

Provisional accounts and budgetary & financial management report

(in accordance with article 82 of FFR 2343/2002 of 19/11/2002)

Relating to the Operations under the 2003 Budget of the

EUROPEAN AGENCY FOR RECONSTRUCTION

FEBRUARY 2004

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1. INTRODUCTION

1.1 Creation, location and main actions of the Agency

The creation of the Agency was decided following the meeting of the European Council on 3 June 1999, which confirmed the European Union's intention to play a leading role in the reconstruction efforts in Kosovo. The Agency was setup in February 2000 as an independent agency of the European Union, 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 mandate of the Agency was extended in December 2000 to the Federal Republic of Yugoslavia (Serbia and Montenegro). On 10 December 2001 the Council decided that the mandate of the Agency should be extended to the former Yugoslav Republic of Macedonia (fYROM).

The headquarters of the Agency are in Thessaloniki (Greece). The year 2003 has been the fourth year of activity of the centre in Pristina (Kosovo), the third year of activity of the centres of Belgrade (Serbia) and Podgorica (Montenegro) and the second year of activity for the centre in Skopje (fYROM).

Agency-managed programmes follow the orientations of the Country Strategy Papers and Multi-annual Indicative Programme for Serbia & Montenegro and FYROM and principally concentrate on three main areas of intervention. These are: (i) to carry out physical and economic reconstruction (rehabilitation and repair of infrastructure and public utilities, such as energy, housing, water, transport); (ii) to lay the foundation for the development of a market-oriented economy (support to enterprise development, agriculture); and (iii) to support the establishment of democracy, institution building and the rule of law (strengthening of local administration, NGOs, the media and the judiciary).

1.2 Programming Priorities

The European Agency for Reconstruction is engaged in implementing Community Assistance for Reconstruction, Development and Stabilisation programmes for rebuilding infrastructure, regenerating economic activity, and bolstering the media and civil society. In 2003 physical reconstruction needs were still great, and are therefore still being met by EU-funded projects managed by the Agency. However, the Agency has successfully made the shift away from tangible emergency rehabilitation works towards longer-term sustainable development, in promoting a market economy and supporting social development. The crux of its work, to which it dedicates increasing amounts of attention, is in the less physical and visible realm of support to good governance. At national and local levels, the citizens of the region need efficient, just and transparent administration, conducted within an established set of rules. This

shifting trend, already evident in 2001 programmes, was markedly clearer in the 2002&2003 programmes and will be even more so in 2004.

1.3 A port-folio of €1.9 billion for assistance programmes

By the end of 2003 the Agency was overseeing a total port-folio of €1.9 billion (see annex 6) of which 81% contracted and 67.5% disbursed for assistance programmes across its four operational centres.

The Agency's final budget for 2003 amounted to €358.6 million (see annex 1), from which €331.7 million for assistance programmes and €26.8 million for administrative expenditure. The assistance amount also includes €4 million from other donors (The Danish government).

The Agency contracted for the centres of Kosovo and FYROM in 2003 more funds than those newly allocated.

1.4 Assistance payment invoices processed in 9 days

In 2003 the Agency proceeded to 1,400 payments for assistance programmes and the average time taken to make them, after receipt of an invoice, was 9 days. The Agency follows a policy of paying quickly to enable limiting advance payments for assistance to encourage local companies to participate in tenders. High advance payments require bank guarantees. In the region, SME's could rarely provide these bank guarantees due to the lack of confidence from the banking sector.

1.5 The Agency uses standard EC procedures & tools

Using standard EC tender procedures, in 2003 the Agency awarded 385 new contracts (amounting €300 million), of which 63.9% were awarded through international and local tenders, 35.7 % were awarded through grants and financing agreements and 0.4 % were awarded through simplified procedures.

On accounting systems and budgetary control the Agency adopted the applications recommended by the Court of Auditors, mainly the accounting and budgetary control tool called SI2 which replaced the former accounting tool at the beginning of 2002.

1.6 Administrative expenditure: 4.28% of the total budget over 2000 to 2003

Within the general EC Budget comments concerning the budget lines covering programmes entrusted to the Agency lay down that the appropriations are also intended to cover the Agency's administrative expenditure, the amount of the

latter being not more than 8% of the overall multi-annual budget for Agency managed programmes. The administrative expenditure of the Agency is composed of staff salaries, equipment costs, office rentals, bank charges, etc. The Agency also gains few revenues, such as payments made by bidders for tender dossiers and recovery of private expenses from staff. The administrative expenditure for 2003 amounts to €23.8 million; together with the expenditure since 2000 it represents 4.28% of the total portfolio received by the Agency since its creation.

