

## **Annual Report 2004 to the European Parliament and the Council January to December 2004**

This report is issued in accordance with Article 4 (14) of Council Regulation 2667/2000 of 5 December 2000 (as amended by Council Regulation 2415/2001 of 10 December 2001) and Article 40 of Commission Regulation 2343/2002 of 23 December 2002

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### **1 Preface**

The European Agency for Reconstruction manages the European Union's main assistance programmes in Serbia and Montenegro (the Republic of Serbia, the Republic of Montenegro, UN-administered Kosovo) and the former Yugoslav Republic of Macedonia.

The Agency was established in February 2000 as the EU's main reconstruction arm in Kosovo and later expanded, at the request of the European Commission, to Serbia and Montenegro and the former Yugoslav Republic of Macedonia. The Agency's headquarters are in Thessaloniki, Greece with operational centres in Pristina, Belgrade, Podgorica and Skopje. It is an independent agency of the European Union, accountable to the Council, the European Parliament and is overseen by a Governing Board of representatives from the 25 EU Member States and the European Commission.

The EC assistance funds delegated to the Agency for management in 2004 amounted to some €310 million. Since 2000, the Agency has managed a cumulative total of some €2.3 billion of EU taxpayers' money.

Emphasis has shifted from post conflict reconstruction towards working with themes which reflect the countries' EU ambitions. Programmes increasingly focus on legislative reform, public administration and public finance reform and the rule of law. Support to economic reform is underlined by assisting the countries to draft and implement complex legislation in for instance bankruptcy, cadastre and in trade while investing further in critical physical infrastructure and environmental protection. The Agency also supports the increasing regional focus on social development and the strengthening of civil society.

The aim of assistance is to reinforce and empower the region's own reform processes through strengthening the machinery of central and local administration, the police, the judiciary, public

finances, the agricultural sector, the environment and the state utility providers.

The Agency is funded through the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) Programme which works supports to the EU's 'Stabilisation and Association' process and thus is a key element of the Union's policy toward the region. Serbia and Montenegro and the former Yugoslav Republic of Macedonia also benefit from EC assistance not managed by the Agency including macro-financial, humanitarian, democratisation, customs and fiscal planning aid, support for higher education cooperation programmes, the CARDS regional programme, and support for the EU Pillar of the UN administration in Kosovo. In addition the region also benefits from bilateral contributions made by Member States.

An independent evaluation acknowledging the positive impact of the Agency's work was published in June 2004 by the European Commission. The report concluded that "The Agency is an asset that has permitted the Commission to exercise leadership in effectively and efficiently coordinating and stimulating stakeholder efforts towards the initial reconstruction in the countries-entities where it operates."

The Agency moved under the auspices of DG Enlargement in late 2004 following changes in the European Commission. Responsibility for the Western Balkans, including the Agency, is now under DG Enlargement and Commissioner Olli Rehn. In a recent article, Commissioner Rehn noted that his goal for the Western Balkans over the next five years is "to ensure that the prospect of EU accession becomes a tangible reality". In December 2004 the Council extended the mandate of the Agency by two years until 31 December 2006. The role of the Agency remains to:

- Empower governments to deal with the huge challenges of moving towards EU Accession and in doing so help the region help itself.
- Design effective programmes and allocate, disburse and manage funds efficiently.
- Coordinate EC assistance with other organisations and enhance the EU's presence in the Western Balkans.

## 2 Financial Highlights

### **88% of €2.3 billion contracted**

Since the creation of the Agency to the end of 2004 the Agency had managed a cumulative total of €2.3 billion in EC assistance funds. Of this amount, the Agency has contracted 88% (€2 billion) and disbursed 73% (€1.7 billion).

### **Serbia**

In 2004, the Agency was given responsibility for a further €202 million in Serbia, bringing its cumulative portfolio of EC assistance programmes to €984. By year-end, 83% of this total had been contracted, and 63% spent.

### **Montenegro**

In 2004, the Agency was given responsibility for a further €16.5 million in Montenegro, bringing its cumulative portfolio of EC assistance programmes to €87 million. By year-end, 93% of this cumulative total had been contracted, and 80% spent.

### **Kosovo**

In 2004, the Agency was given responsibility for a further €49 million in Kosovo, bringing its cumulative portfolio of EC assistance programmes to €1 billion. By year-end, 95% of this total had been contracted, and 88% spent.

### **The former Yugoslav Republic of Macedonia**

In 2004, the Agency was given responsibility for a further €43 million in the former Yugoslav Republic of Macedonia, bringing its cumulative portfolio of EC assistance programmes to €252. By year-end, 84% of this total had been contracted, and 56% spent.

#### **Administrative costs kept low**

Since establishment in 2000, the Agency has kept administrative expenditure at 4.4% of total spending.

### **3 Introduction by the Director of the Agency**

Through the support to the Western Balkans, the European Union helps the region find stability and embark on the path of reform. As the countries now move towards the EU accession process there will be many and difficult challenges since adapting any country's public administration, legislation and economy to joining the EU is hard work, complex and expensive. Reform is a difficult process as changes need to be discussed publicly before being transformed into legislation which can be successfully implemented. This requires people trained in relevant skills and it means public administration equipped with modern management tools. Ministries need money to finance surveys, studies and explain changes that underpin new laws, which are often also required to have new or stronger regulatory institutions. The Agency assists this reforming process.

The Annual Report 2004 and its detailed annexes detail the wide range of the Agency's work. These underline that the challenge is to continue to adapt our programmes in order to support a reform led evolution of the region.

Since 2000, the European Agency for Reconstruction has enhanced the EU's role in Serbia and Montenegro, UN-administered Kosovo, and the former Yugoslav Republic of Macedonia. In all four cases, the Agency was set up during a time of crisis: in Kosovo, shortly after the conflict in 1999; in Serbia and Montenegro following the fall of the Milosevic regime in late 2000; and in 2002 in FYR Macedonia directly after a peace agreement ending months of local conflict. Today the Agency's work evolves from reconstruction to economic reform, public administration reform and European integration. The region requires programmes which can help facilitate investment, tackle poverty, create enterprises and boost trade. EC Assistance also continues to support the media and the role played by non-governmental organisations. The Agency supports these EU ambitions by encouraging country ownership and input into programmes, while helping them build capacity and increase responsibilities for this reform process. This helps the region to help itself.

The Agency's working relations remain excellent with governments in the region, with the European Commission in Brussels and with EU representatives present in the Delegations and elsewhere, and EU member states in the region. This helps put the European message across better in the region.

Tough choices made by the region's citizens and leaders have already been made in the quest for EU accession status, but people must be able to better see real changes and improvements to their lives. That is why it is important for the EU, through the Agency, to be able to adapt and deliver in the region.

Richard Zink

### **4 The year 2004 in review**

During 2004 the Agency had to react and adapt to both evolving circumstances in the reform process but also to renewed violence within the region. Progress in the region was tangible with much interest focusing on the progress of the **former Yugoslav Republic of Macedonia**, despite the tragic death in an air accident of the President, in its ambitions to achieve EU

membership. During 2004 the government worked on the preparation of the EC questionnaire on enlargement. On the other hand violent actions in March in **Kosovo** underlined that progress was sometimes halting. In **Serbia** a new Prime Minister was elected, and reforms continued apace but it was clear much still remained to be done in order to address the problems, which dog the region as a whole. Very high unemployment, slow and stuttering economic growth, huge need for public and private investment on one hand underline the big challenges in the region. However, visible progress in reform and the impact of some growth created a certain sense of optimism.

The Agency remained steadfast in its programming, identification and delivery in Skopje, Belgrade, Podgorica and Pristina. The Agency endeavoured to better ensure the quality assurance of the programmes and projects all with the aim of improving the impact on the region and its people. Thus in its 5th year the Agency continued the evolution in terms of programming towards 'soft' technical assistance, empowering the countries to take their steps towards achieving the ultimate goal of EU Accession. This may remain for some time in the future as the countries want the kind of fast and impacting work that the Agency is well placed to deliver.

**\* challenges for the region and for the Agency \***

EC funded projects are conceived within the EU strategic framework designed for the region. Policies are built round three main areas. The first is the Stabilisation and Association Process which deals with the political aspects of the EU regional relationship, secondly the Autonomous Trade Measures give free access to the internal market of the European Union, and the third element is the CARDS programme which is driven in part by the political processes, the Country Strategy Programme and the Multi Annual Indicative Programme. This then develops into the Action Programmes which provide the basis of the project implementation in the different countries and entities.

Many negative legacies of the old system remain in legislation, public administration and infrastructure. These subjects have to be tackled in order to both help the countries help themselves move towards Europe and to help the countries build stability and prosperity in the region. In moving to tackle these areas the region can create stability and prosperity.

**Government**

Decentralisation of government is an increasingly important policy objective as the region develops its governance. However, central government also still needs support in securing public finances, utilities, functioning judicial system to name a few key aspects. Public administration reform therefore remains very important.

**Economic Reform and Investment**

The region must create jobs as unemployment rates are still very high. As a result the Agency continues to place much emphasis on supporting moves by the region to build a functioning market economy which can produce jobs, raising the level of collected taxes (through improved fiscal and tax systems), fostering investment in public institutions and support and encourage entrepreneurship and the growth of businesses. EC programmes have to continue to support legislative reform dealing with competition policy, bankruptcy law, land cadastre, all complex and developing policy areas. Much of this has to be focused on poor areas, where education and training is needed. Investment remains a priority in the region both via the big institutions such as the EBRD and the EIB, and also from the private sector. This in itself is a sign that the economic and political situation needs further stability and confidence. By being able to disburse and implement quickly technical assistance the Agency can allow the EIB and EBRD to release badly needed investment in health, education, municipal development and transport.

**Infrastructure**

The region's physical needs continue to be huge, and although the Agency must concentrate increasingly in technical assistance and 'soft' legal and the European integration type of work, programmes and project continue to address transport and energy. In 2004 work progressed on

the Sloboda bridge at Novi Sad and the Horgos border crossing should be operational by summer 2005. Likewise in Kosovo where infrastructure assistance is still needed the on-going work to rebuild the bridges on the Pristina to Skopje road, will ease and promote movement of goods and people. However their success will only emphasise how much else needs to be and can be done. The Agency can also continue to assist others like the EIB and EBRD in providing technical assistance in order to support their larger investments.

### **Civil society**

The region is still plagued by nationalistic political parties and ethnic tensions. Violence in Kosovo in March demonstrated how far a multi ethnic ideal was from reality although the vote to reject an overturn of the Ohrid agreement in FYR Macedonia in November 2004 suggested that voters were also able to see more harmonious future ahead. Moreover for society to be prosperous it must also be open and functioning. The EC through the Agency continued to support activities drafting new media laws, helping NGOs in the region, extending training to minorities and initiatives in education.

### ***\* concerns and weaknesses\****

#### **Weak government capacity**

Governments in the region need to better prepare for the huge challenges that the reform, and then EU Accession, context will demand of the countries. Often ministries or other public sector project counterparts can lack the people, the skills, and the resources to implement European or donor projects. This can slow down the process, and ultimately provoke frustration and anger. Empowerment and capacity building of these authorities remains a key principle of the EU Assistance.

#### **Poor framework of laws and regulations**

Governments have made a series of commitments regarding legal reform. The challenge is turning change on paper into actual change in everyday business. Until recently governments have often lacked know how or the staff who can tackle this sometime difficult process. Continuity of personnel in ministries and their training is an important part of the process. EC assistance can help regional authorities, and their staff better identify, develop, and follow through the administrative and technical changes through the provision of technical assistance and the development of training schemes and materials.

#### **Complex projects and the lessons learnt**

As the emphasis of EU assistance has moved increasingly towards technical assistance, the nature of project design, identification and implementation, not to mention procurement, and tender specification has also had to adapt. Such a process needs a committed, constant dialogue of programme manager and counterpart. As in years past this process can also be problematic. The Agency realises that it must ensure that lessons are learnt also within its own organisation, leading to the strong emphasis placed on monitoring, evaluation, training, internal control and Quality Assurance. In addition, nearly 30 evaluations so far have fed back ideas on how the Agency can work better in the years to come – most of these studies have reported positively on the impact of individual projects. The Agency responds to these challenges through aiming to be a 'learning institution' meaning putting greater input and reflection into making Terms of Reference, greater emphasis in counterpart dialogue, and greater analysis of the impact which projects are trying to make. Similarly the Agency reacted proactively to critical observations made by the Court of Auditors report for 2004 by reviewing work practices and improving training and internal control.

### ***\* strengths of the Agency's way of working \****

#### **Flexibility**

The Agency was established by the Council of Ministers (Council Regulation 2667/2000) as an independent Agency of the European Union. Following the strategic programming of the European Commission, the mandate puts the Agency in the lead throughout the project cycle in identifying, designing, contracting, managing, implementing, paying, monitoring, and

evaluating projects. The Agency recruits its staff from the open market and is thus able to quickly act with relative ease to adapt the staff profile. This has become especially relevant with regards to the evolution both of the region and in the programmes. This independence continues to be one of the important aspects of the Agency's success.

### **Disbursing with speed and being reactive to change**

The Agency is strictly bound to ensure that EC funds are swiftly disbursed. At the end of 2004, of the cumulative €2 298 million of EC funds under Agency management, 87% were contracted and 73% paid.

### **Partnership**

It is essential that governments have ownership of assistance programmes. Equally civil society is important as these reforms directly reach and involve ordinary citizens. The Agency enjoys good co-operation with organisations like the EIB, the EBRD, World Bank, the UNDP and the Council of Europe. This is done through co-financing or co-managing arrangements, or by sharing information and project planning at coordination level. It also plays a role in facilitating loans from major international investors (see above). Naturally its closest partnership is with the European Commission, with its Delegations on the ground in Belgrade and Skopje, and with the Directorate-General for Enlargement in Brussels. Increasingly, co-operation with Member States becomes more important, not only to avoid duplication, but also to enhance EU funded and Member State funded support.

### **\* 2005's work \***

#### **European Partnerships and new programming**

In 2004, the EU launched new 'European Partnerships' and these operated in the region, alongside with other methods, such as the opening up to the region of Community programmes and 'twinning.' This work will continue in 2005. Also in 2004 a new strategic planning and prioritisation tool the Multi-Annual Indicative Programme documents was in preparation in order to be used as the basis for future EC assistance programmes in all five CARDS countries for the years 2005 and 2006. This should lay the ground for 2007 when the new EC financial Instrument of Pre Accession (IPA) will enter into action.

#### **The Agency**

The European Agency for Reconstruction's mandate was extended for a further two years until 31st December 2006.

## **5 Republic of Serbia**

### ***Highlights of Agency work in 2004***

#### **Strong support for reform**

The Agency funded projects which helped government in its drafting of civil service laws, public finance and budget laws, environmental laws, a bankruptcy law, and in legislation related to important sectors, such as energy. One example of this was the draft law regulating the state administration and defining its role – the new text will reinforce the concept of public service to Serbia's citizens.

#### **Encouraging the private sector, investment and growth**

The Agency continued to facilitate loans from international financing institutions, including a €50 million loan by the European Investment Bank to modernise Serbia's hospitals.

#### **Creating opportunities for new jobs and vocational training**

Through its support of vocational education and training in co-operation with the European Training Foundation, the Agency strives to encourage widespread training of adults in new skills. During 2004, the EC financed five new regional training centres and equipped 55 schools with computers.

### Major improvements in energy

Since 2000, the Agency has helped Serbia to modernise its energy system, which was badly run down and required massive investment. In 2004, work was completed on the TENT A3 power block: it is now operating at full capacity and with a longer life span. By year end, work was also nearing completion on a separate project at TENT A5.

### ***Politics and the economy***

Parliamentary elections in December 2003 were followed by an uncertain start to 2004. While the Serbian Radical Party (SRS) won the largest percentage of votes (27.7%), the party proved unable to assume power as no other party would join them in coalition. After lengthy negotiations, a new minority government was formed, with the support from the Socialist Party of Serbia (SPS). The government consists of several political parties and is led by Prime Minister Vojislav Kostunica, of the Democratic Party of Serbia (DSS).

Boris Tadic President of the Democratic Party (DS) and a close ally of late Prime Minister Zoran Djindjic was elected President on the second ballot in June 2004, after three previous attempts to choose a President had failed due to low voter turnout. The result stood because the new Parliament agreed to abolish the 50% minimum turnout in the first round of presidential elections.

In local elections held in September the Democratic Party (DS) and Serbian Radical Party (SRS) won the biggest number of votes. The ruling coalition won fewer votes and saw its position weakened.

Towards the end of 2004, the EU adopted in Serbia and Montenegro a new twin-track approach to the Stabilisation and Association Agreement (SAA). It provides the State Union and the two Republics with greater flexibility in meeting their SAP commitments. For instance, the EU will no longer insist on harmonisation of trade and related policies between the two Republics. In 2005, the Feasibility Study will determine progress towards the SAA. A single Stabilisation and Association Agreement (SAA) with separate versions of the protocol for Montenegro and Serbia is expected to follow. Moreover, in line with this evolution, in 2004, for the first time, a separate programme for the State Union of Serbia and Montenegro was prepared (to be funded under the CARDS 2005 programme). This reflects the EC commitment to support the State Union and its institutions.

