

ANNUAL ACTION PROGRAMME 2003 FOR KOSOVO

1. IDENTIFICATION

Form of programme:	“National programme”
Beneficiary Country:	Serbia and Montenegro / KOSOVO
Budget Year:	2003
Financial Allocation:	€49 million
Budget lines:	B7-546 €49 million
Legal Basis:	Council Regulation (EC) No. 2666/2000 (as amended by Council Regulation (EC) No. 2415/2001)
Contracting:	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
Implementation:	The implementation of projects under this proposal must be concluded by 31.12.2007. Therefore, all technical activities provided for under this programme and all contracts must end by 31.12.2007.
Implementing Bodies:	European Agency for Reconstruction - €46 million European Commission - €2 million for Customs & Taxation; and €1 million for Tempus
Remarks:	No administrative expenditure will be financed under this programme.

2. SUMMARY OF THE PROGRAMME

The proposed Annual Action Programme continues the emphasis on institutional capacity building, public administration reform and economic development in order to further prepare UN administered Kosovo for transition to a market economy and closer integration within both regional and wider European contexts - in line with the Stabilisation and Association process. The Programme also consolidates the substantial reconstruction and international development assistance committed to Kosovo since 1999 with a view to ensuring, in particular, the sustainability of past EC investments. The programme will be implemented in co-ordination with other donors, particularly the EU Member States, as well as the regional and other CARDS programmes. This Annual Programme reflects both the Commission's approved

Country Strategy Paper (CSP) for the Federal Republic of Yugoslavia¹, including Kosovo, and the associated three-year (2002-4) Multi-annual Indicative Programme (MIP). This programme was planned, and will be implemented in conjunction with UNMIK and Kosovo's Provisional Institutions of Self-Government.

The priority sectors in the Annual Programme 2003 are as follows:

Sectors (*titles as per MIP*)

€ million (+/- 20%)²

1. Good Governance and Institution Building

1.1	Public Administration Reform	5.0
1.2	Justice and Home Affairs	5.0
1.3	Customs & Taxation (Commission managed)	2.0

2. Economic Reconstruction, Regeneration and Reform

2.1	Energy	14.0
2.2	Environment	4.5
2.3	Economic Development	
	- General	6.5
	- Rural Economy	5.0

3. Social Development and Civil Society

3.1	University Education, Vocational Education and Training, and Human Resource Development (including €1m Commission managed Tempus Programme)	4.0
3.2	Support to Civil Society	1.0

4. Other

4.1	General Technical Assistance Facility (GTAF) & Programme Reserve	2.0
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TOTAL

€49 million³

¹ Since the name of the State only changed in February 2003, the term FRY is maintained in references to earlier official documents.

² Individual financial allocations are subject to fluctuations of up to ± 20% over the annual programme's lifetime.

³ Excludes the Agency's 2003 administrative appropriations of approx. €4 million for managing the cumulative portfolio of EC assistance to Kosovo; these Agency appropriations are the subject of a separate 2003 Financing Proposal on Administrative Expenditure.

3. BACKGROUND on KOSOVO

Socio-political:

In June 1999 the United Nations Security Council passed Resolution N° 1244, establishing an interim international civilian administration (United Nations Interim Administration Mission in Kosovo - UNMIK).

The 'Constitutional Framework for Provisional Self-Government', promulgated in May 2001 by the UN Special Representative of the Secretary General (SRSG), defines the 'Provisional Institutions of Self-Government (PISG)', and the division of responsibilities between UNMIK and the PISG. Following the first general election for the Kosovo Assembly in November 2001, a broad-based coalition government was formed in March 2002. The Assembly elected Dr Ibrahim Rugova to be the President of Kosovo. The government is composed of the Prime Minister - Dr Bajram Rexhepi, ten ministers (including two representatives of Kosovo's ethnic minority communities), and a number of executive agencies.

Under the Constitutional Framework, most administrative and legislative powers are 'transferred' to the PISG, while some specific powers are 'reserved' to the SRSG. The reserved powers include foreign policy, security, protection of the rights of minority communities, oversight of the judiciary, and the administration of publicly and socially owned enterprises. However, the SRSG retains final say on all issues⁴.

Democracy, the rule of law, human rights and engagement of civil society have improved since 2001. Two local elections to municipal assemblies have been successfully undertaken; power has been decentralised to local government; there is a gradual shift in administration mandates from international to local actors; security has improved with the development of the Kosovo Police Service since 1999; human rights abuses have decreased and an Ombudsperson Institution has been established; local NGOs and other civil society organisations are contributing to the democratic process; and the framework for a judicial system has been put in place at central and local levels.

Despite these achievements, much more is required to develop a democratic and multi-ethnic society, based on respect for the rule of law. The challenges include strengthening the institutional capacity of the Assembly, along with that of central and local government; the implementation of the Government's ambitious legislative agenda; the greater transfer of responsibilities to local actors; decentralisation of power to the municipalities; further development of civil society; and combating organised crime.

The situation for ethnic minorities remains very difficult. UNMIK has established an Office of Returns and Communities (ORC) to support returns (particularly of IDPs inside and outside Kosovo) and minority protection issues. However, further efforts are required to create the enabling environment required for returns, and to support the minority communities currently living in enclaves so that they may fully participate in, and benefit from ongoing socio-economic developments in Kosovo.

The SRSG has proposed a Seven Point Plan for Mitrovica that aims to end the ethnic division of Mitrovica town, establish an inclusive and decentralised administration, and promote economic development. The SRSG is also elaborating plans for

⁴ Including the financial and policy parameters of the Kosovo Consolidated Budget.

decentralisation at municipal level in order to bring government closer to the people in accordance with the Seven Point Plan and the Constitutional Framework.

UNMIK, under the leadership of SRSG Michael Steiner, developed a set of standards or benchmarks, against which to measure progress towards the achievement of a multi-ethnic, tolerant and secure Kosovo – these benchmarks received the endorsement of the UNSC in April 2002. The benchmarks outline the actions expected from the PISG in such areas as democracy, rule of law, the economy and dialogue with Belgrade. The standards are prerequisites that must be met before discussions on final status can take place (summarised by the SRSG's mantra '*Standards before Status*').

Socio-economic:

Significant economic progress has been made in Kosovo since 1999 as a result of the interventions of the international community, together with the efforts of the entrepreneurial local population and the PISG. GDP has risen from €1.4 billion⁵ in 2000 to almost €2 billion in 2002. While the donor community funded the vast majority of public expenditure in 1999, domestic revenues exceeded recurrent government expenditure in 2001 and are anticipated to again exceed recurrent expenditure in 2002. Modern taxation, customs, banking and pension systems are being gradually put in place. To support the development of a coherent macro-economic framework UNMIK and the PISG have developed, with sizable support from the World Bank and the IMF, a medium-term expenditure framework (MTEF) for 2003 to 2005.

