REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

European Agency for Reconstruction

Annual Report 2000

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TABLE OF CONTENTS

Highlights ..................................................................................................................... 4

1. Summary .................................................................................................................. 5

2. Establishment of the Agency .................................................................................... 7

2.1. Legal basis ............................................................................................................... 7

2.2. Role of the Governing Board .................................................................................... 8

3. Reconstruction programme in Kosovo .................................................................... 10

3.1. The genesis of the Agency ...................................................................................... 10

3.2. Donor coordination ................................................................................................. 10

3.3. Basic principles of cooperation ............................................................................... 11

3.4. Overall programme 2000 ...................................................................................... 12

3.5 Monitoring ............................................................................................................. 23

3.6 Social impact assessments ...................................................................................... 24

4. Emergency Assistance Programme in Serbia .......................................................... 25

5. Finance ................................................................................................................... 27

5.1 Agency budget ....................................................................................................... 27

5.2 Financial management ............................................................................................ 27

5.3 Management structure ............................................................................................ 28

Annex A Agency Board meetings in Thessaloniki, 2000 ...................................................... 30

Annex B European Agency for Reconstruction organisational chart..................................... 33

Annex C Summary of Agency programmes in Kosovo, at 31/12/2000 (€1000) .................... 34

Annex D Summary of Agency budget for 2000 in €1,000 .................................................. 35

Contact points .................................................................................................................. 36
The European Agency for Reconstruction is responsible for the management of the main EC assistance programmes in Kosovo, Serbia and Montenegro. It was established in February 2000 and has its headquarters in Greece at Thessaloniki, and operational centres in Pristina, Belgrade and Podgorica. It is an independent agency of the European Union, accountable to the European Council and the European Parliament. It is overseen by a Governing Board composed of the European Commission and representatives from EU Member States.

At its inception, the Agency inherited programmes in Kosovo worth €70 million. It subsequently assumed management responsibility for a further €440 million (€260 million for Kosovo, €180 million for Serbia) under the 2000 budget. The total figure for the 2001 assistance programme is expected to rise to +/- €550 million (including €170 million committed for Kosovo in December 2000).

However, with the extension of the Agency's mandate to Serbia and Montenegro, and the transfer of responsibility in January 2001 for the implementation of previous EC assistance programmes, it oversees a total portfolio of some €1 billion for the Federal Republic of Yugoslavia.
## HIGHLIGHTS

### The Agency
- Established in February 2000 in Pristina, May in Thessaloniki, December in Belgrade, February 2001 in Podgorica
- Legal basis: *Obnova* Regulation replaced by ‘CARDS’ Regulation for EU assistance to south eastern Europe and special Agency Regulation, both adopted in December 2000
- Of funds committed during the year (excluding those in December), 92% contracted and 53% paid out
- Administrative costs 2.5% of total amount committed for Kosovo for 2000
- Average payment made in 13 days
- 142 staff (64 international, 78 local)
- Wastewater/sewage rehabilitation
- Support for key lead smelter and mining complex
- Fertiliser imported and auctioned, rural credit scheme for farmers
- Training and loans to 350 pharmacies
- Vehicles, equipment for Kosovo Protection Corps
- Funding for de-mining in 1000+ minefields
- Vehicles, equipment, training to re-establish postal/telecommunications service

### Kosovo
- €30 million funding inherited from 1999, €262 million newly committed in 2000
- Structural reform of energy sector
- Partial overhaul of Kosovo B power station
- Heavy equipment, cranes, spare parts for coal mines
- Imported electricity purchases to date
- 12,000 houses rehabilitated or rebuilt
- 180 kilometres on three main road axes rebuilt or rehabilitated
- Advisory services for SMEs, €2 million in micro-credit advances
- Construction of multi-modal platform at Kosovo’s main railhead
- Four destroyed bridges rehabilitated
- Spare parts, tools, vehicles for public water utility companies

### Serbia
- Support to identification of €180 million Emergency Assistance Programme EAP in December
- EAP management from January 2001
- Diesel fuel for 60 municipal heating systems, schools, hospitals, power plants and mines
- 45 days’ worth of electricity imports
- Essential medicines and supplies to 160 pharmacies, 175 health centres
- 15,000 tonnes of sugar and vegetable oil at reduced prices, with proceeds to regenerate agriculture
- Rebuilding projects for municipalities and schools under review in 160 areas
- Grants for independent media

### Montenegro
- Establishment of temporary office in February 2001
- Management of ongoing EC programmes, first identification of 2001 activities
1. **SUMMARY**

The European Union is absolutely committed to building stability in south eastern Europe. Our aim is to create a situation in which military conflict becomes unthinkable. Through the strategic framework of the Stabilisation and Association Process, the European Union is in effect offering to share its political and economic future with the countries of the region.¹

Chris Patten, European Commissioner for External Relations

The European Agency for Reconstruction came into being in February 2000. It was born of a previous commitment - made towards the end of the crisis in Kosovo in June 1999 - when the European Council took a decision to take an active role in assisting reconstruction and recovery efforts. A temporary body, the European Commission Task force for the reconstruction of Kosovo (EC TAFKO), had been set up before the end of the summer of 1999 to implement emergency programmes.

During the first five months after the conflict, the interim international administration UNMIK – alongside other agencies – set about assessing the damage that had been caused to human lives, to infrastructure and to homes. A report on reconstruction and recovery needs was subsequently presented at the 2nd Kosovo Donors Conference, in Brussels in November 1999. During this conference, the EU reconfirmed its intention to take a prominent role in the reconstruction programme, and to cooperate and collaborate closely with other donor institutions to ensure that a common strategy was followed. So it was that the Agency – which has a Governing Board of EU Member State and European Commission representatives that meets regularly to oversee its activities – superseded the EC TAFKO, and began its operations.

Closely following the sector work programmes developed with UNMIK, the Agency prepared its own work programme for Kosovo for 2000. This plan concentrated on the most immediate needs for physical and economic reconstruction, but also took a longer term perspective on the need to develop a market-oriented economy and to foster private enterprise. At the outset, the Agency decided to focus its assistance on the rehabilitation and repair of the key infrastructure and public utilities required to bring life back to normal in Kosovo. The main sectors in which it chose to operate included energy, housing, transport and water supplies. It also launched activities in enterprise development, agriculture and health. The budget allocated for these programmes amounted to some €262 million. Working to a tight timescale, the programmes had considerable immediate impact, especially in the housing and energy sectors. The new funds were committed by July 2000, and 92% of them were contracted by end-December.

Following changes in the political establishment in Serbia during October/November 2000, in December the activities of the Agency were extended to cover the whole of the Federal Republic of Yugoslavia. In the last month of the year, the Agency helped to implement an Emergency Assistance Programme worth €180 million, covering the most pressing areas of social need in Serbia. It then assumed responsibility for the main EU assistance activities in Serbia - and in Montenegro - on 8 January 2001.

The urgency of the situation demanded the quickest possible mobilisation of EU funds. With all tendering coordinated on the ground, the Agency succeeded in making its funds available in record time. By the end of December 2000 the Agency had contracted €241 million-worth of projects in Kosovo. 86% of this was contracted by standard tendering procedures, and the remaining 14% by simplified and accelerated procedures. Meanwhile the running costs of the Agency were kept to only €8.5 million, or 2.5% of the total amount committed for Kosovo in 2000.

The context

The European Agency for Reconstruction is an implementing body, managing the majority of European Community assistance under the Obnova and subsequently CARDS programme within Kosovo, Serbia and Montenegro. In Kosovo, it operates in a province for which the United Nations Security Council, in Resolution 1244 of June 1999, has given the interim administration UNMIK a clear political mandate to administer the province.

In its action across the Federal Republic of Yugoslavia in Kosovo, Serbia and Montenegro, the Agency operates within the context of the EU’s strategic commitment to a process of Stabilisation and Association in South Eastern Europe - a process which aims to bring about the fullest possible integration of the countries of the region into the political and economic mainstream of Europe.

The Agency is not responsible for the implementation of other Community instruments such as the humanitarian aid under ECHO or the macro-economic financial assistance provided to Serbia, Montenegro and Kosovo.
2. **Establishment of the Agency**

2.1. **Legal basis**

The European Agency for Reconstruction was set up following a decision of the European Council in Cologne, Germany, on 4 June 1999.

Conscious of the exceptional effort that will have to be made to reconstruct the region following the end of the crisis, and of the necessity rapidly to put in place the most appropriate measures, the European Council invites the Commission to elaborate proposals before the end of June aimed at creating an agency to be charged with the implementation of Community reconstruction programmes. The Council, the European Parliament and the Court of Auditors are called upon to do their utmost to allow the agency to become operational before the end of the summer. (Paragraph 67 of the Presidency conclusions)

The Agency started its operations in Kosovo in February 2000, taking over from the European Commission’s Task force for the reconstruction of Kosovo (EC TAFKO), which had been established in July 1999 as a temporary body.

