

Standard Summary Project Fiche – IPA centralised programmes
(Regional / Horizontal programmes; centralised National programmes)

1. Basic information

1.1. CRIS Number: 2007/19322

1.2. Title: Support to the implementation of the management of EU funds under a Decentralised Implementation System in the Republic of Serbia

1.3 ELARG Statistical code: 03.32

1.4. Location: Serbia

Implementing arrangements:

1.5. Contracting Authority (EC): European Commission

1.6. Implementing Agency: N/A

1.7 Beneficiary (including details of project manager): Ministry of Finance

Financing:

1.8. Overall cost: 2 million Euros

1.9. EU contribution: 2 million Euros

1.10 Final date for contracting: 3 years after the signature of the Financing Agreement

1.11 Final date for execution of contracts: 5 years after the signature of the Financing Agreement

1.12 Final date for disbursements: 6 years after the signature of the Financing Agreement

2. Overall Objective and Project Purpose

2.1. Overall Objective:

To support the Government of Serbia to develop and implement a strategy that will lead to conferral of EU funds management under a Decentralised Implementation System.

2.2. Project purpose:

- To assist the key players involved in the management of EU funds under a Decentralised Implementation System along the DIS accreditation process and provide them with guidance, taking into account lessons learned from other candidate countries,
- To support the various key players involved in the management of EU funds under a Decentralised Implementation System in :
 - gaining the ownership over the actions and activities they are assigned in the strategy and action plan and to support them in implementing the related tasks,
 - strengthening their management and implementation capacities by developing and operating sound financial management systems, and ultimately,
 - effectively carrying out their functions and responsibilities in full compliance with the EC requirements and accreditation criteria [See Annex III – Accreditation criteria].
- To provide support to the Serbian Government in the following stages of the roadmap to DIS accreditation:
 - Stage 0 – Establishment of the Management and Control System
(Note: Stage 1 – Gap Assessment shall be one of the actions of this Project Fiche)
 - Stage 2 – DIS Preparation (“Gap plugging”)

- Stage 3 – Compliance Assessment
- Stage 4 – National Accreditation and submission of the DIS application

2.3. Link with AP/NPAA / EP/ SAA

A well functioning public administration is a main priority to foster democratic governance and public service to all people in Serbia. One of the key priorities of the European Partnership is permanent implementation of the Public Administration reform. Building and enhancing capacities of institutions involved in the management of external funding funds an important milestone in the public administration reform process.

The National Strategy for EU accession underlines that the process of EU accession requires from the very beginning the existence and functioning of a reliable public administration system. To be applied to numerous stakeholders, such systems imply complex settings and requirements imposed by the EC regulations. The EU requirements apply by priority to EU funds even before the Serbian public financial systems would be harmonised.

In November 2006, the EC amended its Enlargement Strategy. Accession is no more a matter of calendar to be respected based on commitments made by the candidate countries. Enlargements [after Bulgaria and Romania] would take place depending on the actual speed of each candidate country to meet rigorous standards in order to absorb funds allocated to them. This implies setting up the most rigorous and effective systems of management of funds. Thus, demonstrating the capacity to successfully programme and manage EU co-financing would be an indicator of the ability of Serbia to ultimately manage structural and cohesion funds properly¹.

Under **Article 114 (Public administration) of the SAA**, Serbia must ensure the development of an efficient and accountable public administration in Serbia, notably to support rule of law implementation, the proper functioning of the state institutions for the benefit of the entire population of Serbia as a whole and the smooth development of the relations between the EU and Serbia

2.4. Link with MIPD

The MIPD covers the first three years of the new financial framework, 2007-2009. It sets out the EC's view - on the basis of EU strategic documents and analyses - on the areas of intervention to be supported in the pre-accession context during the referenced period, and the rationale for these. Within the legal framework of the EU assistance, the Beneficiary Countries are to establish and adequately resource the necessary structures and authorities for management of IPA funds as well as the relevant strategic and programming documents for the period 2007-2013.

In accordance with the MIPD, there is a requirement for:

- strengthening the European integration structures (including line ministries and the parliament) and any institutions dealing with Decentralised Implementation System and improving the co-operation and coordination among them.

¹ http://ec.europa.eu/enlargement/pdf/key_documents/2006/nov/com_649_strategy_paper_en.pdf 8.11.2006 - COM(2006) 649 - Enlargement Strategy and Main Challenges 2006 – 2007

- reinforcing the structures/mechanisms for the verification of the compatibility of the government policies and the draft legislation with the EU acquis and standards.

Experience with previous CARDS assistance has shown that while setting the future assistance under IPA the issue of the ownership of the EU programming process by the beneficiaries needs to be enhanced.

It is expected that until the end of the first IPA programming cycle (2009) a reinforced capacity for general government coordination, planning mechanisms, formulation and implementation of policy at all levels would be achieved.

2.5 Link with National Development Plan (where applicable)

N/A

2.6. Link with national/ sectoral investment plans (where applicable)

In accordance with the document “Needs Assessment of the Republic of Serbia for the period 2007-2009”, programming, coordination and monitoring the implementation of international developmental assistance is one of the highest priorities. In addition, it is expected to improve programming EU funds by drafting instructions for establishing priorities and defining suggested projects, as well as assisting the relevant ministries in drafting them and carrying out training for successful programming and implementation of EU funds.

3. Description of project

3.1. Background and justification

In Serbia, the management of the EU funded projects under the CARDS instrument has been the responsibility of the European Agency for Reconstruction (EAR). The Development and Assistance Coordination Unit of the former Ministry of International Economic Relations (MIER) – now part of the Ministry of Finance and the Serbian European Integration Office have been the main Government partners with EAR in the design of annual CARDS programmes.

