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Delivering on promises to the Western Balkans: The European Agency for Reconstruction

July 2007

By setting up the European Agency for Reconstruction (EAR) in 2000 following the conflict in Kosovo, the EU demonstrated its determination to respond to the needs of the Balkans: to rebuild after the damage caused by conflict, to stabilise the region, and to support governments with their democratic reforms.

Establishing the Agency was for the then new European Commission, as former Commissioner Lord Patten described it, *'the first big test of our ability to run things competently, and we passed it - speeding up delivery by cutting corners where we could, setting up the European Agency for Reconstruction, and giving...it delegated authority and political cover.'* (Chris Patten.

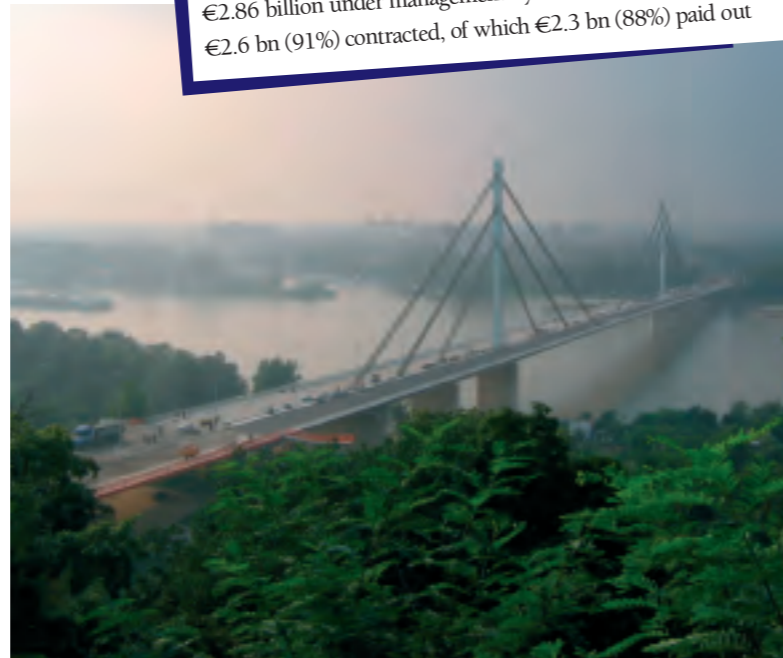
Not Quite the Diplomat. Allen Lane, 2005)

Initially created to lead the EU's reconstruction effort in Kosovo, the EAR quickly gained a reputation for getting things done. Its mandate was consequently extended to Serbia and

Key Figures

As of July 2007:

€2.86 billion under management by the Agency
€2.6 bn (91%) contracted, of which €2.3 bn (88%) paid out



The Sloboda (freedom) Bridge stretches across the Danube at Novi Sad in Serbia. Badly damaged by NATO action in 1999, it was completely reconstructed by the EU at a cost of €41 million and reopened in October 2005.

Montenegro after the fall of Milosevic in late 2000, and again in early 2002 to the former Yugoslav Republic of Macedonia after a period of ethnic clashes in that country.

Only a few years on, considerable progress has been made. The former Yugoslav Republic of Macedonia became an EU candidate country in

late 2005, while the Council of Ministers adopted in early 2006 a European Partnership for the then Serbia and Montenegro, including Kosovo as defined by UN Security Council Resolution 1244. Since 2000, the EAR has been entrusted with a large portfolio of €2.86 billion of assistance. By July 2007, over €2.6 billion (or 91 per cent) of that amount had been contracted and €2.3 billion (or 80 per cent) paid out.

The results are visible around the region: thousands of houses were repaired or reconstructed; public utilities were put back on stream, roads and bridges rebuilt. Then as needs quickly evolved, the EU's support shifted from early emergency work to projects designed to assist the reform and modernisation of public institutions. In these past seven years, the

Agency has provided support in virtually all areas of public and business life, from government administration and the economy, to justice, civil society and the media.

The EAR has become far more than a reconstruction agency, not only managing assistance through traditional projects or with newer instruments such as 'Twinning', but by working with the region's authorities, and with other donors, the Agency helped to facilitate over €1 billion in fresh investment into the region from the International Financial Institutions.

By delivering on the EU's promises, and by mobilising additional resources, the Agency helped increase the credibility of both the Commission and the EU as a whole.

