the European Commission and the SP.

The initial overall objective of this initiative is to bring the countries of South East Europe closer to the European Union not only in the area of Air Traffic Management (ATM), but also regarding air safety, National Supervisory Authority co-operation, licensing military flights and other ATM related issues by introducing the concept of Functional Airspace Blocks in SEE as part of the Single European Sky regulations.

Consideration is now being given to expanding this Working Group to all aspects of the Single European Sky regulations.

The first part of 2007 saw intensive work on a large number of the “working packages” covered by the SEE FABA Working Group. Airspace design, National Supervisory Authority co-operation, legal and institutional issues, recruitment-training-licensing, social issues, military requirements and economic issues were addressed. A Social Forum held in Sofia in April opened work on the issue of social dialogue. Overall, however, due to limited personnel and financial resources among the countries, attendance at the respective meetings was often inadequate.

Key events for the SEE FABA Working Group included:

- ICAO (International Civil Aviation Organisation) participation in the Governing Body as an observer;
- the transfer of the governing command and control of the airspace from Croatia and Serbia to the government of Bosnia and Herzegovina;
- the new membership of Montenegro;
- the participation of the SEE FABA States in the Single European Sky Committee (SSC) alongside EU Member States.

Progress under SEEFABA has been hindered by a number of unresolved issues. These include questions regarding Croatia's full participation in SEE FABA and the acceptance of Italy and Greece as participating countries. The recent changes in the Central European Air Traffic System (CEATS), to which some countries also belong, mean that it interacts with SEE FABA in certain areas and hence creates uncertainties for countries regarding which approach to follow.

Due to the slow progress, the second meeting of the Governing Body held in Paris on 19 June decided to create a High Level Task Force to review ongoing activities, assess the ATM in the region and examine the possibility of extending the initiative to cover all aspects of the Single European Sky to SEE. A meeting of the High Level Task Force

in September reviewed the first draft report from consultants retained to carry out the assessment and a final report is expected by the end of 2007.

Transition Strategy – SEE FABA

The technical work currently being undertaken in SEE FABA by the Stability Pact expert will cease following the commencement of the RCC and full responsibility will be assumed by the EC (DG TREN). The RCC will retain the SP's seat on the Governing Body.

Remaining Challenges - SEE FABA

The potential expansion of the role of the Working Group to the entire scope of activities under the Single European Sky initiative presents an opportunity for the development of a more integrated approach by the SEE parties to meet the myriad of demands placed on air transport and air traffic under the European Common Aviation Agreement (ECAA). The development of a realistic work programme for the adoption and implementation of legislation, creation of institutions and instigation of new practices will be critical, particularly in light of the administrative and institutional weaknesses in the region.

Given the different ongoing initiatives in the region (such as Blue Med, CEATS, BUL-ROM), the possibility of creating an informal co-ordination committee at a senior level between the two initiatives should be examined.

In addition to its contribution to the Governing Body, the RCC can play a useful role in highlighting the implications of non-adherence by SEE parties to the ECAA Agreement and promoting consensus on how to overcome some of the difficulties faced.

Danube Development

Since 2002, the SP has tried to increase co-operation among the riparian states of the Danube across a number of sectors and has also focused in particular on promoting the increased use of the Danube as an environmentally friendly mode of transport. The SP has focused its efforts on the Danube Co-operation Process and has also supported a series of technical meetings on specific Danube infrastructure issues and participated in relevant meetings and workshops.

In 2007, the SP has focused on trying to generate support for better co-ordination within and among the six areas (dimensions) addressed by the Danube Co-operation Process (DCP). The SP along with the EC, Austria and Romania is a founding member of this Process which seeks to encourage co-operation in the fields of navigation, the environment, economic development, tourism, culture and sub-regional co-operation. The Process is led by the Ministries of Foreign Affairs of the member states and a large number of organisations and institutions are involved in the different dimensions.

Following initial discussions at the meeting of Senior Officials in March, the DCP Ministerial Conference in Belgrade in April requested Senior Officials to further review the concept of "enhancing the co-ordination and effectiveness within the DCP". At the subsequent Senior Officials Meeting in June, the SP was asked to elaborate further on this proposal and a report is due to be circulated by the end of 2007.

During 2007, the SP assisted SECI and TINA Vienna to organise two technical meetings – in March (Bucharest) and September (Vienna). These meetings addressed, amongst other topics, the issues of flood prevention, container traffic, inland ports and the potential development of hydropower stations in the Danube Basin. In addition to Ministries of Foreign Affairs, Ministries of Transport and Environment as well as relevant technical organisations participate in these meetings to share information and to try to advance projects.

Transition Strategy – Danube Development

The DCP should remain the forum for co-operation among all riparian states. While detailed technical work will cease, the RCC will retain the SP's seat on the Danube Co-operation Process at both Ministerial and Senior Officials level.

Remaining Challenges - Danube Development

Reconciling the different interests of the fifteen members of the DCP to identify and advance progress on issues of common concern remains a significant challenge. Part of the rationale behind the SP's call for enhanced co-ordination in the Process is to try to promote the visibility of the DCP and ensure progress in co-operation by securing agreement on a number of specific projects in each dimension that can act as demonstration projects for wider co-operation in the Danube Basin.

The RCC can do much to promote the Danube's potential as an environmentally friendly mode of transport and to encourage the removal of institutional and physical barriers to navigation, as well as encouraging better infrastructure in order to achieve a more balanced development of the different transport modes in SEE.

3.2 Trade and Investment

3.2.1 Overall Objective

The overall objective is to foster a business climate conducive to investment, trade and employment through enhancing regional co-operation in policy development, implementation and promotion, including improving the functioning of the free trade agreements, supporting implementation of the priority FDI and SME policy reforms identified under the Investment Compact and upgrading employment policies in SEE, thereby facilitating sustainable economic growth in the region.