The legal basis for the Agency’s activities was the (Obnova) Council Regulation (EC) 2454/1999 of 15 November 1999, relating to aid for Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia. The latter had amended Regulation (EC) 1628/1996, and stated in Article 14:

*The reconstruction and refugee programmes (…) will initially target Kosovo, and when conditions are right may also target other parts of the FRY. The Commission may delegate their implementation to an agency. A European Agency for Reconstruction, hereinafter referred to as ‘the Agency’, shall be set up to that end with the aim of implementing the abovementioned programmes for reconstruction and assistance to returning refugees. Any decision to extend the Agency’s activities to parts of the FRY other than Kosovo (…) shall be taken by the Council acting by a qualified majority on a proposal from the Commission. In the light of that decision, the Agency may establish other operational centres.*

Article 16 goes on to stipulate that the Agency shall first be established in Pristina, and that it should have considerable management autonomy to begin reconstruction work in Kosovo, using the Agency’s general services located at its seat in Thessaloniki.

EU assistance for South Eastern Europe was previously subject to different sets of procedures in the Obnova and Phare Regulations. In order to establish a single legal framework, the Obnova Regulation and the Phare Regulation insofar as it applied to the countries concerned were replaced on 5 December 2000 by a new Council Regulation (EC) 2666/2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia. This new (CARDS – Community Assistance, Reconstruction, Development and Stabilisation) Regulation was complemented by Council Regulation (EC) 2667/2000 of 5 December 2000, which confirmed the ongoing activities of the European Agency for Reconstruction.
Following the political changes in Serbia and the election of Mr. Kostunica as President of the FRY, the General Affairs Council decided on 9 October 2000 to extend the activities of the European Agency for Reconstruction to the entire Federal Republic of Yugoslavia. With effect from 8 January 2001, the Commission transferred the responsibility for the implementation of its assistance programmes for the FRY to the Agency.

The main responsibilities of the Agency are to provide immediate emergency assistance and to support longer-term reconstruction and development. The Agency is charged with:

- gathering, analysing and communicating information to the Commission on damage, reconstruction requirements and priority sectors and areas for assistance
- preparing draft reconstruction programmes
- implementing the Community assistance under the Obnova and subsequently CARDS programme in accordance with the Commission’s decisions.

The Agency may also implement specific reconstruction and related programmes which are fully funded by other donors.

2.2. Role of the Governing Board

The Agency’s Governing Board is composed of one representative from each EU Member State, and two representatives of the European Commission, of which one is the (non-voting) Chairman. Board decisions have to be adopted by a two-thirds majority (except for the language arrangements, which require unanimity). The Board’s role, as defined in the Obnova Regulation, has been modified in the new, Council Regulation (EC) 2667/2000 of 5 December 2000, which is the current legal basis for the Agency.

The Board’s decision-making powers, under Articles 4.13 and 7 of the new Agency Regulation, refer to:

- approving arrangements for evaluating the implementation and proper execution of projects
- approving proposals for possible implementation of programmes of other donors
- setting the multi-annual contractual framework with UNMIK for the implementation of the Community assistance for Kosovo
- accepting, as observers in the Governing Board, representatives of the countries and organisations which may delegate implementation of their programmes to the Agency
- establishing new operational centres of the Agency
- adopting the annual Agency budget.

Previously, under the Obnova Regulation, it was also the Board’s duty to examine the Agency’s preliminary annual work programmes, to lay down the principles for implementing the Agency’s reconstruction programmes, and to decide on draft Agency programmes prior to their submission to the Commission, and on the finalisation and adjustment of Agency projects.
The Director, who is the legal representative and the Appointing Authority of the Agency, is responsible for the preparation of the annual draft action programmes, the day-to-day administration of the Agency, the preparation and execution of its budget, and the implementation of all Governing Board decisions and guidelines.

The Governing Board will be kept informed by the Director on the strategic framework, the multi-annual indicative programmes and annual action programs for Community assistance to the FRY, which according to the new CARDS Regulation are to be adopted by the Commission after the consultation of a Management Committee in Brussels also composed of EU Member State representatives, and chaired by the Commission.

The Governing Board will be also kept informed by the Director on the implementation of the tasks of the Agency (listed in Article 2.1) and in particular on the progress of projects and the functioning and activities of the Agency’s operational centres. The Board may adopt recommendations concerning these issues and in particular, where necessary, on the draft annual programme.

Given the new role of the Governing Board, the Agency Regulation now foresees that, instead of the monthly Board meetings which were required under the Obnova Regulation, the Board should be convened by the Chairman ‘whenever necessary, and at least once every three months’ (Article 4.9)

During the year 2000, 11 Board meetings took place in Thessaloniki, and one field visit to Pristina (13-14 September). The main issues discussed and decisions taken are listed in Annex A.
3. **RECONSTRUCTION PROGRAMME IN KOSOVO**

3.1. **The genesis of the Agency**

The European Union, at its Council Meeting in Cologne (June 1999), recognised the crucial importance of assisting the reconstruction and recovery of Kosovo. It confirmed its willingness to play an active role in these efforts. During 1999 the European Community provided €127 million for reconstruction programmes in Kosovo, to restore adequate living conditions before the winter, to make urgent repairs to essential infrastructure, to restart public administration, and to clear mines. Assistance was implemented through the EC Task force for the reconstruction of Kosovo (TAFKO), a temporary body set up by the Commission specifically for this purpose.

During the five-month period after the end of the conflict in July 1999, the United Nations Mission in Kosovo (UNMIK) and other specialised UN Agencies, the KFOR military presence and International Management Group (IMG), assessed the extent of the human and infrastructural damage done in Kosovo. It also took into account the need to undo a decade of neglect of human rights and public institutions.

Based on this, the European Commission and the World Bank prepared a Report\(^2\) which was considered at the 2nd Donors Conference in November 1999. This Report outlined a recovery strategy, set overall goals and priorities, and provided an estimate of external funding requirements needed for each sector.

During the conference the EU confirmed its intention to continue to take a prominent role in Kosovo, and established the principle of close cooperation and collaboration with UNMIK and other bilateral donors in the key areas of reconstruction and development.

The European Agency for Reconstruction was subsequently established in February 2000 as a new implementing agency. The Agency built on the experience of the EC TAFKO, and took over the completion of the latter’s programmes as part of its 2000 programme.

3.2. **Donor coordination**

Agency coordination with other donors during 2000 has been achieved through:

- participation in bi-weekly meetings convened by UNMIK’s Departments of Economic Reconstruction and Civil Administration
- Agency-convened bi-weekly meeting of EU Member State representatives in Pristina, to discuss programme priorities and bilateral programmes
- *ad hoc* meetings with UNMIK officials and other agencies to ensure consistency with UNMIK priorities; and day-to-day informal contacts with the main donors in each sector.

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\(^2\) EC/WB (3 November 1999) *Towards stability and prosperity: a programme for reconstruction and recovery in Kosovo*
Other donor coordination meetings have been arranged for individual sectors, such as the UNMIK-chaired bi-weekly meetings on housing reconstruction. These meetings have proved essential in reducing fragmentation in planning, and reducing the risks of overlap between programmes.

3.3. Basic principles of cooperation

By April 2000 the 20 sectoral departments of UNMIK’s Joint Interim Administrative Structure (JIAS) had drawn up programmes indicating their departmental policies, strategies and priorities in relation to the needs of their sectors. These programmes were based on the three macro-level objectives identified during the Donors’ Conference. These were:

- to develop a thriving, open and transparent market economy
- to restart public administration and establish transparent, effective and sustainable institutions
- to mitigate the impact of the conflict and to start addressing the legacy of the 1990s.

The programmes were intended to be policy-driven and not just confined to asset replacement. The energy and housing sectors took high priority, as these were considered to have the greatest impact on the community.

The Agency’s annual working plan for 2000 was developed in parallel with the UNMIK strategy for reconstruction. This included the UNMIK Public Sector Investment Plan, which was based on the earlier EC/WB plan. The Agency’s plan focussed on the most immediate needs for physical and economic reconstruction, but also contributed to a longer-term development of a market-oriented economy in Kosovo, with initiatives to foster private sector participation.

The Agency adopted a programming approach with a tight implementation time-scale, and concentrated on the key sectors that are essential building blocks to the reconstruction process. These sectors were energy, housing, transport, and water/environment. Implementation schedules for most of these sector areas were accelerated because of their vulnerability to the winter slow-downs when outside construction is difficult. Other sectors given priority status for the 2000 programme included enterprise development, agriculture, and health. The Agency’s work plan was unanimously approved by the Governing Board on 27 April.

The following Financing Proposals were adopted by the Commission after discussion in the Governing Board and consultation with the Obnova Management Committee:

- On 22 February, a €30 million carry-over from 1999 Obnova funds (€20 million energy imports, €10 million public services)
- On 16 May, a €140 million reconstruction programme (€60 million power sector, €55 million housing, €15 million transport, €10 million water supply)
- On 26 June, a €25 million programme for economic development

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• On 7 July, a €10 million programme for health

• On 27 November, the reallocation of €11.5 million from the administrative budget to electricity imports (€7-9 million) and district heating (€2-4 million)

• On 28 November, a €40 million action programme (€28-32 million energy, €4-6 million housing, €4-6 million waste disposal).