Fast and flexible - A unique approach to assistance

Having been given a clear mandate and institutional autonomy the Agency was able to develop an innovative approach to delivering assistance.

Fast and flexible: Not being a civil service organisation, the Agency could swiftly adapt staff profiles to changing needs. As the focus of projects evolved from emergency assistance to reform, experts needed in reconstruction were gradually replaced or complemented by staff with expertise in public administration, finance, justice and economic reform.

Based in the field: The Agency is located in the Balkans, with offices in Pristina, Belgrade, Podgorica and Skopje, and its main office in Thessaloniki.

Encouraging local 'ownership': Assistance can only be effective and relevant if it is 'owned' by beneficiary governments and civil society. Reforms must be driven from within and cannot simply be brought in or even less imposed from the outside. Agency programmes reflect this.

Cooperation with EU governments and other donors: The Agency plays an active role in coordinating aid, working with EU Member States, the Council of Europe, the World Bank, the UN and other bilateral donors such as the US and Switzerland. This has helped reduce duplication, and resulted in a number of co-financing and co-management arrangements.

Governance and cooperation within the EU family: Overseen by a Governing Board chaired by the European Commission, and composed of representatives from EU Member States, the EAR is accountable to the European Parliament and to the Council of Ministers. It works closely with the Commission and its representatives in the region.

Ethics and accountability: Through its programmes, including those managing public finance and the setting up of supreme audit institutions, ethical principles are promoted across the region. In parallel, the EAR coordinates closely with the EU's anti-fraud body OLAF, is audited annually by the Court of Auditors, and is regularly reviewed by the Commission's own Internal Audit Service.

The Agency's work: sector by sector

Strengthening the rule of law and security

One of the region's top priorities is reforming the security sector and strengthening the rule of law. In practical terms, this means making often difficult and complex root-and-branch changes within the police, the customs services, the judiciary and the courts.

The EU is supporting these reforms, whether through modernising the courts, training judges and court staff, helping the fight against organised crime and corruption, reforming the prison system, bringing customs management procedures up to par, and demilitarising and transforming border crossings. The Horgos crossing between Serbia and Hungary, upgraded by the Agency at a cost of nearly €10 million, was officially opened to traffic in summer 2006. Other crossings have been built or refurbished between Serbia and Croatia, Croatia and Montenegro, and Greece and the former Yugoslav Republic of Macedonia. Better managed borders not only bring security benefits; they also mean smoother operations and faster crossing times, benefiting trade and the economy.

The reform of the police force in the former Yugoslav Republic of Macedonia represented a milestone for both the country and region, and for EU assistance. The Agency worked closely with the Commission and its Delegation in Skopje together with EU Member States, who themselves provided considerable support. As part of this wider process, the EAR also helped to develop the school for magistrates.

In Serbia, the Minister of Justice announced in July 2005 a comprehensive strategy for the reform of the judiciary, which was later adopted by the government and endorsed by Parliament in May 2006. Only a week later, the Agency

launched a project with a team of EU judiciary experts from Germany aimed at helping to draft the legislation needed to implement this strategy. Through a separate project, the Agency is working with the Council of Europe to review for compliance with Council standards the package of legislation previously prepared by the Serbian government.

Reforming central and local government

The authorities in the Western Balkans face many challenges in the reform of public institutions to create the conditions for long-lasting stability and economic growth. The Agency's support in this undertaking takes many shapes, from helping to set up a Supreme Audit Authority in Kosovo and establishing an efficient government system of internal financial control in the former Yugoslav Republic of Macedonia, to supporting the Human Resource Management Agency in Podgorica and helping the Serbian and Kosovo parliaments draft new legislation.



Supporting reconciliation between ethnic communities: church dignitaries, local officials and EU representatives gather in the Macedonian town of Lesok in July 2005 to re-open a 19th century Orthodox church destroyed during the conflict four years earlier.

Strengthening local government is also important. For most people, the real test of good governance is the way they are treated at their city chambers or town hall, whether they can rely on competent and efficient officials, and whether they have access to proper roads, schools and health facilities. Accordingly, hundreds of municipal infrastructure projects have been implemented, including those improving water supply and sewerage, building local roads, and upgrading schools.

