

## Standard Summary Project Fiche – IPA centralised programmes

### **Project number 12: Establishment of first level control and support for the implementation of Cross-border-cooperation (CBC) programmes**

#### **1 BASIC INFORMATION**

- 1.1 CRIS Number:** [2008/020-406](#)
- 1.2 Title:** **Establishment of first level control and support for the implementation of Cross-border-cooperation (CBC) programmes**
- 1.3 ELARG Statistical code:** 01.32
- 1.4 Location:** Republic of Serbia

#### **Implementing arrangements:**

- 1.5 Contracting Authority:** EC Delegation to the Republic of Serbia
- 1.6 Implementing Agency:** EC Delegation to the Republic of Serbia
- 1.7 Beneficiary** (including details of project manager):

The **Project Manager** for the project is Ms Gordana Lazarevic, Assistant Minister in the Ministry of Finance (MoF). The Project Manager has overall responsibility for the technical delivery of the project.

A **Project Management Unit (PMU)** has been established within the Sector for Programming and Management of EU funds and Development in the MoF. This PMU has been responsible for the delivery of previous Cross Border Co-operation (CBC) projects and will maintain these responsibilities. The specific tasks of the coordination body include day-to-day management of the programmes, co-ordination with partner countries, guidance of the grant beneficiaries, checking of financial and narrative reports, promotional and dissemination activities. The PMU will also provide a secretariat for the Project Steering Committee (see below) and they will work closely with the selected technical assistance in order to achieve the project results.

A project **Steering Committee** will be established prior to the initiation of the technical assistance contract. The role of the Steering Committee is to provide strategic guidance and direction regarding the technical issues on the project. The Committee will meet every 6 months during the implementation of the project to discuss and endorse the 6-monthly progress reports. The Steering Committee will include representatives of all key stakeholders, including representatives of the Ministry of Finance and European Commission Delegation. It will be chaired by the Project Manager.

#### **Financing:**

- 1.8 Overall cost:** **1.700.000 EUR**
- 1.9 EU contribution:** **1.700.000 EUR**
- 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 year after the signature of the Financing Agreement

## **2 OVERALL OBJECTIVE AND PROJECT PURPOSE**

### **2.1 Overall Objective:**

The overall objective of the project is to contribute to effective and timely implementation of projects financed under Instrument for Pre-accession (IPA), Component 2 in Serbia (programmes of cross border cooperation).

### **2.2 Project purpose:**

The specific objective of the project is to implement first level control in projects financed under IPA Programme, Component 2 in Serbia and further build the capacity of Programme management and coordination Unit in the MoF for programme implementation.

First level control is a procedural requirement following the “integrated approach” as per IPA regulation and Operational Documents for each of the programmes with Member States (Serbia-Bulgaria, Serbia-Romania, Serbia-Hungary, SouthEast Programme, Adriatic Programme). The first level control, as well as audit, is to be implemented in line with requirements of each programme, based on structural funds methodology and co-ordinated with the Managing Authorities. This project should be seen as a support instrument to timely and quality implementation of IPA Programme in Serbia.

### **2.3 Link with AP/NPAA/EP/SAA**

#### **Copenhagen criteria**

“Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; the ability to take on the obligations of membership including adherence to the aims of political, economic & monetary union.” (extract from the pp13).

IPA Programme Component 2 (hereafter referred to as the CBC Programme) is implemented in the border regions of the Republic of Serbia and targets the non profit sector, including local governmental institutions, chambers of commerce and educational institutions. The CBC programme therefore directly contributes to the adoption of Copenhagen criteria in Serbia and can be seen as an integral part of this process.

#### **European Partnership**

The European Partnership identifies a number of medium term priorities which are addressed by this project, namely:

“Adopt and implement decentralisation reform and ensure sufficient local capacities to deal with, among others, administrative and financial issues and forthcoming regional programmes.” (pp 14)

“Strengthen capacity (policy making and inter-ministerial coordination) of the public administration at government and local levels...” (pp 14)

“Improve financial management at central and local government level.” (pp 16)

“Improve the capacity of local administration to provide services to their constituencies in an equitable and effective manner.” (pp 21)

The project will increase the capacity of local organisations to participate in the design and delivery of a range of regional programmes. It will also work actively to de-centralise financial and technical responsibilities and authorities to the local Project Management Offices.

## **2.4 Link with MIPD<sup>1</sup>**

The MIPD section 2.3.4. sets out the main priorities and objectives of the CBC programme in Serbia. The CBC programme contributes actively to the following:

- Cross-border infrastructure. Flood prevention. Water management.
- Economic co-operation (especially, creation of strong logistical links, supply chains and clusters alongside the border) tourism, agriculture and rural development.
- Address common challenges in the field of environment, public health, prevention and fight against organised crime, etc.
- Ensure efficient and secure borders. Promote legal and administrative co-operation.
- Promote local “people to people” type actions, more emphasis should be put on stronger co-operation between public entities, NGOs in the fields such as education and cultural co-operation, development of democracy and tolerance, conflict prevention etc.
- Cooperation among cultural institutions including Museums, Theatres, etc.
- Develop the reference framework for CBC activities and developing planning documents;
- Fostering reciprocal trust at local level;
- Supporting initiatives in the area of education, research and employment generation.
- Support activities for the return of refugees to their country of origin, their reintegration and facilitation of the access to their rights.