3.4. Overall programme 2000

A summary of the projects prepared by the Agency and contracted in 2000 is presented in Annex C. This Annex also shows the implementation status of the projects as at 31 December 2000. It also presents progress on the Agency’s implementation of ongoing programmes from the TAFKO which were funded from the 1999 budget.

During July to September 2000, the Agency also prepared annual work programmes for the year 2001. The first programme of €171 million will include energy, transport, agriculture, and enterprise projects. This programme was submitted to the Governing Board and approved on 13 November, being committed with 2000 funds. The second programme – approved by the Governing Board on 15 December – will include housing, water and solid waste management, agriculture/agri-business, local government and civil society, and health projects. It was formally committed in February 2001.

A review of the projects listed in Annex C is given below. This section examines the sector situation, the strategy adopted by the Agency, an outline of the project components, and an assessment of project achievements and impacts.

Energy

Electric power in Kosovo is provided from three sources: from two lignite-fired power stations (Kosovo A and Kosovo B) which use ‘brown coal’ from open-cast mines nearby; from a small domestic hydro-power plant with 35Mega-Watt (MW) installed capacity; and from regional energy imports. One of the lignite-fired generating stations, Kosovo A, is over 30 years old and is approaching the end of its useful economic life. The second, Kosovo B, is 15 years old and has good rehabilitation potential. Both stations have been run-down and were in part vandalised during the 1999 conflict. The mines, which have coal reserves of over 100 years, have also suffered from neglect. In consequence they are unable to deliver the quantity of coal required for full power generation.

Assistance from July 1999 onwards was concentrated on emergency repairs and the supply of spare parts and consumables to keep the generating systems going, especially through the difficult winter months. An international management team was appointed to support Kosovo management. This team also provided support towards securing increased revenues in a system where cost recovery is less than 15%.

UNMIK’s sector strategy was to provide a stable supply of 650MW during the winter period of peak demand, of which at least 450MW were to be generated by the Kosovo power stations. Kosovo’s electricity network forms part of a regional grid in the Balkans, which allowed power shortfalls to be made up by importing power from several neighbouring countries during 2000.
Agency strategy

Getting the power system fully operational was deemed to be a key part of the Agency’s programme, since a lack of power during the winter (electricity presently provides around 50% of heating) was considered to add greatly to the hardship already being suffered as a result of the conflict. An adequate supply of power is also a prerequisite for the operation of other utilities, and for economic development. The programme adopted an approach that concentrated resources on Kosovo and made energy generation more stable and cost-effective. It also provided a breathing space for more detailed thinking about the future of the sector.

Serious attention was also given to methods to increase output from the coal mines, by a programme of repairs and replacement of essential equipment.

Project components

The support of the Agency to the energy sector in Kosovo in 2000 has focussed on the production system, the coal mines, the Kosovo B power plant, imports of electricity, and - to a lesser extent - the transmission system.

The main programmes implemented in 2000 are:

- partial overhaul of the unit Kosovo B2, for a total cost of about €40 million, in replacing or repairing essential equipment within the time limits available. The unit was reconnected to the grid on 5 December 2000.
- supply to KEK (the Kosovo electricity company) of essential small spare parts to the value of about €5.5 million, in order to secure the operations of the B1 production unit over the winter 2000-2001
- support to electricity imports of power to Kosovo for an amount of about €25 million for a period of 12 months covering instances of the unavailability of local production
- supply of specialised vehicles, repairs of excavators, rehabilitation of mechanical and electrical workshops, overhaul of conveyor system to the tune of about €18 million
- consolidation of the transmission system (€10 million), in order to secure the electricity transport of imported power from neighbouring countries as and when needed

Other smaller contracts have been concluded to complement the main programmes, and also to support the larger programmes and operations in coal mines and power plants, and in the area of transmission, covering such actions as the repair of unpredictable transformers and the rewind of HV motors.

Main sector achievements and impacts

The programme to rehabilitate the energy sector is the largest component in the Agency’s budget. The task of rehabilitating and repairing such a large and complex facility has absorbed a large part of the energies of UNMIK, the Agency and the donor community.
The equipment and management advice provided for the open-cast mines have allowed a more steady production of coal, and set in place a management system that will be capable of steadily improving outputs. Excavation techniques that gave high outputs at the expense of long-term sustainability, are being modified in favour of a more scientific approach.

Kosovo Unit B1 has been partially rehabilitated and now has a rated and constant output of 270MW. This means less down-time and more power. Unit B2 has been partially repaired to maintain operations.

Meanwhile energy imports have been procured to supplement local energy sources in times of peak demand.

### Housing

During the 1999 conflict nearly half of Kosovo’s 250,000 housing stock was damaged or destroyed. An assessment made in July 1999 by IMG on behalf of the European Commission indicated that 41,000 houses were partially damaged, 32,000 were seriously damaged (walls standing but roofs and interior burned), and 47,000 were completely destroyed (down to and often below the foundations). The houses of an estimated 500,000 people were badly damaged or destroyed, with these people consequently being made homeless. Emergency efforts by ECHO and other donors before the winter of 1999-2000 provided shelter for the worst affected families who could not move in with relatives. They were housed in partially repaired houses, temporary tents, pre-fabricated units, and collective centres. EC TAFKO commenced a major rehabilitation programme in 1999 to assist Kosovars in the rehabilitation of some 3,600 war damaged homes, and this was taken over by the Agency in 2000.

### Agency strategy

The worst affected families, whose houses had been completely destroyed or which were without roofs, were given priority in accordance with the UNMIK Housing Reconstruction Guidelines. The latter had been developed in close collaboration with Agency staff, and ensured that the most vulnerable families received the appropriate assistance in relation to the amount of damage suffered. Kosovar participation in the programmes was facilitated by giving a lead role to the Municipal Housing Committees which had been specially established in the approved areas, by encouraging a ‘self-help’ approach with the beneficiaries, and by contracting local traders for the supply of materials. Local professionals and skilled labourers were also used by the EU NGOs which were responsible for the implementation of the programme.

### Project components

Grant-aided reconstruction of damaged houses was undertaken in 23 of the 30 municipalities of Kosovo. In the first half of 2000 the Agency completed the rehabilitation of some 3,600 houses (€14 million), building on the earlier work of the EC TAFKO. A second-phase programme for the reconstruction of 8,400 homes (€60 million), more than half of which were in the ‘completely destroyed’ category, was started in June 2000 and scheduled for completion in April 2001. 18 different NGO partners assisted the Agency in the implementation of the programme.
Main sector achievements and impacts

During 2000 the Agency completed the reconstruction of 8,170 houses. A further 2,000 homes were at roof completion stage at the end of December, with another 1,530 at earlier stages of reconstruction. By reconstructing nearly 12,000 housing units, an estimated 100,000 beneficiaries are being enabled to return to a more normal life. The average re-housing grant is around €740 per person.

For many of the inhabitants of the rural villages, the reconstruction effort has led not only to their return to a habitable dwelling, but also to an improvement on standards experienced before the conflict. Significant building employment opportunities have been created throughout Kosovo. In addition, the involvement of the Municipal Housing Committees in the selection and approval of beneficiaries has helped to facilitate the emergence of democratic decision-making bodies at municipal level. Given the widespread geographic coverage of the programme, the Kosovo population has witnessed a significant and lasting EU contribution to the lives of the families worst affected by the war.

Transport

Transport in Kosovo is served by a 1,700km network of two-lane main and secondary roads, a 330km railway track serving the region and connected to other countries, and a regional airport. Much of the system, like other infrastructure in Kosovo, is in a poor state of repair. UNMIK’s approach in establishing the Department of Transport and Infrastructure was to rehabilitate these systems and to transform the sector in readiness for a more commercialised form of management.

EC TAFKO commenced an emergency rehabilitation programme in 1999 to repair some main roads and bridges. Snowploughs were also provided to keep the roads open in winter. In 2000, repairs to Kosovo’s railroad rolling stock were made, spare parts supplied, and a multi-modal rail road platform built.

Agency strategy

The Agency has focused on the upgrading of road infrastructure, through the repair of surfaces damaged during the conflict and by the resulting increased wear-and-tear from KFOR and heavy traffic. These repairs were expected to allow a free movement of traffic between the main towns of Kosovo, and between Kosovo and its neighbours. The programme focussed on the upgrading and resurfacing of the main routes, and the repair of destroyed bridges. Repairs to the railway system were intended to provide better regional connections to the south and to restore road/rail freight handling facilities.

Project components

Following EC TAFKO road repair work in 1999, the Agency assisted in the repair of some badly damaged main road sections, and two bridges on main routes (€1.0 million). Another programme (€2.5 million) supported UNMIK’s work on the railway system, which rebuilt a multi-modal platform, repaired rolling stock, and supplied spare parts. During the winter, snow clearance equipment and salt and grit for de-icing were also provided (€2.5 million).