2. GENERAL ACCOUNTING PRINCIPLES

2.1 Financial Regulation

Article 185.1 of the General Financial Regulation adopted on 25/06/2002 (Council Regulation 1605/2002) lays down:

“The Commission shall adopt a framework financial regulation for the bodies set up by the Communities and having legal personality which actually receive grants charged to the budget. The financial rules of these bodies may not depart from the framework regulation except where their specific operating needs so require and with the Commission’s prior concert”.

Moreover, point 4 of the explanatory memorandum of the Framework regulation for Community bodies adopted the 19/11/2002 (Council Regulation 2343/2002) states:

“...At the same time it allows scope for each body to propose - with the Commission's consent - any adjustments that are vital for its own managerial requirements, and assigns the bodies themselves responsibility for applying any internal implementing rules which they deem necessary to adopt”.

Taking into account the above provisions, the Agency submitted on 20/11/2002 to the Commission a proposal of new Agency Financial Rules, comprising some specific adjustments that the Agency estimated necessary to cope with its particular working environment. However, the final agreement between the Agency and the Commission has only been reached at the beginning of 2004, and the EAR expects the formal approval of the Commission in the coming days. Despite of this fact, the Agency has strictly followed the provisions of the framework Financial Regulation 2343/2002 since 01/01/2003.

2.2 The Agency keeps its accounts in EURO.

Due to the dispersion of the Agency in various locations, the Agency kept in 2003 several bank accounts:

- in Euro: in Brussels, Belgrade, Thessaloniki, Podgorica and Skopje
- in MKD in Skopje
- in CSD (ex YUM): in Belgrade

Operations in currency other than Euro were converted into Euro at the monthly accounting rate published by the Commission.

For the closure of the accounts, the official exchange currency rate at 31/12/2003 provided by DG BUDG was applied.

2.3 Revenue

The Agency's revenues are composed of (see also details in point 3.8):

- EC funds for implementing EC programmes entrusted to the Agency and for its administrative expenditure.
- Other donors' funds.
- Other incomes (mainly re-use).

During 2003 the EAR issued Recovery Orders (RO) to the EC for an amount of €234.1 million plus some regularisation RO worth €43.6 million for funds requested in 2002 but received in 2003. €1.5 million concerning the 2003 requests were not received at 31/12; those that will not be honoured by the EC will make the object of negative RO, the others will be paid by the EC during 2004.

On the other hand, the EAR has also issued negative RO and the pertinent Credit Notes addressed to the EC in order to reimburse funds received in excess for some expired programmes. These negative RO amounted to €1.3 million; at the end of 2003 no Debit Note from the EC was received, therefore the reimbursements will take place during 2004 and considered in 2004 accounts.

In mid 2003, the Danish government transferred to the EAR the management of a programme for the Municipal Environment Infrastructure in FYROM amounting DKK 30 million. The EAR applied on the Debit Note claiming for this amount, the daily ECB rate of the day of issuing the RO. When receiving the amount in our bank account some €4,000 was charged under currency exchange rate expenditure. This allocation also foresaw a maximum amount of €132,500 for the Administrative expenditure (AE), providing that all the balance to be used for Operating expenditure (OE) was committed; as this information will be known in 2004, these commitments appropriations for AE will only be considered in the final budget of 2004.

The EAR has had some incomes coming from the reimbursement of advances not totally used in OE, and also some small incomes from re-use of AE (mainly private use of telephone and cars of the EAR).

2.4 Expenditure

For the purpose of calculating the balance of the year 2003, expenditure refers to:

- Payments made under appropriations of the year 2003
- Outstanding legally binding commitments (contracts) under appropriations of the current year or from previous years, carried forward to the year 2004 (automatic carry-overs).

2.5 Fixed assets

The movable property (computer equipment, office furniture) is valued at their cost in national currencies, converted into Euro at the accounting exchange rate applicable on the date of purchase.

The full cost is charged to the relevant expenditure account during the year of purchase. Depreciation is calculated for the fixed assets following EC rules.

The total net value (gross value minus depreciations) of the fixed assets is entered on the assets side of the budget, for the entire time they are in use. A counterpart, for an equivalent amount, is entered in the liabilities side of the budget under the heading own capital.

2.6 Supplies

The supplies represent a small stock of stationary items. They are not determined at the end of the year and are not included in the balance.

2.7 Profit or loss for the financial year

The profit or loss for this financial year is the difference between revenues and expenditure of the year. The automatic carry-over for Title 3 is considered as a "virtual" loss of the year.

