



Decentralisation under IPA

General Principles of the Process and Detailed Requirements

Rainer Emschermann

DG Enlargement/ D1

“Financial Instruments Coordination”

10-11 May 2006



Assistance under CARDS

2005/2006 Allocations for Serbia:

Institution Building 42%

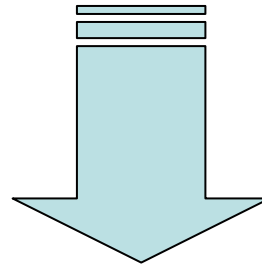
Economic, Social, Environment 44%

Other 14%



Why Decentralisation ? (1)?

- Unlike other external funds, pre-accession instruments are intimately associated with and tailor-made to the candidate & potential candidates' **N° 1 political objective:**



EU ACCESSION



Why Decentralisation ? (2)

Procedural Objectives:

- To enable beneficiary countries to, themselves, manage properly and effectively EU pre-accession funds, in order to **improve their own financial management systems** and to **increase ownership** of EU assistance.
- To prepare for candidate status, under which DIS will be required for components 3, 4 and 5.
- Long-term: To gradually **prepare** candidate countries to manage, upon accession, structural and agricultural **EU funds**.



Scope

Decentralised Management implies

- **A stake of beneficiary country in the whole project cycle:**
Programming, Implementation (Tendering & Contracting) and Follow-Up (Monitoring & Evaluation)
- **An increased number of interlocutors: All actors involved in management of pre-accession aid**

BUT

- **Conferral of management of EU funds to the beneficiary country requires a Commission decision. Only implementation tasks (tendering & contracting) are conferred.**



Legal basis / Principles

■ **Article 164 of EC Financial Regulation**

- Commission is required to verify compliance by beneficiary countries with requirements laid down in Article 164 FR point 1, in particular:
 - Effective segregation of duties between authorising officer and accounting (payment) officer
 - Effective system of internal controls
 - Independent external audit function
 - Procurement procedures ruling out all conflicts of interest.
- Beneficiary country must conduct regular checks on financed actions (Article 164, point 2 and article 53 (6) FR)

■ **Article 35 Implementing Rules of EC Financial Regulation**

- (referring to Articles 53, 56 FR)
- Requirement to perform checks prior to decentralising management (Article 35, pt 1): For the purposes of sound financial management there must be adequate
 - Procedures applied
 - Control systems
 - Accounting systems
 - Procurement and award procedures
- Requirement to review/ reassess system in case of substantial changes (Article 35, pt.2)



Decentralisation under IPA

The Commission decision to decentralise management is based on Article 164, EC Financial Regulation.

Conferral either

- in **partly decentralised** mode: EC retains ex-ante controls
- In **fully decentralised** mode: full waiver of ex-ante controls

Level of conferral of management of EU funds depends on preparation, based upon **verification audit**.

Compliance is monitored continuously, but **does not relieve the beneficiary country of its financial control obligations**.



Required Functions at Nat. Level

- **National IPA Coordinator (NIPAC)**
 - Senior representative of the national administration, with over-all responsability for implementation
- **National Authorising Officer (NAO)**
 - Senior representative of the national administration, at equal seniority as NAC, acting as head of the National Fund and holding over-all accountability for implementation. Functionally independent from NIPAC.
-
- **National Fund (NF)**
 - Reporting to NAO. Ensures national co-financing. Is responsible for the execution of all financial management and reporting, incl. to Commission
- **Central Finance and Contracts Unit (CFCU)**
 - Reporting to NAO. Responsibility for budgeting, tendering, contracting, payments, accounting and financial reporting for programmes / projects entrusted to it: it acts as Implementing Agency for component 1(at least).
- **Audit Authority**
 - Organisational independence; provides topical audit reports and annual audit report
- **Other Bodies, as required**



Responsibilities of NIPAC

Programming

- Common Framework => European partnership, regular reports, strategy paper
- Translates European Partnership priorities into projects



Under IPA: Establishment of clear strategy – overall as well as for IPA components 1, 2

Monitoring and Evaluation

- **Overall Monitoring of programmes/strategies and of measures and ensure adequate global reporting**
- Co-chairs with Commission relevant Monitoring Committees
- In charge of Evaluation



Responsibilities of NAO under IPA

Implementation

■ Overall Financial Responsibility

- **Personal liability** of NAO vis-à-vis Commission
- **Appoints** Authorising Officers (AO) in CFCU and all other Impl. Agencies;
- **Requests** and manages the funds from the Commission, transfers funds to CFCU
- Concludes **Implementing Agreements** to be signed with CFCU
- **Ensures co-financing resources**
- Ensures the well-functioning of the **reporting system, also for CFCU.**
- Recovers non-used funds from the CFCU
- Responsible for irregularities (incl. Reporting) – **ZERO tolerance policy on Corruption & Fraud**
- **Monitoring:** participates with the Commission and NAC in a Joint Monitoring Committee

■ Tendering & Contracting

- entirely tendered & contracted by national authorities (i.e. Central Finance and Contracts Unit (CFCU) or other IA)
 - Under »no or partial waiver of ex-ante control «: ECD approves tenders/ contracts

■ Payments (to beneficiaries)

