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**THE PAN-EUROPEAN PERSPECTIVE FOR  
THE ECONOMIC INTEGRATION OF SOUTH-  
EASTERN EUROPE: THE ROLE OF THE  
UNITED NATIONS ECONOMIC  
COMMISSION FOR EUROPE**

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**UNITED NATIONS**

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## Abbreviations and acronyms

AII	Adriatic-Ionian Initiative
BAC	Business Advisory Council
BSEC	Black Sea Economic Cooperation
CECI	Committee on Economic Cooperation and Integration
CEFTA	Central European Trade Agreement
CIS	Commonwealth of Independent States
DCP	Danube Cooperation Process
DG TREN	Directorate-General Energy and Transport
EC	European Commission
ECAA	European Common Aviation Area
EPSU	European Federation of Public Service Unions
eSEE	Electronic South-East Europe
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FP7	Seventh Framework Programme
GDP	Gross domestic product
GHS	Globally Harmonized System of Classification and Labelling of Chemicals
HUMI	Housing and Urban Management Initiative
IC	Investment Compact
ICT	Information and communication technology
IFI	International Financial Institution
IFIAG	International Financial Institution Advisory Group
IPA	Instrument for Pre-accession Assistance
IRI	Investment reform index
ISC	Initiative for Social Cohesion
MDG	Millennium Development Goal
NATO	North Atlantic Treaty Organization
NTB	Non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Cooperation in Europe
OSH	Occupational safety and health
PPP	Public-private partnership
RCC	Regional Cooperation Council
RCSP	Regional Capacity Strengthening Programme
SAA	Stabilization and Association Agreement
SECI	South-East European Cooperative Initiative
SECIPRO	South- East European Cooperative Initiative PRO Committees
SEE	South-East Europe(an)
SEEC	South-East European Cooperation Process
SEE-FABA	South-East Europe Functional Airspace Block Approach
SEEHN	SEE Health Network
SEETO	South-East Europe Transport Observatory
SME	Small and medium-sized enterprise
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNICEF	United Nations Children’s Fund
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
WIPO	World Intellectual Property Organization
WT II	Working Table II
WTO	World Trade Organization

## Executive Summary

South-Eastern Europe (SEE) is still in a process of transition. Some countries have accomplished structural economic reforms, while others barely have. Development assistance is therefore still needed in the subregion. The 2007 European Commission Enlargement Package, presented in November 2007, confirmed that the enlargement perspective for the Western Balkan countries had been consolidated. The enlargement package, along with the European Union's European Neighbourhood Policy, creates the general context in which this report recommends mechanisms and fields for enhanced cooperation between the Regional Cooperation Council (RCC), the various regional initiatives and the United Nations Economic Commission for Europe (UNECE).

UNECE brings together 56 countries located in the European Union, non-EU Western and Eastern Europe, South-Eastern Europe, the Commonwealth of Independent States (CIS), as well as North America, , i.e. all relevant actors in the pan-European space at the moment. On the other hand, UNECE sets norms, standards and conventions to facilitate international cooperation within and outside the region. As a non-political and expert organization, it is capable of providing the type of assistance that the region needs.

UNECE should explore possibilities for permanent participation in the work of the most viable regional organizations and other entities of regional cooperation by contributing to the realization of particular projects throughout the Western Balkans in the sectors of its expertise. These include: economic cooperation and integration, energy, environment, housing and land management, population, statistics, timber, trade, transport, gender, and public-private partnerships.

Further institutionalized cooperation between the Regional Cooperation Council and UNECE should make use of the achievements of UNECE in the following fields:

- Trade facilitation, electronic business, the Single Window and elimination of non-tariff barriers (trade facilitation recommendations and standards)
- Transit facilitation (TIR and container conventions)
- Border-crossing facilitation (Convention on Harmonization of Frontier Controls of Goods)
- Harmonization of technical regulations and standardization for transport vehicles, commercial standards and agricultural products
- Public-private partnerships
- Environmental conventions and norms (e.g. on transboundary air and water pollution, and civil society access to environmental information)
- Sustainable development of the forestry sector
- Energy security
- Enhancing the capacity of national statistical agencies
- Engendering national budgets and national and regional development, security and poverty reduction policies.

UNECE should increase the visibility of its contribution to economic cooperation and integration in South-Eastern Europe, improve its responsiveness to specific country priorities and needs, and raise its policy profile, particularly at the cross-sectoral and country levels.



## Introduction

In this report I shall consider some issues that the United Nations Economic Commission for Europe (UNECE) should address to strengthen its presence in South-Eastern Europe (SEE) and make its contributions more visible in that extremely dynamic and important subregion.<sup>1</sup> I will also highlight some possibilities for increasing its involvement in those countries.

What is at present driving the internationalization of business activity in the UNECE region? What are the main obstacles preventing countries and enterprises from benefiting from a wider and deeper internationalization of business activity in the region? In the report, I shall examine questions such as these and try to provide answers.

I shall also provide some general recommendations by taking a closer look at the current regional cooperation initiatives, particularly those with portfolios compatible with UNECE's key activities. In an increasingly globalized world, I believe that as a vehicle for economic growth and confidence-building, regional initiatives constitute the best approach. And particularly so in view of the political diversities that can cause setbacks in the drive to improve competitiveness and innovation in the subregion.<sup>2</sup>

### A. Stability Pact for South Eastern Europe becomes Regional Cooperation Council

The Stability Pact for South Eastern Europe has recently been transformed into a more regionally owned organization, the Regional Cooperation Council (RCC). This provides an opportunity for a thorough review of what would be a viable Security Pact legacy in the region. The transition is based on streamlining the Security Pact task forces and their evolution into independent centres, agreements and initiatives of regional cooperation.

Along with other prominent initiatives such as the South East European Cooperation Process (SEECP), the Black Sea Economic Cooperation (BSEC), the Adriatic-Ionian Initiative (AII), the Central European Initiative and the Danube Cooperation Process, they represent an infrastructure that the UNECE should use to build upon already existing investments, efforts and experiences and thus avoid overlapping.

The UNECE decision to strengthen its programmes in the region comes at a time that matches with suggestions from experts that other regional initiatives, apart from the Stability Pact task forces, also need recalibration.

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<sup>1</sup> For the purposes of this study, South-Eastern Europe includes the following countries and territories in transition from a planned to a market economy (as a distinguishing criterion): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, Romania, Serbia, The former Yugoslav Republic of Macedonia and the United Nations Interim Administration Mission in Kosovo (UNMIK). This usage of the term "South-Eastern Europe" became common in the context of the Stability Pact for South Eastern Europe, established in 1999. The Stability Pact targeted the above-mentioned South-East European countries, but implicitly referred to an inclusive regional approach. The term "Western Balkans", however, has acquired popularity again as a euphemism, this time for the countries that once belonged to the Socialist Federal Republic of Yugoslavia (minus Slovenia, plus Albania). From a European Union perspective, the Western Balkan countries are divided into candidate countries (for EU membership) and potential candidate countries. Beyond the various designations, the regional dimension does not, however, disappear.

<sup>2</sup> Goran Svilanovic, "Region of South-Eastern Europe Rise to Globalization", *The Balkan Prism, A Retrospective by Policy-Makers and Analysts*, J. Deimel and W. van Meurs (eds.) (Munich, Verlag Otto Sagner, 2007).

## B. “Transition” vs. “development”

SEE finds itself, on all counts, still in a lengthy process of unfinished transition. “Transition” is radically different from “development”, as it entails a relatively rapid reform of both institutions and policies along more or less similar paths of change. Unlike development, transition generally leads to relatively fast growth after structural adjustment. Thus, for countries in transition, many of the considerations and instruments that characterize the literature on development do not apply.

In SEE, however, transition has been deficient and slow. Whereas some countries have accomplished structural economic reforms, others have barely introduced this process. In that sense, the latter are still “developing” countries or, more precisely, countries that combine problems of transition with challenges of development. Some scope for development assistance is therefore still needed in the subregion.

Six typical development problems may be discerned in the Balkans:

- Unresolved and persistent security risks and problems
- Reverse development, i.e. the decline in the level and share of industrial protection has been dramatic in most of these countries
- Increased one-sided reliance on natural resources, land, raw materials and tourism
- Large difference between gross domestic product and gross national income owing to the region’s heavy reliance on outward migration
- Persistence of pockets of extreme poverty and serious problems of inequality
- Identifiable weaknesses in public and corporate governance that are characteristic for developing countries in general.<sup>3</sup>

Nonetheless, the economic landscape of SEE has been transformed since 1999. The regional economic strategy is gradually being implemented by the Governments and has contributed to greater investor and consumer confidence. While definite political uncertainties linger, macroeconomic figures in the region have improved significantly. Most countries have kept inflation within single digits and expect to maintain GDP growth rates of 5-6 per cent – ahead of many EU member States.

Trade among the SEE countries, as well as with the EU, has been increasing. Inflows of foreign direct investment (FDI) are growing year-by-year. Croatia and The former Yugoslav Republic of Macedonia are among the top 10 reformers in the World Bank report, *Doing Business 2007: How to Reform*. In 2006, Serbia topped this poll. Anti-corruption measures are also bearing fruit, as demonstrated by the SEE countries’ rise in the ratings Transparency International. Social partnership is being strengthened and concerted efforts are being made to contain social exclusion.

The SEE countries are being aligned with different integration groupings and are placed between a more involved Russian Federation and an EU with its specific objectives. The United States, too, has significant interest in the pan-European space and its subregions. Still, in some respects the SEE countries are facing much more serious challenges than other emerging countries and regions around the world, which have become important actors on the global markets.

The entire pan-European space needs considerable levelling, predominately in trade regulations and in cross-border facilitation of the movement of goods, services and people. Without this levelling, which

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<sup>3</sup> The Captive States project team, Plan B - B for Balkans - State Building and Democratic Institutions in South-Eastern Europe, team leaders: Alina Mungiu-Pippidi, Wim van Meurs, Vladimir Gligorov, Berlin/Nijmegen/Vienna, October 2007. Sponsored by the Volkswagen Foundation, this three-year research project was initiated by the Center for Applied Policy Research in Munich, and the Romanian Institute for Recent History and Romanian Academic Society in Bucharest.

in most cases does not depend on political circumstances but is merely a matter of technical and expert assistance, SEE will not be capable of becoming a competitive region with the increasing rivalry of the world's regions in the global markets. In sum, the South-East European States are (a) economies in transition in terms of their growth potential and (b) developing countries owing to certain structural problems.

This situation opens the door for UNECE to re-enter with a stronger profile. UNECE brings together 56 countries, from the EU, non-EU Western and Eastern Europe, South-Eastern Europe, the Commonwealth of Independent States (CIS), as well as North America, thus all relevant actors in the pan-European space today. The very structure of UNECE is an asset that can be used to avoid some of the actual obstacles caused by a new geopolitical constellation of powers that reflects heavily in the entire pan-European space.

UNECE draws up norms, standards and conventions to facilitate international cooperation both inside and outside the region. As a non-political and expert organization, it is capable of providing the type of assistance that the region needs. The question is how to do so and with whom?

UNECE should seek permanent participation in the work of the most viable regional organizations and other entities of regional cooperation by contributing to particular projects<sup>4</sup> throughout the Western Balkans. Among the sectors where it has known expertise are: economic cooperation and integration, energy, environment, housing and land management, population, statistics, timber, trade, transport, gender and public-private partnerships. The activities should be implemented within the wider frame of the EC Enlargement Policy and EU European Neighbourhood Policy.

The EU integration process constitutes a particularly strong external impetus for the South-East European countries. Unlike during the integration of the Central European countries, the EU is directly involved in the institutional development and decision-making processes of the next group of potential EU member countries. Irrespective of how distanced Europe and EU membership currently seem from a Balkan viewpoint, and despite the number of uncertainties the future still holds, the European perspective should be more recognized on the ground to preserve the incentives for institutional development.

In the coming years, which might prove difficult, the European assistance programmes and public diplomacy in the Balkans will need better marketing. The marketing should target both the elite and the public in the region to alleviate their concerns that the European perspective may be lost unless negotiations start immediately.<sup>5</sup>

### C. European Commission Enlargement Package<sup>6</sup>

The EC Enlargement Package presented on 6 November 2007 confirmed that the enlargement perspective for the Western Balkan countries has been consolidated. At the same time, the EC has made it very clear that South-East European enlargement is a new process altogether. A critical assessment of where the individual countries stand in their reform efforts is of crucial importance in order to provide them with guidance and support. EC's country reports therefore present a blueprint for UNECE to assess its direct involvement in both the region as a whole and in any individual country. These reports will help UNECE to devise new activities based on identified needs and involve the regional organizations as partners.

