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**REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

European Agency for Reconstruction

Annual Report 2001

According to Article 4.14 of Council Regulation (EC) 2667/2000 (as amended by Council Regulation 2415/2001)

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PREFACE

The European Agency for Reconstruction is responsible for the management of the main EU assistance programmes in the Federal Republic of Yugoslavia (the Republic of Serbia, Kosovo, and the Republic of Montenegro) and the former Yugoslav Republic of Macedonia.

On 10th December 2001 the Council decided that the mandate of the Agency should be extended to the former Yugoslav Republic of Macedonia (fYROM). On 28th December 2001, the European Commission formally conferred on the Agency the management responsibility for the fYROM 2001 Emergency Assistance Programme as of 1st January 2002, with responsibility for other programmes (past, present and future) to follow on 1st March 2002.

The Agency was established in February 2000 and has its headquarters in Greece at Thessaloniki, and operational centres in Pristina, Belgrade, Podgorica and Skopje. An independent agency of the European Union, it is accountable to the European Council and the European Parliament, and overseen by a Governing Board composed of the European Commission and representatives from the 15 EU Member States.

The total sum of EU funds newly delegated to the Agency for management in 2001 amounted to some €525 million. At the year-end, the Agency oversaw a total portfolio of some €1.2 billion across its operational centres in Belgrade, Pristina and Podgorica.

Agency-managed programmes have three main objectives. These are: (i) to carry out immediate physical and economic reconstruction (rehabilitation and repair of key infrastructure and public utilities, such as energy, housing, water, transport); (ii) to lay the foundation for the development of a market-oriented economy and to foster private enterprise (support to enterprise development, agriculture, health); and (iii) to support the establishment of democracy, human rights and the rule of law (strengthening of local administration, NGOs, the media and the judiciary).

The Agency plays its part within a wider European Union commitment to the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia. This - in turn - is part of the EU's process of 'Stabilisation and Association' with the five countries in South Eastern Europe, also including Albania, Bosnia & Herzegovina and Croatia. Other EU assistance includes macro-financial, humanitarian, democratisation, customs and fiscal planning aid, as well as support for educational exchange programmes. It also includes the bilateral contributions made by EU Member States.

1. OVERVIEW

In 2001, the EC-funded programmes managed by the European Agency for Reconstruction - across three operational centres in the Republic of Serbia, Kosovo and the Republic of Montenegro - continued to focus on three main areas of activity.

In physical and economic reconstruction (accounting for some 60% of funds newly delegated to the Agency in 2001, as against 76% in 2000) ... it continued to meet the most fundamental of needs of citizens in the realms of energy and water supply, housing and transport. This task is far from over, and substantial funding will continue to be allocated to it.

In laying the foundation for the development of a market-oriented economy and fostering private enterprise (accounting for some 25% of new funds in 2001, as against 19% in 2000) it continued to support enterprise development (largely through assistance to the banking sector and to the growth of small and medium-sized enterprises, for which it also disburses small loans), as well supporting agriculture and rural communities, and better delivery through national and regional health systems.

In supporting the establishment of democracy, human rights and the rule of law (accounting for some 15% of new funds in 2001, as against 5% in 2000) it continued to provide training and vision for local administrations, while nurturing NGOs, the media and the judiciary.

The Agency is therefore seeing a gradual shift away from its first main area of activity, towards the second and the third. This reflects the fact that, above and beyond the task of reconstructing physical infrastructure, the Agency has been entrusted with the additional - harder, more complex - task of helping to reconstruct societies and economies. This involves work which is of necessity long-term and sustainable, as well as being less quantifiable, in that it embraces the 'reconstruction' needed within communities themselves, within frameworks for a business environment, within a free press, within a functioning administration and public institutions.

The Agency was originally set up with an emphasis on speed of delivery. It continues to disburse the funds for which it is responsible – in effect, it continues to deliver on EU promises – to great effect. At the end of 2001, 85% of the EU funds under its management were contracted, and 66% paid out.

However, its ultimate success must be measured by the impact of its programmes on the ground, and by the improvements they bring to human lives. In this respect, the Agency's work and its impact in 2001 do not stand alone: they must be seen in the political, social and economic context of the region in which it operates, and in the perspective of a massive EU and international commitment in the Federal Republic of Yugoslavia. Equally, however, the Agency's work and impact do stand alone, when reviewed against their original objectives.

In the Republic of Serbia, the Agency helped to stabilise an emergency situation, ensuring a sufficiency of electricity and fuel oil, basic foodstuffs and essential medical supplies, while carrying out small-scale infrastructural projects in towns and schools across all municipalities. In the new 2001 programme it consolidated its work in the energy sector – not by importing electricity, but by rehabilitating Serbia's home grown energy capacity – while continuing to supply essential drugs and healthcare equipment. It imported agricultural seed and fertiliser to

help revitalise the rural economy, it provided credits to galvanise the small business sector, and it launched smaller programmes to promote a free press, and to support civil and environmental regeneration specifically in Southern Serbia.

In Kosovo, the Agency continued to meet the most basic needs of physical rehabilitation: in works on the main power plants and the coal mines feeding them; in rebuilding damaged houses, roads and bridges; in ensuring reliable water supply and waste disposal. At the same time, it successfully disbursed loans for small and medium-sized businesses and for small-scale farmers, and boosted productivity in the rural economy through the provision of basic agricultural inputs. Its projects also paid particular attention to bequeathing longer-term best practice in Kosovo, by giving technical assistance and building institutional capacity. Smaller projects were launched to encourage a free and professional press, and to support small NGO initiatives – particularly for women and for minorities of all descriptions.

In the Republic of Montenegro, the Agency accelerated key improvements in basic infrastructure – buildings roads, bridges, and schools. Increasingly, it gave more impetus to the reform of central and local administration.

Many of the Agency's actions to date can be quantitatively measured. Increasingly, however, its actions are more difficult to quantify, in that the results are less visible. The effects of its longer-term actions – in promoting good governance and building institutions, in creating the conditions for a stable and flourishing market economy, and in developing a civil society – need time to take root. The Agency designs programmes for recipients' long-term benefit, fully realising that the road to recovery and reform is long and winding. The process requires patience, and will be marked by gains, which are painstakingly won.

Agency-managed programmes will continue to play a key role, as the EU sees through its commitment to reintegrate stable and prosperous partners from South Eastern Europe into the European family of nations.

The year 2001 also combined rapid change with fundamental constancy for the European Agency for Reconstruction.

Change ...

... in that the sum of the EU funds for which it was given management responsibility trebled, while it established two new operational centres and also doubled the size of its staff.

Constancy ...

... in that it continued to keep its administrative costs to a minimum, while adhering to standard EU tendering procedures to maintain the speed of its delivery.

As December drew to a close, the need to combine the two elements became even more pronounced, following a Council Decision to extend the Agency's mandate to cover the former Yugoslav Republic of Macedonia (fYROM). The European Commission then asked the Agency (which had assisted it in implementing emergency programmes since September 2001) to assume full management responsibility for the 2001 Emergency Assistance Programmes in fYROM as from January 2002, with the other main EU assistance programmes in fYROM (past, present, future) to follow in March 2002.

2001 was also a year in which the Agency combined its degree of independence with its clearly defined EU framework.

Independence ...

... in that it has the freedom to prepare, launch, contract, manage and evaluate its own tenders, and to recruit its own staff.

Framework ...

... in that it follows standard EU tendering guidelines and avoids simplified or accelerated procedures;

... in that - within EU structures - its activities fall within the European Commission's strategic framework, are closely monitored by the European Court of Auditors, and are regularly reported to the European Parliament and the European Council of Ministers;

... in that its activities stand firmly within the overall context of the European Union's process of deepening political and economic dialogue with the countries of South Eastern Europe.

This EU strategic context is of paramount importance. Its broadest manifestation is the Stabilisation and Association Process, now launched with five countries in the region, which is designed to promote integration with EU norms and structures, and ultimately to provide the perspective of membership of the European Union itself. Its more specific manifestation lies in medium-term Country Strategy Papers and Multi-Annual Indicative Programmes developed by the European Commission, which provide the strategic framework for the delivery of the CARDS (Community Assistance, Reconstruction, Development and Stabilisation) Programme for the five countries in South Eastern Europe over the period 2002-2006.

The European Union has made an open commitment to the region, and continues to offer assistance in a multitude of ways, and through a multitude of channels. Within this context, the Agency manages the body of its assistance programmes for the Federal Republic of Yugoslavia and, as from 2002, also for the former Yugoslav Republic of Macedonia.

2. HIGHLIGHTS

FRY – the Republic of Serbia

- Despite severe winter weather, the energy programme (spare parts, works, and electricity imports) has had a noticeably positive effect in meeting demand and reducing blackouts. Many other inputs (fertiliser, locally produced and sold drugs) have been procured and distributed. There is a strong demand for medium-term credit by SMEs.
- The 2000 Emergency Assistance Programme, which the Agency took over in January 2001, has been completed, with 94% of funds disbursed at the year-end. It has successfully stabilised an emergency situation, with actions in the fields of energy, health, food and local infrastructure
- The 2001 Programme is under rapid implementation. At the year-end, 92% of the first tranche (€143.5 million) had been contracted, and 51% disbursed. More than 30% of the second tranche of €50.3 million, made available in November, had also been contracted.

FRY – Kosovo

- While continuing with major physical rehabilitation works in Kosovo's power stations, coal mines and public utilities, and with the reconstruction of housing and main roads, the 2001 programme had a much increased emphasis on institutional capacity-building measures across most of its sectors. The provision of credit lines is supporting general economic development, including that of the agriculture and enterprise sectors. Other measures are being implemented to support the rule of law and civil society. Funding was also provided to support the November 2001 general election for Kosovo's new Assembly.
- Although Kosovo has made substantial progress in the period since the 1999 conflict, major challenges remain - including the need to rehabilitate further the existing infrastructure (in particular in the energy and transport sectors), deal with critical environmental issues, support trade and private sector development, reform the training, education and health delivery systems, and strengthen civil society and governance.
- The 2001 programme funding reached €315 million, following the commitment of an additional €44.5 million in October 2001. Of the €695 million committed in Kosovo since 1998, 85% had been contracted and 66% paid out by 31 December 2001.

FRY – the Republic of Montenegro

- On 8th January 2001 the Agency assumed management responsibility for the main EU-funded assistance programmes in Montenegro. The Agency's office, based in Podgorica, was established in March 2001 and has been fully staffed and operational since June.
- The bulk of the 2001 programme, worth some €13.3 million, was agreed in October. A further €3 million was agreed in December.