The Kosovo economy remains, however, fragile and underdeveloped. Half of the population live in poverty, with 12% living in extreme poverty⁶. Unemployment is estimated at 30-60% (depending on how the labour force is defined). The rates in northern Kosovo and in minority enclave areas are higher. Consumption is far in excess of GDP (by around 40% in 2002). This has been made possible through imports, resulting in a trade deficit of €999 million in 2002, direct remittances from Kosovo's diaspora (estimated at €526 million for 2002), and official donor transfers (estimated at €1,032 million for 2002, of which imputed services provided by donors amount to €602 million).

The level of industrialisation remains low and suitable finance for business expansion is scarce. Of the 44,000 enterprises registered in Kosovo, only 11% are in the manufacturing sector and only 1% in agriculture. The bulk of the enterprises are involved in trade, restaurants and repairs. The commercial banks have high liquidity but are very reluctant to use any significant level of their deposit portfolio in medium and long-term loan schemes for enterprises, due in part to the short-term nature of deposits and a weak legal framework. Foreign investor confidence remains low, due in part to the perception of high political risk. Establishing an appropriate legal

⁵ Many of the statistics and other information presented in this section are sourced from the UNMIK, PISG, European Commission, World Bank and IMF papers presented at the Donor Coordination Meeting for Kosovo of November 5, 2002 held in Brussels.

⁶ Source: '*Kosovo Poverty Assessment*', World Bank, December 2001.

framework, enforceable property rights, and the restructuring of public enterprises are critical elements for the emergence of a modern business sector⁷.

Kosovo's need for capital investment remains high. UNMIK and the PISG estimate that an additional €450 million of new donor commitments would be required to help finance Kosovo's public investment programme for the period 2003-2005. Given declining donor funds over the medium and long term, Kosovo is confronted with the need to secure other sources of finance so as to continue its capital investment plans. As commercial lending is not an immediate option, there is an increasing pressure for access to International Financial Institutions (IFIs), and additional private capital.

However, the potential does exist for a self-sustaining economy. Kosovo has significant natural resources (not least being its vast lignite coal deposits), a favourable geographical proximity to the EU, even closer regional markets, and most importantly a large young population with plenty of vitality and a commitment to building a successful future.

Kosovo, as part of the Stabilisation and Association process (SAP), is required to meet the political and economic reform conditions of that process. UNMIK and the PISG are also expected to implement the sectoral reforms required by that process, in order to draw closer to European standards, and to ensure that laws and policies are EU-compatible, so that Kosovo keeps up with the rest of the region. The Kosovo SAP Tracking Mechanism, established in November 2002, is a technical working group designed to ensure this, to help UNMIK and the PISG to monitor and drive the wider reform process and to help the European Commission to assess progress and, where necessary, refine the targeting of EC assistance.

4. PAST EC AND OTHER DONORS' ASSISTANCE

Between 1998-2002, the EC committed over €1.1 billion to Kosovo. These funds were used for early emergency humanitarian, reconstruction and development activities and for exceptional financial contributions to the Kosovo Consolidated budget, made up as follows:

- Reconstruction and Development assistance (including CARDS/Obnova funding for Kosovo managed by the EAR) €905 million⁸
- Exceptional financial assistance €65 million⁹
- Humanitarian assistance (through ECHO) €157 million¹⁰

⁷ Information is sourced from the paper 'Statement by the IMF Staff Representative at the Donor Coordination Meeting for Kosovo November 5, 2002', which draws on the findings of IMF missions to Kosovo.

⁸ Includes cumulative programme funds managed by the European Agency for Reconstruction and also those managed directly by the European Commission (customs & taxation; Tempus higher education programme), and the Agency's cumulative administrative expenditures.

⁹ Includes assistance implemented by DG ECFIN under Community budget line: B7-548

¹⁰ This figure is the emergency and non-emergency assistance provided by ECHO *inside* Kosovo for the period 1999-2002. The figure includes €112 million from ECHO's overall 1999 emergency assistance funding of €378 million across several Balkan countries, provided in response to the 1999 Kosovo crisis. ECHO's regional contributions to the Red Cross and UN agencies, as well as

- Funding of EU Pillar of UNMIK

€43 million

Total

€1,170 million¹¹

Kosovo received international donor commitments totalling some €2.3 billion for the period 1999-2002. The European Union (EC and Member States) have donated over 65% of the overall funds¹² committed to Kosovo for this period. This represents a very significant per capita transfer of assistance for a population of around two million people, and a much higher per capita level than attained anywhere in the region.

As of 2 December 2002, the Agency's global rate of contracting for combined 1998-2001 programme funds, totalling €695 million, was 93% of commitments, with a payment rate of 83% of commitments; while the corresponding percentages for 2002 programme funds (€134.4 million) were 45% contracted and 15% paid, as of the same date.

Up to 2002, donor assistance had focused primarily on the rehabilitation of the physical infrastructure, reflecting the emergency period. With the move to normalisation and development, there is now an ever-increasing emphasis on good governance, the rule of law, and developing the institutional capacity and legal frameworks for sustained socio-economic development.

5. PROGRAMMING CONTEXT, IMPACT AND LESSONS LEARNT

Programming Context

The Country Strategy Paper (CSP) provides the strategic framework for EC assistance. The CSP identifies the priorities and objectives of EC cooperation, and emphasises the need for complementarities with EU Member States' bilateral programmes. The CSP recognises that there are many sectors, which could benefit from EC assistance, but also that attention must be focused on a limited number of high priority areas where EC assistance can have significant impact if it is concentrated. The Multi-annual Indicative Programme (2002-2004), which sets out the EC response in more detail, and now the 2003 Annual Action Programme for Kosovo reflect this philosophy.

The 2003 Annual Programme for Kosovo supports the development priorities of both the Provisional Institutions of Self-Government and UNMIK, including support for legislative reforms and development required by the Stabilisation and Association Process (SAP). The Agency's own guidelines on social inclusion and gender balance have informed the design and implementation plans of the proposed Annual Programme. Close co-ordination of programmes with UNMIK, the PISG, and the donor community remains crucial to maximising the benefits to Kosovo from the combined international assistance effort.

The programme design takes due account of the sectoral conditionality associated with the EU "*Benchmarking tables*" for each of the energy, transport, water, enterprise development and health sectors, as developed and agreed jointly by the Commission, Agency and UNMIK, in close coordination with the EU Member States.

still on-going support to IDPs and refugees in the region since 2000, are not included in these figures.

¹¹ All figures are rounded to the nearest € million.

¹² These funds do not include additional EU core funding contributions to the UN, OSCE and other international organisations, nor EU Civil Police and KFOR contributions.