Through the increased focus on cross border cooperation, the border population should be sensitised to the economic, social and stabilising benefits that cross border co-operation activities can bring. This will be mainly achieved through highly visible and necessary cross border infrastructure projects and EC sponsored cross border co-operation activities between organisations from both sides of the border.

Further, under “Strategic Choices”, the MIPD contains the following statement.

“IPA will target new strategic areas which demonstrate employment generation potential such as tourism and agricultural sector, economic links with the knowledge based and information technology society, targeting of strategic investment based on Serbia competitive advantages, as well as regional and cross border cooperation.”

The implementation of the CBC Programme is designed specifically to address these strategic challenges. The areas mentioned above will be covered as priorities in Programming documents for individual programmes.

## **2.5 Link with national/ sectoral plans**

### **2.5.1 Link with National Investment Plan (NIP)**

In September 2006, the Government of Serbia launched the National Investment Plan 2006 – 2012 (NIP), which has as its objectives: higher employment, sustainable economic development, increased competition and reduced poverty. The NIP provides for public investment of at least €1.2 billion a year (5% of GDP) in infrastructure, economic development, housing and public administration capacity building, with higher per capita allocations for less developed regions.

The NIP is currently under suspension, but is likely to be revived under the new government which has created a ministry to deal with it. IPA Programme, Component 2 will be closely

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<sup>1</sup> Multi-Annual Indicative Planning Document

coordinated with the NIP to guarantee focused effort. Though not directly supporting large infrastructure projects, the CBC Programme can support preparatory activities and smaller scale projects. This project will, as a support instrument to IPA Programme, be an integral part of this process.

### **2.5.2 Link with Public Administration Reform (PAR)**

In October 2004, the Strategy of Public Administration Reform in the Republic of Serbia was drafted. The Strategy identified the following main objectives of the public administration reform:

- creation of a democratic state based on the rule of law, responsibility, transparency, cost-effectiveness and efficiency, and
- creation of a public administration directed towards the citizens, capable of offering high quality services to citizens and the private sector, against payment of reasonable costs.

The following key reform areas were identified:

1. Decentralization (including enhancing capacity of local governments in the areas of organizational frameworks, management systems, knowledge and skills of staff, internal supervision and control mechanisms)
2. Fiscal decentralization (including financing of capital expenditure at the local level)
3. Building a professional civil service (including pay system reform, improving legal framework and improving the quality of staff)
4. Improving the managerial and organizational framework
5. Introducing Information Technology
6. Strengthening control mechanisms

The CBC programme contributes to the above by developing establishing de-centralised units responsible for financial monitoring and control. In addition, the CBC programme supports projects which build capacity of local administration and institutions thus improving the quality of the delivery of public services.

### **2.5.3 Link with the Poverty Reduction Strategy Paper (PRSP)**

The Serbian Poverty Reduction Strategy Paper was adopted in 2003 and describes the framework and priorities for poverty reduction. As main strategic priorities it identified the following: creation of new employment opportunities; more efficient social protection; improved position of pensioners and elderly; health care in support of poverty reduction; education in support of poverty reduction; housing aspects of poverty; environmental aspects of poverty reduction.

Cross border regions, by their nature, are often less economically developed than other regions. The major effect of the CBC programme in terms of poverty reduction will lie in enhancing economic growth through improving local and regional capacities in Local Economic Development. The CBC programme is expected to provide new employment and also to have a indirect but positive impact in areas of education, health and the environment.

## **3 DESCRIPTION OF PROJECT**

### **3.1 Background and justification:**

#### **3.1.1 Current state of affairs in the relevant sector**

Serbia has successfully implemented the first round of programmes of cross-border cooperation with neighbouring countries and trans-national programmes. The Neighbourhood programme has been implemented following the initiative of the EC to foster cooperation between EU Member States (MS) and the countries with EU accession perspective.

Serbia has participated in three bilateral cross-border cooperation programmes with Hungary, Bulgaria and Romania and in two multilateral/transnational programmes (CADSES and New Adriatic Programme). The programmes have been focused on increasing the capacity of the non-profit sector at the local level. The support was offered in the form of financial grants to institutional capacity building activities, support to small infrastructure projects, cooperation between institutions on each side of the border and joint development and strategic initiatives.

Involved institutions included non-governmental organisations, local and regional authorities, cultural, sports and educational institutions. The sectors covered, varied from programme to programme. Typically the sector focus was on economic cooperation, infrastructure support measures, cultural cooperation, sports cooperation, environmental protection and the prevention of natural disasters. Particularly large impact has been achieved through implementation of Small Project Funds which have supported direct people-to-people cooperation across the borders.

For a total grant volume of approx €11m, in total more than 150 projects were financed from the Neighbourhood Programme in Serbia. The programmes supported two types of project – Small project funds (with grant support of 10.000 to 50.000 EUR) and larger projects (grant support from 50.000 to 300.000 EUR). The average value of the projects under the Small project funds was around 35.000 EUR and for the larger projects around 110.000 EUR.

In the past three years the Neighbourhood Programme has achieved significant visibility of its actions. In total more than 50 public events have been organised, with participation of more than 2,000 people. The Programme has been widely promoted in the media at the national and local level. The implementation of the Programme in Serbia has also been recognised as a success story by the partner countries and the European Commission. Transfer of experience has been implemented for interested countries, including Croatia, Montenegro and Bosnia and Herzegovina.