- In 2001, the Agency concentrated on contracting some €19 million out of €24 million of funds inherited from the 1999 and 2000 programmes. At the year-end, 97% of the 1999 projects had been contracted, and 77% paid. For the 2000 programme, 72% had been contracted.

FRY- the Republic of Macedonia, fYROM

- From September 2001, the Agency assisted the European Commission in the preparation and management of an Emergency Assistance Programme for fYROM. The programme has two main aims: the reconstruction of areas affected by the conflict in the first half of the year; and support to confidence-building measures to bolster the implementation of the Framework Agreement of August 2001.
- In December 2001 the Agency was formally asked to assume management responsibility for the main EU assistance programmes in fYROM. At 1st January 2002, the Agency then took over full responsibility for the management of the Emergency Assistance Programme, and established an operational centre in Skopje.

Programming

- During 2001 the Agency prepared programme proposals in several instalments. Within the framework of the FRY Country Strategy Paper and Multi-Annual Indicative Programme, it also developed draft 2002 Annual Programmes for discussion in the Governing Board in January 2002.
- The evaluation team carried out nine interim evaluations during the year, with its recommendations for project improvement being incorporated.

Finance

- Of the €1.15 billion managed by the Agency, as at the end of 2001 some 85% had been contracted and 66% disbursed.
- Using standard EU tender procedures, the Agency awarded €0.5 billion of new contracts in 2001, of which 87% were awarded through open tenders and grants, and 13% through simplified procedures.
- In 2001, the Agency contracted more funds than were newly allocated to it, (excluding the funds allocated to Kosovo at the very end of the year). The average time taken by the Agency to make a payment, after receipt of an invoice, was 17 days.
- The Agency's running costs for its first two years of activity (2000, 2001) amount to €25.9 million, i.e. 2.4% of the total of the years' final budgets.
- In November 2001, the European Court of Auditors published a favourable report on the Agency's 2000 financial accounts, and on the impact of its programmes in Kosovo.

General services

- At 31st December 2001 the Agency employed 97 international and 144 local staff, at its headquarters in Thessaloniki and its three operational centres in Belgrade, Pristina and Podgorica.
- The Agency began to set up a new operational centre in Skopje.
- The Agency's Governing Board met four times in the year, and continued to play an important strategic role in debating specific financing proposals for Serbia, Kosovo and Montenegro, as well as a variety of programme-related and administrative issues.

3. OPERATIONS: THE FEDERAL REPUBLIC OF YUGOSLAVIA – THE REPUBLIC OF SERBIA

3.1. Overall position

On January 8, 2001 the European Agency for Reconstruction assumed management responsibility for the 1998, 1999 and 2000 EU assistance programmes in Serbia, which were previously being implemented by the European Commission in Brussels, and its Delegation in Belgrade. In particular, the €180 million 2000 Emergency Assistance Programme has proved to be a crucial factor in helping to stabilise an emergency situation. (This emergency programme was prepared and substantially contracted by the Commission during October/November 2000, with the help of staff from the Agency in Kosovo.)

The practical benefits of the 2000 emergency programme were widely felt across Serbia. The impact was felt, for instance, through heating oil for some 1,000 schools, hospitals and district heating systems in municipalities covering some 80% of the population; through electricity imports which prevented major power cuts; through the supply of essential drugs (e.g. insulin) and food commodities (sugar, cooking oil).

For Serbia, the break-up of the former Yugoslavia and the ensuing armed conflicts and economic mismanagement of the 1990s resulted in hyperinflation and a ruined economy. Established markets were lost, and traditional production and trade relations disrupted. The international community imposed sanctions, and critical infrastructure was either badly maintained or destroyed. By 2000 GDP had dropped to about 40% of its 1990 level.

By early January 2001, the new Federal and Serbian authorities had moved quickly upon taking office. They focussed their efforts on three main areas: (i) stabilising the economy; (ii) meeting the urgent needs of the most vulnerable parts of the population, and (iii) re-integration within the international community.

Good progress was made in all areas. The new FRY/Serbia governments are implementing comprehensive structural reforms in order quickly to introduce a market economy. For example, they have introduced significant tax reforms, privatised a number of enterprises, begun to restructure the banking sector, while increasing electricity, district heating and other public utility tariffs. Encouraged by the breadth of the governments' commitment, the June 2001 donors' conference held in Brussels resulted in pledges of assistance of some €1.5 billion. A successful and necessary Paris Club debt rescheduling, with 66% of debt written off, was subsequently agreed in November 2001.

Within a fragile macro-economic environment, Serbia is pursuing a bold economic reform programme. It is anxious to avoid becoming dependent on foreign assistance. Given the enormous weight of the past, Serbia will continue to require significant support from the international community if it is to succeed.

Whereas the 2000 programme had focused largely on providing emergency assistance (heating oil, electricity imports, basic food staples, etc.), the 2001 assistance programme for Serbia represented the first step away from an emergency programme toward longer-term development assistance. Serbia is emerging from a long period of economic decline compounded by conflict and international isolation, and significant support from international institutions and the EC is needed to support the transition to a fully-fledged market economy and democracy. The EC's programme took into account the need to provide support in key

sectors of fundamental economic and social importance, in particular with a view to strengthening institutional development and creating the basis for long-term investments and for the development of civil society.

The EC's 2001 assistance programme helped to stabilise the economy and society by (i) supporting the rehabilitation efforts in the energy sector, (ii) providing critical inputs for the agricultural and health sectors to revitalise production activities, (iii) providing credit to help the banking and enterprise sectors, and (iv) providing technical assistance to begin to undertake critical reforms in the productive sectors and to begin the process of rapprochement towards European structures.

An assistance envelope of some €171 million is forecast for implementation by the Agency in 2002. This will largely concentrate on the sectors of institution building (e.g. public administration, justice, European integration), economic reconstruction (energy, transport, and agriculture), civil society (NGOs, media), and integrated border management.

See two key tables in Annex A1

- EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Serbia, at 31/12/2001 – by sector
- EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Serbia, at 31/12/2001 – by amounts committed, contracted, paid

See also Evaluation, section 6.3

3.2. Implementation of 2001 Programmes

Energy (€107.7 million)

The first tranche of funds for the 2001 Energy programme, totalling €80 million, was made available at the beginning of May 2001. The immediate objective of the programme was to stabilise and secure the domestic electric power supply before the winter 2001/2002. The aim was to bridge the gap until such time as major investments from international financial institutions become available, so as to rehabilitate the system fully. The programme includes activities in the electric power generation system, the transmission network and the coalmines sector.

In the electric power generation sector, the programmes have targeted four main units where the investment will secure improved reliability of 1,250 MW of capacity and extend remaining lifetime. Works in these four units commenced in September 2001 for the overhaul, maintenance and repair. About 50% of the works were completed at the end of 2001 and three units are now operational for the winter. Further work will continue until April 2002. The fourth unit is scheduled to be fully operational before the middle of 2002.

In December 2001 works started on the rehabilitation of transmission overhead lines for domestic supply, and on import connection. They will continue into 2002.

About 260 contracts have been placed for the supply of spare parts, tools and equipment to enable the most urgent repairs and overdue maintenance of the remaining 5,800 MW hydropower and thermal power plant, as well as substations and transformers. Deliveries on site commenced in August 2001, and will continue into 2002.

The support being given to the coalmines covers the two main open cast coalmines that feed the coal-fired power stations in Serbia. The programme includes the purchase of major equipment for overburden removal and coal production, as well as replacement of essential parts for the mines operations that failed, such as mobile cranes, excavators, etc. Deliveries commenced in August 2001 and will continue until February 2002.

In recognition of the importance of the energy sector in Serbia, further funding for €12.7 million was made available in November 2001 to enhance the impact of the ongoing rehabilitation and maintenance programme by supplying additional urgent equipment. The tenders for procurement were published before the end of 2001.

In addition, in light of the scheduled overhauls and associated shut downs associated with the initial 2001 programme, further funding of electricity imports was provided for €15 million. Imports started in December 2001 and will last until the end of winter 2002.

More strategic medium-term sector reform programmes were also introduced following extensive consultation with the Ministry of Energy and the Serbian energy utility, EPS. Feasibility studies have been launched for the establishment of a Serbian Energy Efficiency Agency and for an Energy Regulatory Agency. Recommendations are expected in early 2002. A cost cutting and management study requested by EPS will also be ready by spring 2002. In addition, a study of the coal sector has been commissioned by the Agency and will be ready by early 2002.

Enterprise development (€16 million)

The first €10 million tranche for the enterprise assistance programme had two components: (i) technical assistance and training to the Ministry of Economy and Privatisation for SME policy development; and the establishment of regional SME business advisory service centres including one Euro Info Correspondence Centre (EICC) for about €5 million; and (ii) a credit line (€5 million) to foster SME investment and expansion and re-establish sound local commercial banking activities. The regional business support centres as well as an EICC will become operational in the first half of 2002. Demand by SMEs for credit is stronger than anticipated. As at the end of December 2001, a total of €3.5 million in loans had been approved. As a consequence, an additional €5 million was added to the SME credit line in the second 2001 tranche.

Finally, given the longer-term imperatives related to market reform and enterprise restructuring, technical assistance (approximately €1 million) will be provided for the first stages of financial and corporate restructuring for three socially-owned enterprises (a producer of trucks employing about 2,900 people; a producer of tractors and agricultural equipment employing 3,600 people; and a producer of harvesters and maize-pickers which currently employs 2,500 people). The tender to appoint the technical assistance team was launched in November, after second tranche Board approval. The team is expected to be deployed in early March 2002.

Agriculture (€20 million)

In the 2001 agriculture programme, the Agency took a two-pronged approach: providing key inputs (fertiliser and animal feed) to help regenerate agriculture production while beginning to lay the foundations for harmonisation with EU standards and norms for food products.

Deliveries of fertiliser (NPK) began at the end of August and were completed by the beginning of October. Animal feed imports began soon after and deliveries were completed by the end of October. The last component, Urea, will be delivered during January 2002, in time for top dressing of crops. All inputs are sold or exchanged in kind at market prices and receipts are placed into a specific counterpart fund.

A service contract was signed in December 2001 to assist Serbia in developing agricultural policy reforms, an overall strategy and a sector master plan. This contract also contains a component for harmonisation with EU standards and norms for agricultural and food products. The expert team begins work in January 2002.