The programme resurfaced three of the main routes in Kosovo. These were the arteries linking Pristina and Skopje, Doganovic and Globocica (a main connection between FYROM and Kosovo), and Pristina and Pec (€9.8 million). The Agency also improved the Blace border crossing with FYROM (€2.5 million). It also repaired two road bridges essential to the main
road system at Milosevo between Pristina and Mitrovica, and Vrani Do between Pristina and Podujevo (£1.3 million).

**Main sector achievements and impacts**

The Agency’s programmes have significantly reduced delays and travel times between the main urban centres and neighbouring countries, thereby improving safety and reducing casualties from accidents. The resurfacing of the main roads has also protected the road sub-base, preventing further costly damage and the need for extensive repairs.

Most of the road and bridge repair programmes were completed before the winter, and the benefits are now being seen. Time delays for trucks carrying goods at the Blace border crossing with FYROM have been significantly reduced. During the winter months snow clearance and de-icing took place, and all roads were kept open for traffic.

Railway trains are now running again across Kosovo. Freight traffic has restarted, and passenger traffic is running on the north-south axis.

### Water & environment

26 water companies in the larger municipalities provide water and wastewater services to the urban populations of Kosovo. Currently, around 50% of the population has access to piped water, while 20-30% are connected to sewage systems (even though sewage treatment facilities are non-existent in Kosovo). Urban rebuilding will place increasing demands on systems that are technically in a very poor state of repair, as well as being operated by untrained management. Water losses exceed an average of 50% in the piped systems, and cost recovery of delivered water is less than 15%.

Solid waste collection facilities are available to 40% of the population in the urban centres. In July 1999 there were no operational dump sites in Kosovo.

### Agency strategy

The initial intervention by the Agency concentrated on emergency repairs to urban water supply systems, preventing them from collapsing and ensuring that the population was served with a minimum amount of drinkable water. In the latter half of 2000 a more development-oriented approach was adopted, with the preparation and implementation of a programme of water supply rehabilitation accompanied by an institutional strengthening component for the municipal-level organisations.

### Project components

Almost all public water utilities in Kosovo have been supplied with a complement of spare parts, special vehicles, and tools for emergency repairs. A maintenance programme for trucks was also completed using Agency funding. In the town of Mitrovica, emergency repairs to the water supply network and treatment works were carried out (£2.4 million).

Technical assistance has been provided to 13 municipalities to start a programme of water supply and wastewater system rehabilitation covering more than half of Kosovo (£10.9 million).
In the solid waste sector, several emergency programmes were initiated, to remove the backlog of solid waste that has accumulated over several years, and to introduce basic dump-site management principles. A Kosovo-wide solid waste study was commissioned to prepare for the immediate and longer-term development of solid waste disposal infrastructure (€6.4 million).

**Main sector achievements and impacts**

Lengthy stoppages in water supplies due to equipment failures have been reduced. A start has been made to improve the weak institutional and management capacities of the sector. This programme of management strengthening is expected to accelerate with the emergence of elected and accountable municipal authorities and the increased cooperation between the utilities in the form of the newly-introduced Water Utility Association. Meanwhile, the emergency interventions in solid waste management have removed severe health risks from the communities covered. The sector study has laid the groundwork for future improvements to solid waste disposal.

**Enterprise development**

Kosovo’s economy contracted dramatically during the 1990s, as a result of the ‘enforced measures’ imposed from Belgrade, and the international sanctions on the Serb Government. Some Kosovars consequently emigrated to Western Europe to form a diaspora of high economic potential. Others returned to rural areas within family and clan, and developed a large informal economy. (Entrepreneurial skills are much in evidence amongst the Kosovan population.)

The economy is built around three main component parts: a large number of small family farms; a relatively large number of privately-owned enterprises; some 300 socially-owned enterprises and 124 public companies or state-owned companies, which had been registered by UNMIK as of 31 October 2000. In both forms of organisations, companies are active in a number of economic sectors although agriculture, manufacturing, construction, wholesale and retail trade and repair business account for more than half of the companies. UNMIK’s policy towards economic reconstruction involved ‘jump-starting’ the rural economy to provide employment and increase food production, encouraging private enterprise, and restarting viable public enterprises.

**Agency strategy**

Agency efforts have contributed towards re-orienting the Kosovo economy towards a market system by providing and expanding credit facilities and hands-on management advice for the private sector, especially for small and medium-sized enterprises. Because of the size and environmental problems associated with the Trepca Mine Complex near Mitrovica, the Agency has also provided support for its environmental clean-up.

**Project components**

Investment support grants, together with management assistance (€4.0 million), are to be provided to construction and agro-industry projects selected by UNMIK.

The Agency made a contribution (€1.0 million) to the Micro-Enterprise Bank (MEB) for a credit facility to micro-enterprises through the refinancing fund of the German Kreditanstalt fur Wiederaufbau (KfW).
A joint EC/World Bank SME credit facility has been established (£5.0 million) to provide immediate sources of finance to Kosovo businesses whilst the banking sector is being developed. This has provided a facility for direct lending to existing private businesses and ‘on-lending’ through banks is envisaged once these are established.

Support and advice on environmental management to the Trepca mines, and payment of salaries to essential health and safety officers, will also be supported (£6.0 million), while independent advisers to UNMIK will also be provided for the management of the Trepca mine.

**Main sector achievements and impacts**

Although the Kosovar diaspora has amassed considerable savings, there is still a large credit deficit in Kosovo. Individuals who are not able to obtain credit through family networks have few other credit facilities. Loans have been extended to 123 micro-enterprises from September 2000 to date.

Agency funding, technical assistance and credit have established a non-bank financial institution, in conjunction with the World Bank, which is now operating effectively and continuing to expand. 12 SME loans, totalling £2.0 million, have been disbursed to date.

The clean-up of the Trepca Mine Complex has started (£3.5 million), following an agreement with UNMIK covering the payment of workers' salaries and the provision of the necessary safety and clean-up equipment. Independent advisers overseeing the Trepka mine management are giving advice on what has hitherto been a neglected and badly managed extraction industry. A technical and environmental audit of the Zvecan lead smelter has also been completed.

Production equipment has been supplied to four brick and roof tile factories, and management and technical advice has been provided to selected factories in the same sector. A total of £3.5 million has been disbursed to date.

**Agriculture**

Before the 1999 conflict the rural population of Kosovo made up around 65% of the total in the province, and as many as 90% of these rural people were engaged in agriculture. This high proportion was a result of the loss of urban-based jobs during the 1990s, and the consequent return of people to the land to secure their food.

Prior to the conflict, two thirds of all agricultural land was privately owned, with an average size of 3.2 hectares per holding. 18 socially-owned agrokombinats and 145 self-managed cooperatives managed the remainder.

Until 1990 farm supplies were delivered through a cooperative system, but during the 1990s this system suffered from the ‘restrictive measures’ and neglect. Agricultural outputs declined as the cooperative system and marketing systems fell into collapse. Many rural households then lost one year’s crop - and their livestock - during the conflict, and this resulted in mere subsistence levels of farm production in 1999. Restarting was difficult for many farmers because of a shortage of credit, or because of the heavy interest rates demanded by money-lenders.
Since the end of the conflict, UNMIK and other donors have helped this displaced rural population to return to the villages, restoring its housing and means of livelihood. Substantial assistance has been given to farm households to restart agriculture, mainly by providing essential farm inputs and by repairing machinery. Other assistance has concentrated on restarting agri-business, employment generation, and increased rural incomes. Longer-term initiatives are intended to secure property rights and to build a viable market-based framework for agricultural services and products.

Agency strategy

The Agency has supported UNMIK’s strategy mainly by supplying fertiliser and providing access to credit. Fertiliser was procured through open international tendering and released through a series of local public auctions, in order to assist private sector dealers and cooperatives resume their supply and service roles - and establish a market price. Proceeds from the sales were used to set up a revolving credit facility for the rural community. The rural credit scheme was supported to provide finance for small farmers both on- and off-farm, in order to improve outputs and to provide a basis for the growth of a sustainable system of community savings.

Project components

37,500 tonnes of fertiliser (€9.0 million) have been imported and auctioned to private traders and established dealers. Bidders were allowed 80% credit, to be repaid after they had sold the fertiliser to farm customers across Kosovo for cash, or for a mixture of cash and credit. The cash generated from the auction will be used to support the expansion of the pilot rural credit scheme.

The rural credit scheme (€2.0 million) which was supported by the Agency and another donor (AFDF, France) was set up in June 2000. The pilot phase has focussed on two municipalities, in which formal Savings and Credit Associations (SCA) will be established.

Main sector achievements and impacts

The supply and open auction of fertiliser on a credit-basis allowed wide participation by Kosovars in this part of the agricultural sector, and was intended to prevent a monopoly in distribution. Over 50% of the buyers at the auctions were traditional dealers in farm supplies. Many of the buyers later sold their lots directly to the traditional dealers. Surveys indicate that farm-gate prices of fertilisers were 30% lower in 2000 than in 1999.

