

SUMMARY PROJECT FICHE

1. Basic Information

- 1.1 Désirée Number **BG 0103.09**
- 1.2 Title **Improving the management of EU funds**
- 1.3 Sector AD
- 1.4 Location Ministry of Finance, Bulgaria

2. Objectives

2.1 Wider Objective

To improve the management of EU funds and co-financing resources in Bulgaria in preparation for extended decentralisation of Phare and ISPA implementation.

2.2 Immediate Objective

To strengthen the capacity of the National Fund and the Implementing Agencies to manage EU funds and co-financing resources in preparation for extended decentralisation.

2.3 Accession Partnership and NPAA priority

The following Accession Partnership priorities are relevant:

- Phare, ISPA and SAPARD: adopt the legal, administrative and budgetary framework (audit manual and audit trail) to programme and manage ISPA and SAPARD including the EU compatible procurement rules for projects co-financed by EU funds (*short-term priority*).
- Complete legislative framework and strengthen internal and external financial control bodies (*short-term priority*); strengthen public financial control functions through the provision of adequate staff, training and equipment (*medium-term priority*).

3. Description

3.1 Background and justification

Under the decentralised arrangements for implementing the Phare programme in candidate countries, Bulgaria established a National Fund at the Ministry of Finance in 1998, headed by the National Authorising Officer, as the central treasury through which all EU funds flow. The National Fund has been institutionalised as Directorate within the Ministry of Finance with a Decree of Council of Ministers ? 186 of 19 September 2000. The National Fund has responsibility for overall financial management of Phare programmes, including respecting the provisions of the Financial Memoranda under which the European Commission commits Phare funds and the Commission's guidelines for decentralised implementation of Phare and ISPA.

The National Fund is responsible for transferring these funds to a designated Implementing Agencies, each headed by a Programme Authorising Officer, which are in turn responsible for tendering, contracting and payments. A series of Financing Agreements govern the financial and institutional relationships between the National Fund and these Implementing Agencies.

Implementing Agencies include the Central Finance and Contracts Unit (CFCU) in the Ministry of Finance, which handles Phare institution-building projects, and an Implementing Agency at the Ministry of Regional Development & Public Works that handles Phare investment projects in economic & social cohesion and cross-border cooperation. Responsibility for day-to-day management of individual projects rests with the relevant project beneficiary.

ISPA and SAPARD, the new pre-accession financial instruments introduced in 2000, also channel funds via the National Fund to ISPA Implementing Agencies at the Ministry of Transport and Communication and the Ministry of Environment and Water and SAPARD Agency.

The responsibilities and workload of the National Fund and Implementing Agencies have increased steadily in recent years, as they deal with an increasing volume of funds under the Phare, ISPA and SAPARD programmes. This has exposed a number of institutional weaknesses that need to be addressed to improve the functioning of these bodies and assure effective management of EU funds.

It will be important as the pre-accession fund projects are developed to ensure that co-financing is in accordance with the obligations accepted by the Bulgarian government and respective international donors, and that the relevant funds are available when required. This will require a thorough assessment of the budgetary and banking procedures involved, with particular focus on budgeting and accounting systems to ensure compliance obligations mentioned above.

There is a particular need to strengthen the National Fund and Implementing Agencies in the context of the proposed move towards extended decentralisation of Phare and ISPA implementation, in preparation for Bulgaria's participation in Structural Funds when it joins the EU. (SAPARD was established from the outset on the model of extended decentralisation.) Extended decentralisation will occur on a case by case basis, when the financial management and control arrangements in each candidate country are judged to be sufficiently robust. Extended decentralisation implies that ex-ante controls on contracting and tendering will devolve from the EC Delegation to the national administration. The National Fund will be responsible for preparing and processing the National Authorising Officer's application to the Commission for authorisation for extended decentralisation for each IA.

3.2 Linked activities

The project should be seen in the context of the following related projects:

- Technical assistance under Phare 1997 (finished) and Phare 2000 project for strengthening the capacity building of the CFCU (ongoing).
- Technical assistance under Phare 1999 National Programme to the Ministry of Finance to help implement its medium-term institution-building strategy (ongoing).
- Twinning project under Phare 2000 National Programme, and prior assistance from SIGMA, to strengthen the internal control and audit functions of the Public Internal Financial Control Agency at the Ministry of Finance (ongoing).
- Twinning project under Phare 2000 National Programme, and prior assistance from Sigma, to strengthen the National Audit Office as the independent auditor of public funds (ongoing).
- IMF-assisted reform of the Treasury system – introduction of syngle Treasury account and of computerised and integrated Financial management and Information System.
- Twinning project under Phare 2000 National programme to sterngthen the setting up a more efficient and compatitive public procurement system at Public Procurement Directorate, Council of Ministers (ongoing).
- Technical assistance to MRDPW for Economic and Social Cohesion Projects provided under Phare 1998 National Programme (ongoing).