The main objectives of the recently established Instrument for Pre-Accession Assistance (IPA) are to help Serbia in facing the challenges of European integration, to implement the reforms needed to fulfil EU requirements and make progress in the Stabilisation and Association Process, focusing on the priorities identified in the Accession Partnerships and European Partnerships². For the period covered by Financial Perspectives 2007-2013, IPA will consist of five components: Institution Building and Transition Assistance, Cross-Border Cooperation, Regional Development, Human Resources Development and Rural Development.

Beneficiary countries are divided into two categories, depending on their status as either candidate countries (Croatia, Turkey) or potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia, including Kosovo). The first two IPA components will apply to both potential candidate and candidate countries.

² Council Regulation (EC) No 1085/2006 of 17 July 2006, Official Journal L210

The Instrument for Pre-Accession Assistance in Serbia will be managed by the Delegation of the European Commission in Belgrade, with the Government of Serbia enhancing its role in the processes of programming, coordination and implementation.

To date, the Serbian National IPA Coordinator (NIPAC) has been the main liaison point with the EC, coordinating the IPA programming, enabling consultation among the line ministries, state agencies, local municipalities, NGOs etc, submitting the Project Fiches to the EC and signing the Financing Agreement.

The IPA 2007 programming process has highlighted the necessity for continued and enhanced support for capacity building in public administration (including the implementation of the complex administration reform package outlined in the Public Administration Reform Strategy), so that the functions of management of EU funds could be gradually taken over. It has also highlighted the necessity for introduction of legislative changes and creation of new institutional structures that are appropriately staffed and functional.

In accordance with IPA Implementing Rules (draft) [General principles: Articles 7(3), 8(4), 10(1)], DIS is the general method of implementation of IPA assistance. Correspondingly, the government of Serbia shall designate the additional following bodies and authorities:

- a national authorising officer
- a national fund
- a competent accrediting officer
- an operating structure by IPA component or programme
- an audit authority.

The latest Enlargement process has demonstrated that devolution (de-concentration, progressive de-centralisation) towards Commission delegations and national administrations of beneficiary countries of existing pre-accession instruments has been a success. It has been an efficient way to assist beneficiary countries on their way to accession by progressively integrating them in EU policies making processes and teaching them to manage EU financial aid in autonomous way, as an integral part of preparations for their future participation in structural funds and rural development funds upon accession.

Through gradual transfer of responsibilities, countries gain competence for taking full responsibility for planning, implementation and management of EU assistance, which is required for future Member States. The Government of Serbia will face a major challenge to achieve the targets and goals identified in the European Integration process rapidly and effectively. Meeting this challenge requires significant improvements of Governmental institutions in order to achieve management of pre-accession funds in line with the EU quality standards and financial regulations.

DIS accreditation must be an exercise led and fully «owned» by the national authorities. The process requires a strong involvement of the key stakeholders, mobilisation of resources as well as coordination and leadership.

The Government of Serbia has begun the process of DIS preparation through the project “Support to preparation of DIS of EU funds in the Republic of Serbia”. The main results of this project, that are supposed to be achieved by early 2008, are the design of a Strategy and Action plan for DIS implementation, along with enabling the appointment of the officials required under the IPA regulations, the positioning of the DIS key players, a capacity building

plan [including workload analysis, staff needs analysis, training plan and indicative cost estimates] as well as a package of proposed changes in the relevant national legislation.

The Project should be finalised by:

- the Serbian Government approving the Strategy and Action Plan designed in order to be granted by the EC the management of EU funds under a Decentralised Implementation System
- the formalisation of an agreement with the EC on the roadmap for implementation of DIS which should serve as a foundation for nominating the relevant institutions [signature of memoranda of understanding for the establishment of the relevant structures].

3.2. Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

The Multi-Annual Indicative Financial Framework (MIFF) for IPA is designed to provide information on the indicative breakdown of the overall IPA envelope proposed by the Commission in accordance with Art. 5 of IPA Regulation. It serves as a link between the political framework within the enlargement package and the budgetary process. In accordance with the MIFF, Serbia's IPA Programme allocation for the years 2007 to 2009 inclusive is approx €190 million a year. Serbia can reasonably expect to receive at least the same level of support in subsequent years, if it maintains its commitment to preparing for EU accession.

Impact on programming

Programming projects to absorb and effectively use such levels of financial assistance represents a significant challenge. The administrative capacity of many Serbian institutions is not yet strong enough to enable them to adopt a strategic approach to identifying their institution building and investment priorities and preparing well-designed and clearly articulated projects to help them meet these needs. This is particularly the case where a project addresses problems that span the responsibilities of more than one institution or sector. This project will enhance the ownership of the EU programming process and increase the ability of Serbian administration to meet the standards of managing EU funding. The increased ownership and the enhanced operation of the relevant structures would point to further necessity of resource commitment required in terms of people and finance in the process of EU integration.

The absorption capacity of Serbian administration will be increased in order to allow maximum benefit of the future assistance provided.

Impact on technical implementation and monitoring of EU funded programmes

All the key players benefiting from the support envisaged in this Project Fiche would share at some stage training actions, standard procedures, tools, guidelines, etc... The preparation and implementation of the decentralised management systems would therefore introduce the best practices in terms of projects / programmes management all over the project cycle.

Impact on financial management and internal control systems

It must be emphasised again that this project should serve to develop and spread the most rigorous standards in terms of systems of control. Ex-ante controls at the level of the users of the EU funds and ex-post controls to be implemented by the national audit authorities will be positively affected by the routines and procedures which would be designed in the context of the DIS preparation.

Impact on coordination among the public institutions

By nature, the DIS implies the building up of an architecture based on layers of controls, lines of reporting and flow of information which is very demanding in terms of communication and coordination. It should generate a synergy among the key players and more generally within the government.