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<sup>4</sup> Comparative development experts suggest enhanced involvement in the following larger areas for all the relevant international actors involved in the Western Balkans: building sustainable and strong States; focusing on European constituencies that need to grow; and development assistance with measurable results.

<sup>5</sup> Goran Svilanovic, "[The EU and the Western Balkans – From Current Stalemate to a Win Win Situation for All](http://www.osi.bg/downloads/File/G.Svilanovich_The%20EU%20and%20the%20Western%20Balkans.pdf)", [www.osi.bg/downloads/File/G.Svilanovich\\_The%20EU%20and%20the%20Western%20Balkans.pdf](http://www.osi.bg/downloads/File/G.Svilanovich_The%20EU%20and%20the%20Western%20Balkans.pdf).

<sup>6</sup> See [www.seio.sr.gov.yu/code/navigate.asp?Id=106#689](http://www.seio.sr.gov.yu/code/navigate.asp?Id=106#689).

The Enlargement Package, along with the EU's European Neighbourhood Policy, creates the general background against which I shall propose mechanisms and recommend fields of enhanced cooperation between RCC, the various regional initiatives and UNECE, especially since the Package highlighted regional cooperation and good neighbourly relations as the key to the process. Furthermore, the EC demonstrated that it was firmly committed to supporting the successor organization of the Stability Pact. It will facilitate regional cooperation in the future, and has underlined the leading role of the Western Balkan countries in managing RCC.

This approach represents a link between why and how UNECE may enhance its presence in the region.

## **I. The European Union's Enlargement Policy 2007: a country-by-country review<sup>7</sup>**

In November 2007, the European Commission adopted its annual strategy paper on the EU's Enlargement Policy. The Commission also reviewed the progress achieved in each candidate and potential candidate country. It concluded that there had been steady though uneven progress in the Western Balkans, as the region continued to face major challenges. Turkey's accession process was on track, while the need to revitalize the reforms still existed. The EC stressed that there was a need for a sustainable solution that would ensure a democratic and multi-ethnic Kosovo and contribute to regional stability.

According to the EC, the major challenges in the coming year will be: for Albania, Montenegro and The Former Yugoslav Republic of Macedonia, better governance; for Bosnia and Herzegovina, State building with local ownership; and for Serbia, its European course. The entire subregion needs to move forward in building modern democracies and further develop a political culture of dialogue and tolerance. Early in 2008, the Commission will take stock of developments and point the way forward in following up on the EU agenda for the Western Balkans. Particular attention will be devoted to promoting people-to-people contacts. The Commission will also initiate a dialogue on visa liberalization.

### **A. Albania**

Albania signed a Stabilization and Association Agreement (SAA) with the EU on 12 June 2006. An Interim Agreement has entered into force and SAA ratification has still to be done.

#### *Political criteria*

Albania has made some progress in improving democracy and the rule of law, including in respect of human rights and the protection of minorities, and in strengthening property rights. It has continued to play a positive role in maintaining regional stability and has contributed to the conclusion of the regional free trade agreement, Central European Free Trade Agreement (CEFTA 2006).

However, for the political system to function effectively and transparently, democratic culture and, in particular, constructive dialogue between the parties needs to be developed. Stronger political participation of women is still needed. It is important that Albania complete the long overdue electoral and judicial reforms that are currently being discussed. Corruption still remains widespread in that country.

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<sup>7</sup> See

[europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/446&format=HTML&aged=1&language=EN&guiLanguage=fr](http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/446&format=HTML&aged=1&language=EN&guiLanguage=fr)

### *Economic criteria*

Albania has made progress towards establishing a functioning market economy. It will need to make additional and considerable reform efforts if it is to cope over the long term with competitive pressures and market forces from within the EU. Although still high, the level of registered unemployment continues to decline. And privatization gained new momentum in 2007.

However, external deficits further increased, mainly due to difficulties in the energy sector. Brain drain and shortages of qualified staff and poor infrastructure – including energy supply – hold back the development of a private sector that could make a sustained contribution to the country's economic development.

### *European standards*

Albania has made progress in aligning its legislation, policies and capacity with European standards and is implementing its Interim Agreement trade commitments. In some areas, such as customs, competition and the fight against organized crime, progress made in previous years has been sustained. In other areas, however, such as energy, transport and intellectual property rights, progress has remained limited.

## **B. Bosnia and Herzegovina**

SAA negotiations with Bosnia and Herzegovina began in 2005. Discussions on the technical content of the Agreement were completed in December 2006, and the SAA was initialled on 4 December 2007. The conclusion of the SAA, however, depends on the country meeting four conditions:

- Achieving police reform, in accordance with the EU's three principles
- Fully cooperating with the International Criminal Tribunal for the former Yugoslavia
- Introducing public broadcasting reform
- Introducing public administration reform.

### *Political criteria*

In this, Bosnia and Herzegovina's progress has slowed down. Although some progress has been made in public administration, significant additional efforts are still needed. Cooperation with the International Criminal Tribunal for the former Yugoslavia has improved and is now at a generally satisfactory level. The country participates actively in regional cooperation and has agreed to the regional free trade agreement (CEFTA).

However, its political leaders have failed to achieve police reform. Lack of progress on this and other important issues is seriously delaying the conclusion of the SAA, as well as reforms in general. Full cooperation with the International Criminal Tribunal remains necessary.

### *Economic criteria*

Bosnia and Herzegovina has made little progress towards establishing a functioning market economy. The persistently high unemployment rate remains a major cause of concern. The country needs substantive reforms if it is to stand up to competitive pressure and market forces from within the Union over the long term.

Economic growth has remained high and has even accelerated. Inflation has fallen, and FDI increased significantly in 2007, helping to finance the external deficit. Price competitiveness was to a large extent preserved.

However, weak domestic consensus on the fundamental elements of economic policy led to a slowdown of reforms both at the “entity” and other levels of Government. The lack of structural flexibility hampers the functioning of the labour market. The public sector share in the economy still remains large.

### *European standards*

Bosnia and Herzegovina has made limited progress in aligning its legislation and policies with European standards. Nevertheless, some progress has been made in areas such as competition, transport, energy, education, visa management and asylum. In other areas, however, such as movement of persons, social policies and employment, concerted efforts are needed. Women have to be involved more in the human capital, employment and poverty reduction policies.

## **C. Moldova<sup>8</sup>**

The European Union assists Moldova through the Instrument covered by the European Neighbourhood Policy and not through its Enlargement Policy. It has not initiated a stabilization and association process with that country. The principal objective of EU-Moldovan cooperation is deeper political cooperation, including foreign and security policy and the resolution of the conflict in Transnistria. The EU-Moldova Action Plan focuses on democratic development, good governance, regulatory reform, administrative capacity-building, poverty reduction and economic growth.

### *Political development*

The first years after independence were characterized by volatile coalition majorities and short-lived Governments. Yet since the parliamentary and presidential elections in 2001, parliamentary majority and Government are more stable. Despite some concerns about freedom of the media, elections are recognized as compliant with the standards of the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE).

As the main foreign policy priority of the Government is integration with the EU, it pushes for progress in internal reforms and in adopting European standards. It also aims at developing ties with its neighbours through the Stability Pact for South-Eastern Europe, CEFTA 2006, BSEC and GUAM Organization for Democracy and Economic Development. Finding a solution to the Transnistrian conflict, in full respect of Moldova’s territorial integrity, is a priority.

Internally, Moldova aims at:

- Consolidating democracy, the rule of law and human rights
- Fighting corruption
- Bringing about public-sector reform
- Improving the investment climate
- Improving welfare.

### *Economic development*

With a gross national income per capita of US\$ 880, Moldova is classified as a low-income country in the Organisation for Economic Co-operation and Development (OECD) list of aid recipients. Development-policy objectives under the Millennium Development Goals should therefore be applied. Although growth finally restarted in 2000, the recovery was weaker than in neighbouring countries, mostly due to vulnerability to external shocks.

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<sup>8</sup> Information from: [http://ec.europa.eu/world/enp/pdf/country/enpi\\_csp\\_moldova\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/enpi_csp_moldova_en.pdf)  
and [http://ec.europa.eu/world/enp/pdf/country/enpi\\_nip\\_moldova\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/enpi_nip_moldova_en.pdf)

Real GDP per capita is the lowest in Europe, and in 2005 was still less than half the 1989 level (one of the worst performances listed by the European Bank for Reconstruction and Development). Economic growth is negatively affected by the fact that much of Moldovan industry, including electricity-generating plants, is located in secessionist Transnistria.

Despite recent improvements, the fiscal situation remains fragile. The general Government budget was in surplus in 2003-2005, partly through a build-up of arrears on external debt (since 2002). The privatization programme is making slow progress and efforts in the area of deregulation, greater targeting of social assistance and policy on small and medium-sized enterprises (SME) have also delivered few concrete results.

### *European standards*

Bringing the economy into line with the EU's internal market rules will require major efforts to approximate the national legislation, norms and standards to those of the EU. Moldova has ratified most of the international human rights instruments. It is committed to reinforcing democratic institutions to guarantee the protection of human rights and fundamental freedoms. Low administrative capacity and awareness, however, particularly within law-enforcement bodies, remain significant obstacles.

Overall, Moldovan legislation provides a relatively favourable environment for the development of civil society and media freedom. However, a number of recent developments, including in the legislative field, are cause for concern.

## **D. Montenegro**

An SAA with Montenegro was signed on 15 October 2007. If properly implemented, it can establish a framework for further economic, political and institutional development.

### *Political criteria*

Montenegro has made good progress in establishing the necessary legal framework and institutions following independence. In October 2007, Parliament adopted a constitution broadly in line with European standards. It has continued making progress in administrative and legal reform. The main political parties adopted a declaration on the basic constitutional principles of rule of law, committing that these principles would be incorporated into the Constitution. Montenegro could thereby accede to the Council of Europe.

There has been progress in establishing the necessary framework for respecting human rights and protection of minorities. Montenegro is committed to regional cooperation in South-Eastern Europe and has ratified the CEFTA agreement. However, judicial reform has just started. Corruption remains widespread. Public administration has to be significantly strengthened. The conditions of refugees and displaced persons, including Roma, give cause for concern.

### *Economic criteria*

Montenegro has slowly made progress towards establishing a functioning market economy. Major reforms are needed to enable the country to deal with competitive pressure and market forces from within the EU over the long term.

Macroeconomic stability improved. The rapid economic growth helped create jobs, while inflation remained subdued. Large foreign direct investments supported economic activity. A prudent fiscal policy was pursued, resulting in a continued budget surplus. Trade openness and the alignment process with World Trade Organization (WTO) rules supported further economic integration with the EU.

However, there are still some risks to macroeconomic stability. Energy prices increased substantially. The very high growth of consumer credit and of asset prices signalled widening of macroeconomic and financial imbalances. Although the unemployment rate decreased, it nevertheless remained high. Increasing labour costs continued to erode the country's competitiveness.

### *European standards*

The country has made some progress in alignment with European standards and in strengthening its administrative capacity, leading to the signature of the SAA with the EU. Good progress was made, for instance, in customs and taxation, competition, public procurement, free movement of capital and agriculture.

However, progress remained limited in social and employment policies, energy and environment as well as justice, freedom and security. Montenegro needs to take measures for the political empowerment of women, whose share in parliament is still only 12.3 per cent. The country also needs to continue to improve its legal, political and administrative capacity to ensure successful implementation of the SAA.

### **E. Serbia**

Serbia made significant progress in the SAA negotiations. In June 2007, it met the conditions and resumed SAA negotiations, which had been suspended the previous year. Technically, the negotiations were finalized and the Agreement was initialled on 7 November 2007. However, the conclusion of the Agreement continues to depend on full cooperation with the International Criminal Tribunal for the former Yugoslavia, which should lead to the arrest of all remaining fugitives and their transfer to the Tribunal.

### *Political criteria*

Serbia has made some progress in addressing political criteria. The new constitution entered into force in November 2006. A constitutional law has also been adopted. Parliamentary elections took place in January 2007, in accordance with international standards. However, the period leading up to the establishment of a new Government in May 2007 highlighted sharp political divisions, which led to a slowdown in the pace of reform. But the new Government has made efforts to step up the reform process. Civilian control of the armed forces has improved, and Serbia has played a positive role in improving regional cooperation.

It participated in discussions under the auspices of the United Nations Secretary-General's Envoy for Kosovo on the future status of Kosovo and continues to do so under the auspices of the "international troika".