Health (€31.5 million)

The first tranche provided €26.5 million to improve the availability of essential drugs throughout Serbia and introduce related sector reforms, such as establishing treatment protocols and the rationalisation and restructuring of the pharmaceutical industry. Deliveries of drugs began, as scheduled, in November and expert teams began their work in October (protocols) and November (pharmaceuticals).

An additional €5 million of funding was approved in the second tranche of 2001. It will improve the quality of some basic services in hospitals and health centres by rehabilitating and supplying priority equipment.

Integrated border management (€5 million)

Given the importance of the Trans-European road network and the need to help Serbia re-integrate physically with the rest of the region, high priority is placed on improving the facilities and management on the FRY side of the Horgos border crossing with Hungary (on the Pan-European Transport Corridor 10). The project will facilitate the passage of people and goods, whilst improving sound and secure border clearance procedures. The Agency's Board approved this project in November 2001. Tenders will be launched in mid-February 2002 and the project should be completed by the end of 2003. Funding from this project is from CARDS regional funds.

Media (€2 million)

The 2000 programme in support of the independent media continues, with two additional activities funded in November 2001. The first component provides small grants and training to independent media in order to ensure their medium-term financial sustainability. The related implementation contract will be signed in early January 2002. The second component will fund a full management audit of the Serbia State Radio and Television Company (RTS) and is currently being tendered. A team is scheduled to be in the field by mid-February 2002.

Policy & legal advice centre (€5 million)

The policy and legal advice centre aims to provide advice in a consistent and accessible form to the FRY/Serbia governments on key macro-economic issues, e.g. transition to a market economy, regulatory framework, EU harmonisation of legislation, standards, norms and WTO accession. It is a small but important element to assist FRY/Serbia's rapprochement towards European and other international institutions (e.g. WTO).

Since the beginning of November 2001, a team of experts has been mobilised to assist relevant Federal and Republican authorities to develop strategies and identify key priorities.

Regional development in the Presevo Valley – Rapid employment and rehabilitation programme (€4 million)

In response to a tense political situation in Southern Serbia, this project was developed by the Agency in conjunction with UNDP. In early 2002 a UNDP team will be in place, which will implement the project for rapid employment of local people to undertake municipal and environmental improvements.

According to estimates, approximately 1,260 workers will be employed in four municipalities beginning in January/February 2002.

Technical Expertise Facility (€2.6 million)

This fund allows the Agency to proceed with project preparation and implementation in an efficient and effective manner. The funds authorised under this proposal are used to provide short-term technical expertise in highly specialised, punctual aspects of project design, implementation, feasibility studies, evaluation, etc.

3.3. Implementation of 2000 Programme

Energy (€103.7 million)

The “Energy for democracy” programme helped Serbia get through the winter of 2000/2001. Final deliveries were completed in April 2001 with the provision of a total of 144,000 tonnes of fuel and heating oil to power and district heating plants, public institutions in municipalities throughout the country. A contingency reserve of €900,000 from the 1999 programme was used for additional deliveries, which took place in November 2001.

Half of the total budget of the 2000 energy programme was allocated for electricity imports for the winter 2000/2001. EU-funded imports met 70% of total electricity imports. By the end of August 2001 all programme funds were fully disbursed. In this context it is important to note that electric heating devices are used widely by Serbian households due to the previously very low price of electricity.

Moreover, in order to ensure a sufficient supply of coal for the functioning thermal power generation plants, the programme also provided spare parts to improve coal production in Kolubara and Kostolac open cast mines. Deliveries began in February and were concluded by late November 2001.

Food (€26.7 million)

The emergency programme to provide sugar and cooking oil at an affordable price to Serbian consumers is completed.

In total, 15,000 tonnes of sugar and 15,000 tonnes of cooking oil were supplied to the local market. Deliveries to supermarket shelves started in February 2001 and were completed by the end of October. The counterpart fund income from the sale of sugar and oil amounted to €6 million by December 2001. A memorandum of understanding was signed with the Serbian Government in May 2001 specifying usage of the counterpart fund. It was agreed that all funds would be used for the import of farm inputs. By the end of 2001, a further 15,000 tonnes of maize and 10,000 tonnes of NPK had been imported.

Health (€20 million)

Amongst the most urgent needs were affordable medicines for acute medical conditions. In response, a programme was developed to supply emergency medicines, laboratory supplies and consumables (syringes, needles) which would otherwise have been seriously lacking. The project was finished in August 2001, and the programme is now closed. Distribution of drugs and medical supplies was completed by June 2001 to about 300 different health institutions, including State pharmacies, hospitals and health centres.

Further activities in support of the health sector are now continuing under the 2001 programme.

Media (€1 million)

During the Milosevic years, the independent media in Serbia was repressed. The European Union helped the opposition media for many years and - after the ousting Mr. Milosevic in the October 2000 elections - it decided to continue to provide this vital assistance. The programme included emergency support to independent media operators to cover their immediate requirements for equipment, technical assistance and operating costs, as well as the identification of long-term priorities. The programme continued through 2001 and will be completed by early spring 2002. One of the key activities was the development of a new legal framework for the media. The new draft law should be submitted to the Serbian Parliament in early 2002.

Schools and Towns for Democracy (€28.8 million)

The “Schools for Democracy” programme also began under the Milosevic regime. It was designed to cover repairs, renovations and essential equipment to schools, kindergartens and other educational institutions in 34 opposition-run municipalities. The “Towns for Democracy” programme developed later and extended funding to all 160 municipalities for municipal infrastructure such as repairs to water supplies, waste collection and disposal, public transport, etc. Under the first programme, all school renovation projects (136) were completed by September 2001. Funded activities under the second programme were largely (90%) completed at the end of 2001. All remaining activities will be finished by April 2002.

The second programme signed 157 grant contracts, which were implemented in 726 construction sites. In addition, contracts for €4.8 million were signed to supply furniture and equipment for schools as well as equipment for municipal waste disposal and collection. Deliveries of schools’ equipment were completed at the end of 2001. All other deliveries will finish in spring 2002.

3.4. Implementation of 1999 & 1998 programmes

Funds for the 1999 programme are largely contracted (98%), while about 79% have been disbursed. It provided assistance to the media, as well as for the Energy for Democracy programme. The 1998 programme, providing support to the media, is fully contracted and 74% disbursed.

4. OPERATIONS: THE FEDERAL REPUBLIC OF YUGOSLAVIA - KOSOVO

4.1. Overall position

On its establishment in February 2000, the Agency took over all the 1998 and 1999 funding commitments and programmes of the former European Commission Task Force for the Reconstruction of Kosovo. Initially, the Agency concentrated funds on four main sectors (energy, water, housing and transport), that continue to be essential to the reconstruction and rehabilitation process. While in 2001 the Agency continued to focus on a limited number of high priority sectors to ensure maximum impact with the resources available, EC funding to the sectors of good governance and civil society, enterprise, rural economy and health expanded, in response to the importance of these sectors to sustainable economic, institutional and social development in Kosovo.

In 2001, EC funding further advanced the rehabilitation of the energy sector through the successful overhaul of the two generating units in the main coal- fired power station, the delivery of essential equipment to the coal mines, the provision of expert technical assistance to the energy management body KEK, repairs to the Pristina district heating system and the emergency import of electricity.

The housing programme has assisted the reconstruction of over 15,600 houses since 1999, including some 3,600 with 2001 funding. EC funds also supported UNMIK in the resolution of property claims.

The local government and civil society sector focused on strengthening government institutions, support to the justice sector, the funding of civil society initiatives, building up management capacity at the Kosovo radio and television network, and supporting the successful November 2001 general election for the new Kosovo Assembly.

By the end of 2001, the EC had funded the rehabilitation of 330 km of main roads, including 150 km funded in 2001, and repairs to a number of bridges.

In the agriculture sector, loans have been provided to agro-enterprises, while the import of seeds and fertiliser has enabled farmers to access these commodities at affordable prices and thereby increase yields by 30% above the 2000 crop levels.

Enterprise development activities have focused on support to small and medium enterprises (SMEs) and large socially owned enterprises (SOEs). To date, EC revolving credit funds have provided nearly 900 loans, totalling over €8.5 million, to SMEs while loans with a total value of €2.1 million were provided to SOEs in the industrial sector. Activities also included institutional support to the Department of Trade and Industry, the formation of an SME Advisory Council, the establishment of a Euro Info Correspondence Centre, and the opening of three regional enterprise agencies.

The Agency completed work on 14 municipal dumpsites, started work on two new sanitary landfill sites, initiated institutional support to the waste sector, delivered 38 waste collection trucks, and supported public information campaigns. All of these actions are essential to improve solid waste and water management services.

EC funds assisted in the further rehabilitation of health care systems, including assistance to the Department of Health and Social Welfare, the training of middle and senior health service management, and support to the pharmaceutical and blood transfusion services.

As a result of the crisis in the first half of 2001 in fYROM, and associated problems with importing goods across the fYROM border, there were some delays in Agency programme implementation in Kosovo, particularly in agriculture and housing. However, good progress in the second half of the year ensured that the overall impact on the Kosovo programme was minimised.

The Agency continues to examine key cross-cutting issues, particularly those of gender, ethnic minorities and poverty alleviation. Social impact assessments and studies have been carried out to determine the level of access and participation of the overall population - and of the more socially vulnerable - to the Agency's programmes. Study recommendations are being used in designing strategies for targeting areas of social vulnerability and exclusion.

An assistance envelope of some €134.5 million is forecast for implementation by the Agency in 2002. This will include support to the provisional institutions for self-government, support for energy and other public utilities, and support for economic development, transport, housing, vocational training, justice and civil society.

See two key tables in Annex A2

- EC funds delegated to the European Agency for Reconstruction for implementation in Kosovo, at 31/12/2001 – by sector
- EC funds delegated to the European Agency for Reconstruction for implementation in Kosovo, at 31/12/2001 – by amounts committed, contracted, paid

See also Evaluation, section 6.3

4.2. Implementation of 2001 programmes

Energy (€132.8 million)

The €48 million overhaul of one of the two generating units at the Kosovo B coal fired power station was completed, with the B1 unit being restarted in early October. The €20 million second phase overhaul of unit B2 was also completed, and the unit was restarted in September.

The contract with the consortium of engineers providing technical assistance to the energy sector and Kosovo's energy management body (KEK) was extended for a further three months to cover the period to April 2002. This will allow time for a proposed new management support contract to be tendered, and for a handover period.

