

Draft



STABILITY PACT
FOR SOUTH EASTERN EUROPE

Working Table II: Economy

WORKING TABLE II
ECONOMIC RECONSTRUCTION, DEVELOPMENT AND Co-
OPERATION
PROGRESS REPORT

MAY 2005

1. INTRODUCTION

This report serves as a summary of progress made to date under the various Working Table II (WTII) initiatives. It also highlights the challenges to be addressed in order to achieve the various objectives we have set for 2005.

This report is supplemented by the individual progress reports prepared by each initiative under WT II.

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

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

The specific objectives of Working Table II are 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. The Working Table also seeks to ensure that the need to underpin necessary economic reforms with measures to enhance social cohesion is addressed by all.

WT II has maintained and intensified its efforts to improve co-ordination and co-operation among its various initiatives under the umbrella theme of Enterprise Development and Employment Generation. In particular the WT has provided the different socio-economic actors in South Eastern Europe with opportunities to exchange views and hence prepare and implement more comprehensive development strategies.

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 - the Accession Process for Bulgaria and Romania, the Stabilisation and Association Process for the five Western Balkans countries and the new Neighbourhood Policy for Moldova. They also strengthen processes originating in the region, particularly the SEECP and those that secure regional involvement in international structures, e.g. WTO membership.

3. ACTIVITIES

WT II activities are divided among three areas: - (i) Energy and Other Regional Infrastructure (ii) Trade and Investment and (iii) Social Cohesion and Housing and Urban Management. Our activities in infrastructure, energy, trade and investment are core objectives for 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.) WT II staff assigned to one initiative can thus contribute to several activities in the same area.

3.1 ENERGY AND OTHER REGIONAL INFRASTRUCTURE

3.1.1 Overall Objective

The aim within this area of activity is to ensure that both the countries of SEE and the international community take a regional strategic approach to infrastructure development. This should be based on co-financing and institutionalised partnership and should cover transport, energy and telecommunications, with a view to prioritising capital investment in order to benefit from economies of scale.

The Infrastructure Steering Group, chaired by the European Commission, provides an overall co-ordination framework for development of the infrastructure sector in South Eastern Europe. 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 South Eastern European Transport Observatory (SEETO) and the Working Group on Extending the Single Sky Agreement to SEE.

3.1.2 Activities and Achievements to date

(i) Energy

In the field of energy, the Stability Pact is fully involved in the so-called "Athens process" leading to the development of a regional energy market. Building on political commitments undertaken by the countries of the region (including Turkey) and UNMIK for Kosovo, pursuant to UN Resolution 1244 and in the framework of two Memoranda of Understanding (MoUs) signed in Athens, in November 2002 and December 2003 respectively, the process is now moving towards the signing of a legally binding international treaty involving the European Union, represented by the European Commission, and the signatories of the MoUs, in view of creating what will be known as the Energy Community. The European Commission leads this process and the Stability Pact's role is a complementary one that seeks to ensure regional political support and ownership, promote a common strategy among the donors and encourage private sector involvement to foster restructuring and investment in this sector.

Since the second half of 2003, the Office of the Special Co-ordinator has worked tirelessly on gathering political support for this ambitious process. This included promoting implementation of the commitments agreed under the two Athens MoUs and also organising three meetings of senior advisers to the Prime Ministers of the region to ensure consensus at the highest level.

Since the Skopje meeting of the Stability Pact in November 2004, Working Table II has continued to follow very closely the negotiations for the Energy Community Treaty. These negotiations were concluded in March and the text was initialled by delegates on 22 March 2005. The treaty is expected to be signed in the second half of 2005.

The key features of the Treaty include the following:

- Extension to SEE of the *acquis communautaire* as concerns the markets for network energy (i.e. electricity and gas), including requirements such as the unbundling of generation, transmission and distribution activities, the

establishment of independent national energy regulators and the opening of access for cross-border trade in electricity and gas. The *acquis communautaire* would also apply in the areas of environmental protection (e.g. directives on sulphur reduction and large combustion plants), competition and renewable energy.