Supporting civil society

But it is not enough to have a well functioning government and parliament. The EU has always promoted initiatives that work towards building a stronger and active civil society. For example, the Agency has managed training and grant programmes for the media to help improve the flow of information to citizens. Numerous city twinning initiatives have also been put in place between Western Balkan and EU municipalities to support economic and social development, while substantial support has been given to non-governmental organisations and associations, including youth groups. Meanwhile, with the EAR's active involvement, the region is beginning to participate and benefit from EU cross-border programmes with all neighbouring countries.

The energy sector

Of all sectors, the EC's biggest financial contribution to the region has been made in the area of energy, where the Agency has managed more than €800 million in projects in Kosovo and Serbia alone. This is perhaps unsurprising given its importance for heating homes, schools and hospitals, and supplying power to companies and factories.

The needs in this sector have evolved since 1999. Early efforts concentrated on emergency fuel imports, repairing power plants, overhauling



The main chimney of part of the Kostolac power plant in eastern Serbia before and after installation of electrostatic filters. The filters, installed at a cost of €5 million as part of the Agency's energy programme, will reduce emission of dust and other pollutants to below the EU minimum standard. This will result in cleaner air for a region of 100,000 people.

power lines, rehabilitating coalmines, and improving distribution to homes and businesses. Today, the focus is on promoting more efficient uses of electricity, developing alternative energy sources, reducing environmental damage and pollution, restructuring the sector, attracting investment, supporting privatisation and contributing to the establishment of a regional energy market. In addressing these important challenges, the Agency has established itself as something of a pioneer.

Although there is much potential, given the region's large coal reserves, huge investments are needed to replace ageing power plants, almost all of which were built more than 30 years ago. Kosovo, in particular, suffers from power cuts because of growing demand, which is considerably outstripping supply, a situation aggravated by poor payment collection rates. Moreover, Kosovo's system was never designed as a 'stand alone' structure, being at the time part of the larger entity of Yugoslavia. Investments in the range of about €2 billion are required to bring a solution to Kosovo's power generation problems.

Cleaning up the environment

Environmental issues are of major concern throughout the region. And while, with the help of EU funds, some improvements have been made, much remains to be done to reduce pollution and address waste and water management issues.

A good illustration of the Agency's achievements in this area are the works carried out at the coal-fired power plants outside Pristina and in Kostolac, where ash filters have helped to substantially improve the quality of air for many hundreds of thousands of citizens. At the Kostolac power plant in eastern Serbia, dust emissions used to average at over 900 mg/NM³. With the replacement of the old filter in late 2006, emissions were reduced to 35 mg/NM³, well within the EU limit for new power plants. Newly independent Montenegro has declared

itself an 'ecological state' and hence needs to improve environmental protection. This is all the more important because tourism is the largest contributor to economic growth in the country. In addition to helping to improve water and waste sanitation, the EAR is working with the authorities to set up an Environmental Protection Agency in Podgorica.

Throughout Kosovo, EC assistance has improved solid waste management: more than 20 old municipal dumpsites have been closed or cleaned up, six major regional landfills have been built to EU standards, and new equipment has been delivered, installed and activated. Publicly owned utilities have been restructured, and staff have been trained to deliver better services to all Kosovo citizens.



Developing a vocational education system that works for all

A strong economy relies on a skilled workforce. That is why the EU is assisting governments in the Western Balkans to improve vocational training and post-secondary school education. This involves nothing short of reforming the entire vocational training system and in doing so help job seekers align themselves closer to the needs of a changing economy. Across the region, programmes and projects, often in partnership with the European Training Foundation, have developed new strategies, strengthened vocational bodies both with technical assistance and with new facilities, updated curricula, provided training to redundant workers and revamped qualifications.

Economic reform

Anyone travelling around the region will see many areas crying out for more investment: education, roads, health, to name only a few. Unemployment is still high, and countries need to introduce further legislative and economic reforms. Building stronger market economies will produce jobs, raise tax collection and foster investment in public institutions, while encouraging entrepreneurship and business growth.

EC-funded programmes support a range of reforms including those addressing land cadastre, competition policy, consumer protection, bankruptcy law, support to privatisations, and public procurement.

Many projects have also focused on improving the livelihoods of minority communities, who often suffered disproportionately from conflict and economic transition.

Agriculture is part of the economy which has considerably benefited from EU support. For example, the Agency has designed and managed programmes across the region to help the

authorities adopt animal identification and registration systems that are in line with EU standards. This not only means food is safe for consumption, but it also improves access for local produce to EU and other export markets.

