

**STABILITY PACT - WORKING TABLE II  
PLENARY SESSION, SOFIA, June 20, 2002**

**STATEMENT  
ON BEHALF OF THE COUNTRIES IN THE REGION**

**Mrs. Sophia Kassidova, Deputy Minister of Economy**

**Dear Participants,  
Colleagues,**

It is a pleasure for me acting as a Regional Co-Chair of WT II to present the statement of the countries in the region on the main activities within the WT related to economic reconstruction, development and co-operation. In fact those activities are the main instruments for the Pact to become a successful undertaking in preventative diplomacy. In our view the involvement of the countries of South Eastern Europe in **joint projects** is the most efficient means to mitigate existing problems and prevent armed conflicts.

Having in mind that the Stability Pact was founded to help the countries from South Eastern Europe, I would also like to stress that it will be better if the initiatives within the Stability Pact are coordinated and implemented in the region, not far from it, as it is so far.

I would like to thank all the countries that have sent us their preliminary considerations. In my view this is a valuable input in the development of regional ownership in the Stability Pact.

I expect that during these two days we will have the opportunity for in-depth discussions on all activities included in the WT II portfolio.

I will now try to briefly summarize the achievements to date and the future tasks in the different fields and initiatives of the WT II on the basis of the contributions of the countries:

- The general objectives of the activities of the WT II should be:
- to provide practical modalities for the involvement of the private sector in policy reform, infrastructure and energy projects and in co-financing of projects;
  - to improve the regulatory framework, business environment and minimize administrative barriers and corruption in order to create a better environment for private sector;
  - development of strategies to support key infrastructure sectors – energy, transport, water.

Regarding the particular initiatives:

**Trade Liberalization and Facilitation:**

As stated by the trade ministers, the main short-term priorities are related to the conclusion of the network of bilateral free trade agreements. Significant progress has been made by the countries – 9 signed agreements and 9 under negotiation.

As agreed under the Memorandum of Understanding the future activities of the Working Group on Trade Liberalization and facilitation should focus on:

- successful completion of the process of accession to the WTO by the countries in SEE;
- in accordance with the Stability Pact strategy for trade adopted in October 2001 in Bucharest: the Trade Working Group's activities can be divided into three main priorities.
  - priority 1 - Fulfil the commitment of the MoU to negotiate FTAs among the Signatory Countries in conformity with agreed standards by the end of 2002
  - priority 2 - Set in motion a procedure within the context of the Working Group to identify, monitor and eliminate quantitative restrictions and measures having equivalent effect
  - priority 3 - Support trade facilitation measures to ensure that the network of FTAs effectively leads to increased trade

In our opinion the Stability Pact should aim at further promoting a global free trade area in South Eastern Europe through trade liberalization and facilitation. Unification of trade tariffs, non-tariff barriers, and introduction of an adjusted regional value added tax should be imperative in this respect. This should create a trade area that is big and attractive enough to generate local and foreign investments.

**Investments:**

This is a field where a lot of work has to be done having in mind the insufficient level of foreign investment inflows in the region.

All countries support the idea of having a more pragmatic and pro-active approach to the strategy of the Investment Compact (IC) to provide for better opportunities for private sector activities in the region.

There is need for commitment and immediate action in addressing key issues that continue to have a negative impact on investment and enterprise.

The Investment Compact that was formally approved at the meeting of Working Table II in February 2000 in Skopje is supplemented by a Roadmap for its implementation, setting out a three-phase approach:

- Diagnosis of current investment conditions in the countries of the region (already finished).
- Development of country specific policy recommendations and design of regional policy initiatives.

- Monitoring of progress in policy implementation, improvement of the investment conditions and investment performance in South East Europe.

The implementation of the agreed investment policy framework requires a comprehensive package measures related to banking; capital markets; corporate governance; privatisation; foreign direct investment (FDI); commercial law; fighting corruption and bribery; money laundering; system of justice; accounting regimes and practices; trade and customs regime and practices; small and medium-sized enterprise formation/support; public procurement regime and practices; investment guarantee schemes; and public and private partnerships.