Wherever appropriate, assistance to Kosovo seeks complementarities with the components of EC Annual Programmes being implemented by the Agency in Serbia, Montenegro and the former Yugoslav republic of Macedonia, and with programmes under the EC's Regional Strategy 2002-2006, as well as with actions under the Commission managed European Initiative for Democracy and Human Rights (EIDHR).

Impact of Previous Programmes

Good Governance: The delivery of public services at municipal level has been improved throughout Kosovo by supporting management capacity building for municipal/local government. In addition, both intra-municipal cooperation and dialogue between municipal and central level have also been strengthened

Justice: Over 7000 low-income people have already received legal aid assistance as a result of an on-going EC funded programme. As a result, the workload of the courts has been greatly alleviated and the population's confidence in the judiciary is increasing.

Energy: Total energy production from the Kosovo B power station for the first six months of 2002 was over 2.7 times higher than the level attained for the same period in 2001. Daily output often exceeded 540 megawatts, a level never before achieved. Coal production for the first half of 2002 was almost 50% higher than the output for the same period in 2001, ensuring a regular and sufficient supply of coal to the Kosovo A and B power stations.

Health: The Centre for Family Medicine Development, established and developed with EC assistance at the University of Pristina, is the first dedicated professional institution in Kosovo for the training of family doctors, and has thereby been raising the quality and efficiency of education in this vital area.

Water & environment: As a result of the actions under the now completed EC 2000 programme, approximately 500,000 people in the regions of Pristina and Mitrovica now receive more secure and reliable water and waste water services, providing for a significant impact on public health.

Economic development: The rural micro-finance programme, one of a range of targeted EC funded credit programmes, was established in 1999 and has grown to encompass five municipalities with over 2,600 loans having been provided to farmers and small traders by September 2002, including 428 businesses run by women.

Lessons Learnt

Among the more important lessons learned from reviewing the implementation of EC and other donor programmes in Kosovo, and also from evaluations to date of Agency implemented programmes, may be summarised as follows:

- Programme design and implementation must ensure that the intended recipients of the assistance have the critical level of institutional capacity to effectively absorb the intended assistance, and have a real sense of ownership of the process and results. This lesson has been applied to the design of the various institutional strengthening actions within the 2003 programme.
- Project planning needs to begin as early as possible to allow appropriate time for the completion of feasibility and project design studies, to ensure the commitment of all stakeholders, and effective co-ordination with other donors. Planning for the 2003 programme started in spring 2002, immediately following the approval

of the 2002 Annual Action Programme, while Agency planning and consultations for the 2004 programme are already scheduled to start by January 2003.

- For Kosovo's ethnic minorities to benefit from equitable access and participation in EC supported initiatives, the Agency has already applied the lessons of both structurally including, wherever possible, minorities within programmes, and developing specifically tailored geographic based initiatives targeting the economic and social needs of these vulnerable communities that have difficulty in accessing existing structures and programmes.
- Sector level benchmarks, such as the EU "Benchmarking tables" referred to above, are appropriate instruments for identifying and monitoring the conditionality and associated stakeholder actions necessary for the success and sustainability of donor interventions.

6. PROGRAMME COMPONENTS and PROJECT ACTIVITIES – Kosovo 2003

A description of the proposed project actions within each programme sector is provided in the following sections. A background section is also provided for each sector so as to highlight the justification for the projects subsequently proposed. A summary of past EC assistance and other donors' activities is also included. Further details (including log frames) on individual projects are available in a separate set of Project Annexes, which have a 'working document' status.

6.1 GOOD GOVERNANCE AND INSTITUTION BUILDING (approx. €12 million)

This section proposes projects on: public administration reform; justice and home affairs; customs and taxation.

6.1.1 PUBLIC ADMINISTRATION REFORM (approx. €5 million)

Background

The 2003 public administration reform programme is oriented towards building the institutional capacity of the Kosovo Assembly, key ministries, and local government at the municipal level, so that these public institutions are in a position to effectively perform their new governance role in a transparent and accountable fashion. Support to public administration reform will encourage the adoption of EU best practice, whilst also assisting with approximation toward the EU '*acquis communautaire*', in line with requirements of the Stabilisation and Association process.

The *Assembly of Kosovo* is the highest institution among the Provisional Institutions of Self-Government in Kosovo (PISG). The Assembly, like the other institutions of self-government, is still a young institution, and is currently undergoing the difficult process of the transfer of roles from international experts to local personnel (known as '*Kosovarisation*'). Therefore, the Assembly requires additional support in areas such as its own internal organisation, its legislative and procedural support services, research capacity, and particularly with the review and preparation of legislation so as to ensure compliance with the *acquis*. In addition, the Assembly urgently needs to improve the technical capacities of its local staff.

The PISG *Ministries* are already benefiting from a range of assistance measures to develop institutional capacity at the level of central government. However, additional

support is required, especially in the sectors of financial management, so as to assist the PISG to consolidate its structures and develop its capacity to effectively perform its core responsibilities. The main challenges for central government include policy development, public procurement, legislative drafting and designing secondary instruments for policy implementation. One of the most critical ministries within the PISG is the Ministry of Finance and Economy, which is expected to merge with the Central Fiscal Authority by the end of 2002, and thereby assume a larger portfolio of responsibilities.

Democratically elected *Municipal Assemblies* operate across 30 Municipalities, supported by a Municipal Civil Service. The capacity of municipalities to provide professional services to the population in an efficient manner is of paramount importance for the consolidation of an effective and professional public administration, and for the successful implementation of the SRSG's plans for the decentralisation of government to the municipal level. The Association of Municipalities, a local self-financing institution, provides an ideal mechanism for supporting the municipalities to collectively develop guidelines on municipal level implementation of government policy, improve cohesion and uniformity in municipal activities and improve dialogue between the municipal and central levels.

Complementary and Past EC Assistance

Previously approved EC funded good governance initiatives include strengthening the management and legal capacities of the Prime Minister's office; support for the establishment of the Kosovo Institute for Public Administration (KIPA) to train civil servants for the PISG; the establishment of the Auditor General's Office; and the secondment of EU municipal experts to municipal and regional administration. The EC is also providing some assistance to the Assembly, through the SIGMA Programme, on harmonisation of laws and facilitating an increasing acquaintance with the *acquis communautaire*.

Related Activities of Other Donors

Most of the donor assistance (including UK, Germany, Belgium, the Netherlands, Italy, and the US) to support the Assembly has been made through the "Assembly Support Initiative" (ASI), an inter-agency body managed by the OSCE. Support to the Ministries and local government comes from USAID, DFID's support for personnel training of the civil service, Sida, UNDP, OSCE and the IMF.