In 2004 Serbia continued its economic restructuring by re-launching its stalled privatisations. The business regulatory environment was strengthened with the introduction of new legislation governing energy, bankruptcy, and gambling. GDP grew by approximately 6%, while industrial output recorded a 7% increase over the previous year. However, the pressures of increasing unemployment, the expanding trade deficit and higher inflation blunted the edge off economic and industrial growth. Tax collection and government revenues are likely to improve with the January 2005 introduction of VAT.

It is important for Serbia to turn economic growth into jobs. Serbia should also find ways to tackle the barriers its firms face when trying to export in order to combat the huge trade deficit. This includes, for instance, meeting the export standards of lucrative EU markets. Through such a mixture of economic policies, including also labour and education initiatives, Serbia will be better placed to deliver increased and sustainable employment growth.

### ***The Agency's EC-funded programmes***

The EC- Annual Action Programmes implemented by the Agency in Serbia reflect priorities of the European Commission's 2002-2006 Country Strategy Paper (CSP) for Serbia & Montenegro, and the associated three-year (2002-2004) Multi-annual Indicative (MIP) programme. They also

reflect the findings and recommendations of the continuous dialogue - and annual report - of the EU's Stabilisation and Association process in Serbia & Montenegro, and the ongoing communications between the Agency and the European Commission. In 2004 a European Partnership was adopted by the government and the EU and this document outlines the main priorities required for further integration into the EU. In 2005 a new multi-annual indicative programme (MIP) which covers the period from 2005 to 2006 will be adopted.

The main priorities of the European Partnership include strengthening democracy and the rule of law; improving human rights and protecting minorities; increasing regional cooperation; cooperating with the Hague Tribunal; developing a market economy, an internal market and boosting trade. The Partnership makes a distinction between short and medium term priorities: short term priorities are expected to be accomplished within one to two years; medium term priorities within three to four years.

The Multi-Annual Indicative Programme 2002-2004 outlined three important areas: good governance & institution-building; economic reconstruction, regeneration & reform; social development & civil society. The new Programme will focus on the same three areas, but emphasises a shift towards more institution building projects, rather than infrastructure projects, as the country approaches the SAA.

### ***More than 83% of funds contracted and 63% spent***

During 2004, the Agency was given responsibility for a further €202 million in Serbia, bringing its cumulative portfolio of EC CARDS assistance programmes to €984. By the end of the year 83% of this total had been contracted and 63% had been spent.

### ***Main developments in Agency-managed programmes during 2004***

- The Government with assistance from the Agency adopted the Serbian Public Administration Reform, a strategy which covers civil service reform, public sector pay reform and aim at depoliticising public administration.
- In the area of public finance, the Government adopted the budget system law, established a treasury function, a public procurement office and made a decision to set up an internal audit cell. This will improve the transparency of the budget process, increase public expenditure control and help reduce the budget deficit.
- In the framework of the programme supporting the modernisation of public administration, the rehabilitation works of the Tax Administration Training Centres in Novi Sad, Belgrade, Nis and Kragujevac were completed.
- The two-year Policy and Legal Advice Project, which expired at the end of 2004, helped the State Union European Integration Office as well as the line ministries to tackle WTO issues and the reforms necessary for the transition to a market economy. A continuation of this project will be launched in 2005.
- The key State Union institutions dealing with standardisation, accreditation and metrology have received expert assistance under a three-year project designed to harmonise policies and legislation in these sectors with those of the EU, so that Serbia and Montenegro products can more easily access the EU's single market.
- EC funds provided computers and equipment to the central seat of the Belgrade District Court as a continuation of the programme for improvement of the judiciary system in line with the strategy adopted in October 2004.
- The launch of the rehabilitation programme of 50 hospitals covered by the €50 million EIB loan, for which EAR is providing a technical assistance team, has significantly increased Serbia's prospects for better health services.
- The Sloboda bridge reconstruction project has progressed satisfactorily. Works are expected to be completed in summer 2005.
- The Tesla A3 power block was completed in April and Tesla Unit A5 (308MW) in December. The Agency has contributed to the overhaul of about 36% of all the thermal power plants in Serbia, securing electricity supplies for years to come.
- A newly adopted energy law establishes an independent energy regulator which will



support the unbundling of Serbia's energy sector – separating generation from transmission and distribution.

- The Government adopted four laws on environmental protection, including the revised framework law on environmental protection, which have been sent to Parliament. The Government has also continued to work with municipalities to finalise a new site for the planned hazardous waste treatment facility although this remains to be finally resolved.
- About 390 SMEs loans have been disbursed through the Revolving Credit Fund (medium-term credit facility with loans averaging €115,000) and the European Fund for Serbia (micro and SME credit facility with loans averaging €27,000), leading to the creation of more than 2,600 new jobs.
- The network of seven regional enterprise support centres (and 10 sub-centres) continues to provide information, advisory, consultancy and training services to would-be entrepreneurs and existing businesses. One of the centres has been transformed into a Regional Development Agency.
- The passing of the bankruptcy law will speed up the privatisation process. The Privatisation Agency will set up a bankruptcy unit within its structure in order to create the necessary implementation framework for legislation.
- A comprehensive strategy for structural adjustment of the agriculture sector and rural development has been adopted, including measures to accelerate privatisation and land reform, improve access to credit, strengthen the role of markets in guiding production and improve regulation.
- A programme started to support the Return and Reintegration in Croatia, BiH and Kosovo of refugees and IDP's, through provision of information, legal assistance, return packages, transport and counselling. A programme has also started to assist the Government of Serbia in the strategy for closure of collective centres. The programme is targeting the most vulnerable refugee families still remaining in collective centres. EAR is also providing assistance to the Roma communities.
- As a complement to a comprehensive programme to assist the reform of the VET system introducing new curricula and training of some 1000 teachers, EAR supplied 50 VET schools and 5 training centres with IT equipment. Rehabilitation works are completed in 55 VET schools. 2100 unemployed and redundant people were included in 45 training programmes.

## **6 Republic of Montenegro**

### ***Highlights of Agency work in 2004***

#### Improving the public administration

The Human Resource Agency is employing 10 public servants who are playing an active role in making public administration reform a reality. Construction of new premises for this Agency commenced in 2004.

#### Preparing the restructuring of the energy sector

The EU helped the Government agree its energy policy and a strategy to promote energy efficiency. Meanwhile, the electricity utility, EPCG, has adopted an action plan, supported by the EU, to unbundle and restructure its organisation.

#### Reforming the border police

More than 250 border police have been trained in border management, including preventing human trafficking.

#### Facilitating investment in transport and energy

Through its support to the Ministry of Transport, and the airports' management company, the EU facilitated €60 million in financing from the European Investment Bank to improve road, rail and airport transport infrastructure and safety. €11 million of support has also been provided to the energy utility in order to upgrade electricity generation and transmission.

### Promoting a cleaner environment

A new wastewater treatment plant was built in Virpazar and a similar facility is nearing completion in Rijeka Crnojevic, close to the Skadar Lake. An Agency project assisting the drafting of new legislation drafted to EU standards and a master plan to improve solid waste and waste water services has been completed following a positive public consultation process. This facility is managed and maintained by the communal enterprise for water & wastewater (ViK) within the Bar Municipality. This enterprise is involved in the context of a KfW-funded project which is in the process of establishing an inter-municipal cooperation (Vodacom) responsible for water and wastewater.

### ***Politics and the economy***

Since parliamentary elections in October 2002, which saw former President Djukanovic's coalition, "A European Montenegro", secure a parliamentary majority, the government has continued to pursue a reform process under difficult economic conditions. However, differences within the ruling coalition have impeded the implementation of some important new legislation in justice and home affairs.

Montenegro's main opposition parties agreed to end an 18 month boycott of parliament. However, the issue of direct or indirect elections for the State Union Parliament, scheduled for discussion in March 2005, could yet cause further political tension.

Montenegro continued to make progress in stabilising its economy. The Government's agenda comprises a series of policy measures intended to accelerate economic reform. They include enterprise restructuring, privatisation, harnessing the "grey economy", and speeding up private sector development.

Since 2000, the Montenegrin economy has been in a reform process. The Government has completed its mass voucher privatisation programme, though progress on tender privatisation so far remains limited. In public finance, the EC supported measures by government to enhance budget transparency and spending controls, including auditing. The transformation of the enterprise sector still faces several major challenges: it is impeded by weak institutions and inefficient state-owned enterprises (SOEs). Too many small and medium-sized enterprises are affected by fragmented ownership and poor corporate governance as a result of mass voucher privatisation. Consequently, efforts should be focused at streamlining and strengthening the institutional framework for enterprise reform, privatisation and the restructuring of companies.

The introduction of VAT in 2004 (also introduced in Serbia), was implemented without major problems and has resulted in higher revenues to the budget compared with the old turnover tax. When coupled with controlled government expenditures, this has contributed to a noticeable reduction in the budget deficit, now estimated to be about 3.5%.

The informal sector constitutes a large part of the Montenegrin economy, which means official statistics only reflect the official economy. A lack of legitimate GDP estimates, and imprecise business data concerning output, employment and wages, makes it difficult to monitor the economy. Some figures for instance in retail trade, tourism and catering indicate the economy is developing faster than official GDP figures would seem to suggest. Official figures state that consumer prices have been steadily falling in 2004, which would imply the economy is growing at a rate of several percentage points. Significant additional efforts will need to be invested in improving the quality of statistical data in Montenegro, and particularly in developing the way in which GDP and unemployment statistics are estimated.

### ***The Agency's EC-funded programmes***

The Agency's EC-funded Annual Action Programmes in Montenegro reflect the priorities of the European Commission's 2002-2006 Country Strategy Paper (CSP) for Serbia & Montenegro, and the associated three-year (2002-2004) Multi-annual Indicative (MIP) programme. They also

reflect the findings and recommendations of the continuous dialogue and annual report of the EU's Stabilisation and Association process in Serbia & Montenegro, and the ongoing communications between the Agency and the European Commission. Furthermore, in 2004 a new MIP that covers the period from 2005 to 2006 was adopted, as was a European Partnership document which outlines the main priorities required of Government for further integration into the European Union.

The main priorities listed in the European Partnership include strengthening democracy and the rule of law; improving human rights and protecting minorities; increasing regional cooperation; cooperating with the Hague Tribunal; developing a market economy, an internal market and boosting trade. The Partnership makes a distinction between the short and medium term priorities: short term priorities are expected to be accomplished within one to two years; medium term priorities within three to four years.

The Multi-Annual Indicative Programme 2002-2004 outlined three important areas: good governance & institution-building; economic reconstruction, regeneration & reform; social development & civil society. The new Programme will focus on the same three areas, but emphasises a shift towards institution building projects, in place of infrastructure projects.

### ***More than 93% of funds contracted and 79% spent***

In 2004, the Agency was given responsibility for a further €16.5 million in Montenegro, bringing its cumulative portfolio of EC assistance programmes to €87 million. By year-end, 93% of this cumulative total had been contracted, and 79% spent. In 2004 specifically, 73% had been contracted and 21% paid.

### ***Main developments in Agency-managed programmes during 2004***

- Progress continues within the SAp reform agenda with the Government implementing public administration reform strategy and important elements of civil service legislation. New educational laws are under implementation, and an action plan for the implementation of media laws has been adopted. New road and rail transport laws covering institutional arrangements and radical changes to financing mechanisms have been drafted, and are at the review stage prior to being presented for adoption.
- The Ministries of Transport and Economy continue to receive long-term technical assistance to support reform and assist in the disbursement of EIB/EBRD loans worth €70 million in the road & rail, air and energy sectors. Although progress was initially hampered due to the inability of the Ministries to fulfil their obligations to establish and adequately staff project implementation units, there is now progress with approximately 60% of the loan portfolio having been contracted. It is anticipated that leading IFIs, in particular EIB and EBRD, will provide additional loan funding and extend their interest to the air transport sector.
- The Agency provides continued support for the development of a new administrative legal framework, with focus on the sensitive issue of implementation. An Agency for Human Resources Management has been established following the implementation of the civil service legislation. Government now needs to make additional efforts to rationalise the civil service system, reinforce inter-ministerial cooperation and ensure implementation of sensitive reforms such the reform of salaries.
- Substantial progress was made in supporting modernisation of the judiciary. Court computerisation is nearing completion and the activities of the Judicial Training Centre are being strengthened to the point that its mandate may be extended to training of prosecutors. The government has now ensured its financial sustainability.
- Equipment is being provided to the Ministry of Interior and the border police service, as well as training to border officials with the aim to strengthen border security and the fight against organised crime.
- Progress continues to be made in building the institutional capacity of municipal authorities, and implementing local investment projects. But progress on the institution-building component has been hampered by a lack of counterpart staffing and

funding. Investment projects include developing cultural centres, rehabilitating roads, improving water pipelines and sewage networks, and building a new fire brigade building. Development of educational infrastructure has included with the construction of a new school in Podgorica and the extension of two further schools in Bijelo. In Podgorica the evaluation of the second and final phase of the fire brigade building began.

- New media laws were prepared after lengthy political discussions, their implementation has commenced within the framework of a second Joint Initiative with the Council of Europe.
- The Government continues to be slow in providing the promised training resources to the beneficiaries on the use of the equipment that was previously delivered and installed in various ministries and organisations.
- Technical assistance is being provided to support energy reform and restructuring, the establishment of a project implementation unit, and an energy efficiency programme. Important milestones have been reached, including the establishment of the adoption of the energy sector policy and preparation of the draft energy efficiency and electric utility privatisation strategies, as well as the approval of the electric utility unbundling plan. Strategic policy advice continues to be provided to the Ministry and the Electricity Utility Company, and the implementation of energy reform has gained pace.
- In southern Montenegro, a €20 million road infrastructure rehabilitation programme has been successfully completed. New third lanes and improved safety features, such as galleries to protect drivers from falling rocks and a reduction in landslip to the sides of the roads, have significantly improved driving conditions. Progress on the programme was hampered, to an extent, by land expropriation issues and sub-standard contractor performance.
- Technical assistance input has been provided for restructuring 11 medium-sized and approximately 53 small companies (post-privatisation). Success of these operations will depend largely on continued Government commitment to the proposed implementation measures, and the provision of financial support for payments to redundant workers.

## **7 UN-administered Kosovo**

### ***Highlights of Agency work in 2004***

#### Supporting reform

The EC is working with the PISG to introduce policies and laws that are compatible with EU standards. This assistance impacts the work of the Assembly of Kosovo, and the central ministries covering areas such as public finance, agriculture, health, the economy, and local government, all parts of government which directly affect the citizens of Kosovo.

#### Improved Energy Production

The Agency successfully completed the overhaul of Kosovo's main power plant, which provides most of the province's electricity. The Kosovo B plant, which is operated by the Kosovo Energy Corporation (KEK), is expected to run for at least another 10 years.

#### Encouraging private enterprise

The EC continued to support the start up and expansion of business enterprises in Kosovo – essential for job creation and economic development. In November, the Agency launched a project with the Ministry of Agriculture, Forestry and Rural Development to develop a plan for reforming agriculture and improving the performance of the rural economy.

#### Health and helping the vulnerable and the disenfranchised

The EC paid for nurses from Kosovo to complete a Masters Education Course at Glasgow Caledonian University and then return to Kosovo to join the teaching faculty of a new Nurses College set up with EC financing. The Agency has helped small enterprises in minority communities across Kosovo in an effort to re-engage them in society and the economy. 13,000 people on little or no income received free legal aid financed by the EC.

### Modernising infrastructure and protecting the environment

The EC financed a number of new landfills to replace dangerous and illegal rubbish dumps. It is also co-financing with PISG and KFO4 the reconstruction of 12 structurally weak bridges along the busy commercial route between Pristina and the former Yugoslav Republic of Macedonia.

### ***Politics and the economy***

Tensions between Kosovo's Albanian and Serbian communities continued to simmer in 2004. In March, Kosovo suffered some of the worst ethnic violence since NATO's intervention in 1999. Widespread violence, led by Kosovo Albanian extremists, set back efforts to create a secure democratic and multi-ethnic Kosovo. It was agreed that more effort is needed, particularly by PISG leaders, to stop inter-ethnic violence and create a safer climate for minority communities and future returnees. Specifically, Kosovo must help its minority communities play a greater role in society and the development of its economy, and be more widely represented in public administration.

Kosovo's second general election was held in October. No significant security incidents interrupted polling day, however the turnout of Kosovo Serbs was extremely low. A new coalition government emerged from the election consisting of two parties, the LDK and AAK. The coalition chose Mr Ramush Haradinaj to be Prime Minister.

The huge challenges facing the new provisional government include taking tangible steps towards creating a democratic society that encourages pluralism and multi-ethnicity; advancing economic development and job creation; and preparing for the expected comprehensive review of the implementation of the Standards for Kosovo.

With a view to prepare for the future settlement of the status of Kosovo, the SRSG, together with the Prime Minister, launched in early 2004 the Kosovo Standards Implementation Plan (KSIP). The Plan outlines concrete actions to be undertaken by the PISG and UNMIK to achieve the priorities defined in the 'Standards for Kosovo', which was endorsed by the UN Security Council in 2003. A review of how these standards are being implemented is foreseen for mid-2005. To date, the EC has provided €125 million in assistance to support the efforts of Kosovo's institutions in implementing these Standards.

