



Office for South East Europe
European Commission/World Bank



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Developing Regional Infrastructure

Strategic Approach and Implementation of Projects

Note Prepared by the Secretariat of the Infrastructure
Steering Group

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The Regional Strategic Approach

At the second Regional Conference in Bucharest, in October 2001, it was reaffirmed that regional infrastructure projects shall *'contribute and be part of a strategic approach to develop infrastructure networks of regional importance.'*

Following the publication of the World Bank's Regional Strategy Paper¹ (March 2000) and taking stock of the initial comprehensive assessment made by the EIB ("Basic Infrastructure investments in SEE, Regional Project Review", Regional Funding Conference March 2000) lead agencies elaborated during 2001 on an extensive set of sector focused regional strategies:

- The European Commission finalized a strategy paper on "Transport and Energy infrastructure in South-East Europe";
- The EBRD finalized the water strategy. Its key features are that projects should support decentralization, cost recovery and the polluter pays principle and the promotion of integrated approach to the Balkans that surpasses political and administrative boundaries;
- The EIB finalized the Air Traffic Infrastructure Regional Study (ATIRS) on air traffic control facilities, as well as airport infrastructure in South East Europe.

These strategies form the overall framework of an ongoing process to promote regional cooperation among the countries of the region, facilitate coordination between donors and allow adequate prioritization of the regional infrastructure investments in South-East Europe.²

⇒ *Developments of the regional strategic approach since 2001*

The strategies are being further developed by various initiatives. The challenge, beyond the design of strategic networks and project identification and prioritisation, is to involve the countries of the region in effective regional co-ordination of infrastructure development, institutional strengthening, mid- to long-term sector policies, and intensive sector and market reforms.

◆ *Transport sector*

A **Transport Infrastructure Regional Study (TIRS)** was completed in June 2002. Funded by Agence Française de Développement (AFD), it was placed under the guidance of the Council of European ministers of Transports (ECMT), the EC and the EIB. The final report offers a first comprehensive panorama of transport issues (road, rail, maritime and inland waterways) in

¹ The Road to Stability and Prosperity in South Eastern Europe – A Regional Strategy Paper (World Bank, March 2000)

² *These documents and any other relevant document in this respect can be found at :*
<http://www.seecon.org/isg/index.html>

South-East Europe and elaborates on the long-term development of a basic strategic multi-modal Core network, including on institutional and sector reform issues, nature of investment (rehabilitation versus new investments), maintenance issues.

The **Regional Balkans infrastructure Study (REBIS) – Transports** has been conceived as a continuation and deepening of TIRS. It has started operations on 1st July 2002 for 12 months. It deals with the connections among the five Stabilisation and Association Process countries and to the European Union, based on the Core Network.

In the context of the study, particular attention has been given to the development of appropriate cooperation structures to ensure an effective and sustained implementation of the strategic Core network. A High Level Meeting, bringing together representatives of the countries and the members of the Infrastructure Steering Group was hosted by the EIB in Luxembourg to discuss these issues in February 2003. It was followed by a technical meeting held in Skopje in May. A follow-up High Level meeting will be hosted by the EBRD in London at the end of June 2003 and will provide an opportunity to:

- present the final REBIS report;
- discuss and agree on organizational issues related to implementation of the Core network and its sustainability;
- work towards establishing a political endorsement of the process.

A **Transport Projects Preparation Facility** will start during the second half of 2003 with the aim of preparing feasibility studies for investments in transport infrastructures as resulting from the REBIS transport project.

The initiative **Aviation Safety and Air Traffic Control (sponsored by the European Commission)** aims at strengthening Civil Aviation authorities and Air Traffic Service providers in the region, thus complementing investment on airports and air navigation systems. The first component is concerned with the enforcement of aviation safety initiatives, whereas the second deals with the harmonisation of Air Traffic Control systems in line with the “Single European Sky” policy. In April 2003, the European Commission and Eurocontrol, in partnership with the JAA (Joint Aviation Association), signed a grant agreement for the first phase which will identify priority projects.