- The Energy Community is expected to take measures establishing a single mechanism for cross-border transmission and/or transportation of network energy.
- The creation of a single market will be underpinned by the prohibition of customs duties and quantitative restrictions on the imports or exports of network energy (except on grounds of public policy or public security); a common external energy trade policy could be implemented, e.g. with respect to environmental standards or safe operation of the internal energy market. There will be co-ordination of mutual assistance in the event of serious disturbance or external disruption.
- The governance of the Energy Community will involve common institutions: a Ministerial Council, a Permanent High Level Group (PHLG), the already existing Electricity Forum based in Athens and the future Gas Forum to be based in Istanbul, composed of representatives of all interested stakeholders, including industry regulators, industry representative groups and consumers. An important new institution will be the Regional Regulatory Board, which will advise the Ministerial Council and the PHLG on the details of statutory, technical and regulatory rules and issue recommendations on cross-border disputes involving two or more regulators. A Secretariat, to be based in Vienna, will provide administrative support and review the proper implementation by the Parties of their obligations under the Treaty.

In recent months, WT II has continued to sensitise investors about the business opportunities created by the forthcoming Energy Community Treaty. Recent events in which the WTII Director spoke include the Energy Seminar organised by the EBRD in Tirana on 10-11 February, the Congress on "Restructuring the Energy Sector in Transition Countries", co-organised in Leipzig on 8-9 March by the Stadtwerke Leipzig, Verbundnetz Gas and the World Bank, the Investment Forum organised in Oslo on 17 March by the Norwegian Ministry of Foreign Affairs together with the OECD-led Investment Compact, and the Investors Meeting organised by the Swiss Government (SECO) in Bern on 21 March.

With the signing of the Energy Community Treaty, the role of the Stability Pact will evolve. It will try more than ever to ensure genuine regional ownership and progressive transfer of responsibility for regional energy co-operation to the region.

The establishment of the institutions of the Energy Community, including the Regional Regulatory Board and the Secretariat will be important steps in that direction. Bulgaria has formally offered to transform the existing Black Sea Energy Centre, based in Sofia, into a Regional Energy Information and Technical Centre.

Further to the request of the European Commission and of the other donors, the Stability Pact will help organise dialogue with Parliamentarians, social partners and NGOs, particularly NGOs promoting environmental protection.

The Stability Pact will assist in organising a new SEE Parliamentarian Conference on the Energy Community, which will take place, with TAIEX funding, in Skopje on 6-7 June 2005. This conference is co-organised with the Committee of European Affairs of the Parliament of the former Yugoslav Republic of Macedonia. In the perspective of

the ratification by the national parliaments of the forthcoming Treaty, the Stability Pact will be prepared to also help organise a number of national parliamentary briefings on the Energy Community.

The Stability Pact will also provide assistance towards organising the necessary dialogue on the Energy Community with the social partners, particularly on the social implications of tariff reform and restructuring in energy utilities. An MoU on the social implications of the Energy Community is being considered. The Stability Pact could provide the expertise and contacts it has gained through its sponsorship of social dialogue in SEE in the framework of its Initiative of Social Cohesion (ISC).

The Stability Pact will also continue to sensitise potential investors about the trade and investment opportunities created by the Energy Community.

With attention shifting from electricity to gas, the Stability Pact is prepared to help organise an Industry Round Table on gas. If the proposed Gas Forum holds its first meeting in Istanbul in the coming months, an Industry Round Table on gas could also be organised on the same occasion.

The Gas Forum and the Industry Round Table on gas would provide an important opportunity to discuss the various gas pipelines under consideration and to foster regional cooperation towards implementing those projects with the best economic prospects. A next stage might also be the inclusion of oil (seen as another form of network energy) into the evolving regional energy cooperation process.