In the period 2004-2006 the Neighbourhood Programme has been jointly implemented by the Serbian and partner country structures. As a general rule, administrative support to the programme has been provided by the partner country. The organisational framework of the Programme in Serbia has been as follows. The contracting authority for all the programmes has been European Agency for Reconstruction (EAR). The tasks of the contracting authority included overall management of the programmes, signature of the contract, financial management, approval of final reports and coordination activities. The coordination body has been Ministry of Finance of Republic of Serbia, Sector for Programming and Management of EU funds and Development. The tasks of the coordination body – with TA support - included day-to-day management of the programmes, guidance of the grant beneficiaries, preparing draft grant contracts, checking of financial and narrative reports, project monitoring, promotional and dissemination activities.

### **3.1.2 Key challenges**

In the period of 2007-2013 all the programmes of cross border cooperation will go through significant organisational and institutional changes. The Neighbourhood Programme will be transformed into the IPA Programme (cross-border cooperation being covered by the Component 2). The newly introduced IPA regulations are stipulating a number of new challenges that lie before the Serbian administration in the near future.

### **Changes in existing programmes**

The existing programmes with Hungary, Romania and Bulgaria will be faced with important organisational changes. Under the Neighbourhood Programme 2004-2006 the tasks and responsibilities on both sides of the border have been relatively separated and divided. The same goes for the financial aspects. The funds were strictly separated into two parts, each allocated to one side of the border.

During the period 2007-2013 the principle of support remains and this is provided in the form of financial grants allocated through open calls for proposals. Changes are however more notable on the level of institutional and organisational arrangements. The new Programme brings a merger of tasks and responsibilities (where Member States are concerned). The MS partner will become responsible for overall management of the programme. All aspects of the programme, including financial management, will be covered by the responsible partner. The Serbian side will maintain its support, information and coordination role on Serbian side of the border, but will have added 1<sup>st</sup> level control and audit responsibilities (going all the way to the potential recovery of unduly paid funds).

The changes in the existing programmes represent a challenge in relation to organisational development. The tasks and responsibilities of Serbian institutions involved will change with the new programmes. Serbian coordinative body in the Ministry of Finance will maintain coordinative role, but the role of the contracting authority will be borne by the partner EU MS. On the other hand, the new Programme is bringing some additional tasks such as first level control in project monitoring, reporting and auditing. In some of these segments external support will be needed.

### **Introduction of new programmes**

In addition to those CBC programmes with MS countries, the new programming/implementation period of 2007-2013 is introducing new programmes of cross border cooperation. Serbia will thus start new programmes with Croatia, Bosnia and Herzegovina and Montenegro. The new programmes cover a significant part of Serbian territory, which has not been covered by any of similar support programmes in the past (with the exception of regions in Vojvodina, which have participated in programmes with Hungary in the past).

The rules of the programmes in the new borders will be quite similar to those introduced by the Neighbourhood Programme. The mechanism of support will be financial grants allocated through calls for proposals. The changes in the programmes will mostly be introduced in the implementation of the projects (project categories will change and have to show joint activities). One such case is introduction of first-level control at the reporting level of grant beneficiaries.

The introduction of the new programmes will also require the establishment of new joint structures. Knowing the fact that the main cover structures (ECD in Serbia, Ministry of Finance in Serbia, CA in Croatia) already exist, the biggest challenge will be the formation of the Joint Technical Secretariats (JTS) for administrative management of programmes. The JTS for the Croatia-Serbia programme will be hosted by the Croatian side. In the other two programmes the JTS will be established on the Serbian side of the border, some staff members have been recruited.

The challenge in the new programmes is also the guidance of applicants and the introduction of procedures and rules for grant beneficiaries. The process of capacity building will follow the approach used to date by the coordination unit in the Ministry of Finance. Under this approach the grant beneficiaries will be guided in the preparation and implementation of their projects. Some of the tasks in this process will be outsourced.

### **New responsibilities and tasks including introduction of first level control**

As mentioned in previous points the launching of new programmes in cross-border cooperation is bringing a number of new tasks and responsibilities in view of the extended geographical coverage and in view of new procedural and organisational arrangements. The Ministry of Finance and its Sector for Programming and Management of EU funds and Development Assistance will be required to review their operations and structure in line with new requirements.

The first of the challenges will be the establishment of the necessary joint structures in the new territories covered by the IPA Programme. Taking into account recommendations from relevant EU MS (experience of Slovenia and Hungary used), the new structures, including Joint Technical Secretariat will be formed inside the organisational framework of the Ministry of Finance.

The second important challenge is the preparation and implementation of new procedures under the IPA Programme. The new programme introduces amendments to the financial management of the projects. To bring the Programme and projects closer to the structural funds logic, a number of structural-funds-like measures will be introduced in MS Programmes. An example of this is first-level control in project monitoring and reporting. The first level control refers to the check performed by an independent auditor verifying the delivery of products and services envisaged by the project application, the reality of the corresponding expenditure and the eligibility of the expenditure itself in conformity with the community and national rules on eligibility.

Taking into account the complexity and the expected scope of this first level control, coverage of the tasks by Ministry of Finance's own resources is not possible. The tasks are therefore to be outsourced to an independent auditor.

### **Establishment of the neighbourhood and CBC programmes electronic archive**

According to the IPA regulation, all relevant documents need to be kept in order and stored for at least 10 years in order to be available for audit when ever required. So far, MoF has received more than 500 project applications out of which 150 have been awarded and have been implemented or in the process of implementation. All these data are currently kept in paper which, if continued at the same pace will lead to up to 2,000 project folders at the end of the year 2008. This amount of paper data is impossible and very risky to keep. Therefore there is an urgent need to initiate electronic archiving of documents related to CBC activities.