Project Activities

6.1.1.1 Support to the Assembly of Kosovo (approx. €2.0 million)

The project will support the institutional building process within the Assembly of Kosovo so as to assist the Assembly to fulfil its constitutional mandate and effectively manage the legislative process in line with the *acquis communautaire* and best practice approaches. Actions will typically include a range of technical assistance and training activities to strengthen the capacity of Plenary and Committee support services to update the Assembly's Rules of Procedure, to establish the Official Records of all Assembly and Committee proceedings, to develop technical skills in specialised parliamentary matters, and to strengthen links with the PISG ministries and the Municipal Assemblies. Support will also be provided for the development of

information and logistics systems, and some essential refurbishment. The key project partners are the Assembly Presidency and its Secretariat. The Agency will ensure that the activities of this project will be closely coordinated with those of the aforementioned *Assembly Support Initiative*. [It is envisaged that further support to the Assembly would be included in the 2004 EC Annual Programme.]

6.1.1.2 Public administration reform support at the central level (approx. €2.0 million)

The project will develop institutional capacity in public administration and finance functions within the PISG and UNMIK, in such areas as legislative drafting, policy implementation and the transfer of responsibilities. The project will include support for the Ministry of Finance and Economy (MFE) and the public procurement bodies, through such actions as expert technical assistance, training, the development of information systems and donor co-ordination, as well as the provision of limited equipment. The training component will link to the Kosovo Institute of Public Administration to ensure the institutionalisation and long-term continuation of the training activities developed by the project. The Agency will closely liaise with the Commission with regard to the proposed 2003 funded actions in the area of customs and taxation (refer also the description for the complementary project 6.1.3.1, as managed by the Commission).

6.1.1.3 Support for decentralisation to the municipal level (approx. €1.0 million)

The project will support the implementation of government policies at the municipal level, increase inter-municipal cooperation, and improve dialogue between the municipal and central levels through strengthening the administrative and resource capacity of the *Association of Municipalities*. The Association, a non-government body funded directly by the municipalities, plays a key and expanding role in the decentralisation process and provides a forum for cooperation and joint action between the municipalities. Activities will include (i) the provision of management and financial related technical assistance, training and a limited/small amount of office equipment to strengthen the capacity of the Association to assist the municipalities in line with the regulation on local self-government, and (ii) a series of focused intra-municipal initiatives in such areas as financial and human resource management to support the development of effective government policy implementation mechanisms. The project will also be informed by the findings of the Council of Europe's experts' mission on decentralisation. The project will be implemented in co-ordination with the Department of Local Administration within the Ministry of Public Services

6.1.2 JUSTICE AND HOME AFFAIRS (approx. €5 million)

Background

Kosovo is facing an increase in local and regional crime, much of it cross-border in nature and international in dimension. The lack of specialised local border personnel and effective judicial administration systems restrict the fight against organised crime in Kosovo.

In Kosovo, police tasks are a shared responsibility between the United Nations Civilian Police (CIVPOL) and the Kosovo Police Service (KPS). CIVPOL manage the international border crossing points, while KFOR operate along the green border¹³. Elements of the Kosovo Police Service (KPS) also work alongside CIVPOL at the crossing points. The competent authorities (including UNMIK Pillar I) are currently developing plans for the gradual transition of CIVPOL responsibilities to the KPS over the next few years.

The Justice and Home Affairs CARDS experts' mission to FRY (May 2002) highlighted the need for building the capacity of the KPS, and ensuring the effective management of Kosovo's borders and administrative boundaries. That mission's findings in addition to UNMIK's priorities have informed the development of the 2003 EC programme. The proposed design and implementation of the 2003 project will also be co-ordinated with similar CARDS programmes in Serbia and Montenegro, particularly in relation to actions concerning the exchange of information on border and boundary control systems.

The courts require modern systems of administration and associated staff training in order to enhance the efficiency of the judiciary and to effectively manage the results of previous and on-going EC and EU investments in the judicial sector. The courts continue to operate a manual system for the registry and follow-up of cases, which, in addition to the lack of personnel, leads to an ever-growing backlog of cases.

Complementary and Past EC Assistance

The 2003 project has been devised to improve border management and control systems, and establish harmonised border controls (based on the Schengen acquis). The project will be closely coordinated with other ongoing initiatives, such as the CARDS regional JHA and Integrated Border Management (IBM) programmes, the activities of the Stability Pact (its 'Table 3'), the Council of Europe's activities in the legislative field and the Customs Assistance Mission - Kosovo (CAM-K). The project will also complement previous EC funded actions in the JHA sector in Kosovo, including the refurbishment of judicial buildings, training of magistrates and bar exam candidates, and the provision of legal aid in civil matters. The project will follow the IBM guidelines that are currently being prepared by the Commission.

Related Activities of Other Donors

The programme will coordinate with the assistance provided by other donors to the sector, including USAID, the World Bank, DFID-UK and Finland.

Project Activities

6.1.2.1 Institutional support to police & judiciary (approx. €5 million)

The project aims to enhance the rule of law and tackle local and regional crime through support for the development of a modern Kosovo Police Service, particularly the border police element, and increasing the efficiency and capacity of court administration. Actions will include the development, in close cooperation with UNMIK, of a work plan for the transfer of responsibilities from the United Nations Civilian Police (CIVPOL) to the KPS, a strategy for borders/boundaries, including the

¹³ Green border: land part of the border in between border crossing points.

creation of appropriate institutional training programmes for the border personnel within the Kosovo Police Service and the development of technical specifications for communication, surveillance and IT systems. It is anticipated that a number of existing border police stations will be upgraded and equipped. With regard to the courts, a computerised case management system, already developed and tested under a pilot project, will be extended to additional courts and also accompanied by training and the development of supporting administrative procedures. This judicial administration component will be implemented in cooperation with the Department of Judicial Administration within the Ministry of Public Services.

6.1.3 CUSTOMS AND TAXATION (approx. €2 million) - Commission managed

Background

The Central Fiscal Authority (CFA), the Ministry of Finance and Economy (MFE), and the UNMIK Customs Service are in the process of further developing their services including the implementation of a comprehensive programme aimed at developing modern and effective customs and taxation services.

Complementary and Past EC Assistance

The 2003 project will provide additional assistance to UNMIK (and potentially the PISG) in the areas of customs and taxation, and will complement other EC assisted actions including those in the area of Justice and Home Affairs. The important role that customs plays in this area will be reflected in the Commission project to develop Integrated Border Management.

Related Activities of Other Donors

The project will continue to benefit from the support of Swiss Customs Officials seconded to the Commission managed customs assistance programme. The project will co-ordinate with the assistance provided to CFA/MFE by other donors, most notably DFID and USAID.