## **Private Sector Development**

All countries agree on the need to take measures to stimulate growth and investments. In terms of individual projects the Pact has to date steered relatively modest resources towards sectors with immediate economic impact, such as small- and medium-sized enterprises (SME). This sector is a key feature of economic development and growth. It requires the creation of opportunities for new small businesses and foreign inflows, market expansion and building an efficient public and private infrastructure.

The European Bank for Reconstruction and Development (EBRD) as the lead agency in this field, has put together a comprehensive programme. Regional Private Sector Initiatives, as proposed by the EBRD, are divided into two types of programs: the promotion of Cross Border Trade and Investment and regional coverage of SME Support. The first addresses large private projects that promote inter and intra-regional commercial links and the second addresses the need for broad access by SMEs to the full range of existing and planned support programmes.

The Stability Pact should pay more attention to sectors with immediate economic impact, such as in that of enterprise-oriented, employment-creating, small- and medium-sized enterprise (SME) development.

We consider that more focus should be put on the coordination of national and regional reforms for improving the business climate, which is the major, constraint to investment growth.

We hope that Business Advisory council (BAC) will play a large role in promoting private sector development in the region.

## **Initiative for Social Cohesion**

All countries agree that social issues of relevance to the countries in South Eastern Europe can be addressed through regional approaches in the field of health, social protection, employment policy and vocational training, social dialogue and housing.

The revised Action Plan adopted at the Regional ISC Meeting – Belgrade, October 2001- is considered by principle actors in this field as a key step for the modernization of the social system in SEE.

The Initiative stresses that a functioning social system is a basic pre-requisite for peace and stability in the SE Region. Economic development is a medium/long term plan and there is a need to address daily concerns. Economic reforms foreseen for the transition to market economy entail considerable social costs. There is a need to reduce the levels of public spending, in which the reform of the social system will play a large part.

### **e-SEEurope**

We are pleased to note the recent signing of the statement of intent on e-SEE in Ljubljana. The priorities identified by the countries cover three main areas: e-education, e-government and e-business.

There is also agreement to focus attention on e-infrastructure and regulatory mechanisms and to fully integrate the business community into its activities.

### **Infrastructure**

The development of transport and energy networks in South East Europe that are connected and compatible with the corresponding European networks and those of neighboring countries is an important means of improving links within the region and integrating the countries of the region in to the economic mainstream of Europe. The South Eastern European region is relatively ill-equipped in infrastructure: roads, rail links, border crossings, electricity networks, water etc. And this is a major constraint to economic development and growth in the region. Moreover, while the rationale for infrastructure investment is primarily economic, most transport and energy projects in the Balkans involve at least the possibility of regional cooperation, and therefore infrastructure projects can fulfill political as well as economic stability goals. That makes further investments in infrastructure imperative. Consideration should be given to the inclusion of the local companies in implementing infrastructure projects.

The development of adequate transport, telecommunication and energy infrastructure is a prerequisite for the economic and social prosperity of the country.

The Regional Strategies for infrastructure are among the most significant products of the Pact and a good example of how we should move forward. Another positive impact the Pact in this initiative was the establishment of efficient joint monitoring mechanisms of donors and beneficiaries for speeding the implementation of the infrastructure project. It is important that these mechanisms should continue to run.

As this issue is of main priority for most of the countries I hope that the EIB, the EC, the WB and the EBRD will report on the progress achieved in financing and implementing the Quick Start Package and the regional infrastructure projects agreed in Bucharest.

The agreed approach is:

As a short-term priority – to raise the number of existing projects under implementation;

And as medium term – push continuous selection process for new projects and promote co-financing by involvement of the private sector.

This was only a brief review of the current state of development of the main initiatives, carried under the WT II.

I believe that the following presentations and discussions included in today's and tomorrow's agenda will provide better possibility for all participants to present their positions on the priorities of the work of the WT II.