◆ *Energy Sector*

The European Commission actively co-ordinates a strategy to develop a Regional Electricity Market in South-East Europe, with the support of the Stability Pact and with the full involvement of concerned donors. A Memorandum of Understanding on creating a Regional Electricity Market in South East Europe and its integration into the Internal Electricity Market by 2005 was signed at a ministerial meeting in Athens on 15th November 2002. A Strategy Paper listing all measures to be taken in that regard was approved at this occasion.

The Athens Memorandum set up the following organs, collectively called the ‘Athens Process’:

- A Ministerial meeting to give political guidance to the Athens Process, which meets at least once a year; and,
- A Permanent High Level Group (PHLG) takes executive decisions on work programs and implementation strategies. The PHLG provides in particular the forum for a peer-review mechanism and benchmarking reporting.

The Athens Process aims at creating the conditions of a functioning electricity market in SEE. It establishes a comprehensive mid to long term regional plan that combines institutional and structural reform, development of regulatory and market rules, as well as strategic planning for infrastructure investments based on supply/demand analysis from a regional perspective. It will have positive short term impact through enhanced confidence of public and private investors in the region, and is the only sustainable option for economies of the size of the SEE countries.

The Athens Process also aggregates all initiatives by a variety of international donors as the World Bank, the EBRD, USAID/SECI, CIDA with SEETEC, KfW, Edf, the Italian and the Czech Government. A Regional Electricity Market study launched by the European Commission, in close cooperation with the World Bank, will support the process , covering regulatory issues for the Regional Electricity Market and long term needs in power generation.

In the future, the approach will need to be further developed and also integrate other key issues of the energy sector such as the oil and gas networks, the security of supplies, the energy efficiency and savings, and renewable energies in line with the Kyoto protocol.

◆ *Environment*

The **Regional Environmental Reconstruction Programme (REReP)**, although not primarily dealing with infrastructures, is assisted by the Regional Environment Center (REC), and serves as an adequate mechanism for regional co-operation and for donor co-ordination along its four priority components: institution building; environmental civil society; environmental regional co-operation mechanisms and cross border projects; reducing environmental health threats.

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Implementation of Regional Infrastructure Projects – Status as of May 2003

The attached tables provide an overview of the ongoing regional infrastructure projects which are being monitored by the Infrastructure Steering Group (ISG). The current list comprises some 51 projects, with a total cost of €3.82 billion (see attachment)¹. **These 51 projects have financing secured or under preparation with the involvement of bilateral donors or international financial institutions, and were selected according to the agreed criteria of: technical, economical and environmental feasibility; submission by two or more countries of the region; and a marked regional character.**

The breakdown of the **51 projects totaling €3.82 bn** is as follows:

Albania = €402.04 mn, **BiH** = €347.50 mn, **Bulgaria** = €650.00 mn, **Croatia** = €445.14 mn, **fYR Macedonia** = €170.40 mn, **Romania** = €857.94 mn, **Serbia and Montenegro** €682.05 mn, **Kosovo (Serbia and Montenegro)** = €55.82 mn, **Moldova** = €36.70 mn, **Regional Projects** = €168.88 mn.

The selection of projects by the Infrastructure Steering Group is an ongoing process. There may be projects currently on the list which do not materialize and others which will appear on the list at a later date. Inclusion of new projects on the list will reflect progress made in securing financing for infrastructure projects promoting regional objectives in the transport, energy and environmental sector and meeting the agreed criteria of technical, economical and environmental feasibility.

A **breakdown by sector** (see attachment) shows that the most heavily invested sector is **transport** (particularly road infrastructure) which represents 67% of the overall cost, equivalent to some €2.56 billion, and spread between 35 different projects. The **energy** sector comes second, with a cost of €0.77 billion (20%) for five electricity projects, and the **water and environment** sector comes last with five projects and a total cost of €0.33 billion (9%). A further 4 % of the projects are **cross-border** or trade facilitation projects for a total cost of euro €0.15 billion or 6 projects.

According to latest reporting by lead agencies, **substantial progress has been made in getting projects started**. The number of projects expected to have started by the end of June 2003 has more than doubled compared to December 2001 and amounts to 33 projects or €2.75 billion of investments (72% of the total financing). A further 7 projects are expected to start before the end of 2003.