Project Activities

6.1.3.1 Technical Assistance in Customs and Taxation (approx. €2 million)

The project will continue to focus on assisting the managers of the customs and taxation services in the implementation of a long-term modernisation and development strategy, with the aim of achieving the cohesive management of the customs and taxation functions, and with a view to promoting the concept of a single economic space within the region on the basis of the EU single market. The assistance will continue to be based on the EU Customs and Taxation Blueprints. For Customs, assistance will include support in areas such as legislation, organisation and management, human resource management, compliance and enforcement. For taxation, UNMIK and the Central Fiscal Authority/Ministry of Finance and Economy will be assisted in their efforts to improve the compliance, control and enforcement regimes for Excise and VAT traders. The project will be directly managed by the Commission, in close liaison with the EAR with regard to the proposed 2003 funded actions in the area of public finances (refer also to the description for the complementary project 6.1.1.2, as managed by the EAR).

6.2 ECONOMIC RECONSTRUCTION, REGENERATION AND REFORM (approx. €29.5 million)

This component of the annual programme includes projects in the areas of energy; environment; and general economic development.

6.2.1 ENERGY (approx. €14 million)

Background

Rehabilitating the energy sector remains a fundamental prerequisite for the overall economic development and reconstruction of Kosovo. The energy infrastructure and the development of the Kosovo electricity body, KEK, have been neglected during the past decade. This, combined with the upheaval from the consequences of the 1999 conflict, has led to an inadequate and unreliable electricity supply system. The situation has improved substantially due mainly to EC and EU member state assistance. However, additional focused interventions are required to ensure a reliable energy supply and distribution to industry and households, the sustainability of past investments, and improved integration with the regional South East Europe¹⁴ and internal EU electricity markets.

The damage and shutdown of the Kosovo B power station as the result of a fire on 19 July 2002 was a major setback to Kosovo. The power station had been producing record levels of energy earlier in 2002, primarily as a result of the past EC funded investments. In the main, the damage was to areas and components of the Kosovo B power station that had *not* been overhauled in the previous two years through EC assistance. EC funds are being allocated to an emergency project for the repair of the Kosovo B fire damage, through the deferral and funding reallocation of a number of actions within the approved 2002 EC Annual Programme. The new 2003 package of energy projects includes for the re-programming of the most important of these deferred energy sector actions in order to minimise any potential for negative impact on the wider energy sector.

KEK is responsible for coal extraction and power production, transmission and distribution in Kosovo. It employs approximately 9,500 personnel in the lignite coalmines, the Kosovo A and B power stations, transmission and distribution functions and in administration. There is now an urgent need to respond to the acute skills' gap across a number of key areas. The Human Resources Division in KEK currently lacks the institutional capacity and resources to effectively support the organisation. Therefore, a key requirement is a well organised and properly resourced training department within KEK to enable the development and delivery of priority training packages.

The effects of inadequate and insufficient maintenance are affecting all parts of the energy system, leading to frequent breakdowns of equipment and ultimately to power cuts. An appropriate maintenance management system, such as those commonly used for complex power systems elsewhere in the region and the EU, does not yet

¹⁴ A Memorandum of Understanding on the Regional Electricity Market (REM) in South East Europe and its integration in the European Internal Electricity Market was signed by the energy ministers from all countries in South-East Europe, as well as the DSRSG of the EU Pillar of UNMIK on behalf of Kosovo, on 15 November 2002 in Athens.

exist within KEK. The implementation of a maintenance management system (MMS), covering such areas as spare part control, plant registry, maintenance planning and management, would ultimately result in the higher availability and reliability of the power system, including environmental and safety improvements.

The Kosovo Trust Agency (KTA) is responsible for overseeing the administration of KEK and other publicly owned enterprises in Kosovo and operates under the management of the UNMIK EU Pillar. The KTA established a Strategy Steering Committee, which includes a representative from the EAR, to develop an overall strategy and policy for the energy sector in Kosovo. The strategy and policy document is due to be finalised in December. The KTA will then present this document to the PISG and UNMIK for approval and implementation.

Complementary and Past EC Assistance

Substantial EC funds (approximately €330 million to date) have been provided for the energy sector. The results of the 2003 energy programme, together with previous EC and EU investments, should enable KEK to produce sufficient electricity to meet most of Kosovo's peak demand, to benefit from its comparative low cost advantage within the region in the production of electricity, and to enable better integration within the framework of the developing regional electricity market.

Within the framework of the wider energy strategy, currently being developed by the KTA, the EAR has provided the technical assistance to develop a '*Business Review and Action Plan for KEK*', which has been adopted by the KEK Supervisory Board. This plan was developed by the EC financed consortium that the EAR contracted to provide management support to KEK, under the EC 2002 annual programme. The purpose of the business plan is to provide support to the KTA and KEK senior management in the transformation of KEK into an efficient, independent and modern energy company which is prepared for the unbundling of activities as part of the expected future deregulation of the electricity market. The 2003 programme will complement the business plan, particularly in the area of sustainable skills development within KEK. The Agency will continue to closely follow developments, to further coordinate actions with the KTA and the EU Pillar and, if required, will reassess the need to include within the 2004 annual programme further actions related to supporting Kosovo's participation in the Regional Electricity Market. The 2003 programme will also ensure the sustainability of vocational training components under previous projects. The programme will compliment the range of energy sector actions supported by Germany.

Related Activities of Other Donors

The EC funded energy projects complement the interventions from other donors, including USAID and KfW, as well as UNMIK in the area of revenue collection. Co-ordination meetings with donors and the Agency are held weekly under the chairmanship of the Kosovo Trust Agency (KTA). The Agency is also an active member of the Supervisory Board of KEK.

Project Activities

6.2.1.1 Support for coal production and power generation (approx. €9.0 million)

This project will assist with the procurement of priority spare parts and equipment for the coal mines, the coal separation plants and the KEK maintenance and repair service centre so as to further support the continued improvement in coal production, and thus potential power output. Preliminary assessments and technical specifications for the procurement of spare parts and equipment have already been completed. The project will support KEK to return the coalmines and power stations to a normal schedule of maintenance. *Note: the scope of the project may be expanded to also support some priority actions for the refurbishment of the energy distribution system, particularly in the event of a sufficient level of savings in the tendering and implementation process for the planned coal related works.*

[Note: project 6.2.1.1 is the re-programming of the highest priority actions – including ALL coal sector actions - of previously approved EC funded 2002 projects that have been deferred so as to urgently release EC funds for emergency repairs to the fire damaged Kosovo B power station.]

6.2.1.2 Establishment of skills' development programmes in KEK (approx. €2.5 million)

The project will support the raising of general and specialised skills, to appropriate levels, across all of KEK's divisions through the establishment and development within KEK's Human Resource Division of a training department that has the institutional capacity, including training skills and infrastructure, to deliver quality training packages. The project will also support the design and delivery of specialised training courses for KEK staff to address skills gaps in priority areas. The project has been planned and will be implemented in close cooperation with complementary EC funded actions, within the EC 2002 management support programme, for the provision of management and restructuring support to all divisions within KEK, including the Human Resource Division. [Given the extent of the need for skills development within KEK, a follow-up project is likely to be needed within the 2004 EC annual programme.]