Finally the implementation of DIS will also create an opportunity for reinforced central and local governmental linkages to better exploit EU co-funding and help address territorial inequalities.

3.3. Results and measurable indicators

Results:

1. Strategy and Action Plan timely implemented,
2. Legal framework fully designed,
3. Systems of controls defined and set up all over the project cycle and the related institutions
4. Gap plugging phase is completed and relevant corrective measures implemented
5. Training Plan(s) timely implemented

Note: it is assumed that the development and compliance with EU criteria for DIS accreditation in relation to internal and external audit will be successfully implemented through the following support:

- CARDS - Support to the Supreme Audit Institution.
- CARDS - Internal Audit & PIFC Phase 2.

Indicators:

1. % of tasks /activities planned in the Strategy and Action Plan which are timely and successfully implemented,
2. % of the legal documents accepted by the beneficiaries to be submitted for adoption,
3. % of institutions having adopted the manuals of procedures designed within this project,
4. % of staff having gained access to a complete training package on the manuals, including simulation of the procedures,
5. % of gaps plugged and corrective measures implemented,
6. % of staff trained in accordance with the Training Plan(s)

3.4. Activities

1. Implement Stage 0 [Establishment of the Management and Control System] and Stage 2³ [DIS Preparation - “Gap plugging”] of the DIS roadmap:
 - Support the implementation of the Strategy and Action Plan by providing guidance [taking into account lessons learned from the most recent candidate countries] and support to the persons/ institutions assigned tasks and activities and directly handling activities assigned to external assistance,

³ Note : Stage 1 – Gap Assessment shall be carried out of the remits of this Project Fiche

- Provide support in continuing the building up [i.e. re-formulation, refinement, adjustments of the regulations as needed and relevant] and implementation of the legal basis,
- Provide support in continuing the building up of institutions, i.e. description of functions, organigrammes, job descriptions, etc...
- Define and describe the control environment [ethics, human resources development, irregularities, lines of reporting, delegation, risk assessment and management]
- Define and describe the control activities in relation to budgeting, procurement, quality control, financial management and payments, channelling of co-financing, technical management, publicity, operational monitoring, monitoring at programme level, accounting, reconciliation, reporting, management information systems, documents management, etc...
- Set-up a “joint team” approach involving both the key players and any technical assistance to ensure the preparation of manuals of procedures, guidelines, check lists, etc of the key players [based on the standardisation of procedures all over the system and creating clear responsibilities and contact and crossover points between the institutions],

Note: the sets of manuals should include: descriptions of the organisation structures and organigrammes, lists of activities to be implemented over the project cycle, detailed delegation of responsibilities and authorities, control and quality assurance policies, project cycle flow-charts, communication flows and relationship diagrams, detailed instructions and guidelines for all the activities and responsibilities, audit trails providing for detailed descriptions of the step-by-step procedure or activity being carried out, the person(s) responsible for the activity, documented evidence of the supervision exercised, and the location/filing of the associated documentation, checklists and supervisory procedures (four eyes principle), standard formats.

- Support the key players in implementing and follow-up of any corrective measure which might be required to comply with the EU requirements and/or could be expressed by auditors during the DIS preparation.

2. Training

- Implement the Training Plan which is part of the Strategy / Action Plan of the Serbian Government,
- Transfer the knowledge base to the key players and their related staff through formal training sessions and on-the-job training, and convey to the key players staff the understanding of: requirements of the IPA regulations, COSO approach, practices, systems, procedures, etc to be developed / improved, IPA accreditation process, tasks assigned in the Action Plan
- Explain to the key players staff the scope of the procedures and introduce the standard forms and templates,
- Share experience through “real life” practical cases deriving from other countries and simulation of the procedures designed and described in the manuals of procedures.

3. On-the-job support

- Provide the key players staff with on-the-job assistance for implementing activities which might be delegated to them even before the DIS accreditation is granted [i.e. transition arrangements to expose the staff to their future assignments especially in relation to programming, tendering and contracting].

4. Implement Stage 3 [Compliance Assessment] of the DIS roadmap:

- Perform a System Audit under International Audit Standards to provide the NAO with an opinion on the preparedness of the Operating Structures to manage the EU assistance under a decentralised implementation system
- Perform a System Audit under International Audit Standards to provide the CAO with an opinion on the preparedness of the National Fund and NAO to manage the EU assistance under a decentralised implementation system.

3.5. Conditionality and sequencing

- The CARDS funded projects ‘Support to Supreme Audit Institution and ‘Support to the Internal Audit & PIFC Phase Two’ must be implemented
- Signature of the Memorandum of Understanding on the establishment of the National Fund
- Signature of the Memorandum[a] of Understanding on the establishment of the Implementing Agency[ies]
- Coordination between the Stage 1 – Gap analysis [not part of the scope of this Project fiche] and the other stages of the DIS accreditation,
- Desire for an overlap between the Gap plugging phase and the Compliance audit phase in order to allow the implementation of additional corrective measures if needed.

The project activities will be delivered through a service contract

3.6. Linked activities

- SIDA/DFID Project: “Joint Programme for Support to the Ministry of International Economic Relations for improvement of coordination, planning, programming and implementation of development assistance”. One of the main components of this Project is support to the programming of EU funds. Project is providing appropriate Technical Assistance to MIER and training for the line ministries until December 2008.
- CARDS 2006 will provide support for Audit standards and quality and management of EU funds through support to the Supreme Audit Institution. This activity intends to ensure the use of common international and European audit standards and the maintenance of a consistently high quality throughout the audit processes.
- CARDS 2006 supports the programming process of IPA 2008 through a Project Preparation Facility. Through this project, a pool of experts will be engaged in order to support line ministries in preparation of IPA 2008 Project Fiches in line with MIPD and national strategic documents.
- Project “Support to the preparation of the Decentralised Implementation System of EU funds in the Republic of Serbia”, financed by Norwegian Government. See 3.1. Background and justification.
- The EAR has launched a project titled Internal Audit & PIFC Phase 2. The main purpose of this € 1.9 million project, awarded to the consortium of Ernst & Young and CIPFA International, is to contribute to the reinforcement of the internal financial control environment throughout Public Administration, as well as to contribute to the development and reinforcement of internal audit capacities. The project is envisaged to last for 30 months.