Interviews with dealers and farmers suggests that the project has helped to establish a normalised market structure and price mechanisms in Kosovo, and the credit has helped the financing and importation of other essential farm services and supplies. However, it may be expected that future auctions without an element of discretionary credit will be attended mostly by established dealers. At 31 January 2001 83 dealers have repaid all their first instalment commitments, and 14 have partially repaid. The six dealers who had not repaid any of their first instalment, are under investigation and could face prosecution for fraud.

The rural credit schemes are still in their infancy but have proved popular. In one of the municipalities 109 people signed up in the first week. Interviews also suggest that the principles of credit schemes are well understood and that the schemes develop new skills and networks, and foster a sense of group solidarity and ownership.
Health

Kosovo’s healthcare system, like many of its public services, has suffered from neglect and a chronic shortage of investment in new equipment. In addition, the system has been over-reliant on expensive and inefficient hospital care, with many of the more straightforward ailments being treated in hospitals, rather than in community-based health clinics. This problem has been compounded by a lack of primary health care skills amongst both doctors and nurses. All UNMIK and other donor studies in health care have recommended policies that emphasise training and new investment in the primary health care sector.

Agency strategy

The health programme has supported the general principle of a better balance between primary and hospital-based health care. Support has been given to retraining and accreditation schemes for current medical and paramedical staff. Pharmaceutical supplies have also been provided, mainly to support district and community-level clinics.

Project components

Technical assistance and credits (€4.5 million) were provided to the 350 State pharmacies in Kosovo to build a system which will ultimately be self-sustaining. Training for 350 family doctors and specialists through the WHO programme was also supported, as it was for health service managers (€5.0 million). The blood transfusion service has been modernised through a central facility based in Pristina (€0.5 million).

Main sector achievements and impacts

Implementation of the primary health care policy in Kosovo is proceeding, and around 50% of patients’ first contacts with the health service are now dealt with at the local level by staff who know their patients. The target for this is 80%. Essential pharmaceuticals have been distributed and are now widely available throughout Kosovo at affordable prices. The blood transfusion service has been modernised, and the new management of the service from Pristina means that the risks of transmitting HIV/AIDS is much reduced. However, the Agency cannot make major progress in developing the sector until UNMIK meets the challenge of creating a Kosovo-wide pharmaceutical policy.

Meanwhile, the following projects were prepared by the EC TAFKO in 1999 and taken over by the Agency on 23 February 2000.

Local government, civil society

During the 1990s, local government - which is traditionally responsible for local public services - suffered serious neglect with respect to the Kosovo Albanian population. In response, the latter set up parallel, informal institutions paid for by the diaspora and through the voluntary contributions of local people. The departure of the Serbian Kosovars in July 1999 also saw documents and archives destroyed, equipment removed and public buildings damaged. UNMIK’s strategy has been to intervene to ensure that the basic needs of the population are met, and to set up a framework of democratic local governance. UNMIK has drafted a revised legal framework for local government (the ‘Regulation on self-government
of the municipalities of Kosovo’) as the basis of the transition to a more democratic form of
government.

Local municipal elections were held in October 2000 and a start has been made to re-establish
pluralist, accountable and transparent Kosovo-run institutions at the level of local
government. UNMIK staff in the municipalities have made efforts to integrate minority
communities into the municipal governing structures. At a central level, the OSCE has
promoted human rights and civil society through public participation and awareness
campaigns.

Agency strategy and project components

The EC TAFKO before February 2000, and the Agency since then, have supported UNMIK’s
democratisation and municipal government development programmes with practical support
at the municipal level, by providing expert advice on municipal management and by
allocating funds for reconstruction. 51 projects to rebuild essential municipal buildings and
services are being implemented (€8 million). 25 experts in municipal management have been
seconded from Member State countries: these have worked at local government level,
providing both practical and policy advice (€7.2 million). Civil society projects were also
supported in the run-up to the local elections in October 2000 (€0.5 million).

Main sector achievements and impacts

The experts seconded to the municipalities have worked with local staff to set up basic
administrative systems and procedures. These activities have triggered a series of municipal
capacity-building schemes which will contribute to longer-term efforts to restore sound local
government through elected councils. The experts all had long practical experience in the
management of local government and municipalities, and were able to make a bridge between
the UNMIK and Kosovar staff.

Kosovo Protection Corps

UNMIK’s role in Kosovo after July 1999 required the rapid repair of roads and services, and
these activities demanded ‘quick-start’ procurement and management of transport and
equipment. The KPC is chartered as a purely civilian organisation, with no military law
enforcement functions.

Agency strategy and project components

The EC TAFKO provided support to the KPC in the form of funds to allow it to play a
leading role in the reconstruction effort. Equipment and tools are being procured through a
financial agreement with UNMIK for providing vehicles for transporting materials and
personnel, for road-building and repairing, and logistical equipment for offices and
communications (€5.0 million).

Main sector achievements and impacts

The equipment is on order, and delivery is awaited.

De-mining

Large numbers of unexploded military ordinance and landmines from the 1999 NATO
bombing campaign and the Serb military retreat remain to be neutralised. Clearance started in
July 1999 and continued through 2000 as a matter of urgency, as this hazard was restricting farming and transportation and hindering a return to normal life. A database was established by the UN Mine Action Coordination Centre, UNMACC, to map all 1,000-plus minefields, and to prioritise mine removals. A public awareness campaign on the hazards of mines was also initiated.

**Agency strategy and components**

The EC TAFKO contributed €6 million to the UNMACC Trust Fund which financed mine removal.

**Main sector achievements and impacts**

The first of the two priority mine-clearance projects was completed using EU funds. These comprised actual clearance operations, assessments of further priority areas for clearance, awareness campaigns for local people, and assistance to the victims. The programme is considered to be very effective and has learned from the lessons of the other Balkan conflicts. Rapid mine clearance has allowed essential roads and bridges to be repaired.

### Post & telecommunications

Telecommunications infrastructure was badly damaged during the conflict, and many facilities, switchboards, and transmission systems were completely destroyed. During the 1990s there had been very little investment in repairs and renewals, and Kosovo has the lowest telephone connection rate in Europe, at 6 lines per 100 households. Post office buildings were also damaged, and the service had few working vehicles with which to collect and deliver mail. In addition to rebuilding and modernising the telecommunications and postal networks, a proper regulatory framework is required, to establish operating principles and responsibilities. On an interim basis UNMIK gave Post & Telecommunications Kosovo (PTK) authority over the services.

**Agency strategy and project components**

The EC TAFKO supported the PTK in re-establishing itself as an operating agency, by assisting in mine clearance around facilities, by purchasing new equipment and by providing technical advice. Funds were provided for the restoration of the telecommunications transit and subscriber exchange in Pristina. A financial audit of the PTK was also commissioned. Eight contracts for the procurement and delivery of postal vehicles and equipment were completed in the postal sector, as well as two training programmes (€8.0 million).

**Main sector achievements and impacts**

The repair of the telecommunication facilities has greatly improved the operation of the land-line system in Kosovo. The provision of new postal service vehicles now means that most rural areas are linked into the postal service.

### Pristina University

Pristina University, like most other educational institutions in Kosovo, was severely neglected during the 1990s and in need of substantial repairs. These in fact started in 1998, but were interrupted by the conflict. The repair programme was intended to provide adequate studying, teaching, and accommodation facilities for a new generation of students.
Agency strategy and components

Buildings and teaching facilities are being refurbished and repaired, with €4.4 million funding.

Main sector achievements and impacts

Conspicuous improvements to the buildings have been made, and some of the facilities are already in use by the University and students.

Provision of identity cards

As a result of the conflict, the local Kosovo population has in general been deprived of basic legal documents, particularly identity cards. A fundamental requirement for the re-establishment of a functioning economy and democratic society is to restore these documents. An urgent registration process was also necessary in order for UNMIK to be able to hold early local elections.

Agency strategy and components

The Agency’s involvement has been limited to financing a central acquisition and database system, complete with computer software, identity card production materials and equipment. It also provided specialist management support.

Main sector achievements and impacts

While these facilities and training were provided in good time to meet the schedule, only 36,000 cards were in fact distributed, and consequently UNMIK was unable to issue the identity cards for the October elections. This was due mainly to a lack of coordination by the Joint Registration Task Force. UNMIK Central Registration Office has now taken over the management of the project, and is currently implementing an action plan to produce 11,000 cards per day, to be completed by the end of July 2001. The setting up of registration and documentation centres, through the refurbishment and adaptation of suitable facilities in each municipality, has been successfully completed.

3.5 Monitoring

The Agency set up a monitoring unit in July 2000, following guidelines approved by the Governing Board. There are three monitors, providing regular feedback reports on project progress in all sectors, reviewing the performance of contracts against project terms or reference, with particular attention to the achievement of objectives, time schedules, social impact and visibility. The monitors offer an independent opinion, the purpose of which is to provide an early warning of potential problems and to propose remedial actions. In addition, inputs are provided for sector strategies, financing proposals and terms of reference, with the aim of improving programme quality.