(ii) Regional Infrastructure – Infrastructure Steering Group (ISG)

Three ISG meetings were held under the new chairmanship of Mr. Michel Peretti (DG Enlargement, European Commission), respectively on 2 March, 25 and 29 April. All members were present, namely the EC, the Council of Europe Development Bank, the EBRD, the EIB, the Stability Pact and the World Bank. There were very useful exchanges of information on the status of ongoing developments in the three key sub-sectors, namely transport, energy and environment. A work programme for 2005 – 2006 was discussed. The discussions on environment and transport led the participants to schedule for next July or September a special meeting on Project Preparation Facilities, in order to gain a global picture of ongoing operations and discuss experiences. Interested bilateral donors will be invited to participate. The meeting on 25 April was fully devoted to exchanges of information on the prioritisation of regional investment projects in the area of environmental protection.

At the ISG meeting on 2 March, the World Bank made a presentation drawing attention to the issue of “fiscal space”, i.e. the amount of budgetary room that a government has to provide resources for a desired purpose (e.g. infrastructure projects) without prejudice to the sustainability of its financial position. While the problems are much wider than just regional infrastructure, it was agreed that the ISG would need to be regularly informed about the issue in the SEE context.

(iii) Transport

The implementation of the Core Transport Network is proceeding with the establishment of the EC-financed South East Europe Transport Observatory office (SEETO) in Belgrade. The first full Steering Committee Meeting of SEETO was held in Tirana on 26 and 27 April and Mr. Izet M. Bajrambasic, Assistant Minister for Communications and Transport of Bosnia and Herzegovina was elected as Chair of the SEETO Steering Committee. SEETO will focus on networking of transport authorities, providing a strategic overview of the realisation of the core network, institution building, support to sector policies and maintenance of an information database.

(iv) Regional Infrastructure – Other

Public Private Partnerships (PPP)

The PPP taskforce established by the Stability Pact met in December 2005. Taskforce members include representatives of the major international financial institutions and the private sector. The meeting agreed that the task force's primary focus is on identification, facilitation and promotion of a few concrete PPP projects in the region with a strong replication and demonstration effect. A provisional list of six potential projects (in several countries and in different infrastructure sectors) was agreed and the feasibility of advancing these projects is now being determined.

Single Sky for South Eastern Europe

WT II also played an important supporting role in the launching by the European Commission of a new initiative aimed at extending to SEE the principles of Single European Sky (SES). The Special Co-ordinator expressed political support at the initial meeting of Civil Aviation Directors of the region, which took place in Brussels on 1 April, as this initiative will foster both political and economic progress in the region.

Traffic demand forecasts and the permanent route network developments in South East Europe, demonstrate the increasing necessity of improving airspace management in the region. Therefore for Air Traffic Management, multinational co-operation is of the utmost importance in SEE, an area with high economic potential, located at key interfaces with other Regions such as the Middle East and Far East. Under the EU's Single European Sky approach, airspace management is to be exclusively based on technical and operational considerations and delegation to another State of the responsibility for providing air traffic services would not imply recognition of sovereignty of that State over the airspace concerned.

A Working Group consisting of the Directors of Civil Aviation in SEE, the EC, Eurocontrol, ICAO, NATO and the Stability Pact has been created to explore how best the SES concept of Functional Airspace Blocks can be extended to SEE.

3.1.3 Future Challenges for 2005

Regional strategies have now been put in place or are about to be finalised for most infrastructure sectors in SEE. The main focus is now on implementation and in particular institutional capacity for implementation. The frameworks provided by the ISG, SEETO, the Regional Environmental Centre (REC), the Athens Process and the Single Sky for SEE Working Group, among others, facilitate regional co-operation and

the prioritisation of projects. SEE countries must ensure that they fully participate in the various fora.

3.2 TRADE AND INVESTMENT

3.2.1 Overall Objective

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

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 the activities of the Special Co-ordinator, the Chair and the Director of the Working Table in fostering political consensus and participating in high profile promotion activities.

3.2.2 Activities and Achievements to date

(i) Trade Liberalisation

The SP Trade Working Group (TWG) has focused its activities on the core elements of its Strategy and Action Plan for 2005 namely:

- FTA implementation:
- Non-tariff barriers
- Further harmonisation and liberalisation - move to a single Free Trade Agreement (FTA)

The Group held its first quarterly meeting of 2005 in Vienna on March 4 and the second meeting was held in Chisinau on 4 May. In co-operation with colleagues from the Investment Compact, a joint Investment and Trade Ministerial meeting will be held in Sofia on 10 June.