Account should also be taken of the various activities, most of them Phare-supported, aimed at preparing the State Fund Agriculture (the Bulgarian SAPARD Agency) for accreditation to implement the SAPARD programme. SAPARD will be a first test case of extended decentralised management of EU pre-accession funds in Bulgaria.

3.3 Results

The key results of this project will be:

The National Fund and relevant Implementing Agencies will be fully prepared and able to implement the Phare and ISPA programmes robustly and efficiently, according to the principles of extended decentralisation.

- Completed assessment of the state of readiness of NF and IAs for extended decentralisation for management of EU funds;
- Development of sound administrative and financial systems for management of EU funds in the NF and IAs; Development and application of operational manuals of NF and IAs for the different pre-accession instruments and introduction of quality assurance techniques;
- Strengthened internal audit unit of the NF.

The National Fund will be able to identify pro-actively and help remedy weaknesses in the management and control of EU funds throughout the Bulgarian administration, working in close collaboration with bodies such as the Public Internal Financial Control Agency and National Audit Office.

- Establishment of a checklist to enable the NF monitor the progress of the IAs towards meeting the requirements for EDIS. Support to the NF in preparation of applications to be introduced to the Commission by the National Authorising Officer in respect of designated IAs;

The National Fund and relevant Implementing Agencies will be able to manage co-financing of Phare and ISPA projects in a systematic way.

- Establishment of written guidelines for the overall co-ordination of the co-financing elements under the pre-accession instruments;

Adaptation of the Financial Management Information System, developed at the Ministry of Finance to the specific needs of the NF and the IAs, including supply of equipment and specific software.

3.4 Activities

Conduction of a thorough review of the management of EU funds in Bulgaria, against the requirements of extended decentralisation, aimed at identifying the needs of the National Funds and IAs in terms of staffing, training, information systems and other resources, and improvements in institutional arrangements and procedures.

- The review will cover organisational structures and decision making patterns, work and information flows, inter-institutional memoranda of understanding, procedures manuals, discrepancies between Phare and ISPA procedures, arrangements for handling national co-financing, workplace culture, planning and budgeting practices. The review should take into account the views of the EC Delegation and SIGMA experts on weaknesses in the current arrangements for tendering and contracting EU and related national funds. Assistance will be provided to the NF and IAs to achieve a sustained improvement and strengthening of the management of EU and associated national funds - introduction of sound administrative, audit and financial systems, including quality controls to eradicate recurring errors, preparation of new procedures and guidance manuals. Training should be provided in order to improve the internal audit unit of the NF in co-ordination with the Public Internal Financial Control Agency at the Ministry of Finance.

- Human resources development in National Fund and IAs, including development of training programme based on the needs analysis (workshops, seminars, study trips), specialised training of the staff of the NF, involving some work shadowing of departments doing similar work in the EU member states.

Establish a comprehensive checklist to be used by NF to monitor the progress of the IAs towards in setting up systems and procedures in order to operate under extended decentralisation of the management of pre-accession funds

Further development and improvement of a system for co-ordination of the co-financing elements under the pre-accession instruments.

- Analysis, in consultation with Public Procurement Directorate, of the Bulgarian and EU requirements and procedures for the management of the co-financing elements; Consultation on methodology of management of co-financing scenarios following the best EU practice; Preparation of written guidelines.

Provision of assistance in tailoring the existing Financial Management Information System of the Ministry of Finance to the specific needs of the NF and to the linkage with the IAs; Supply of equipment and specific additional software through separate contract.

- Identification of and recommendation for possible improvements in the system to facilitate the management of EU funds and the respective co-financing elements. Preparation of Technical specification for IT equipment.
- Evaluation of the needs for new equipment or upgrades; purchasing of hardware and development of software under a separate supply contract and training of NF and IAs staff to carry out the financial management processes with the software tools.

4. Institutional Framework

The beneficiary of the project will be the National Fund and CFCU at the Ministry of Finance, Phare IA at the MRDPW and ISPA IAs at the Ministry of Transport and Communication and at the Ministry of Environment and Water.