6.2.1.3 Installation of essential computerised operations and maintenance management systems within KEK (approx. €2.5 million)

The project will introduce computer operated maintenance management systems (MMS) in such areas as warehouse management, plant condition monitoring and outage planning. KEK staff will also receive training in the new MMS to ensure that the systems lead to improvements in maintenance planning and execution.

6.2.2 ENVIRONMENT (approx. € 4.5 million)

Background

Further improvements of environmental conditions in Kosovo, including access to a continuous supply of clean water, are essential for public health and economic well-being. The establishment of robust environmental laws and the development of water resource management and control are therefore essential to halting the degradation of the environment, and to ensure the sustainability of the results of donor interventions in the environmental sector.

The Ministry of Environment and Spatial Planning (MESP) recognises the urgent priority of developing and implementing environmental laws and improving

environmental management. The Ministry and the publicly owned water utility companies are attempting to address these priorities, but require additional expert assistance and support.

Complementary and Past EC Assistance

EC funds have supported the development of a basic solid waste collection and disposal system throughout Kosovo, and the institutional development of publicly owned utility service companies. Support has also been provided for the rehabilitation of ash-dumps and an ore tailings' disposal area.

Related Activities of Other Donors

The Agency will continue to coordinate activities with the following donors in the environment sector: Sida, DANIDA, Finland, France, Italy, the Netherlands and Switzerland.

Project Activities

6.2.2.1 Institutional support for environmental management (approx. €4.5 million)

The project aims to further improve environmental conditions in Kosovo through support for the development and implementation of key environmental legislation and effective water resource management. Specifically, the project will cover the following complementary components; (i) institutional capacity building to the Ministry of Environment and Spatial Planning (MESP), particularly in the development of secondary laws; (ii) development of best practice and replicable project models for water supply and wastewater disposal systems in rural areas; and (iii) in support of water resource management and water revenue collection, assistance to MESP and the publicly owned water utility companies for the gathering and analysis of data on water consumption through the introduction of domestic and commercial metering.

6.2.3 ECONOMIC DEVELOPMENT (approx. €11.5 million)

Part A – General

Background

Kosovo's enterprises are faced with a poor legal and regulatory environment for business and investment, a sub-standard infrastructure, political risk, low levels of technology and often inadequate management skills. The new Ministry of Trade and Industry (MTI) has a key leadership role in supporting private sector development, but currently lacks the institutional capacity to effectively develop appropriate policy and coordinate the implementation of regulations. The challenge, therefore, is to develop and implement the necessary legal and institutional frameworks to facilitate enterprise development, including a national strategy for investment promotion and SME development.

Minority communities in specific locations have little real access to banks, business and social services or mainstream EC assistance interventions. However, the participation of these communities in the economic development of Kosovo is

essential for reducing unemployment and poverty in minority areas, and to supporting the stabilisation and returns' processes.

UNMIK and the Office of Returns and Communities (ORC) presented a paper entitled '2003 Strategy for Sustainable Returns' to the Donor Coordination Meeting for Kosovo held in Brussels on November 5, 2002. The Strategy aims to ensure a principled and prioritised approach to returns in 2003, and provides guiding principles, an operational framework and multi-sectoral project components for returns.

Complementary and Past EC Assistance

The EC funded Integrated SME Development Programme includes the provision of policy advice to the Minister of Trade and Industry (MTI). EC support to enterprises is being provided through the Regional Enterprise Agencies, the Euro Info Correspondence Centre (EICC), and Business Centres (operating in minority areas). EC funded credit schemes provide loans and technical assistance to SMEs and SOEs. Support is being provided to UNMIK for the establishment of the Kosovo Trust Agency (KTA) through the EC 2002 Annual Programme.

The Agency aims to create the conditions for sustainable returns in Kosovo through the structural inclusion of minorities in all its EC funded programmes, and through the implementation of a complementary range of targeted projects that stabilise minority communities as their specific focus. For example, the EC 2002 Annual Programme includes support for Community Stabilisation Initiatives that aim to improve employment and income generation in minority areas, including those geographical areas with a high potential for returns, in order to stem the outflow of Kosovo's minorities while creating the economic and social conditions that encourage returns. The EC is also supporting, through ECHO, the UNHCR's protection and assistance programme for minorities. In addition to these initiatives, the EC/Agency has capacity to provide other direct support for the organised return and resettlement process in coordination with the UNMIK Office of Returns and Communities and municipal administrations. The Agency maintains a flexible approach in order to respond to the priority needs of returns, as and when they arise – the 2003 Programme Reserve (described in section 6.4.1) will assist in maintaining this flexibility and response capacity into 2003 and beyond.

Related Activities of other Donors

The MTI will co-ordinate, with assistance from the Agency, all donor activities in the enterprise development and SME sectors. The Agency will continue to work with both the Advisory Office on Communities within the Prime Minister's Office and the UNMIK Office of Returns and Communities (ORC) so as to ensure effective co-ordination of economic and other initiatives in support of minority communities and refugee/IDP returns.

Project Activities

6.2.3.1 Institutional support to the Ministry of Trade and Industry (approx. €2.5 million)

The project will provide institutional capacity building support to the Ministry of Trade and Industry (MTI) to support the development and implementation of policies, regulatory frameworks and pilot actions in a number of priority areas, including the development of an enabling environment for foreign and local investment, the economic development of disadvantaged geographical areas with high unemployment, and the development of suitable industrial space. Complementary technical support and training may also be provided to local professional institutions to support the successful implementation of the MTI's policy actions and regulations.

6.2.3.2 Economic and other stabilisation initiatives for minority communities and return areas (approx. € 4.0 million)

*Note: Actions covered by this project may be further supported, particularly in the event of a significant level of returns to Kosovo, through the transfer of **up to €1.8 million in additional funds from the Kosovo 2003 Programme Reserve, thereby increasing the potential size of this project to €5.8 million.***

The project aims to assist the integration of minority communities into mainstream economic development and to improve the conditions for sustainable returns. The project will provide a mix of business advisory services, training, credit and grants to assist disadvantaged minority communities to build sustainable livelihoods. The project expands the geographical coverage of the community stabilisation and economic development projects within the EC 2002 annual programme, particularly to those areas where there is a high potential for returns.

The project also has the scope to further support the returns' process, including assistance for the resettlement of returnees into their communities, through the provision of assistance for a priority range of activities within the operational and project component frameworks outlined in the UNMIK/ORC paper '2003 Strategy for Sustainable Returns'. [Potential support for returns may include such actions as small-scale infrastructure works, and possible additional EC support for the Housing and Property Directorate.]

Part B – Rural Economy

Background

Agriculture is an important contributor to the economy and food security at household level. However, across the 1500 villages of rural Kosovo, unemployment is estimated at 60-70%. Small scale and generally unprofitable farming enterprises predominate in Kosovo, and many producers have insufficient knowledge of sustainable production techniques, and also lack some of skills necessary to commercially produce high quality and safe food.