Lead agencies have also submitted 6 new regional infrastructure projects with a total cost of approximately €320 million, covering the road, water and air transport, energy and water sectors. These will be considered for inclusion in the list of regional infrastructure projects at the next meeting of the ISG.

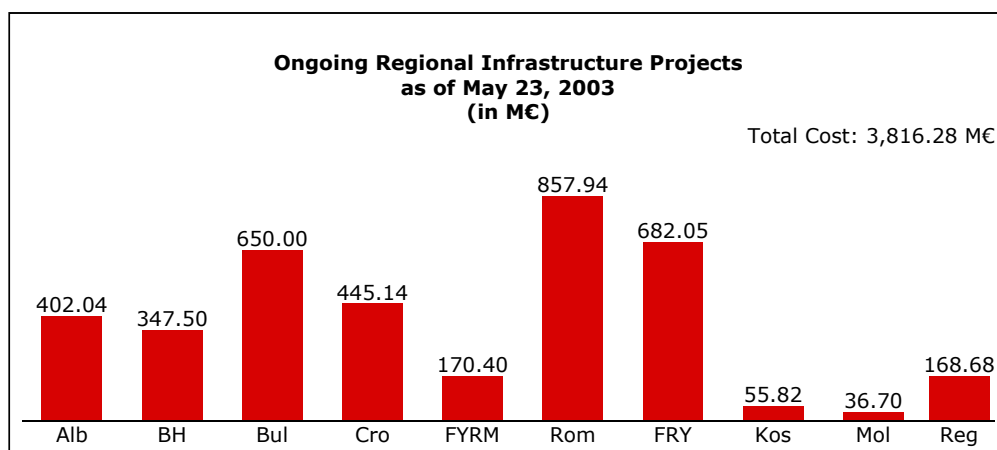
¹ The list of projects has mainly been established by merging and consolidating the list of Quick Start infrastructure projects agreed at the Regional Funding Conference held in Brussels in March 2000 in support of the Stability Pact, and the list of regional infrastructure projects presented by the Chairman of the Infrastructure Steering Group at the second Regional Conference held in Bucharest in October 2001. Following the ISG meeting of November 21, 2002 five new projects were included on the list (Project numbers: 411014, 413003, 514001, 714009, 721004)

Infrastructure Steering Group

Project Summary by Country

Projects implemented in:	Ongoing Regional Infrastructure Projects as of May 23, 2003		
	No. of Projects	Cost (M€)	(%)
Albania	9	402.04	10.53%
Bosnia and Herzegovina	4	347.50	9.11%
Bulgaria	5	650.00	17.03%
Croatia	6	445.14	11.66%
FYR Macedonia	6	170.40	4.47%
Romania	6	857.94	22.48%
FR Yugoslavia	6	682.05	17.87%
Kosovo	1	55.82	1.46%
Moldova	2	36.70	0.96%
Region	6	168.68	4.42%
Total	51	3,816.28	100.00%

1 Euro = 1.0748 USD (EC Budget Execution Rate for February 2003)



Infrastructure Steering Group

Project Summary by Sector

Sector:	Ongoing Regional Infrastructure Projects as of May 23, 2003		
	No. of Projects	Cost (M€)	(%)
Transport	35	2,561.60	67.12%
Roads	24	1,603.40	42.01%
Railways	4	442.00	11.58%
Ports and Waterways	3	110.00	2.88%
Airports	4	406.20	10.64%
Energy	5	773.00	20.26%
Electricity	5	773.00	20.26%
Gas, Oil and District Heating	0	0.00	0.00%
Water and Environment	5	330.54	8.66%
Water Supply	0	0.00	0.00%
Water Waste	4	230.14	6.03%
River Basin Management	0	0.00	0.00%
Environment	1	100.40	2.63%
Cross Border/Trade Facilitation	6	151.14	3.96%
Total	51	3,816.28	100.00%

1 Euro = 1.0748 USD (EC Budget Execution Rate for February 2003)