3. FINANCIAL DATA FOR THE YEAR

3.1 Credit appropriations

Credit appropriations are funds made available by the EC and other donors for assistance programmes and for administrative expenditure of the Agency.

The table below outlines the breakdown of the credit appropriations available in 2003.

- Assistance programmes (see annex 1)	
- New funds available for OE	331,681,672.13
- DK funds to be deducted for AE (see point 2.3)	132,500.00
- Administrative expenditure (see point 3.3)	
- 2003 EC allocation	26,800,000.00
Total	358,614,172.13

3.2 Assistance programmes

The credits for assistance programmes mentioned above (€331,681,672.13 see annex 1) include:

- a) €327.8 million of new EC credits received by the Agency in 2003 and reflected in the title 3 of the Agency's budget for 2003:
 - €62.3 million for Kosovo (from which €16.3 million only put at the disposal at the Agency at the end of December 2003)
 - €220 million for Serbia
 - €12 million for Montenegro
 - €33.5 million for FYR Macedonia

- b) €4 million of credits entrusted by other donors:
 - €4 million from the Danish Government, for FYROM

Beside these credits received in 2003, the Agency also had at its disposal € 234.1 million of credits corresponding to programmes from previous years not yet contracted.

3.3 Administrative expenditure

The €26.8 million of credits for administrative expenditure mentioned in 3.1 above include:

- €4 million of credits from 2003 EC budget for Kosovo
- €11 million of credits from 2003 EC budget for Serbia
- €1.5 million of credits from 2003 EC budget for Montenegro
- €5 million of credits from 2003 EC budget for FYROM
- €5.3 million of credits from remaining funds non used during previous exercises

3.4 Credit appropriations committed or contracted

The table below outlines the breakdown of the credit appropriations committed or contracted in 2003 by EAR. Details are referred to in annex 2 for administrative expenditure, in annex 4 for assistance programmes 2003 and in annex 5 for assistance programmes before 2003.

- Committed for administrative expenditure	23,808,083.54
- Contracted for assistance programmes 2003	181,950,490.64
- Contracted for assistance programmes < 2003	153,775,661.33
Total	359,534,235.51

- **55 %** (€182 million) was contracted for assistance programmes from the € 331.7 million available.
- **75%** (€ 153.7 million) was contracted from the carried forward credits not contracted from previous years.
- **89 %** (€23.8 million) was committed for administrative expenditure of the Agency, compared to the initial budget forecasted.

3.5 Payments

3.5.1 Assistance Programmes

Payments made against programmes entrusted to the Agency in 2003 for Kosovo, Serbia, Montenegro and FYR Macedonia plus payments made against programmes entrusted to the Agency in 2000/2002 for Kosovo, and in 2001/2002 for Kosovo, Serbia and Montenegro are shown in the table below. Details are referred in annexes 4 and 5.

The Agency also made payments against programmes handed over by the EC. These programmes were started before the Agency was created in Kosovo and regarding Serbia, Montenegro and FYR Macedonia before the extension of the mandate to these regions.

Centre	Paid against 2003 appropriations	Paid against < 2003 appropriations	On behalf EC	Total Paid
Kosovo	4,491,800.37	134,384,527.55		138,876,327.92
Serbia	21,857,633.76	86,696,715.01	190,000.00	108,744,348.77
Montenegro	3,123,656.00	15,577,363.27		18,701,019.27
FYROM	308,474.30	30,727,447.26	5,041,399.66	36,077,321.22
Total	29,781,564.43	267,386,053.09	5,231,399.66	302,399,017.18

3.5.2 Administrative expenditure of the Agency

The table below outlines the breakdown of the payments made in 2003. Details are given in annexes 2 and 3.

Payments from 2003 appropriations (C1)	22,287,504.28
Payments made from 2002 carried-over appropriations (C8)	2,097,499.65
Total paid in 2003	24,385,003.93

- **94%** (€22.3 million) of the funds committed (€23.8 million) for administrative expenditure have been paid.
- **93%** (€2 million) of the funds carried over (€2.2 million) for administrative expenditure have been paid. The commitments corresponding to the difference of €146,002.69 are automatically cancelled.

3.6 Carry forward on credit appropriations contracted

The Agency's credit appropriations contracted by the end of 2003 but not yet paid are carried forward to the following year. Their breakdown is:

- Assistance programmes 2003	152,168,926.21
- Assistance programmes < 2003	193,081,281.07
- Administrative expenditure	1,520,579.26
Total	346,770,786.54

a) Regarding administrative expenditure, the Agency cancelled all appropriations not contracted by the end of the year. This figure represented €3,137,919.15 (€2,991,916.46 from C1 appropriations and €146,002.69 from C8 appropriations).

b) The €345,2 million for assistance, contracted but not paid (carried forward) are:

- contracted in 2003 from 2003 appropriations : €152,168,926.21
- contracted in 2003 from former appropriations : €193,081,281.07

3.7 Carry forward on appropriations not contracted

Appropriations not contracted concern exclusively assistance programmes and amount to €227.8 million. Details are referred in annexes 4 and 5.