3.7. Lessons learned

Sharing experience - Accreditation to decentralised systems has been a learning process in all candidate countries. Experience gained in other countries, especially after the adoption of the new EU financial regulation in 2002, should be carefully taken into account.

The main principles outlining the relevant control principles and the underlying legal basis can be taken from:

- The Annex to Council Regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending Regulation (EEC) No 3906/89 1266/1999 (known as the “Coordination Regulation”);
- The provisions of the Council Regulation (EC) 1605/2002 from 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities as revised in December 2006,
- The main findings of the EDIS verification audits performed by the Commission services at Stage 4 in the 12 new member states,
- The “lessons learnt” spread by the EC since February 2005 through workshops and from which the following examples are extracted:
 - o *There has to be a clear segregation between “Programming” and the actual “Implementation” of pre-accession support. Therefore, the NAO must be located at appropriate level in the national organisational structure and must exercise his/her power in balance with the NAC, his/her counterpart for programming. This implies that both the NAC and the NAO must have a similar (high) hierarchical level in the national administration.*
 - o *Staff in the implementing agencies have not always a clear understanding of their own role and the roles of every other actor in the process regarding day to day activities (e.g. limits of responsibility, controls over payments, filing systems) – this needs to be addressed by a set of tools and written procedures, drafted with active input by the users, so as to allow the users to understand their roles and tasks.*
 - o *In order to carry out effective transaction controls, appropriate checklists which evidence all the checks performed should be designed when developing the written procedures.*
 - o *Though practical (budgetary) constraints often make it difficult to recruit sufficient number of adequately qualified staff for carrying out the tasks, it is nevertheless a key requirement that the national authorities need to address if (partial or full) decentralised management were to yield satisfactory results.*

Beneficiary country ownership and leadership - The recommendations of the Evaluation of the Assistance to Balkan Countries under CARDS Regulation 2666/2000 report identified the need to increase beneficiary ownership and support recipient institutions in Serbia to;... find their own way to fill the gaps towards European approximation and integration... with the aim of building a learning process in the recipient institutions and not just providing advice and guidelines on the acquis...”there should be specific and diversified actions to support partners’ capacity to run consultations, draft their own visions and strategic documents, prepare projects, manage, train and motivate staff.”

Project Cycle Management - Every new EU Member State and EU Accession State had or has problems in developing a project pipeline capable of ensuring a steady flow of high quality projects to absorb pre-accession and post-accession support, especially when new type of assistance, such as IPA, occurs. Serbia will also need to invest significant effort to develop an IPA project pipeline. The efficient use of EU co-funding in a country is determined by the

quality of its strategic programming. The lessons of structural funding and pre-accession funding (Phare, ISPA, SAPARD) highlight the importance of building the programming and management capabilities of administrations. This capacity building involves overall programming design, strategic and financial management, project development, project delivery as well as monitoring and evaluation.

While a series of institutional building actions were undertaken under CARDS the capacities of Serbian line ministries and state agencies remain relatively weak to meet the demands of EU funding. The capacity for identifying and preparing projects according to EU standards is low. Line Ministries and other Government Institutions involved in the IPA programming process are facing problems with the inadequate composition of documentation related to the preparation, implementation and monitoring of IPA programmes. Projects tend to be prepared without a proper feasibility (cost benefit) assessment, environmental impact assessment and with limited strategic positioning.

Public Administration Reform - The process of EU accession requires from the very beginning the existence of a reliable system of public administration which would be capable of accepting and conveying to internal participants numerous and complex requirements for harmonisation with the EU rules.

Serbia's CARDS Programme allocation for the years 2000 to 2006 inclusive is 180 million € a year. Serbia can reasonably expect to receive at least the same level of support in subsequent years, if it maintains its commitment to preparing for EU accession. Programming projects to absorb and use effectively these levels of financial assistance represents a significant challenge. The administrative capacity of many Serbian institutions is not yet strong enough to enable them to adopt a strategic approach to identifying their institution building and investment priorities and preparing well-designed and clearly articulated projects to help them meet these needs. This is particularly the case where a project addresses problems that span the responsibilities of more than one institution or sector. Also, preparing investment projects has always presented a particular challenge. Investment projects often require detailed and reliable data, in-depth feasibility studies, systems design, impact analyses and other documentation.

Integration into EU policies and procedures - The latest Enlargement process has demonstrated that devolution (de-concentration, progressive de-centralisation) towards Commission delegations and national administrations of beneficiary countries of existing pre-accession instruments has been an efficient way to assist beneficiary countries on their way to accession by progressively integrating them in EU policies and by teaching them to manage EU financial aid in autonomous way as integral part of preparations for their future participation in structural funds and rural development funds after accession.

4. Indicative Budget (amounts in million €)

	TOTAL COST	SOURCES OF FUNDING										
		EU CONTRIBUTION				NATIONAL PUBLIC CONTRIBUTION				PRIVATE		
Activities	2	Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
Activity 1	2											
contract 1.1	2	2	100	2	100							
contract 1.2												
Total	2											
* expressed in % of the Total Cost												

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	T+1Q	T+2Q	T+8Q

All projects should in principle be ready for tendering in the 1st Quarter following the signature of the FA

6. Cross cutting issues (where applicable)

The Development Policy Joint Statement by the Council and the European Commission of 10 November 2000 establishes that a number of Cross-cutting Issues shall be mainstreamed into EC development co-operation and assistance.