In order to support the development of a business climate conducive to investment, trade and employment and hence ensure sustainable economic development, the Stability Pact uses a variety of interlinked instruments designed to address the weaknesses in the policy framework, overcome political obstacles, tackle administrative and bureaucratic barriers and highlight the commercial opportunities and business potential in the region. These instruments include the Stability Pact Trade Working Group, the Investment Compact, the Business Advisory Council and the electronic SEE (eSEE) Working Group as well as the activities of the Special Co-ordinator, Deputy Special Co-ordinator, the Chair and the Director of the Working Table in fostering political consensus and participating in high profile promotional activities.

3.2.2 Activities and Achievements November 2006 to November 2007

(i) Trade Liberalisation

Single Free Trade Agreement for SEE – CEFTA 2006

Following intensive negotiations during 2006, the enlarged and modernised Central European Trade Agreement (CEFTA) was signed in Bucharest on 19 December 2006 by the Prime Ministers of nine SEE countries and the Special Representative of the Secretary General on behalf of UNMIK/Kosovo. The Special Co-ordinator and the EC Commissioner for Enlargement Olli Rehn attended the event. As foreseen, Bulgaria and Romania opted out of CEFTA 2006 following their accession to the EU in January 2007. For the remaining eight Parties, 2007 was characterised by intensive work to ratify the agreement and to put in place suitable structures to allow for its efficient implementation.

It was agreed that until the Secretariat established under the agreement was operational, the Stability Pact's Trade Working Group and in particular its Secretariat would support the regional trade process. In order to ensure close co-ordination, the Stability Pact proposed that the former Yugoslav Republic of Macedonia, as the current chair of CEFTA, would assume the role of Chair of the TWG for its final year of operation.

The SP Trade Working Group met twice during the period – in Albania in March and in Bosnia and Herzegovina in July. Both meetings paid particular attention to preparations for the first Joint Committee of CEFTA 2006 and in particular to preparing the various decisions to be adopted by SEE Ministers at that event to allow for smooth implementation of the agreement.

The Trade Working Group Secretariat supported the Chair in Office in the preparation for and follow-up to all CEFTA-related meetings held during the year, including the meeting of Deputy Ministers in May, the agricultural sub-committee in July, the Joint Committee Meeting in September and the CEFTA Summit, held in Skopje on 21 November. The decisions adopted by SEE Ministers at the Joint Committee meeting included decisions on rules and procedures, a mandate for the Secretariat, the staffing and structure of the Secretariat and the creation of three sub-committees on agriculture, customs co-operation and non-tariff barriers.

The CEFTA Summit in November, which the EC and the Stability Pact participated in alongside the CEFTA Parties, welcomed the rapid ratification and entry into force of the agreement. CEFTA 2006 entered into force on 26 July for five Parties – Albania, the former Yugoslav Republic of Macedonia, Moldova, Montenegro and UNMIK/Kosovo. Croatia applied the agreement from 22 August and Serbia from 24 October. The agreement entered into force in Bosnia and Herzegovina on 22 November.

As part of its awareness-raising on CEFTA, the SP in co-operation with the Friedrich Ebert Foundation organised a seminar in April for SEE parliamentarians on CEFTA and its economic and political implications.

Other Trade Working Group Issues

In addition to preparations for the entry into force of CEFTA 2006, the SP Trade Working Group continued its work on the identification and removal of non-tariff barriers. A special meeting of the non-tariff barrier (NTB) focal points was held in Skopje on 20 March, funded by USAID. The draft annual reports on the status of NTBs

in each CEFTA party were reviewed and subsequently published. The Group also made a series of recommendations on continuing NTB work to the CEFTA parties.

WT II worked closely with the EC Commission and the Customs Administration of Serbia to organise a regional workshop in July in Belgrade on the rules of origin to be applied under CEFTA. SP experts and the EC also took part in meetings with Bosnian parliamentarians in July during the CEFTA ratification process in that country to provide further information on technical issues.

Chambers of Commerce in the eight CEFTA Parties have come together to form a CEFTA Forum to promote CEFTA to their members and to allow for better dialogue with governments and CEFTA structures. This initiative has been supported by the Stability Pact which has participated in a number of the Chamber meetings and facilitated Chamber presentations in Trade Working Group meetings.

Transition Strategy – Trade Liberalisation

The entry into force of CEFTA 2006 signalled the formal transfer of responsibility for regional trade relations from the SP Trade Working Group to the SEE parties. The various decisions adopted in Ohrid in September provide a good basis for the efficient and effective implementation of the agreement.

A key feature of the transition strategy is the establishment of the small Brussels-based Secretariat as foreseen in the agreement. Significant progress has been made in developing the appropriate legal basis for the Secretariat and also in securing the necessary finances. The CEFTA Parties have formally agreed on a cost-sharing mechanism for their contribution that will increase over the years. The EU member states have endorsed an EC recommendation to provide technical and financial assistance under the IPA programme for the initial operation of the Secretariat and for other elements of CEFTA implementation. Other bilateral donors have indicated their interest in supporting the regional trade process.

Following the finalisation of the legal issues (e.g. headquarters agreement with the Kingdom of Belgium), it is envisaged that the Secretariat will commence operations in the first quarter of 2008. In the meantime, the Stability Pact office will continue to support the CEFTA structures.

Given the close relationship between trade and investment, significant efforts have also been made to develop closer links between the CEFTA structures and the Investment Compact and in particular the SEE Investment Committee. The Ministerial Declaration in September and the CEFTA Summit Declaration in November endorsed this co-operation and this is equally reflected in the SEE Investment Committee's strategy.