Technical assistance to facilitate our work has been forthcoming from the EC, UK, Germany, Switzerland and USA in particular.

FTA implementation

Twenty-nine bilateral FTAs are now in force throughout the region (see matrix) and most agreements have been formally notified to the WTO. Serbia and Montenegro and The former Yugoslav Republic of Macedonia are still in negotiations on the revisions to their 1996 agreement. While the text of the revised agreement has been agreed, both sides have failed so far to finalise the annexes

UNMIKK/Kosovo has an FTA with Albania and a Joint Committee meeting will take place in May. UNMIK launched negotiations on a trade agreement with The former

Yugoslav Republic of Macedonia in December. Negotiations with Bosnia and Herzegovina were launched in April and a second meeting is scheduled for May.

Overall FTA implementation is proceeding well and most countries have reported on effective consultations in their various Joint Committee meetings.

However we are encountering problems in the use of safeguards, particularly by Bosnia and Herzegovina, that has instigated several safeguards against Serbia and Croatia. We have always anticipated trade disputes – they are a normal part of trade relations - and safeguards are legitimate trade policy instruments. However, our main concern here is that it appears that the strict procedures governing their use have not been followed and, in particular, countries have not communicated with each other.

We have addressed this issue at the highest level in the countries and are liaising closely with our international partners, particularly the European Commission. Following recent bilateral meetings among the parties concerned, progress has been made. The TWG continues to monitor the process and has offered to provide technical expertise to facilitate resolution.

Non Tariff Barriers

The TWG has agreed on a programme to identify and eliminate NTBs, in line with the commitment made by the SEE countries in the MoU on trade.

The main principles governing our approach are: (i) the primary responsibility for the reduction and elimination of NTBs lies with the SEE countries themselves; and (ii) the role of the TWG is to monitor progress made by the countries in reducing/eliminating NTBs and, where appropriate, to provide assistance to facilitate the countries' efforts in this regard.

The measures to be taken include the nomination of a central contact person in each country for NTBs (details to be made available to all including on the Stability Pact website), preparation of action plans by countries on tackling specific NTBs, regular reports to the TWG on success (and failure) in resolving NTBs and close co-operation between the TWG and other initiatives that deal with different types of NTBs, e.g. the Trade and Transport Facilitation Programme for SEE led by the World Bank, and the EC-financed Customs and Fiscal Assistance offices in the region.

Further Harmonisation and the move to a Single Free Trade Agreement for SEE

The harmonisation of their regulatory regimes in key service sectors on the basis of the EU acquis is a priority for all SEE countries. Progress in this area will be made in 2005 under the EC-funded regional project on harmonisation of regulatory regimes in two key services sectors.

As reported, the Group has looked at the relative economic costs and benefits of maintaining the network of bilateral FTAs or of moving to a single free trade agreement. A single agreement would be more transparent for the business community and this proposal has been welcomed by different business groups active in the region. It will also be easier for the administrations to manage and allow the SEE countries to develop increased ownership of the trade liberalisation process in the region. There is consensus among the Group members that any such agreement should meet the following criteria:

- be in conformity with the MoU
- be a modern agreement (i.e. include clauses dealing with issues such as services, intellectual property rights, standards, etc)
- be inclusive – i.e. allow participation of all parties to the MoU so as to provide a genuine free trade area throughout the region. However opinions have differed on how to achieve this.

Preliminary analysis has shown that the preparation of a single agreement should not pose too great a task as many of the provisions can be easily adapted from the existing agreements including CEFTA. In addition, the bilateral concessions – normally the most time consuming and difficult part of any negotiation are already concluded under the bilateral FTAs. Hence the decisions required are “political” rather than “technical”!

It is expected that at the Ministerial meeting in June, the TWG will be instructed to conduct exploratory talks on the different aspects of a single FTA so that negotiations on a single agreement could be launched in early 2006 with the objective of signing an agreement at the 2006 Ministerial meeting.