However, judicial reform is lagging behind and a new legal framework is pending. Corruption is widespread. Enforcement of human rights, including women's, children's and those of the Roma, needs to be improved. Ethnic tensions still exist. Serbia must now cooperate fully with the International Criminal Tribunal. This should lead to the arrest and transfer of all remaining indicted persons, in order to formally conclude the SAA negotiations. Serbia also needs to demonstrate a more constructive approach towards the participation of Kosovo under United Nations Security Council resolution 1244 in regional cooperation and other forums.

### *Economic criteria*

Serbia has made some progress towards establishing a functional market economy. Further reform efforts must be pursued to enable the country to deal, in the medium term, with the competitive pressures and market forces from within the EU.

The broad economic policy essentials have overall been maintained. The economy continued to expand strongly. Foreign capital inflows remained significant. Inflation declined, the budget remained in surplus and expenditures were directed towards investment. Foreign trade and investment continued to grow and economic integration with the EU has advanced.

However, unemployment remains high. And further progress in privatization is needed. A competitive and dynamic private sector has not yet been fully established. Fiscal policy became less tight. The lack of flexibility in the labour market and high social security contributions remain an obstacle for job creation, as do bureaucratic requirements and complex legislation.

### *European standards*

The SAA negotiations have shown that Serbia has the administrative capacity to progress towards the EU. It is well placed to implement a future SAA. Significant progress was achieved in areas such as free movement of goods, customs and taxation, industry and SME, agriculture and visa facilitation.

However, progress has been limited in areas such as information society and media, financial control and money laundering. Owing to specific electoral legislation, the share of women members of Parliament nearly doubled, reaching 20.4 per cent. Serbia has a gender-sensitive Constitution and legislation. These, however, need to be implemented.

### **F. Kosovo (under United Nations Security Council resolution 1244)**

Kosovo's institutional arrangements are governed by United Nations Security Council resolution 1244, establishing an interim international civilian administration (United Nations Interim Administration Mission in Kosovo – UNMIK). The constitutional framework divides responsibilities between UNMIK and the provisional institutions of self-government, pending a final settlement.

### *Political criteria*

Regardless of negotiations on the status, overall stability is being maintained. The provisional institutions of self-government have fulfilled their core roles in their areas of competence. The assembly has participated more actively in the legislative process with improved law-making capacity and a better administration. Coordination within the Government has improved.

Kosovo participated in discussions under the auspices of the United Nations Secretary-General's Envoy for Kosovo on the future status of Kosovo and continues to do so under the auspices of the "international troika".

However, the status issue has continued to dominate Kosovo's politics. UNMIK still bears ultimate legislative and executive responsibility. Relations between Kosovo Albanians and Kosovo Serbs remained strained. Strengthening the rule of law, fighting the widespread corruption, enforcement of human rights, fighting against organized crime and enhancing the dialogue between the communities represent major challenges.

### *Economic criteria*

Kosovo has made little progress towards establishing a functioning market economy. Additional and considerable reform efforts must be pursued to enable it to deal with competitive pressure and market forces from within the EU in the long run.

Overall, economic policies remained broadly sound and market oriented. Inflation was low, and the price level of domestic goods and services fell. Privatization of formerly publicly owned enterprises accelerated significantly although much remains to be done. The financial sector further expanded and consolidated in a context of increased foreign ownership.

However, growth was relatively modest and unemployment remains high. Inadequate implementation of the rule of law, status-related uncertainties and fiscal risks continued to affect the functioning of market mechanisms and the business climate. Economic policy coordination remained weak making it difficult to ensure a policy consensus and to respect policy commitments.

### *European standards*

Kosovo has made further progress in approximating its legislation and policies with European standards. In some areas, such as customs and free movement of goods, progress made in previous years has been sustained.

However, little progress has been made on implementing and enforcing legislation effectively. It needs to make greater efforts to create the administrative capacity that will ensure further approximation and implementation of European standards, in particular in fighting organized crime, protecting the external borders and boundaries, taxation and energy. The high participation of women in politics (30 per cent of women members of Parliament and councillors) provides an opportunity to launch gender-sensitive development policies and to give women a chance to contribute to the implementation of human rights policies, good neighbourly relations and a fruitful dialogue between communities.

### **EU financial assistance for potential candidate countries**

The following table sets out EU financial assistance for the potential candidate countries under the Instrument for Pre-accession Assistance.

<b>Pre-accession assistance (in millions of euros)</b>						
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>Total 2007- 2011</b>
<b>Albania</b>	61.0	70.7	81.2	93.2	95.0	401.1
<b>Bosnia and Herzegovina</b>	62.1	74.8	89.1	106.0	108.1	440.1
<b>Montenegro</b>	31.4	32.6	33.3	34.0	34.7	166.0
<b>Serbia</b>	189.7	190.9	194.8	198.7	202.7	976.8
<b>Kosovo (under United Nations Security Council Resolution 1244)</b>	68.3	124.7	66.1	67.3	68.7	395.1
<b>Total</b>	412.5	493.7	464.5	499.2	509.2	2 379.1

UNECE should design its strategy to re-enter the Western Balkans against this background.<sup>9</sup>

<sup>9</sup> See <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/447&format=HTML&aged=1&language=EN&guiLanguage=fr>

## II. The Regional Cooperation Council: a vehicle for UNECE's re-entry into the region

In this section I shall present an update on the transformation process of the Stability Pact into the Regional Cooperation Council, and a breakdown of the main activities and the key actors in the process. The UNECE team should bear these in mind when preparing an action plan for the establishment of institutionalized cooperation with the RCC.

The priority areas for cooperation are as follows:

- economic and social development
- infrastructure
- justice and home affairs
- security cooperation
- building human capital and parliamentary cooperation.

Within these priority areas, gender mainstreaming, social cohesion and the involvement of civil society actors will be important factors.

The Regional Cooperation Council was created in February 2008 as a fully regionally owned and regionally led organization. Thanks to disciplined efforts to streamline and rationalize the structure, the RCC will inherit from the Stability Pact a set of consistent and self-sustainable task forces and initiatives which, taken together, represent an impressive and sustainable subregional cooperation programme.

Trade is an area of great potential for future cooperation between the RCC and UNECE. By the entry into force of CEFTA 2006, the Western Balkans and Moldova are now becoming a single, large free-trade area. This will increase intraregional trade and make this subregion more attractive for investors.

The dynamic and rapid pace of negotiation and ratification of the Agreement were certainly positive and were noticed by potential investors. However, to display its real potential, the Agreement will need to be implemented carefully and fully. Effective dispute settlement mechanisms will have to be established and other priority issues, such as agriculture, customs cooperation and non-tariff barriers, addressed.

CEFTA 2006 is only one component of the economic subregional cooperation agenda, which includes the SEE Investment Committee, the promotion of information and communication technology, the coordination of social policies and the Energy Community Treaty. Each component can contribute to the economic and social development of SEE only if proper implementation is supported by political will and is carefully coordinated with other regional cooperation activities. And this is where the RCC in cooperation with UNECE can play a key role.

UNECE's expertise in trade facilitation, trade information exchange standards, e-business and non-tariff barriers can be the basis for a significant contribution. This expertise was used in the early years of the Southeast European Cooperative Initiative (SECI), but has been neglected recently. The new initiatives on the Single Window concept for export and import clearance (as the optimal solution for trade facilitation) and the related work on data harmonization is a good case for advancing cooperation.

The SECI regional centre for combating trans-border crime is today widely recognized as a key tool in subregional cooperation against crime in SEE, and as a partner of the international community as proved by the increasing cooperation with Europol. However, the fight against organized crime and

corruption must be considered as a priority issue by SEE countries themselves and not as a condition imposed from outside.

The SECI centre can only work if all countries support it by sending their representatives to it and then translating best practices into legislation and implementation measures. Completion of the SECI Convention Centre and meeting the concerns of all stakeholders, is a key challenge for 2008.

With its expertise and know-how in statistics and data exchange UNECE can significantly assist the work of SECI in the future. In particular, UNECE's expertise in facilitation of movements (of goods and information) and improved governance through harmonizing international norms, standards and tools should have an added value for SECI.

Both the access to and the quality of many public utility services is low and becoming increasingly less affordable by members of the public. Given the lack of government budget resources and the need to increase efficiency and innovativeness, it is critical to mobilize investments from the private sector. Public-private partnerships are already being used outside the SEE region to good effect, and the use of available best practice experience can help the region cope with its lack of knowledge and skills to use Public-Private Partnership (PPP) models at national and local levels.

UNECE's Guidebook on Promoting Good Governance in Public-Private Partnerships and training modules can be of help in building the capacity of public administrations. Moreover, instead of establishing dedicated training centres within each country, one agency could provide this service for the region as a whole, e.g. a possible PPP Centre in Sofia.

These are just a few examples of where the main potential for future cooperation lies. The Stability Pact Task Force<sup>10</sup> progress reports contain all relevant information on further activities of the initiatives and centres, their main partners and plans for the future. Initiatives and agreements evolving from Stability Pact Working Table 2 and Working Table 3 that cover economy, trade, housing and urban planning, energy, traffic, security and environment, present viable fora for further UNECE involvement in the region.

### **III. UNECE and other regional cooperation initiatives today – a window of opportunity for future cooperation**

UNECE's major goal to promote pan-European economic integration can also be achieved to a significant extent through stronger cooperation with other existing subregional initiatives. South-Eastern Europe seems much more open today to facing problems that can only be addressed on a regional or subregional basis. This includes attracting foreign investment, facing the energy supply issue and fighting organized crime. Business people routinely cross borders and forge strategic partnerships; women's movements carry out activities across borders for strengthening human rights and gender mainstreaming in civil society; cultural productions from varied parts of the region find audiences throughout the region; and artists and producers cooperate as if the wall of the recent past had never been there.<sup>11</sup>

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<sup>10</sup> [www.stabilitypact.org/rt/SCSP%20WTI%20Progress%20Report.pdf](http://www.stabilitypact.org/rt/SCSP%20WTI%20Progress%20Report.pdf)  
[www.stabilitypact.org/rt/WTII%20Summary%20Progress%20Report%20Final%2027%20Nov.pdf](http://www.stabilitypact.org/rt/WTII%20Summary%20Progress%20Report%20Final%2027%20Nov.pdf)  
[www.stabilitypact.org/rt/WT%20III%20Task%20Force%20Report%2021%20Nov%202007.pdf](http://www.stabilitypact.org/rt/WT%20III%20Task%20Force%20Report%2021%20Nov%202007.pdf)

<sup>11</sup> "Rethinking south-eastern Europe through a pan-European perspective", *South East Europe Review*, Vol. 10, No.2, 2007 (Baden-Baden), pp. 67-80; "Moving the Balkans beyond the EU Blues: Rethinking Southeastern Europe through a pan-European Perspective", *Centre for Economic and International Studies Working Paper Series*, No. 6, 2007 (Geneva). See also [www.christophesoloz.ch/papers/papers\\_02.html](http://www.christophesoloz.ch/papers/papers_02.html).

## The initiatives

The end of the Cold War brought about the 1988 Summit of Foreign Ministers of South-Eastern Europe, a regional initiative renamed in 1996 as the South-East European Cooperation Process (SEECP).

In 1989, the Central European Initiative – an initiative establishing a platform for mutual political, economic, scientific and cultural cooperation with a secretariat in Trieste; and in 1994 the Black Sea Economic Cooperation (BSEC) – a multilateral political and economic initiative based in Istanbul.

The following year, 1995, in the aftermath of the Bosnian war, the European Council initiated the Royaumont Process to promote stability and good neighbourhood in South-Eastern Europe.

In 1996, the United States initiated the South-East European Cooperation Initiative (SECI), which encouraged functional cooperation among the countries of the subregion in order to facilitate South-Eastern Europe's EU integration.

The Kosovo crisis and NATO intervention in 1999 led to the establishment in June 1999 of the Stability Pact for South-Eastern Europe.

This list of initiatives, far from being exhaustive, represents the most prominent forums. There are obvious common features of these regional initiatives: the lists of objectives and membership generally overlap.<sup>12</sup> With a few exceptions, such as SECI and the Stability Pact, their respective activities are limited, consisting mostly of meetings and, as the budgets are small and can only cover administrative costs, only a limited number of projects are implemented. The overall output is therefore modest.

If UNECE is to use the existing infrastructure and continue to build on it, it should get involved in careful recalibration and assist in the introduction of innovative thinking in them. Existing regional and pan-European organizations must enhance coordination among themselves, especially when it comes to initiatives implemented in the region: pragmatism and (cost) efficiency are the keywords.