Challenges - Trade Liberalisation

CEFTA 2006 is an inclusive, modern and ambitious agreement. It can contribute greatly to economic and political development in SEE but it will test the administrative capacity and political will in the region. It is vital that the CEFTA Secretariat is adequately staffed, commences operation as soon as possible and gains the trust and support of the CEFTA Parties. The availability of technical assistance from donors will be a critical element in ensuring success.

Moldova, as the Chair in Office for 2008, with the support of the Secretariat will have to ensure that the work programme of the different sub-committees is followed and that

the various formal meetings can take the necessary decisions to allow the agreement to function.

Several bilateral trade issues are still unresolved and if not handled properly may result in tense relations between some of the Parties.

The RCC can play a valuable role in monitoring implementation and undertaking political troubleshooting if appropriate. Ensuring adequate flows of information between CEFTA structures and other RCC-related initiatives will be vital to allow for the agreement to be exploited to its full potential as will ensuring co-operation and co-ordination with the donors active in this field.

(ii) Investment Facilitation

During 2007 the OECD-led Investment Compact has maintained its focus on two core areas (i) FDI policy and promotion and (ii) SME development focusing on three dimensions: 1) monitoring and evaluation, 2) support in implementation of investment reform, 3) support for private sector representation.

Monitoring and Evaluation

The Investment Reform Index (IRI), which was launched in November 2006 to evaluate progress made by SEE countries on policy reform to improve the business climate in the region, was followed by a series of country-specific presentations of the results to the governments, the private sector and the media in the first six months of 2007.

An improved version of the IRI is under preparation and will be implemented in 2008-2009. It will broaden the depth and scope of the original IRI indicators, expanding the number of policy dimensions to include areas such as financial markets development, regional integration, corporate governance, corporate social responsibility, infrastructure and labour policy. This will allow the Index to evolve from a once-off measurement into an on-going process and strategy for reform.

The SME Policy Index was launched in March in Dubrovnik to evaluate policy reforms made by SEE countries to improve the business climate for SMEs based on the European Charter for SMEs. Two peer reviews and a number of focus groups have been established to examine SME innovation in Albania and Serbia, based on the findings of the Charter Report. The second phase of the SME Policy Index is scheduled to start in March 2008 and will include company surveys and focus groups to complement the data from the private sector. It is based on two pillars: (i) evaluation of the impact of policy measures and (ii) specific guidelines on how to implement reforms.

Support for implementation reform

As a follow-up to the IRI 2006 evaluation, "How to" guidelines on implementing policy reform were elaborated in selected priority areas: (i) implementation of an FDI-SME linkages program, (ii) addressing the skill gaps, (iii) facilitating labour market reforms; (iv) ensuring regular regulatory impact analysis and (v) improving public procurement systems.

In order to properly address these issues four working groups have been established and held their first meetings between June and October 2007. The four Working Groups are Anti-Corruption (chaired by Romania), Human Capital (chaired by Croatia),

Investment Promotion (chaired by Bulgaria) and Regulatory Reform (chaired by Serbia). The Working Groups are composed of experts from participating countries, private sector representatives and international organizations, including OECD experts and members of the Investment Compact team.

The first meeting of the Working Group on Investment Promotion was held on 18 June in Antwerp focusing on the linkages between the FDI and SME and how to develop and make these linkages sustainable on a longer-term basis. The Working Group on Human Capital at its session on July 10 in Zagreb discussed the links between overall country competitiveness and the education system, skills supply, skills development, investment trends and policy responses.

Romania chaired the Working Group on Anti-Corruption on September 11 in Bucharest. This was aimed at developing the common guidelines on how to effectively fight corruption in public procurement. The Group had input from the SP's Anti-Corruption Initiative and focused its attention on identifying the areas most vulnerable to corruption (namely, phases of needs assessment, tendering, auctioning) and designing and implementing revised structures in the public procurement system.

Reviewing the different Regulatory Impact Analysis (RIA) in the SEE countries, learning from good international practices and ensuring effective human capacity involvement in implementing RIA were some of the discussions between members of the Working Group on Regulatory Reform, held on 30 October in Belgrade. How to better communicate with parliamentarians and how to efficiently involve them in the regulatory reform process were recognised as areas that need special attention and efforts will be made to co-operate further with the Parliamentary Co-operation initiative under Working Table I.

During 2007, the Investment Compact continued implementing the FDI Moldova Project which aims to support Moldova in drafting and promoting an FDI and Export Promotion Strategy and implementing concrete actions to attract foreign investment and promote Moldovan produces in export markets. The project is in its second phase and has the direct support of the Moldovan Government and Moldovan Investment and Export Promotion Agency.

The OECD Investment Compact (IC) in conjunction with the World Bank's Invest in WB (IIWB) programme based in Vienna embarked on a new project to target investment promotion activities in the Western Balkans (TIPA). The project which is funded under the EC's CARDS programme aims to identify, prioritise and determine market dynamics and establish key success factors in four sectors and contribute to the systematic reduction of industry-specific barriers that hamper trade and investment intra-regionally and with the EU. The four sectors are automotive components, information and communication technology, business process outsourcing and textile and garments.

Private sector support

The OECD IC continues to actively engage the participation and opinions of its partners from the private sector, including the Business Advisory Council and Foreign Investors Councils. It has secured considerable private sector input on IC activities through interviews, participation in public/private reviews of preliminary IRI and SME Policy Index results. It also continuously encourages the business community to give opinions on policy reform issues through dialogue with governments and sharing best practices with SEE countries.

Transition Strategy – Investment Facilitation

As part of its move towards regional ownership, on 2 April 2007, the IC launched the SEE Investment Committee - a high-level co-ordination body composed of senior government officials from the region, which aims to ensure effective and timely implementation of investment reforms.