- from 2003 appropriations: €149,731,181.49
- from previous appropriations: € 77,610,772.99

These credits will be available for contracting during 2004 in addition to the new programmes to be entrusted to the Agency by the EC.

Revenues

European Union subsidies	274,220,959.10
Other donors subsidies	28,034,172.13
EC funds for payments on their behalf	1,058,733.00
Other incomes (re-use OE & AE)	1,491,450.01
Bank interest (to be reimbursed to the EC)	3,841,516.90
Bank interest other donors	113,266.30
Counterpart funds	779,091.56
<i>Total revenue</i>	<i>309,539,189,00</i>

3.8 Revenue and Expenditure Account for the financial year 2003 and Balance Sheet at 31/12/2003

See annexes 7 and 8.

4. ANALYSIS OF FINANCIAL MANAGEMENT BY TYPES OF EXPENDITURE

4.1 Title 1 : Expenditure relating to Agency staff

(Refer to annex 2 for details)

Chapter 11. Staff in active employment

2003 Budget	2003 Commitments	2003 Payments
17,385,000.00	16,690,423.00	16,516,391.29

The Agency staffing at the end of the year 2003 was composed of:

- **94 temporary agents (TA)** of the following grades: 2 A3-A1; 73 A4-A8; 18 B and 1 C.
- **173 local agents (LA)** of the following groups I: 26, II: 68, III: 17, IV: 44, V: 16, VI: 2.

By the end of 2003 22 TA and 18 LA posts remained vacant, while 4 TA posts were in provision to be deleted, which resulted to an important reduction in all staff related expenditure.

The TA basic salary, family and expatriation allowances represent 64% of total expenditure. Other costs related to the recruitment installation and transfer of TA staff is 3%. The cost of annual leave is 2 %. Salary costs for LA is 27 %.

Chapter 13. Missions and duty travel

2003 Budget	2003 Commitments	2003 Payments
436,000.00	400,372.26	318,353.05

Throughout the year a total of 774 actual missions took place. 14% of the actual number of missions occurred outside the Operational Centres (meetings with services of the Commission in Brussels, other Agencies, etc.), representing ¼ of the expenses. The remaining 86% of the number of missions took place in the Operational Centres and the Headquarters of the Agency, as well as for purposes of visits within the area of activity of the Agency, representing ¾ of the expenses.

Chapter 14. Socio - medical infrastructure

2003 Budget	2003 Commitments	2003 Payments
193,000.00	124,309.34	76,843.84

These expenses cover medical check-ups for TA (19%), training courses such as language, media, driving, Project Cycle Management, public procurement, as well as missions for training purposes for TA and LA (70%), and also canteen and minor expenses (11%).

Chapter 15. Other staff related expenditure

2003 Budget	2003 Commitments	2003 Payments
99,000.00	85,046.98	84,725.98

These expenses cover mainly the Commission management fees (64%) and consultancy fees for the calculation of local staff salaries.

Chapter 16. Social welfare

2003 Budget	2003 Commitments	2003 Payments
39,000.00	26,499.08	24,536.38

These expenses cover the cost of social events for the benefit of the Agency staff and their families.

Chapter 17. Entertainment and representation expenses

2003 Budget	2003 Commitments	2003 Payments
37,000.00	6,089.42	6,089.42

These expenses cover mainly official EAR related entertainment and representation expenses for all EAR sites.

4.2 Title 2 : Buildings, equipments and other administrative expenditure

(Refer to annex 2 for details)

Chapter 20. Rental of buildings and associated costs

2003 Budget	2003 Commitments	2003 Payments
4,302,000.00	3,962,685.14	3,741,609.36

The largest part of these expenses are related to rental costs for the accommodation of Temporary Agents in all Operational Centres which account for 36% of the total, followed by Security and guarding of the EAR offices and installations for 22% and the rental of the office premises in Belgrade and Skopje for 21%.

Investment works in the offices such as security equipment and renovation works represent 9%.

Chapter 21. Data processing

2003 Budget	2003 Commitments	2003 Payments
608,000.00	591,154.64	28,240.80

This appropriation covers the expenses related to the purchase and maintenance of data processing equipment and software (95%) and the services rendered by IT consultants (5%).

