

## STANDARD PROJECT FICHE

### 1. Basic Information

**1.1 CRIS Number :** 2004-016-919.04

**1.2 Title:** Preparation for Extended Decentralized Implementation System (EDIS) in the management of pre-accession funds in Bulgaria – Stage 3 “Compliance Assessment”

**1.3 Sector:** Finance

**1.4 Location:** Sofia, Bulgaria

**1.5 Duration:** 3 months

### 2. Objectives

#### 2.1 Overall Objective:

The overall objective of the project is to prepare the Bulgarian national authorities managing Phare programme to receive EDIS accreditation from the European Commission.

#### 2.2 Project purpose:

The purpose of this project is to carry out a full compliance audit of the target institutions, covering the requirements set out under Council Regulation (EC) No 1266/1999, Article 12.2 and its Annex, as elaborated in the Commission Services Working Document. It should be assessed whether the target institutions have implemented all the recommendations for filling in the gaps identified during Stage 1 and Stage 2 (if any), through the technical assistance delivered during EDIS Stage 2 and institutions' own resources in order to provide the NAO with a Compliance Assessment Report (CAR) and an Audit Opinion.

#### 2.3 Accession Partnership (AP) and NPAA priority

The project meets the following priorities:

- Finalise preparations for extended decentralization (EDIS).
- Make progress in ensuring compliance with acquis requirements for monitoring and evaluation of the Structural Funds, in particular for ex-ante evaluation and for the collection of the relevant statistical information and indicators.
- Elaborate a general legal and institutional framework for financial control and audit.
- Make progress in establishing appropriate systems and procedures for financial management and control, in particular in relation to the structure of the managing and paying authorities, in order to fulfil the specific requirements of the Structural Funds regulations. Specific attention is to be given to an adequate separation of functions within the whole implementation structure.
- Further elaborate the arrangements to ensure inter-ministerial co-ordination as well as the definition of the tasks to be performed by the bodies involved in the preparation and implementation of Structural Funds and the Cohesion Fund at the national and regional level.

- Further adopt legislation, which ensures compatibility of operations financed by the Structural Funds and Cohesion Fund with Community policies and legislation, including rules on competition, on the award of public contracts, on environmental protection, on elimination of inequalities and promotion of equality between men and women.
- Elaborate a legislative framework allowing for multi-annual budget programming with a view to provide the national co-financing for the Structural and Cohesion Funds assistance and allowing for sufficient flexibility for financial adjustment.
- Bring administrative capacity of the units within the ministries designated or to be designated as future managing or paying authorities up to the level required for efficient and correct implementation of Structural Funds assistance (in terms of recruitment, career profiles and training).

#### **2.4 Contribution to National Economic Development Plan NEDP (and/or Structural Funds Development Plan/SDP)**

The project will add value to further strengthening of the administrative capacity for the management of the National Development Plan by improving the quality of work performance of the National Fund – Paying Authority for the Structural Funds and Cohesion Fund.

The requirement for the establishment of the administrative structures to implement the programmes of the plan, to monitor its progress and to periodically reassess it and update it is laid down in the National Economic Development Plan for 2000 – 2006. In addition, the project refers to the Strategy for the participation of the Republic of Bulgaria in the Structural Funds and the Cohesion Fund of the European Union by supporting the objective of institution building and/or development of the institutions responsible for absorbing the resources of the Structural Funds and the Cohesion Fund of the European Union, observing the principle of continuity between the pre- and post-accession structures, and of Bulgaria's traditions in management and culture.

#### **2.5 Cross Border Impact**

Not applicable.

### **3. Description**

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

Article 12 (2) of Council Regulation 1266/1999 gives the European Commission the power to confer on the Implementing Agencies in applicant countries management of aid on a decentralised basis and to waive the ex-ante approval requirement for tendering and contracting procedures i.e. to implement (DIS) under the responsibility of the NAO. Transition to EDIS is only possible where the conditions and criteria set out in the Co-ordinating Regulation are met, and in particular when the management capacity and control procedures and structures are satisfactory. EDIS comprises three interrelated components:

- “the management of aid on a decentralised basis” by the relevant national authorities, subject to a “commitment by the National Authorising Officer to bear the full financial responsibility and liability for the funds”;
- the waiving of “the ex-ante approval requirement” by the European Commission, which will then be replaced by a system of ex-post controls;
- use of national procedures, if various conditions are met, including “procurement rules which are endorsed by the European Commission as meeting requirements of Title V of the Financial Regulation applicable to the general budget of the European Communities”.