(ii) Investment Facilitation

As reported previously, the SP’s Investment Compact which is led by the OECD has focused its activities on two core areas (i) FDI policy and promotion and (ii) SME development. In each case, the IC has sought to enhance regional ownership by ensuring that the two bodies used to implement activities –the Investment Forum and the SME Forum are chaired by countries of the region. Bosnia and Herzegovina holds the current chair of the Investment Forum while Albania chairs the SME Forum.

The monitoring process of the Investment Compact has been enhanced and developed over the past year and consists of:

- Regular Monitoring Instrument reports (see latest summary)
- Peer review workshops on common regional issues (e.g. company registration, informal economy)
- Enterprise Policy Performance Assessments (EPPA) conducted jointly with the EC and EBRD and focused on SME policy
- Periodic project team and OECD team missions to SEE countries
- Regular liaison by the Investment Compact regional offices with key policy makers and government officials

Overall the investment regimes in the region are improving and investment policy and promotion strategies are gradually being strengthened. Under the Investment Forum, the individual foreign investment promotion agencies promote not just their own countries, but the region as a whole to potential investors.

The Investment Compact’s Regional Network of Foreign Investor Councils is making a substantial contribution in increasing the private sector’s voice and involvement in policy dialogue and reform. The publication of the new annual White Book on Investment in Serbia by the Belgrade-based FIC is a good example of this contribution.

Direct contact with potential investors is also being facilitated by the Investment Compact through a series of country missions to key target markets, including a recent visit to Norway, where a number of SEE companies from several sectors – e.g. agri-business, energy and ICT met with Norwegian businesses.

(iii) Other Private Sector Development Activities

Business Advisory Council for SEE (BAC) has continued its programme of improving dialogue with governments of the region on the overall investment climate. Members of the BAC participated in an EBRD seminar on private sector development in SEE on 14 March in Skopje, followed by a formal BAC meeting on 15 March. This meeting included an exchange of views with the Minister of Finance of The former Yugoslav Republic of Macedonia and the President of the EBRD on the business climate and key issues to be addressed to facilitate further investment in the region. The meeting also considered issues relating to trade liberalisation, trade facilitation and public administration reform. The BAC plans to hold meetings and/or missions to Romania, Kosovo and Moldova in 2005.

The **EBRD-led private sector development programme** continues to operate under the auspices of the Stability Pact and provides much needed stimulus for private sector development in SEE, particularly to the SME sector through a combination of financial instruments and technical assistance. The ten initiatives focus on trade facilitation (e.g. back up guarantees for letters of credit), SME financing (micro-credit, SME credit lines and equity funds) and SME support (business advisory services and management advice).

The SP's Working Group on the **Electronic South East Europe (eSEE)** initiative held a meeting in Brussels on 18 March with the participation of European Commission officials to review progress and start preparations on a SEE Ministerial Conference on the Information Society, that will take place in Thessaloniki on 30 June/1 July. This conference will provide the opportunity to sign a new MoU on cooperation to develop broadband technologies and for a preparation at the regional level for the second World Summit on the Information Society, scheduled to take place in Tunis in November.

3.2.3 Future Challenges and Aims for 2005

Implementation of the free trade agreements remains a priority and in particular the elimination of non-tariff barriers that hinder the region's ability to fully exploit the potential of the FTAs as well the Autonomous Trade Measures offered by the EU. If the region is to further liberalise trade and deepen harmonisation, the SEE countries must make a number of political decisions regarding how best to move forward and how to ensure increased regional ownership of the trade liberalisation process.

In terms of private sector development in general and investment generation in particular, the region faces significant challenges in the wider environment in attracting greenfield investment and maintaining the momentum of progressive change. It needs continued persistence and commitment on key reform issues with a strong focus on implementation; better and intensified capacity building; continued regional co-operation and collaboration in many areas; continued partnership and support from the international community and private sector; and peer review and sharing of experience within the region and with international partners.

3.3 SOCIAL COHESION

3.3.1 Overall Objective

The overall objective of the Initiative for Social Cohesion (ISC) is to address social issues that affect the daily lives of citizens in the countries of SEE. Attention is paid to the most vulnerable populations. The method is based on regional networking, prioritising capacity building and the strengthening of institutions. The Initiative breaks down into five main sectors: Social Dialogue, Employment, Social Protection, Health and Housing Policy.