It is driven by the four regionally-chaired Working Groups (outlined above) dealing with the issues of human capital development, anti-corruption in public procurement, regulatory reform and investment promotion in order to develop the plans and capacity building programs for the implementation of the reform priorities recommended in the Investment Reform Index Report.

In order to strengthen its regional presence, the IC has three branch offices in the region, in Sofia, Chisinau and, since mid 2007, Zagreb. It plans to re-open its office in Belgrade. The main objective of these offices is to support the IC Programme through country specific and regional projects and contribute to more efficient communication among governments, donors and private sector throughout the region.

The annual ministerial conference remains the key decision-making body for the SEE Investment Committee. The next ministerial conference will be held in Belgrade in February 2008 and will secure Ministerial support for the implementation of new investment reforms based on recommendations from the findings of four working groups and related regional projects.

Remaining Challenges - Investment Facilitation

The OECD IC draws on the experience of OECD member countries and can provide SEE countries with expertise and support on their way to EU accession. To fully benefit from this partnership it is very important to ensure that strategies and processes for the reform are driven by the countries from the region.

The active engagement of the IC parties in the regular monitoring of the investment climate and SME development through participation in the process of developing the follow-up evaluation to the IRI 2006 and SME Policy Index 2007 evaluation process is critical. These indexes are meant to measure and communicate progress on policy reform and should be used by the region to improve the existing investment environment and to attract more private investment.

The process will allow countries to benefit from the expertise of various stakeholders (OECD, research institutions, government self-evaluation and on-the-ground input from local consultants and private sector). However, governments must dedicate staff and resources if it is to be successful.

In the near future the region will profit from the improved version of IRI 2008-2009 developed to reinforce and complement the broader overview of business climate with sector specific analysis. The new policy dimensions (*inter alia* labour policy and financial market development) will certainly improve the applicability of IRI policy recommendations in practice.

Given the importance of positive investment-trade synergy for the overall development of countries of the region, adequate and mutually beneficial communication between the SEE Investment Committee, the OECD team and the CEFTA bodies (e.g. the Joint Committee and Secretariat) will be required.

The very active and successful co-operation between the IC and the Stability Pact for many years provides the RCC with a good basis to further extend and deepen its relations with the SEE Investment Committee, ensuring active co-operation to improve policy design. This co-operation may also help the RCC to address the cross cutting issues of anti-corruption, human capital development and parliamentary co-operation.

(iii) Other Private Sector Development Activities

Business Advisory Council

The *Business Advisory Council for SEE (BAC)* fielded missions to Belgrade in July and to Ljubljana in September and will celebrate its tenth anniversary in Thessaloniki on 5 December. During its missions, the BAC met with key ministers and high level officials and was appraised on the priorities of the governments while giving recommendations on how to boost growth and attract investments. The participation of the Special Co-ordinator, WT II Director and representatives of the IC have ensured good co-ordination between the BAC, the other private sector oriented initiatives and the SP in general.

Transition Strategy - BAC

The BAC has indicated that it intends to continue its work to improve the investment climate in SEE through structured dialogue with the governments of the region and can provide a very useful private sector input to the RCC.

The decision of the Greek Government to establish a private sector oriented **Regional Development Centre (RDC)** in Thessaloniki that will provide a stronger institutional framework for the BAC and another trade-related initiative, SECIPRO, is a welcome development as it will facilitate better co-ordination and exchange of information between these initiatives, the broader private sector in the region and beyond and RCC related initiatives such as CEFTA, the SEE Investment Committee and the Regional Anti-Corruption Initiative.

electronic South East Europe

The SP's electronic South East Europe (e-SEE) Initiative has continued to support the region in promoting the development of the Information Society and in advancing their ICT agenda within the parameters of the broader EU information society programme.

eSEE members made progress in implementing the e-SEE Agenda of 2002, establishing a common regional framework and developing unified national guidelines for ICT development, putting in place compatible national ICT development policies and legislation on electronic communication infrastructure, including e-commerce and e-signature as well as implementing National Information Society Policies, Strategies and Action Plans. Countries were also active in designing and implementing a range of e-Governance project reforms in all areas of public administration.

The ICT Private Sector Forum held in Belgrade in April emphasised the promotion of essential policy reforms, ICT business development and the attraction of investments. This event and the second Broadband Conference for SEE that accompanied it were supported by the eSEE initiative.

The eSEE initiative has also to promote the development of the Ljubljana-based Centre for e-Governance Development in SEE. The role of the Centre for e-Governance Development will be that of a dedicated, non-profit, regional co-ordinating body which will support regional e-Governance programs by matching specific needs and projects. The Centre is supported by several donors (UNDP, USAID, World Bank, INA Academy, European Foundation), governments (Slovenia, Italy) and international companies (including Microsoft and Siemens). Its main objectives are the creation and transfer of knowledge and best practices from the region and from other partners and the provision of training and guidance to leaders and regional governments. It will also actively explore options for public private partnerships in ICT development in the region.

To set a stage for the launch of the Centre, the SP in close co-operation with the USAID Regional Competitiveness Initiative jointly organised the first e-SEE Initiative Workshop on e-Governance in Skopje on 25-26 September. The event brought together some 90 participants comprising e-Governance leaders and specialists from the SEE region and practitioners from the US, Austria, Italy, Switzerland, Slovenia, the EU and the World Bank to discuss best practices in the fields of e-Leadership, e-Customs, e-Procurement, eCommerce and e-Education in order to develop a roadmap for e-Governance implementation.

As a result of collaborative efforts made under the framework of e-SEE Initiative and its Taskforce for Broadband South East Europe, a Ministerial Conference on Information Society Development was held in Sarajevo on 29 October under the umbrella of Stability Pact and in close co-operation with the Ministry of Communication and Transport of BiH, UNDP BiH and the EC Delegation in Sarajevo.