The Bulgarian Authorities will apply for EDIS accreditation while still following the “Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions” (PRAG).

The decision to move to EDIS can only be undertaken by the European Commission “on the basis of a case-by-case analysis of national and sectoral programme/project management capacity, financial control procedures and structures regarding public finance”.

Before requesting the European Commission Services for EDIS status the Bulgarian authorities need to confirm that the EDIS requirements are met. Therefore a thorough preparation process has been undertaken. The preparation for EDIS consists of the following four stages:

- *First Stage (Gap Assessment)*: This is an assessment of the target national institutions and Implementing Agencies and the procedures in operation in order to determine to what extent the conditions for EDIS are currently met and to identify specific gaps that exist and to recommend appropriate changes/improvements. (Completed)
- *Second Stage (Gap Plugging)*: This is a preparation for EDIS by making the necessary changes and improvements to the target institutions and procedures through implementation of the recommendations of the Gap Assessment Report (stage 1).
- *Third Stage (Compliance Assessment)*: This is where an assessment is carried out to determine if the gaps identified in Stage 1 have been corrected (plugged) and that conditions exist for the formal application of EDIS by the Bulgarian authorities.
- *Fourth Stage (Preparation for Commission Decision)*: Audit performed by the Commission services to assess/confirm concluding on the possibility to grant EDIS under Article 12 (2) of the Co-ordination Regulation.

The four stages of EDIS preparation are incorporated in the “Concept for Achievement of Extended Decentralized Implementation System of Phare and ISPA projects” in compliance with the Roadmap to EDIS for PHARE and ISPA. The Concept paper, which aimed at addressing the handicaps by expressing the intention of the Bulgarian authorities to proceed with managing of the pre-accession funds on the basis of EDIS, was adopted by the Council of Ministers of Republic of Bulgaria in September 2002 (Decision No 607 dated September 5, 2002).

The EDIS target institutions for PHARE programme were clearly defined:

- National Fund at the Ministry of Finance
- Management of EU Funds Directorate (NAC Services) at the Ministry of Finance
- Central Finance and Contracts Unit at the Ministry of Finance
- PHARE Implementing Agency at the Ministry of Regional Development and Public Works (MRDPW)
- PHARE Implementing Agency at the Ministry of Labour and Social Policy (MLSP)
- PHARE Implementing Agency at the Ministry of Economy (ME)
- Public Internal Financial Control Agency (PIFCA)

### **3.2 Sectoral rationale**

Not applicable.

### 3.3 Results

The full Compliance assessment audit of the target institutions should enable the Consultant to achieve the following results:

- A Compliance Assessment Report clearly setting out, separately for each target institution, whether the gaps identified during stage 1 of EDIS, and those identified by the Consultant during stage 2 of EDIS process (if any), are filled in and the conditions for EDIS are met. Any gaps, not presented during stages 1 and 2 should be identified and presented by the Consultant in the Report. The Report should also set out any recommendations deemed as necessary and the associated estimated timetable for their implementation, together with identification of the bodies responsible or resources required.
- An explicit Audit Opinion whether the requirements for granting EDIS under CR 1266/99, Art. 12 and Annex are met, and whether the EDIS application package is, at the date of the Opinion, complete and accurate.

### 3.4 Activities

**The project results should be achieved through the following activities:**

- Draw up and present a Compliance Assessment Report (CAR), setting out the findings and conclusions of the audit work;
- Draw up and submit an explicit audit opinion to the NAO whether the EDIS requirements are met by the Phare target institutions;
- Draw up and submit an opinion whether the EDIS application file is complete and accurate as per the requirements set out in the Commission “Guidance for the Compliance Assessment Report”.
- Provide a Compliance Auditor’s Opinion to the NAO whether the written procedures and associated manuals for post-EDIS control are accurate and complete prior to the request by the NAO to the Commission for the request for EDIS.
- Provide further detailed recommendations to the NAO in case of non-compliance with the EDIS minimum criteria and conditions.