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

The implementation of the project is a necessary condition for efficient and timely implementation of all tasks undertaken under the scope of IPA Programme Component 2. The complexity, scope and the type of tasks, make it impossible for internal implementation within the existing structures of Serbian Government.

The Ministry of Finance, Sector for Programming and Management of EU funds and Development Assistance will cover the tasks of management and coordination at the programme level. At the project level, the tasks will include guidance and assistance to the grant beneficiaries.

The basic requirement according to the EC regulations is for the first level control to be independent from the project's implementation and management. This can be ensured either by the involvement of a competent external body (accounting or auditing company) or by the clear separation of functions in case the First Level Control is carried out by an internal (in-house) controller. The latter has to be functionally independent from the unit involved in the implementation of the project (e.g. the control must not be carried out by the project's Financial Manager).

The impact of the project can be estimated as strong, as the absence of such a project could significantly jeopardise implementation of the entire IPA CBC Programme with Member States, in Serbia.

The involvement of external professional staff will act positively in two directions. The independent auditors will be used as a part of capacity building structure for grant beneficiaries under the IPA Programme. The grant beneficiaries and PCU staff will receive focused and professional assistance, and through cooperation with first level controllers be able not only to successfully implement their project but also to increase their capacity.

The second direction in which the assistance will have a positive impact is within the coordinative unit inside of the Ministry of Finance. The unit will not only receive direct assistance in implementation of the projects, but will also build the capacity in monitoring and reporting of the

projects. The knowledge gained in the process will be either used in the future work in the Sector for Programming and Management of EU funds and Development Assistance or will be upgraded with inclusion of particular experts into independent auditing unit inside of the Serbian Government.

According to the annual human resource plan of the Ministry of Finance it is envisaged gradual increase of CBC staff in order to meet requirements of the sector which will ensure the sustainability of this project. The ratio of permanent to project staff was 1:8 in the year 2006-2007; 1:3 in the year 2008-2009 and it will improve further as DIS will become operational. Namely, the goal is to have programming part of the unit together with programme coordinator, assistant, logistic officer fully as governmental staff, which will be the case in 2009. As regards the financial and procurement department of current PCMU their final position should be in CFCU in later stages of its establishment as regular CFCU staff. First, level control officers should also become governmental staff upon the finalisation of this grant contract.

The requirements of new EU supported programmes allocated to Serbia in the period 2007-2013 and later will stipulate the creation of an auditing body inside of the Serbian Administration, dedicated to the monitoring of EU supported programmes and projects. The local resources engaged by this project will after the conclusion be invited to participate in this auditing body. This way the necessary sustainability of the action will be ensured.

IPA CBC deals directly with the management and coordination of cross-border initiatives. The activities related to this action have had significant positive impact in strengthening co-operation with participating countries and visibility of EU funds in Serbia and, by using a similar approach, it is expected that these benefits will be extended under this project. The Programme is enabling and enhancing cooperation on all levels in a wide variety of sectors. The project will directly assist in the implementation of the IPA Programme and will thus have a strong impact on cross-border cooperation between Serbia and partner countries.

### **3.3 Results and measurable indicators**

#### **1. Institutional capacity to manage first level controls is increased**

##### Indicators

- Organisational arrangements agreed with responsible bodies
- Number and quality of auditors recruited
- Initial training of controllers
- Required number of qualified controllers involved in first level control activities

#### **2. Projects under IPA Programme Component 2 are successfully implemented**

##### Indicators:

- Number of grant beneficiaries assisted (measured by number)
- Number of projects assisted/checked (measured by number)
- Number of projects successfully implemented (measured by number – indicator approval of final report and rating according to evaluation reports)
- At least 80% drawdown of available grant funds

#### **3. Effective reporting procedures established**

##### Indicators:

- Number of reports checked (measured by number, total number of reports)
- Number of checking of the reports (measured by number, probability of multiple check of one report)
- Number of reports approved (measured by number, reports successfully implemented)



#### 4. Effective monitoring procedures and systems established

##### Indicators

- Number of on-spot checks implemented (measured by number)
- Number of reports on administrative and on-spot checks prepared
- Number of discrepancies reported and corrective measures prepared
- Computerised system of records keeping operational

### 3.4 Activities

#### ***Context of the first level control***

The subject of this fiche is the project to support the building of CBC implementation capacities in Serbia, particularly first level control on project level and successful implementation of new “internal border” IPA CBC programmes. This point is presenting general context of the first level control, in order to position the activity inside the overall project context.

The three levels of check that are foreseen in the implementation of the financial controls foresee the presence of control bodies independent from one another, from the programme management and from the operational level.

The **First Level Control** is referred to the check performed by an independent auditor verifying the delivery of products and services envisaged, the reality of the corresponding expenditure and the eligibility of the expenditure itself in conformity with the community and national rules on eligibility. The result of the first verification is the certification of expenditure, released for the project partners taking part in the operation. The check shall be performed not only on the administrative level, but also on the physical level and include on-the-spot checks that check the output of the work done. If this kind of check does not cover all the operations but relies on a sample check, the sampling method shall be duly explained and communicated to the Managing Authority. Also the Managing Authority, in the framework of its supervisory role towards the Commission, can perform sample checks on the operation’s accounts.

The **Second Level Control** consists of a further series of checks performed by the National controlling authorities of the countries participating in the programme aiming at verifying the effectiveness of the management and control systems in place and the expenditure declarations made at the various levels. This further level foresees the identification of a definite number of projects, chosen randomly even if on the basis of certain risk and selection criteria. During the programme’s duration at least 5% of the total eligible budget shall be checked.