Particular attention and time was devoted to the energy, transport, housing and agriculture sectors. Strategy papers and financing proposals were reviewed, and inputs provided for all sectors. Particular emphasis was placed on cross-cutting issues, benchmarking, and the establishment of verifiable indicators.
3.6 Social impact assessments

The approach taken by the Agency in moving from emergency assistance towards a longer-term development perspective has involved the inclusion of a social dimension into its programming, especially regarding gender, minority issues and human rights. The objective is to recognise the specific needs of certain vulnerable groups with regard to equality and access to resources, and to target them accordingly. Throughout 2000 there has been increased participation and training of local people in Agency programmes, and frameworks have been set in place to support and strengthen the capacity of local organisations and institutions.

Social impact assessments are therefore being carried out by the Agency as part of a wider strategy to assess the impact of its sectoral programmes on affected populations, and to facilitate more effective and efficient implementation. These assessments involve a systematic and horizontal approach to identifying, analysing and evaluating the social impacts of a project or a programme on an individual, on social groups within a community or on an entire community, in order that the information derived can be used in the decision-making process. It involves analysing the existing state of aspects of the social environment, forecasting how they may change if a given action or alternative is implemented, and developing means of mitigating changes that are likely to be adverse from the point of view of an affected population. To date, assessments have been carried out in the agriculture and housing sectors.
4. **Emergency Assistance Programme in Serbia**

The General Affairs Council extended the Agency’s mandate to cover Serbia and Montenegro in October 2000. Following this decision the Agency assisted the Commission in putting together a €180 million Emergency Assistance Programme for Serbia, providing informal advice and collaborating on the preparation of priority programmes. On 8 January 2001, the Commission handed over responsibility for the implementation of these programmes to the Agency.

The Commission’s priorities for assistance included the most pressing areas of need in Serbia. Earlier projects, which began in October 1999 to assist the democratic Serbian municipalities (“Oil for Democracy”) and July 2000 (“Schools for Democratic Serbia”), have now been extended to all municipalities.

The Agency has assisted in preparing the following programme components:

### Energy

#### Diesel fuel

Diesel and heavy oil ‘mazout’ fuel is being provided for 60 municipal heating systems (covering 80% of the population), for schools, and for hospital heating systems. Power plants and coal mines are also being supplied, with funding of €30.0 million. Despite formidable logistical challenges involved in this mass delivery of fuel in winter conditions, the fuel is reaching its target. Deliveries are being closely monitored to prevent theft and misuse, through a major operation involving over 100 people around Serbia. A second consignment of fuel for heating plants is planned, with funds remaining from the €180 million package. This will enable the programme to continue through the worst of the winter up until the end of March 2001.

#### Electricity imports

A substantial proportion of Serbia’s electricity needs are being imported by the EU, and this has helped to stabilise power supplies so far this winter (€45.0 million). A major publicity campaign though TV and newspapers has been launched in February 2001 to highlight the EU’s contribution and to promote energy saving.

#### Coalmine spare parts

Essential spare parts to secure production in the mines have been contracted (€7.0 million).

### Medicines

The European Union is supplying essential medicines and medical supplies to 160 public pharmacies and 175 health centres around Serbia. Deliveries of locally-procured drugs to public pharmacies began in December (€11.0 million), while imported medicines and hospital supplies are being imported with deliveries programmed for March 2001 (€6.0 million). The programme has been well publicised among beneficiaries and the public at large, through the display of posters and the distribution of leaflets in pharmacies. TV commercials have been prepared, with broadcasting beginning in February to inform the public of the programme. The programme has provided the Serbian population with essential drugs which have not
been available for the last few years, while giving a much-needed boost to the Serbian pharmaceutical industry. Some lines of production (such as that of insulin) have restarted as a direct result of the programme.

**Food commodities**

A contract (€24.5 million) has been signed with World Food Programme to provide 15,000 tons each of sugar and of vegetable oil for consumers in Serbia. These foods are being sold at affordable prices, with a proportion of the revenues generated being set aside for a fund designed to regenerate Serbian agriculture. The programme is being carefully monitored by a large team of inspectors. Some problems have been encountered in getting the necessary clearance for the importation of these goods due to complex food safety regulations, but the first products went on sale in February.

**Towns and schools for a democratic Serbia**

Preparations are underway for the extension of last year’s Schools for Democracy programme to all 160 Serbian municipalities. The programme will also support municipal projects (e.g. the repair of water systems, and rubbish collection). A detailed needs assessment is underway. All contracts should be signed by the end of June 2001 (€25.0 million).

**Media**

The Swedish Helsinki Committee is supporting independent media outlets in Serbia with a €500,000 grant. This programme follows on from last year’s EU support for the independent media.
5. **FINANCE**

5.1 **Agency budget**

The Agency’s initial budget for 2000 was €266 million. At the end of the year, after consecutive increases, the budget had reached €682 million. This final budget includes an additional €171 million for assistance in Kosovo made available at the very end of 2000, but to be disbursed in 2001.

The Commission allocated these additional funds in advance, in view of the Agency’s capacity for swift implementation of programmes. Other funds incorporated into the 2000 budget include €177 million of the Emergency Assistance Programme for Serbia (for further details, see Annex D).

The EC budgetary authority (Parliament and Council) allowed the allocation of up to 8% of the 2000 budget towards Agency running costs, such as staff and equipment. The actual expenditure on running costs eventually amounted to €8.5 million, or only 2.5% of the Agency’s newly committed funds for Kosovo in 2000. During the year, therefore, the Agency dedicated 97.5% of its budgeted funds straight to assistance projects.

By end-December 2000 the Agency had contracted €241 million worth of projects. Of this, 86% had been contracted through standard tendering procedures, with the remaining 14% awarded through simplified and accelerated procedures. By the end of the year, the Agency had contracted 92% and paid 53% of the funds committed for assistance in Kosovo in 2000, with the exception of funds made available in early December.

The Agency’s six-strong contract unit has prepared about 320 contracts, while its budget unit processed some 1,170 payments for projects. On average, each payment was processed in 13 days, from the time of the reception of the invoice until the transfer order to the bank. This includes the time necessary to approve the relevant reports.

5.2 **Financial management**

These achievements in effective project preparation and implementation have been assisted by the Agency’s financial and budgetary management procedures.

A totally autonomous general ledger – and systems for budgetary accountancy, analytical accountancy and treasury – have been created. The Agency has chosen to use the applications recommended by the institutions of the European Communities, including the Court of Auditors. For budgetary control, the Agency set up the SINCOM system also used by the European Commission. For international payments, an electronic system using secure telecommunications has ensured a fast transfer of funds to contractors.

The Agency has developed a set of procedures, compiled in a manual which has been made available electronically to all relevant staff. This manual includes rules and procedures for tendering, contracting and accountancy, as well as activity flow charts, job descriptions, regulations, etc. Any new instruction or specific guideline created is inserted into the manual. These guidelines have deliberately incorporated best practice from other external programmes of the EC. The recommendations of the Court of Auditors, and of the EC Directorate General in charge of the internal audit, have also been included. Standard and regularly updated
checklists for the preparation of contracts and payments have been designed and used for each project.

The Agency has installed an internal computer network in its operational centre in Pristina, as well as creating the Agency web site. Using this, a computerised information system has been created for the staff managing assistance projects. This has facilitated simple and fast access to all relevant information concerning programmes, projects and contracts - including the status of their financial implementation. Regular training sessions have been organised involving staff involved in dealing with payments and contracts.

A mission of the Directorate-General within the European Commission in charge of audit visited the Agency in July 2000 and gave a positive verdict on its internal financial systems. In December 2000, the Court of Auditors also made an in-depth examination of the Agency’s accounts. The final report is still awaited at the time of writing. The initial conclusions at the end of the auditors’ two-week mission underlined their satisfaction that the Agency, in a difficult operating environment, was performing with speed and efficiency.

5.3 Management structure

Staffing

At the first meeting of the Agency’s Governing Board on 17 January 2000, on a proposal from the Commission, Mr. Hugues Mingarelli was appointed Director of the Agency. At the second Board meeting on 28 February, a staffing table was approved by the Board, allowing for the recruitment of 51 Temporary Agents (TA) and 34 Local Agents (LA) for the General Services in Thessaloniki and the three Divisions in Pristina (i.e. programming, operations, and finance – see the Agency structure chart at Annex B). Permission was granted by the Board on 24 July to increase the number of local staff for the year 2000 to 54.

The recruitment is now almost complete and the distribution of staff as at 1 February 2001 is as follows: 10 TA and 10 LA at the Agency’s seat in Thessaloniki (which started its operations on 2 May 2000); 40 TA and 42 LA at the operational centre in Pristina; and 2 LA at the back-up office in Skopje (which mainly facilitates customs’ clearance for Kosovo-bound project materials). However, some of the Pristina staff who have subsequently been transferred to the new operational centres, will have to be replaced.