For the coal mines, which provide the fuel for the power stations, contracts relating to specialist equipment, spare parts and safety inspections have been awarded with a total value of €6.3 million.

A €3 million contract to provide an information technology and computerised accounting system for the electricity management body, KEK, has been signed and project implementation began in late 2001.

Making use of extra funding committed in October 2001, a €6 million tender for three new power transformers has been prepared. A tender for mobile equipment and machinery for KEK's principal maintenance workshop is being prepared for launch in early 2002.

The tender for the €2.5 million high voltage metering project, which will significantly improve the ability to measure the cross boundary/border exchange of energy, is expected to be launched in early 2002.

A grant agreement for €20.3 million for the emergency import of energy during the first three months of 2001 was completed with UNMIK.

Agriculture (€28 million)

Agricultural processing and marketing credit (€10 million)

The Agro-Business Development Unit (ABU) was founded by the Agency to provide a dedicated credit line for the restructuring and commercialisation of Kosovo's Socially Owned Enterprises (SOEs) engaged in agro-processing and to support private businesses in this sector. Operational since May 2001, ABU had by the end of 2001 extended half of its loan capital to two wineries, a dairy farmers association, a vegetable oil mill, an enterprise exporting dried mushrooms and medicinal herbs to the EU, and a dairy.

Seed import programme and seed regulatory services (€6 million)

The Agency's seed import programme for 2,000 MT of high quality hybrid maize, hybrid sunflower and seed potatoes yielded positive results at harvest, with field surveys suggesting that average yields of these crops are 30% above 2000 crop levels. The complementary EC fertiliser import programme - and good rains - further assisted yields. The impact extends to ethnic minority areas where seed had been distributed on a grant basis in response to the restricted access that these populations had to fairly priced seed. With 90% of the imported seed sold at affordable price levels to farmers through agricultural traders, proceeds from the sale have been channelled to the Rural Micro-Credit scheme for rural communities and to the ABU for on-lending.

The contract for a seed regulatory services' project (€0.9 million) was signed in September to assist the Transitional Department of Agriculture, Forestry and Rural Development in the development of an enabling regulatory framework for seed production and trade in Kosovo, thereby laying the foundation for both the resumption of domestic production of seeds and the import of proven quality seed appropriate to Kosovo's agro-climatic conditions.

Irrigation sector rehabilitation (€12 million)

The programme, which commenced in March 2001, aims to:

- rehabilitate the irrigation water supply infrastructure covering 20,000 ha (or 40% of Kosovo's publicly administered irrigation schemes) to benefit 10,000 smallholders directly
- reform public irrigation water utilities.

It is expected that approximately half of the irrigation works will be completed prior to the commencement of the next irrigation season in May 2002, with final completion of the project scheduled by the end of the year.

Housing (€37.6 million)

The 2001 housing sector programme involves the reconstruction of some 3,630 conflict-damaged houses (80% of which had been completely destroyed) for vulnerable families. Around 3,100 houses were completed and 2,400 families (16,700 people) had moved into their homes by the end of 2001. About 6% of the assisted families are from an ethnic minority background, including families that have recently returned to Kosovo.

The Agency's NGO partners identified vulnerable families according to rigorous social selection criteria. Elected Village Reconstruction Committees, with a built-in 50:50 gender balance, assisted the NGOs and helped ensure transparency and local accountability in the selection process. Local municipality committees also assessed and then approved the selected families. The NGOs are working to support the 'self-help' inputs of beneficiary families to ensure the successful completion of this programme.

The final report for a feasibility study on a Kosovo Housing Loan Programme was completed and shared with EU Member State representatives on the Governing Board, with a view to considering a co-funded programme in 2002.

Since March 2001, a €2 million grant agreement is in place with UNCHS Habitat to support the UNMIK mandated Housing & Property Directorate (HPD), which deals with the resolution of residential property claims. The EC-funded Mitrovica regional office has registered over 2,100 claims made by Kosovo Albanians, Serbs and others. Following detailed interviews by staff of mixed ethnicity, over 250 claims have had legal proceedings initiated. The HPD is actively addressing the need for improvements in several operational areas, as jointly identified by the Agency and the HPD in a September review.

The cultural heritage project to rehabilitate five traditional stone *Kulla* houses in western Kosovo is underway. The project is to receive co-funding from Sida, and is being implemented in co-operation with the UNMIK Department of Culture and Kosovo's Institute for Preservation of Monuments. This project will be ongoing until July 2002.

Local government & civil society (€38.9 million)

The programme activities have been supporting the executive, the judiciary and civil society/media through:

- assisting, equipping and building the capacity of local government
- contributing to the fair and accessible administration of justice
- enhancing the participation of the civil society in the electoral and democratic process
- strengthening civil society and the independent media as key actors in the promotion of a democratic and a human rights culture.

Municipal technical advisors from the EU (€3 million)

As of the end of 2001, some 21 EU advisors were supporting the municipalities of Kosovo in a number of areas including general administration, reconstruction, property and finance.

Support to the establishment of the Auditor's General Office, and improvement of public financial management (€5 million)

A grant agreement is being negotiated with the UNMIK Central Fiscal Authority for (i) the implementation of a general audit of the 2001 Kosovo Consolidated Budget, (ii) the establishment of an Auditor's General Office, and (iii) a skills' audit of municipalities with regard to the devolution process from central to municipal level.

Municipal and Local Investment Fund (MLIF), Phase 2 (€3 million)

Following on the success of MLIF 1, a second phase is being implemented. Under a contract for technical assistance and a grant agreement signed with UNMIK, 34 small-scale infrastructure projects have been approved, 17 of which were completed. The second phase of the training for municipality technical staff, including minorities, is near completion.

Public buildings (€19 million)

Buildings targeted within this project include courts, prisons, municipal offices and university facilities. A total of 34 projects have been regrouped into 11 tenders, four of which have been contracted.

Support to the rule of law (€2.5 million)

Under the programme for legal aid, implemented through a grant agreement with the Kosovo Chamber of Advocates, 43 legal aid desks were in place and some 1,470 people had benefited from the programme by the end of 2001. A grant agreement was signed with the OSCE for training Bar Exam candidates (exam for entering the professions of judge, prosecutor and lawyer). The first training period, attended by 60 candidates, was completed. A new grant agreement is being finalised with UNMIK for the establishment of IT systems in the courts for case tracking and a legal database. In addition, an agreement is being finalised to support the Kosovo Judicial Institute, responsible for initial and continuous training of magistrates.

Civil society (€1 million)

Under a grant agreement signed in March 2001, a grant policy, a financial policy and procedures were established within the Kosovo Civil Society Foundation, a local NGO. Funds committed for grant making were channelled through this Civil Society Foundation to local NGOs focusing on areas including: minorities' rights, gender, culture, reconciliation and capacity building.

Support to Radio Television Kosovo (RTK) (€2.9 million)

A grant agreement was signed with the RTK in March. RTK is completing the transition from international to local management. A Management Board has been established and a Director General has been selected to assume the post from January 2002.

Support to provincial elections 2001 (€2.5 million)

A grant agreement was signed with the OSCE in October 2001 for support to the November general election for the new Kosovo Assembly. Activities were developed in the pre-election period with further actions planned for the post-election period in the areas of civic awareness, media capacity building, media coverage and empowerment of different groups within society to participate in the democratic process. The activities have a special focus on

vulnerable groups of the population (women, ethnic minorities, rural areas and physically disabled persons).

Transport (€18 million)

With 2001 funds, works were undertaken on 150 km of main roads connecting the south and west, and on the main access road to the boundary crossing with Serbia. The reconstruction of two more priority bridges is well underway and should be completed on schedule by March 2002.

Feasibility/technical studies have been completed for the rehabilitation of bridges on the main route from Pristina to the border with the FYROM. A final draft final report was submitted in December. Preparation of a 'master plan' for road maintenance in Kosovo has started and a final document is due to be issued by May 2002.

Technical assistance to the UNMIK Transitional Department of Transport and Communications is ongoing, including support to strengthen the civil aviation department, the financial auditing of Pristina airport, and the drafting of concession procedures for the operation of a bus service in Kosovo.

Drawing on the Sida railway management recommendations, a grant agreement was signed with UNMIK for support to the railways.

Water and solid waste management (€20 million)

The dumpsite upgrading/closure programme progressed well, with 14 sites completed and five others ongoing. Contracts have been signed for the construction of two regional landfill sites (up to five, which are to EC standards, are planned) and work is expected to start in early 2002.

A contract was signed for international waste experts and they started the implementation of an institutional support programme in July. EC funds supported a Kosovo-wide public awareness programme on household waste management that also commenced in July.

The contract for the refurbishment of the Pristina water pumping station was awarded in November, and work is due to start in early 2002.

A study for the rehabilitation of the ash-dumps at Obilic/Obiliq was completed, as was another study for the institutional development of water utilities.

Enterprise development (€20 million)

Achievements of the integrated interventions of the EC in the Small and Medium Enterprise (SME) sector included:

- institutional strengthening of the Department of Trade & Industry
- the formation of an independent SME Advisory Council to represent the sector to government
- the Euro Info Correspondence Centre was established in 2001 (within the Kosovo Chamber of Commerce) and is part of the wider EICC network supported by the EU, providing links to the SME sector in Europe

- the opening of three regional enterprise agencies to directly support new and growing enterprises with training and business advice.

The Industrial Development Programme, which deals exclusively with socially owned enterprises in the industrial sector, provided technical assistance and made two loan agreements (via ABU) for a total of €2.1 million.

To assist in the changeover to the Euro in Kosovo, the Central Bank (BPK) was supported through the financing of new money handling equipment and publicity materials.

Health (€14 million)

The Agency continued with implementation of the programme to further rehabilitate Kosovo's health care systems. Initiatives undertaken in 2001 included:

- a local Kosovo technical assistance team being contracted to assist the UNMIK Department of Health and Social Welfare. In addition, a training scheme was devised to enable the members of the team to become competent for potential employment in a future Ministry of Health.
- the initiation of procurement procedures for the purchase of essential medical and information technology equipment for Pristina University Hospital and the regional hospitals
- provision of EC support to a World Bank project to implement a social insurance system
- a baseline survey for a health information system was conducted and six pilot sites for training in health information technology are being established.

4.3. Implementation of 2000 programmes

Most of the 2000 programme funding has been contracted and the majority of projects are either completed or well underway. The remaining projects that made significant progress in 2001 include:

Energy (€122 million)

Of the €30 million allocated to the coal mines, including €20 million made available in late 2000 for additional interventions, 89% was contracted by the end of 2001.