Thanks largely to the international community working together with the PISG to support the business atmosphere there has been some economic progress. Nonetheless, the economy remains underdeveloped, half of the population lives in poverty, industrialisation remains limited, and unemployment is estimated at between 30% and 60%. Kosovo still requires significant investment to develop its infrastructure. Meanwhile, the overall amounts of foreign aid and workers' remittances coming into Kosovo are declining. Foreign investor confidence is also weak and the economy has a substantial trade deficit reflecting its low capacity to export.

In June 1999 the United Nations Security Council passed Resolution N° 1244, establishing the United Nations Interim Administration Mission in Kosovo (UNMIK). The 'Constitutional Framework for Provisional Self-Government', promulgated in May 2001 by the UN Special Representative of the Secretary General (SRSG), defines the 'Provisional Institutions of Self-Government' (PISG), and the division of responsibilities between UNMIK and the PISG. Many administrative and legislative powers are 'transferred' to the PISG, while some specific powers are 'reserved' to UNMIK. The SRSG retains final say on all issues in order to safeguard UNSCR 1244.

There are analytical statistics on Kosovo unemployment rates in the UNDP's 2004 Human Development Report (<http://www.kosovo.undp.org/hdr-new/index.html>; see pp. 123-4). Unemployment rate for 2004 is fixed at 44% (39% male, 58% female; see p. 133).

### ***The Agency's EC-funded programmes***

At the European Council summit in June 2003 the Thessaloniki Agenda was adopted. This confirms the Stabilisation and Association process (SAP) as the policy framework for advancing the EU perspective of the Western Balkans. The Agenda included the adoption of European Partnerships, which outline the main priorities required of Governments for further integration into the European Union.

The European Partnership covering Kosovo was approved by the EU Council of Ministers in June 2004. The Commission's new Multi-Annual Indicative Programme reflects the Partnership and

sets the strategic programming framework for CARDS in 2005 and 2006.

The Kosovo SAp Tracking Mechanism (STM) is designed to develop awareness of EU policies and values and to help the PISG and UNMIK keep reforms and efforts to develop local institutions in line with EU standards. The European Partnership meanwhile puts priority on implementing the Standards for Kosovo, thereby enhancing the mutually reinforcing character of the SAp/STM and the Standards. By requiring Kosovo to meet the political and economic reform conditions mandated by the SAp and expecting it also to approximate its legislation and policies to EU standards, it is hoped that Kosovo can catch up with the rest of the region.

In its 2004 Annual Action Programme for Kosovo, the Agency continued to place great emphasis on institution and capacity building projects that improve governance. It also supported economic development and Kosovo's transition to a market economy. The Agency's works reinforces the Stabilisation and Association process (SAp) and its aim of integrating Kosovo into Europe.

### **95% of funds contracted and 88% spent**

In 2004, the Agency was initially given responsibility for a further €49 million in Kosovo, bringing its cumulative portfolio of EC assistance programmes to €1 billion. By year-end, 95% of this total had been contracted, and 88% spent. Of the 2004 specifically, 56% had been contracted and 23% paid. In December, the European Commission provided Kosovo with a further €23.9 million of assistance, increasing the 2004 programme managed by the Agency to €72.9 million.

### **Main developments in Agency-managed programmes during 2004**

- The institutional capacity of the Assembly of Kosovo is being strengthened to deal with its increasing workload. An electronic voting system, simultaneous translation services (Albanian, Serbian and English) and video broadcasting were installed in the Assembly chamber in February 2004. However, the Assembly is making slow progress on the adoption of some reform proposals developed by the programme.
- The project to build the capacity of the PISG to participate in the Stabilisation and Association process was launched in November 2004. The project will assist PISG ministries, and particularly the Office for European Integration Processes, to strengthen the capacity of Kosovo's public administration to adopt, implement and enforce reforms, policies and laws compatible with the *acquis communautaire* and the UNMIK-PISG 'Standards' process – in line with the SAp reform conditions and the European Partnership covering Kosovo.
- The project to support the Prime Minister's Office in the development of an EC compatible coherent legislative system was successfully completed, in addition, 100 Kosovan lawyers were trained in legal drafting skills, and ten young civil servants are participating in a fast track training scheme which includes the opportunity to undertake graduate studies at European universities. However, retention of civil servants who have benefited from training programmes remains a challenge, given low public sector salaries and the lack of a clear career structure.
- The Agency assisted the Ministry of Public Services in coordination with the Ministry of Finance and Economy, to develop remuneration and grading system for Kosovo's civil servants. The PISG will implement the pay and grading system from July 2005.
- In March, the Agency launched a project to provide institution building support to the PISG for the establishment of a comprehensive public procurement system.
- EC assistance is strengthening the institutional capacity of the Association of Kosovo Municipalities (AMK) to develop best practice and common policy positions across all municipalities. Nine municipal policy statements, developed as part of the programme, set the agenda for local government development in Kosovo and are being taken up by the newly created Ministry of Local Government and by international donors.
- An EC funded project launched in April, is assisting UNMIK to develop Kosovo's first comprehensive border and boundary management strategy, train the border/boundary

section of the Kosovo Police Service and refurbish border control facilities.

- A Case Management Information System developed with EC and Government of Finland assistance is being implemented. The system will enable the courts to process cases more efficiently than under the current manual system. The roll-out had been delayed to enable UNMIK to evaluate between this system and an alternative pilot system developed with assistance from USAID.
- Some 26,000 vulnerable persons have received assistance with legal information and representation as part of an EC funded programme for the development of a legal aid system in civil and administrative matters.
- Through Agency assistance the Ministry of Health and the Ministry of Education have agreed to the introduction of new curricula for medical undergraduate and postgraduate education at the Medical Faculty in the University of Pristina. Development of the Nurses College within the university is being supported through the further training of nurses and midwives. An issue still facing the Nurses College is sustainability.
- An EC funded project launched in June 2004 is assisting the UNMIK-PISG Economic Strategy and Project Identification Group (ESPIG) to formulate a medium-term economic development strategy for Kosovo, building on preparatory work undertaken by the EU Pillar with support from DFID. Based on the strategy, ESPIG should identify priority 'bankable projects' for possible financing from IFIs. One challenge is ensuring the commitment of the coalition government to the ESPIG as a vehicle to support the formulation of a Kosovo Development Plan.
- 4,000 EC funded loans have been provided to small and medium enterprises through the European Fund for Kosovo. The Fund, managed by Kreditanstalt für Wiederaufbau (KfW), provides technical assistance and loans to commercial banks and financial institutions for on-lending to the SME sector.
- Assistance is being provided to the Ministry of Trade and Industry to strengthen capacity of the Ministry to develop and implement policies, assist the setting up of an Investment Promotion Agency, and to promote trade and investment.
- A project in banking launched in August will establish a training centre on a co-funding basis with seven commercial banks operating in Kosovo.
- Five NGOs have been selected as partners for the 2004 programme to directly assist the return of some 150 ethnic minority families to their communities. The NGOs, selected in cooperation with UNMIK Office of Returns and Communities, will implement multi-sectoral projects including housing reconstruction and legal advice for returnees.
- Over 800 enterprises have received financial assistance through the minority community stabilisation programme which promotes employment creation and socio-economic development in disadvantaged minority community areas. The March crisis negatively impacted the implementation as a number of municipalities covered by the programme were significantly affected by the violence. The Agency is currently evaluating how the programme may be refocused.
- EC assistance supported the Housing and Property Directorate for the resolution and regularisation of residential property disputes. The work of the Directorate has a significant impact on minority communities. Some 29,000 claims have been registered with the HPD. By December 2004, 23,000 claims had been legally decided with nearly 9,800 decisions implemented by the HPD, who's challenge will be to now implement decisions on complex claims by the end of its mandate in December 2005.
- The project to assist the Ministry of Agriculture, Forestry and Rural Development to develop an Agriculture Master Plan was launched in November. This programme is focused on revitalising the rural economy. The Agency assisted the Ministry offices to improve the planning and implementation of policies. Included in this initiative is a plan to establish a food safety system to EU standards.
- The EC funded Agro-Business Development Unit has provided 52 loans totalling some €14 million plus technical assistance to agri-business enterprises, farmers' associations, Socially Owned Enterprises and a rural micro-finance institution since 2001. Given the successful development of the commercial banking sector in Kosovo, the fund is planned to be closed in spring 2005.
- Since establishment of the rural micro-finance scheme in late 2000, funded by the EC, France and Sweden, over 10,100 loans have been extended to farmers and traders.

- Substantial complex repairs to the fire damaged thermal power plant Kosovo B have been successfully completed. The plant is now fully operational and output has been increased. As a result, there were fewer power cuts in the winter, but energy still needs to be imported or rationed to meet shortfalls between generation and increasing consumption.
- The rehabilitation of the 'Sunny Hill' district heating sub-station in Pristina was completed in early 2004, improving the supply of heating to households and businesses while reducing the demand for electricity used for heating appliances.
- To restructure and improve the management of the energy utility - KEK, UNMIK-PISG have put in place a turn-around management team (TAM) with executive powers. KEK, in collaboration with UNMIK and the PISG, needs to drastically improve revenue collections to raise the necessary funds for regular maintenance and essential investment in Kosovo's electricity infrastructure.
- Six regional sanitary landfills, managed by the Kosovo Trust Agency or local municipalities have now been completed - to minimum EU standards, providing waste disposal services for one million people from all of Kosovo's communities. The Pristina landfill is under construction and is expected to be completed in 2006. In a complementary action, the Agency completed a project which has built the institutional capacity of some 20 waste collection utilities. 15,000 water meters are being installed in the Pristina region to assist the Ministry of Environment and Spatial Planning, and the water utilities, to better manage water resources, and improve revenue collection.
- By December, six bridges were reopened on the busy road between Pristina and the border crossing with FYR Macedonia, as part of a programme to repair or replace 12 bridges on the route in line the Eurocodes for heavy commercial traffic. The programme, managed by the European Agency for Reconstruction, is co-financed by KFOR and the Ministry of Transport of Transport and Communications.
- In September 2004, the Agency, with the European Training Foundation, launched a further phase of the programme to modernise and reform Kosovo's vocational education and training system. EC assistance is supporting the Ministry of Labour and Social Welfare to develop a National Strategy on Employment.
- Seven civil society organisations focusing on women's economic development, youth, EU integration and minorities were chosen to receive EC assistance including a consortium of Serb and Albanian NGOs aiming to improve inter ethnic relations.

## **8 The former Yugoslav Republic of Macedonia**

### ***Highlights of Agency work in 2004***

#### Support to local government and strengthening the civil service

The EC successfully completed its three-year project to strengthen local government and support the decentralisation of important responsibilities from central government to the municipalities. In addition the EC financed a civil servants training course for 600 students from minority communities. Almost all of them are now employed in the civil service and raise minority representation in the public service from 10 to 16% an important condition of the Ohrid peace agreement.

#### Support to economic reform

The EC helped the government develop important banking, trade and other economic reforms. It also launched the country's first "twinning" project: the Slovenian Government Office for European Affairs is working with the former Yugoslav Republic of Macedonia authorities to build their institutional capacity for legal approximation activities.

#### Integrating border services and training the police

The EC, in close co-operation with other donors and EU bodies, continued to support efforts in the former Yugoslav Republic of Macedonia to integrate its border services and reform its police. The EC financed equipment for border posts – including a communications network linking border posts with the central office in Skopje and it has helped establish a police training academy.



### Reforming asylum laws

The EC launched its first project in the former Yugoslav Republic of Macedonia in the area of immigration and asylum. The project will help government develop an action plan to revise current asylum laws and provide the relevant public servants with training.

### **Politics and the economy**

The political situation in the former Yugoslav Republic of Macedonia remained stable during 2004 despite some tense moments. The death of President Trajkovski, in a plane crash in February, was handled calmly and the subsequent presidential elections were conducted without major incidents. The election resulted in a consolidation of the ruling coalition's power. The Prime Minister, Mr Branko Crvenkovski, won the presidency and subsequently chose the Minister of the Interior, Mr Hari Kostov, to be Prime Minister. Mr Kostov made only minimal changes to the existing government and the coalition with the ethnic Albanian party DUI remained intact. However, Mr Kostov later resigned due to "disagreements within government". The ruling SDSM party then chose a new party leader, the former Minister of Defence Mr Vlado Buckovski, and asked him to form a new coalition government. Prime Minister Buckovski's new government was elected by the Parliament in December 2004.

One of the biggest challenges for the country in 2004 was the adoption of the new *Law on Territorial Division*. This Law defines new municipal boundaries and reduces the number of municipalities from 123 to 84. The proposed territorial division caused protests by slav Macedonians in several ethnically mixed municipalities. This led to a referendum organised in November which failed to attract 50% of 'yes' voters, which meant the law remained intact. The critical challenge now for the Government is to ensure that decentralisation, and the raft of complex legislation that has been adopted in this area, is actually carried out in 2005. That will mean doing more to prepare municipalities to take on their newly devolved responsibilities and explaining to central ministries their role in the process.

Subsequent analysis into the November referendum indicates that the dissatisfaction over this issue was, to a large extent, caused by the poor socio-economic situation in the country. A UN report points to two particular causes of public discontent: one is the declining living standards; the second concerns the lack of future prospects. Opinion polls also confirm unemployment and poverty as the most pressing problems for the population. Due to the extensive grey economy and existing rules for accessing benefits, it is difficult to assess exactly how many people are jobless, current official figures suggest 36.7%. Continued high unemployment and widening poverty could risk destabilising the country

Regarding the economy, there have been some notable achievements. Inflation has been brought down to single figures in recent years and by the end of 2004 there was a deflationary rate of -0.4%. Complementing this trend, sound fiscal policy has helped gradually lower the level of government debt to under 40% of GDP. The government's positive fiscal management is not reflected in the structure and performance of the economy as economic indicators still look gloomy and the corporate sector remains weak. The IMF reported a decline in the level of GDP during the first half of 2004. The business sector meanwhile lacks liquidity and there is a lack of investment.

The trade deficit is thought to have reached \$1.2 billion by the end of 2004, compared with \$800 million in 2003, a 50 % increase. In fact, the country's export base has not expanded since 1991, leaving its foreign trade to fall far behind other emerging European markets.

In 2004, the former Yugoslav Republic of Macedonia reached two important milestones on its journey to the EU:

- On the 22nd March, the Government of former Yugoslav Republic of Macedonia officially submitted the country's application for EU Membership. In October, the EU responded by handing over to the Government its Questionnaire. The answers to this comprehensive list of questions will be the basis for the Commission's "Avis" on the former Yugoslav

Republic of Macedonia's application. The EC could adopt the Avis by the end of 2005. The Government submitted its answers to the questionnaire on the 14th February 2005.

- The Stabilisation and Association Agreement (SAA) between the EU and the former Yugoslav Republic of Macedonia, signed in April 2001, entered into force on the 1st April 2004, possibly moving the country nearer to the EU. This is the first SAA to enter into force.

Early Warning Report, UNDP, November 2004  
Source: State Statistical Office

### ***The Agency's EC-funded programmes***

The Agency's EC-funded Annual Action Programmes in the former Yugoslav Republic of Macedonia reflect the priorities of the European Commission's 2002-2006 Country Strategy Paper (CSP), and the Multi-annual Indicative (MIP) programme. They seek to reinforce the priorities of the Stabilisation and Association Agreement and the European Partnership – two important documents that outline the main priorities required of the country for further integration into the European Union. The programmes also support the implementation of the Ohrid Framework Agreement. EU support falls under four main headings: democracy & the rule of law; economic & social development; justice & home affairs; and the environment.

In the development of the programmes, due attention has been paid to ensure complementarity and synergies with other assistance programmes, in particular those of EU Member States and CARDS regional initiatives, and IFI lending programmes.

### ***More than 84% of funds contracted and 56% spent***

In 2004, the Agency was given responsibility for a further €43 million in the former Yugoslav Republic of Macedonia, bringing its cumulative portfolio of EC assistance programmes to €263 million. By year-end, 84% of this total had been contracted, and 56% spent.

### ***Main developments in Agency-managed programmes during 2004***

- As part of the implementation of the Ohrid Framework Agreement, EC assistance is helping address current imbalances in ethnic representation in the civil service. Over the course of 2004, training was delivered to civil servants from minority groups. The trainees have passed the final civil service exam and obtained a Public Administration Certificate.
- The Agency has been busy supporting the decentralisation process at a number of levels in terms of policy development, capital investment and training. Some €7.5 million have been allocated to provide technical assistance in these areas and over €30 million have been allocated for infrastructure investment in municipalities. The three years policy support project for local government development was successfully completed in December 2004. Through the local infrastructure development programme tangible investments in water supply, sewerage, and local roads are realised. In order to ensure sustainability of these investments, the infrastructure development is complemented with training for local authorities.
- In support of civil society, eight NGO Support Centres were set up in economically deprived areas of the country during the first half of 2004.
- The project for approximation of the national trade legislation with the EU *acquis* was finalised in May 2004. Ten laws have been developed in the areas of internal market, consumer protection, personal data protection, and competition. A follow up project commenced in September 2004, providing further assistance.
- Support to the SME sector entails a range of activities including technical assistance to the Ministry of Economy; training for SME managers; and provision of credit lines. The highlights in the reporting period are the establishment of the European Business Association and the Euro Info Correspondence Centre.
- The project 'TA for Banking Sector reform' was completed in November 2004. Assistance has been provided to the National Bank, the Securities Exchange Commission and the Ministry of Finance with the introduction of specific EU Directives in the field of financial

operations.