With the decision to extend the Agency’s mandate to Serbia and Montenegro, a new staffing table for the year 2001 was submitted and approved by the Board on 15 December. This foresees the recruitment of 33 TA and 61 LA for Belgrade, 7 TA and 10 LA for Podgorica, and an additional 6 and 7 TA, and 10 and 7 LA, for the operational centre in Pristina and the Agency seat in Thessaloniki respectively. This will bring the total figure of Temporary Agents to 104 and of Local Agents to 142. By the start of February 2001, 15 TA and some 30 LA had taken up their posts in Belgrade, and 6 TA and 2 LA had started work in Podgorica.

Some recruitments for Belgrade had to be made immediately and directly in December, as the Agency had been entrusted by the Commission to manage the 2000 Emergency Assistance Programme for Serbia. However, most of the job opportunities have been and will be advertised. In accordance with article 10 of Council Regulation (EC) 2667/2000 of 5 December 2000, the Agency follows the rules of the Commission (as laid down in the latter’s Staff Regulations) as regards salaries, allowances and working conditions.
Operational Centres

In Pristina, the operational centre is located in the Museum of Kosovo, which had already been allocated by UNMIK - at no rent - to the Commission’s Task Force. In Thessaloniki and Podgorica, the Greek and Montenegrin governments respectively have also provided the Agency with free premises. In Belgrade, the Agency has rented temporary offices (for six months, until 9 July 2001) pending the decision of the Federal or the Serbian Government on whether or not to allocate free office space. In Skopje, a small office is rented at minimal cost.

Headquarters and Office Agreements

On 26 June, a Headquarters Agreement was signed by the Agency’s Director with the Greek Government. This Agreement (of which the implementation is ongoing) defines the privileges and immunities of the Agency and its staff. Meanwhile, Office Agreements for the same purposes have been negotiated with the Governments of the FRY, Serbia and Montenegro and were signed in February 2001.

Administrative budget

For the administrative expenditure of the Agency in 2000, an initial budget of €5 million and an additional one of €15 million were approved in January and April respectively. In October, €11.5 million were reallocated to projects. The administrative budget for the year therefore amounted to €8.5 million, which represents 2.5% of the Agency’s 2000 budget for Kosovo.
## ANNEX A

### AGENCY BOARD MEETINGS IN THERSSALONIKI, 2000

<table>
<thead>
<tr>
<th>Date</th>
<th>Main issues discussed and decisions taken</th>
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| 17 January | • Establishment of the Governing Board  
• Appointment of the Director  
• Acceptance of premises offered by the Greek Government in Thessaloniki  
• Adoption of provisional Agency 2000 budget (€5 million) and approval of provisional staffing table                                                                                       |
| 28 February| • Discussion of Agency’s linguistic regime and preliminary discussion of the Agency’s work programme for Kosovo for the first half of the year  
• Adoption of the Agency budget for 2000 (€266 million)  
• Approval of revised staffing table, standard employment contract, and special provisions for Temporary Agents based in Pristina  
• Establishment of an Advisory Committee on procurement and contracts                                                                                                           |
| 24 March   | • Discussion of linguistic regime, annual work programme for Kosovo and management issues  
• Adoption of the Board’s Rules of Procedure  
• Presentation of revised annual budget (€296 million, taking into account a €30 million carry-over from 1999 to 2000)  
• Inauguration of Agency’s offices in Thessaloniki                                                                                                                              |
| 27 April   | • Confirmation of annual work programme for Kosovo (final version of 6 April, following Written Procedure launched on 29 March)  
• Agreement on draft proposals regarding a further reconstruction programme for Kosovo (€140 million), and on the Agency’s running costs (€15 million), for submission to the Obnova Management Committee and adoption by the Commission  
• Adoption of principles regarding the award of contracts  
• Nomination of Agency accountant and two deputy accountants                                                                                                                      |
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<th>Date</th>
<th>Events</th>
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| 29 May   | • Exchange of views with Deputy Senior Representative of the Secretary-
          |   General J. Dixon (UNMIK Pillar IV)                                  |
|          | • Agreement on draft programmes for economic development (€25 million)
          |   and health (€10 million)                                            |
|          | • Adoption of the Financial Regulation of the Agency, and decision on
          |   the creation of an Imprest account for small and urgent administrative
          |   expenses                                                            |
|          | • Presentation of the second revised annual budget (still €296 million, but
          |   with technical changes in Title III)                                |
| 26 June  | • Discussion of linguistic regime                                      |
|          | • Acknowledgement of reallocation of €5 million from the 1999 budget
          |   reserve for de-mining (€2 million) and Village Employment Rehabilitation
          |   Programme (€3 million)                                              |
| 24 July  | • Discussion on the energy situation in Kosovo in 2000-2001, on the Trepca
          |   mining complex, and on the state of implementation of the 2000 projects|
|          | • Approval of second revised staffing table (Local Agents only), of the
          |   Agency’s accession to the OLAF Agreement, and of the creation of an
          |   Imprest account for the Skopje office                               |
|          | • Nomination of a third deputy accountant                              |
| 15 September | • Discussion of the monitoring procedures of the Agency and of
          |   management issues                                                    |
|          | • Informal assessment of field visit to Pristina on 13-14 September    |
| 12 October | • Finalisation of the draft Action Programme on the proposed deployment
          |   of the additional €40 million released by the European Parliament    |
|          | • Endorsement of reallocation of €11.5 million from the administrative to
          |   the operational budget, and approval of changes to the annual work
          |   programme                                                            |
|          | • Adoption of third revised annual budget (€334 million)                |
|          | • Discussion of the Agency’s proposal for reconstruction assistance for
<pre><code>      |   Kosovo in 2001                                                       |
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<table>
<thead>
<tr>
<th>Date</th>
<th>Events</th>
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| 13 November | • Exchange of views with Deputy Senior Representative of the Secretary-General A. Bearpark (UNMIK Pillar IV)  
               • Endorsement of draft programmes on infrastructure rehabilitation and economic development for Kosovo in 2001 (€171 million), and on the Agency’s running costs for the first part of 2001 (€4 million)  
               • Adoption of fourth revised annual budget (€507 million, including the €171 million for 2001) |
| 15 December | • Information supplied by the Commission on the new CARDS and Agency Regulations  
               • Discussion on the state of implementation of the 2000 programmes for Kosovo and on management issues  
               • Endorsement of the draft programme for housing, institutional, water/waste and health support for Kosovo in 2001 (€100 million) and of the running costs of the Agency for the second part of 2001 and the beginning of 2002 (€10 million)  
               • Adoption of the fifth revised annual budget 2000 (€682 million including funds for Serbia), the initial Agency budget for 2001 (€129 million), the staffing table for 2001, and the special provisions for Temporary Agents based in Belgrade and Podgorica  
               • Approval for the establishment of operational centres in Belgrade and Podgorica |
## ANNEX B

### EUROPEAN AGENCY FOR RECONSTRUCTION ORGANISATIONAL CHART

<table>
<thead>
<tr>
<th>Governing Board</th>
<th>European Commission</th>
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<td>The Director</td>
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<tr>
<th>Operations division</th>
<th>Operations division</th>
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<th>Programming division*</th>
<th>Finance division*</th>
<th>Secretary General**</th>
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<tbody>
<tr>
<td>Podgorica, Montenegro</td>
<td>Belgrade, Serbia</td>
<td>Pristina, Kosovo</td>
<td>Monitoring</td>
<td>Monitoring</td>
<td>Programming</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Energy</td>
<td>Energy</td>
<td>External coordination</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Transport &amp; infrastructure</td>
<td>Transport &amp; infrastructure</td>
<td>Evaluation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Water &amp; environment</td>
<td>Water &amp; environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Enterprise</td>
<td>Enterprise</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Agriculture</td>
<td>Agriculture</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Health</td>
<td>Health</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Institution-building</td>
<td>Institution-building</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Economic &amp; social sector</td>
<td>Economic &amp; social sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Civil society</td>
<td>Housing</td>
<td></td>
</tr>
</tbody>
</table>