A second tender for a €10 million contract for new electricity substations is under preparation for launch in early 2002. The first tender was cancelled following the failure of offers to meet the Agency's technical specifications.

A €3.5 million contract was signed for the refurbishment of the district heating system in Pristina – while urgent repairs commenced in October, the main works will be undertaken from spring 2002 onwards, with commissioning expected to be completed in 2002.

A grant agreement, signed with UNMIK, for €28 million for the emergency import of energy during the winter 2000/2001 season was completed.

Agriculture (€10 million)

In early 2001, the Agency delivered 17,500 MT of urea fertiliser for the top-dressing of wheat and other field crops. EC funding had already supported the 2000 winter planting season with the distribution of 20,000 MT of imported NPK fertiliser. Some 10% of the total fertiliser imports were distributed free of charge to vulnerable families, including ethnic minorities. Approximately 90% was auctioned or sold at discounted prices to local dealers of agricultural inputs on a credit basis to ensure affordable prices for the farmer end users. Of the amount sold, 75% of the funds have been recovered to date and have been re-utilised to finance both the import in 2001 of approximately 9,000 MT of NPK fertiliser through the Agro-Business Development Unit (ABU), and the Rural Micro-Credit scheme.

Housing (€59.9 million)

The programme for the reconstruction of some 8,440 houses (56% of which had been completely destroyed) for vulnerable families is in the final phase, with finishing works on some 300 houses being the responsibility of beneficiary 'self-help' labour contributions.

Transport (€15 million)

In 2001, the reconstruction work on two key bridges (Vranido and Milosevo) was completed. Improvements were undertaken at the Blace border crossing to FYROM and enlargements to the main access road on the Kosovo side and the truck parking area were completed. The tender for the connection road to FYROM and enhanced custom facilities will be contracted as soon as an official request is received from UNMIK (expected in early 2002).

Water & solid waste management (€14.6 million)

Having started in late 2000, the €10 million programme for the rehabilitation of water supply and sanitation systems in the urban areas of all 11 targeted municipalities progressed well, with contracts completed for chlorination equipment installation and projects ongoing for pipe-laying in Pristina. All projects have been prioritised and agreed upon by the local authorities. A contract was awarded for mechanical and electrical improvements in reservoirs and pumping stations, and a tender was launched for the supply and installation of water meters throughout Kosovo.

Access roads to a number of municipal waste disposal sites have been improved, and basic equipment has been delivered to these sites. In November, 38 waste collection trucks were received and are being distributed to municipalities. Also, 2700 industrial-size waste bins (1.1 m³ 'Eurobins') have been received and distributed to municipalities. Nine weighbridges and 16 offices have been installed at municipal dumpsites, and protective clothing has been provided to the waste utility workforce. In addition, nine hospital incinerators have been constructed, and several heavy landfill machinery items have been repaired.

Enterprise development (€15 million)

As regards the supply of credits to the market economy, 846 loans with a total value of approximately €5.8 million were dispersed to small sized enterprises through the joint EU / World Bank European Financing Fund via the Micro Enterprise Bank. In addition, 20 loans with a total value of €2.6 million were provided via the EC funded Interim Credit Unit. There have been no defaults on the loans and independent audits of the funds have given clean reports.

The €3.5 million provided under a grant agreement with UNMIK for an environmental clean-up of the Trepca mining complex has been disbursed.

Health (€10 million)

A €4 million contract was implemented for capital investment and a credit loan for the distribution and retailing of pharmaceuticals. Support to the pharmaceutical sector has resulted in a substantial decrease in drug prices (approximately 50% compared to the average cost in 2000). The Kosovo Pharmaceutical Cooperative received further support to ensure the reliable distribution of essential drugs.

To build a safe and central blood transfusion service, the Agency has provided equipment valued at €0.5 million to the blood bank at Pristina University. A new software programme for the blood transfusion service is due to be installed in January 2002.

Initiatives undertaken as part of the Agency's health sector capacity building programme, included:

- the creation of an EC-funded centre for health management at the University of Pristina
- the completion of the first year of training for general practitioners
- the initiation of mid-level management training for 250 nurses
- the development of ten medical specialist groups, which partially completed new curricula for their respective fields
- preparations for the MSc course in health services' management, which entered the last preparatory phase. The course is scheduled to commence in January 2002. Funded by the EC, it is a joint venture by the Faculties of Medicine and Economics at Pristina University

4.4. Implementation of 1998 & 1999 programmes

Projects funded in 1998/1999 are mostly either well underway or completed. Those projects that made significant progress in 2001 include:

Telecommunications (€8 million)

Contracted work for the restoration of the transit and subscribers' exchange (land-line telephony) was completed. The tender for completion of the local loop network covering northern Pristina has been published and works are expected to begin in spring 2002.

Local government: Municipal & Local Investment Fund, MLIF Phase 1 (€8 million)

The original 69 local infrastructure projects, covered by a Grant Agreement with UNMIK, have now been completed. An additional 14 projects are being funded from savings made in the MLIF Technical Assistance component and in the Enterprise Development programme. The technical training component for control and supervision of works for municipality staff has been concluded.

Village Employment & Rehabilitation Programme, VERP (€7.5 million)

This programme, in which basic village level infrastructure improvements identified by community leaders in collaboration with the municipal authorities were carried out by local people, has been successfully completed. UNDP was the Agency's implementing partner.

Kosovo Protection Corps, KPC (€5 million)

The objective of this 1999 project is to support UNMIK and KFOR in the establishment of the Kosovo Protection Corps (KPC) as a civil emergency organisation. EC funds enabled the KPC to be provided with a range of vehicles, tools and fire-fighting equipment, including specialised equipment and clothing for demining activities. Final equipment deliveries are anticipated to take place in the period up to early 2002.

Demining (€6 million)

The final contracts - for €3 million - have been signed with three NGOs, for work focusing on demining training for the KPC.

Agriculture/rural economy: Rural Micro-Credit Scheme (€1 million)

An extension of this successful project is being financed from proceeds of the EC's agricultural commodity inputs import programme. A total of eight Savings and Credit Associations (SCAs) have been created in two municipalities, serving some 1,800 members. Some 1,400 loans worth €1.6 million have been extended with a repayment rate of over 99%.

Health (€0.5 million)

Following the cancellation of remaining works for the €1 million 1999 project for rehabilitation of the hospital in North Mitrovica, approximately €0.5 million was re-allocated to create a Department of Family Medicine at the University of Pristina.

The Kosovo-wide Clean-up Campaign (€0.9 million)

A fleet of waste collection vehicles assisted local waste collection services around Kosovo in a one-off clean-up of a large number of waste piles accumulated over the last five years. Equipment purchased for the clean-up was handed over to the waste management utilities at the end of the campaign.

5. OPERATIONS: THE FEDERAL REPUBLIC OF YUGOSLAVIA - THE REPUBLIC OF MONTENEGRO

5.1 Overall position

On 8th January 2001, the Agency assumed management responsibility for the 1998, 1999 and 2000 programmes in Montenegro which were previously being managed by the European Commission. The 1998 programme amounted to €5 million, the 1999 programme to €23 million, and the 2000 programme to €19 million. However from the 1998 programme €1 million was de-committed in the agriculture sector (import of cattle), due to the BSE and FMD crises in Europe.

The break-up of the former Yugoslavia, the ensuing armed conflicts and economic mismanagement resulted in hyperinflation and a ruined economy. Established markets were lost, traditional production relations were disrupted and the international community imposed sanctions. Montenegro suffered a further severe economic set back as a result of the Kosovo crisis in 1999. GDP dropped by a further 10% in 1999 alone to 58% of the 1990 level. Today, the macro-economic environment remains fragile. In 2001 inflation in Montenegro reached 21.8%, despite the use of the DEM. There has been some recovery in output following the end of the Kosovo conflict. The official rate of real growth in 2001 is estimated to be 3.5%, but this will in all likelihood be exceeded. Nevertheless it is still estimated to be just about half of the 1990 level.

Faced with this difficult situation, the government adopted ambitious plans, including cutting expenditure on a range of budget items, liberalising the prices of some key staples, better targeting of social benefits, accelerating restructuring and privatisation, and freezing the minimum wage. In this regard, a budget for 2002, consistent with FRY's IMF agreement, was proposed by the Government and adopted by the Parliament. A World Bank debt consolidation loan has been approved for the FRY (thereby applying to Montenegro), opening the way for agreed structural adjustment financing. A comprehensive enterprise restructuring and labour initiative was designed and adopted by the Government. Finally, a series of legal and other measures have been implemented aiming to improve the overall business environment.

In the context of the above situation, the Agency agreed with the Government a programme for 2001 that targets the sectors of municipal development, transport, institution building and vocational & educational training.

Municipal development: the Government is committed to a reform programme including increased decentralisation of revenue, expenditure and management functions to local government. The programme provides funds to four selected municipalities for technical assistance to enhance their management capacity and in small-scale investments in local infrastructure.

Transport: due to years of under-investment, only limited crisis maintenance has been undertaken on the road network serving southern Montenegro which has strategic importance in terms of tourism and access to the port of Bar. Journey times are excessive due to inadequate provision of safe overtaking sections, and basic safety provision is sub-standard. The programme targets these deficiencies in order to improve the movement of goods and people both within Montenegro and the wider region, thereby encouraging economic activity,

facilitating cross border exchanges and attracting trade and foreign investment. Technical assistance is also being provided to the relevant line Ministry.

Institution-building (statistics): in order to support the development of a system for gathering and analysing statistics which are an essential tool in a market economy and functioning democracy, technical assistance and equipment will be provided to the Statistics Office of the Republic of Montenegro. The expected effects and results will be to have aggregate data at FRY level.

Institution-building (public sector capital expenditure): there is an urgent need to improve the management of public sector capital expenditure within the Government's medium-term budget strategy. The programme provides technical assistance, including training, in this sector to different line Ministries.

Vocational & educational training: current training systems for youths and adults are not adequate to support economic restructuring and the development of a market economy in Montenegro. The programme will modernise these systems in two key sectors that have the greatest immediate potential to further economic development in Montenegro (tourism and wood processing) and will ensure a well-skilled supply of labour, enhancing the quality of services and sector competitiveness.

An assistance envelope of some €11.5 million is forecast for implementation by the Agency in 2002. This will concentrate on the sectors of public administration, energy, environment, transport and enterprise restructuring.