### A. The Adriatic-Ionian Initiative – facts and scope of activities relevant for UNECE

The Adriatic-Ionian Initiative (AII), launched in March 2000, is based on the principle that international crises should be resolved not through violence but through mutual cooperation to identify and jointly define a range of common interests in all sectors.

The Initiative is a useful tool to strengthen and widen the already existing links among the countries of the Adriatic-Ionian Basin: Albania, Bosnia and Herzegovina, Croatia, Greece, Italy, Montenegro and Slovenia.

Within its framework, an Adriatic-Ionian Council was set up at ministerial level, setting no limits to the fields of cooperation. Special attention was directed towards the following areas:

- economic and technical assistance and cooperation in traffic
- environmental protection
- cooperation in the fields of culture, education and tourism
- cooperation in combating all forms of crime.

The following is a breakdown of the AII working groups relevant to UNECE and their main activities:

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<sup>12</sup> Ibid.

### *Environment and sustainable development (Working Group 2)*

The UniAdriion Network dedicates specific attention to the protection of both the economic and the environmental resources of the Adriatic-Ionian area. Working Group 2 stresses that a correct exploitation of resources must fully comply with the natural environment, according to the model of “sustainable development”.

### *Economy, communication, ports and economic relations (Working Group 4)*

The Network highlights the importance of maritime and land transport for an integrated and sustainable development of the subregion, a fundamental step towards achieving stability and security. This Working Group can contribute to developing infrastructure and transport networks through research and development projects in transport and logistics. The aim should be to place the subregion’s development plans within the context of global sustainable development.

The Ancona Declaration, on the basis of the indications of the Round Table on cooperation at university level, emphasizes the use of information and communication technologies as one of the reference tools in the economic and cultural growth of the countries in the Adriatic and Ionian area. This Working Group must establish the structure of the network and the associated management procedures that will assure, from the beginning, a fair representation of all participants. The Working Group should also consider the necessity of advancing the planned activities in order to take into account the actual availability of human and economic resources. Since May 2004 the Working Group has been led by Elearninglab, a team within the University of Bologna researching and producing e-learning solutions.

## **B. Black Sea Economic Cooperation – facts and scope of activities relevant for the UNECE**

The BSEC organization encompasses the territories of the Black Sea littoral States, the Balkans and the Caucasus, with an area of nearly 20 million square kilometres. The region is located on two continents and includes some 350 million people. It has a foreign trade capacity of over US\$ 300 billion annually. After the Persian Gulf region, it is the second largest source of oil and natural gas along with its rich proven reserves of minerals and metals. It is becoming Europe's major transport and energy transfer corridor.

The BSEC member States are: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Serbia, Turkey and Ukraine.

### *Seventeen main areas of cooperation:*

- agriculture
- banking and finance
- cooperation in combating crime
- communications
- emergency assistance
- culture
- education
- energy
- environmental protection
- exchange of statistical data and information
- health care and pharmaceuticals
- institutional renewal and good governance in BSEC

- science and technology
- small and medium-sized enterprises
- tourism
- trade and economic development
- transport.

BSEC is indeed pan-European (bringing together EU members, countries in accession and those which are part of the neighbourhood policies of the EU); as well as areas of cooperation, BSEC presents an excellent structure for stronger cooperation with the UNECE.

## IV. Conclusions

For more than a decade, citizens in middle-income countries of the Western Balkans, South-Eastern Europe and Eastern Europe have been told by international financial institutions, and by their own Governments, that opening up to the global economy will bring large and widely shared benefits. However, all too often the troubling reality has been one of persistently high unemployment and stagnant income. The stark disjuncture between lofty rhetoric and grim reality has provided fertile ground for populist backlash against the expansion of global markets.

World leaders, politicians and financiers must find ways to empower middle-income countries and low to middle-income workers and enable them to enjoy the enhanced freedom of movement, along with the other fruits of globalization.

There are only two ways to go ahead. People and countries, regions or politically and economically integrated entities must either be competitive as (a) a knowledge economy, rewarding skills or institutions that promote cutting-edge technological innovations or (b) a low-wage economy, using widely available technology to do routine tasks at the lowest possible cost.

Middle-income countries, such as those in South-East Europe, have on average not done nearly as well in globalized markets as either richer or poorer countries. According to global economy experts, they have been forced into battles with China, which are impossible to win, for a market share in standardized manufacturing and increasingly with India for low-wage services-sector exports.

In the United States and the EU, the challenge of helping the disaffected middle class “tech up” rather than “dumb down” is well understood. People must be given access to education and training that can transform them into successful knowledge workers. Likewise, middle-income countries must be helped to move up in the global skill chain.

The middle-income countries of South-Eastern Europe need broad and deep institutional reforms in public administration, banking, law, regulation and statistics. Only in this way can they transform economies that stifle innovation into ones that foster it with strong property-rights regimes, effective financial systems and good governance. They can thus level the ground for creative work and equal sharing in the results of progress for men and women, young and elderly, majority and minority groups, in other words transform themselves into functional States.

### A. Flexible regionalization

Economy experts and contemporary circumstances show that the best way to catch up with globalization challenges is through flexible regionalization. Such a process in South-East Asia and in South America has already produced success stories. Being aligned with different geographies of integration, on the one hand, and placed between the Russian Federation and the EU, on the other,

while the United States has significant interest in the pan-European space and its subregions, SEE is in some fields impeded in comparison with them.

It needs significant levelling, predominantly in trade, regulations and cross-border facilitation of the movement of goods, capital and people. Without this levelling, which in most cases does not depend on political circumstances and is merely a matter of technical and expert assistance, SEE would not be capable of becoming a competitive region that can face the increasing competition of the world's regions operating successfully in the global markets.

This is an open door for the re-entry of UNECE, to provide exactly the type of assistance that the region needs from a non-political and expert organization. UNECE should seek permanent participation in the work of numerous existing subregional organizations to avoid duplication and provide maximum contribution to specific projects throughout SEE that need expert and technical assistance, as in the case of the main Stability Pact story: CEFTA 2006.

## **B. Stability Pact for South-Eastern Europe task forces**

But areas of cooperation certainly do not end here. Stability Pact task force progress reports give comprehensive breakdowns of the latest multilateral agreements in the region, which can serve as a basis for further institutionalized cooperation among the RCC and UNECE. These progress reports provide an excellent insight into the activities, dynamics, relevant partners and individual countries' involvements, which UNECE should use in designing its re-entrance into the region. Bearing in mind its mandate, it is obvious that UNECE has the biggest interest to look closely at the legacy of Stability Pact Working Table 2 legacy.

In cooperation with UNECE, the task forces should make use of the achievements of UNECE in the following fields:

- trade facilitation, electronic business, the Single Window and elimination of non-tariff barriers (UNECE and UN/CEFACT trade facilitation recommendations and standards)
- transit facilitation (TIR and container conventions)
- border-crossing facilitation (Convention on Harmonization of Frontier Control of Goods)
- harmonization of technical regulations and standardization for transport vehicles, commercial standards, agricultural products
- public-private partnerships
- environmental conventions and norms (on transboundary air and water pollution, civil society access to environmental information, etc.)
- sustainable development of the forestry sector
- energy security
- enhancing the capacity of national statistical agencies
- engendering national budgets and national and regional development, security and poverty-reduction policies.

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## Annex I

### UNECE's Work in South-Eastern Europe

UNECE's work in South-Eastern Europe covers areas which are also priorities for the EU such as: improvement of business and investment climate; capacity building in various areas; regulatory convergence between EU and non-acceding countries; sectoral issues, in particular trade, transport, energy, environment, sustainable timber sector; capacity-building in statistics; and public-private partnerships. Work in these areas contributes to the post-conflict economic stabilization of SEE.

UNECE work has been carried out through SECI and then in cooperation with the Stability Pact for South-Eastern Europe, or independently. It focuses on: energy efficiency, natural gas pipelines, Danube recovery, trade facilitation, border-crossing facilitation, harmonizing transport rules and regulations, capacity building and networking for a sustainable timber sector, capacity building in statistics, as well as public-private partnerships. UNECE assisted in putting together and implementing a World Bank project on trade and transport facilitation in SEE, carrying out analysis and making proposals for interconnection of the electricity grids in the region. UNECE also provides a forum for developing and implementing projects and participates in regional initiatives such as energy efficiency (Energy Efficiency 21) and the EU Water Initiative for Eastern Europe, the Caucasus and Central Asia. Furthermore, UNECE initiated a project on trade data harmonization and building the environment for a Single Window. UNECE has excellent cooperation with the EU in technical and normative issues such as with EUROSTAT in the area of assessments of statistical systems in SEE countries and coordination of technical assistance in statistics, as well as cooperation with the EC Directorate General Taxation and Customs Union (DG TAXUD) on trade facilitation and trade data requirement harmonization issues. These partnerships are reflected in the respective UNECE programmes in SEE.

This table provides a list of the relevant UNECE programmes in the region, and it is recommended that: (1) the Regional Cooperation Council for SEE take full advantage of the already existing UNECE activities and initiatives in the region; and (2) SEE countries include these activities in their national development plans.

ECONOMIC AND SOCIAL COOPERATION AND DEVELOPMENT	
EU objectives and initiatives	UNECE expertise and activities by UNECE programme
Improvement of business and investment climate	The <b>ECONOMIC COOPERATION AND INTEGRATION</b> sub-programme (CECI) ( <a href="http://www.unece.org/ceci">www.unece.org/ceci</a> ) promotes policy, financial and regulatory environment for growth and competitiveness.
Intellectual and industrial property rights	<p>The CECI Team of Specialists on Intellectual Property is mandated to work on intellectual property rights in economic development, including the facilitation of their commercialization and effective regulatory protection, and focusing on member countries in the eastern part of the region. It developed in 2007 a “Synopsis of good practices and good policies of intellectual property commercialization and protection”.</p> <p>Envisaged capacity-building activities open for cooperation with the EC:</p> <ul style="list-style-type: none"> <li>◆ European training on Intellectual Capital Readiness, jointly organized with the World Intellectual Property Organization, on 19 November 2007</li> <li>◆ Subregional capacity-building activity involving stakeholders from a number of countries of the Commonwealth of Independent States (CIS) in Turkey in 2008 (consultations with the Government of Turkey are still underway)</li> <li>◆ Subregional capacity building activities on selected intellectual property issues in Slovenia (together with the World Intellectual Property Organization and The former Yugoslav Republic of Macedonia to be held in 2008 (consultations are still underway).</li> </ul>
Boosting investment opportunities	<p>The CECI Programme of Work envisages work on public-private partnerships (PPPs) for domestic and foreign investment, including promoting best practices in efficient PPPs in countries with economies in transition. These activities provide opportunities for cooperation with the EC:</p> <ul style="list-style-type: none"> <li>◆ One finished product is the Guidelines to Promoting Good Governance in Public-Private Partnerships which can be used for training and capacity building activities and as a background document for the creation of a regional SEE PPP capacity centre, for example, in Sofia</li> <li>◆ A capacity-building event will be organized in Moscow in summer 2008 (funded under a United Nations Development Account project) to provide relevant stakeholders with practical, hands-on and results-oriented international experience in establishing efficient PPPs. UNECE is in consultation with the European Bank for Reconstruction and Development to organize a joint training programme on PPP in countries with economies in transition, drawing on the UNECE guidelines.</li> </ul>
Enterprise policy	The CECI Programme of Work envisages the promotion of an enabling environment for entrepreneurship and SME development, reducing barriers to entrepreneurs, identifying and solving problems in legal frameworks and compiling good practices in these areas.
Science and technology, research and innovation	<p>The CECI Programme of Work addresses issues relevant to the national innovation system of member countries, including the role of publicly funded research and the relations between science and industry. Partnership for Economics, Education and Research Support (in cooperation with the United Nations Development Programme (UNDP) and OSCE) aims at supporting local economic research institutes in order to strengthen evidence-based policy-making.</p> <p>The CECI Team of Specialists on Innovation and Competitiveness Policies promotes the exchange of experience gained, knowledge sharing, policy dialogue and consultations in the field of innovation and competitiveness policies, focusing on countries with economies in transition. In 2007 it developed a “Synopsis of good practices in facilitating the generation and diffusion of innovation”.</p> <p>Possible areas for cooperation with the EC:</p> <ul style="list-style-type: none"> <li>◆ Capacity-building activities on good practices in innovation policies</li> <li>◆ Peer reviews of research and innovation policies in EU neighbourhood countries.</li> </ul>
Cross-sectoral initiatives	<p>The UNECE Economic Cooperation and Integration Division is currently implementing a capacity-building project for the Russian biomass sector. The project was initiated at the request of the Russian Federation and examines the sustainable use of biomass for energy production both at local energy plants and as a new export commodity.</p> <p>The project model can be readily implemented in other regions of the Russian Federation, as well as in other countries. Requests for cooperation have been received from Krasnodar (Russian Federation) and Belarus, Moldova, Romania and Ukraine.</p> <p>The project also offers good opportunities for cooperation with other international organizations.</p>