Ministers of Telecommunication and Information Society from the initiative member parties – Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Romania and UNMIK/Kosovo – adopted a new regional action plan: “e-SEE Agenda Plus for the Development of Information Society in SEE 2007- 2012”. The Agenda promotes a single, open and competitive internal ICT market, gives priorities to innovation and investment in research and education and strives to achieve an inclusive e-Society.

At the Ministerial Conference Croatia took over the Chairmanship of the e-SEE Initiative from Serbia who chaired the Initiative from 2002. Montenegro was selected as new b-SEE Taskforce Coordinator for 2007-2008.

Transition Strategy – e-SEE

The e-SEE Initiative will pursue its efforts to promote the ICT agenda and in particular try to strengthen and streamline the activities of the e-Envoys to ensure an active network of appointed senior government officials in ministries for telecommunication and agencies for ICT that can facilitate implementation of the e-SEE Agenda plus and b-SEE Action Plan. The network of e-Envoys will be supported in their efforts by the UNDP managed e-SEE Secretariat based in co-operation with the RCC.

One of the future tasks of the Initiative will be assisting the regional Centre for e-Governance Development in generating investment in ICT research and education with an aim to increase government efficiency and transparency and minimise digital divide in SEE towards the EU and rest of the world.

The e-LEAD program (supported by the Government of Italy) will be of benefit to all SEE countries through building capacities, raising awareness and facilitating

knowledge exchange in promoting e-Governance solutions in areas such as human capital. The programme is scheduled to be launched in Bari (Italy) in the first quarter of 2008.

The e-SEE Initiative will seek to encourage the participation of the Initiative members in the EU Seventh Framework Programs, ensuring the region's continued involvement in the e-Europe process (e-Europe 2002, e-Europe 2005, e-Europe + and i2010). It will also seek to further emphasise the important role of the private sector in the policy dialogue and reform in various fields including: e-business, e-governance, e-health and e-education, maintaining the close co-operation with BAC-led ICT Private Sector Forum.

Remaining Challenges - e-SEE

Future work should build on national and regional actions connected to EU policies and practice. This will require active participation of the e-Envoys, overall guidance from the SEE Initiative Chair and the support of the UNDP funded e-SEE Secretariat.

Increased political commitment and support is vital. E-SEE has struggled to secure the necessary support from SEE governments and to ensure ICT is on the reform agenda. Setting ICT as a priority will help the region to benefit from ICT through enhanced competitiveness, governmental efficiency and transparency.

The e-SEE Agenda+ for Development of Information Society 2007-2012 and the bSEE Action Plan provide governments with a good framework for development if they actively use them. Exposure to the EU's ICT community through participation in the EU IST Seventh Framework Programme as well as business contacts would provide the region with valuable knowledge and experience.

The eGovernance Centre needs to prove its value to all stakeholders by actively matching needs with available projects or prompting the development of suitable projects and sharing information and best practice. It should also complement the BAC-led ICT Forum by promoting public-private dialogue and projects.

The RCC should provide the Initiative with continued political support and in particular it should promote to SEE governments the key role to be played by information technologies in every aspect of social, political and economic development.

Apart from ensuring its strong regional ownership, the RCC will need to assist the Initiative to develop positive links and better co-ordination with all other regional initiatives related directly and indirectly to the ICT sector (parliamentary co-operation, human capital building, investment, trade).

3.3 Social Cohesion

3.3.1 Overall Objective

Recognising that social cohesion is an essential contributing factor to lasting political and social stability, as well as economic development in the SEE countries, the Initiative for Social Cohesion (ISC) aims to better incorporate the social dimension in economic development and reconstruction efforts in the region. Since its inception, the ISC has allowed a wide range of international organisations, bilateral donors and SEE countries to work together to address the social issues that affect the daily lives of citizens in the countries of SEE, with attention also paid to the most vulnerable

populations. The method is based on regional networking, and the main priority is to ensure capacity building and the strengthening of institutions.

The ISC has also sought to complement the work done in other SP initiatives, such as energy, trade and investment, and building human capital.

3.3.2 Activities and Achievements to Date

Activities and Achievements November 2006 to November 2007

The Bucharest Employment Process

The objective of the Bucharest Cooperation Process on Employment has been to upgrade the employment policies of the SEE countries in line with EU and international standards, as well to build capacities in the relevant public administration (Labour and Employment Ministries, National Employment Agencies) for their design and implementation.

Under the **Bucharest Employment Process**, the last Country Reviews of the Employment Policy (CREP) of Bosnia and Herzegovina was completed in the first half of 2007. The WT II ISC staff co-ordinated another round of peer-reviews: Albania reviewed the employment policy of Montenegro, the former Yugoslav Republic of Macedonia reviewed Serbia, and Montenegro reviewed Romania. The outcomes of the CREP and the peer-reviews were presented and discussed at the sixth meeting of the Permanent High Level Committee on Employment (PHLC) which took place in Montenegro 23-25 October 2007.

This meeting preceded the third Ministerial Conference on Employment and Social Policy, held on 25-26 October. This was the last Ministerial Conference under the Bucharest Process. It endorsed the work done in the PHLC since the start of the Bucharest Process in late 2003 and set the co-operation objectives for the future. They include the implementation of selected recommendations (those deemed relevant for all countries involved), continued work on occupational safety and health policy and mechanisms and enhancing social dialogue.

During 2007, several specialized training workshops were held for Ministries of Labour, Employment Agencies and social partners' officials, on employment policy design, implementation and monitoring.