Cross-cutting issues will be addressed in the project so as to comply with the best EU standards and practice in that area and in a way which demonstrates how they will be dealt with within the project's framework, its activities and outputs.

Cross-cutting issues will be addressed in a proactive manner, and will present a specific component of projects (at all levels of projects' development, starting from the project identification stage). Synergies between the projects and the objectives of will be identified and developed. Also, the projects' objectives and activities need to be screened in order to ensure they won't impact negatively on gender equality, minorities' inclusion and environment.

Finally, the beneficiary will make sure its objectives, policies and interventions have a positive impact on and are in line with the main principles of gender equality, minorities' inclusion and environment.

6.1. Equal Opportunity

Gender equality is an important component of integrated public administration reform actions. In Serbia, female civil servants mainly fill low to middle range positions but carry out most of the activities in terms of implementing public policy reform actions. This project will encourage female civil servants to have a greater involvement in the diagnostic process in developing, more integrated and coordinated public financial reform policy actions

6.2 Environment

Environment will be considered a major cross-cutting issue in almost all segments of the future project implementation under DIS, in particular in the areas of transport infrastructure, environmental protection, renewable energy, research & development, economic diversification of rural areas, development of cities and cooperation – cross-border, trans-national and interregional.

6.3 Minorities

N/A

ANNEX I: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche	Programme name and number	
Support to the implementation of the management of EU funds under a Decentralised Implementation System in the Republic of Serbia	Contracting period expires 5 years after the signature of the Financing Agreement	Disbursement period: expires 6 years after the signature of the Financing Agreement
	Total budget : 2.000.000 EUR	IPA budget: 2.000.000 EUR

Overall objective	Objectively verifiable indicators	Sources of Verification	
<ul style="list-style-type: none"> To support the Government of Serbia in implementing its strategy and action plan in relation to the conferral of the management of EU funds under a Decentralised Implementation System. 	<ul style="list-style-type: none"> Number of institutions and components / measures granted the DIS accreditation. 	Audit reports	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> To assist the key players involved in the management of EU funds under a Decentralised Implementation System all along the DIS accreditation process and provide them with guidance, taking into account lessons learned from other candidate countries To support the various key players involved in the management of EU funds under a Decentralised Implementation System in : <ul style="list-style-type: none"> gaining the ownership over the actions and activities they are assigned in the strategy and action plan and to support them in implementing the related tasks, strengthening their management and implementation capacities by developing and operating sound financial management systems, and ultimately, effectively carrying out their functions and responsibilities in full compliance with the EC requirements and accreditation criteria [See Annex III– Accreditation criteria]. 	<ul style="list-style-type: none"> Number of information / awareness raising events organised Level of participation to information / awareness raising events organised The level of compliance with the Strategy / Action Plan [respect of deadlines] 	<ul style="list-style-type: none"> Minutes of meetings Technical assistants reports Reports of visits of the EU representatives Correspondence exchanged with the EC 	<ul style="list-style-type: none"> Stability in the political and administrative situation of the Serbian Government. Relevant decision makers are appointed and attach high enough importance to the EU assistance programmes and provide enough resources, including qualified human resources, to support the implementation of the DIS strategy and Action Plan.
<ul style="list-style-type: none"> To provide support to the Serbian Government in the following stages of the roadmap to DIS accreditation: <ul style="list-style-type: none"> Stage 0 – Establishment of the Management and Control System Stage 2 – DIS Preparation (“Gap plugging”) Stage 3 – Compliance Assessment Stage 4 – National Accreditation and submission of the DIS application 			<ul style="list-style-type: none"> The importance of developing the DIS as an essential pre-requisite for successful preparation for membership and increase of financial benefits for the country which arise from it is understood by the officials Staff is made available to work on the DIS accreditation in the relevant institutions The accreditation exercise relates only to Components 1 and 2 of IPA
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> Strategy and Action Plan timely implemented 	<ul style="list-style-type: none"> % of tasks /activities planned in the Strategy and Action Plan which are timely and successfully implemented, 	<ul style="list-style-type: none"> Minutes of meetings Technical assistants reports Reports of visits of the EU representatives Correspondence exchanged with the EC Training Plans Training Reports 	<ul style="list-style-type: none"> The Strategy and Action Plan have been timely prepared and accepted by all parties involved. Stage 1 – Gap Assessment is carried out of the remits of this Project Fiche
<ul style="list-style-type: none"> Legal framework fully designed 	<ul style="list-style-type: none"> % of the legal documents accepted by the beneficiaries to be submitted for adoption, 		<ul style="list-style-type: none"> Stability in the political and administrative situation of the Serbian Government allowing legal issues to be dealt with timely and