The **Third Level Control**, referred to also as “Winding-up”, is disciplined under articles 15 to 17 of the Commission Regulation (EC) 438/01. It is performed by a designated body, depending on the specific arrangements of the individual programmes. In compliance with the principle of independence from the management bodies of the programme, the designated body shall issue a declaration on the winding-up of the assistance after having conducted one further check according to internationally acknowledged accounting standards. The declaration is to be based on an examination of the management and control systems, of the findings of checks already carried out, and, when necessary, of a further sample check of transactions.

#### ***Role and distinctive features of the first level control***

The Commission Regulation (EC) 438/2001 under article 4, dedicated to the First Level Control checks, foresees the fact that the Management and Control Systems shall include procedures to verify the delivery of the products and services co-financed, plus the reality of the expenditure claimed and the compliance with the terms of the relevant EU and National Regulations. These verifications are meant to cover all aspects, whether of financial, administrative and technical nature, that have an impact on the use of the funds committed.

Such checks are not a merely administrative task, but are a crucial part of the control system of the process established to manage the Community funds. The basic principles are transferable also to less complex forms of organizations, and are in general aimed at verifying that the working procedures are shaped to assure the respect of the principles of sound financial management.

A simple example would be to compare goods actually delivered to the related purchase order in terms of quantity of goods, price and condition. This verification ensures that the actual quantity of goods ordered has been received at the agreed price and is of the desired quality.

### ***Detailed activities***

#### **Activity 1: Setting up the system and initial training of the controllers**

The general scope of the first level control is defined by the relevant EC Regulations. Specific requirements and approaches might differ between the programmes. Responsible bodies (i.e. Managing Authority and Contracting Authority) shall determine and communicate the requirements and the arrangements to the Implementing Body responsible for first level control. The Implementing Body shall ensure that the requirements of the regulations and of the specific programs be put into practice.

Depending on the scope and the type of individual programs the Implementing Body shall ensure sufficient number of controllers. The first level controllers shall be:

- Independent from the project's implementation and management.
- Qualified to carry out the audit of the accounting documents and familiar with the EU regulations and Programme documents governing the first level control verifications
- Authorized to carry out the checks in compliance with the National Regulations of the countries concerned

In order to introduce the controllers to the EC regulations and the requirements of the programmes the Implementing Body shall provide initial training. The training will be provided by experienced first level controllers (structural funds experience obligatory). The Implementing Body will agree with the responsible bodies the testing and approval of the controllers.

#### **Activity 2: Administrative check**

All expenditure claims submitted by lead and project partners should be subject to desk-based (administrative) checks carried out on the examination of the claim itself and relevant supporting documentation such as invoices, delivery notes, bank statements, progress reports and timesheets. The nature of the documents submitted should be determined by the Managing Authority based on the overall control system and the level of on-the-spot checks.

A record of the first level verification might be a checklist containing the aspects addressed within the checks and stating the results of the checks. The checklists used by the First Level Control bodies should be sufficiently and transparently detailed. When recording the verification on the eligibility of expenditure, it is for example not sufficient to have one box on the checklist stating that the eligibility of expenditure in the declaration has been verified. Instead a list of each of the eligibility points verified should be detailed (e.g. expenditure paid within the eligibility period, appropriate and reasonable allocation of overheads to the projects). Irregularities identified in the course of the verifications should also be recorded and any corrective and / or follow up action documented. Follow up action might include the submission of an irregularity report and / or a proposal for recovery of co-financing.

Photographs of billboards, copies of promotional brochures, training course materials provide the evidence of compliance with publicity requirements and should be kept on file along with the work records.

### **Activity 3: On-spot checks**

Basically the desk-based checks are considered not sufficient on their own to give assurance on all elements concerning the legality and regularity of expenditure. Thus it is of crucial importance to carry out the on-the-spot visits, in order to check the reality of the project, delivery of the product/service in full compliance with the terms and conditions of the Subsidy Contract, physical progress, respect for EC rules on publicity and fully compliant with the public procurement procedures.

If there are too many projects to carry out on-the-spot checks for each, checks shall be made on a sample basis. In such cases the particular sampling method used should be described, justified and communicated to the MA. The sample could be defined based on the risk analysis, e.g. it could focus on the projects, where problems of irregularities have been detected previously or where particular transactions/expenditures have been identified in the course of the desk based checks that appear unusual and require further investigation. The sampling method used shall be reviewed and updated on a regular basis to take account of error rates and other known risk factors and to encompass the minimum standards of effectiveness.

On-the-spot checks should also be properly documented considering the elements mentioned above. Owing to the fact that on-the-spot checks are often carried out on a sample basis (due to the high number of projects/expenditures to be verified), the information concerning the sampling method is to be provided. In such cases the particular sampling method used should be described and justified.

### **Activity 4: Keeping the records**

The First Level Control checks are to be documented by the First Level Control bodies and the work records are to be retained for audit purposes for at least three years after the final payment from the European Commission to the Programme. The records should state the work done, the results of the verifications as well as the measures taken in case of irregularities and errors.

In order to facilitate the access to the work records of the First Level Control bodies the records will be stored in a computerized system allowing the electronic transfer and processing of data.

#### **Contracting Arrangement:**

1 service contract will be concluded following an open international tender process to support the implementation of the overall programme. The duration of the contract will be 2 years. The contract value will be 1.7 MEUR.

