

ANNEX 1: Statement of the Resources Director

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission ⁵⁹, I have reported my advice and recommendations to the Director-General/Head of Service on the overall state of internal control in the DG/service.

I hereby certify that the information provided in Parts 2 and 3.1 of the present AAR and in its annexes 2 to 6 is, to the best of my knowledge, accurate and exhaustive.

[Signed]

Colette Cotter

31 March 2011

⁵⁹ SEC(2003)59 of 21.01.2003.

ANNEX 2: Human and Financial resources by ABB activity

Code ABB Activity	ABB Activity	Human Resources by ABB activity		
		Establishment Plan posts	External Personnel	Total
22 02	Enlargement process and strategy	181	162	343
22 03	Post-accession financial support	12	18	30
22 04	Information and communication strategy	7	3	10
22 AWBL-01	Administrative support for Enlargement Directorate-General	32	6	38
22 AWBL-02	Policy strategy and coordination for Enlargement Directorate-General	14	2	16
	Total	246	191	437

DG ELARG

IMPLEMENTATION OF THE GLOBAL ENVELOPE

BUDGET LINES CONCERNED: 22 01 02 11 00 01 to 22 01 02 11 00 06
(based on information received from BUDG services following the 2012 Budget circular)

BUDGET LINE		APPROPRIATIONS 2010 (C1)			APPROPRIATIONS carried over (C8)
	DESCRIPTION	AVAILABLE APPROPRIATIONS	COMMITMENTS	PAYMENTS 2010	AMOUNTS OF APPROPRIATIONS CARRIED OVER FROM 2009
		2010	2010		
22.010211.00					
22.010211.00.01.10	Mission expenses	1,692,000 €	1,692,000 €	1,194,985 €	170,104 €
22.010211.00.01.30	Representation expenses	7,275 €	7,275 €	6,009 €	1,968 €
22.010211.00.02.20	Meeting costs	29,440 €	29,440 €	29,440 €	9,491 €
22.010211.00.02.40	Conference costs	65,700 €	65,700 €	63,782 €	19,238 €
22.010211.00.03	Meetings of committees	48,000 €	48,000 €	36,223 €	8,656 €
22.010211.00.04	Studies and consultations	0 €	0 €	0 €	0,00 €
22.010211.00.05	Development of management and information systems	147,815 €	147,815 €	88,490 €	176,548 €
22.010211.00.06	Further training and management training	121,897 €	121,897 €	70,949 €	52,623 €
	TOTAL	2,112,127 €	2,112,127 €	1,489,879 €	438,628 €

ANNEX 3: Financial Reports

Annex 3 Financial Reports - DG ELARG - Financial Year 2010

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

Table 5 : Economic Outturn Account

Table 6 : Average Payment Time Limits

Table 7 : Income

Table 8 : Recovery of undue Payments

Table 9 : Ageing Balance of Recovery Orders

Table 10 : Waivers of Recovery Orders

Table 11 : Negotiated Procedures (excluding Building Contracts)

Table 12 : Summary of Contracts (excluding Building Contracts)

Table 13 : Building Contracts

Table 14 : Contracts declared Secret

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title 22 : Enlargement				
22 01	Administrative expenditure of 'Enlargement' policy area	45.62	44.50	97.54 %
22 02	Enlargement process and strategy	925.08	916.51	99.07 %
22 03	Post-accession financial support	0.13	0.00	0.00 %
22 04	Information and communication strategy	15.28	15.07	98.66 %
Total Title 22		986.11	976.08	98.98 %
Total DG ELARG		986.11	976.08	98.98 %

* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).

