



WTII Meeting: Belgrade, 28<sup>th</sup> May 2006

## Highlights and Challenges for Working Table II Laurent Guye, Director

- As usual, will not try to present a comprehensive overview of WT II activities over past 6 months, but just a few highlights. For further details, you might refer to the comprehensive Activity Report, which is on your desk; apologies for sending it only a few days before this meeting.
- Turning first to our private sector development work:
  - Clearly, the launching by the Prime Ministers of the region of the negotiations on a **single free trade agreement** has been the milestone of the past semester.
  - As this will be the main topic of today's discussions with two speakers – Georgeta Molosaga and Per Wikman – who are far more competent on this subject than me, I will not elaborate.
  - But would like to pay a tribute to the untiring and creative work performed by Mary, not only to prepare the successful Bucharest Summit, but since she's joined the SP.
- Since the work on **Investment climate** has been the main topic of the last WT II meeting, I will also be brief.
- The balance sheet is clear: IC Team has delivered on its ambitious programme to improve monitoring and to provide assistance for implementation!
- Reviews of investment climate have been conducted in all countries, except for one.
- They are based on a solid methodology and take into consideration, beside IC Team's own analysis, the views of the government and of the private sector.
- Results are widely accepted by the countries themselves (as I could witness during the last IC meeting in Rome)
- Overall picture is one of contrasts: Romania and Bulgaria are clearly ahead; all other countries have made significant progress, but some serious issues need to be tackled for which IC has discussed a priority list with the concerned governments
- On the occasion of the forthcoming Ministerial meeting on Investment and Trade (Vienna, 26-27 June), IC team will propose the challenging idea of transforming the IC team missions into a mechanism of peer reviews similar to that of the Investment Committee of the OECD => if adopted (which I hope), this would be significant step towards increased ownership by countries of the region.
- The **Business Advisory Council (BAC)** missions serve as a reality check. Had the opportunity of accompanying the mission to Bulgaria. Impressed by – and

- grateful for – the high level of attention paid by Bulgarian authorities (Prime Minister + 5 ministers).
- On the occasion of its meeting with high-level officials at the European Commission, BAC has compiled a synthesis of its analysis of the challenges in the region and of its recommendations. It has now been edited into a brochure, which makes an interesting reading that I can only recommend!
  - **Infrastructure development**
  - **Energy:** SEE countries are making big steps towards the creation of a single electricity market (hopefully, Energy Community Treaty will enter into force by next week).
  - No doubt that an open, free electricity market in the region will bring benefits in terms of attracting investments, increasing interconnectivity and thus, the reliability of supply.
  - But for these promises to materialize, reforms must be implemented. Generation, transmission and distribution must be unbundled, tariffs must be adequate, set by independent regulators, bills must be collected and utilities allowed to operate on a sound commercial basis. Investment framework must be fully predictable over the long period of time needed for energy investments.
  - If these reforms are not implemented, there is a risk that electricity will just transit through the region – thanks to the liberalised access to transmission networks – to reach more reliable markets outside of the region
  - We have challenging years ahead: by end 2007, Bulgaria – a significant exporter of electricity in the region – will decommission two more units of the Kozloduy nuclear plant.
  - There are alternatives in the region: the Generation Investment Study has identified lignite-fired power plants in Kosovo and Serbia as the least cost options. Effective implementation will require a) a good, reliable investment climate, b) a political solution to the status question c) a fair degree of regional cooperation.
  - **Gas:** let me just echo the call made by SC Busek for enhanced consultations as the only way to mitigate possible gas shortage during coming winter.
  - **Transport:** my recommendation would be to give a chance to the mechanism set up under the Memorandum of Understanding on Core Transport Network to demonstrate its usefulness.
  - SEETO has proposed a methodology to set priorities among the long wish list of transport projects – this is indispensable – and both the methodology and the short list of priority projects have been endorsed by the Steering Committee.
  - Long discussion on the methodology in the Infrastructure Steering Group (ISG). The International Financial Institutions (IFIs) expressed the concern that not enough weight was given to economic viability criteria. Point well taken, but let's work on the basis of SEETO's list as an initial screening that gives due consideration to regional integration factors.
  - This gives me an opportunity of stressing the role of the **Infrastructure Steering Group**. We have a new chairman since March in the person of Dick Meganck, Director at DG enlargement.

- Against backdrop of limited capacity of many SEE countries to further borrow, it is extremely important to have a forum where IFIs can harmonize investment policies and discuss priorities. The animated discussions we had in March on transport issues are the proof that such a forum is needed.
- **Aviation:** SC Busek has already mentioned our hope that the Agreement extending the European Common Aviation Area to SEE will provide a new ground on which to consider the establishment of regular air link services between the capitals of the region. We stand ready to help.
- Would just like to inform you that SP participates actively in one of the building blocks of this agreement, namely in the field of air safety and control.
- The Functional Air Space Blocks approach has been found (by Directors of civil aviation of the region) not only feasible, but also highly recommendable for SEE. The Group is currently working on the definition of such block or blocks.
- Hopefully, the implementation of this approach will allow air companies to resume flights over SEE in a not too distant future. This would translate into significant over-flight fees for the region, a reduction in the investment required for air-traffic control and help to cope with the dramatic overall increase in air traffic.
- **Electronics for SEE / Broadband SEE:** this is a sector where we have to move quickly, because the sector itself is changing so rapidly and because access to IT becomes more and more a key dimension of the investment climate!
- Marijana Bubas will certainly intervene to report on this initiative, but I would like to briefly mention that we were proud to be the co-organisers of the first Broadband SEE Conference in Belgrade, last April,
- Noteworthy is also the intensification of our dialogue with large private IT companies which opens interesting avenues for the transition process!
- **Our third pillar: social development:**
  - **Housing and Urban Management:** you will hear from the chair of this initiative, Paul Taylor (UN HABITAT) regarding the progress made to move this initiative from the planning to the implementation phase. I will just briefly mention that based on our intensified dialogue with IFIs (mostly EIB and CEB), we have got the conviction that they are definitely willing to invest more in sustainable urban development and social housing, but one of the serious bottlenecks is the lack of urban planning and project formulation capacity.
  - In a strong partnership with UN-Habitat, the HUMI initiative has developed an ambitious programme to tackle precisely that issue. I hope that it will receive from donors the attention it deserves
  - **Initiative for Social Cohesion:** we will hear later from Mrs Smet and Frosina Georgievska how the initiative plans its transition. But let me say that we take very seriously the recommendation that comes from the ISC to fully incorporate the social dimension in all the initiatives we are participating in.
  - Example: energy: as the entry into force of the Treaty approaches, one of our main concerns now is to foster social dialogue on the issue of utilities

restructuring (which might imply lay-offs) as well as raising awareness about affordability issues.

- One final word to thank our **donors**. Your support has been generous, in spite of the fact that some of you face budget constraints or a reallocation of geographical priorities.
- In the course of the transition process that will extend over the next 18 to 24 months, some of our initiatives will close down, having achieved their objectives.
- But others will continue to need funding, even though we expect our partners in the region to assume progressively a larger share of the costs.
- We hope that you will extend your support, albeit in a different institutional setup. As a condition, you will probably ask for solid, tailor made strategies for the transfer of ownership that are concerted with our partners in the region and that maintain the momentum for regional cooperation. This is going to be our priority number one over the coming months.

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