Day-to-day responsibility for managing and coordinating the project will rest with the Director of the National Fund, Ms Sylvia Indjova.

5. Detailed Budget

	Phare Support				
	Investment Support	Institutional Building	Total Phare (= INV+IB)	National co-financing	TOTAL
Consultancy contract		1 590 000	1 590 000		1 590 000
Equipment contract	210 000		210 000	70 000	280 000
Total	210 000	1 590 000	1 800 000	70 000	1 870 000

Note: Phare will support 75% of the cost of equipment to be procured under this project, up to a maximum Phare contribution of 210 000 euro. If the total cost of equipment procured for this project exceeds the indicative total cost shown in the above table, the difference will be met by additional national co-financing funds.

6. Implementation Arrangements

6.1 Implementing Agency

The Implementing Agency will be the Central Finance and Contracting Unit (CFCU) at the Ministry of Finance, which will handle tendering and contracting of the assistance to be provided under this project.

A project Steering Committee will be established before project implementation commences to supervise tendering and contracting and monitor project implementation. This Steering Committee will meet regularly and will be chaired by the Deputy National Authorising Officer. The Committee will include representatives of the National Fund, CFCU, the other Implementing Agencies involved in the project, the Public Internal Financial Control Agency, the National Audit Office, the Public Procurement Directorate, the EC Delegation, and the consultant delivering the services.

6.2 Twinning

Not applicable.

6.3 Non-standard aspects

None.

6.4 Contracts

There will be two contracts:

- a conventional technical assistance contract which amounts to 1 590 000 euro. It will cover the costs for support provided by the European and local experts, training of staff, survey, study visits and expert assistance;
- a contract for the supply of equipment, which amounts to 210 000 euro. It will cover the costs for purchase of necessary hardware, copy machines and printers, and specialised software package as well as the costs for training of the staff, if necessary.

7. Implementation Schedule

7.1 Start of tendering: First quarter of 2002.

7.2 Start of project activity: Third quarter of 2002.

7.3 Project Completion: Third quarter of 2004.

8. Equal Opportunity

Equal opportunity will be taken into account in the preparation of all tender dossiers and in the recruitment of personnel through the placement of appropriate wording in each tender dossier.

9. Conditionality and sequencing

The project is conditional on the Ministry of Finance accepting its responsibility for the overall sound management and control of EU funds in Bulgaria, and providing the necessary staff and other resources for this project to achieve and sustain the results targeted.

The full staff of the Directorate National Fund, including the three Departments - “Treasury”; “Financial Control” and “Monitoring and Assessment”, and of the CFCU Directorate must be in place before project activities commence.

The Financial Management Information System of the Ministry of Finance should be fully operational when the project begins.

The project will require the full commitment and participation of the senior management of the Ministry of Finance and MRDPW, the National Fund and IAs. In addition to providing the consultant with the resources to operate effectively, the senior management must be wholeheartedly involved in the development and implementation of the policies and institutional change required to deliver the project results.

Annexes to Project Fiche

- 1. Logical Framework Matrix**
- 2. Detailed Implementation Chart**
- 3. Contracting and Disbursement Schedule**
- 4. Management structure of the National Fund**

<i>Annex1 to Project Fiche</i>					
LOGFRAME PLANNING MATRIX FOR THE PROJECT: "Preparing of National Fund and IAs for EDIS"				Contracting period expires: 30.11.2003	Disbursement period expires: 30.11.2004
				Total Budget: 1 870 000 euro	Phare Contribution: 1 800 000 euro
<i>Wider Objective (s)</i>	<i>Indicator of Achievement</i>	<i>How, When and by Whom Indicators will be measured</i>	<i>Assumptions and Risks</i>		
To improve the management of EU funds and co-financing resources in Bulgaria in preparation for extended decentralisation of Phare and ISPA implementation.	<ul style="list-style-type: none"> • Sound and efficient financial management of EU funds and co-financing resources • Extended decentralisation of EU-funds management approved by the EC 	<ul style="list-style-type: none"> • Audit of IAs by Public Internal Financial Control Agency (PIFCA), National Audit Office (NAO) and EU • Progress report from the EC • Annual reports of NF and IAs 	<ul style="list-style-type: none"> • Overall commitment to the process of reform in the pre-accession period • Stability of institutions • Recruitment and retention of qualified staff 		
<i>Immediate Objective (Purpose)</i>	<i>Indicators of Achievement</i>	<i>How, When and by Whom Indicators will be measured</i>	<i>Assumptions and Risks</i>		
To strengthen the capacity of the National Fund and the Implementing Agencies to manage EU funds and co-financing resources in preparation for extended decentralisation.	<ul style="list-style-type: none"> • Readiness of IAs to apply for extended decentralisation of management • Number of staff trained in NF and IAs • Operational and procedure manuals reviewed, in place, tested and implemented 	<ul style="list-style-type: none"> • Annual reports of NF and IAs • Bulgarian audit reports (NAO, PIFCA) • EU audit reports (DG-audit, European Court of Auditors) • Monitoring of IA checklists completed and updated by NF 	<ul style="list-style-type: none"> • Priority of project on Government's agenda (including adequate budget allocations) • Commitment at the political level • Co-ordination of the project • Stability of staff involved 		