Enhancing regional cooperation

The region is undergoing a three-way process of trade liberalisation: on a multilateral level to join the World Trade Organization, on a bilateral level, to align laws and institutions with those of the EU, and on a regional basis between the countries themselves.

In December 2006 the countries of the region signed the new Central European Free Trade Agreement (CEFTA), aimed at establishing a free trade zone for over 29 million people. Several Agency projects supported the objectives of the accord, and now stand to benefit from its implementation.

In addition to modernising border crossings, the Agency's projects support reform in a number of complex and diverse areas of trade and EU integration policy, including the harmonisation of legislation, liberalisation of trade in services, Intellectual Property Rights, quality infrastructure and standards, export promotion and non-tariff barriers.



The newly restored historical Ottoman house known as Gospodarska Kuca-Saraj in the village of Hoca e Madhe/Velika Hoca, Kosovo. The house was jointly restored by the EU and SIDA and inaugurated in July 2006.



The new terminal in Podgorica international airport in Montenegro, built with EBRD and EIB funding that was facilitated by the Agency's groundwork.

Attracting investment

The Agency cooperates closely with International Financial Institutions (IFIs), notably the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), Germany's KfW, and the World Bank, to unlock loans for infrastructure investment. Preparing feasibility studies, and providing technical assistance to governments in preparing for loans, has led to an increase in IFI investment.

This track record in mobilising additional funds represents a real EU success story and reflects the EAR's added value within the wider efforts of the international community.

So far, nearly €1 billion has been leveraged from IFIs in sectors such as energy, health, roads, railways, airports, and water supply. Examples of that can be seen all over Serbia, notably in transport projects, roads, railways, bridges, power plants, mines and power transmission. As a direct result of EAR activities, the EIB lent Serbia more than €250 million to develop and

modernise its health facilities and services. Similarly, in Montenegro, the new airport buildings in Podgorica and the coastal town of Tivat were built with EBRD and EIB money, on the strength of feasibility studies carried out by the Agency.

Serbia is now looking to exploit the economic potential of the Danube. A series of EAR studies have identified projects worth well above €500 million in investment to first, restore and revive navigation on the Danube by removing debris and unexploded ordinances, secondly enhance flood protection, and last but not least, refurbish Serbia's ailing waterway network and ports. International companies and IFIs have already shown great interest in funding many of the projects highlighted by the plan.

In the case of Kosovo, the unresolved status has so far prevented international investors from funding badly needed projects. Until Kosovo gains access to loans from IFIs such as the World Bank or the EIB, investment will remain far below even basic needs.

Looking ahead

The EU has delivered on its promises to the region. It has helped to bring stability and to create a better, more prosperous future.

The European Commission's Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme is now being replaced by the new Instrument for Pre-accession Assistance (IPA). This will be implemented by the Commission's Delegations, with the region's governments increasingly taking the lead. Naturally, this evolution of responsibilities demands careful planning and preparation.

Therefore, the EAR, at the request of the European Commission and in close collaboration with the various governments, has taken the lead in drafting the first IPA annual programmes.

EU accession remains an objective and catalyst for reform. Indeed since 2000 there has been much progress and many successes in the region. To make progress towards EU membership, countries must continue with their reform efforts - and the EU will need to continue delivering assistance efficiently and effectively over the coming years.

The Agency in figures (July 2007)

	appropriated	contracted	contr./ approp.	paid	paid/ approp.
Total Agency	€2.86 billion	€2.6 billion	91%	€2.3 billion	80%
Serbia	€1.3 billion	€1.1 billion	87%	€921 million	71%
Montenegro	€130 million	€121 million	93%	€104 million	80%
Kosovo	€1.11 billion	€1.07 billion	96%	€998 million	90%
Former Yugoslav Republic of Macedonia	€327 million	€296 million	91%	€259 million	79%



European Agency for Reconstruction

The European Agency for Reconstruction is responsible for the management of the main EU assistance programmes in the Republic of Serbia (including UN-administered Kosovo), the Republic of Montenegro and the former Yugoslav Republic of Macedonia

For more information about the Agency, see:

www.ear.europa.eu

For the European Commission's Enlargement Directorate-General in Brussels, see:

www.ec.europa.eu/enlargement

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