Chapter 22. Movable property and associate costs

2003 Budget	2003 Commitments	2003 Payments
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484,000.00	314,277.68	203,498.73
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These expenses cover the repair, maintenance, insurance, and fuel for the vehicle fleet (62%). Investment in office furniture represents 14%, while purchases of technical equipment and installations represent 15% of the total.

Chapter 23. Current administrative expenditures

2003 Budget	2003 Commitments	2003 Payments
661,000.00	495,362.99	380,281.92

This chapter covers stationery expenses and office supplies (27%), publication and information activities (51%), miscellaneous expenses and transportation of goods and legal fees (9%), and bank charges (7%).

Chapter 24. Postal charges and Telecommunications

2003 Budget	2003 Commitments	2003 Payments
1,141,000.00	1,053,013.97	850,368.26

Telecommunications subscriptions (phones, mobile phones and fax), satellite phones in Pristina and expenses related to the subscription to BT for the satellite link for all Operational Centres (British Telecom contract for Internet and data transmission) represented 92%. Purchase of telecommunication equipment and maintenance was 4% and other costs related to mail expeditions (post, express and diplomatic mail) 4%.

Chapter 25. Expenditures on formal and informal meetings

2003 Budget	2003 Commitments	2003 Payments
94,000.00	58,849.04	56,565.25

These expenses mainly (90%) refer to the 3 meetings of the Governing Board in Thessaloniki. The other expenses (10%) were for various meetings held in all Operational Centres and HQ.

4.3 Title 3 : Operational activities

(Refer to annexes 4 and 5 for details)

Kosovo

Budget available (*)	Contracted	Paid (**)
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Hand over	2,598,1171.07	790,716.00	1,638,338.16
2000	15,612,820.68	11,556,957.85	35,775,640.61
2001	27,130,627.152	18,531,556.68	28,149,587.87
2002	69,055,479.05	51,481,983.29	68,820,960.91
2003	62,280,000.00	22,444,679.35	4,491,800.37
Total	200,060,097.95	104,805,893.17	138,876,327.92

(*) Final appropriations at 31/12.

(**) This column also includes payments for carried forward commitments from previous years. It doesn't take into account payments made on behalf of EC

In 2003 the Agency was entrusted with an amount of €62.3 million for assistance programmes (€16.2 allocated mid December 2003 and approved by Commission decision n° 5218 of 29/12/03).

20% of funds committed during 2003 from the yearly new budget (€22.4 million) have been paid (€4.5 million).

Serbia

	Budget available (*)	Contracted	Paid (**)
Hand over	38,652.53	N/A	48,609.67
2001	3,892,429.43	3,805,109.51	23,749,020.61
2002	28,632,586.81	11,558,797.52	62,899,084.73
2003	220,000,000.00	146,953,195.10	21,857,633.76
Total	252,563,668.77	162,317,102.13	108,554,348.77

(*) Final appropriations at 31/12.

(**) This column also includes payments for carried forward commitments from previous years. It doesn't take into account payments made on behalf of EC

The Agency committed 67% of the new funds granted in the 2003 budget.

15% of the funds contracted during 2003 from the yearly new budget (€147 million) have been paid (€21.8 million).

The other €86.7 million concern the payments done against the previous budget 2002, either contracted in 2002 or in 2001.

Montenegro

	Budget available (*)	Contracted	Paid (**)
Hand over	713,418.42	471,601.54	4,440,640.77
2001	1,295,551.65	1,239,307.79	7,042,863.25
2002	1,334,026.00	1,025,380.61	4,093,859.05
2003	12,000,000.00	8,749,031.19	3,123,656.00
Total	15,343,006.07	11,485,321.13	18,701,019.07

(*) Final appropriations at 31/12.

(**) This column also includes payments for carried forward commitments from previous years. It doesn't take into account payments made on behalf of EC

73% of the new funds allocated in the 2003 budget (€12 million) have been contracted.

Payments (€3.1 million) have represented 36% of the funds contracted during the year.

FYROM

	Budget available (*)	Contracted	Paid (**)
Hand over	52,389,005.61	34,620,185.77	24,876,492.18
2002	31,475,798.00	18,694,064.77	5,850,955.08
2003	37,401,672.13	3,803,585.00	308,474.30
Total	121,266,475.74	57,117,835.54	31,035,921.56

(*) Final appropriations at 31/12.

(**) This column also includes payments for carried forward commitments from previous years. It does not take into account payments made on behalf of EC

In 2003 the EAR has made a big effort to absorb the remaining appropriations from previous years (€82.2 million) and has contracted 65% of these appropriations (€53.3 million), paying 58% of these contracts (€30.7 million).