The ISC brings together decision makers and experts in SEE countries with experts from the international community, including the Council of Europe, the Council of Europe Development Bank (CEB), the WHO and the ILO.

3.3.2 Activities and Achievements to date

During the first semester of 2005, beside several operational and technical meetings, the second ISC Advisory Group meeting was held in Brussels in February and the 9th ISC Regional Meeting in Luxembourg, also in February.

The 2nd Advisory Group Meeting discussed and co-ordinated the implementation of the ISC Action Plan 2005, trying to focus on specific strategies and bottlenecks, as well as to prepare the 9th Regional ISC Meeting.

The main purpose of the 9th Regional ISC Meeting, hosted by the Government of Luxembourg - in conjunction with their EU Presidency - and the European Investment Bank (EIB), was to provide an update of the sectoral activities and to discuss future strategies. The introduction of the new element of thematic discussions on specific social policy issues was widely appreciated.

The representatives of the SEE social partners and Labour/Health Ministries requested the ISC to focus its attention and efforts on mobilizing technical and financial assistance for a new regional project on occupational health and safety. At a coordination meeting that took place in Geneva on 12 May, the WHO, ILO, ETUC and IOE, further discussed the shape and contents of such a project. Consultations on what the best approach is to occupational health and safety in SEE took place with DG Employment, Social Affairs and Equal Opportunities and venues for future cooperation were established.

Employment Policy

Two meetings of the Permanent High Level Committee on Employment took place: one on 12-14 January in Strasbourg and the other on 14-15 April in Sarajevo. At these meetings, the Country Reports on the Employment Policies of Albania and Croatia were presented by the ILO and CoE and peer-reviews of employment policies of the other countries were undertaken with a view to further developing bilateral and multilateral cooperation. The methodology and overall process of co-operation was evaluated as well and the preparations for the Sofia Employment Ministerial were initiated.

The next meeting of the Permanent High-Level Committee is scheduled for 21-23 September 2005 in Budapest, in preparation of the second Ministerial Conference on Employment, foreseen for 21 October 2005, in Sofia.

Health

The SEE Health Network has adopted its own statutes, developed a project management methodology and evaluation strategy, elaborated its advocacy and communication strategies and agreed on a priority setting approach. The implementation of the regional projects is well underway. The first component of three new regional projects on: blood safety, information centres and tobacco control was launched in the reporting period.

In the run-up to the Second Health Ministers' Forum, to be held on 25-26 November 2005 in Skopje, several activities are planned for: comprehensive evaluation of the regional co-operation on health, from 2001 to date, amongst others, upgrading relations with media; two meetings of the SEE Health Network (June and November), focusing on the preparation of the Second Health Ministers' Forum and the preparation and publication of a report on "Health and Economic Development in SEE" by CEB.

Housing

On 6-7 December 2004 in Strasbourg, the Housing Experts' Network discussed the preliminary draft report on "Trends and Progress in Housing Reforms in South East Europe", which should help streamline housing policies of the countries and put data collection in line with the practice of the countries of the European Union. The report is expected to be finalised before the end of May, and discussed at the third meeting of the Housing Experts' Network.

Social dialogue

The ETUC, IOE and ILO continued their work on strengthening social partners and labour administrations in SEE, aimed at improved social dialogue in the countries of the region. Activities to further improve labour dispute resolution, in particular through the establishment of labour courts in Bulgaria, in The former Yugoslav Republic of Macedonia and possibly in Bosnia-Herzegovina are ongoing. Twinning programs of employers' organizations, training of labour administration officials on drafting labour legislation and a regional meeting of the trade unions to discuss their role in the Bucharest Employment Process have already taken place. The Labour Legislation Network will meet on 7-8 July 2005 in Bulgaria to discuss employment laws. Social partners are continuously being involved in other WT II and SP Initiatives, such as energy, transport and anti-corruption, in order to contribute to the transparency and accountability of the reform processes in these areas.