These activities will be ensured by one Team Leader charged with overall coordination of the project and complemented by medium-term and short-term experts. The Team Leader will provide an overall coordination of the project and will focus on the support of functions of the National Fund, NAO and all Phare target institutions.

Medium-term and short-term experts should be professionals in the areas of sound financial management and administration, human resources, internal and external audit and financial control environment, risk assessment, risk management, public procurement, monitoring and assessment and IT.

### 3.5. Linked Activities:

Within the Phare project **BG 0103.09 “Improving the Management of EU Funds”** EDIS Stage 1 “Gap Assessment” was implemented for the National Fund, the Management of EU Funds Directorate (NAC services) and the CFCU within the Ministry of Finance and the Phare Implementing Agency within the MRDPW. The project is ongoing. The Gap Assessment Report was submitted in February 2004. For the purpose of Gap Assessment, PIFCA carried out systems audit in Phare Implementing Agencies at the Ministry of Labour and Social Policy and the Ministry of Economy. Gap assessments were approved by the NAO.

Within the Phare project **BG 2002/000-585 “Horizontal Programme preparing candidate countries for Extended decentralisation (EDIS) in the management of pre-accession funds in Bulgaria”** EDIS Stage 2 “Gap Plugging” will be implemented for the Phare Implementing Agencies, the CFCU, the NAC services and the National Fund Directorates within the Ministry of Finance and the PIFCA. The project is expected to start in October, 2004.

Stages 1, 2 and 3 of EDIS preparation for ISPA programme will be implemented within **ISPA Measure 2002 BG 16/P/PA/003 “Preparation of the National Fund, ISPA Implementing Agencies and PIFCA to implement Extended Decentralised Implementation System”**. The ISPA Gap Assessment Report was submitted in December 2003. The tender procedure for contracting Technical Assistance for stage 2 has already started. The project is expected to start in December 2004.

Twinning project **BG 2003/004-937.10.04 “Setting up a coherent system for the Structural Funds and the Cohesion Fund in Bulgaria for the Management of the Community Support Framework (CSF) and the single Paying Authority for the Structural Funds (SF) and the Cohesion Fund (CF)”** is expected to start by the end of 2004. The overall objective is strengthening the relevant institutional framework at central level in order to achieve, upon accession, sound and efficient management of EU Structural Funds and Cohesion Fund.

**BG 2003/004-937.09.03 “Further Implementation of the new model of Public Internal Financial Control in Bulgaria”**. The objective is further development and implementation of the new legislative framework of the Public internal financial control in compliance with the acquis and strengthening the administrative capacity of the Public Internal Financial Control Agency (not started).

**BG/2001/IB/FI/05 and BG/2001/IB/FI/06 “Implementation of pilot audits by the Regional Directorates of the Public Internal Financial Control Agency in Southern and Northern Bulgaria”**. The projects’ overall objective is strengthening of the public institutions and administrative capacity in Bulgaria in preparation for EU accession (ongoing).

### 3.6 Lessons learned:

A number of projects under Phare Programme aimed at improving the administrative capacity and quality of services of the Bulgarian public administration have been either completed or under implementation with a considerable degree of success.

#### 4. Institutional Framework

The project beneficiaries will be the National Fund Directorate, NAC Services within the Management of EU Funds Directorate, Central Finance and Contracts Unit at the Ministry of Finance and Phare Implementing Agencies at Ministry of Regional Development and Public Works, Ministry of Labour and Social Policy, Ministry of Economy and PIFCA.

Day-to-day responsibility for managing and coordinating the project will rest with the Director of the National Fund supported by the Monitoring and Assessment Department of the National Fund, which will act as a Project Implementing Unit (PIU) .

#### 5. Detailed Budget (in Million €)

	Phare Support				
	Investment support	Institution Building	Total Phare (=I+IB)	National Co-financing	TOTAL
TA Project	n.a.	0.2		n.a.	<b>0.2</b>

#### 6. Implementation Arrangements

##### 6.1. Implementing Agency

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

##### 6.2. Twinning

Not applicable.

##### 6.3. Non-standard aspects

None.