The regional project on **occupational safety and health** (OSH), initiated in 2006,, produced national profiles of all SEE countries, containing information on the status of each country's policy vis-à-vis EU and international standards and available mechanisms in the field. These were analyzed and the findings were incorporated in a Regional report on OSH in SEE. The ISC Secretariat organized a regional tripartite seminar to discuss the findings and agree on future action with the SEE beneficiaries on 27-29 June. The main outcomes of the seminar are the core elements for a second phase of the project, which pertain to specific action in OSH policy making and capacity building for the social partners and governments of the SEE countries, as well as to establishing OSH enforcement mechanisms at the various levels (from company to government level). The project was a co-operative effort between the SP's ISC the European Trade Union Confederation (ETUC), the International Organisation of Employers (ILO) and the World Health Organisation (WHO), and it brought together the various networks of regional experts (employment, health, trade unions and employers) on an issue of shared interest.

Social Dialogue

In the **social dialogue field**, a three-year strategy for handing over ownership of the co-operation within and between the trade union and employers' networks was finalised and approved by the donor (the Government of Switzerland). The ETUC and International Organisation of Employers (IOE) will gradually reduce their co-ordination roles and hand over to a regional office to be set up in Zagreb. In the meanwhile, the networks of trade unions and employers held a series of meetings on specific issues of interest, such as health systems reform, employment, competitiveness etc. The social partners have been actively involved in the Bucharest Employment Process, the regional project on OSH as well as in the design of a Memorandum of Understanding dealing with the social consequences of the Energy Community Treaty.

Health

The **SEE Health Network (SEEHN)** has continued to supervise the activities of the regional public health projects, and to serve as the regional co-operation forum for its members, in its seventh year of existence. This year has been a very important one, since it has marked the start of the process of transfer of ownership: the leadership role performed by the Council of Europe (CoE) and WHO/Europe will gradually be handed over to the SEE Countries, as stipulated in the Skopje Pledge. The SEEHN was expanded to include its newest member, Montenegro, in 2007.

The achievements of the SEEHN can be displayed at two levels, political and technical.

At the *political level*, the SEEHN was supervised by two Presidencies, that of Bulgaria (Jan-Jun 2007) and Croatia (Jul-Dec 2007). The Bulgarian presidency of SEEH organised and hosted two SEEHN meetings that served as fora for discussing and agreeing on important issues related to the future of the SEEHN and two ministerial declarations on Mental Health and Communicable Disease and Surveillance:

- a) Draft Memorandum of Understanding (MoU) on "Future of south-eastern Europe Health Network in the framework of the south-eastern Europe Regional Cooperation Process (2008 and beyond)";
- b) Declaration of Ministers of Health of the South-Eastern Europe Health Network on Long-Term Programme for Regional Collaboration and Development in Mental Health;
- c) Declaration of Ministers of Health of the South-Eastern Europe Health Network Strengthening Regional Capacities for Epidemic Preparedness and Response to Implement International Health Regulations (IHR).

The draft MoU on the future of the SEEHN is still under consideration and comments from SEE countries are still being received. Further discussions are expected for the upcoming 17th meeting of the SEEHN in Zagreb, Croatia, on 6-7 December 2007. Issues under discussion include the criteria for the selection of the location of a small SEEHN Secretariat and the criteria for how contributions are made.

On the *technical level*, all projects which aim at the adoption of EU and international standards in the specific fields, are being implemented according to their approved time schedules. They are:

- Enhancing social cohesion through strengthening community mental health services in SEE;
- Strengthening communicable diseases' surveillance and response;
- Strengthening food safety and nutrition services;

- Public health capacity building for strengthening tobacco control;
- Increasing regional self-sufficiency in relation to safer blood and blood components;
- Establishing regional networks and systems for the collection and exchange of social and health information ;
- Strengthening national capacities for improving maternal and neonatal health in SEE;
- Evaluation of Public Health Services.

Remaining Challenges - Social Cohesion

Addressing social policy development in its entirety and as a complementary part of economic reforms remains a challenge, as it still perceived as a costly process whose benefits are only visible on the long term. In addition, an important part of the EU acquis pertains to social policy matters, such as employment, social dialogue, occupational safety and health and public health, which must be transposed in national law in parallel to the approximation of the rest of the national legislation to the EU acquis.

The Transition Strategy of the ISC is underway in all its sectors. This will continue throughout the first half of 2008, as a conclusion of the MoU on health and the set-up of a small Secretariat in the region is still pending. The ISC saw the Bucharest Process on Employment through to the realisation of its original mandate, which was marked by the third Ministerial Conference on Employment and Social Policy in SEE. Based on the request from the beneficiaries and in agreement with the partner organizations and donors, the ISC will seek to ensure a practical solution for the sustainability of the PHLC and the implementation of the Montenegro Conclusions (the Ministerial Declaration on Employment). With the official start of the RCC early in 2008, a smooth handover will be needed in order to insure that the social dimension of economic reform is reflected in the various processes it supports (for example, supporting the implementation of the Memorandum of Understanding on the Social Consequences of the Energy Community Treaty).

3.4 Housing and Urban Management

3.4.1 Overall Objective

WT II's Housing and Urban Management initiative (HUMI) promotes the development of functional housing markets, including affordable housing options for all segments of society as well as sustainable urban development. It assists the countries in SEE to overcome obstacles in the development of urban management instruments and housing policy. HUMI's work is guided by the "Vienna Declaration on Informal Settlements in SEE" of September 2004 where the Western Balkan countries committed to undertake measures to address informal settlement issues and to initiate and implement reforms in the wider orbit of sustainable urban development and social housing. To support SEE stakeholders in implementing these commitments, SP/HUMI facilitates a Vienna Declaration peer review process and the development of a regional capacity support programme. In the light of SP transition to the RCC, both processes are to be continued under the leadership of UN-HABITAT as of 2008.

3.4.2 Activities and Achievements to date

In this reporting period HUMI continued its work to design and implement a *Regional Capacity Strengthening Programme (RCSP)* that will support better policy development, improve investment absorption capacity and enable future regional co-operation in this important socio-economic area.