<ul style="list-style-type: none"> • Systems of controls defined and set up all over the project cycle and the related institutions 	<ul style="list-style-type: none"> • % of institutions having adopted the manuals of procedures designed within this project, • % of staff having gained access to a complete training package on the manuals, including simulation of the procedures, 		<p>promptly</p> <ul style="list-style-type: none"> • The accreditation criteria are fully understood • Development and compliance with EU criteria for DIS accreditation in relation to internal and external audit will be successfully implemented to the following supports: <ul style="list-style-type: none"> - CARDS - Support to the Supreme Audit Institution. - CARDS - Internal Audit & PIFC Phase 2.
<ul style="list-style-type: none"> • Gap plugging phase is completed and relevant corrective measures implemented 	<ul style="list-style-type: none"> • % of gaps plugged and corrective measures implemented, 		<ul style="list-style-type: none"> • Gap Analysis is available and produced under the relevant standards of quality
<ul style="list-style-type: none"> • Training Plan(s) timely implemented 	<ul style="list-style-type: none"> • % of staff trained in accordance with the Training Plan(s) 		<ul style="list-style-type: none"> • Staff to be trained is available
Activities	Means	Costs	Assumptions
<ul style="list-style-type: none"> • Implement Stage 0 [Establishment of the Management and Control System] and Stage 2 [DIS Preparation - “Gap plugging”] of the DIS roadmap: <ul style="list-style-type: none"> - Support the implementation of the Strategy and Action Plan by providing guidance [taking into account lessons learned from the most recent candidate countries] and support to the persons/ institutions assigned tasks and activities and directly handling activities assigned to external assistance, - Provide support in continuing the building up [i.e. re-formulation, refinement, adjustments of the regulations as needed and relevant] and implementation of the legal basis, - Provide support in continuing the building up of institutions, i.e. description of functions, organigrammes, job descriptions, etc... - Define and describe the control environment [ethics, human resources development, irregularities, lines of reporting, delegation, risk assessment and management] - Define and describe the control activities in relation to budgeting, procurement, quality control, financial management and payments, channelling of co-financing, technical management, publicity, operational monitoring, monitoring at programme level, accounting, reconciliation, reporting, management information systems, documents management, etc... - Set-up a “joint team” approach involving both the key players and any technical assistance to ensure the preparation of manuals of procedures, guidelines, check lists, etc ... of the key players [based on the standardisation of procedures all over the system and creating clear responsibilities and contact and crossover points between the institutions]. • Support the key players in implementing and follow-up of any corrective measures which might be required to comply with the EU requirements and/or could be expressed by auditors during the DIS preparation. • Training <ul style="list-style-type: none"> - Implement the Training Plan which is part of the Strategy / Action Plan of the Serbian Government, - Transfer the knowledge base to the key players and their related staff through formal training sessions and on-the-job training, and convey to the key players staff the 	<p>Pluridisciplinary team of technical Assistants</p> <p>Pool of short term experts</p> <p>Staff in the Operating Structures</p>	<p>1 600 000 €</p>	

<p>understanding of: requirements of the IPA regulations, COSO approach, practices, systems, procedures, etc to be developed / improved, IPA accreditation process, tasks assigned in the Action Plan</p> <ul style="list-style-type: none"> - Explain to the key players staff the scope of the procedures and introduce the standard forms and templates, - Share experience through “real life” practical cases deriving from other countries and simulation of the procedures designed and described in the manuals of procedures. <ul style="list-style-type: none"> • On-the-job support <ul style="list-style-type: none"> - Provide the key players staff with on-the-job assistance for implementing activities which might be delegated to them even before the DIS accreditation is granted [i.e. transition arrangements to expose the staff to their future assignments especially in relation to programming, tendering and contracting]. 			
<ul style="list-style-type: none"> • Implement Stage 3 [Compliance Assessment] of the DIS roadmap: <ul style="list-style-type: none"> - Perform a System Audit under International Audit Standards to provide the NAO with an opinion on the preparedness of the Operating Structures to manage the EU assistance under a decentralised implementation system - Perform a System Audit under International Audit Standards to provide the CAO with an opinion on the preparedness of the National Fund and NAO to manage the EU assistance under a decentralised implementation system. 	<ul style="list-style-type: none"> • Two audit companies / audit teams. 	<p>400 000 €</p>	<ul style="list-style-type: none"> • The NAO takes the leading role and his / her authority is acknowledge by the key players who will provide all relevant documentation and support in the preparation of the requests for compliance audits • Auditors fully certified to perform audits under international standards are available to perform the compliance audits.

ANNEX II: amounts (in M€) Contracted and disbursed by quarter for the project

Contracted	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
Contract 1.1		2.0								
Contract 1.2										
Contract 1.3										
Contract 1.4										
.....										
Cumulated		2.0								

Disbursed										
Contract 1.1		1,200,000	140,000	140,000	140,000	140,000	140,000	100,000		
Contract 1.2										
Contract 1.3										
Contract 1.4										
.....										
Cumulated		1,200,000	1,340,000	1,480,000	1,620,000	1,760,000	1,900,000	2,000,000		

Accreditation criteria

Standard list of areas and related requirements as referred to in Article 11(2) of the draft IPA Implementing regulation [May 2007]

1. Control Environment (establishment and management of the organisation and the staff)

- (a) Ethics and integrity policies
 - ensuring the culture for the organisation required by top management is understood throughout the organisation
- (b) Irregularity management and reporting
 - ensuring possible irregularities noted lower down the organisation are reported appropriately and followed-up, including protection for 'whistleblowers'
- (c) Staff planning, recruitment, training and appraisal (including sensitive post management)
 - ensuring adequate numbers and quality of staff are in place at all levels
- (d) Sensitive functions and conflicts of interest
 - ensuring that staff in 'sensitive posts' are identified (i.e. those where the staff may become vulnerable to undue influence by the nature of their contacts with third parties or the information they have);
 - ensuring that appropriate controls (including, where appropriate, rotation policies) are applied to sensitive posts;
 - ensuring that procedures exist to identify and avoid conflicts of interests.
- (e) Establishment of legal bases for bodies and individuals
 - ensuring bodies and individuals have full legal authority to fulfil their functions.
- (f) Formal establishment of accountability, responsibility, delegated responsibility, and any necessary related authority for all tasks and positions throughout the organisation:
 - ensuring that no member of staff is in doubt as to the extent of their responsibilities. For commitments or payments engaged to third parties, a single manager should be accountable for all aspects of the transaction;
 - Mission statements, job descriptions etc are up to date and known.