See two key tables in Annex A3

- EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Montenegro, at 31/12/2001 – by sector
- EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Montenegro, at 31/12/2001 – by amounts committed, contracted, paid

See also Evaluation, section 6.3

5.2 Implementation of 2001 programmes

The Financing Agreement for the 2001 programme, based on a budget of €13.3 million, was signed in October 2001. An additional allocation of €3 million was approved by the CARDS committee on 7 December 2001 and will be available by end of January. The overall Programme has been designed taking into account the need to avoid duplication of and ensure complementarity with activities from previous programmes (1999-2000) that are currently under implementation. A significant element of these previous programmes included interventions in critical areas such as enterprise development, education, agriculture, public finance, media and infrastructure. The 2001 programme is built around three basic elements:

Municipal development (€4.5 million)

Four municipalities have been selected: Podgorica, Mojkovac, Kolasin, and Bijelo Polje. Identification and needs assessment is presently ongoing. A restricted services tender procedure for the institution capacity building to the selected municipalities and monitoring of works implementation (€1 million) was launched in mid-December, with contract signature expected by the end of February 2002. Priority infrastructure works for the investment

component (€3.5 million) are in the process of being identified. Tendering and contracting will be ongoing during the first semester of 2002.

Transport (€9.0 million)

A restricted tender procedure for the institutional capacity building to the Ministry of Transport (€1 million) was launched in mid-December with contract signature expected by the end of February 2002. Of the five works tenders within the investment component (€8 million), four were launched by the end of December and contracts will be signed by mid March 2002. The tender for the remaining project will be launched in January 2002.

Institution building (€1.2 million)

The tender for Technical Assistance to the Statistical Office (€0.6 million) was launched mid-December in coordination with Eurostat. The short list for Technical Assistance for managing public sector expenditure is completed and the tender will be launched by end January 2002.

Vocational and educational training (€1.0 million)

The programme was approved on 7 December 2001 and the Procurement Notice for the institutional building component (€0.8 million) has been published. Tenders for the investment component (€0.2 million) will be launched early 2002.

A technical and administrative assistance facility (€0.6 million)

To provide short-term technical assistance in project preparation, tender evaluation, audits, etc. The facility has not yet been utilised.

5.3 Implementation of 2000 programmes

Infrastructure (€10.8 million)

The programme will contribute to the maintenance and improvement of the transport infrastructure. Individual projects include:

Rehabilitation of Podgorica-Airport road (€1.9 million)

Completed in February 2001.

Construction of the 'Union Bridge', Podgorica (€2.9 million)

The works contract for an amount of €4.2 million was signed in August 2001, and works are ongoing with completion scheduled for April 2003. The balance of funds will be provided by the Government of Montenegro and the Municipality of Podgorica.

Road rehabilitation: coastal road & Bar-Podgorica (€5.0 million)

Contracts for the four component construction projects have been signed and works are either ongoing or have been completed. All works are programmed to be completed by May 2002. Due to competitive tenders received, there remains a balance of €1.2 million which will (following discussions with the Ministry of Transport) finance the rehabilitation of a tunnel in the north of Montenegro.

Institution-building in key Ministries (€0.8 million)

A contract for technical assistance was signed in November 2001 to provide supervision of construction activities and technical support to the Ministry of Transport in the area of road management. The team is currently in Montenegro.

Education (€3.0 million)

The project comprises the construction of an elementary school within a deprived neighbourhood of Podgorica. The works contract was signed on 5th December 2001 and construction activities are ongoing. Due to favourable tender prices, a balance of €750,000 is available and will be used to fund the rehabilitation of additional schools. Tenders to be launched in January 2002.

Agriculture (€2.3 million)

The overall project objective is the modernisation of the milk dairy sector. A technical assistance and procurement team (€0.4 million) is currently supporting the Ministry of Agriculture with the importation of milk equipment to be distributed to selected dairy enterprises and farmers. A tender has been launched for the provision of milking equipment (€1.7 million), and the supply contract is expected to be signed in the first quarter of 2002. In consultation with the Ministry of Agriculture, technical specifications are finalized and the tender is launched. The equipment will be delivered as credit in kind. €0.2 million are set aside to monitor the programme.

Financial & fiscal reform (€2.9 million)

The programme includes support to the Ministry of Finance (€1.3 million) during the ongoing reorganisation of various departments. A service contract was signed in December to provide the following long term technical assistance:

Budget Office: Long-term technical assistance for recurrent and capital budgets, budget profiling, cash and non-cash budgets, programme budgets, performance targets.

Treasury: Long-term technical assistance for the expansion of the network, the updating of the legislative framework, the introduction of international standards for reporting, cash/debt management; asset management, training.

Internal audit: Long-term technical assistance for planning, risk assessment, systems review, internal control monitoring, and training staff in modern audit techniques and methodology.

Information technology: Long-term technical assistance for information & technology unit within the Ministry of Finance linked to the computerisation project and fully function Treasury system.

The programme also includes the supply and application of software, and the provision of IT equipment to the Ministry of Finance (€0.9 million). The contract was signed in December. Discussions are currently taking place with the Ministry of Finance to utilise the balance of the funds.

5.4 Implementation of 1998 & 1999 programmes

The **1999** budget is substantially contracted and disbursed.

Aid co-ordination unit (€0.8 million)

This ongoing project provides assistance to the Ministry of Finance (appointed National Aid Co-ordinator), in increasing its aid co-ordination and programming capacity at central level while preparing a multi-annual national strategic development programme. A replacement of the long-term expert will take effect early in 2002.

Reform of public administration (€1.2 million)

Three institution-building projects are ongoing: the provision of technical assistance to the Judicial Training Centre, in order to improve the effectiveness of the judiciary and the training of judicial officials; technical assistance support to the Institute of Public Administration, in order to design an overall action plan for preparing a new Civil Service legislation; and technical assistance to the Union of Municipalities (€180,000), in order to create a professionally managed and operational association able to strengthen the local government system. In addition a contract for the provision of IT equipment to the Ministry of Justice and several Montenegrin courts was signed in October and the delivery of the equipment is ongoing.

SME development (€4.2 million)

The project supports and encourages private sector development, in particular that of SMEs, by establishing a sound investment climate. A Financing Agreement has been signed to provide credit lines to selected commercial banks (€3.0 million), with KfW. With Germany bilateral funds technical assistance will be provided to the selected commercial banks. Further complementary technical assistance projects (approximately €1.2 million) include the establishment of a Euro Info Correspondence Centre (contract signed in December) and institutional strengthening of the newly established Agency for SME Development (ongoing Technical assistance to be completed April 2002).

Technical assistance facility (€0.8 million)

A macro economic advisor is currently providing assistance to the Prime Minister's Office. A Technical assistance team have been appointed to assist to undertake preliminary needs assessment for the Municipal Development Programme.

Budgetary support for IDPs (€13 million)

The project takes the form of budgetary support to the national budget of Montenegro, in order to alleviate the extraordinary financial burden related to provision of health and accommodation facilities to the influx of internally displaced persons (IDPs) from Kosovo during the 1999 conflict. The support programme expired on the 30 June. An audit of the project has been completed and a copy has been delivered to the beneficiary.

Energy supply (€2.5 million)

Budgetary assistance worth €2.2 million was provided to support EPIM (Electrical Power Industry of Montenegro) in the payment of electricity supplies. The maintenance of the final price charged to the households and enterprises, principally SMEs, has been completed. €0.2 million is being used to provide technical assistance to the Ministry of Economy.

Support to RTV Montenegro (€0.8 million)

The project will support the activities foreseen in the 'Action Plan for Change' adopted by the management of RTV CG. A direct agreement has been signed with BBC World Service Television to assist with the transformation of the Montenegrin State TV into an independent public service broadcaster. A BBC editorial consultant is currently in Montenegro working on the improvement of newsgathering and on the identification and implementation of appropriate training schemes for the editorial management. In collaboration with the Council of Europe, the Agency is currently financing a joint initiative to assist the Montenegrin authorities with the adaptation of its media-related legal framework to the relevant European standards.

The 1998 budget is fully contracted and substantially disbursed.

Agriculture (€1.0 million)

The overall project objective was to generate new employment and entrepreneurial opportunities in rural areas for selected target groups (unemployed, families giving support to refugees, farmers etc). Phase 1 of the project (delivery of just over 1000 pin-calf cattle) has been completed, and the cattle have been distributed to the beneficiaries as a credit-in-kind. However the collection of counterpart funds is not considered to be proceeding satisfactorily. An evaluation mission has addressed the issue of the fertility of the distributed cows and submitted its report. The second phase (delivery of a further 1000 cattle) has been cancelled due to the BSE and FMD outbreaks in Europe. The funds (€1.0 million) cannot be reallocated due to the expiry date of the commitment period.

Transport (€1 million)

The general objective of the project was to improve local transport facilities and support ambulance services. As a result 3 buses were delivered to the Podgorica Municipality and 12 ambulances were distributed to 11 Montenegrin municipalities. The project is completed.

Education (€0.5 million)

The Agency inherited a 1998 project from the European Commission, which has now been completed by the British Council. Curricula and teaching methods for elementary education in selected core subjects were revised and a plan for the pre-service, in-service and continuing professional training of teachers developed. The Ministry of Education also received assistance in the definition of a strategic plan for elementary education. The project is completed.

Technical assistance facility (€1 million)

Now completed, the project comprised the provision of expertise to the Ministry of Finance to assist with the reform process in areas of bank supervision and treasury issues. The project is completed.

Technical assistance to the Prime Minister's Office (€0.5 million)

An advisor was provided to the Prime Minister's Office within the framework of the political and economic reform programme. The project was completed in April 2001.

6. PROGRAMMING

6.1 Programming

In late 2000, the Agency's Governing Board had already approved initial 2001 programmes. In the early part of 2001, and as additional funding became available during the year, the Agency submitted the balance of its programme proposals for the consideration and approval of the Governing Board.

From mid-2001 onwards, the Agency engaged itself in preparing the ground for its 2002 Annual Programme proposals, so as to present the Serbia and Kosovo programmes to the Governing Board by January 2002, and the Montenegro programme by March 2002. The Agency kept in close contact with the Commission during the programming process, ensuring that the projects proposed were in compliance with the FRY Country Strategy Paper ('CSP') for the period 2002-2006, and its Multi-Annual Indicative Programme (MIP) for 2002-2004. The CSP and MIP, finalised by the Commission during the second half of 2001, now provide the framework within which the Agency prepares all of its Annual Programme proposals.