##### 6.4. Contracts

There will be one contract under this project. The Contract will be a conventional technical assistance contract, which amounts to EUR 200 000. It will cover the costs for the compliance assessment audit carried out by the Consultant.

#### 7. Implementation Schedule

**7.1. Start of tendering /call for proposals 1Q/2005**

**7.2. Start of project activity 3Q/2005**

**7.3. Project completion 4Q/2005**

**8. Equal Opportunity**

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

**9. Environment**

Not applicable.

**10. Rates of return**

Not applicable.

**11. Investment criteria**

Not applicable.

**12. Conditionality and sequencing**

The project shall only start after the completion of stage 2 “Gap plugging” of EDIS preparation.

**ANNEXES TO PROJECT FICHE**

1. Logframe
2. Detailed implementation chart
3. Contracting and disbursement schedules
4. Reference list of relevant laws and regulations
5. Reference list of relevant strategic plans and studies

## ANNEX 1

LOGFRAME PLANNING MATRIX FOR PROJECT FICHE	Programme name and number	
Project: <b>Preparation for Extended decentralized implementation system (EDIS) in the management of pre-accession funds in Bulgaria – Stage 3 “Compliance Assessment”.</b>	Contracting period expires: November 30, 2006	Disbursement period expires: November 30, 2007
	Total budget <b>EUR 200 000</b>	Phare budget : <b>EUR 200 000</b>

Overall objective	Objectively verifiable indicators	Sources of Verification	
<b>The overall objective of the project is to prepare the Bulgarian national authorities, managing Phare programme to receive EDIS accreditation by the European Commission.</b>	Bulgaria's request for transition to EDIS approved and accreditation received by the European Commission by 01 March 2006.	<ul style="list-style-type: none"> <li>• Positive report of the verification audit carried out by the European Commission</li> <li>• Commission Decision under Art. 12.2</li> </ul>	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
The purpose of this project is to be carried out a full compliance assessment of the target institutions, covering the requirements set out under Council Regulation (EC) No 1266/1999, Article 12.2 and its Annex as elaborated in the Commission Services Working Document. It should be assessed whether the target institutions have implemented all the recommendations for filling in the gaps identified during Stage 1 and Stage 2 (if any), through the technical assistance delivered during EDIS Stage 2 and institutions' own resources, to provide the NAO with a Compliance Assessment Report (CAR) and audit opinion to international standards.	Readiness of the National Fund, NAC services, Phare Implementing Agencies and PIFCA to apply for EDIS accreditation.	<ul style="list-style-type: none"> <li>• A Compliance Assessment Report and a formal audit opinion to international standards submitted to NAO, assuring him that all functions of the audited institutions are in compliance with EDIS minimum criteria;</li> <li>• Request for application for EDIS Stage IV (Verification Audit) sent to the European Commission.</li> </ul>	<ul style="list-style-type: none"> <li>• Clear segregation of duties and responsibilities of all parties involved in the process;</li> <li>• Coordination between the national authorities and European Commission.</li> </ul>



Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>The full Compliance assessment audit of the target institutions should enable the Consultant to achieve the following results:</p> <ul style="list-style-type: none"> <li>• A Compliance Assessment Report clearly setting out, separately for each target institution, whether the gaps identified during stage 1 of EDIS, and those identified by the Consultant during stage 2 of EDIS process (if any), are filled in and the conditions for EDIS are met. Any gaps, not presented during stages 1 and 2 should be identified and presented by the Consultant in the Report. The Report should also set out any recommendations deemed as necessary and the associated estimated timetable for their implementation, together with identification of the bodies responsible or resources required;</li> <li>• An explicit audit opinion whether the requirements for granting EDIS under CR 1266/99, Art. 12 and Annex are met, and whether the EDIS application package is, at the date of the Opinion, complete and accurate.</li> </ul>	<ul style="list-style-type: none"> <li>• Procedures and mechanisms meet the European Commission EDIS minimum requirements;</li> <li>• The EC requirements implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• Technical assistance reports (Inception, monthly, quarterly and final) approved by the beneficiaries;</li> <li>• Compliance assessment report approved by the NAO;</li> <li>• Audit opinion, received by the NAO.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective cooperation with the other relevant institutions;</li> <li>• Recruitment and retention of adequate staff.</li> </ul>
Activities	Means		Assumptions
<p><b>The project results should be achieved through the following activities:</b></p> <ul style="list-style-type: none"> <li>• Draw up and present a Compliance Assessment Report (CAR), setting out the findings and conclusions of the audit work;</li> <li>• Draw up and submit an explicit audit opinion to the NAO whether the EDIS requirements are met by the Phare target institutions;</li> <li>• Draw up and submit an opinion whether the EDIS application file is complete and accurate as per the requirements set in the Commission Guidance for the Compliance Assessment Report;</li> <li>• Provide a Compliance Auditor's Opinion to the NAO whether the written procedures and associated manuals for post-EDIS control are accurate and complete prior to the request by the NAO to the Commission for the request for EDIS;</li> <li>• Provide further detailed recommendations to the NAO in case of non-compliance with the EDIS minimum criteria and conditions.</li> </ul>	<p>A conventional technical assistance contract provided by the European and local auditors and experts.</p>		<ul style="list-style-type: none"> <li>• Effective cooperation with all relevant institutions;</li> <li>• Sufficient human and financial resources allocated.</li> </ul>