### **3.5 Conditionality and sequencing:**

The project requires the following conditionality to be met:

- 1) Endorsement by all key stakeholders at the national, regional and local levels
- 2) Appointment of counterpart personnel by the beneficiary
- 3) Allocation of working space and facilities for technical assistance by the beneficiary
- 4) Implementation of activities by the beneficiary in line with EU regulations and Programme requirements
- 5) Appointment and functioning of the Project Steering Committee

### **3.6 Linked activities**

This programme is precondition for successful implementation of the entire IPA Component 2 programme, implemented in Serbia in the period 2007-2013. This programme will provide institutional support in implementation of financial and narrative monitoring of the projects. The

first level control will enable verification of expenditures and thus efficient and regulatory implementation of the programme. The project is linked to the following CARDS programmes:

**CARDS Programme 2004-2006 – Neighbourhood Programme, (€12 million)**

**NEIGHBOURHOOD programme** has been providing assistance to non-profit sector on the local and regional level in cross-border regions of Serbia with Hungary, Romania and Bulgaria. The programme has supported a variety of sectors like local economic and tourist development, support to small infrastructure projects, nature protection, sports and cultural cooperation, prevention of natural disasters, cooperation in education and science. Up-to date more than 120 projects have been supported through financial grants allocated on the basis of the open calls for proposals. It is expected that by the end of the Programme additional 40-50 projects will be supported. The implementation of IPA Programme, Component 2 means direct continuation of activities from the Neighbourhood Programme. TA to MoF has been provided under the **Inter-regional Co-operation Support Programme** since October 2004 and is contracted till March 2010 (total funding €4.5 million).

**CARDS Programme, 2004 – Support project for regional cooperation, (€7 million) and the Exchange programme for local governments in Serbia, (€5 million)**

**EXCHANGE I programme** has successfully run from October 2004 and is due to conclude in December 2007. Under the Exchange I Programme, 49 Serbian municipalities have received grants ranging from 40.000 to 75.000 Euro, for implementation of projects in areas such as communication/information/services delivery (mostly citizen assistance centres and municipal information systems), communal services and housing, Local Economic Development, urban Planning, environmental issues, education and health care, social policy and municipal capacity building. In partnership with EU municipalities and local NGOs, these capacity building projects were successfully implemented by the Serbian municipalities.

**CARDS Programme, 2005 planned**

Regional Socio Economic Development Programme (RSEDP) Programme phase 2.

**RSEDP I** has successfully been completed and RSEDP II is planned for launch in January 2008. The RSEDP Programme will focus especially on regional economic development and its enabling structures. This programme will strengthen the efforts of RSEDP II, as it will focus on assisting municipalities in developing and implementing strategic plans through the grant facility (Exchange III) to finance municipal projects in the areas of local economic development and local social development. It will enhance the municipalities' capacity to engage with other municipalities in regional cooperation.

**EXCHANGE II** will be launched in January 2008 (from CARDS funds), but this programme will focus on technical assistance with no grant component. The Exchange III Programme (component 2 of this MSP) will, with minor alterations, be a copy of the Exchange I Programme and build on the experience of the SCTM gained with implementing Exchange I.

### **3.7 Lessons learned**

The strategic approach defined in the MIPD (point 2.1, last paragraph) is recognising cross-border cooperation as “crucially important for stability, cooperation and economic development in Serbia's border regions“. Further on it is mentioned that “The aim of EC assistance will be to develop local capacity in relation to cross border co-operation in all of Serbia's border regions while also targeting specific local development projects. Development of cross-border cooperation is dependent on general capacity building activities of the authorities responsible for regional policy“.

The importance of the cross-border cooperation and the impact on local and regional development in different sectors has been proved already in the implementation of the Neighbourhood Programme 2004-2006. The Programme has been one of the first chances for

institutions and individuals on the local level to get involved into the implementation of EU supported programmes. The participation in the process has not only offered concrete possibilities for financing of important initiatives but has also provided significant visibility for EU activities in Serbia.

The number of individuals participating in the programme activities, from promotional events, to implementation of projects has been the highest among all the EU initiatives in Serbia, taking into account the amount of funds allocated per persons involved. The capacity at regional and local levels is being built within the existing management structures and in terms of general absorption capacity for project implementation.

The activities in the Neighbourhood Programme have, without exception, been accepted at the local governmental level. In most of the cases, regardless of political orientation, the local authorities have offered full support in promotion of the programme and implementation of the projects. Regional and local media have shown significant interest in activities related to the Programme. Representatives of the Ministry of Finance and the grant beneficiaries have been regularly presenting the programme/projects in media. MoF has shown high commitment to the Programme and ensured, through its staffing plan, adequate resources for future implementation. Staff turnover is low. These human resources will, however, require support and training in the new procedures and programmes described above.

The IPA Programme, Component 2 is a logical continuation of the Neighbourhood Programme. The Programme will continue to build on positive experience from the past. Some segments of implementation will be strengthened further. For instance, in the next period the Programme will work on increasing coherence with local development initiatives and involvement of specific target groups. Particular focus will be given to the inclusion of youth and of disadvantaged groups.