The FRY CSP identified a series of problems that need to be faced by Serbia, Montenegro and UN-administered Kosovo. These problems include the current lack of a functioning single economic space, institutional and political complexities inside the federation, inefficient public administration, weak judicial systems, and widespread poverty.

The CSP also pointed out other obstacles affecting the FRY's ability to take full advantage of the Stabilisation and Association Process, to its sustainable and equitable economic development, and to its being able to deal with critical environmental issues and support trade and private sector development. Meanwhile, in order to promote a truly democratic society and provide adequate social conditions for the population, further efforts need to be undertaken to reform the existing vocational education and training systems, health delivery and social welfare systems, as well as to strengthen civil society and the media.

While the CSP recognises that there are many sectors that could benefit from EC assistance, it also recognises that the EC must focus on a limited number of areas which have high priority and in which EC assistance can have significant impact if it is concentrated. In drafting the 2002 Annual Programme proposals, the Agency has continued to reflect this philosophy.

New programme proposals build on the substantial reconstruction and development assistance that has already been committed by the EC. The emphasis for 2002 has shifted towards support for institutional and general capacity-building in order to prepare the FRY for transition to a market economy and for approximation with the EU, in line with the Stabilisation and Association process. Kosovo continues to have many infrastructure-related needs, and this Annual Programme seeks to address some of these key requirements.

Design of new programmes has taken into account lessons learned in the course of implementing projects throughout 2001, including the findings of evaluations and social impact assessments. At all appropriate stages throughout the process of programme formulation, consultations have taken place with the federal and republic level authorities in the FRY, and also the UNMIK authorities in Kosovo.

EC assistance programmes for Serbia, Montenegro and Kosovo are designed to be complementary to each other, and to actions undertaken within the framework of the Commission's Regional Strategy for the period 2002-2006.

6.2 External co-ordination

The Agency has implemented its EC funded projects in close co-ordination with the relevant central and local governmental authorities in Serbia, Kosovo and Montenegro. Close consultation and co-ordination has also been maintained with EU Member States, and other international donors and agencies that are active in the various fields covered by EC programmes. The Agency participates in the donors' conferences jointly organised by the Commission and the World Bank to ensure international co-ordination of donors' activities. In particular, the Agency hosts regular co-ordination meetings with the EU Member State representatives based in its areas of operation. Further sector meetings take place on an ad-hoc basis with other countries (such as the USA) and on a more regular basis with the major IFIs, especially with regard to policy issues. Such co-ordination of programmes with governmental authorities and other donors continues to be critical if the FRY is to maximise the benefits it receives from the combined international assistance effort.

6.3 Evaluation

Approved Evaluation Guidelines, in line with general EU evaluation standards, set the framework for a pragmatic, systematic and participatory approach to internal evaluations within the Agency. Each project or programme is assessed according to its relevance, performance, efficiency, effectiveness, impact and sustainability in relation to overall aims and stated objectives. Each of the subsequent evaluations featured a preparatory / inception phase, an evaluation mission on-site, and sufficient time for reporting, briefing and debriefing. Each resulted in a document outlining the strengths and weaknesses identified during the mission, matched with a series of recommendations designed to remedy the latter or capitalise on the former.

Two joint review missions in the private development sector in Kosovo examined the Interim Credit Union project (with the World Bank) and the Micro-Enterprise Bank (with KFW). Due to the social character of micro-financing, the Agency's social impact assessor in Kosovo participated in this last mission. The ICU mission examined sub-loans approved and disbursed to date. While finding that the transfer of banking and credit expertise to local staff through formal training, mentoring and coaching had been successful, the mission stressed that the full success of the project could only be evaluated when a sustained repayments history of sub-loans became apparent. When the latter subsequently revealed a successful repayment rate, further funds were allocated to the ICU later in the year. Meanwhile the MEB mission concluded that the progress of the credit line, set against initial targets, was very satisfactory. It also carried out a household survey, detailing the socio-economic characteristics of the different target groups reached by the sub loans. It recommended the identification of further bankable projects for Kosovo Serbs, and for women.

The unit also examined the programme for cattle importation (and related employment generation) in Montenegro. The evaluation report indicates risks at hand in the revolving fund and makes recommendations for a speedy recovery of the project. The mission found that the project's effectiveness in achieving its main objective - that is, to increase employment and entrepreneurial activities - was low. It concluded that there are more effective means to increase employment and entrepreneurial activities than distributing in-calf heifers. It also found that the shortcomings in the implementation of the project resulted in a low impact for

an estimated 50% of the beneficiaries' welfare. The Unit, together with Agency staff in Podgorica, had a number of meetings at top level in the Ministry of Agriculture, where recommendations - particularly regarding the reallocation of cows to ensure the conditions in which they are kept - were discussed.

An evaluation of the EU municipal experts programme in Kosovo also took place, in order to answer questions regarding the continuation of the programme. It found strengths in the fact that local municipalities had had access to an important network of motivated and qualified candidates from the EU local governments, but weaknesses in complex contractual arrangements and a level of disconnection between the experts themselves and the temporary government structure. Recommendations to refocus the programme and review the delivery system were taken on board in the new 2002 Programme.

The Energy for Democracy Programme in Serbia was evaluated in October. The mission felt that the programme (evolving from a small 1999 programme to a substantial 2000 one) had been a marked success in its timing and implementation, and felt that its overall practical and political objectives had been achieved. A limited survey at the level of Municipalities, Central Heating Divisions and Power plants was organised, and findings about the heating situation for next winter in rural Serbia were relayed to management.

An ex-ante evaluation on support for a sustainable establishment of 'Montenegro Economic Trends - MONET' was completed in November.

For implementation in 2002, evaluations were also prepared for the Internally Displaced Persons programme for Montenegro, the Municipal and Local Investment Fund in Kosovo, and the Kosovo housing programme.

7. FINANCE

As at 31/12/2001, the Agency had been entrusted with the management of some €1.15 billion of EU assistance programmes. Some were already under implementation when the Agency took over their management responsibility, but the bulk of these programmes were initiated by the Agency.

The breakdown is as follows:

- €391 million Serbia
- €695 million for Kosovo
- €59 million for Montenegro.

By the end of 2001, 85% of this amount, (i.e. €1 billion) had been contracted, while 66% of it (i.e. €0.75 billion) had been disbursed.

During 2001 the Agency applied standard EU tender procedures in awarding €0.5 billion of new contracts. Of these:

- 87% were awarded through open tenders and grants
- 13% were awarded through simplified procedures.

Over the reporting period (2001), (disregarding the €45 million allocated for Kosovo at the very end of the year), the Agency contracted more funds than were newly allocated to it.

€ million	Serbia	Kosovo	Montenegro	Total
EU funds newly allocated in 2001				
- during the first ¾	144	271	0	415
- during the last ¼	50	45	13	108
Total	194	316	13	523
Contracts awarded by Agency in 2001	204	273	17	494

For assistance programmes, the Agency's staff prepared and awarded 814 contracts, and made 2570 payments.

The number of staff dealing with the financial aspects of these programmes during 2001 (in 'person/years') was:

- 5 international staff and 6.1 local staff for tendering and contracting
- 2.7 international staff and 6.2 local staff for payments and accountancy.

The average number of days taken to process an invoice within the Agency in 2001 was 17.

The running costs of the Agency for its first two years of activity (2000 and 2001) amount to €25.5 million, representing 2.3% of the total of the two final budgets for these years

Description	2000	2001	Total (€)
A - Gross operating costs	8,256,528.55	20,885,466.27	29,141,994.82
B - Operating revenues	679,987.09	2,914,652.28	3,594,639.37
C - Net operating costs (C = A - B)	7,576,541.46	17,970,813.99	25,547,355.45
D - Total Agency budget *	682,325,500.00	410,569,546.00	1,092,895,046.00
E - % of operating costs (E = C / D)	1.11%	4.38%	2.34%

* The total budget for 2000 includes €171 million received in December 2000 for implementation in 2001

Bearing in mind the accumulation of ongoing programmes from one year to another, and the reduction of assistance to Kosovo, it is foreseen that for 2002 the percentage of operating costs in the total budget is likely to increase.

In 2001, the European Commission appointed a financial controller to be fully dedicated to the Agency's activities. The latter performed 165 working days of control of the Agency, of which 70 days were spent in its different operational centres and its headquarters.

In November 2001, the European Court of Auditors published *A report concerning the financial accounts of the European Agency for Reconstruction and the implementation of aid for Kosovo for the year 2000*. The following are extracts:

The Court's examination has enabled it to obtain reasonable assurance that the annual accounts for the financial year ended 31st December 2000 are reliable and that the underlying transactions are, taken as a whole, legal and regular.

The efficiency of the Agency's administration is high, and the ratio of the number of employees to the total value of aid managed is low. In both contracting and payments for operational activities, the Agency has been very fast. Moreover, as regards programme implementation the Agency managed to achieve most of its ambitious objectives set for the year 2000 in the fields of energy, housing, transport and agriculture. The Agency's efficiency was largely due to the high level of commitment of its staff.

The favourable average cost of reconstruction of houses funded through the Agency, compared with other donors, is a good indicator that not only efficiency considerations but also those of economy were taken into account.

The very flexible application of the rules in force, which involved the Agency taking risks, also allowed many local and regional companies to take part in the reconstruction process. This contributed to reducing the reconstruction costs and to stimulating the recovery of the economy in the Balkan countries, which have been severely affected by the conflicts in the region during the last decade.

The outstanding performance of the Agency is also due to the fact that in 2000 it focused its human and financial resources on a limited number of priority areas.

In July 2001, a delegation from the European Parliament Committee on Budgetary Control visited the Agency's headquarters in Thessaloniki. The delegation subsequently issued a press release, commenting on the Agency's 'ability to reconcile swift and effective delivery of development assistance programmes with strict budgetary control'.

Contracts awarded by Agency in 2001 (€494 million)	Serbia		Kosovo		Montenegro	
	€ million	%	€ million	%	€ million	%
International & local tenders	112.5	55.3	169.6	62.2	12.7	73.4
Grant agreements	52.7	25.6	75.9	27.8	3.8	22.0
Simplified procedures	38.6	19.1	27.4	10.0	0.8	4.6
Total	203.8	100.0	272.9	100.0	17.3	100.0

8. GENERAL SERVICES

8.1 Administration

Staffing

At the year end the staff contingent stood at 241. In addition, recruitment is now beginning for the Agency's new operational centre in Skopje, FYROM.