Social protection

The CoE has started the implementation of a three-year programme in South Eastern Europe to support social policies and institutions and to promote social security co-ordination in the region, funded by the EC. The project officially started in January 2005, with the opening of the regional office in Skopje. The first meeting of its Steering Committee took place on 18 March, establishing the roles of the countries in the project and setting out an action plan. The first follow-up activities, namely the establishment of a summer school and training of country representatives, are scheduled for the period June – October 2005.

In December 2004 the ILO published a training manual on social services delivery, *Good Practices in Social Services Delivery in South Eastern Europe*, and a publication

on *Collection of Pension Contributions: Trends, Issues, and Problems in Central and Eastern Europe*. The ILO will continue to deliver tailored trainings for the SP countries in the areas of social security and pension reforms throughout 2005.

3.3.3 Future Challenges and Aims for 2005

The various issues dealt with by the Initiative for Social Cohesion have gained further prominence in the reporting period and efforts to enhance co-operation with other WTII initiatives are yielding results.

The second half of 2005 will see several key events under this Initiative such as the Ministerial Meeting on Employment in Sofia and the SEE Health Ministers' Forum in Skopje where it is expected that Ministers will mandate the taskforce to take additional steps to enhance progress in these areas.

WTII will strive to ensure that attention is directed to the impact of economic reforms on these critically important areas.

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

3.4.2 Activities and Achievements to date

Following the Ministerial Declaration on Informal Settlements made at the conference in Vienna in October 2004, a strategy was formulated to mobilise all stakeholders to jointly work towards two goals in 2005:

- The preparation of a final capacity building programme proposal for urban development and housing in the SEE region consisting of a regional steering umbrella with tailored national programmes (as stated in the Vienna Declaration, Page 2, Paragraph VII) and;
- The formulation of Ministerial Action Plans (Vienna Declaration Action Matrix – VDAM) to implement Vienna Declaration commitments (as stated in the Vienna Declaration, Page 2, Paragraph II)

The achievement of these goals is considered the precondition for identifying and mobilising resources needed (a) to enter the development phase of a capacity building programme and (b) to support specific activities of SEE Governments targeted at the implementation of National Action Plans regarding informal settlement issues.

To implement this strategy in a consultative manner, HUMI's activities were built around two "Technical Workshops on Housing and Urban Management in SEE" hosted in Brussels on 22 - 23 March 2005 and Vienna on 11 May 2005. Serving as important milestones in this process, the workshops were attended by Ministry representatives from South Eastern Europe (signatories and non-signatories of the Vienna Declaration), regional as well as international experts, NGOs and representatives from

UN-HABITAT, GTZ, World Bank Institute, UN-ECE and the Council of Europe to jointly discuss further steps to achieve the important goals highlighted above.

HUMI is now working on the preparation of a comprehensive proposal of capacity building in urban development and housing, the substance of which has been agreed upon by all stakeholders. In addition, UNMIK/Kosovo has signed the Vienna Declaration and all signatories have presented draft Ministerial action plans to implement their Vienna declaration commitments.

3.4.3 Future Challenges and Aims for 2005

HUMI must now finalise the proposal for the capacity building instrument, secure the support of all stakeholders and then ensure that sufficient political support and resources are forthcoming from the international community to allow for implementation in 2006.

Regarding the implementation of the commitments contained in the Vienna Declaration, monitoring of the action plans will be critical as well as facilitating the provision of technical assistance. HUMI will also seek to develop mechanisms to allow the countries of the region to assume full responsibility for monitoring by end 2006.

3.5 ENTERPRISE DEVELOPMENT AND EMPLOYMENT GENERATION

3.5.1 Overall Objective

As part of its objective to facilitate sustainable economic development underpinned by appropriate social policies, one of the key tasks of WTII of the Stability Pact is to ensure convergence between its traditional economic development activities and those related to social policy development in South Eastern Europe.

3.4.2 Activities and Achievements to date

Hence, WTII has developed the umbrella theme “Enterprise Development and Employment Generation” to describe a series of activities that complement and enhance existing initiatives in areas such as the Investment Compact, the European Charter for Small Enterprises and the Bucharest Employment Process.