#### 4 INDICATIVE BUDGET (AMOUNTS IN EUR)

			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
contract 1.1	x		1,700,000	1,700,000	100							-
.....												
TOTAL IB			1,700,000	1,700,000	100							
TOTAL INV												
<b>TOTAL PROJECT</b>			<b>1,700,000</b>	<b>1,700,000</b>	<b>100</b>							

**NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW**

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a))

## 5 INDICATIVE IMPLEMENTATION SCHEDULE

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	T + 1Q	T + 4Q	T +12Q

## 6 CROSS CUTTING ISSUES

### 6.1 Equal Opportunity

The evaluation grid for selection of projects will include criteria relating to equal opportunities. Those designing projects in a way which promotes equal opportunity will therefore have a greater chance of securing funding. The requirement for equal opportunities will be a clear and consistent message of the promotional activities.

As a minimum standard, all projects will be required to demonstrate that there no discrimination on grounds of health status, race, sex, sexual orientation, mother tongue, religion, political or other opinion, national or social origin, birth or other status. EU and National laws and regulations will be followed strictly. Equal opportunities for all will be ensured during implementation and the levels of participation of specific groups will be monitored and recorded throughout the process.

### 6.2 Environment

Environmental considerations will be addressed throughout project implementation. Moreover in the "cover" Programme the environmental issues are high on the implementation agenda (and have passed and environmental impact assessment for MS Programmes). Nature protection is one of the key priority areas in all programmes financed under IPA Component 2.

### 6.3 Minorities

IPA Programme implementation will address local stakeholders to create employment opportunities for minority and vulnerable groups. Assessment of challenges facing vulnerable groups will be undertaken and individual projects will need to demonstrate how they address these needs. Activities such as training for service providers to design and deliver demand-driven training and courses particularly for vulnerable groups will be part of the programme. Manuals will feature sections on addressing the needs of minorities and vulnerable groups. A supporting evaluation mechanism to assess the impact of these measures will be enforced.

## ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3 - Institutional Framework – legal responsibilities and statutes
- 4 - Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Reference to EP / SAA

Reference to MIPD

Reference to National Development Plan

Reference to national / sector investment plans

- 5 - Details per EU funded contract (\*) where applicable:

For *TA contracts*: account of tasks expected from the contractor

For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts

For *grants schemes*: account of components of the schemes

For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (\*\*)

For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (\*\*); account of services to be carried out for the *service part* of the contract

(\*) non standard aspects (in case of derogation to PRAG) also to be specified

(\*\*) section on investment criteria (applicable to all infrastructure contracts and constructing works):

Rate of return

Co financing

compliance with state aids provisions

Ownership of assets (current and after project completion)



## ANNEX I: LOGICAL FRAMEWORK MATRIX

LOGFRAME PLANNING MATRIX FOR Project Fiche		Establishment of first level control and support for the implementation of Cross-border-cooperation (CBC) programmes	
		Contracting period expires 3 years after the signature of the Financing Agreement	Disbursement period expires 6 years after the signature of the Financing Agreement
		Total budget : 1.7M€	IPA budget: 1.7 M€
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
To contribute to effective and timely implementation of projects financed under Instrument for Pre-accession (IPA) Component 2 in Serbia (programmes of cross border cooperation).	<ul style="list-style-type: none"> <li>▪ IPA Programme Component 2 successfully implemented</li> </ul>	<ul style="list-style-type: none"> <li>▪ Programme Reports</li> <li>▪ Monitoring reports</li> <li>▪ Evaluation reports</li> <li>▪ Official statistical documents</li> </ul>	
<b>Specific project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
To contribute to building of CBC implementation capacities in Serbia, particularly to implement first level control in projects financed under IPA Component 2 in Serbia; as well as starting up new “internal border” programmes. First level control is procedural requirement following IPA regulation and Operational Documents for each of the programmes under question	<ul style="list-style-type: none"> <li>▪ First level control in IPA Programme, Component 2 successfully implemented.</li> <li>▪ Programmes covered as required</li> </ul>	<ul style="list-style-type: none"> <li>▪ Programme Reports</li> <li>▪ Monitoring reports</li> <li>▪ Evaluation reports</li> <li>▪ Local opinion surveys</li> <li>▪ Official statistical documents</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overall political stability maintained</li> <li>▪ Relations with the EU do not deteriorate</li> <li>▪ IPA Programme Component 2 be operational in expected time</li> <li>▪ Definition of rules and procedures with neighbourhood partners</li> </ul>

<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
1. Institutional capacity to manage first level controls is increased	<ul style="list-style-type: none"> <li>▪ Organisational framework prepared and agreed</li> <li>▪ Number of trainers involved in the initial training sessions</li> <li>▪ Number of qualified auditors involved in first level control activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project Progress from the beneficiary</li> <li>▪ IPA Programme reports</li> <li>▪ IPA project reports</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> </ul>
2. Projects under IPA Programme Component 2 are successfully implemented	<ul style="list-style-type: none"> <li>▪ Number of grant beneficiaries assisted</li> <li>▪ Number of projects assisted/checked</li> <li>▪ Number of projects successfully implemented</li> <li>▪ At least 80% drawdown of available grant funds</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project Progress from the beneficiary</li> <li>▪ IPA Programme reports</li> <li>▪ IPA project reports</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> </ul>
3. Effective reporting procedures established	<ul style="list-style-type: none"> <li>▪ Number of reports checked</li> <li>▪ Number of checking of the reports</li> <li>▪ Number of reports approved</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project Progress from the beneficiary</li> <li>▪ IPA Programme reports</li> <li>▪ IPA project reports</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> </ul>
4. Effective monitoring procedures and systems established	<ul style="list-style-type: none"> <li>▪ Number of on-spot checks implemented (measured by number)</li> <li>▪ Number of reports on administrative and on-spot checks prepared (measured by number)</li> <li>▪ Number of discrepancies reported and corrective measures proposed (measured by number and type)</li> <li>▪ Computerised system of records keeping (measured by number)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project Progress from the beneficiary</li> <li>▪ IPA project reports</li> <li>▪ Project Progress from the beneficiary</li> <li>▪ Records from the procedure of first level control</li> <li>▪ IPA Programme reports</li> <li>▪ IPA project reports</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> </ul>
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
1.1. Preparation of organisational framework and PCU	1 x service contract for technical	1.7 million euro	<ul style="list-style-type: none"> <li>▪ Procedures and rules defined with cross-border partners</li> </ul>