	Thessaloniki	Pristina	Belgrade	Podgorica	Total
International	14	44	31	8	97
Local	19	*59	53	13	144
Total	33	*103	84	21	241

* including 2 staff in Skopje back-up office

Premises

While the offices in Thessaloniki and Podgorica are provided for free to the Agency by the respective Governments, the Agency has to pay rent for its Operational Centre in Belgrade. In Pristina, UNMIK has asked the Agency to vacate its offices in the Museum of Kosovo, which will be put at the disposal of the newly elected President. However, it has agreed to let an alternative building to the Agency. This building, for which no rent will have to be paid, will be renovated by the Agency. Meanwhile the Agency has identified suitable premises for its Operational Centre in Skopje. The Agency is also negotiating an Office Agreement with the former Yugoslav Republic of Macedonia (similar to those it has in the Republics of Serbia and Montenegro) to define privileges and immunities for staff and offices in Skopje.

8.2 Information & communication

At the end of December 2001, the Agency's Information and Communication Unit numbered staff across all four locations. The unit determined general strategy, and instituted a number of generic systems and tools for use across all operations. (The latter include introductory 'calling card' leaflets in all local languages in all operational centres, the Agency website at <http://www.ear.eu.int>, a shared contact database, fact sheets, posters, exhibition panels, visual and written identity guidelines, etc.) Effective relations were developed between the Agency and local media and other outlets in Serbia, Kosovo and Montenegro, and in EU Member States. The Agency hosted several groups of EU parliamentarians over the year, including members of the Delegation for Relations with South-East Europe, the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Budgets, and the Committee on Budgetary Control. It also played host to the Commissioner for External Relations, Mr Patten. Amongst a number of successful media contacts over the course of the year, the Agency was the subject of an 8-minute piece on the *Euronews* TV station, screened in 8 languages to a potential audience of 20 million.

ANNEX A1 - KEY STATISTICS SERBIA

EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Serbia, at 31/12/2001 – by sector

€ million	1998	1999	2000	2001	Total
Media	4.6	2.5	1.0	2.0	10.1
Energy for Democracy		4.4	4.4		8.8
Schools for Democracy			3.8		3.8
Food			26.7		26.7
Health			20.0	31.5	51.5
Energy			99.3	107.7	207.0
Administrative & technical assistance			3.0	2.6	5.6
Needs assessment			2.0		2.0
Municipal infrastructure			25.0		25.0
Agriculture				20.0	20.0
Enterprise development				16.0	16.0
Policy & legal advice centre				5.0	5.0
Regional development in Southern Serbia				4.0	4.0
Integrated border management				5.0	5.0
Total	*4.6	*6.9	*185.2	193.8	390.5

* European Agency for Reconstruction assumed management responsibility for programmes previously administered by the European Commission

EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Serbia, at 31/12/2001 – by amounts committed, contracted, paid

	Committed (€ million)	Contracted/ committed	Paid/ Committed
Total (1998-2001)	391	88%	68%
2001 (Funds available in the last ¼)	50	31%	23%
2001 (Funds available in the first ¾)	144	92%	51%
2000	*185	99%	94%
1999	*7	98%	79%
1998	*5	100%	74%

* European Agency for Reconstruction assumed management responsibility for programmes previously administered by the European Commission

ANNEX A2 - KEY STATISTICS: KOSOVO

EC funds delegated to the European Agency for Reconstruction for implementation in Kosovo, at 31/12/2001 – by sector

€ million	1998	1999	2000	2001	Total
University, animal feed, timber supply	7.0				7.0
Budget targeted assistance		5.0	10.0		15.0
Damage assessment		3.5			3.5
Village employment & rehabilitation		7.5			7.5
Mitrovica hospital & small-scale operations		1.5			1.5
Housing		14.0	59.9	37.6	111.5
Public utilities		9.0			9.0
Transport		6.3	15.0	18.0	39.3
Agriculture		1.0	10.0	28.0	39.0
Water & solid waste management		3.0	14.6	20.0	37.6
Enterprise		4.6	15.0	20.0	39.6
Administrative & technical assistance		3.7		1.0	4.7
Energy		13.0	90.5	110.0	213.5
Energy imports			28.0	20.3	48.3
District heating			3.5	2.5	6.0
De-mining		6.0			6.0
Feasibility studies		2.0			2.0
Postal & telecommunications		8.0			8.0
Health		0.5	10.0	14.0	24.0
Local government, civil society		28.1		38.9	39.4
Reserve				5.2	5.2
Total	*7.0	*116.2	256.5	315.5	695.2

* European Agency for Reconstruction assumed management responsibility for programmes previously administered by the European Commission

EC funds delegated to the European Agency for Reconstruction for implementation in Kosovo, at 31/12/2001 – by amounts committed, contracted, paid

	Committed (€ million)	Contracted/ committed	Paid/ committed
Total (1998-2001)	695	85%	66%
2001 (Funds available in the last ¼)	45	7%	4%
2001 (Funds available in the first ¾)	271	85%	54%
2000	256	92%	80%
1999	*116	97%	88%
1998	*7	100%	97%

* European Agency for Reconstruction assumed management responsibility for programmes previously administered by the European Commission

ANNEX A3 - KEY STATISTICS: THE REPUBLIC OF MONTENEGRO

EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Montenegro, at 31/12/2001 – by sector

€ million	1998	1999	2000	2001	Total
Transport	1.0			7.0	8.0
Agriculture	1.0		2.3		3.3
Administrative & technical assistance	0.5	0.8		0.6	1.9
Public administration	1.0	1.2			2.2
Education	0.5		3.0		3.5
Budgetary support		12.7			12.7
Energy supplies		2.5			2.5
Aid coordination & programming unit		0.8			0.8
Enterprise development		4.2			4.2
Media		0.8			0.8
Infrastructure			10.8		10.8
Finance			2.9		2.9
Municipal development				4.5	4.5
Institution building				1.2	1.2
	*4.0	*23.0	*19.0	13.3	59.3

* European Agency for Reconstruction assumed management responsibility for programmes previously administered by the European Commission

EC funds delegated to the European Agency for Reconstruction for implementation in the Republic of Montenegro, at 31/12/2001 – by amounts committed, contracted, paid

	Committed (€ million)	Contracted/ committed	Paid/ Committed
Total (1998-2001)	59	67%	44%
2001 (Funds available in the last ¼)	13	0%	0%
2000	*19	72%	25%
1999	*23	97%	77%
1998	*4	100%	85%

* European Agency for Reconstruction assumed management responsibility for programmes previously administered by the European Commission

ANNEX B - AGENCY GOVERNING BOARD MEETINGS 2001

Date	Main issues discussed and decisions taken
27-28/02/2001	Discussion of 2001 programme for Serbia Adoption of Annual Report 2000 Exchange of views with UNMIK Pillar IV and discussion of social dimension of the Agency's Kosovo programme Adoption of draft Agency budget for 2002 for submission to the Commission and acknowledgement of 1st revision of Agency budget 2001
18/05/2001	Adoption of evaluation guidelines, of principles governing the award of contracts, and of decision on the extension of contracts for the Agency's international staff (Temporary Agents) Discussion of progress report on the implementation of the Kosovo, Serbia and Montenegro programmes Approval of revised staffing table for 2001, of rectification of some budget lines, and of carry-over of 2000 credits Selection of new Member States' representatives for the Agency's ACPC
02/07/2001	Discussion of additional 2001 support programme for Kosovo and of support programme for Montenegro Adoption of 2nd revision of Agency budget 2001
21/09/2001	Discussion of additional 2001 support programme for Serbia, of evaluation programme 2001, and of the Agency's information activities Exchange of views with UNMIK Pillar IV on Kosovo activities and with Swedish NGO on the role of women in reconstruction Information on additional 2001 support programme for Montenegro (finalisation by written procedure) Approval of Agency's promotion policy and adoption of 2nd revised staffing table 2001 and of 3rd revision of Agency budget 2001 (the latter by written procedure)
18/12/2001	Cancelled due to bad weather (decisions on establishment of new operational centre in Skopje and on 2002 Agency budget by written procedure)

ANNEX C - AGENCY ORGANISATIONAL STRUCTURE CHART

EU Member States x15		Governing Board	European Commission		
		The Director			
Operations division Podgorica, Montenegro	Operations division Belgrade, Serbia	Operations division Pristina, Kosovo	Programming division	Finance division	Secretary General
Infrastructure	Monitoring	Monitoring	Programming	Contract units	Secretariat to the Board
Enterprise	Energy	Energy	External coordination	Budget units	Administration
Institution-building	Infrastructure	Transport & infrastructure	Evaluation	IT unit	Information & communication
	Civil society & media	Civil society & media			
	Enterprise development	Enterprise development			
	Agriculture	Agriculture			
	Health	Health			
	Institution-building	Institution-building			
	Economic & social sector	Economic & social sector			
		Housing			
		Water & environment			

Note: as at January 2002, a new operational centre opened in Skopje, FYROM

ANNEX D - AGENCY BUDGET 2001

Revenues (€)

Title 1	European Commission subsidy	
1100	EC budget 2001 for Kosovo assistance projects	144,500,000
	EC budget 2000 for Serbia assistance projects	2,608,801
	EC budget 2001 for Serbia assistance projects	193,800,000
	EC budget 2000 for Montenegro assistance projects	24,360,000
	EC budget 2001 for Montenegro assistance projects	16,300,000
	EC budget 2000 for Agency running costs in Kosovo	4,000,000
	EC budget 2001 for Agency running costs in Kosovo	8,000,000
	EC budget 2000 for Agency running costs in Serbia	3,000,000
	EC budget 2001 for Agency running costs in Serbia	7,300,000
	EC budget 2001 for Agency running costs in Montenegro	1,700,000
	Total 1100	405,569,546
Title 2	Other subsidies	p.m.
Title 3	Miscellaneous	
	Bank interest	0
	Counterpart funds	5,000,000
Title 4	Earmarked revenues	p.m.
	Total	410,569,546

Expenditure (€)

Title 1	Staff	15,118,000
Title 2	Buildings, equipment & other costs	8,882,000
Title 3	Projects	
	Kosovo 2001	144,500,000
	Kosovo Counterpart fund	5,000,000
	Serbia 2001	193,800,000
	Serbia hand-over	2,608,801
	Montenegro 2001	16,300,000
	Montenegro hand-over	24,360,745
	Total projects	386,569,546
	Total	410,569,546

ANNEX E - AGENCY CONTACTS

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