* Based in Pristina, Kosovo

** Based in Thessaloniki, Greece

*** Including back-up office, Skopje, FYROM
### ANNEX C

**SUMMARY OF AGENCY PROGRAMMES IN KOSOVO, AT 31/12/2000 (€1000)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Programme /Project</th>
<th>Committed (A)</th>
<th>Contracted (B)</th>
<th>B/A</th>
<th>Paid (C)</th>
<th>C/A</th>
<th>C/B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>University, animal feed, timber supply</td>
<td>7,509</td>
<td>7,509</td>
<td>100%</td>
<td>6,641</td>
<td>88%</td>
<td>88%</td>
</tr>
<tr>
<td>1999</td>
<td>Funds committed 7/1999 to 2/2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Damage assessment</td>
<td>3,496</td>
<td>3,496</td>
<td>100%</td>
<td>3,496</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Public services</td>
<td>5,000</td>
<td>5,000</td>
<td>100%</td>
<td>5,000</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Small Scale Operations</td>
<td>1,000</td>
<td>972</td>
<td>97%</td>
<td>967</td>
<td>97%</td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td>Public utilities</td>
<td>9,000</td>
<td>8,613</td>
<td>95%</td>
<td>8,151</td>
<td>91%</td>
<td>95%</td>
</tr>
<tr>
<td></td>
<td>Customs (managed by Commission)</td>
<td>3,000</td>
<td>3,000</td>
<td>100%</td>
<td>2,708</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>Registration: ID cards</td>
<td>5,000</td>
<td>4,979</td>
<td>100%</td>
<td>4,493</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>Housing</td>
<td>14,000</td>
<td>13,907</td>
<td>99%</td>
<td>12,312</td>
<td>88%</td>
<td>89%</td>
</tr>
<tr>
<td></td>
<td>Re-establishment of local authority</td>
<td>2,200</td>
<td>2,200</td>
<td>100%</td>
<td>1,905</td>
<td>87%</td>
<td>87%</td>
</tr>
<tr>
<td></td>
<td>Village employment and rehabilitation</td>
<td>7,500</td>
<td>7,384</td>
<td>98%</td>
<td>5,884</td>
<td>80%</td>
<td>82%</td>
</tr>
<tr>
<td></td>
<td>Agency running costs</td>
<td>5,000</td>
<td>4,937</td>
<td>98%</td>
<td>2,101</td>
<td>70%</td>
<td>72%</td>
</tr>
<tr>
<td></td>
<td>Water (major towns)</td>
<td>6,300</td>
<td>5,367</td>
<td>85%</td>
<td>4,490</td>
<td>71%</td>
<td>84%</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
<td>6,000</td>
<td>4,000</td>
<td>67%</td>
<td>4,000</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>De-mining</td>
<td>13,000</td>
<td>12,814</td>
<td>99%</td>
<td>8,203</td>
<td>63%</td>
<td>64%</td>
</tr>
<tr>
<td></td>
<td>Municipal administration</td>
<td>500</td>
<td>462</td>
<td>92%</td>
<td>298</td>
<td>60%</td>
<td>64%</td>
</tr>
<tr>
<td></td>
<td>Kosovo Protection Corps</td>
<td>5,000</td>
<td>5,000</td>
<td>100%</td>
<td>2,711</td>
<td>54%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>Rehabilitation of Mitrovica hospital</td>
<td>1,000</td>
<td>1,000</td>
<td>100%</td>
<td>513</td>
<td>51%</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>13,000</td>
<td>9,915</td>
<td>76%</td>
<td>6,583</td>
<td>51%</td>
<td>66%</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td>1,000</td>
<td>1,000</td>
<td>100%</td>
<td>230</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>5,000</td>
<td>2,709</td>
<td>54%</td>
<td>1,834</td>
<td>37%</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>Central administration</td>
<td>2,000</td>
<td>1,507</td>
<td>75%</td>
<td>696</td>
<td>35%</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>Administrative and technical assistance</td>
<td>6,000</td>
<td>3,038</td>
<td>51%</td>
<td>1,614</td>
<td>27%</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>Feasibility studies</td>
<td>2,000</td>
<td>1,376</td>
<td>69%</td>
<td>351</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Postal and telecommunications</td>
<td>8,000</td>
<td>5,852</td>
<td>73%</td>
<td>1,045</td>
<td>13%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>Total as at 31/12/00</td>
<td>126,996</td>
<td>111,528</td>
<td>88%</td>
<td>83,206</td>
<td>66%</td>
<td>75%</td>
</tr>
</tbody>
</table>

**2000**

<table>
<thead>
<tr>
<th>Year</th>
<th>Programme /Project</th>
<th>Committed (A)</th>
<th>Contracted (B)</th>
<th>B/A</th>
<th>Paid (C)</th>
<th>C/A</th>
<th>C/B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public services</td>
<td>10,000</td>
<td>10,000</td>
<td>100%</td>
<td>10,000</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Energy imports</td>
<td>20,000</td>
<td>20,000</td>
<td>100%</td>
<td>16,160</td>
<td>81%</td>
<td>81%</td>
</tr>
<tr>
<td></td>
<td>Housing</td>
<td>55,000</td>
<td>54,123</td>
<td>98%</td>
<td>32,322</td>
<td>59%</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>60,000</td>
<td>57,523</td>
<td>96%</td>
<td>35,467</td>
<td>59%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td>10,000</td>
<td>9,658</td>
<td>97%</td>
<td>5,074</td>
<td>51%</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
<td>15,000</td>
<td>11,879</td>
<td>79%</td>
<td>7,261</td>
<td>48%</td>
<td>61%</td>
</tr>
<tr>
<td></td>
<td>Agency running costs</td>
<td>3,500</td>
<td>1,339</td>
<td>51%</td>
<td>1,339</td>
<td>38%</td>
<td>73%</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>15,000</td>
<td>11,992</td>
<td>80%</td>
<td>3,512</td>
<td>23%</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>Water</td>
<td>10,000</td>
<td>10,000</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health</td>
<td>10,000</td>
<td>5,626</td>
<td>56%</td>
<td>1,281</td>
<td>13%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>Fertiliser counterpart funds</td>
<td>1,831</td>
<td>102</td>
<td>6%</td>
<td>102</td>
<td>3%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>Total I</td>
<td>210,331</td>
<td>192,736</td>
<td>92%</td>
<td>112,473</td>
<td>53%</td>
<td>58%</td>
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</table>

**Funds committed in 12/2000**

<table>
<thead>
<tr>
<th>Programme /Project</th>
<th>Committed (A)</th>
<th>Contracted (B)</th>
<th>B/A</th>
<th>Paid (C)</th>
<th>C/A</th>
<th>C/B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy imports II</td>
<td>8,000</td>
<td>8,000</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing II</td>
<td>5,000</td>
<td>4,977</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td>5,000</td>
<td>172</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy II</td>
<td>30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rehabilitation to district heating systems</td>
<td>3,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total II</td>
<td>51,500</td>
<td>13,148</td>
<td>26%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total as at 31/12/00</td>
<td>261,831</td>
<td>205,884</td>
<td>79%</td>
<td>112,473</td>
<td>43%</td>
<td>55%</td>
</tr>
</tbody>
</table>

**Grand total**

<table>
<thead>
<tr>
<th>Programme /Project</th>
<th>Committed (A)</th>
<th>Contracted (B)</th>
<th>B/A</th>
<th>Paid (C)</th>
<th>C/A</th>
<th>C/B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>396,336</td>
<td>324,921</td>
<td>82%</td>
<td>202,321</td>
<td>51%</td>
<td>62%</td>
</tr>
</tbody>
</table>

**Notes:**

1) Funds committed in 1998 by the European Commission
2) Funds committed in 1999 by the EC TAFKO. These projects, and the balance of remaining funds, have been transferred to the Agency
3) Funds committed during 2000 by the Agency
## ANNEX D
### SUMMARY OF AGENCY BUDGET FOR 2000 IN €1,000

### Revenues

**European Commission subsidies**

#### EC budget 2000 for Kosovo
- Transfer from other EC budget lines to Kosovo (12/2000)\(^4\) 171,000.0
- Transfer from the reserve EC budget for Kosovo (11/2000) 40,000.0
- Initial EC 2000 budget for Kosovo (11/2000) 11,500.0
- Initial EC 2000 budget for Kosovo (07/2000) 10,000.0
- Initial EC 2000 budget for Kosovo – running costs (07/2000) 3,500.0
- Initial EC 2000 budget for Kosovo (06/2000) 25,000.0
- Initial EC 2000 budget for Kosovo (05/2000) 140,000.0
- Carry-over from 1999 to 2000 EC budget for operations in Kosovo (02/2000) 30,000.0

**Sub-total** 431,000.0

#### EC budget 1999 for Kosovo
- 1999 EC budget for Kosovo, carry-over from EC TAFKO (02/2000) 65,905.5
- 1999 EC budget for Kosovo – running costs 5,000.0

**Sub-total** 70,905.5

#### EC budget 2000 for Serbia
- Initial EC 2000 budget for Serbia (12/2000) 175,000.0
- Initial EC 2000 budget for Serbia – running costs 2,000.0

**Sub-total** 177,000.0

**Miscellaneous**
- Bank interest 700.0
- Counterpart funds – animal feed & fertilisers 2,720.0

**Sub-total** 3,420.0

**Total** 682,325.5

### Expenditure

**Staff** (Pristina, Thessaloniki, Skopje)

**Sub-total** 5,817.7

**Buildings, equipment, running costs** (Pristina, Thessaloniki, Skopje) **Sub-total** 5,392.3

**Projects**
- Projects for Kosovo committed 1999 by EC TAFKO, transferred to the Agency 65,905.5
- Programmes for Kosovo committed in 2000 to be implemented by the Agency 430,220.0
- Projects for Serbia committed in 2000 by the European Commission and transferred to the Agency 175,000.0

**Sub-total** 671,125.5

**Total** 682,325.5

---

\(^4\) Funds committed in year 2000 to be implemented in 2001.
CONTACT POINTS

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**Podgorica** – Urb. Parcel 137, Gorica C, Podgorica 81000, Montenegro
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Tel. +389 91 290 366, Fax +389 91 225 350

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