<p>management support such as drafting of manuals, job descriptions</p> <p>1.2. Selection of auditors</p> <p>1.3. Training and certification of auditors</p> <p>2.1. Preparation of Guidelines and other manuals related to project design (including application packs)</p> <p>2.2. Provision of equitable support to Applicants (info days, workshops etc)</p> <p>2.3. Preparation of Guidelines for implementation of projects</p> <p>2.4. Provision of support to Grant Beneficiaries</p> <p>3.1. Preparation of reporting templates and procedures</p> <p>3.2. Training of personnel in reporting</p> <p>3.3. Completion of reporting requirements</p> <p>4.1. Monitoring systems, templates and manuals designed</p> <p>4.2. Training for those responsible for monitoring</p> <p>4.3. Completion of on-the-spot and administrative checks</p> <p>4.4. Development of Information strategy</p>	<p>assistance</p>		<ul style="list-style-type: none"> <li>▪ Sufficient interest from grant beneficiaries</li> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> <li>▪ Procedures and rules defined with cross-border partners</li> <li>▪ Sufficient interest from grant beneficiaries</li> </ul>
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**ANNEX II: Contracted and disbursed by quarter for the project amounts (in €)**

<b>Contracted</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q5</b>	<b>Q6</b>	<b>Q7</b>	<b>Q8</b>	<b>Q9</b>	<b>Q10</b>	<b>Q11</b>	<b>Q12</b>	<b>TOTAL</b>
Contract 1.1				1,700,000									<b>1,700,000</b>
<b>Cumulated</b>				<b>1,700,000</b>									<b>1,700,000</b>
<b>Disbursed</b>													
Contract 1.1				150,000		337,500		337,500		337,500		537,500	<b>1,700,000</b>
<b>Cumulated</b>				<b>150,000</b>		<b>487,500</b>		<b>825,000</b>		<b>1,162,500</b>		<b>1,700,000</b>	<b>1,700,000</b>

## ANNEX III

### Description of Institutional Framework

The Ministry of Finance (Development and Assistance Coordination Unit) 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.

#### Minister of Finance

#### State Secretaries

#### Secretariat

#### Independent executives

Independent Inspector  
of Internal Control

Coordinator of Public  
Administration Reforms

#### Departments

Tax  
Administration

Public Debt  
Administration

Treasury  
Administration

Customs  
Administration

Tobacco  
Administration

Administration for  
Money Laundering  
Prevention

Gaming  
Administration

Foreign Currency  
Inspection

Free Zones  
Administration

Macro-economic and Fiscal  
Analysis Department

Budget Inspection and  
Audit Department

Fiscal System Department

Department for Property  
related Legal Affairs

Finance System  
Department

Customs System and  
Policy Department

Chamber of Appeals for  
Infractions Procedures

Department for International  
Financial Relations

Project Management  
Department

Public Procurement  
System Group

## **ANNEX IV**

### **REFERENCE TO LAWS, REGULATIONS AND STRATEGY DOCUMENTS**

Reference list of relevant laws and regulations

#### Legislation

Law on Budget System, 2002

Law on Local Government Finance, 2006

Law on Local Self-Government, 2002

Law on Property Owned by the Republic of Serbia

Law on Public Procurement

Law on Public Revenue and Expenditures

#### Strategic documents

Annual Action Programme for 2005 for Community Assistance to Serbia, EU

Federal Republic of Yugoslavia Country Strategy Paper 2002-2006, EU Commission

Multi-Annual Indicative Planning Document (MIPD) for the Republic of Serbia 2007-2009

National Investment Plan of Serbia 2006 - 2007

National Strategy of Republic of Serbia for EU Accession, Serbian European Integration Office, June 2005

Plan for the Implementation of Priorities Contained in the European Partnership, April 2006

Poverty Reduction Strategy for Serbia, Government of Serbia, 2003

Revised Action Plan for the Implementation of Priorities Contained in the European Partnership, February 2007

Serbia – Stabilization and Association Report 2004

Serbia 2005 European Partnership, EU, January 2006

Serbia 2006 progress report, EU, December 2006

Strategy of Public Administration Reform in the Republic of Serbia, 2004

## **ANNEX V - Details per EU funded contract**

### **Contract 1 – Service contract**

The following services may be designed and delivered under Contract 1:

#### ***Capacity building***

Completion of training need analyses

Design, delivery and evaluation of training activities – including seminars, workshops and mentoring

Development of organizational standards of performance

Development of staff procedures

#### ***Grant related***

Technical monitoring of projects

Financial control and audit

Preparation of manuals and other guidelines for design, implementation, selection and evaluation

Organisation of evaluation of project applications

Support for the preparation of contracts

#### ***Preparation of strategic documentation***

Development of strategy and associated action plans

Carrying out surveys and other research – including market analysis

Impact assessments