- EC assistance was provided for the development of the Energy Regulatory Commission. Special emphasis was given to the secondary legislation in the field of energy regulation, pricing and tariffs, licensing, services quality regulation and compliance monitoring of regulated licensees.
- EC assistance has helped in the drafting of the Government's National Action Plan for Employment. The aim is to make the relevant government bodies more responsive to labour market requirements. As a first step, the regional employment bureaux have undergone training and reorganisation in order to be able to deliver more active labour market services to the unemployed. In addition, 11 pilot projects started to be implemented, including advice on starting a business.
- The EC has contributed €26 million to construct 16 kilometres of the E75 highway south of Skopje. Construction has been in three phases. The first two phases are complete, and the sections of road were opened during the summer; the third phase in the Negotino area is expected to be completed in 2005. The project is part of a wider €45 million EU-funded programme to improve infrastructure.
- In agriculture, projects assisted the Ministry of Agriculture to take forward the legislative approximation process and to introduce a national animal identification and registration programme. Framework laws approximating to key elements of the *acquis* in relation to the common market organisation for wine and animal identification and registration were adopted by the Parliament on 7 October 2004. The new EU compliant Law on Plant Health is expected for adoption in early 2005. A new veterinary law has been developed. In parallel, equipment is being delivered for veterinary and phytosanitary border control, inland field inspection and laboratory control. This includes IT and communication equipment linking Border Inspection posts and field offices to the veterinary and phytosanitary departments in Skopje.
- Three new institutes have been developed with EC assistance: the Institute for Accreditation, Institute for Standardisation and Bureau for Metrology.
- EC assistance has helped in the development of a national Integrated Border Management strategy and action plan. Key elements of the strategy are the establishment of a dedicated Border Police Service, and development of inter-service communications capability. Deployment of the Border Police Service started in May 2004 completion of deployment is scheduled for December 2005. The process will see 1,400 border guards transferred to the police. Further EU support will be provided in the development of data communications infrastructure, linking the 20 international border crossing points with a central facility at the Ministry of Interior.
- To address police reform in August 2004 the Agency began a project that provides guidance to the strategic development of the newly established Police Academy. The project is implemented by the National Police Academy of Netherlands. Currently, assistance is focused on the adoption of international standards and the development of a new curriculum appropriate for the needs of a modern police service. At policy level, a team of experts are now based in the Ministry of Interior, helping the Government to finalise the National Police Reform Action Plan and take forward its Police Reform Strategy which includes accountability, career management and merit-based advancement.
- A project to provide assistance to the Anti Money Laundering Directorate in developing capability to combat money laundering started in June 2004. It will also support the authorities in implementing a recently passed law aimed at this problem.
- The activities in the approximation of environmental legislation have led to completion and adoption of a number of laws: on waste management, air quality and nature conservation, while the law on water and the environmental framework law are expected to be adopted by March 2005.
- The ambient air quality-monitoring network has been completed with the delivery and installation of 5 additional automatic stations serving Veles, Bitola, Tetovo and Lazaropole. Four stations serving Skopje have been upgraded.

## 9 The EC's Evaluation of the Agency

The Agency was the subject of a study carried out by the Evaluation unit of the EuropeAid Co-

operation Office. This unit manages evaluations on behalf of the entire 'family' of External Relations Directorate activities of the European Union.

This evaluation's result was a positive endorsement of the passed and ongoing activities of the Agency from 2000, noting the quick, efficient and effective impact which this body had been able to achieve since its inception. The report, which is available in full on the website (see below) of the EuropeAid Co-operation Office, concluded that the Agency's success had seamlessly translated into a raised profile for the EU throughout the region. <http://www.europa.eu.int/comm/europeaid/evaluation/program/cardsrep.htm>

The evaluation summarised that the Agency had shown leadership successfully. However the report also suggests that it had to build on its strengths and work more on process and dialogue with partners. Moreover, the evaluators recommended that more effort be placed on working towards the adoption of a 'more sector based approach to planning, monitoring and evaluation.' In addition the Agency was advised to work more with donor coordination, strengthen country knowledge and country planning, and constantly enhance its human resources capital. Recommendations also included deepening activities in quality assurance, sector work, programming and training.

The Agency recognised that a progression had to be made both in terms of focus, in programming in infrastructure towards institution building, and in terms of addressing some of these recommendations to underline the 'quality' aspects of project and programming work. To this end a number of actions have been implemented including the reinforcement of the Quality Assurance sections throughout the Agency, the standardisation of the monitoring process – using tools which help to better access the progress made by all centres towards wider goals and an increasing concentration on 'cross-cutting issues' in programming. Throughout 2004 training was organised both in thematic subjects and in specific areas such as Project Cycle Management (PCM), procurement, finance and IT.

## **10 Coordination & partnership**

Throughout 2004 the Agency engaged in extensive consultations with beneficiary authorities, Commission services, Member State representatives, other international partners and interlocutors in the selection and elaboration of projects for the CARDS 2005 Annual Programmes. This was done in order to ensure that the programmes were ready for consideration by the Agency's Governing Board in February 2005. The Governing Board met 4 times in 2004, and continued to play an important strategic role in debating specific financing proposals for Serbia, Kosovo, Montenegro and the former Yugoslav Republic of Macedonia, as well as a variety of programme-related and administrative issues.

The established practice of regular Agency meetings with EU Member State representatives based in Belgrade, Pristina and Skopje has continued (the Podgorica centre initiated the hosting of such meetings in December 2004). Resident representatives of candidate countries have also taken part. These fora provide opportunities for developing common positions on assistance issues of mutual concern in the respective location, exchange of information on the current implementation status of EC programmes and increasingly on coordination of EC and EU Member States bilateral assistance. The Member State representatives also present their own bilateral aid programmes, further enhancing coordination within the EU 'family'.

Moreover, the Agency was able to maintain close working contacts with both governments and other donors, including the World Bank, USAID, Swiss Co-operation, EIB, EBRD, and others. Donor countries played a full part in this process.

In July, the second annual meeting between the European Investment Bank (EIB) and the European Agency for Reconstruction focused on how the two institutions could further strengthen their partnership to ensure EU funded investments, across such areas as private sector development, transport, energy, environment, water, health and education. To date, in Serbia and in Montenegro €60 million of Agency-managed EC grant funds have contributed to

the mobilisation of some €730 million of EIB loan funds.

### **Closer collaborations**

In Belgrade EU Member State and inter-donor consultation continuously seeks opportunities to exploit the benefits of pooling resources and joint programming. To that end the Agency, has developed joint strategies with DFID on Public Finance Reform/Treasury management support to the privatisation process joint action with the World Bank and pooling funds with KfW to improve District Heating in Serbia. The Agency also works with the OSCE to support implementation of Roma support programme, the UNDP to address civil society challenges and municipal development and the Council of Europe on the Media regulatory environment. The Agency has been very successful in facilitating EIB and EBRD funding through project identification, due diligence and project management capacities. This has resulted in the Agency leveraging almost a billion euros of investment to address key infrastructure and economic development challenges.

In the context of Statistics the Agency has cooperated closely with SIDA/Sweden. The EC project complements the SIDA project concentrating on training and technical assistance in economic data and National Accounts. In addition work will begin in a twinning with a EU statistical office.

The Agency also cooperates closely with the World Bank in the context of Land Cadastre. The EU contribution is €5 million euro and the World Bank contributes €30 million. The project itself draws on EU and World Bank experiences in other transition states. In addition to this project partnership other donors are also involved in parallel activities; the Swedes in funding training, Germany funds work in the municipalities and the Norwegian government plans to enable a facility which will digitalise existing maps. This clearly illustrates the benefits of close donor coordination and cooperation.

Similarly in the former Yugoslav Republic of Macedonia close coordination between the international donor community in practical purposes exists on project level as frequent discussions take place between the key players involved. In addition the Agency organises every month a meeting with all representatives of the EU Member States. Specific topics are selected each meeting. Further discussions took place with the aim to establish a closer coordination mechanism between the international community and the national government. Subjects which have been discussed so far include environment and private sector developments.

In Kosovo, the Agency works in close collaboration with the EU Member States in the design and implementation of assistance programmes and the development of joint strategies, examples of this partnership are evidenced in the Agency's work with: DFID in designing a transition strategy for the justice sector, the civil service pay review and the development of an economic strategy by the PISG; KfW/Germany in the energy, finance/banking, and water sectors; and SIDA/Sweden in district heating and the preservation on Kosovo's diverse cultural heritage.

A common objective, and one strongly supported by DFID in Kosovo, is to increase the capacity of the PISG to take a greater role in donor coordination. The on-going initiatives - supported by the Agency and the EU MS - to develop a capacity building strategy for Kosovo, and a Kosovo Development Plan should advance progress in achieving this aim.

### **Working with the authorities**

Moreover, the Agency's work both in programme and project implementation with partner countries is aimed at consistently ensuring national ownership of the EU integration process throughout the region. The Agency recognises that donor assistance can only succeed when this process is owned by the partner countries.

## 11 Evaluation

Since establishment in 2001, the evaluation team has completed 28 project evaluations and 3 remain ongoing. It has also carried out 6 broader reviews of cross-centre themes, such as institution and capacity building. Two important themes tackled during 2004 were sustainable development, and the association and integration of the region's institutions and systems into EU structures.

The total value of EC financed, and Agency managed, programmes covered by these evaluations, is €1 billion, approximately 40% of the Agency's total portfolio.

The executive summaries of completed evaluations are available on the Agency's web site, at <http://www.ear.eu.int/publications/evaluations>.

The evaluations carried out in the reporting period covered:

- The former Yugoslav Republic of Macedonia - Technical assistance to draft trade laws,
- Serbia - Support for Serbia's public expenditure management,
- Economic development - small and medium-size enterprises,
- Serbia - Supporting the tax administration in Serbia,
- Kosovo - Water supply & waste management Improving the supply of safe drinking water, and improving the treatment of solid waste,
- Kosovo - Legal Aid Support to legal assistance & legal aid in civil matters,
- Kosovo - Economic development & support to minorities Support to enterprise development in minority regions & community stabilisation initiatives for minority communities.

Recommendations are communicated within the Agency and with Beneficiaries. This means that lessons learned are applied in the design and implementation of new projects. Executive summaries of completed evaluations are shared with the Governing Board, with explanations on how the Agency's management is responding to the team's findings and recommendations.

## 12 Internal Control

The European Commission Reform White Paper defines internal control as follows ;

*"Internal control covers the globality of the policies and procedures conceived and put in place by an entity's management to ensure the economic, efficient and effective achievement of the entity's objectives; the adherence to external rules and to management policies and regulations; the safeguarding of assets and information; the prevention and detection of fraud and error, and the quality of accounting records and the timely production of reliable financial and management information".*

On 13 December 2000 the Commission approved a set of 24 Standards for Internal Control to be applied by its different departments. The European Agency for Reconstruction also adopted these same standards for its organisational structure and internal management (control systems and procedures) in line with the article 38-4 of the Agency Financial regulation stating that:

*"the authorising officer shall establish within his departments an expertise and advice function designed to help him control the risks involved in his activities"*

In September 2003 the Agency established the function of Internal Control Coordinator. This function reviews in a systematic approach the actions put in place in order to fulfil the 24 Internal Control Standards and reports to the Director on the implementation of these Standards by the Agency services.

At the end of 2004 the Commission Internal Audit Service (IAS) conducted a compliance audit

on the efficiency and effectiveness of the Agency internal control systems. This IAS mission to the Agency lasted several weeks and IAS teams visited the four EAR Operational Centers and the Thessaloniki Headquarters assessing the systems in place.

The conclusions of the preliminary report (the final report has not yet been issued) indicate "that the overall opinion of the IAS is that the procedures already in place in the Agency provide, on average, an acceptable degree of compliance with Internal Control Standards".

Based on the provisional findings of the IAS, which the Agency took very seriously, and on the work already carried out by the Internal Control Coordinator the Agency aims to implement the 24 Standards for Internal Control in full by 31 December 2005 and to review them on an ongoing basis.

### **13 Information & communication**

The Thessaloniki headquarters of the Agency continued its responsibility for communications with audiences outside the region, while also coordinating the strategy, messages and outputs of each of the four Operational Centres. Each of the Centres ran extensive media and information programmes amongst their own local audiences.

#### ***From the four Operational Centres***

Each of the Centres also ran busy programmes of press relations (press releases, press events, press conferences and/or briefings), literature (monthly bulletins), short films for TV screening, and support for the communications activities of individual Agency-managed projects, whether alongside government, 'counterpart' or contractor or all of these.

The Agency's works feature regularly throughout the local press, as evidenced by the findings of a daily media monitoring service.

### **14 Administration**

Specific Conditions of Employment for local staff serving in the four Agency centres were adopted by the Governing Board in its meeting in June and are applicable from the 1st July, 2004. By the end of the year, the Agency employed 262 staff of whom 88 were international Temporary Agents and 174 were locally recruited Local Agents.

The second part of 2004 posed difficult challenges for the Agency. Although an extension of the mandate was expected, this was formally only confirmed in December 2004. This in turn forced the Agency to issue 'pre avis' redundancy notices to all international staff. As a consequence of this uncertainty a number of staff left the Agency.

Administrative costs remained low at 4.4%. Personnel resources are distributed as follows with the greater part of staff working in the operational centres of the Agency.

<b>Staffing, at 31/12/2004</b>	Thessaloniki	Belgrade	Pristina	Podgorica	Skopje	<b>Total</b>
International	23	26	19	3	17	88
Local	23	56	46	11	38	<b>174</b>
<b>Total</b>	<b>46</b>	<b>82</b>	<b>65</b>	<b>14</b>	<b>55</b>	<b>262</b>

### **15 Finance**

As of 31 December 2004, the Agency had been entrusted with the management of €2.3 billion of EC funds including €104 million of administrative expenditure, €33 million from other donors, and €141 million to be paid by the Agency within contracts that were already signed by the European Commission.

Some programmes were under implementation when the Agency assumed their management, however the bulk of these programmes were initiated by the Agency.

The amounts received from other donors (non EC) per year are as follows:

	2002	2003	2004
<b>KOSOVO</b>			
UNMIK	23,000,000.00		3,900,000.00
KFOR	2,000,000.00		
<b>MONTENEGRO</b>			
NL Gov	500,000.00		
<b>FYROM</b>			
DK Gov		4,034,172	
<b>Total</b>	<b>25,500,000.00</b>	<b>4,034,172.00</b>	<b>3,900,000.00</b>

### Assistance programmes

The breakdown of the Agency's commitment appropriations from EC and other donors is as follows:

- €999.6 million for Kosovo (€970.7 million EC + €28.9 million other donors)
- €984 million for Serbia (all EC funds)
- €264 million for the former Yugoslav Republic of Macedonia (€ 260 million + €4 million other donors)
- €87 million for Montenegro (€86.5 million EC + €0.5 million other donors) €2064.5 million

By the end of 2004, 87% of this amount, (€2 billion) had been contracted, and 73% (€1.7 billion) disbursed.

For assistance programmes in 2004 the Agency made 1247 payments and awarded 434 contracts. Of these:

- 75.83 % were awarded through international and local tenders
- 24.14% were awarded through grants and financing agreements
- 0.03% was awarded through standard simplified procedures.

€ million	Serbia	Kosovo	Montenegro	FYR Maced
EC funds for assistance programmes newly allocated in 2004	205.4	73	16.5	53.8
Account on 2004 appropriations	81.2	27.3	12	18.9

### Administrative expenditure

The administrative expenditure of the Agency for its five years of activity (2000 to 2004) amounts to €102.4 million, representing 4.4% of the cumulative total budgets approved for these years.



The table below presents also the approved budget for 2005 and the estimations for 2006.

Year	2000/2001	2002	2003	2004	2005
Region	Kosovo, Serbia, Montenegro	Kosovo, Serbia, Montenegro and FYROM	Kosovo, Serbia, Montenegro and FYROM	Kosovo, Serbia, Montenegro and FYROM	Kosovo, Serbia, Montenegro and FYROM
A - Total approved Budget	1,083	492.1	358.6	374.6	374.6
B - Administrative expenditure	29	26.2	23.6	23.9	23.9
	Actual figure	Actual figure	Actual figure	Committed	Initial
Cumulated % (B/A)	2.7%	3.5%	4.1%	4.4%	4.4%

Note: The approved budgets are bigger than the total portfolio as they include other incomes (e.g. counterpart funds, bank interest, miscellaneous revenues, etc)

In 2004, administrative expenditure, as a percentage of total budget, did not significantly alter from 2003. This was mainly because the 2004 operations allocations to the Agency were slightly higher than in the previous year. At 4.4 %, administrative expenditure remains well below the 8% ceiling.