Following the endorsement of the RCSP programme document (2007-2010) by stakeholders from SEE, International Financial Institutions and International Organizations in 2006, the Interim RCSP Steering Committee (composed of CEB, EIB, UN-HABITAT and the Stability Pact) reviewed and selected RCSP demonstration project proposals which were submitted by SEE Governments in autumn 2006. Based on the Steering Committee's consensual decision, the first RCSP demonstration projects were started in Albania and Montenegro in early 2007.

The Albania pilot project focused on deriving strategic advice on integrated approaches to housing, drawing on regional and international experience. This project was successfully concluded by a regional workshop in Tirana on 3-5 July 2007 and local capacity building activities were already agreed with the Government of Albania as a follow-up activity. The demonstration project in Montenegro, meant to test in a pilot Municipality the practical application of the proposed Legalisation Law (related to unauthorised construction activities), is still ongoing. A change in government policy necessitated a change in approach. Furthermore, a regional training workshop on "Strategic Planning and Local Economic Development" was held with SEE experts in Podgorica on 24-25 October 2007 under the RCSP.

The joint SP/UNHABITAT team has also successfully consulted with donors to secure the necessary funding for the various phases of the RCSP, allowing for the establishment of the implementation platform for the Regional Capacity Strengthening Programme (RCSP) in early 2008 and the execution of a work programme, for which first regional project proposals are currently being developed.

In order to sustain the political momentum of the *Vienna Declaration on Informal Settlements* and to compensate for the absence of formal Pan-European or regional fora on this subject matter, SP/HUMI also continued to facilitate the Vienna Declaration peer review process. Both the fourth Vienna Declaration review meeting (Belgrade, 23-24 November 2006) and the fifth Vienna Declaration review meeting (Podgorica, 22-23 October 2007) indicated that all SEE governments are actively engaged in this political process and that, while considerable problems still remain, progress has been made in putting into place improved legal and regulatory frameworks for addressing informal settlements. However, it was noted that insufficient practical progress is being made to establish procedures for both regularisation of informally developed properties and improved access to formal housing solutions. These shortcomings are to be monitored more closely and addressed through RCSP support projects.

Following on from the roundtable held in Sofia in March to strengthen **academic co-operation in sustainable urban development**, SP/HUMI and the Universities of Thessaloniki, Skopje and Sofia developed an action-plan in autumn 2006 to prepare a joint EU/SEE research project proposal for submission and financing under FP7 of the European Commission. The Co-ordination group met twice in autumn 2006 and during 2007, meetings were held in Skopje on 3 April 2007 and in Thessaloniki on 8-9 May 2007 to further specify the scientific topic/approach.

On 25-26 May 2007, a regional workshop was conducted in Sofia involving all EU and SEE representatives of Academic Institutions. The project's research focus was framed ("Emerging Sprawl Phenomena in SEE Cities: Driving Forces, Spatial Consequences and Societal Responses"). Moreover, it was decided for the UACG University of Sofia to co-ordinate the preparation and submission of the joint research project proposal (with SP/HUMI technical and financial support). The project preparation was

successfully completed during the second half of 2007 and the joint FP7 proposal was submitted for EC funding in November 2007.

Transition Strategy – Housing and Urban Management

In line with the ongoing transformation of the Stability Pact for South Eastern Europe into the regionally owned Regional Co-operation Council (RCC) and as announced at the 14th Working Table Meeting in Bucharest, the regional co-operation activities initiated in SEE under the HUMI initiative will be continued under the leadership of UN-HABITAT.

While both the RCSP and the Vienna Declaration peer review process will be managed by UN-HABITAT as of 2008, the RCC should provide political support needed in both SEE and the EU.

3.4.3 Remaining Challenges - Housing and Urban Management

The key challenge faced by HUMI, UN-HABITAT and its national and local government partners in SEE is securing sufficient financing for the phased implementation of the Regional Capacity Strengthening Programme (RCSP). While a significant financial contribution for RCSP operations in 2008 was already secured from the Government of Finland, building on earlier donations from Luxembourg, Switzerland and the Council of Europe Development Bank, the joint SP/UN-HABITAT team has intensified its consultations with a variety of interested donors to safeguard continued RCSP implementation beyond the year 2008.

In addition, during the remainder of 2007, communicating the handover of responsibilities vis-à-vis key stakeholders and finalising the recruitment of an UN-HABITAT Programme Manager for the RCSP to assume responsibilities as of 2008 will be of paramount importance.

While the RCSP and the Vienna Declaration peer review process will be managed by UN-HABITAT as of 2008, the continuation of *regional academic co-operation* for housing and urban development in SEE will to a large extent depend on the successful submission of the envisaged FP7 research project proposal and a positive assessment by the European Commission. Although a broad informal network was established under the HUMI initiative and will be linked to the RCSP, long-term scientific co-operation can only be enabled through continuous FP7 support.

4 CONCLUSIONS

The economic landscape of SEE has been transformed since 1999. The regional economic strategy gradually being implemented by the governments is contributing to confidence among investors and consumers. While political uncertainties linger in the region and their potential impact should not be underestimated, macro-economic figures are much improved. The majority of countries expect to maintain GDP growth rates of 5-6% - ahead of many EU member states and most countries have kept inflation within single digits.

Trade among the SEE countries as well as trade with the EU is increasing. Inflows of Foreign Direct Investment are increasing year by year. Croatia and the former Yugoslav Republic of Macedonia are among the top 10 reformers in the World Bank's Doing Business Report for 2007, and Serbia topped this poll in 2006. Anti-corruption measures are also bearing fruit, as demonstrated by the SEE countries' rise in Transparency International's ratings. Social partnership is being strengthened and concerted efforts are being made to contain social exclusion.