<i>Results (R)</i>	<i>Indicators of Achievement</i>	<i>How, When and by Whom Indicators will be measured</i>	<i>Assumptions and Risks</i>
<ul style="list-style-type: none"> Completed assessment of the state of readiness of NF and IAs for extended decentralisation of the management of EU Funds Development of sound administrative and financial systems for management of EU funds in the NF and IAs Provision of operational manuals of the NF and IAs for the different pre-accession instruments (development of internal rules and procedures) and quality assurance techniques; Establishment of a check list to enable the NF monitor the progress of IAs towards meeting the requirements for extended decentralisation. Establishment of written guidelines for the overall co-ordination of the co-financing elements under the pre-accession instruments; Adaptation of Financial Management Information System to the specific needs of the National Fund and Implementing Agencies. Supply of equipment. 	<ul style="list-style-type: none"> All activities under the project carried out and evaluated Written documents and procedures reviewed, amended, and tested Equipment in place 	<ul style="list-style-type: none"> Project reports by consultant Reports of the Steering Committee Evaluation of seminars, workshops, study tours etc. Reports by Phare programme evaluators 	<ul style="list-style-type: none"> Co-ordination of the project Stability of staff involved Timely issue of appropriate instructions on EU requirements Language problems

<i>Activities (A)</i>	<i>Indicators of Achievement</i>	<i>How, When and by Whom Indicators will be measured</i>	<i>Assumptions and Risks</i>
<ul style="list-style-type: none"> • A complete review of the management of EU funds in Bulgaria against the requirements of EDIS – institutional arrangements and procedures, organisational structures. • Human resources development of NF and IAs. • Establishment of a comprehensive checklist to be used by NF to monitor the progress made by Implementing Agencies in setting up systems and procedures in order to operate under EDIS. • Further development and improvement of a system for co-ordination of the co-financing elements under the pre-accession instruments: • Assistance in tailoring the existing Financial Management Information System of the Ministry of Finance to the specific needs of the National Fund and to the linkage with Implementing Agencies • Supply of equipment and specific additional software. 	<ul style="list-style-type: none"> • Reviews carried out • Training needs analysis performed • Training programme developed and implemented • Procurement for equipment and software completed 	<ul style="list-style-type: none"> • Project reports by consultant • Reports of the Steering Committee • Tender documents 	<ul style="list-style-type: none"> • Rigorous project management • Public procurement problems

TIME IMPLEMENTATION CHART

Project Title	2001				2002				2003				2004			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Preparing of NF and IAs for EDIS					T	T	C	D	D	D	D	D	D	D	D	
Investment Component								T	C	D	D	D	D			

T – Tendering

C – Contracting

D - Disbursement

CUMULATIVE CONTRACTING & DISBURSEMENT SCHEDULES (MEURO)

	Qtr 1 2002	Qtr 2 2002	Qtr 3 2002	Qtr 4 2002	Qtr 1 2003	Qtr 2 2003	Qtr 3 2003	Qtr 4 2003
Preparing of NF and IAs for EDIS			1.590	1.590	1.590	1.590	1.590	1.590
Investment Component				0.280	0.280	0.280	0.280	0.280

	Qtr 1 2002	Qtr 2 2002	Qtr 3 2002	Qtr 4 2002	Qtr 1 2003	Qtr 2 2003	Qtr 3 2003	Qtr 4 2003	Qtr 1 2004	Qtr 2 2004	Qtr 3 2004	Qtr 4 2004
Preparing of NF and IAs for EDIS				0.557	0.703	0.849	0.995	1.141	1.286	1.431	1.590	1.590
Investment Component						0.168	0.252	0.252	0.280	0.280	0.280	0.280

ANNEX 4