## 16 Key figures at a glance, at 22 December 2004

<b>Serbia &amp; Montenegro – Republic of Serbia</b>									
	1998	1999	2000	2001	2002	2003	2004	1998-2003	1998-2004
<b>Committed (€ million)</b>	*4	*7	*182	*194	172	220	205	779	984
Contracted/Committed %	100	100	100	100	93	82	40	93	83
Paid/Committed %	100	100	100	99	78	40	4	83	63

<b>Serbia &amp; Montenegro – Republic of Montenegro</b>									
	1998	1999	2000	2001	2002	2003	2004	1998-2003	1998-2004
<b>Committed (€ million)</b>	*4	*8	*19	16	12	12	16.5	71	87
Contracted/Committed %	100	100	99	99	96	89	73	97	93
Paid/Committed %	100	100	99	98	91	70	21	95	80

<b>Serbia &amp; Montenegro – UN-administered Kosovo</b>									
	1998	1999	2000	2001	2002	2003	2004	1998-2003	1998-2004
<b>Committed (€ million)</b>	*7	*116	431	145	166	62	73	927	1000
Contracted/Committed %	100	100	99	99	97	62	37	97	93
Paid/Committed %	100	99	98	91	86	35	15	91	86

Committed %										
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<b>FYR Macedonia</b>										
	1997	1998	1999	2000	2001	2002	2003	2004	1997-2003	1997-2004
<b>Committed (€ million)</b>	*19	*23	*22	*18	*57	34	37	54	209	263
Contracted/Committed %	100	99	98	94	99	88	69	35	92	81
Paid/Committed %	98	99	77	75	75	50	23	1	69	69

**Agency-wide (Serbia & Montenegro and FYR Macedonia)**

	Committed (€ million)	Contracted/Committed %	Paid/Committed %
1997-2003	1987	95	84
1997-2004	2335	87	73

**Contracts signed by EAR from 2000 - 2004**

<b>whole Agency</b>								
	2000	2001	2002	2003	2004		Sum	average
<b>Belgrade</b>								
<b>number of contracts</b>		489	129	121	145		<b>884</b>	<b>221</b>
<b>amount contracted (in 1,000€)</b>		210,260	180,730	171,727	96,534		<b>659,251</b>	<b>164,813</b>
<b>Podgorica</b>								
<b>number of contracts</b>		28	56	30	19		<b>133</b>	<b>33</b>
<b>amount contracted (in 1,000€)</b>		16,545	31,429	10,428	12,439		<b>70,841</b>	<b>17,710</b>
<b>FYROM</b>								
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>			

							<b>Sum</b>	<b>average</b>
<b>number of contracts</b>			61	112	146		<b>319</b>	<b>106</b>
<b>amount contracted (in 1,000€)</b>			30,224	55,277	55,716		<b>141,217</b>	<b>47,072</b>
<b>Pristina</b>								
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>			
							<b>Sum</b>	<b>average</b>
<b>number of contracts</b>	334	309	216	159	124		<b>1,142</b>	<b>228</b>
<b>amount contracted (in 1,000€)</b>	258,702	277,259	185,937	72,186	59,264		<b>853,348</b>	<b>170,670</b>

## Quarterly report to the European Parliament July to September 2005

This report is issued in accordance with Article 5 (5) of Council Regulation 2667/2000 of 5 December 2000  
(as amended by Council Regulation 2415/2001 of 10 December 2001)

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### Preface

The European Agency for Reconstruction's manages the European Union's main assistance programmes in Serbia and Montenegro (the Republic of Serbia, the Republic of Montenegro, UN-administered Kosovo) and the former Yugoslav Republic of Macedonia.

The agency was established in February 2000 as the EU's main reconstruction arm in war-damaged Kosovo and later expanded to Serbia and Montenegro and the former Yugoslav Republic of Macedonia. The agency's headquarters are in Thessaloniki, Greece. It has operational centres in Pristina, Belgrade, Podgorica and Skopje.

An independent agency of the European Union, EAR is accountable to the Council and the European Parliament and overseen by a Governing Board composed of representatives from the 25 EU member states and the European Commission.

The European Commission-funded programmes managed by the Agency are designed to support good governance, institution building and the rule of law as well the development of a market economy while investing further in critical physical infrastructure and environmental protection. They also focus on social development and the strengthening of civil society.

The purpose of these efforts is to reinforce the region's own reform processes by strengthening the 'state machinery' of central and local administration, the police, the judiciary, public finances, and state utility providers.

The Agency' works within the Community Assistance for Reconstruction, Development and Stabilisation ('CARDS') Programme, a wider European Union commitment which also includes Albania, Bosnia & Herzegovina and Croatia. This - in turn - is part of the EU's 'Stabilisation and Association' process - a key element of the Union's policy toward the region scarred by years of conflict.

Serbia and Montenegro and the former Yugoslav Republic of Macedonia also benefit from European Commission assistance not managed by the Agency. This includes macro-financial, humanitarian, democratisation, customs and fiscal planning aid, support for higher education cooperation programmes, a CARDS Regional Programme, and support for the European Union

Pillar of the UN administration in Kosovo. The region also benefits from bilateral contributions made by EU member states.

As of September 2005, the Agency has managed €2.6 billion, of which 81% has been committed, and 71% paid.

## 1 An overview & introduction

### Serbia

During the reporting period, the governments of Serbia and Montenegro have set up working groups to negotiate a **Stabilisation and Association Agreement (SAA)**, at both the State Union and Republic levels.

In August, the Government of Serbia signed the financing agreement for the 2005 Annual Programme (€152 million). The cumulative portfolio of funds managed by the European Agency for Reconstruction in Serbia now amounts to €1.1 billion. As of 30 September 2005, 75 % of these funds had been contracted, and 61 % paid.

One of the Agency's major infrastructure projects, the €41 million reconstruction of the **Sloboda Bridge** across the Danube at the city of Novi Sad, has been completed. The final testing of the structure was successfully carried out in mid-September and the handover of the reconstructed bridge took place at the beginning of October.

In the **energy** sector, the Energy Regulatory Agency (SERA) has been legally established and the first staff members have been hired. The regulator is crucial both for energy market reforms in Serbia and to establish a regional energy market. In July, the legally independent electricity transmission system operator was established (assisted by EC funded technical assistance); split off from the former electrical utility monopoly (EPS). This is a requirement of the Energy Community Treaty, a legally binding international treaty signed on 25 October 2005 that aims to create a single regulatory space throughout the EU and South Eastern Europe.

The Serbian government has adopted an **agriculture strategy** (developed with EU funds), which identified the transition to a market economy, EU integration and the sector's reorganisation as the three most important development goals.

### Montenegro

The establishment of Montenegro's **Human Resources Management Agency (HRMA)** has strengthened reform of public administration. HRMA's internal procedures were adopted and the agency is now functional. Construction of a new building to accommodate the HRMA is progressing well with completion scheduled for November.

The Government's efforts to improve **border management** have been enhanced following completion in July of a new border crossing on the coastal road to Croatia. The new facilities offer better working conditions and security for customs personnel as well as veterinary and phytosanitary inspections.

The EU-funded strategic plans to improve the **disposal and treatment of solid waste** and wastewater are being used by the European Investment Bank as a basis for developing a municipal infrastructure loan programme. With the support of EU-funded consultants, EBRD has successfully negotiated a €10 million loan package for further rehabilitation of the key roads. It is anticipated that reforms within the Ministry of Transport will encourage additional investment by international financial institutions.

Montenegrin **enterprises** continue to receive expert assistance under a second phase of the Turn Around Management (TAM) programme. Twelve companies are receiving TAM support and approximately 60 small enterprises are benefiting from business advisory support.

The cumulative portfolio of funds managed by the Agency in Montenegro amounts to €109.5 million; 76% of these funds has been contracted, and 69% paid.

## **Kosovo**

The Agency continues to support the **returns and reintegration process for minority communities** in Kosovo. Five multi-sector returns programmes were completed in the reporting period, supporting the return of 220 families from the Serb and Roma communities. Assistance included housing reconstruction, repair of water, waste and electrical systems, the rehabilitation of schools and the supply of ambulances. However, as stated in Ambassador Kai Eide's October 2005 report, *A Comprehensive Review of the Situation in Kosovo*, the situation for the foundation of a multi-ethnic society remains grim and the overall returns process has virtually come to a halt.

The Agency has completed a four-year programme that has established a **legal aid service** in civil and administrative matters. Some 31,000 people from all of Kosovo's communities have already benefited from this service.

As a result of EC assistance, the Ministry of Trade and Industry has formulated a **Private Sector Development Strategy** in consultation with relevant stakeholders, including other Provisional Institutions of Self-Government (PISG) ministries. The strategy aims to reduce unemployment and improve the competitiveness of the Kosovo economy through a number of reform measures. Many of the strategy recommendations are likely to be implemented under the 2006 programme for Kosovo.

Preparation of the CARDS 2006 Annual Programme, with an indicative budget of €49 million, is now well advanced. The draft programme has been discussed at a meeting with the EU member states in Pristina, building on the sector level consultations with all stakeholders since March. The proposal has also been positively reviewed by the PISG and UNMIK European Integration Offices - part of the process aimed at strengthening PISG ownership and commitment of EU assistance for Kosovo.

## **FYROM**

The strategy for equal **representation of minority communities in the public service** prepared with EU assistance is now ready and the Government is proceeding with internal discussions before finalising it. In parallel, an intensive nine-month training course for 100 students from minority communities, primarily ethnic Albanians, to be employed as translators in the courts and ministries has started. An earlier training programme of Category III civil servants from the minority communities has resulted in an increase of the representation of minority communities in the civil service from 10% to 14%.

In the area of **home affairs**, a project which helped the Ministry of Interior take forward its Police Reform Strategy and action plan has recently been completed. The project covered a whole range of police management issues including a review of responsibilities, accountability, representation, career management and merit-based advancement. Further support to the police reform process will be provided by a team of eight police officers (resident twinning advisors) from the Police Academy of Brandenburg in Germany, starting 1 November. A separate project has been implemented in the area of police education, providing guidance to the strategic development of the newly established Police Academy.

In the **SME sector**, the first training sessions for managers of more than 30 mainly textile, food processing and IT companies commenced in September 2005. The training focused on innovation and technology management and human resources development.

The project that provided assistance for the development and implementation of a **National Action Plan for Employment** 2004-2005 was completed at the end of July 2005. New

equipment and furniture worth about €0.8 million have been delivered to the regional employment bureaux, and their staff have undergone training in order to be able to deliver more active labour market services to the unemployed. In addition, 11 pilot projects have been implemented, including a variety of activities targeting unemployed people. Preliminary reports indicate that around 180 people trained under the pilot projects have found jobs and more than 130 have started their own businesses. A follow-up project was launched in early September 2005.

Equipment worth €1.2 million has been delivered to 31 **Vocational Education and Training** schools across the country in an effort to improve the quality of practical education for high school students. The package consists of machines, laboratory and computer equipment, as well as teaching tools for the medical, dentistry, textile, agricultural and catering schools.

In the area of the **environment**, National and Regional Waste Management Plans and Feasibility Studies were completed by the end of September 2005. In the north-east and centre of the country, inter-municipal boards have agreed on a concept for development of two regional landfills serving some 400,000 people. Environmental impact assessments have been carried out at several potential sites, and two final sites as well as an alternative site were proposed.

## 2 Serbia

### Overview

The governments of Serbia and Montenegro have set up working groups to negotiate a Stabilisation and Association Agreement (SAA), at both the State Union and Republic levels.

In September, the Parliament of Serbia adopted the competition law, the law on consumer protection, and the law on the civil service and civil servants. Progress has been achieved, but the full compliance of these laws with the EU *acquis* needs to be assessed.

The economic situation continues to be instable (high inflation, high public spending), though the current account deficit – the major concern in 2004 – has been decreasing thanks to rising exports. Structural reforms (including reform of both state-owned companies and huge loss-makers) are still not progressing at a desirable pace.

In August, the Government of Serbia signed the financing agreement for the 2005 EU Annual Programme (€152 million). The cumulative portfolio of funds managed by the Agency in Serbia now amounts to €1.1 million. As of 30 September 2005, 75% of these funds had been contracted, and 61% paid.

The European Agency for Reconstruction in <b>Serbia</b> (established March 2001)										
at 26/09/2005	1998	1999	2000	2001	2002	2003	2004	2005	1998- 2005	
Allocation (€m)*	*4	*7	*182	*194	172	220	205	152	1,132	
Committed/ allocated	100%	100%	100%	100%	98%	87%	50%	4%	75%	
Paid/ allocated	100%	100%	100%	100%	88%	58%	15%	0%	61%	

\* Not included: amount de-committed by the Agency on EC contracts and re-used. Funds allocated come from EC and other

donors

## **Progress in the reporting period**

Specific actions related to EAR projects during the quarter include:

### **Good governance & institution-building, 2000–2004 (€212 million)**

#### **Public administration reform (€85.6 million)**

- The procurement of the Financial Management Information System (€15.5 million) has been launched. The Ministry of Finance adopted the Treasury strategy plan and relevant provisions were added as amendments to both the Budget System Law and Public Debt Law.
- The technical assistance team for the Internal Audit and Public Internal Financial Control Phase 2 project has completed their inception period and has set out a detailed work plan for the first six months of the project. Results and outputs of Phase 1, as well as the general legal framework underlying this area of Public Finance, have been reviewed.
- A project supporting the Serbia and Montenegro Intellectual Property Office (IPO) began in September. The main purpose of the project is to improve the IPO's internal infrastructure and capacity to grant IP rights and support innovation in Serbia and Montenegro, and to integrate the IPO's information systems into those of its mainstream IP European partners.

#### **Justice and home affairs (€43.6 million)**

- A Twinning project with the Ministry of Justice started. The overall objective of the project is to support and facilitate the government's reform efforts in the area of justice and home affairs. The twinning contract was awarded to Germany (with Slovenia as the junior partner).
- The evaluations of the DNA laboratory and border police equipment tenders are complete and will be contracted shortly.

#### **Health (€82.5 million)**

- EAR is assisting the government to reform the financing of the health care sector. A project aimed at restructuring the Health Insurance Fund in Serbia began in September. A further project to support capitation payment in primary health care is planned for the 2006 programme.
- A project under the 2005 programme to support the establishment of a National Reference Public Health Laboratory began. A Draft Law on Public Health was drafted with technical assistance from the EAR, and is currently under discussion with the Ministry of Health.
- Following the Consensus Conference on the National Blood Transfusion Strategy in May 2005, a draft Law on Blood Transfusion was drafted through an EU technical assistance project and submitted to the Ministry.
- The Capacity Building to the Ministry of Health project assisted the Ministry of Health in relation to the EIB emergency loan as planned: more than €20 million are contracted, doubling the amount contracted in the previous reporting period. A total of 14 hospitals are under reconstruction or will be started shortly.

### **Economic reconstruction, regeneration & reform (€837 million)**

#### **Infrastructure & transport (€103.5 million)**



- The Sloboda Bridge reconstruction project has been completed
- As part of the rehabilitation of the Danube and Sava rivers, the tenders for the Unexploded Ordnance Works and Supervision contracts have been launched.

### **Energy (€420.9 million)**

- Five cities have been selected to be supported with a programme of investment in district heating renovation and modernisation (€20.5 million), with preparation of the tendering underway (detailed design and preparation of technical specifications ongoing).
- To support the energy market reform and creation of a regional energy market, three closely inter-related projects of capacity building and technical assistance are underway: (i) The Energy Regulatory Agency (SERA) has been legally established and the first staff have been hired. The energy regulator is crucial for energy market reform in Serbia and also to establish a regional energy market; (ii) A Twinning Agreement for capacity building with the Ministry of Mining and Energy signed in April 2005 is now underway. The twinning contract has been awarded to Germany (with Slovakia as the junior partner); (iii) In July, the legally independent electricity transmission system operator was established (assisted by EAR funded technical assistance), split off from the former monopoly EPS. This is a requirement of the Energy Community Treaty, a legally binding international treaty signed on 25 October 2005 that aims to create a single regulatory space throughout the EU and South Eastern Europe.

### **Environment (€36.5 million)**

- The Directorate for Environmental Protection of the Ministry of Science and Environmental Protection has prepared a National Environmental Strategy for the Republic of Serbia and a National Environmental Action Plan. In addition, Local Environmental Action Plans, which are co-ordinated with the national Environmental Action Plan, have been prepared for 8 municipalities.
- Fire-fighters along the sensitive and busy Corridor X have been trained in emergency response procedures for chemical and environmental accidents.
- Germany has been selected for a Twinning Project to strengthen the capacity of the Water Directorate of the Ministry of Agriculture, Forestry and Water Management to implement the guiding principles of the EU's Water Framework Directive.

### **Economic development: enterprise (€74 million)**

- More than 260 SME loans (averaging €92,455) were disbursed through the Revolving Credit Fund medium-term credit facility amounting to a total of €24.3 million and leading to the creation of more than 2,380 new jobs.
- More than 200 loans were disbursed through the European Fund for Serbia (micro and SME credit facility with loans averaging €27,000) leading to the creation of more than 650 new jobs.
- The Export Development Programme finished in August, having substantially achieved the expected outputs and specific objectives.
- The government adopted an SME development Action Plan drafted with the support of a previous EC project.

### **Economic development: agriculture/rural economy (€73 million)**

- Reconstruction of the national food-chain safety reference laboratory complex at Batjanica has begun. This laboratory hosts the national phytosanitary, food-safety and residue sub-laboratories.
- The Law on the establishment of the Agency to manage the food-chain laboratory system was adopted by the government and submitted to parliament,
- The Agricultural Strategy prepared by the Ministry of Agriculture with EU project support at the end of 2004 was adopted by the government. Based on this strategy, the Ministry

of Agriculture prepared an EU accession strategy, which was incorporated into the national accession strategy.