The former system for providing advisory support to agri-producers has collapsed but has not been replaced with any well-managed or coordinated alternative. Agricultural field staff of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and the municipalities are often insufficiently trained and experienced to provide relevant or timely technical advice. An effective advisory support service is required to improve the overall profitability of farming and rural enterprises, and enable closer

interaction between producers, rural entrepreneurs and markets. Strengthening advisory support services to farmers and rural communities can be effectively launched through a comprehensive strategy agreed between the MAFRD and the municipalities.

An estimated 35,000 hectares are expected to be under irrigation by mid-2003. The challenge now is to transform the publicly owned irrigation providers (IPs) that manage the infrastructure into efficient commercial organisations, and to establish Water User Associations that can assist the IPs in such areas as revenue collection and maintenance, so as to ensure the future development of the irrigation system and the sustainability of EC investments

Since 2000, the EC has supported a Seed Regulatory Services project that has successfully supported the development of a range of seed regulations and certification schemes, as well as the training of regulatory staff. Additional support is now required to provide further training to ensure that the new regulations and certification systems are effectively implemented, and thereby enable an exit from EC support to this area.

Complementary and Past EC Assistance

The 2003 Rural Economy support programme will complement the Agricultural Statistics and Policy Advisory Unit established within the MAFRD, support for veterinary services, the rural micro-finance programme targeting agri-businesses, and the Agribusiness Development Unit programme which provides loans for large private enterprises and SOEs in the agri-business sector.

Related Activities of Other Donors

The 2003 programme will also complement the FAO / World Bank emergency farm reconstruction and veterinary programmes, the USAID Agri-business Development Programme, Switzerland's horticultural promotion project and Luxembourg's project to support improvements in wheat seed production techniques.

Project Activities

6.2.3.3 Advisory and support services for the rural economy (approx. €2.2m)

The project aims to support the development of the rural economy and to improve food security through the strengthening of advisory support services to farmers and agri-business enterprises. Assistance will be provided to the MAFRD for the development of a comprehensive strategy on advisory support services. Training will be provided to improve the capacities of municipal agricultural/rural community advisors as well as producer organisations. The training capacity of the Agriculture Institute at Pec/Peja will also be strengthened. A small number of pilot demonstration projects for the dissemination of best-practice approaches for agriculture and non-farm rural enterprises will also be facilitated.

6.2.3.4 Further development of Kosovo's irrigation system (approx. €2.2 million)

The project will support institutional capacity building measures for the effective management and sustainability of Kosovo's irrigation system, and thereby

consolidate previous EC investments that focused on rehabilitating the irrigation infrastructure. Actions will include support for the transformation of publicly owned irrigation water providers into self-sustainable enterprises, the strengthening of water user associations, and the improvement of the operation and maintenance management of the irrigation system. The key projects partners will be the Kosovo Trust Agency (KTA) and the MAFRD.

6.2.3.5 Further support for seed regulatory services (approx. €0.6 million)

The project will further build the regulatory, supervision and quality assurance capacity of the MAFRD and agriculture institutes to support the production, distribution and marketing of seed / planting materials to EU standards.

6.3 SOCIAL DEVELOPMENT/CIVIL SOCIETY (approx. €5 million)

The programme component below describes planned projects in support of employment / human resource development; civil society; and the (Commission managed) Tempus III higher education cooperation programme.

6.3.1 UNIVERSITY EDUCATION, VOCATIONAL EDUCATION & TRAINING (VET), and HUMAN RESOURCE DEVELOPMENT (approx. €4 million)

Part A - Human Resource Development (incl. VET) (approx. €3 million)

Background

Addressing the current high levels of unemployment, the steady increase of young people coming onto the labour market, and the pending job losses associated with the downsizing of large-scale socially owned enterprises is critical for social and political stability in Kosovo.

A national strategy on unemployment is required. The capacity of the Ministry of Labour and Social Welfare (MLSW) also needs to be strengthened to enable it to lead on the development and implementation of employment plans (including at the municipal level), to develop social partnerships, and to effectively manage services for the unemployed

Complementary and Past EC Assistance

The 2002 EC funded Vocational Education and Training (VET) project is supporting both the Ministry of Education, Science and Technology (MEST) and the MLSW to strengthen the VET system in Kosovo at both high school and technical training centre levels. The 2003 project has been designed and planned in close cooperation with the European Training Foundation (ETF). Co-ordination between the Agency and the ETF will continue during the project implementation stage. Implementation project will be also coordinated with the Kosovo Trust Agency (KTA). The project will also compliment the on going and proposed actions within the EC funded Economic Development programme.

Related Activities of Other Donors

The Netherlands, Italy, GTZ-Germany, Denmark, the International Labour Organisation (ILO) and Swiss Contact are also active in support of the VET sector in Kosovo.

Project Activities

6.3.1.1 Employment regeneration (approx. €3 million)

This project aims to strengthen the Ministry of Labour & Social Welfare's institutional capacity to support the development and implementation of appropriate policies for an effective employment support service. Assistance will include support for the restructuring and development of the network of Employment Offices at regional and municipal levels. Assistance will also be provided to promote a process of social dialogue for the development of a national strategy on employment that focuses on economic and employment (re)generation at the municipal level.

Part B - University Education - Tempus III (approx. €1 million)

Background

Within the framework of the general economic reform objectives of the European Commission's programmes for support to the non-associated countries and the Partner States of Eastern Europe, Central Asia and Mongolia, Tempus III aims to promote the development of the higher education systems in the partner countries through balanced co-operation between higher education institutions in the partner countries and the EU member states.

A priority for higher education systems in all of South-East Europe is the achievement of the objectives of the so called Bologna Declaration, which was originally signed by 29 European governments and aims to establish a common European higher education space by 2010. Its objectives include the establishment of a common degree system in Europe (Bachelor, Master, Ph.D.), the introduction of the European Credit Transfer System (ECTS), the strengthening of a European dimension in quality assurance and the removal of obstacles for the mobility of students and staff.

Project Activities

6.3.1.2 EC Support for the Tempus III Programme (€1 million)

The Tempus programme aims at funding Joint European Projects (JEPs) and Individual Mobility Grants. Joint European Projects can focus on: University Management; Curriculum Development; Institution Building and Multiplier Projects, and can be implemented on a regional level, e.g. projects which include higher education institutions not only from one but from several of the eligible Tempus partner countries.

6.3.2 Civil Society (approx. €1 million)

Background

The civil society movement in Kosovo has the potential to play an even more constructive role in building a democratic multi-ethnic society and to assist the government and other stakeholders to develop and implement programmes that address the needs of the population, particularly the most vulnerable, including returns.