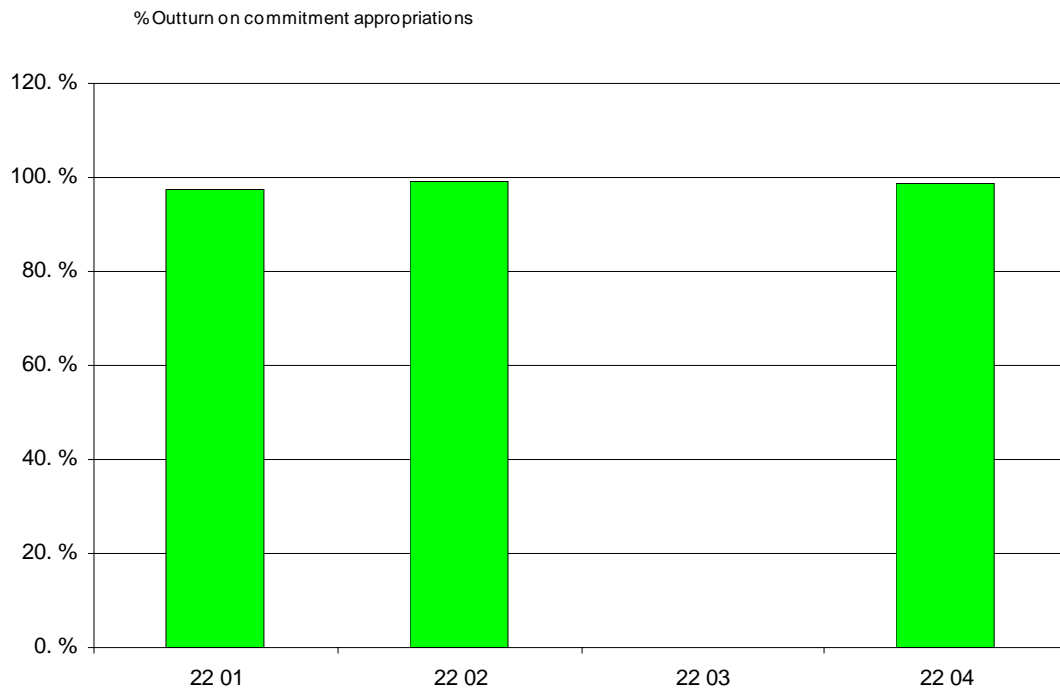


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title 22 : Enlargement				
22 01	Administrative expenditure of `Enlargement¿ policy area	50.76	43.74	86.17 %
22 02	Enlargement process and strategy	970.18	960.78	99.03 %
22 03	Post-accession financial support	22.49	21.82	97.05 %
22 04	Information and communication strategy	12.36	12.17	98.46 %
Total Title 22		1,055.78	1,038.51	98.36 %
Total DG ELARG		1,055.78	1,038.51	98.36 %

* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

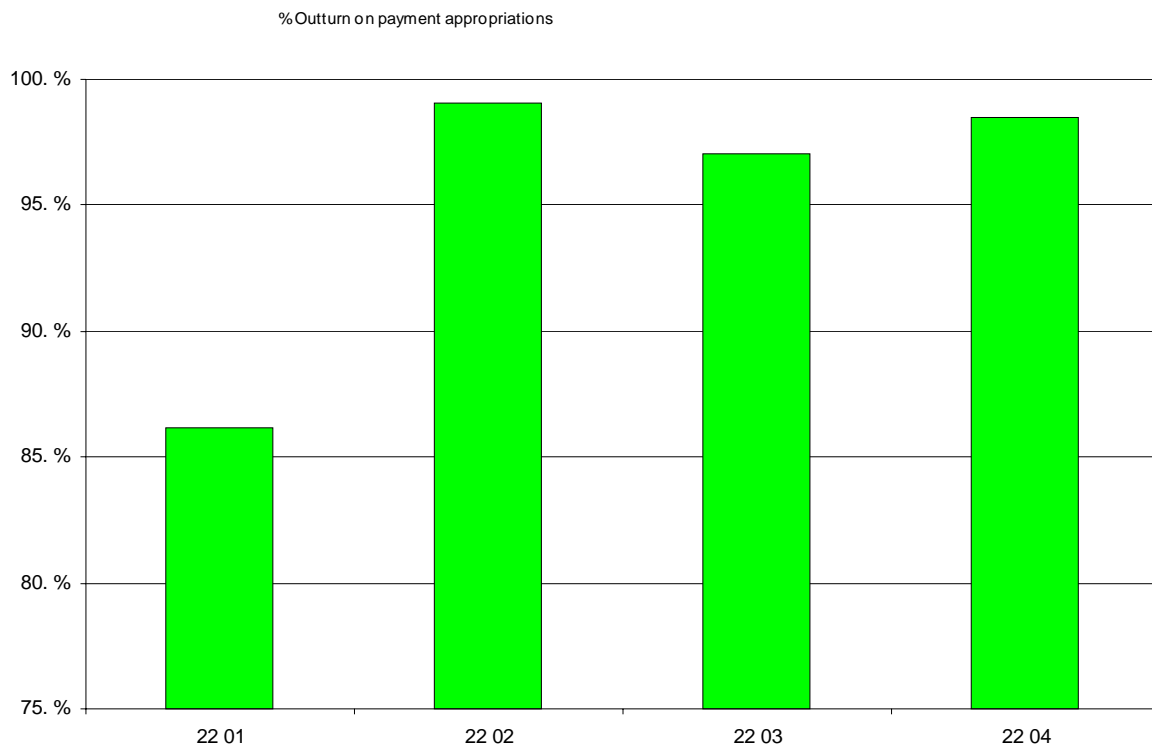


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)

Chapter	2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)	
	Commitments 2010	Payments 2010	RAL 2010	% to be settled				
	1	2	3=1-2	4=1-2/1	5	6=3+5	7	
Title 22 : Enlargement								
22 01	Administrative expenditure of Enlargement policy area	44.37	39.69	4.68	10.54 %	0.00	4.68	5.14
22 02	Enlargement process and strategy	916.51	106.52	809.99	88.38 %	1,866.61	2,676.60	2,982.90
22 03	Post-accession financial support	0.00	0.00	0.00	0.00 %	23.69	23.69	74.55
22 04	Information and communication strategy	15.07	0.09	14.98	99.42 %	12.10	27.08	29.49
Total Title 22		975.95	146.30	829.65	85.01 %	1,902.40	2,732.05	3,092.09
Total DG ELARG		975.95	146.30	829.65	85.01 %	1,902.40	2,732.05	3,092.09