- EU member state partners have been selected for four Twinning Projects to assist the Ministry of Agriculture to continue its upgrading of administrative capacity in line with the *acquis* requirements, and preparation of the Twinning work plans is underway:
- Strengthening of the Capacity of the Veterinary Directorate – Germany (with Austria)
- Strengthening of the Capacity of the Phytosanitary Directorate – Italy
- Strengthening of the Food-Chain Laboratory Management system – UK
- Strengthening of the Capacity of the Ministry of Agriculture to control wine production – Spain

### **Support to Municipalities and Administrative Decentralisation (€80.2 million)**

- In the Municipal Improvement and Revival Programme in Southern Serbia, over 140 projects have been identified. Of these, 63 were completed by the end of August. Projects range from the reconstruction of infrastructure to the improvement of libraries and educational projects for kindergartens.
- Within the Municipality Exchange Programme, the first call for proposals has been successfully finalised and 20 projects have been selected for financing. A second call will be launched in October.
- In the Neighbourhood Programme, the first call for proposals addressing the Hungary-Serbia border region has been closed. Evaluation of proposals is ongoing. Works for similar calls related to the programmes with Romania and Bulgaria are in the final stage of preparation.

### **Returns/Reintegration of Refugees and IDPs (€21.9 million)**

- Support for return and reintegration in Croatia, BiH and Kosovo: To date over 1,000 refugees have returned to Croatia under this programme.
- Support to the Closure of Collective Centres: Over 70 collective centres will be closed throughout Serbia in 2004–2005.
- A contract was signed with International Centre for Migration Policy Development to improve the capacity of the government (Commissariat for Refugees) in July 2005 and the project is now under implementation.

### **Social development & civil society, 1998-2004 (€51 million)**

#### **Vocational education & training (€28.5 million)**

- Following a long public consultation process, a national VET policy White Paper is expected to be finalised shortly and adopted by the government. New curricula in five economic sectors are being implemented in 50 schools. All five Regional Training Centres (RTC) are operational. Procurement of didactic equipment for 55 schools is ongoing. Rehabilitation works are 100% complete in 49 VET schools. 38 innovation funded projects are on-going.
- The second draft of the National Employment Action Plan (NEAP) developed together with the Ministry of Labour, Employment and Social Affairs and National Employment Service staff is under further discussion before adoption.
- Several seminars were delivered on EU employment strategy and design of active labour market measures. Development of 45 'train the trainers' within the National Employment Service is nearing completion with positive results.
- The final version of the IT Strategy for the National Employment Service is in consultation process.

#### **Civil society & media (€22.5 million)**

- A call for proposals was launched in August 2005, the objectives being to create a

sustainable legal and financial framework for the functioning of civil society organisations and to promote the role of civil society in the protection of the environment. Over 130 applications have been received and evaluation began in October.

- The evaluation of more than 350 proposals is currently under way in response to a call launched in April with UNDP that aims at promoting partnership projects in the field of social protection.

### **Other (€19.2 million)**

#### **Integrated border management (€19.2 million)**

Potential regional economic development will lead to larger traffic flows between Serbia and its neighbouring countries. Action is needed to improve the most critical border-crossing facilities. The former Federal Republic of Yugoslavia authorities identified the Horgos crossing between Serbia and Hungary and the Batrovci crossing with Croatia as their first priorities. Subsequently, the Presevo crossing with FYR Macedonia was added. The programme will upgrade infrastructure facilities at these border-crossing points. Works and supervision contracts for the Horgos border crossing have been signed, and works commenced in June 2003 with some delay. For the Batrovci border crossing project, the tender for works, launched in December 2004, has been awarded. Works are now in progress. For the Presevo project it is expected that the tender for the works will follow by autumn 2005. In the past, under the project to supply customs equipment, the procurement was tendered, contracts were made and the deliveries to the customs administration completed in 2003. The items delivered were subsequently put into use by the customs administration, who report that they were beneficial to their work.

## **3 Montenegro**

### **Overview**

There is much debate regarding the holding a referendum on Montenegrin independence, following the expiration of the 3 year period foreseen in Article 60 of the Serbia and Montenegro Constitutional Charter.

The Ministry of Transport's commitment to reforms in the road and rail transport sectors and the adoption of new legislation that regulates these issues have eased negotiations for additional road investment funding from international financial institutions. Following good progress on a road rehabilitation project financed by the European Investment Bank (EIB), the Bank is in the process of finalising a second road improvement programme. Agency consultants have also supported the completion of negotiations with the European Bank for Reconstruction and Development (EBRD) for a €10 million loan package for road investment.

The implementation of the 2004 assistance programme is nearing completion, with technical experts providing assistance in various sectors, including road and rail transport, public administration reform and vocational and educational training. Works projects to provide operational facilities to help enforce the institutional reform agenda are nearing completion..

The 2003 programme has nearly been implemented. It covered a wide array of issues from administrative capacity building to judicial and border police reform to upgrading of veterinary and phytosanitary services to development of a media law that is in line with Council of Europe standards.

In the environment sector, the Agency has developed strategic master plans for improving solid waste and wastewater disposal facilities and services across Montenegro. The Ministry of Environment, supported by EAR consultants is actively promoting the investment packages to potential donors. Actions within the 2005 assistance programme will support the establishment of a Project Implementation Unit within the Ministry, thus enhancing its capacity to manage

much-needed investment in environmental infrastructure.

EU-funded programmes designed to promote sustainable economic development through the rehabilitation of the infrastructure, particularly in transport and energy, have been completed. Attention is now focussed on providing support to the beneficiary institutions to complement investment by international financial institutions in roads, railways and energy. Projects also target the reform of the energy sector, the introduction of EU environmental standards, and support for trade and private sector development.

The cumulative portfolio of funds managed by the Agency in Montenegro since it began operations in March 2001 amounts to €109 million. By 26 September 2005, 76% of these funds had been contracted, and 69% paid.

The procurement procedures for individual 2005 projects are well underway. The majority of projects are expected to start implementation in December 2005 or in the first quarter of 2006.

The European Agency for Reconstruction in <b>Montenegro</b> (established March 2001)									
<b>At 26/09/2005</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1998- 2005</b>
Allocation (€m)*	*4	*8	*19	16	12	12	16.5	22.5	109
Committed/ Allocated	100%	100%	100%	100%	96%	96%	83%	1%	76%
Paid/ Allocated	100%	100%	100%	99%	95%	87%	47%	0%	69%

\* Not included: amount de-committed by the Agency on EC contracts and re-used. Funds allocated come from EC and other donors

## **Progress in the reporting period**

### **Good governance & institution-building (2000-2004: €15.7 million)**

EC funds have assisted the Montenegrin government in the reform of public administration, including revising, drafting and amending of the legal administrative framework. Technical assistance is now being provided through 2004 funds to ease the implementation of some important new laws adopted by Parliament. The main focus of our technical assistance is implementation of the new Law on Civil Servants and drafting of secondary legislation. The technical assistance team has been working closely with the Human Resources Management Agency (HRMA) staff, advising them on organisational issues, recruitment procedures, training of civil servants, development of an action plan and an electronic Personnel Information System.

A €4.5 million Municipal Investment Programme improved the institutional capacity of four municipalities, including Montenegro's capital, Podgorica. However, the long-term sustainability of the project continues to be jeopardised by the inability of some municipal authorities to recruit and retain suitably qualified staff.

In justice & home affairs, train-the-trainers sessions on all aspects of border management have covered a core group of trainers. However, assistance is still required to support the development of an efficient border control system. A joint initiative with the International Organisation for Migration (IOM) to provide training to border officials in anti-trafficking has been finalised, while the work of the Judicial Training Centre (JTC) is helping to improve professional standards within the judiciary. The mandate of the Judicial Training Centre is being

revised in order that prosecutors may also be trained in the near future.

Specific actions related to EAR projects during the quarter include:

### **Public administration reform (€8.2 million)**

- New laws governing civil servants and state employees are under implementation and a new Human Resources Management Agency is now operational.
- Three main departments dealing with recruitment, training of civil servants and an electronic Personnel Information System have been set up with our assistance.
- An IT strategy for the establishment of the Personnel Information System, which will help create a real picture of civil servants' status, tasks, responsibilities and benefits in the system, has been established.
- Eight public competitions for recruitment of civil servants have been organised.
- 150 civil servants were trained in the new Law on Inspection Control.
- Works to provide complementary operational facilities for both the HRMA and the JTC are slightly delayed and will be completed by November 2005.

### **Local administration support, municipal investment (€4.5 million)**

- Programme completed.

### **Justice and home affairs (€3.0 million)**

- Workshops for judges on the application of new civil and criminal legislation have been organised.
- Regional conference on enforcement of criminal sentences has been organised.

Seminars on the new Montenegrin draft Law on Extra-litigation Procedure, new Law on the Execution of Civil Judgments and a round table on new Rules of Court have been organised.

### **Economic reconstruction, regeneration & reform (2000–2004: €46.1 million)**

In infrastructure, EU-funded construction of a new border crossing facility between Montenegro and Croatia has been completed. The border crossing was officially opened on 12 July and inaugurated by the Parliamentary Speaker Ranko Krivokapic in the presence of Prime Minister Milo Djukanovic. Contracted works to improve the Scepan Polje facilities at the border with Bosnia and Herzegovina are scheduled to commence in October. Apart from the investment funding, EAR is also providing international expertise to monitor supervision of these complex construction projects. In the road and rail sectors, international experts continue to monitor implementation of European Investment Bank (EIB)-funded road and rail infrastructure programmes (€10 million and €15 million respectively). Progress on the final road construction tender (repair of a road access tunnel to Kotor) is on schedule. The rail infrastructure rehabilitation programme has been 80% contracted. During the reporting period, consultants have continued to support EIB-funded works (€24 million) to complete the Sozina road tunnel linking Podgorica with the Adriatic coast and the project was completed and inaugurated by the Prime Minister on 13 July. Airport rehabilitation in Podgorica and Tivat has commenced, with €24 million in funding being provided by the European Bank for Reconstruction and Development (EBRD) and EIB. Construction of new passenger terminals is being supervised by a team of international and local experts.

Additional EIB loans to the road and rail transport sectors are currently under discussion. An EBRD loan agreement of €10 million for road rehabilitation was signed in July.

In energy, all projects funded by EIB (€11 million) to improve the integrity of the electricity generating and transmission system have been contracted. EU-funded technical assistance primarily covers support for the reform and restructuring of the Electric Power Utility (EPCG).

Significant progress has been achieved in preparing the EPCG for unbundling, in accordance with the new Energy Law. Also, an electricity sector privatisation strategy has been prepared and adopted by the relevant stakeholders. A tender has been launched for privatisation of the Pljevlja thermal plant and coal mine. Following strong protests by environmental protection groups, the Government has withdrawn further support for construction of the Buk Bijela hydro-electric project on the Tara River.

A second phase of the Turn around Management (TAM) and Business Advisory Services (BAS) programme is supporting 12 medium-sized and approximately 60 small companies to restructure and increase competitiveness.

In agriculture and the rural economy, assistance has been provided to the Ministry of Agriculture to help it review policy and assess the business plans of dairy enterprises. Support to veterinary and phytosanitary services has enhanced inspection practices, reducing the potential for the spread of transmissible animal diseases and harmful organisms.

Specific actions related to EAR projects during the quarter include:

### **Transport & infrastructure (€24.5 million)**

- Implementation of an EIB-funded *road* infrastructure rehabilitation programme (€10 million) continues to progress; five road reconstruction projects have been completed which have significantly improved driving conditions on the notoriously dangerous section of the main Podgorica-Belgrade axis south of Kolasin. Certain delays were caused earlier due to the abnormally bad winter weather conditions.
- Good progress is being maintained on implementation of an EIB-funded programme to upgrade *rail* infrastructure and equipment (€15 million); to date, contracts have been signed committing approximately 80% of the funding allocation.
- Construction of a protection gallery on a section of the main road from Podgorica to Bijelo Polje is progressing despite delays due to bad weather. The purpose of the gallery is to protect road users from falling rocks.

### **Environment (€5.7 million)**

- The Ministry of Environment, supported by EAR consultants, continued to implement the legislative and institutional elements included in the strategic master plans for *wastewater collection and treatment* in the central and northern regions and *solid waste management*.
- A second wastewater treatment project to improve the water quality of an inland lake within a designated National Park has been completed and the treatment plant is fully operational.

### **Energy (€7.1 million)**

- The state-run electrical power utility has started implementing the unbundling and restructuring plans proposed by EU experts. A tender has been launched for privatisation of the Pljevlja thermal plant and coal mine. One of the key concerns is the possibility that the privatisation of aluminium company Kombinat Aluminijuma Podgorica (KAP) might result in strong pressure by the future investor to obtain a highly subsidised long-term power supply contract, which could put the financial viability of the Electric Power Utility (EPCG) at risk.

### **Economic development: enterprise & rural economy (€8.8 million)**

#### *Agriculture and Rural economy*

- The EU-funded project "Strengthening of the Fishery Sector in Serbia and Montenegro" has started with the provision of expertise to carry out an analysis of the fisheries sector in Serbia and Montenegro. This is including analysis of the wild fish reserves,

aquaculture/fish farming activities, current fishing efforts, quantities caught/landed by species, present nature and volume of trade fish landing sites, processing facilities, and regulatory environment, notably with respect to compliance with the *acquis communautaire*.

- EAR consultants are working closely with the beneficiary to develop a strategy of development for the Montenegrin agriculture and rural areas. They are providing advice to the Ministry of Agriculture's Forestry and Water Management staff, in their efforts to prepare a comprehensive strategy and policy for the agricultural sector. Preparation of a sector analysis (questionnaires among rural households and food industry enterprises; interviews in the field related to rural development issues) and development of a strategy platform is ongoing.
- Equipment needs for the Montenegrin phytosanitary inspectorate have been identified: a list of equipment has been produced for the phytosanitary inspectorate and a tender process for procurement of this equipment has been launched.
- Equipment to the dairy sector was delivered and repayment to the revolving fund is in progress.

#### *Enterprises*

- The second phase of a Turn Around Management (TAM) programme is underway, with 12 companies continuing to benefit from TAM support and 60 small enterprises receiving business advisory support.

### **Social development & civil society (2000-2004: €8.5 million)**

The 2001 vocational education and training (VET) project is completed. It included support to the tourism and wood processing sectors. New education laws have been adopted by the Parliament and are now under implementation. In a related development, an education reform strategy has been included in the government's programme as one of its three main priorities. Vocational schools have been rehabilitated and refurbished. A second phase of assistance is being provided in order to increase the impact and sustainability of the employment, education and vocational training activities. New investments are complementing the institution building side in order to ensure proper facilities and training equipment.

Support has been provided for planned amendments to the media legislation. An action plan for implementing the new media laws has been adopted. A joint initiative with the Council of Europe to assist in the implementation of the new laws has been finalised. However, delays are being registered in the implementation of the legislation due to the highly politicised media environment.

Specific actions related to EAR projects during the quarter include:

#### **Education & training (€6.6 million)**

- The laws for pre-school, elementary and high school education are under implementation.
- The capacity of the Ministry of Education and Science to implement the Book of Changes (a white paper on educational reform adopted in December 2001) continues to be improved.
- A works contract for rehabilitation and extension of a VET school in Podgorica is progressing on schedule.

#### **Civil society & media (€1.9 million)**

- An action plan for the implementation of the new media laws has been prepared by the Ministry of Culture.
- An NGO grant programme targeting civil society has commenced.

**Other (1998-2004: €19.4 million)****Integrated border management (€4 million)**

Potential regional economic developments, particularly tourism, will lead to larger traffic flows between Montenegro and its neighbouring countries. Existing facilities are inadequate resulting in ineffective and inefficient border control and delays. A contract has been awarded to upgrade existing infrastructure at the borders with Croatia (Debeli Brijeg) and Bosnia & Herzegovina (Scepan Polje). The objective is to provide improved working conditions for personnel dealing with customs, security, veterinary and phytosanitary inspections and introduce an integrated border management system.

Specific actions related to EAR projects during the quarter include:

- Construction of border crossing facilities at Debeli Brijeg was completed in July. Works to improve facilities at Scepan Polje will commence in October.

**4 Kosovo****Overview**

In October, the UN Security Council published Ambassador Kai Eide's comprehensive review of the situation in Kosovo. The review advocates initiating the process that will determine Kosovo's future status. Status talks may begin before the end of the year. One of the key messages is that further progress in implementing the *Standards for Kosovo* is urgently required. The Agency continues to work with the government and the municipalities to assist them towards achieving the standards. On-going and planned EC assistance for the implementation of the standards is worth some €160 million.

At the end of September the Assembly of Kosovo approved a negotiation team for the expected status talks consisting of President Ibrahim Rugova, Speaker of the Assembly, Nexhat Daci, Prime Minister Bajram Kosumi, and the leaders of the two main opposition parties, Hashim Thaci and Veton Surroi. The team does not contain Kosovo Serb representatives. They may be represented within the Belgrade team or separately. There are concerns over the President's health; he has been diagnosed with lung cancer.

In July, the SRSG and the Prime Minister launched the *Strategic Framework on Communities and Returns* and established a High Level Task Force on Returns. The framework confirms the government's position on the return of all internally displaced persons. The document identifies three priority areas: the promotion of safety and freedom of movement; the creation of sustainable conditions for returns; and the enhancement of institutional support for returns. The implementation plan for the framework is articulated in the *Programme of Action on Communities and Returns* which is expected to be published by the end of 2005.