The EC has already provided €4.4 million for the establishment of the independent media sector in Kosovo, including the provision of still on-going support (under the 2002 annual programme) for the development of Radio Television Kosovo (RTK) as a professional and independent public broadcaster. The regulation for the establishment of the Independent Media Commission (IMC) is due to be signed and implemented in early 2003. A Licence Fee Task Force has been established to make recommendations to the SRSG on the creation of the license fee as a sustainable revenue source for RTK. Given the achievements of the EC's programme in the media sector to date, and the on-going development of media regulatory and revenue frameworks, additional EC assistance to this sector is not envisaged within the 2003 annual programme. The Agency will reassess the need for additional support for possible consideration within the 2004 annual programme, if required.

Complementary and Past EC Assistance

The Kosovo Civil Society Foundation (KCSF) has been the Agency's partner organisation in the civil society sector since 2000. Support is coordinated with the community stabilisation initiatives, which focus on the economic empowerment of minority communities in targeted areas (see project description 6.2.3.2). The Agency managed projects complement the work of the EC's European Initiative for Democracy and Human Rights (EIDHR). The proposed 2003 programme builds on the experience and achievements of previous EC supported initiatives in the civil society sector, and will have a greater focus on capacity building support for civil society organisations.

Related Assistance of Other Donors

Co-ordination with other donors will take place at the donor co-ordination meetings for civil society, initiated by KCSF and now managed by the OSCE.

Project Activities

6.3.2.1 Institutional support to Civil Society Organisations (approx. €1.0 million)

The project will further build the institutional capacity of Civil Society Organisations (typically including NGOs, professional associations, trade unions and groups promoting citizens rights) to develop strategies, implement sustainable programmes, and create operational linkages with local government that aim to improve the socio-economic situation in Kosovo, particularly for the poorest and most vulnerable groups, as well as the cooperation between government and civil society.

6.4 OTHER (approx. €2.0 million)

6.4.1 General Technical Assistance Facility (GTAF); and Programme Reserve (combined total of approx. €2.0 million)

The main purpose of the General Technical Assistance Facility (GTAF) (range of €0.2 - 0.5 million) is to allow project preparation to proceed in a quick and effective manner. The GTAF will support the preparation and early implementation of activities under the Annual Programme, and support the planning process for future Programmes. Actions to be supported are likely to include: (i) recruitment of short-term technical assistance (local and international) for activities typically including feasibility studies, inputs to terms of reference and specifications, and tender evaluations; (ii) audits, monitoring, thematic / programme / project evaluations; and (iii) project preparatory and start-up actions.

The Kosovo 2003 Programme Reserve component will be used to cover additional programme related priorities and expenditures that are currently unforeseeable. A priority consideration for allocations from the reserve will be support for activities in favour of sustainable returns, as outlined by the minority stabilisation and returns project described in section 6.2.3.2 above. This arrangement is particularly important for maintaining a flexible capacity to respond in a timely manner to significant returns of minorities to Kosovo.

7. PROGRAMME IMPLEMENTATION

The Action Programme will be implemented as follows:

Implementation & Management

1. The Financing Agreement shall be concluded by 31 December of the year following that of the budgetary commitment.
2. The end of the implementation period of the Financing Agreement is hereby set at **31.12.2007**.
3. Any balance of funds remaining available under the EC Grant shall be automatically cancelled 18 months after the end of the implementation period of the Financing Agreement.

Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Agreement in due form by the competent signatories, and no later than 3 years starting from the date of the budgetary commitment. Therefore:

- Any relevant contract or grant must have entered into force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered into force, having been signed by the signature of all the relevant parties by this expiry date will not be finalised but will be cancelled and considered null and void.

- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

This annual programme will be implemented under the responsibility of the European Agency for Reconstruction (except for the Customs & Taxation, and Tempus III projects).

Implementation of projects will be carried out in close co-ordination and consultation with the beneficiary authorities and those international agencies and donors that are active in the various fields covered by the EC programme.

Tempus III: The European Commission's Directorate-General for Education and Culture has overall responsibility for the policy and management of the Tempus Programme. Following an annual call for proposals, projects are assessed academically and technically according to general criteria and a list of national priorities established in co-operation with the partner country authorities, and taking into account the objectives of the Stabilisation and Association Process and the policy objectives of EU co-operation with the Tempus partner country. In implementing the programme, the Commission is assisted by the Tempus Committee, set up by the Council Decision on Tempus III and consisting of representatives of the Member States.

A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

Tendering and Contracting

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation and other relevant instructions.

Monitoring, Evaluation and Audit

This annual programme (except for the Customs & Taxation, and Tempus III projects which the Commission will manage) will be supervised and monitored by the Agency which will:

- (i) supervise the implementation of the programme on the basis of regular reports, contacts with stakeholders and site visits;
- (ii) carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after the completion of the programme.

The accounts and operations of the various programme components may be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Anti-Fraud Office (OLAF) and the European Union's Court of Auditors.

8. GOVERNMENT COMMITMENT / CONDITIONALITIES

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation assistance, in particular, the respect of democratic principles and human rights.

In addition to the general SAp related conditionality, programme/sectoral/project conditionality may be imposed. Any programme, sectoral and/or project conditionality will be defined in the Financing Agreement / Memorandum to be signed between the Commission and the beneficiary authorities. Failure to comply with any defined conditionality may lead to delay, suspension or cancellation of the planned or

9. INDICATIVE DISBURSEMENT SCHEDULE (€ millions, accumulated)

Sector	June 2003	Dec 2003	June 2004	Dec 2004	June 2005	Dec 2005	June 2006	Dec 2006	Dec 2007
Public Administration Reform	0.5	1	2	3	4.5	5	5	5	5.0
Justice & Home Affairs	0.5	1	2	3	4.5	5	5	5	5.0
Energy	2	4	7	10	12	13	13.5	14	14.0
Environment	0.5	0.8	1	1.8	2.5	3.5	4.2	4.4	4.5
Economic Development	1	2	4	6	8	10	11	11.4	11.5
Human Res Devt (incl VET)	0.2	0.8	1.2	1.8	2.4	2.8	2.9	2.9	3.0
Civil Society	0.1	0.3	0.4	0.5	0.8	0.9	0.9	1	1.0
General Technical Assistance Facility (GTAF) & Programme Reserve	0.5	0.7	1	1.4	1.6	1.7	1.8	1.9	2.0
TOTAL	5.3	10.6	18.6	27.5	36.3	41.9	44.3	45.6	46

Commission managed programmes:	Dec 2004	Dec 2005	Dec 2006	Dec 2007
Tempus	0.3	0.8	0.9	1.0
Customs & Taxation	1.0	1.5	1.9	2.0
TOTAL	1.3	2.3	2.8	3.0

GRAND TOTAL: 46 + 3 = €49 million