

European Agency for Reconstruction: creation and operation

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This Commission Report is being presented to the Council before 31 December 2005, in accordance with legal requirements to do so set out in the Regulation establishing the European Agency for Reconstruction (EAR), and deals specifically with the future role of the EAR.

The Commission reminds the Council that Regulation 2667/2000 setting up the EAR was amended in November 2004 to extend its application until the 31 December 2006. The seat of the EAR is in Thessaloniki with operational centres in Serbia-Montenegro, Serbia-Montenegro-Kosovo, and the former Yugoslav Republic of Macedonia. The total number of staff in 2005 amounted to some 114 temporary agents and 198 local agents, all paid by operational budget lines. In summary, the report finds:

On the matter of political considerations: The Stabilisation and Association Process (SAP) supports a closer association and eventual accession of the Western Balkans to the European Union. Currently, for historical and political reasons, the EAR differentiates between Serbia and Montenegro, Kosovo under UNSCR 1244 and the former-Yugoslav Republic of Macedonia. Community assistance for other Balkan countries, namely Croatia, Bosnia and Herzegovina and Albania are implemented in a directly centralised – but de-concentrated way, by the Commission delegations. This Report suggests that there is no reason why this differentiation should be maintained in the light of preparations for future membership. Maintaining the *status quo* establishes a differentiation that is difficult to justify as well as sending blurred signals to the countries in the region.

On the future of pre-accession assistance under the IPA (2007-2013): The Commission highlights, that for the purposes of pre-accession, devolving responsibility to the Commission delegations and national administration has been a successful policy tool. A single interlocutor working through de-concentrated delegations for the purpose of implementing the EU's *acquis* and to help manage aid has important advantages - including the ability to build-up daily contacts with relevant officials at a local level. Further, the beneficiary countries can take full responsibility for the management of EU funds. Being in close proximity to national administrations the Commission delegations are well placed to help them in institution building. Hence, one of the main objectives of the "Instrument for Pre-Accession Assistance" or IPA, is the full de-concentration of EU aid to the beneficiary countries. This learning process involved in this task is expected to be lengthy – indeed the entire length of the IPA, namely 2007-2013. The Commission indicates that such a learning process towards full management of pre-accession aid by the beneficiary countries can not be achieved through the EAR. Firstly, because provisions in the EAR do not allow it to delegate powers given to it by the Commission. Secondly, the EAR does not correspond exactly to any of the entities to which the Commission may entrust tasks in accordance with the new Financial Regulation. In view of the points outlined above, the Commission proposes that in future the IPA programme should take over responsibility for implementing assistance programmes, in accordance with models used successfully for other accession countries. The Commission proposes phasing out the EAR over a relatively short period of time after 2006, whilst allowing it to complete its important work on the CARDS programme. Such an approach would require an extension of its mandate until 31 December 2008.

On transitional aspects: The task of the EAR is to implement Community assistance under the CARDS Regulation in the former-Yugoslav Republic of Macedonia and Serbia and Montenegro, including Kosovo under UN 1244. Once the EAR is disbanded the Commission will take over responsibility for completing any of the outstanding CARDS assistance programmes. The actual winding-up of the EAR will be a task

for the EAR itself. At the same time, the phasing out of the EAR will have to be accompanied by an equivalent phasing in of Community assistance through the Commission delegations in the various countries concerned. This will require a transfer of financial responsibility to the new delegations and the setting up of offices in Podgorica and Pristina.. Savings from closing the EAR would be similar to the supplementary administrative expenses for the new Commission delegations. A slight increase in administrative expenditure will take place, however, in 2007 and 2008 due to the dual existence of delegations and the EAR. This expenditure is expected to decrease to 2006 levels by 2009.

To conclude, and based on the observations listed above, the European Commission intends to propose, before the 31 December 2006 a draft Regulation with the purpose of discontinuing the EAR, whilst seeking its extension for two years (until end 2008) in order to gradually phase out its CARDS commitments. At the same time, the Commission will lay the ground for a future IPA Regulation in which assistance will be channelled through its delegations in a de-concentrated manner.