2. Planning / risk management (planning of interventions)

- (a) Risk identification, assessment and management
 - ensuring that risks are identified and management, in particular that adequate control resources are applied in all areas, in function of the significance of different risks they mitigate.
- (b) Objective setting and allocation of resources against objectives
 - ensuring that appropriate (and measurable) objectives at output and impact level are established at all levels and understood throughout the organisation;
 - ensuring that resources are appropriately allocated against those objectives respecting transparent sound financial management principles;
 - ensuring that responsibility for those objectives is clear.

- (c) Planning of the implementation process
 - ensuring clear planning of steps needed to deliver objectives – including timing and responsibility for each step, and critical path analyses where necessary.

3. Control Activities (implementation of interventions)

- (a) Verification procedures
 - ensuring double-check of all steps in a transaction (ex-ante and, where appropriate, ex-post).
- (b) Procedures for supervision by accountable management of tasks delegated to subordinates (including annual statements of assurance from subordinate actors)
 - ensuring that responsibility is supported by active supervision - and not merely considered a passive or theoretical concept.
- (c) Rules for each type of procurement and grant calls
 - ensuring appropriate legal framework for all such commitment processes.
- (d) Procedures (including checklists) for each step of procurement and grant calls (e.g. Technical Specifications, Evaluation committees, reporting of exceptions etc)
 - ensuring each member of staff is clear as to their task responsibilities in these areas.
- (e) Publicity rules and procedures
 - ensuring that these Commission requirements are fulfilled.
- (f) Payment procedures (including procedures for confirmation of output delivery, and/or eligibility conditions, ‘on-the-spot’ where necessary).
 - ensuring that payments are made only for justified payment applications which fulfil all contractual requirements.
- (g) Procedures for monitoring delivery of co-financing
 - ensuring that these Commission requirements are fulfilled.
- (h) Budgetary procedures to ensure availability of funds (including funds necessary to maintain implementation if Commission funding is delayed or refused)
 - ensuring that the National Authority can fulfil its local contractual commitments regardless of delays or interruptions in funding from Commission.
- (i) Procedures for continuity of operations
 - ensuring that significant risks to continuity (e.g. concerning loss of data, absence of individuals etc) are identified and contingency plans put in place where possible.
- (j) Accounting procedures
 - ensuring full and transparent accounting following accepted accounting principles.
- (k) Reconciliation procedures
 - ensuring that wherever possible accounting balances are reconciled against 3rd party information.
- (l) Reporting of exceptions, *inter alia*, exceptions to normal procedures approved at appropriate level, unapproved exceptions and control failures whenever identified
 - Ensuring variations to normal practices are always recorded and logged and reviewed at appropriate levels.
- (m) Security procedures (IT and otherwise)

- ensuring that assets and data are kept secure from interference or physical damage.
- (n) Archiving procedures
 - ensuring that documents will be available - at least for Commission review throughout the required periods for which they must be kept.
- (o) Segregation of duties
 - ensuring that where different tasks in the life of the same transaction are allocated to different staff to ensure some automatic cross-checking controls.
- (p) Reporting of internal control weaknesses
 - ensuring that the registration of any internal control weakness identified from any source and that management responses are recorded and followed-up.

4. Monitoring Activities (supervision of interventions)

- (a) Internal audit including handling of audit reports and recommendations (NB: distinct from control activities and management supervision)
 - ensuring that top managers are provided with some independent reviews of the functioning of their systems at subordinate levels. May involve some ex-post transaction checking but should be more focussed on effectiveness and efficiency of system and organisation design.
- (b) Evaluation
 - ensuring that top managers are provided with information concerning the assessment of impacts of interventions (in addition to the other information they receive about legality, regularity and operational procedures).

5. Communication (ensuring all actors receive information necessary to fulfil their role)

Regular coordination meetings between different bodies to exchange information on all aspects of planning and implementation e.g.:

- (i) Regular reporting on status of planning of programmes and projects
- (ii) Regular reporting on project implementation compared to implementation plan
 - Contracting processes (inter alia)
 - ~ Progress of each tendering process against plan
 - ~ Systematic analysis of errors reported at any level (e.g. by verifiers, ex-ante controllers, auditors etc)
 - Implementation of contracts
 - Costs of controls against benefits
- (iii) Regular reporting at all appropriate levels on efficiency and effectiveness of internal control

ANNEX III

Description of Institutional Framework

The Ministry of Finance is in charge of implementation and monitoring of this project. The work, mandate and authorisations of the Ministry are regulated by the Law on Ministries (adopted on May 15, 2007 (Official Gazette of Republic of Serbia no. 48/07)) – i.e. Article 6. Organisational chart of the Ministry of Finance is given below.



ANNEX IV

Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

General:

- Constitution of the Republic of Serbia
- Law for the Implementation of the Constitution of the Republic of Serbia
- National Strategy for Serbia and Montenegro's Accession to the European Union
- Action Plan for the Implementation of the European Partnership
- Strategy for Development of the State Administration
- European Partnership
- SAA

Finance:

- Public Procurement Law
- Law on Accounting and Auditing
- Law on State Audit Institution
- Law on Public Debt

Reference to AP /NPAA / EP / SAA

A well functioning public administration is a main priority to foster democratic governance and public service to all people in Serbia. One of the key priorities of the European Partnership is permanent implementation of the Public Administration reform. Building and enhancing capacities of institutions involved in the management of external funding funds an important milestone in the public administration reform process.

The National Strategy for EU accession underlines that the process of EU accession requires from the very beginning the existence and functioning of a reliable public administration system. To be applied to numerous stakeholders, such systems imply complex settings and requirements imposed by the EC regulations. The EU requirements apply by priority to EU funds even before the Serbian public financial systems would be harmonised.