Also in July, the SRSG presented UNMIK's proposals for the transfer of competencies in police and justice. The plan envisages the establishment of new ministries of justice and interior before the end of this year. The transfer of responsibility will be accompanied by effective monitoring and support by UNMIK and a vigorous accountability policy. EC assistance under the 2005 programme will help build the institutional capacities of the new ministries. Ambassador Eide's review points out that the Kosovo police and judiciary are fragile institutions and that further transfers of competencies should be considered with great caution.

The cumulative portfolio of funds managed by the Agency in Kosovo since February 2000 amounts to €1,052 million. As of 30 September 2005, 90% of this amount was contracted and 85% disbursed.

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The European Agency for Reconstruction in **Kosovo** (established February 2000)

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At 30/9/2005	1998	1999	2000	2001	2002	2003	2004	2005	To
Allocated (€m)*	7	116	433	145	166	62	73**	52	1,1
Contracted	100%	100%	100%	100%	98%	69%	53%	7%	90
Paid	100%	99%	99%	95%	92%	50%	30%	1%	85

\* includes EC funds managed by the Agency (€1,016 million), but also funds from other sources (UNMIK, Kosovo Consolidated Budget and KFOR totalling €30 million) and recycled 'counterpart' programme funds (€6 million) now under EAR management.

\*\* includes additional EC funds of €23.9 million, which were approved in December 2004.

## Progress in the reporting period

### Democratic Stabilisation 1999-2005 (€38 million)

#### Minority rights & returns (€27 million)

- In the *Comprehensive Review of the Situation in Kosovo*, Ambassador Kai Eide states that the situation for the foundation of a multi-ethnic society remains grim. The overall returns process has virtually come to a halt. The review calls for a more flexible policy of assistance to be considered to support the return of people to where they can live and not only where they have lived. Inter-ethnic crime must be vigorously prosecuted. Greater attention should be given to those who have remained. A wider decentralisation process is required. The need to resettle the Roma at camps in Plementina and Zitkovac is also highlighted.
- Security for the returning families remains a concern. In September, a house in Zhiti/Zitinje village reconstructed with EC assistance for a returning Serb family was seriously damaged in an explosion. Police and KFOR are conducting investigations.
- The Agency continues to support the returns and reintegration process for minority communities in Kosovo. Five multi-sector returns programmes have been completed, under the 2004 programme, implemented in coordination with the Ministry of Communities and Returns (MoCR) and UNMIK Office of Returns and Communities (ORC) since August 2004. In one project, 28 ethnic Serb families received keys of their reconstructed houses in Kosh/Kos village in September, destroyed in the aftermath of the 1999 conflict. They were the first Serbs to go back to the once mixed village. In total over 220 returning families from the Serb and Roma communities have benefited from this programme. Assistance included housing reconstruction, repair of water, waste and electrical systems, the rehabilitation of schools and the supply of ambulances.
- Some €7 million (available under the 2005 and 2004 programmes) will be allocated to new multi-sectoral returns projects in October. These projects may include support the re-housing of Roma at the Zitkovac camp to Roma Mahala in north Mitrovica, and resettlement of the Plementica camp.
- The Agency also continues to support community and economic development actions in minority areas to improve the conditions for sustainable returns by contributing to the alleviation of unemployment and the improvement of living conditions among the minority population.

#### Civil society & media (€11 million)

- To date, EC assistance has supported 250 projects implemented by civil society organisations, mainly NGOs. 60 projects targeted minority communities, including 10 for the Roma, Ashkali and Egyptian community.

### Good governance & institution building 1999-2005 (€123 million)

#### Justice & Integrated Border Management (€35 million)

- The Agency has completed a four-year programme that has established a legal aid service

in civil and administrative matters. Some 31,000 people from all of Kosovo's communities have already benefited from this service. Building on this success, the Agency is now working with local stakeholders such as the Kosovo Chamber of Advocates to develop a comprehensive and sustainable legal aid system that would cover both civil and criminal cases. However, the promulgation of the Regulation on Legal Aid remains the major obstacle to creation of the comprehensive legal aid system. The OSCE and UNMIK are cooperating to resolve this issue.

- EC assistance is supporting the establishment of the Kosovo Special Prosecutor's Office (KSPO), as part of the UNMIK Pillar I transition strategy. The KSPO will tackle corruption, terrorism, organised crime and human trafficking. The Law establishing the KSPO is now awaiting approval from the SRSG. The KSPO is currently recruiting experts and support staff, however this process has fallen significantly behind schedule.
- The Agency is waiting further clarification from UNMIK on the transition strategy priorities and timetable in relation to the transfer of responsibilities in the area of Police and Justice, particularly the establishment of the new ministries for police and interior. EC assistance is already ear-marked to assist the development of the new institutions.

### **Public administration reform (€88 million)**

- The Agency has agreed with UNMIK Pillar IV to reformulate EC support for the Office of the Auditor General in order to accelerate institution-building assistance to this body, including setting up of an audit support unit, and reinforcing training of 60 future auditors in accounting and financial management. The implementation of the project has been significantly slower than planned, but is now improving.
- Ten students from Kosovo have been selected to study for Master's degrees in European Studies at EU universities. The candidates have committed themselves to working in Kosovo's public administration for at least three years after they obtain their degrees. The project is part of a wider programme to strengthen Kosovo's public administration and to reform civil service.
- The existing Public Procurement Law is recognised to be cumbersome and difficult to implement. An EC funded project, in consultation with all stakeholders including the World Bank, has formulated a new draft law on public procurement that will assist the PISG to reform the public procurement system. The draft is key to economic development, substantial savings in the Kosovo Consolidated Budget, improved investment climate, and the fight against corruption. In August, the Prime Minister set up a working group to complete work on the draft law. The law must now be approved by the government.
- The timing and organisation of the population and housing census as well as the capacity of the Statistics Office of Kosovo (SoK) to implement it remains an issue. The Minister of Public Service has provisionally set the census date for April 2006. This is considered a very ambitious timeframe and is likely to be revised in line with the results of the pilot census scheduled for November 2005. The Agency is working with the stakeholders, particularly the Ministry of Public Services and Eurostat, to prepare SoK for implementation of the census. Eurostat will be in Kosovo in October to again review the situation. The Agency will launch a technical assistance programme to assist the PISG and SoK to prepare for the census. The Agency is in discussion with the Council of Europe to monitor the census, based on the exercise carried out in FYROM and Moldova.
- The Agency is assisting the Ministry of Economy and Finance, line ministries, and municipalities to put in place a coherent and prioritised Public Investment Programme (PIP) process that is fully integrated into the MEF budgetary processes and government strategy. During the reporting period on-the-job training was provided to central budget organisations and municipalities prior to, and following, the submission of the 2006 budget proposals. PIP manuals were distributed to all budget organisations and appear to have been well received. The development of the PIP Interim Data Base is now near completion. Progress on the development of the PIP was favourable reviewed at a meeting of the Project Steering Committee, particularly in view of the possible Donors' Conference on Kosovo in December.

## **Economic and Social Development 1998-2005 (€791 million)**

### **Economic strategy & enterprise development (€84 million)**

- As a result of EC assistance, the Ministry of Trade and Industry has formulated a *Private Sector Development Strategy* in consultation with relevant stakeholders, including other PISG ministries. The strategy aims to reduce unemployment and improve the competitiveness of the Kosovo economy through a number of reform measures. The strategy recommends such measures as the development of the Investment Promotion Agency to increase domestic and foreign direct investment, and enhancing Kosovo's quality infrastructure (standardisation, technical regulations, testing and certification) to improve industrial competitiveness and increase exports. Many of the recommendations are likely to be implemented under the 2006 programme for Kosovo.
- 25 municipal infrastructure development projects - designed by the municipalities - have been selected in cooperation with the UNMIK Standards Coordinator, the Prime Minister's Office and the Association of Kosovo Municipalities. Only municipalities judged by UNMIK to have demonstrated progress towards the achievement of the standards have been selected for assistance. Most projects will directly benefit minority communities. Projects include the rehabilitation of schools catering for students from more than one ethnic community, repair of village access roads, and the upgrading of local sewage systems. Further rounds of assistance to the municipalities through this €17 million programme will be decided and delivered over the coming 12 months.
- 21 enterprises have been selected to receive expert tailored management advice for business expansion and development under the European Bank for Reconstruction and Development (EBRD) turn-around management programme. Over 20 SMEs are receiving assistance in the areas of management, accountancy, marketing and planning under the EBRD's business advisory services. The EBRD TAM/BAS programme is EC funded.
- The lack of progress on the formulation of the Kosovo Development Plan has been disappointing over the past few months. The Agency together with the Commission Office in Pristina and the EU member states will continue to advocate for progress on this important framework of economic development. EC assistance of €2.5 million (under the 2004 and 2005 programmes for Kosovo) is already available to assist the PISG in the development of the Plan.
- The Privatisation process - vital for economic regeneration and investment - has accelerated in recent months. Over 130 socially owned enterprises (SOEs) have been privatised in seven waves of tenders, supported by EC-funded technical assistance to the Kosovo Trust Agency (KTA) which is responsible for privatisation. The KTA aims to complete the privatisation of half of all remaining SOEs by May 2006. These enterprises are expected to equal 90% of the asset value of all SOEs.
- The Agency is also assisting the Kosovo Trust Agency in the incorporation of publicly owned enterprises. However, there is a need for further strengthening collaboration between the KTA and the PISG in this process, and the early preparation for the eventual transfer of KTA responsibilities to local actors.
- Ambassador Eide's report also highlighted the need to resolve illegally occupied agriculture and commercial properties, which is a serious obstacle to returns and sustainable livelihoods. EC assistance is earmarked to assist the development of a mechanism to resolve agriculture and commercial properties, and we are waiting for UNMIK to agree and establish the institutional mechanism for this.
- Over 1,000 banking personnel have attended training in advanced banking and management delivered through the Kosovo Bankers Association, as a result of EC assistance aimed at improving the performance of the commercial banking sector in Kosovo.

### **Rural economy (€72 million)**

- In September, the EAR launched a project to support the development of an effective food safety control system for Kosovo that will coordinate food safety policy making and food inspection mechanisms. The project will be implemented in close coordination with

the World Bank. One component of the project will be to help establish the Kosovo Food Safety Control Agency.

- EC assistance has assisted the Ministry of Agriculture, Forestry and Rural Development (MAFRD) to develop an EU compatible legal and regulatory framework for the production and trade in seeds and planting materials. The project was successfully completed in the reporting period. Project activities included the drafting of the Seed Law which was subsequently approved by the Assembly, and training for staff from MAFRD and agriculture institutes to ensure the effective supervision of the seed/planting materials sector.
- The *Rural Development Plan for 2007-2013* is being developed by MAFRD with EC assistance. The Plan emphasises the need to make structural changes in the rural economy to create employment and increase incomes in rural areas, to expand import substitution and exports in the food sector, and to enhance EU compatibility. The Plan is linked to both the Kosovo Development Strategy and Plan and the Public Investment Programme. The Plan identifies priority actions for the development of the rural economy that will be supported under the 2006 Action Programme for Kosovo.

### **Energy (€408 million)**

- With technical assistance from the Agency, the Ministry of Energy and Mining has formulated the Kosovo Energy Strategy 2005 – 2015. The strategy has been adopted by the Government and by the Kosovo Assembly. This strategy will be the basis for the future development of the energy sector in Kosovo, in-line with the requirements of the Treaty on the Energy Community for South East Europe and the Athens MoU, as well as the results of the EC funded Generation Investment Study (REBIS GIS).
- In September the Agency completed the refurbishment of two heavy machines and three coal belt-drive stations at the coalmines. The Agency also supplied the energy utility KEK with specialised mechanical/electrical spare parts and components, together with training, for the repair of heavy machinery at the coal mines. These actions will improve reliability of coal supply to the power stations.
- On the request of the Ministry of Energy and Mining and Pillar IV, the Agency has completed an appraisal study on the economic and technical feasibility to rehabilitate and overhaul four units of the Kosovo A power plant. The report is now being reviewed by the ministry, Pillar IV and the World Bank to inform the decision on whether to rehabilitate, or close the power plant (and import the electricity).

### **Environment (€64million)**

- Five regional sanitary landfills have now been completed - to minimum EU standards - providing waste disposal services for over one million people from all of Kosovo's communities. Construction works have started at the new site for the Pristina landfill. The location of the site had to be changed, as the Kosovo Trust Agency (owners of the site) withdrew approval for the previous site stating that they required access to coal reserves at the location.
- The construction of the first sewage treatment plant in Kosovo is progressing well. The project involves assisting a publicly owned water utility to construct and operate the sewage treatment plant and building the capacity of the Ministry of Environment and Spatial Planning to develop a master plan for a Kosovo wide sewage treatment system.

### **Vocational education & training (€16 million)**

- EC assistance is supporting the Ministry of Labour and Social Welfare to develop a *Kosovo Strategy on Employment*. The three year strategy provides the ministry with policy and operational guidance for reducing unemployment in Kosovo.
- The construction of the Pristina vocational education and training (VET) centre has been delayed due to unresolved property issues at the site proposed by the municipality. The Pristina training centre is expected to serve as a model for best practice in vocational training for adults.

## Transport (€51 million)

- The Agency is completing the rehabilitation of 12 bridges on the main Pristina-Skopje road. This project is jointly funded by the EU, the Ministry of Transport and Communication, and KFOR.

## Other

Other miscellaneous EC-funded projects managed by the Agency in the period 1998-2002 included the reconstruction of 17,100 houses; institutional support to the Ministry of Health; the Village Employment & Rehabilitation Programme (VERP); a Small Scale Operations fund to support civic initiatives at a local level; support for de-mining; and training and equipment for the Kosovo Protection Corps (KPC). Also included are: actions that enable project preparation to proceed in a quick and effective manner, including feasibility studies; monitoring; evaluations of previous EC funded assistance; and the programme reserve which is used to cover additional programme related priorities and expenditures that are currently unforeseeable.

## 5 FYROM

### Overview

The biggest challenge for the Government in the third quarter of the year was the **devolution of powers from central to local government**, which officially got underway on 1 July 2005. With the decentralisation the new municipalities will gradually take on a wide range of functions previously assigned to the state. Among other things, local authorities will now collect taxes, issue construction licences and manage primary and secondary schools and local cultural institutions. The Agency is providing crucial support in this initial period both to central government and to municipalities to handle the transfer of competencies through policy advice, training, equipment and small-scale infrastructure projects. At policy level, continuing expert advice is being provided to the Ministry of Local Self-Government to support the co-ordination of the decentralisation process, and to the line ministries in implementing the competency transfer. Specifically, the Ministry of Finance is receiving support for its efforts to manage the financial aspects of the transfer of tasks to the local level. A separate project is providing training to urban planning units in municipalities. In addition, 22 small-scale infrastructure projects are currently being implemented in a range of municipalities.

In addition to decentralisation, another important element of the Ohrid Framework Agreement is **equitable representation of minority communities in the public service**. The strategy for equal representation prepared with EU assistance is now ready and the Government is proceeding with internal discussions before finalising it. In parallel, an intensive nine-month training course for 100 students from minority communities, primarily ethnic Albanians, to be employed as translators in the courts and ministries has started. An earlier training programme of Category III civil servants from the minority communities has resulted in an increase of the representation of minority communities in the civil service from 10% to 14%.

Other challenges for the Government are to deliver on difficult structural reforms in the areas of public administration, labour market, and justice and home affairs. These will be critical for the creation of a more favourable business climate and to enhance foreign direct investment. The Agency is actively supporting the Government in the implementation of reforms in these sectors.

In the **judiciary**, the project to support the creation of a Training Academy for Judges and Prosecutors is in the final stage. The Government is currently reviewing a draft law defining the status of the Training Academy, prepared with EU assistance. Curricula for mandatory initial training and continuous training of judges and prosecutors have been developed and pilot training programmes have been organised for judges and prosecutors. A follow-up intervention, which will build on the achievements of the on-going project, is due to start at the end of the

year.

In the area of **home affairs**, a project which helped the Ministry of Interior take forward its Police Reform Strategy and action plan has recently been completed. The project covered a whole range of police management issues including a review of responsibilities, accountability, representation, career management and merit-based advancement. Further support to the police reform process will be provided by a team of eight police officers (resident twinning advisors) from the Police Academy of Brandenburg in Germany, starting 1 November. A separate project has been implemented in the area of police education, providing guidance to the strategic development of the newly established Police Academy.

In the **SME sector**, a number of policy papers have been prepared, including an analysis of SME competitiveness and efficiency, a review of the SME support measures implemented in the country and a feasibility study for the establishment of a mutual guarantee fund. The first training sessions for managers of more than 30 mainly textile, food processing and IT companies commenced in September 2005. The training focused on innovation and technology management and human resources development.

The project that provided assistance for the development and implementation of a National Action Plan for **Employment** 2004-2005 was completed at the end of July 2005. New equipment and furniture worth about €0.8 million have been delivered to the regional employment bureaux, and their staff have undergone training in order to be able to deliver more active labour market services to the unemployed. In addition, 11 pilot projects have been implemented, including a variety of activities targeting unemployed people. Preliminary reports indicate that around 180 people trained under the pilot projects have found jobs and more than 130 have started their own businesses. A follow-up project was launched in early September 2005.