- Done by national authorities: No involvement of EC-Delegation in management

■ Reporting



Decentralisation - Conditions

A – Clear Political Will Required

Responsibility of National Authorities

- Ownership: Decentralisation requires set-up of good management control system
- Mobilisation: Strong involvement of political leadership needed from the start

B - Continuous Process

Responsibility of National Authorities

- Permanent obligation to provide quality of delivery of the system.
 - Must establish own verification systems independently of the Commission
 - Seek to ensure the correctness of their transactions submitted to the EC.
 - **Ex-ante control by the Commission is NO substitute for national controls!**

Role of Commission

- After decision conditionalities are to be monitored and periodically verified (ex-post)
 - **If significant change, Commission will reassess => Obligation by national authorities to notify in advance**



Roadmap to Decentralised Management – Phased Approach (1)

Preparation for Accreditation: (at least 15-24 months)

- **Phase 0: Set-up of Structures** – Resp. of national authorities
- **Phase 1: Gap assessment** – Resp. of national authorities
- **Phase 2: Gap Plugging** – Resp. of national authorities

➤ *Request by the designated Implementing Agencies to the NAO asking for endorsement/ accreditation at national level*

Endorsement/ «accreditation» at national level by NAO (min. 3-4 months)

- **Phase 3: Compliance assessment** – Resp. of national authorities

➤ *Submission of accreditation package by the NAO to the EC requesting to confer management on a decentralised basis*

Commission Decision Phase (min. 3-4 months)

- **Phase 4: Decision to « decentralise »** - Resp. of Commission

➤ *COMMISSION DECISION (PER PROGRAMME) CONFERRING MANAGEMENT OF AID ON A DECENTRALISED BASIS*



Roadmap to Decentralised Management – Phased Approach (2)

Preparation for accreditation by the MA*/ IAs AND other implementing bodies AND the National Fund**

- Set-up of IPA MA/ IAs, National Fund procedures and structures, including Administrative, Accounting, Payment, Internal control arrangements

Endorsement/ accreditation at national level: NAO performs a national accreditation of MA / IA

- Verification by NAO of
 - Procedure and structure of MA/ IAs, NF
 - Administrative, Accounting, Payment, Internal control arrangements

Commission's Conferral of Management of Aid on MA / IAs

- Verification by EC services:
 - Procedure; structure of NF and MA/ IAs
 - Administrative, Accounting, Payment, Internal control arrangements
- **On the spot verification**
- Preparation of COM Decision

*MA = Managing Authority

** IA = Implementing Agency/ Central Finance and Contracting Unit



IPA Component I: Main cycles

■ A - Programming Phase

Responsible Authority*:

- National IPA Co-ordinator (NIPAC)
* vis-à-vis Commission

■ B – Implementation phase

Responsible Authority*:

- National Authorising Officer (NAO)
* vis-à-vis Commission

■ C - Monitoring & Evaluation Phase

Responsible Authority*:

- National Aid Co-ordinator (NIPAC)
* vis-à-vis Commission



Implementation at National level (1)

■ Other required key actors & functions/ responsibilities for IPA component I:

Programme Authorising Officer (PAO) and CFCU

Role: CFCU is responsible for effective performance of following tasks at sectoral/(sub-)programme level:

- Project Selection/ Tendering & Contracting;
- Payments;
- Monitoring and reporting of operational and financial execution



Implementation at National level (2)

■ **Other actors & functions/ responsibilities:**

- Line Ministries/ delegated bodies
- under authority of a Senior Programme Officer

- **Role:**

Carry out specific implementation tasks delegated to them by CFCU



Actors with NO involvement in operational management during implementation

A - At National Level

■ Internal Audit

- Located as separate unit/ department within **NF; IAs (incl. CFCU), Line Ministries**
- Internal Auditors should be fully independent and report to the highest management level consistent with the distributing of IAs within the administration.
- In a decentralised system, their work is coordinated by the Central Harmonisation Unit (CHU) which may report outside the pre-accession aid system.

■ External Audit

- Head of the Supreme Audit Institution responsible to Parliament to carry out external audits of the administration.

B - At EC Level

■ EC Delegation: Ex-ante control over tendering and contracting:

- part of the Commission's internal control; not to be seen as part of the internal control of the national administration!



The Way Ahead

- **1 Interministerial agreements on**
 - Overall structure and locations of NIPAC, NAO – National Fund, Managing Authorities, Implementing Agency(ies)

- **2 Appointment of Senior Official (NAO)**
 - responsible to manage/supervise the decentralisation process: **ASAP**

- **3 For each component: Road map with clear steps and support programme**
 - Define and appoint the relevant management structure for the Operational Programmes: **ASAP**
 - Set up the management structure and launch the accreditation process: DIS Accreditation for Components I, II: **ASAP after 2007 (2008/9?)**
 - Set up and accredit the financial management system
 - Prepare a pipeline of projects / project preparation facility
 - Urgent use of current available EU assistance, including remaining CARDS funds available?



Finally: A practical consideration

Requirement:

- Managing and Implementing authorities must be set up at national level

Objective:

- implementing structures under IPA should prefigure the future managing authorities of Cohesion, Structural, Agricultural instruments in order to avoid transition costs, including implementation delays

Constraint:

Need to exploit capacity already in place

- flow of funds as quickly as possible
- limited number of implementing structures and a strong coordination over components regional development and human resources

Sensitive issues:

- ✓ financial management
- ✓ audit and control
- ✓ public procurement