In November 2006, the EC amended its Enlargement Strategy. Accession is no more a matter of calendar to be respected based on commitments made by the candidate countries. Enlargements [after Bulgaria and Romania] would take place depending on the actual speed of each candidate country to meet rigorous standards in order to absorb funds allocated to them. This implies setting up the most rigorous and effective systems of management of funds. Thus, demonstrating the capacity to successfully programme and manage EU co-financing would be an indicator of the ability of Serbia to ultimately manage structural and cohesion funds properly⁴.

⁴ http://ec.europa.eu/enlargement/pdf/key_documents/2006/nov/com_649_strategy_paper_en.pdf 8.11.2006 - COM(2006) 649 - Enlargement Strategy and Main Challenges 2006 – 2007

Under **Article 114 (Public administration) of the SAA**, Serbia must ensure the development of an efficient and accountable public administration in Serbia, notably to support rule of law implementation, the proper functioning of the state institutions for the benefit of the entire population of Serbia as a whole and the smooth development of the relations between the EU and Serbia

Reference to MIPD

The MIPD covers the first three years of the new financial framework, 2007-2009. It sets out the EC's view - on the basis of EU strategic documents and analyses - on the areas of intervention to be supported in the pre-accession context during the referenced period, and the rationale for these. Within the legal framework of the EU assistance, the Beneficiary Countries are to establish and adequately resource the necessary structures and authorities for management of IPA funds as well as the relevant strategic and programming documents for the period 2007-2013.

In accordance with the MIPD, there is a requirement for:

- strengthening the European integration structures (including line ministries and the parliament) and any institutions dealing with Decentralised Implementation System and improving the co-operation and coordination among them.
- reinforcing the structures/mechanisms for the verification of the compatibility of the government policies and the draft legislation with the EU acquis and standards.

Experience with previous CARDS assistance has shown that while setting the future assistance under IPA the issue of the ownership of the EU programming process by the beneficiaries needs to be enhanced.

It is expected that until the end of the first IPA programming cycle (2009) a reinforced capacity for general government coordination, planning mechanisms, formulation and implementation of policy at all levels would be achieved.

Reference to National Development Plan

N/A

Reference to national / sectoral investment plans

In accordance with the document "Needs Assessment of the Republic of Serbia for the period 2007-2009", programming, coordination and monitoring the implementation of international developmental assistance is one of the highest priorities. In addition, it is expected to improve programming EU funds by drafting instructions for establishing priorities and defining suggested projects, as well as assisting the relevant ministries in drafting them and carrying out training for successful programming and implementation of EU funds.

ANNEX V

Details per EU funded contract (*) where applicable:

Implement Stage 0 [Establishment of the Management and Control System] and Stage 2⁵ [DIS Preparation - “Gap plugging”] of the DIS roadmap:

- Support the implementation of the Strategy and Action Plan by providing guidance [taking into account lessons learned from the most recent candidate countries] and support to the persons/ institutions assigned tasks and activities and directly handling activities assigned to external assistance,
- Provide support in continuing the building up [i.e. re-formulation, refinement, adjustments of the regulations as needed and relevant] and implementation of the legal basis,
- Provide support in continuing the building up of institutions, i.e. description of functions, organigrammes, job descriptions, etc...
- Define and describe the control environment [ethics, human resources development, irregularities, lines of reporting, delegation, risk assessment and management]
- Define and describe the control activities in relation to budgeting, procurement, quality control, financial management and payments, channelling of co-financing, technical management, publicity, operational monitoring, monitoring at programme level, accounting, reconciliation, reporting, management information systems, documents management, etc...
- Set-up a “joint team” approach involving both the key players and any technical assistance to ensure the preparation of manuals of procedures, guidelines, check lists, etc of the key players [based on the standardisation of procedures all over the system and creating clear responsibilities and contact and crossover points between the institutions],

Note: the sets of manuals should include: descriptions of the organisation structures and organigrammes, lists of activities to be implemented over the project cycle, detailed delegation of responsibilities and authorities, control and quality assurance policies, project cycle flow-charts, communication flows and relationship diagrams, detailed instructions and guidelines for all the activities and responsibilities, audit trails providing for detailed descriptions of the step-by-step procedure or activity being carried out, the person(s) responsible for the activity, documented evidence of the supervision exercised, and the location/filing of the associated documentation, checklists and supervisory procedures (four eyes principle), standard formats.

- Support the key players in implementing and follow-up of any corrective measure which might be required to comply with the EU requirements and/or could be expressed by auditors during the DIS preparation.

Training

- Implement the Training Plan which is part of the Strategy / Action Plan of the Serbian Government,
- Transfer the knowledge base to the key players and their related staff through formal training sessions and on-the-job training, and convey to the key players staff the understanding of: requirements of the IPA regulations, COSO approach, practices,

⁵ Note : Stage 1 – Gap Assessment shall be carried out of the remits of this Project Fiche

systems, procedures, etc to be developed / improved, IPA accreditation process, tasks assigned in the Action Plan

- Explain to the key players staff the scope of the procedures and introduce the standard forms and templates,
- Share experience through “real life” practical cases deriving from other countries and simulation of the procedures designed and described in the manuals of procedures.

On-the-job support

- Provide the key players staff with on-the-job assistance for implementing activities which might be delegated to them even before the DIS accreditation is granted [i.e. transition arrangements to expose the staff to their future assignments especially in relation to programming, tendering and contracting].

Implement Stage 3 [Compliance Assessment] of the DIS roadmap:

- Perform a System Audit under International Audit Standards to provide the NAO with an opinion on the preparedness of the Operating Structures to manage the EU assistance under a decentralised implementation system
- Perform a System Audit under International Audit Standards to provide the CAO with an opinion on the preparedness of the National Fund and NAO to manage the EU assistance under a decentralised implementation system.