In the area of the **environment**, National and Regional Waste Management Plans and Feasibility Studies were completed by the end of September 2005. In the north-east and centre of the country, inter-municipal boards have agreed on a concept for development of two regional landfills serving some 400,000 people. Environmental impact assessments have been carried out at several potential sites, and two final sites as well as an alternative site were proposed.

Since the commencement of its operations in FYROM, the Agency has developed and taken forward four annual programmes within the framework of the CARDS 2002-2005 programme. The **2005 Annual Programme** was signed on 5 July 2005. It will provide €34.5 million to further support the country in aligning itself to the European Union. The programme covers three broad sectors: democratic stabilisation, good governance and institution building, and economic and social development. Preparation for the implementation of the 2005 projects is underway. Four projects will be implemented using the 'twinning' mechanism. These projects belong to the areas of statistics, public prosecution, combating money laundering and air quality control. The Agency is currently working on the development of the CARDS 2006 Annual Programme in close cooperation with the Government.

The cumulative portfolio of funds managed by the Agency in FYROM amounts to €276 million (1997-2005). Currently, 76% of these funds have been contracted, and 60% paid. The funds of the 2005 programme became available for contracting in July.

The European Agency for Reconstruction in <b>FYR Macedonia</b> (established March 2002)										
At 30/9/2005	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Allocated (€m)	8.6	21.9	21.2	17.9	57	33.5	37.4*	53.8	25.2	276.4
Committed/allocated	100%	100%	98%	100%	100%	91%	72%	45%	4%	76%
Paid/allocated	100%	100%	83%	94%	92%	64%	44%	14%	0%	60%

\* Note The amount includes funds of €3.9 million allocated by the Government of Denmark for financing small-scale infrastructure projects.

## **Progress in the reporting period**

### **Democratic Stabilisation (2002–05: €15.6 million)**

The three main priorities were supporting the implementation of the Ohrid Framework Agreement, improving inter-ethnic relations and supporting civil society. Specific actions during the quarter include:

#### **Minority Rights (€ 12.1 million)**

- The project to provide initial support to the newly established government sector for the implementation of the Ohrid Framework Agreement has entered into the final stage. One of the main tasks of the project, drafting a strategy for equal representation of the minority communities in the public service, has been completed and the Government is now proceeding with internal discussions before finalising it.
- Late September saw the start of an intensive nine-month training course for 100 students from minority communities, primarily ethnic Albanians, to be employed as translators in the courts and ministries.
- A concept for a media campaign to raise awareness about tolerance and reduce ethnic mistrust among youth has been agreed.
- The first 20 children's extra curricula projects have been approved. Their implementation will start in the next quarter.

#### **Civil Society (€ 3.5 million)**

- Development plans have been agreed with the six civil society organisations (CSOs) that were selected to participate in the project for CSO capacity building in the country: the Students' Unions of the Universities of Skopje, Bitola and SEE; Federation of Farmers; the Coalition of Turkish NGOs; the youth coalition Sega; the Federation of Pensioners' Associations; and the women's civic initiative Antico.
- The first round of training for small scale national NGOs on lobbying, advocacy building and financial sustainability was conducted in all NGO Support Centres, which are located in economically deprived areas of the country. The project has also organised several NGO networking activities and launched a web page containing project related information.

### **Good Governance and Institutional Building (1998–2005: €112.4 million)**

The good governance and institution building programme covers two areas: Justice and Home Affairs and Public Administration Reform. Specific actions during the quarter include:

#### **Justice and Home Affairs (€54 million)**

- The project to support the creation of a Training Academy for Judges and Prosecutors is in the final stage. A draft law defining the status of Training Academy, prepared with EU assistance, is currently being reviewed by the Government. Curricula for mandatory initial training and continuous training of judges and prosecutors have been developed and pilot training programmes organised for judges and prosecutors. A follow-up action, which will build on the achievements of the on-going project, is due to start at the end of the year.
- Intensive training courses were organised in September 2005 on migration and asylum related issues for the officials of the Ministry of Interior and the Ministry of Labour and Social Policy. Topics covered recognition of false documents, interpretation of the law on asylum, asylum reception centre management, etc. The Government has not yet decided on the new location for the reception centre for asylum seekers and, in the meantime,

construction has been suspended.

- A National Strategy for Combating Money Laundering and Terrorist Financing was developed with EU assistance and adopted by Government in July 2005. An international conference on "The Role of International Co-operation in Combating Money Laundering" was organised on 20 September 2005 in Ohrid.
- A separate project has been implemented in the area of police education. It provided guidance to the strategic development of the newly established Police Academy and support in the implementation of a training regime and facilities in line with identified EU best practices.
- At the policy level, a project which helped the Ministry of Interior take forward its Police Reform Strategy and Action Plan has recently been completed. The project covered the whole range of police management issues including the review of responsibilities, accountability, representation, career management and merit-based advancement. Further support to the police reform process will be provided by a team of eight police officers (resident twinning advisors) from the Police Academy of Brandenburg in Germany, starting on 1 November.
- Public works necessary for the implementation of a radio digital data transmission network for border crossing points have been completed and the equipment delivered.
- A National Visa IT Management System has been designed with EU assistance. The system is currently under review by the Ministry of Foreign Affairs.

### **Public Administration Reform (€58.4 million)**

- In the reporting period the project for the implementation and co-ordination of the decentralisation process has organised two workshops for the Decentralisation Working Group, the Association of municipalities and the Ministry of Local Self-Government on topics related to inter-municipal cooperation and regional development.
- A database has been developed to assess the results of all surveys (past and future) on the transfer of competencies and resources from the central to local government.
- A Municipal Database is under development. The database will provide extensive information for every municipality in the country (including general information, administration, financial, ICT and other assets, implemented soft and hard projects, etc.)
- Eight pilot municipalities have been selected under the fiscal decentralisation project. The relevant staff of the municipal administration will be supported in the budgeting process, in setting up of a concrete data collection system and in the development of financial reports and narrative statements.
- The curricula and training materials for the urban planning training to the municipalities have been largely completed. A team of local trainers has undergone didactic and urban planning training. The knowledge transfer programme to municipal staff is planned to start in October 2005. This is the first donor-funded project that provides support to all 84 municipalities.
- Six small-scale local infrastructure projects were completed during the reporting period. Another 22 infrastructure projects are underway in a range of municipalities.
- Internal Auditors have been appointed in all first and second line budget users. Over the last quarter the capacity of internal auditors has been significantly increased through training on performance, procurement and IT audit, and communication skills. A plan for the establishment and development of an internal audit function in the municipalities has been prepared and three pilot municipalities selected.

### **Economic and Social Development (1997–2005: €117.12 million)**

Assistance in the economic and social development sector entails a broad range of projects targeted at the improvement of the investment climate in the country, trade facilitation, infrastructure development, environment, employment and vocational education and training. Specific actions during the quarter include:

#### **Investment Climate (€27.84 million)**



- A cooperation agreement was signed with EBRD in August 2005 for implementation of a project directed toward the improvement of lending policies and practices in local commercial banks. The project will aim to provide better access to finance for SMEs and to increase the level of utilisation of the credit lines for SMEs provided by the EU and EBRD.
- The first training sessions for managers of more than 30 mainly textile, food processing and IT companies commenced in September 2005. The training focused on innovation and technology management and human resources development.
- During the reporting period eight workshops, seminars and roundtables were organised on project development and management for the Ministry of Economy, the Agency for Entrepreneurship Promotion and other business support structures. The training needs of these institutions have been assessed, and a training programme designed.
- A number of SME-related policy papers have been prepared and shared with the beneficiaries, including an analysis of SME competitiveness and efficiency and a review of the SME support measures implemented in the country.
- A table of concordance of the national Law on Public Procurement with the EU directives has been completed, indicating 60% compliance. Accordingly, a Report on Transposition has been presented to the working group. The project has also prepared a basic set of standard bidding documents for goods, services and works, and a Comparative Study on Good Practice in EU member states.
- Six seminars on the law on Public Procurement have been organised in the reporting period, attended by 175 officials from 124 institutions, including budget-users, municipalities, public enterprises, etc.
- A new project was launched in September 2005 to provide assistance to the State Office for Industrial Rights Protection to streamline their operating procedures and to develop a collaborative IT platform with other institutions responsible for enforcement of industrial property rights.
- Negotiations were completed between the national Body for Competition Protection and the selected twinning partner, Germany's Federal Ministry of Economics and Labour, for the project 'Structural and legal support to the Body for Competition Protection'. The project will commence in the next quarter.

### **Trade (€19.5 million)**

- A draft veterinary law was completed and submitted to the Ministry of Agriculture, Forestry and Water Economy for comments. Other project components progress, albeit with delays, due to the weak administrative capacity of the recipient ministry.
- Veterinary inspectors have undergone training in animal identification and registration inspection.
- The State Phytosanitary Laboratory has been fully equipped. Once operational, the laboratory will contribute to increase productivity of agriculture, and to improve food safety.

### **Infrastructure (€45.4 million)**

- The works on the last stretch of the 16 km section (Negotino – Demir Kapija) of the E-75 carriage motorway are nearing completion. The completed part of the section was opened to traffic in July 2005.
- An agreement was signed with the EBRD to provide technical support to enterprises and industries to which the new law on the environment applies and to minimise possible negative effects of the legislation on business development.

### **Environment (€14.4 million)**

- A final version of the second National Environmental Action Plan (NEAP) has been submitted to the relevant ministries for comments. It is expected that the NEAP will be approved by the Government in November 2005. This NEAP will be the reference document for environmental management.

- National and Regional Waste Management Plans and Feasibility Studies were completed at the end of September 2005 and they are currently being examined by the relevant stakeholders. In the north-east and central regions of the country, inter-municipal boards have agreed on a concept for development of two regional landfills serving some 400,000 people. Environmental impact assessments have been carried out in several potential sites, and two final sites as well as an alternative site were proposed.

### **Education and Employment (€9.98 million)**

- The programme that provided assistance in the development and implementation of a National Action Plan for Employment 2004-2005 was completed at the end of July 2005. New equipment and furniture worth about €0.8 million have been delivered to the regional employment bureaux, and their staff have undergone training in order to be able to deliver more active labour market services to the unemployed. In addition, 11 pilot projects have been implemented, including a variety of activities targeting the unemployed: training, professional counselling and guidance, job mediation and advice on starting a business. Preliminary reports indicate that around 180 people trained under the pilot projects have found a job and more than 130 have started their own business. A follow-up project was launched in early September 2005.
- The phase III of the Vocational Education and Training (VET) project was successfully completed in August 2005. A total of 56 dedicated VET schools have benefited from the reform programme. VET III has focused on development of a national VET system and VET policy including legislative reform, institutional strengthening and training of VET teachers.
- The delivery of equipment (multimedia, agricultural, medical, textile, catering) to 24 new VET schools, and seven of the VET II schools has been completed.

## **6 Coordination**

Regular coordination meetings with EU member states and other donors took place at the Agency's Operational Centres during the third quarter of 2005.

**In Belgrade**, regular coordination meetings were held with all EU member states. Monthly member state meetings often address individual sectoral programmes. In September the topic addressed was the health sector. There are very close working relations in key sectors, for example with France, Sweden, UK and Germany in area of public administration reform and public finance. The Agency has excellent cooperation with the IFIs. The Agency has a successful track record of facilitating IFI investment. The sectors where this is most prominent are: transport (EIB, EBRD), energy (EIB, EBRD, KfW), health (EIB, World Bank), local and regional development (EBRD), support to SMEs (EBRD), etc. The Agency also closely coordinates its activities with USAID and the Swiss and Norwegian aid programmes.

**In Podgorica**, the Agency, together with representatives of United States Agency for International Development (USAID) worked closely with the Government to finalise its economic reform agenda aimed at public administration, the economy and education. Agency staff and consultants have participated in missions by EIB and EBRD to assess the potential for further funding within the transport and wastewater sectors. Collaboration with KfW continues in order to ensure co-ordination of water sector activities in the coastal region. Regular monthly meetings have been held on the level of head of office to coordinate assistance. In addition coordination tables have been created providing overviews of who is providing financial assistance in which sectors.

**In Pristina**, the Agency continued to host monthly coordination meetings with representatives of the EU member states, the European Commission Liaison Office, and the Office of the Personal Representative of the Common Foreign and Security Policy. These meetings included a briefing by the Coordinator of the Kosovo Protection Corps (KPC) on the challenge of transforming the KPC into an organisation that is in line with international human-rights

standards as well as Kosovo's future status, while also satisfying the aspirations of Kosovo's political and KPC leaders. In another meeting the Agency discussed a draft of the CARDS 2006 Action Programme for Kosovo to ensure close collaboration and joint actions with the EU member states in the design and delivery of EU assistance for Kosovo. The Agency also undertook a number of discussions with the EC Liaison Office in Pristina in order to further strengthen collaboration between our offices.

**In Skopje**, coordination meetings with the EU and non-EU donors have continued focusing on evaluation of the coordination of the assistance in specific sectors. The sectors that were discussed included decentralisation, private sector development, public administration reform and higher education reform. Discussions on decentralisation and local government reforms were of crucial importance as it was the major reform process that was undertaken by the government in the past two to three years, with the implementation starting on 1 July 2005. A coordination meeting was held in July with individual EU member states on the sectors that are of joint focus to both the Agency and to the individual member states. A coordination meeting was organised with the World Bank in July in which representatives from the Agency and the World Bank discussed issues related to the on-going and planned projects on public administration reform. In September another comprehensive donor coordination meeting was held on decentralisation, with special emphasis on coordinating the assistance to the country's Association of Local Self-Government Units.

## **7 Evaluation**

During the third quarter of 2005, the following evaluations were initiated and/or conducted:

- Support to Health reform 2001–2003, Serbia (ongoing)
- Support to Civil Society 2002, Serbia (Draft Report)
- Support to Law Enforcement Agencies, Serbia, and Support to Judiciary, Kosovo (under tendering)
- Support to Vocational Education and Training (VET), all centres, (under re-tendering)
- Counterpart Funds, all centres (under re-tendering)

In addition, an internal report on lessons learned – "Synthesis of Evaluations 2001–2004" – is under preparation and will be presented during the first quarter of 2006.

An internal evaluation of the Agency's use of Twinning as a tool for programme implementation is under preparation and will be presented in November 2005.

The status of all evaluations planned and undertaken by the Agency is available. Executive summaries of completed evaluations are continuously presented on the Agency's web site ([www.ear.eu.int/publications/news-a1g2.htm](http://www.ear.eu.int/publications/news-a1g2.htm)).

## **8 Information & communication**

The Agency's information unit continued to inform the outside world about EAR's work and mission. It dealt with a host of activities and enquiries in Thessaloniki and in the four Operational Centres. It issued regular press releases and placed occasional op-ed articles in the local media. It also posted feature-type web stories which describe the impact of EU funding on the people the Agency serves. The materials issued by the Unit are available in the languages spoken in the Agency's area of operations as well as English – the Agency's only official language. This material can be accessed at [www.ear.eu.int/news/news.htm](http://www.ear.eu.int/news/news.htm). Internally, the unit was involved in editing the materials for the Agency Intranet and providing a regular digest of news reports on EU and Balkan matters.

## **9 Administration/staffing**

<b>Staffing at 27/10/2005</b>	<b>Thessaloniki</b>	<b>Belgrade</b>	<b>Podgorica</b>	<b>Pristina</b>	<b>Skopje</b>	<b>Total</b>
<b>Temporary Agents</b>	29	22	3	14	16	84
Contract Agents	25	-	-	-	-	25
Local Agents	-	59	12	43	37	151
Seconded National Experts	-	2	-	-	-	2
<b>Total</b>	<b>54</b>	<b>83</b>	<b>15</b>	<b>57</b>	<b>53</b>	<b>262</b>

## 10 Key figures at a glance, at 30 September 2005

### *Serbia and Montenegro – Republic of Serbia*

	<b>1998-2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1998-2005</b>
<b>Allocation (€ million)</b>	192	194	172	220	205	152	1135
Committed/Allocated %	100	100	98	87	49	4	75
Paid/Committed %	100	100	90	67	30	0	82

### *Serbia and Montenegro – Republic of Montenegro*

	<b>1998-2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1998-2005</b>
<b>Allocation (€ million)</b>	30	16	12	12	17	23	110
Committed/Allocated %	100	100	96	96	83	1	76
Paid/Committed %	100	100	99	91	57	0	91

### *Serbia and Montenegro – UN-administered Kosovo*

	<b>1998-2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1998-2005</b>
<b>Allocation (€ million)</b>	554	145	166	62	73	52	1052
Committed/Allocated %	100	100	98	69	53	7	90
Paid/Committed %	99	95	93	71	55	0	94

### *FYR Macedonia*

	<b>1997-2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1997-2005</b>
<b>Allocation (€ million)</b>	81	57	34	37	54	25	288
Committed/Allocated %	99	100	91	72	45	4	76
Paid/Committed %	95	92	71	61	31	0	79

**Agency-wide (Serbia & Montenegro, Kosovo and FYROM)**

	Allocation (€ million)	Committed/Allocated %	Paid/Committed %
<b>1997-2005</b>	<b>2,585</b>	<b>81</b>	<b>87</b>

\*Not included: amount de-committed by the EAR on EC contracts and re-used. Allocated funds come from EC and other donors.