<p><b>Capacity building in the area of statistics</b></p> <p>Upgrading capacities and institutional frameworks of official statistics in SEE and EU Neighbourhood countries, so as to bring their statistics gradually in line with EU statistics standards (acquis)</p>	<p>The <b>STATISTICS</b> sub-programme (<a href="http://www.unece.org/stat">www.unece.org/stat</a>) promotes international statistical standards and runs capacity-building activities.</p> <p>Assessments of statistical systems in the eastern part of the UNECE region (CIS) and coordination of technical assistance (jointly with EUROSTAT); improving statistical literacy (jointly with UNDP and UNICEF); demand-driven advisory services for upgrading the legal framework of official statistics and bringing these frameworks in line with the United Nations Fundamental Principles of Official Statistics and the EU Code of Practice.</p> <p>Organizing special meetings for countries back-to-back with joint UNECE-EUROSTAT expert meetings, e.g. in national accounts and business registers. Survey of national practices in these countries.</p> <p>Statistical capacity building with emphasis on population and housing censuses, health statistics and non-observed economy in the eastern part of the region.</p> <p>Making statistical systems in the eastern part of the region more gender sensitive (jointly with the World Bank).</p> <p>Implementation of international statistical standards and statistical capacity building (project on “Interregional Application of Fundamental Principles of Official Statistics in Countries in Transition”, capacity-building workshops and training in international migration statistics, industrial production indices). Strengthening the statistical capacity of SEE countries to monitor their progress toward the Millennium Development Goals (MDGs), while supporting evidence-based decision-making through improved collection and analysis of statistical data.</p> <p>Timber statistics: through the Joint FAO/ECE Working Party on Forest Economics and Statistics and through regular contacts with national correspondents for the Joint Forest Sector Questionnaire (UNECE/FAO/Eurostat, International Tropical Timber Organization) and the Forest Resource assessment. Periodic subregional workshops are organized in SEE to improve understanding of international methods, terminology and practice, as well as to raise national appreciation for the importance of information on indicators of sustainable forest management.</p>
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<b>TRADE RELATED ISSUES, MARKET AND REGULATORY REFORM</b> (with reference to regulatory convergence between the EU and non-acceding countries)	
<b>EU objectives and initiatives</b>	<b>UNECE expertise and activities</b>
<p><b>Trade facilitation</b></p>	<p>The <b>TRADE</b> sub-programme (<a href="http://www.unece.org/trade">www.unece.org/trade</a>) promotes trade policy development, as well as facilitation and harmonization of trade procedures with attention to supporting integrated trade information flow management and trade facilitation in all countries but with a particular emphasis on implementation in countries with economies in transition.</p> <p>Support for the implementation of the standards and recommendations of UNECE and UN/CEFACT on trade facilitation through capacity building activities, notably in the areas of:</p> <ul style="list-style-type: none"> <li>◆ establishing Single Window systems for export and import clearance (Recommendation 33)</li> <li>◆ Data harmonization – a regional initiative was launched by the UNECE Regional Adviser for trade data harmonization and alignment with international standards as the key step to building a Single Window and electronic document exchange. The latest SEE Workshop on Data Harmonization and the Single Window took place in Belgrade on 20-21 November 2007;</li> </ul> <p>Regular cooperation was established with EC DG TAXUD on the basis in consultation with Mr. Miroslaw Zielinski and Mr. Jean-Luc Delcourt. The UNECE standards and best practice recommendations can be used as a neutral platform for advancing pan-European and global standards, procedures and codes for trade information exchange.</p>
<p><b>Implementation of trade-related provisions of existing bilateral agreements, accession to WTO and full implementation of WTO accession agreements</b></p>	<p>The organization of periodic workshops involving local and international experts to discuss the implications of WTO accession and a possible WTO agreement on trade facilitation for countries with economies in transition.</p> <p>The development of a network for the exchange of information between CIS trade officials and WTO negotiators from the region’s countries (some are WTO members; others are in different stages of negotiating WTO accession).</p> <p>Support for the regional free trade agreement network and the new CEFTA 2006 Agreement. The UNECE Regional Adviser on Trade regularly contributed to the work of the Stability Pact Working Group on Trade Liberalization and Facilitation, which developed the CEFTA Agreement.</p>

<p>Promotion of convergence and technical harmonization and measurement standards</p>	<p>The UNECE “International Model for Technical Harmonization” provides a mechanism for intergovernmental regulatory harmonization and cooperation. Based largely on the new EU approach to regulation, UNECE is already assisting the development of multilateral agreements based on this model. A project for SEE financed by the Swedish Development Agency and supported by the Stability Pact was successfully carried out in 2004-2005.</p> <p>UNECE agricultural quality standards – many of which are referenced in European Commission regulations – are practically applied in the SEE countries. Their implementation would considerably facilitate trade in these countries' agricultural products both within the region and with the EU, thus developing their agricultural sector and raising average incomes among rural populations.</p>
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<b>SECTORAL ISSUES (Transport, Energy, Environment, etc.)</b>	
<b>EU objectives and initiatives</b>	<b>UNECE expertise and activities</b>
<i>Transport</i>	
<p>Transport at large</p>	<p>The <b>TRANSPORT</b> sub-programme (<a href="http://www.unece.org/trans">www.unece.org/trans</a>) facilitates the smooth flow of international land transport of freight and passengers.</p> <p>Some legal instruments have become global or trans-continental (e.g. those on dangerous goods, vehicle construction, TIR, road traffic rules, etc.).</p> <p><i>Issues and areas for cooperation:</i> when the EU intends to pass a new <i>acquis</i> that may have an impact on the non-EU countries, UNECE could be used as a forum for EU and non-EU consultations. It could even be a mandatory procedure in areas where a UNECE legal instrument has already been in force, with Contracting Parties from the EU.</p>
<p>Transport, transit, and border-crossing facilitation</p>	<p>One of the most important contributions of UNECE to the SEE region has been in the area of facilitating transport, transit and border-crossing procedures, on the basis of the existing UNECE legal agreements and tools.</p> <p>The UNECE services the TIR Convention, which is a key instrument providing for the functioning of international transit trade in the UNECE region and beyond to Asia and North Africa. It is operating in full harmony with the internal EU common transit system. Unfortunately, the TIR system is not operational in at least two SEE States (Bosnia and Herzegovina, and Montenegro), even if they are Parties to the TIR Convention, due to the lack of a viable supportive institutional structure, and in Kosovo. This seriously impairs their ability to use the advantages of international trade for economic growth and development. UNECE should address, jointly with the private sector and the EC, the concrete problems in each case.</p> <p>The UNECE Convention on the Harmonization of Frontier Control of Goods is a legal basis for building Integrated Border Management in the region. All SEE States, with the exception of Moldova, are parties to this Convention. Relevant EC bodies and European agencies active in the region can collaborate with UNECE to make full use of this legal instrument. Upon request from the SEE region, UNECE has developed the new Annex 8 of this Convention, which proposes a system using a vehicle weight certificate to avoid weighing trucks twice at each border, and provides for visa facilitation for truck drivers. The Convention is still far from full implementation, and UNECE is organizing capacity-building activities, some of them in collaboration with ISCE. Support from the EU will be crucial. Moldova should also join this Convention.</p> <p>UNECE has worked on railway transit and border-crossing facilitation in the past (notably through a project on cargo shuttle trains), and UNECE and EC should develop this cooperation further.</p>
<p>Transport of dangerous goods</p>	<p>The UNECE services intergovernmental bodies responsible for the development of United Nations Recommendations on the Transport of Dangerous Goods and Model Regulations and Manual of Tests and Criteria. They are implemented through the following legal instruments:</p> <ul style="list-style-type: none"> <li>(a) <i>Maritime transport:</i> International Maritime Dangerous Goods Code (IMDG Code) (mandatory for 158 countries).</li> <li>(b) <i>Air Transport:</i> International Civil Aviation Organization Technical Instructions for the Safe Transport of Dangerous Goods by Air (mandatory for 188 countries)</li> <li>(c) <i>Land transport:</i> <ul style="list-style-type: none"> <li>(i) ADR: European Agreement concerning the International Carriage of Dangerous Goods by Road (44 Contracting Parties).</li> <li>(ii) RID: Regulations concerning the International Transport of Dangerous Goods by Rail (42 Contracting Parties), implemented in cooperation with the Intergovernmental Organization for International Carriage by Rail.</li> </ul> </li> </ul>

	<p>(iii) ADN: European Agreement concerning the International Carriage of Dangerous Goods by Inland Waterways (6 contracting parties, already applicable on the Rhine and the Danube).</p> <p>ADR, RID and ADN provisions are mandatory for domestic traffic in the EU and European Economic Area countries through EU directives 94/55/EC and 96/49/EC. A new EU directive on inland transport of dangerous goods for all land transport modes (road, rail and inland waterways), adopted on first reading on 5 September 2007, will introduce a regulatory framework for the transport of dangerous goods by inland waterways.</p> <p>Some SEE countries (Albania, Bulgaria, Greece, Moldova and Romania) are Parties to ADR, but have problems with the implementation, and capacity-building is needed. Bosnia and Herzegovina, Croatia, Montenegro, Serbia, The former Yugoslav Republic of Macedonia and Turkey should become Parties to ADR.</p> <p>UNECE can contribute much to the efforts of harmonization of border-crossing procedures for railways in the region, notably in the application of RID. Countries that have not acceded to the ADN should be invited to do so.</p>
<b>Harmonization of classification and labelling of chemicals</b>	<p>The UNECE services the United Nations Economic and Social Council Sub-Committee of Experts on the Globally Harmonized System of Classification and Labelling of Chemicals (GHS). The GHS provides a basis for harmonization of rules and regulations on classification and labelling of chemicals at national, regional and worldwide levels. It provides for a better and harmonized hazard information exchange, including labels and safety data sheets, in order to protect human health and the environment during the handling, transport and use of these chemicals.</p> <p>On 27 June 2007, the European Commission adopted a proposal aligning the EU system of classification, labelling and packaging of substances and mixtures to the United Nations GHS. It takes over provisions of the REACH Regulation regarding the notification of classifications, list of harmonized classifications and the creation of a classification and labelling inventory. The current EU classification and labelling system for chemicals is set out in the Dangerous Substances Directive (67/548/EEC); the Dangerous Preparations (i.e. mixtures of chemicals) Directive (1999/45/EC); and Annex II of the REACH Regulation (EC) 1907/2006 (originally the Safety Data Sheet Directive (91/155/EEC)). UNECE can develop capacity building with possible support from the EU.</p>
<b>Vehicle construction</b>	<p>The EU is a Contracting Party to the Agreements on the construction of vehicles (1958 and 1998 Agreements). In addition to the EU countries, the main vehicle manufacturing countries of the world are Contracting Parties to these two Agreements. The UNECE World Forum for Harmonization of Vehicle Regulations (WP.29) has been set up to be the body where policy issues on vehicle regulations should be discussed. The contact on these agreements in the European Commission is DG Enterprise.</p>
<b>Developing pan-European transport infrastructure master plans, identifying transport routes, harmonization of national legislations, and simplification of border-crossing procedures</b>	<p>The Euro-Asian Transport Links project is implemented by UNECE and the United Nations Economic and Social Commission for Asia and the Pacific. It has identified the main Euro-Asian inland transport routes, some of which cross South-Eastern Europe, and the need to harmonize transport legislation based on UNECE conventions and EU legislation. The EU can look into support to the second phase (implementation) of the project.</p> <p>The UNECE established subregional intergovernmental cooperation frameworks, the Trans-Eurasian Motorways (TEM) in 1977 and Trans-European Rail (TER) in 1990, to develop a modern system of motorways, railways and combined transport infrastructure. The TEM and TER Master Plans published in 2006 identified the priority transport infrastructure needs of 21 Central, Eastern and South-East European countries – an investment strategy which would include 491 projects with an aggregate estimated cost of €103 billion.</p>
<b>Supporting regional integration initiatives</b>	<p>Enhancing regional cooperation and addressing sectoral issues in the framework of partnership with BSEC, in particular on harmonization of national transport legislation of the BSEC member States on the basis of assisting their accession to and implementation of the main UNECE legal instruments on transport and coordinated development of transport infrastructure in the BSEC region.</p>
<b>Capacity building to modernize the legal framework and better investment planning</b>	<p>Capacity-building workshops to:</p> <ul style="list-style-type: none"> <li>◆ strengthen the implementation of UNECE's legal instruments in transport</li> <li>◆ enhance regional investment planning capacity of countries</li> <li>◆ assist the development of transport infrastructure and border-crossing facilitation (notably, in the TER, TEM and Euro-Asian transport links projects).</li> </ul>