As reported previously, one of the main conclusions of a kick-off workshop held in Bucharest in May 2005 was that education and training need to be further geared towards employability and entrepreneurship. To ensure implementation of this recommendation, participants called for a workshop to be organised as a follow up to the Conference. In response, the European Training Foundation (ETF), in co-operation with WTII, organised a workshop on ‘Training for Employability: Attracting Investment and Increasing Employment in South Eastern Europe by Enhancing Labour Force Skills.’ This workshop was held at the CEDEFOP training facility in Thessaloniki on 21 and 22 April 2005.

The event brought together individuals from ministries of economy, labour and education, private sector representatives, social partners and donors. Many of these individuals participate in different WT II initiatives such as the Investment Compact or the Initiative for Social Cohesion but do not meet regularly.

The workshop concluded that employment policies must be structured in a manner that supports the transition process and recognises the central role-played by human capital development, education and social protection. As such, employment and education strategies for lifelong learning must take the form of comprehensive long-term policies, which are the result of consultations with all social and economic stakeholders and are subject to consistent monitoring and evaluation. Such policies are currently at an early phase in SEE, with comprehensive legislative and structural frameworks yet to be completed.

A thorough study of the skills gaps existing in South Eastern Europe is needed, with the private sector and social partners collaborating to identify skills requirements and plan for the development of a qualified and skilled labour force.

A range of initiatives are underway that can support this process but further efforts are needed to ensure such initiatives are adapted to local circumstances and are sustain

3.5.3 Future Challenges and Aims for 2005

Among the workshop conclusions, a follow-up workshop on stimulating the climate for enterprise development was proposed. This event would focus on the legislative, financial and educational aspects of generating a more entrepreneurial culture, and would identify ongoing assistance projects as well existing gaps. The workshop would build on the many activities that are on-going in this area.

It is vital that all activities in this area seek to ensure that views are shared among a diverse cross section of government officials, private sector representatives and technical experts. Only in this way will we create the necessary mechanisms to facilitate the wide consultations that are required to develop and implement comprehensive policies in the area of enterprise development and employment generation in SEE.

4. CONCLUSIONS

As requested at the WT II meeting in Tirana and subsequently stressed at the Portoroz and Skopje meetings, all initiatives have focused on the implementation of the various political agreements secured under their auspices and tangible progress has been made in each area. This emphasis on translating statements of political willingness into concrete actions is being intensified in 2005.

The monitoring and reviewing element of each WT II initiative provides an additional impetus to governments to make progress in accordance with their commitments. Hence the monitoring process remains a fundamental component of each initiative and is receiving increasing emphasis in 2005. The ability to publicly demonstrate solid progress through these review mechanisms contributes to the development of an improved image of the political stability and economic prospects of the region and hence its attractiveness for investment – public and private, foreign or domestic.

The regional co-operation aspect of all WT II activities (like all SP activities) allows both the countries of SEE and the international community to develop and implement strategies that reflect best practice but that are tailored to the specific circumstances of

the region, allowing for more efficient use of scarce resources. This unique combination of political, technical and financial assistance from all Stability Pact partners in the region and internationally is crucial to the success of these initiatives.

In addition and as amply demonstrated by the Energy Community Treaty to be signed soon or by the recently launched Single European Sky – SEE initiative, regional strategies can expedite integration into European and/or international structures for all countries and all WT II initiatives ensure that the responsibilities and commitments of the SEE countries vis-à-vis the EU and other bodies are respected.

Successful implementation of reforms requires enhanced communication and co-operation between all parties, e.g. government and private sector, between ministries and government agencies, governments and donors and all initiatives seek to provide suitable frameworks and opportunities for dialogue and co-operation.

Efforts to ensure that social policies in the region are closely intertwined with economic policies will continue and WT II will maintain its policy of highlighting the importance of social cohesion in all aspects of its work.

WT II will also continue to ensure that the recommendations made at the Entrepreneurship and Employment Conference in Bucharest are translated, via the relevant WT II initiatives, into pragmatic activities “on-the-ground” designed to stimulate, at local level, further SME development, entrepreneurship, investment generation and job creation.