The various initiatives that operate under the auspices of WT II have contributed to this economic transformation. They have also contributed to the instigation of EU and international standards in the region as all initiatives are designed to assist the SEE parties to adopt such standards as part of a comprehensive approach to economic and political development.

As outlined in this progress report, the transition process for the initiatives under WT II has been largely completed or is in the final stages. The SEE countries have taken major steps in assuming ownership for the different processes, e.g. the entry into force of CEFTA 2006, the establishment of the SEE Investment Committee, the MoU on Social Aspect of the Energy Community Treaty and the agreement on further action in employment policy.

However, for many initiatives, the role of the SP has been to develop and secure agreement to a common strategy and approach and to establish the necessary legal/institutional framework. The responsibility for actual implementation now lies with the SEE parties themselves and this will require on-going political will and the allocation of sufficient and adequately trained human and financial resources.

The SP's "modus operandi" of convening teams of SEE and international experts to devise a strategy to address specific issues has worked very well for many WT II initiatives. The working groups and taskforces have provided a framework that over the years has not only allowed substantial transfer of knowledge and tailoring of strategies to the particular circumstances but has also allowed the relevant experts to develop professional relationships with their counterparts – a critical element for ensuring successful implementation.

This strength of this particular "success factor" has been diluted somewhat in the region by the extent of institutional change that can often follow elections in the different countries. Staff at all levels within a ministry or government body can change, often taking with them institutional memory and vital technical knowledge.

International organisations and bilateral governments have contributed enormously to the different initiatives through political, technical and financial support. The level and degree of co-operation has evolved over the lifetime of the SP as many organisations and bilateral donors are not structured institutionally to deal with regional programmes. This has on occasion created complications as often there is no specific department or

person dealing with regional co-operation but it is allocated as an additional responsibility to a unit or an individual. In addition many assistance programmes are not necessarily designed with a regional aspect. However, in general, donors responded flexibly and pragmatically to the challenges involved in providing support. In some cases, specific regional instruments were created such as the World Bank's US\$ 1billion Adaptable Program Lending (APL) fund for projects complying with the Energy Community Treaty and the EBRD's Western Balkan Initiative to boost private business investment and infrastructure in the region.

Another key "success factor" – the provision of small dedicated teams of experts to support implementation of the different regional strategies. This approach – exemplified by the SP in general and by the Athens Process in energy, the Secretariat of the SP Trade Working Group, the Secretariat of the Initiative for Social Cohesion and the OECD Investment Compact in the case of WT II – has been decisive in ensuring that the political and financial commitments made by both the SEE governments and the international community are either achieved or used appropriately. This has been a guiding principle for the transfer of ownership to the new structures – be they regional or international.

The RCC will play a crucial role in ensuring that the various initiatives, particularly those with newly created institutional structures, are properly integrated into the broader socio-economic environment in the region and that the undoubted synergies that exist between infrastructure, trade, investment and social cohesion as well as in building human capital and addressing security issues are actually exploited. This will require RCC staff to have the relevant knowledge and expertise to (i) contribute to the different technical areas and (ii) secure the necessary political or technical support as needed.

LIST OF ACRONYMS - WT II SUMMARY PROGRESS REPORT

ATM	Air Traffic Management
BAC	Business Advisory Council
BIAC	Business and Industry Advisory Committee
CEATS	Central European Air Traffic System
CEB	Council of Europe Development Bank
CEFTA	Central European Trade Agreement
CREP	Country Reviews of the Employment Policy
DCP	Danube Co-operation Process
DG TREN	Directorate-General Energy and Transport
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECAA	European Common Aviation Agreement
ECT	Energy Community Treaty
EIB	European Investment Bank
ECS	Energy Community Secretariat (Vienna)
eSEE	Electronic South East Europe
ETF	European Transport Federation
ETUC	European Trade Union Confederation
EU	European Union
FDI	Foreign Direct Investment
FIC	Foreign Investors' Council
FP7	7 TH Framework Programme
FTA	Free Trade Agreement

HUMI	Housing and Urban Management Initiative
IATA	International Air Transport Association
ECAC	European Civil Aviation Conference
ICAO	International Civil Aviation Organisation
IC	Investment Committee
ICT	Information and Communication Technology
IFI	International Financial Institution
IFIAG	International Financial Institution Advisory Group
IHR	International Health Regulations
ILO	International Labour Organisation
IOE	International Organisation of Employers
IPA	Instrument for Pre-Accession Assistance
IRI	Investment Reform Index
ISC	Initiative for Social Cohesion
ISG	Infrastructure Steering Group
KfW	Kreditanstalt für Wiederaufbau
MAP	Multi-Annual Plan
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organisation
NTB	Non Tariff Barrier
OECD	Organisation for Economic Cooperation and Development
OSH	Occupational Safety and Health
PHLC	Permanent High Level Committee on Employment
PHLG	Permanent High Level Group

PIP	Public Investment Programs
RCC	Regional Cooperation Council
RCSP	Regional Capacity Strengthening Programme
RDC	Regional Development Centre
REC	Regional Environmental Centre
RIA	Regulatory Impact Analysis
SAP	Stabilisation and Association Process
SECI	Southeast European Cooperative Initiative
SECIPRO	Southeast European Cooperative Initiative PRO Committees
SEE	South East Europe(an)
SEECF	South East European Cooperation Process
SEE FABA	South East European Functional Airspace Block Approach
SEEHN	SEE Health Network
SEETO	South East European Transport Observatory
SME	Small and Medium Size Enterprise
SP	Stability Pact
TINA	Transport Infrastructure Needs Assessment
TIPA	Targeting Investment Promotion Activities in the Western Balkans
UACG	University of Architecture, Civil Engineering and Geodesy
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTII	Working Table II
WTO	World Trade Organisation