<i>Energy</i>	
<p><b>Pan-European energy policy dialog</b></p> <p>Establishing a multilateral dialogue between major energy producers and consumers</p> <p>Harmonization of the energy policies of non-member neighbouring countries with EU energy policies and Commission Directives</p>	<p>The <b>SUSTAINABLE ENERGY</b> sub-programme (<a href="http://www.unece.org/ie">www.unece.org/ie</a>) provides a multilateral platform for economic and technical cooperation on energy issues that brings together the major energy producers, consumers and the transit countries among its 56 member States. This forum includes representatives of Governments, energy industries, financial institutions and relevant international organizations (the Committee on Sustainable Energy and 16 projects and expert groups).</p> <p>While UNECE energy activities mainly address sustainable energy, energy security is formally included in the programme of work with activities such as the High-Level Meeting on Energy Security in the Caspian Sea Region (Joint Statement by Azerbaijan, Iran, Kazakhstan, Russian Federation and Turkey) and publications on Energy Security Risks and Financial Markets, and Emerging Global Energy Security Risks.</p> <p>Activities facilitate technical and economic cooperation and pre-investment decisions related to concrete sectors/issues through activities such as those of the Gas Centre (supported by 24 natural gas companies), the Energy Efficiency 21 project, and the group of experts on energy reserves and resources. The Gas Centre has a Task Force that holds biannual meetings on the Implementation of the EU Gas Directive. The gas company of Serbia became the latest new member and contributor to the UNECE Gas Centre.</p> <p>Energy reserves and resources are classified and evaluated through UNECE using a reliable common system, the United Nations Framework Classification for solid fuels. The Framework Classification is being extended to petroleum, natural gas and uranium so as to increase knowledge on the future availability of fossil energy and mineral resources and manage them better over time.</p>
<p><b>Energy efficiency</b></p>	<p>Energy efficiency market formation in Eastern Europe, South-Eastern Europe and Central Asia through capacity and institution building, promotion of energy policy reforms and investment project finance by an externally managed dedicated investment fund. Under the UNECE Energy Efficiency 21 programme, the “Financing Energy Efficiency Investments for Climate Change Mitigation” project has established the €329 million SwissRe/Conning Asset Management “European Clean Energy Fund” for equity investments and mezzanine finance in EU countries. A second equity fund for €250 million to finance energy efficiency and renewable energy investments is under preparation for 10 East European, South-East European and Central Asian countries outside the European Union.</p>
<i>Environmental policy</i>	
<p><b>Implementation of conventions and protocols</b></p> <p>Monitoring progress</p>	<p>The <b>ENVIRONMENT</b> sub-programme (<a href="http://www.unece.org/env">www.unece.org/env</a>) supports the maintenance and promotes the use of the five UNECE environmental Conventions and their Protocols, which promote policy convergence and provide a base to monitor progress on trans-border protection of water and air and on public awareness of environmental policies (for the Conventions see below). UNECE is working in the SEE countries for regional agreements for the implementation of these conventions.</p> <p>The Sixth Ministerial Conference under the Ministerial “Environment for Europe” process, supported by UNECE, was organized in Belgrade in October 2007, and attracted much attention.</p> <p>The Environmental Performance Review programme monitors progress in individual countries (one of the latest was prepared for Serbia).</p>
<p><b>The Clean Air For Europe (CAFE) initiative</b></p>	<p>Under the 1979 Convention on Long-range Transboundary Air Pollution (Air Convention), Parties endeavour to limit and gradually reduce and prevent air pollution including long-range transboundary air pollution. Through the Convention’s eight Protocols, Parties are set national targets for cutting their emissions of major air pollutants as well as meeting emission limit values for certain sources. All of the Protocols are now in force. The Convention’s scientific programmes monitor and model air pollution and its effects and results are used to support policy decisions on air pollution control. UNECE and the Government of the Netherlands are supporting a 3-year project aimed at assisting five SEE countries to implement and ratify the recent protocols to this Convention.</p>
<p><b>Water framework directive</b></p>	<p>The 1992 Convention of the Protection and Use of Transboundary Watercourses and International Lakes (Water Convention) is intended to strengthen national measures for the protection and ecologically sound management of transboundary surface waters and groundwaters. UNECE has launched a regional initiative for the environmental protection of transboundary rivers and lakes in SEE.</p>

“Seveso 2” directive	The 1992 Convention on the Transboundary Effects of Industrial Accidents is designed to protect human beings and the environment against industrial accidents by preventing them as far as possible and mitigating their effects. It promotes international cooperation between the Contracting Parties, before, during and after an industrial accident. Capacity building activities were organized to strengthen the legal and institutional frameworks for implementing the Convention in SEE and the CIS countries and with a view to developing action plans to eliminate gaps in these frameworks. A Workshop on Strengthening the Safety Measures at Hazardous Activities was organized in Moldova in December 2007.
EC Directive on Access to Environmental Information	The 1998 Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention) is a new kind of environmental agreement. It links environmental rights and human rights; acknowledges our obligation to keep an environmentally safe world for future generations; and establishes that sustainable development can be achieved only through the involvement of all stakeholders.
EU’s EIA directive	The 1991 Convention on Environmental Impact Assessment in a Transboundary Context “Espoo Convention” is a key step to bringing together all stakeholders to prevent environmental damage before it occurs. Environmental threats do not respect national borders. Governments have realized that to avert this danger they must notify and consult each other on all major projects under consideration that might have an adverse environmental impact across borders. The Espoo Convention entered into force in 1997.
	As a voluntary exercise, the Environmental Performance Review (EPR) is undertaken only at the request of the country itself. It starts with an agreement on the structure of the report between UNECE and high officials of the candidate country. The assessing team is made up of experts from all over the UNECE region, and is flexible to meet the needs of the reviewed country. This team meets with national experts to discuss the problems encountered in the areas of environmental management and integration of environmental considerations in related economic sectors in their country. The team’s final report contains recommendations for further improvement, taking into consideration the country’s progress in the current transition period. Peer review of the report and its recommendations is carried out by the UNECE’s intergovernmental Committee on Environmental Policy. The latest EPRs were done for Serbia and Montenegro.
<b><i>Sustainable development of the timber sector</i></b>	
Promoting sustainable forest management	<p>The <b>TIMBER AND FORESTRY</b> sub-programme (<a href="http://www.unece.org/trade/timber">www.unece.org/trade/timber</a>) implements the UNECE/FAO strategy for the forest sector of countries with economies in transition, focusing on building institutions, improving information, and incorporating them into existing international activities, notably as regards markets and statistics, and forest resource assessment and sector outlook studies. UNECE also prepares country forest sector profiles. The work with transition economies is overseen and guided by a team of specialists under a mandate from the Ministerial Conference on the Protection of Forests in Europe, and is based on partnerships with a wide range of organizations, building on areas of ongoing international cooperation.</p> <p>UNECE has developed an initiative on Capacity-building for Forest Products Marketing in countries of the CIS and SEE. UNECE has organized two workshops in 2006 (Novi Sad and Dubrovnik) and one in 2007 (Sarajevo) with focus on developing export markets and building business-to-business contacts with other European countries. There are plans for seminars in Skopje (2008) and Podgorica (2009) as part of an ongoing pan-European process.</p>
<b><i>Water and Energy</i></b>	
	The <b>ENVIRONMENT</b> sub-programme ( <a href="http://www.unece.org/env">www.unece.org/env</a> ) also promotes the efficient and rational use of water and energy resources in the region, dam safety and energy efficiency projects, facilitates the accession of member countries to UNECE legal documents on environmental issues and water use, and supports their implementation.

<p><b>Integrated Water Resources Management</b> under EU Water Initiative:</p> <ul style="list-style-type: none"> <li>◆ ensuring a supply of sufficient, high quality drinking water</li> <li>◆ transboundary water resource management</li> <li>◆ cross-sectoral coordination and mainstreaming of water management principles into related policy areas</li> </ul>	<p>Capacity for Water Cooperation (a series of workshops on transboundary water cooperation for the transition economies).</p> <p>Dam Safety.</p> <p>The Convention on the Protection and Use of Transboundary Watercourses and International Lakes (Water Convention) is intended to strengthen national measures for the protection and ecologically sound management of transboundary surface waters and groundwaters. The Convention obliges Parties to prevent, control and reduce water pollution from point and non-point sources. The Convention also includes provisions for monitoring, research and development, consultations, warning and alarm systems, mutual assistance, institutional arrangements, and the exchange and protection of information, as well as public access to information. Under the Convention, the Protocol on Water and Health was adopted in London on 17 June 1999, and the Protocol on Civil Liability was adopted in Kiev on 21 May 2003.</p>
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HUMAN DIMENSION	
EU objectives and initiatives	UNECE expertise and activities
<p><b>Millennium Development Goals (MDGs)</b></p> <p>Promoting gender equality</p>	<p><b>GENDER ACTIVITIES</b> (Office of the Executive Secretary) (<a href="http://www.unece.org/oes/gender">www.unece.org/oes/gender</a>).</p> <p>Regional reviews of the Beijing process (Beijing +5; Beijing +10); UNECE provides also a regional platform for all stakeholders to share information on the implementation of the MDGs.</p> <p>Substantive work on gender data and statistics (UNECE gender statistics website) and the MDGs (MDG database).</p> <p>Activities focus on East and South-East Europe and the CIS. Special attention is given to countries of Central Asia and the Caucasus under the framework of the Group on Gender and Economy of the United Nations Special Programme for the Economies of Central Asia (SPECA). It aims at raising awareness that gender equality is an economic asset in a growth process, exchanging good practices, developing pilot projects and promoting cross-sectional linkages with other SPECA working groups. Current work: Development Account project on mainstreaming gender into national development strategies to reach the MDGs.</p>
<p><b>Population issues</b></p> <p>Ageing and demographic changes</p>	<p><b>POPULATION ACTIVITIES UNIT (PAU)</b> (<a href="http://www.unece.org/pau">www.unece.org/pau</a>).</p> <p>Gives support to the implementation of the Regional Strategy of the Madrid International Plan of Action on Ageing including organizing the follow-up process (UNECE Ministerial Conference on Ageing, November 2007, Spain); support to the expert task force working on indicators for a website related to monitoring the process; projects which resulted in the assembly of a collection of microdata samples as well as a survey of ageing research in Europe.</p> <p>The Generation and Gender Programme is based on UNECE's unique expertise in collecting data and research on gender aspects of demographic changes in 13 EU countries. It is supported by a grant from DG Employment.</p>

## Annex II

### Statute of the Regional Co-operation Council (RCC)<sup>13</sup>

#### Introduction

1. The positive developments in South Eastern Europe (SEE) in the past decade and the need to safeguard the significant achievements of the Stability Pact for South Eastern Europe necessitate the development of a more regionally owned and led co-operation framework with continued support of the international community.
2. Based on decisions taken by the Stability Pact Regional Table in Belgrade (May 2006) and Bucharest (November 2006), the Summit of the South East European Co-operation Process (SEECP) and the Regional Table in Zagreb (May 2007) thus jointly decide to transform the Stability Pact for SEE into a Regional Co-operation Council (RCC). The final meeting of the Regional Table of the Stability Pact shall take place back-to-back with the first meeting of the RCC no later than February 2008.

#### Tasks of the RCC

3. The tasks of the RCC are defined as follows: to sustain focused regional co-operation in SEE through a regionally-owned and led framework; to provide political guidance to and receive substantive input from relevant task forces and initiatives active in specific thematic areas of regional co-operation; to promote European and Euro-Atlantic integration; and to provide guidance to the Secretariat of the RCC and its Secretary General.
4. The RCC should provide the SEECP with operational capacities through its Secretariat and task forces as well as act as a forum for the continued involvement of those members of the international donor community engaged in SEE.