**Preconditions**

Stage 2 of EDIS preparation implemented.

Gap Plugging Report approved.

## ANNEX 2

### DETAILED IMPLEMENTATION CHART

**Preparation for Extended decentralized implementation system (EDIS) in the management of pre-accession funds in Bulgaria – Stage 3  
“Compliance Assessment”..**

YEAR	2004								2005							
Months	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	
Start of tendering/call for proposals																
<u>Start of project activity</u>																
Project completion																

## ANNEX 3

### CONTRACTING AND DISBURSEMENT SCHEDULE BY QUARTER FOR FULL DURATION OF PROGRAMME

Component	2004				2005			
	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q
Contracted						0,200		
Disbursed								0,200

## **ANNEX 4**

### **LIST OF RELEVANT LAWS AND REGULATIONS**

1. Council Regulation EC/1266/99 and EC/3906/89 and its subsequent amendments – Coordinating Regulation and Phare regulation;
2. Council Regulation EC/1260/99, (Structural Funds); Regulation 438/2001 (Management and Control Systems) and Regulation 448/2001 (Financial Corrections);
3. Council Regulation (EC) No 1605/2002 and Commission Regulation 2343/2002 (new Financial Regulation and the Implementation Regulation);
4. Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions; a revised PRAG, aimed at compliance with the Public Procurement Directives of the Community, may be issued as early as June, 2004 by the Commission; this shall be taken into account in the Stage 3 implementation;
5. Guidance on Twinning under EDIS (as sent by the Commission 17/06/2003 and which may be subject to further amendment);
6. Guidance for the Compliance Assessment Report, issued by the Commission;
7. Public Procurement Act;
8. Other relevant documents.

## **ANNEX 5**

### **REFERENCE TO RELEVANT GOVERNMENT STRATEGIC PLANS AND STUDIES**

- Government Policy Programme;
- National Program for the Adoption of the Acquis;
- The Concept for achievement of Extended Decentralized Implementation System of Phare and ISPA projects;
- Action Plans for the implementation of the Concept Paper for PHARE and ISPA programmes;
- Strategy for the participation of the Republic of Bulgaria in the Structural Funds and the Cohesion Fund of the European Union;
- Working Document “Preparing for Extended Decentralisation of the Phare and ISPA programmes”, Commission services 14/12/00 describing the EDIS requirements;
- Roadmap to EDIS for ISPA and PHARE; EDIS checklists, enclosed to it;
- EDIS stage 1 Gap Assessment Reports on the National Fund, the Management of EU funds Directorate (NAC services) and the CFCU within Ministry of Finance, the Phare IA in the Ministry of Regional Development and Public Works, the Phare IAs in Ministry of Labour and Social Policy and Ministry of Economy and the Public Internal Financial Control Agency;
- EDIS stage 2 Gap Plugging Report on the National Fund, the Management of EU funds Directorate (NAC services) and the CFCU within Ministry of Finance, the Phare IA in the Ministry of Regional Development and Public Works, the Phare IAs in Ministry of Labour and Social Policy and Ministry of Economy and the Public Internal Financial Control Agency.