#### Priority Areas for Co-operation in the Framework of the RCC

5. Priority areas for co-operation in the framework of the RCC are as follows:
  - a. Economic and Social Development.
  - b. Infrastructure
  - c. Justice and Home Affairs
  - d. Security Co-operation
  - e. Building Human Capital
  - f. as well as Parliamentary Co-operation as an overarching theme
6. In the context of these priority areas, gender mainstreaming, social cohesion and the involvement of civil society actors will be important factors.
7. The RCC on recommendation of the Secretary General as well as in accordance with political guidelines of the SEECP Summit may decide to adapt these priority areas depending on developments in the region.

#### Meeting Format of the RCC

8. The membership of the RCC consists of the participating states of the SEECP, the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of

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<sup>13</sup> The contents of this annex were taken from: [www.stabilitypact.org/rt/ZAGREBAnnextoConclusionsRCC.pdf](http://www.stabilitypact.org/rt/ZAGREBAnnextoConclusionsRCC.pdf).

Kosovo in accordance with United Nations Security Council Resolution 1244, the European Union, represented by the Troika, consisting of the EU Presidency, the European Commission and the Council Secretariat, as well as those donor countries, international organizations and international financial institutions actively and substantially engaged in support of regional co-operation in SEE.<sup>14</sup> Requests for membership of the RCC require the consent of the existing members.

9. The Annual Meeting of the RCC is held back to back with the SEECP Summit. The Annual Meeting of the RCC is co-chaired by the Secretary General and the Foreign Minister of the SEECP Chairmanship in Office (CiO), hosted by the SEECP CiO and prepared by the Secretary General in co-ordination with the SEECP CiO. The Annual Meeting of the RCC meets at the level of Senior Civil Servants or above. It shall ensure the strategic co-ordination and development of the regional co-operation processes, review and endorse the Secretary General's Annual Report on regional co-operation in SEE as well as the Strategic Work Programme for the following year. The RCC Annual Meeting is open to other countries, international organizations and partners as guests upon request to and/or the initiative of the Secretary General following the consent of the members of the RCC Board.
10. In between Annual Meetings of the RCC operational guidance and supervision of the RCC is provided by the RCC Board. The Board accepts the Annual Report of the Secretary General and adopts the Strategic Work Programme for the following year, supports the Secretary General in its implementation and reviews progress in the course of the year. The Board consists of those RCC members contributing to the budget of the RCC Secretariat as well as the European Union, represented by the Troika, consisting of the EU Presidency, the European Commission and the Council Secretariat.<sup>15</sup> The RCC Board meets quarterly and is chaired by the Secretary General. RCC Board meetings are convened and prepared by the Secretary General in co-ordination with the SEECP CiO. The RCC Board meets at the level of RCC National Co-ordinators, which are Senior Civil Servants in each RCC member responsible for co-ordination of RCC relevant issues within their respective national administration.
11. The host of any particular meeting will bear all costs in connection with holding meetings unless otherwise decided or organized at the seat of the RCC Secretariat itself, while other participants will cover their expenses relating to travel and stay of their respective delegations.
12. Decisions of the RCC will be taken by consensus, which is understood as absence of objection.

### **Structures of the RCC**

13. The Secretary General shall be a strong political figure from the region, with the ability to interact with donor states and international organizations and to work with governments in the region at the highest appropriate level, and shall have a record of successful engagement in regional co-operation. The mandate of the Secretary General shall be to:

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<sup>14</sup> Based on these criteria, Stability Pact partners actively and substantially engaged in support of regional co-operation in SEE are requested to indicate their interest to become a member of the RCC to the Special Co-ordinator of the Stability Pact by 15 November 2007. The Special Co-ordinator, after consultation with the Secretary General, will then make a proposal outlining the membership of the future RCC for endorsement at the final meeting of the Regional Table in February 2008.

<sup>15</sup> For membership of the RCC Board, a minimum contribution of 50.000 Euro to the budget of the RCC Secretariat is required. Contributions for SEECP participating states and UNMIK/Kosovo are regulated in a separate document.

- a. Promote and facilitate the achievement of the RCC's objectives, in particular to foster regional co-operation, to follow and co-ordinate regional co-operation activities and initiatives in SEE and to support European and Euro-Atlantic integration;
  - b. Chair the RCC Board's quarterly meetings and co-chair the RCC's Annual meeting with the SEECP CiO Minister of Foreign Affairs;
  - c. Head the RCC Secretariat, having executive authority with regard to staff operations, including personnel recruitment and management;
  - d. Maintain close, co-operative contacts with all members and partners of the RCC, and in particular with the participating states of the SEECP, as well as with relevant regional initiatives and organizations;
  - e. Provide support to the SEECP and its CiO through the RCC Secretariat, including by preparing meetings and conferences;
  - f. Take part in meetings of the SEECP at all levels;
  - g. Submit an Annual Report on regional co-operation in SEE and an Annual Strategic Work Plan to the RCC for review and endorsement;
  - h. Present the strategic aspects of this Annual Report to the SEECP Summit thus contributing to the elaboration of the political guidelines of the SEECP;
  - i. Co-operate closely with all institutions of the EU and its Member States in order to support the EU integration process of SEE and to contribute to the full complementarity of regional co-operation activities with the EU integration process;
  - j. Work closely with other international institutions and organizations, including international financial institutions, and the private sector in promoting regional co-operation in SEE, and support the involvement of civil society actors in regional co-operation processes;
  - k. Ensure that the RCC focuses on priority areas for regional co-operation.
  - l. Facilitate efforts to secure funding for regional co-operation activities under the auspices of the RCC.
14. The process of nominating a Secretary General is as follows:
- a. SEECP Participating States can propose one suitable candidate each to the SEECP CiO, according to the terms of reference outlined in the mandate of the Secretary General no later than 6 weeks before the SEECP Summit and through the SEECP CiO immediately consult with the RCC Board members and the SEECP Participating States on these candidates.
  - b. Consultations are concluded 3 weeks before the SEECP Summit.
  - c. The SEECP Committee of Political Directors makes a nomination proposal, taking into account those consultations no later than 2 weeks before the SEECP Summit.
  - d. The nomination proposal is forwarded to the RCC Board for consideration and endorsement at the Annual Meeting the day before the SEECP Summit.
  - e. Following the endorsement of the RCC Annual Meeting, the Secretary General is appointed by SEECP Foreign Ministers a day before the SEECP Summit.
  - f. The SEECP Summit approves the appointment.

15. The Secretary General is appointed for 3 years with the possibility to extend his/her term by 2 years.
16. The mandate of the Secretary General can be discontinued by decision of the RCC Board based on the terms of his/her contract. The procedure for the dismissal of the Secretary General can be launched on request of at least two members of the RCC Board and requires a decision by consensus minus one of the RCC Board. It becomes effective subject to a written procedure among SEECF Participating States.
17. In case of incapacity or dismissal of the Secretary General, the RCC Board can take decisions necessary to ensure the functioning of the RCC Secretariat, including the appointment of an acting Secretary General until a formal decision on the succession is taken in accordance with article 14.
18. The Secretary General is responsible to the RCC Board for the appropriate use of funds made available to the budget of the RCC Secretariat. The administration and financial management procedures governing the budget of the RCC Secretariat, including an independent audit, are outlined in a separate document, based on agreement of the RCC Board.
19. The Secretariat of the RCC is directed by the Secretary General and supports the RCC as well as the SEECF in fulfilling their tasks by working towards the preparation and implementation of decisions of the RCC Annual Meeting and Board as well as decisions of SEECF Summits and/or Ministerial meetings. The Secretariat provides technical, organizational and analytical support to the Secretary General, the RCC Annual Meeting and Board as well as operational support – if required – in preparing SEECF Ministerial meetings and Summits. It provides a co-ordination framework for regional co-operation activities within SEE and acts as an information and focal point for such activities.
20. The Secretariat's staff, with the exception of the Secretary General, should be recruited on a competitive basis in accordance with the competencies required, while taking into account gender and geographical balance as appropriate. In addition, the Secretary General may accept staff secondments for specific assignments.
21. The Secretary General shall designate, in consultation with the members of the RCC Board, a deputy from among the senior staff of the Secretariat to act on his behalf as necessary.
22. The Secretariat is located in ... and the host country agrees to provide it with the necessary legal basis.
23. The RCC Secretariat shall establish a Liaison Office in Brussels with European and Euro-Atlantic institutions, providing support to the SEECF consistent with article 4.
24. The working language of RCC meetings as well as of the Secretariat is English.

#### **Relations Between the RCC and Individual Task Forces and Initiatives**

25. In order to pursue its goals in the specific priority areas, the RCC will monitor and where necessary facilitate the work of relevant regional co-operation taskforces and initiatives in SEE. In particular, the RCC will assist the taskforces/initiatives in gaining access to regional and international political, technical and financial support required to fulfil their objectives. Appropriate relationships will be established between the RCC and current and future individual taskforces/initiatives to ensure that their respective efforts are mutually reinforcing and avoid unnecessary overlap.

## Annex III

### Relevant European Commission Documents

#### **Enlargement Strategy and Main Challenges**

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/strategy\\_paper\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf)

#### **Candidate Countries' Progress Reports**

Croatia

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/croatia\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/croatia_progress_reports_en.pdf)

The Former Yugoslav Republic of Macedonia

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/fyrom\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/fyrom_progress_reports_en.pdf)

Turkey

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/turkey\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/turkey_progress_reports_en.pdf)

#### **Potential Candidates' Progress Reports**

Albania

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/albania\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/albania_progress_reports_en.pdf)

Bosnia and Herzegovina

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/bosnia\\_herzegovina\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/bosnia_herzegovina_progress_reports_en.pdf)

Montenegro

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/montenegro\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/montenegro_progress_reports_en.pdf)

Serbia

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/serbia\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/serbia_progress_reports_en.pdf)

Kosovo/UNMIK

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/kosovo\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/kosovo_progress_reports_en.pdf)

## Annex IV

### Stability Pact for South-Eastern Europe's Working Table II Task Forces Progress Report Digest (November 2006-November 2007)<sup>16</sup>

#### I. Overall objective, strategy and approach of Working Table II

The overall objective of Working Table II (WT II) is to promote economic reconstruction, development and cooperation in SEE as part of the Stability Pact's overall objective of contributing to the stabilization 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 modernizing infrastructure, particularly energy and transport, as well as through trade liberalization 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 Stability Pact activities and as highlighted in the Thessaloniki Agenda, the various initiatives under WT II complement the on-going EU processes – Accession, Stabilization 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.

#### II. 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).

##### A. Infrastructure

###### 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 institutionalized partnerships. A further objective is to prioritize capital investments in order to benefit from economies of scale and encourage all to utilize 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 coordination 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-East Europe Transport Observatory (SEETO)

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<sup>16</sup> The contents of this annex were prepared by the author of this report. Complete and detailed information can be found on [www.stabilitypact.org/wt2/default.asp](http://www.stabilitypact.org/wt2/default.asp).

and the Working Group on Functional Airspace Block Approach (under the European Common Aviation Agreement).

## **2. Activities and Achievements November 2006 to November 2007**

### **(a) International Financial Institution Advisory Group**

Following a review period prompted by concerns expressed by several members including the Stability Pact, 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 coordination among the International Financial Institutions (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 – and have held their first meetings. 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 Instrument for Pre-Accession programme for project preparation in different infrastructure sectors are fully utilized.

#### *Transition strategy – IFI Advisory Group*

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

#### *Challenges – 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 coordinated 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 coordinated approach. While IFIs may compete for certain projects, the overall improvement of the policy environment for infrastructure will benefit all.

The inclusion of Turkey in 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. Cooperation and collaboration with the regional coordination bodies such as the Energy Community Treaty Secretariat, the South-East Europe Transport Observatory and the Regional Environment Centre is vital to ensure that the work being undertaken and the assistance being provided to all of these bodies is fully utilized.

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

## (b) Energy

This initiative illustrates a successful regional cooperation 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 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. 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 Stability Pact also participates in the Electricity and Gas forums created under this Treaty. The Stability Pact 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 organized by 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 organization 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 organized by the EU-World Bank 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, renewals and energy efficiency and the programmes of the IFIAG members in the region. DG Enlargement and the Stability Pact 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 Stability Pact activities into the RCC is concerned, given the geo-political and economic importance of energy supplies for SEE, it is envisaged that the RCC will assume the Stability Pact'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 Stability Pact, are lagging behind schedule and the situation may worsen if delays in sourcing equipment materialize 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 interconnection 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 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 troubleshooter 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.

### **(c) Transport**

The various bodies within the South East Europe Transport Observatory (SEETO) have continued to refine the Multi-Annual Plan 2008-2012 for the Development of the South East Europe Core Regional Transport Network. The Steering Committee 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 Steering Committee 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 Multi-Annual Plan 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.

### *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 prioritization process for transport infrastructure projects. Since SEETO reports to the IFI Advisory Group (the successor of the Infrastructure Steering Group) through the Transport Working Group, the future RCC will be able to both monitor its progress and encourage closer cooperation 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 IFIAG Working Group on Transport could achieve synchronized restructuring and modernization 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 policymakers to create a Railway Transport Area are similar to those behind the decision of SEE Governments to set up the Energy Community: the urgent need for investment and modernization 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.

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 donor's group meeting at the margins of the SEETO Steering Committee (with a view to providing technical assistance) may be of benefit.

## Regional Infrastructure – Other

### (d) Single Sky for South Eastern Europe – Functional Air Space Blocks

The signing of the European Common Aviation Area (ECAA) 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 Europe Functional Airspace Block Approach (SEE-FABA), co-chaired by the European Commission and the Stability Pact.

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 but also regarding air safety, National Supervisory Authority cooperation, licensing military flights and other Air Traffic Management 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 cooperation, 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:

- International Civil Aviation Organization 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
- new membership of Montenegro
- participation of the SEE-FABA States in the Single European Sky Committee alongside EU Member States.

Progress under SEE-FABA 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, 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 Air Traffic Management 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 Stability Pact'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, Central European Air Traffic System, BUL-ROM), the possibility of creating an informal coordination 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 European Common Aviation Area Agreement and promoting consensus on how to overcome some of the difficulties faced.

### **(e) Danube Development**

Since 2002, the Stability Pact has tried to increase cooperation 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 Stability Pact has focused its efforts on the Danube Cooperation Process (DCP) and has also supported a series of technical meetings on specific Danube infrastructure issues and participated in relevant meetings and workshops.

In 2007, the Stability Pact focused on trying to generate support for better co-ordination within and among the six areas (dimensions) addressed by the DCP. The Stability Pact along with the EC, Austria and Romania is a founding member of this Process which seeks to encourage cooperation in the fields of navigation, the environment, economic development, tourism, culture and subregional cooperation. The Process is led by the Ministries of Foreign Affairs of the member states and a large number of organizations 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 coordination and effectiveness within the DCP”. At the subsequent Senior Officials Meeting in June, the Stability Pact was asked to elaborate further on this proposal and a report is due to be circulated by the end of 2007. During 2007, the Stability Pact assisted SECI and Transport Infrastructure Needs Assessment (TINA) Vienna to organize 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 organizations participate in these meetings to share information and to try to advance projects.

### *Transition strategy – Danube Development*

The DCP should remain the forum for cooperation among all riparian states. While detailed technical work will cease, the RCC will retain the Stability Pact’s seat on the Danube Cooperation 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 Stability Pact’s call for enhanced coordination in the Process is to try to promote the visibility of the DCP and

ensure progress in cooperation by securing agreement on a number of specific projects in each dimension that can act as demonstration projects for wider cooperation 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.

## **B. Trade and Investment**

### **1. Overall Objective**

The overall objective is to foster a business climate conducive to investment, trade and employment through enhancing regional cooperation 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 Coordinator, Deputy Special Coordinator, the Chair and the Director of the Working Table in fostering political consensus and participating in high profile promotional activities.

### **2. Activities and Achievements November 2006 to November 2007**

#### **(a) Trade Liberalization**

##### *Single Free Trade Agreement for SEE – CEFTA 2006*

Following intensive negotiations during 2006, the enlarged and modernized Central European Free 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 Coordinator 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 characterized 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 coordination, 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 Trade Working Group for its final year of operation.

The Stability Pact 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 cooperation and non-tariff barriers. UNECE participated in the Stability Pact Working Group on Trade Liberalization and Facilitation from its inception, and in the elaboration of the CEFTA 2006 agreement, notably on the issues of trade facilitation and non-tariff barriers. There is a future potential of developing that work in the areas of trade facilitation, e-business, data harmonization and the Single Window concept.

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, Moldova, Montenegro, The former Yugoslav Republic of Macedonia 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 Stability Pact in cooperation with the Friedrich Ebert Foundation organized 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 Stability Pact 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 the United States Agency for International development (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 organize a regional workshop in July in Belgrade on the rules of origin to be applied under CEFTA. Stability Pact 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 Liberalization*

The entry into force of CEFTA 2006 signalled the formal transfer of responsibility for regional trade relations from the Stability Pact 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 Instrument for Pre-Accession Agreement 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 finalization of the legal issues (e.g. headquarters agreement with 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 cooperation and this is equally reflected in the SEE Investment Committee's strategy.

### *Remaining challenges - Trade Liberalization*

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 ensure cooperation and coordination with the donors active in this field.

### **(b) Investment Facilitation**

During 2007 the OECD-led Investment Compact 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, and 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 programme, (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 11 September 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 Stability Pact’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 Analyses in the SEE countries, learning from good international practices, and ensuring effective human capacity involvement in implementing Regulatory Impact Analyses, 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 those in the regulatory reform process were recognized as areas that need special attention and efforts will be made to cooperate further with the Parliamentary Cooperation 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 the Western Balkans (IIWB) programme based in Vienna embarked on a new project, Target Investment Promotion Activities in the Western Balkans (TIPA). The project which is funded under the EC’s CARDS programme aims to identify, prioritize 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 intraregionally 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 coordination 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 programmes 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 cooperation 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 cooperation to improve policy design. This cooperation may also help the RCC to address the cross cutting issues of anti-corruption, human capital development and parliamentary cooperation.

## (c) 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 Coordinator, WT II Director and representatives of the IC have ensured good coordination between the BAC, the other private sector oriented initiatives and the Stability Pact in general.

*Transition Strategy for the 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 in Thessaloniki that will provide a stronger institutional framework for the BAC and another trade-related initiative, SECIPRO (South-East European Cooperative Initiative PRO Committees), is a welcome development as it will facilitate better coordination 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. SECIPRO brings together National Trade and Transport Facilitation Committees created in the South-East European countries with assistance and expertise from UNECE and on the basis of UNECE Trade Facilitation Recommendation 4. It will be a positive development, if SECIPRO will work on the implementation of international (UNECE) standards for trade facilitation in the future.

### *Electronic South-East Europe*

The Stability Pact's electronic South East Europe (eSEE) Initiative has continued to support the region in promoting the development of the Information Society and in advancing their information and communication technology (ICT) agenda within the parameters of the broader EU information society programme.

eSEE members made progress in implementing the eSEE 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 2007 emphasized 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 will be that of a dedicated, non-profit, regional coordinating body which will support regional e-Governance programmes by matching specific needs and projects. The Centre is supported by several donors (UNDP, USAID, World Bank, INA Academy, and 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. UNECE's initiative on trade data harmonization and Single Window systems for export and import clearance in SEE fits into the prospective work plan of the e-Governance Centre,

as the Single Window provides an excellent opportunity to limit subjective decisions, increase transparency and eliminate corruption in Customs and other foreign trade control bodies.

To set the stage for the launch of the Centre, the Stability Pact in close cooperation with the USAID Regional Competitiveness Initiative jointly organized the first eSEE 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 United States, 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 the eSEE 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 the Stability Pact and in close cooperation with the Ministry of Communication and Transport of Bosnia and Herzegovina, UNDP in Bosnia and Herzegovina and the EC Delegation in Sarajevo.

Ministers of Telecommunication and Information Society from the initiative member Parties – Albania, Bosnia and Herzegovina, Croatia, Moldova, Montenegro, Romania, Serbia, Romania, The former Yugoslav Republic of Macedonia and UNMIK-Kosovo – adopted a new regional action plan: “eSEE 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. UNECE made a substantive contribution to the development of eSEE Agenda Plus, notably in the portion about e-business.

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

### *Transition strategy – eSEE*

The eSEE 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 eSEE Agenda plus and b-SEE Action Plan. The network of e-Envoys will be supported in their efforts by the UNDP managed eSEE Secretariat based in cooperation 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 aiming at increasing government efficiency and transparency and minimizing digital divide in SEE towards the EU and the rest of the world.

The e-LEAD programme (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 eSEE Initiative will seek to encourage the participation of the Initiative members in the EU Seventh Framework Programmes, 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 emphasize 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 cooperation with the BAC-led ICT Private Sector Forum.

### *Remaining challenges - eSEE*

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 eSEE Secretariat.

Increased political commitment and support is vital. eSEE 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 eSEE Agenda+ for Development of the 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 Information Society Technologies 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 coordination with all other regional initiatives related directly and indirectly to the ICT sector (parliamentary cooperation, human capital building, investment, trade).

## **C. Social Cohesion**

### **1. Overall Objective**

Recognizing 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 organizations, 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 Stability Pact initiatives, such as energy, trade and investment, and building human capital.

### **2. Activities and Achievements November 2006 to November 2007**

#### **(a) 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 of Bosnia and Herzegovina was completed in the first half of 2007. The WT II ISC staff coordinated 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 Country Reviews and the peer-reviews were presented and discussed at the sixth meeting of the Permanent High Level Committee on Employment which took place in Montenegro on 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 Permanent High Level Committee on Employment since the start of the Bucharest Process in late 2003 and set the cooperation 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 policymaking 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 cooperative effort between the Stability Pact's ISC, the European Trade Union Confederation, International Organization of Employers, International Labour Organization and World Health Organization, and it brought together the various networks of regional experts (employment, health, trade unions and employers) on an issue of shared interest.

#### **(b) Social Dialogue**

In the social dialogue field, a three-year strategy for handing over ownership of the cooperation within and between the trade union and employers' networks was finalized and approved by the donor (the Government of Switzerland). The European Trade Union Confederation and International Organization of Employers will gradually reduce their coordination 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.

#### **(c) Health**

The SEE Health Network (SEEHN) has continued to supervise the activities of the regional public health projects, and to serve as the regional cooperation 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 and World Health Organization Regional Office for 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 (January-June 2007) and Croatia (July-December 2007). The Bulgarian presidency of SEEHN organized 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:

- Draft Memorandum of Understanding on “Future of South-Eastern Europe Health Network in the framework of the South-Eastern Europe Regional Cooperation Process (2008 and beyond)”
- Declaration of Ministers of Health of the South-Eastern Europe Health Network on Long-Term Programme for Regional Collaboration and Development in Mental Health

- 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.

The draft Memorandum of Understanding 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 seventeenth 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 is still perceived as a costly process whose benefits are only visible in the long term. In addition, an important part of the EU *acquis communautaire* pertains to social policy matters, such as employment, social dialogue, occupational safety and health and public health, which must be transposed into national law in parallel with 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 Memorandum of Understanding 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 realization of its original mandate, which was marked by the third Ministerial Conference on Employment and Social Policy in South Eastern Europe. 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 Permanent High Level Committee on Employment and the implementation of the Montenegro Conclusions (Ministerial Declaration on Employment). With the official start of the RCC early in 2008, a smooth handover will be needed in order to ensure 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).

## **D. Housing and Urban Management**

### **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 South Eastern Europe 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, Stability Pact/HUMI facilitates a Vienna Declaration peer review process and the development of a regional capacity support programme. In the light of Stability Pact transition to the RCC, both processes are to be continued under the leadership of the United Nations Human Settlements Programme, UN-HABITAT, as of 2008.

## 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 cooperation 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 the Council of Europe Development Bank, European Investment Bank, 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 Legalization Law (related to unauthorized 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 Stability Pact/UN-HABITAT 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 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, Stability Pact/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 regularization 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 cooperation in sustainable urban development, Stability Pact/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 the Seventh Framework Programme (FP7) of the European Commission. The Coordination 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 that the University of Architecture, Civil Engineering and Geodesy of Sofia would coordinate the preparation and submission of the joint research project proposal (with Stability Pact/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 Cooperation Council and as announced at the fourteenth Working Table Meeting in Bucharest, the regional cooperation 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.

### *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 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 Stability Pact/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 finalizing the recruitment of a 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 cooperation 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 cooperation can only be enabled through continuous FP7 support.

## **III. FINAL REMARKS**

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 per cent – 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 Memorandum of Understanding on Social Aspects of the Energy Community Treaty and the agreement on further action in employment policy.

However, for many initiatives, the role of the Stability Pact 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 Stability Pact'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 organizations and bilateral governments have contributed enormously to the different initiatives through political, technical and financial support. The level and degree of cooperation has evolved over the lifetime of the Stability Pact as many organizations 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 cooperation 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\$ one billion Adaptable Program Lending fund for projects complying with the Energy Community Treaty and the Western Balkan Initiative of the European Bank for Reconstruction and Development 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 Stability Pact in general and by the Athens Process in energy, the Secretariat of the Stability Pact 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.

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