Breakdown of Commitments remaining to be settled (in Mio EUR)

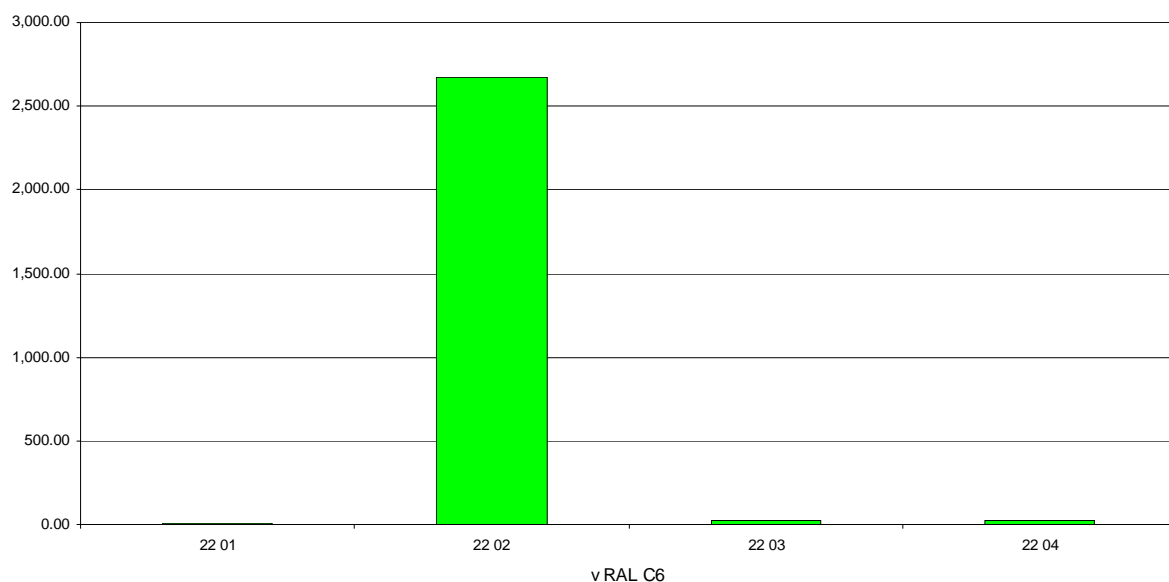


TABLE 4 : BALANCE SHEET ELARG

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	200,078,624.31	231,269,106.40
A.I.1. Intangible Assets	816.74	6,016.65
A.I.2. Property, plant and equipment	7,966.85	23,550.77
A.I.3. Long-term investments	116,749,046.13	116,008,848.14
A.I.4. Loans	0.00	68,425,957.61
A.I.5. LT Pre-Financing	83,320,794.59	46,804,733.23
A.II. CURRENT ASSETS	658,284,162.86	826,631,708.02
A.II.2. Short-term Pre-Financing	578,394,409.83	749,643,911.18
A.II.3. Short-term Receivables	37,568,781.53	22,717,375.66
A.II.5. Cash and Cash Equivalents	42,320,971.50	54,270,421.18
ASSETS	858,362,787.17	1,057,900,814.42
P.I. NET ASSETS/LIABILITIES	-15,104,274.01	-14,364,076.02
P.I.1. Reserves	-15,104,274.01	-14,364,076.02
P.III. CURRENT LIABILITIES	-83,141,057.51	-119,828,801.26
P.III.2. Short-term provisions	0.00	-2,000,000.00
P.III.4. Accounts Payable	-83,141,057.51	-117,828,801.26
LIABILITIES	-98,245,331.52	-134,192,877.28
NET ASSETS (ASSETS less LIABILITIES)	760,117,455.65	923,707,937.14
P.I.2. Accumulated Surplus / Deficit	0.00	0.00
Non-allocated central (surplus)/deficit*	-760,117,455.65	-923,707,937.14
TOTAL	0.00	0.00

* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : ECONOMIC OUTTURN ACCOUNT ELARG

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVIT	969,314,260.38	84,918,721.07
II.1.1. OPERATING REVENUES	-66,574,684.34	-39,767,226.29
II.1.1.1. Other operating revenue	-66,574,684.34	-39,767,226.29
II.1.2. OPERATING EXPENSES	1,035,888,944.72	124,685,947.36
II.1.2.1. Administrative Expenses	4,044,418.21	6,482,752.35
II.1.2.2. Operating Expenses	1,031,844,526.51	118,203,195.01
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-272,583.93	-18,789,685.81
II.2. FINANCIAL OPERATIONS	-272,583.93	-18,789,685.81
II.2.1. Financial revenue	-2,014,962.10	-19,386,741.97
II.2.2. Financial expenses	1,742,378.17	597,056.16
ECONOMIC OUTTURN ACCOUNT	969,041,676.45	66,129,035.26

TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - DG ELARG

Legal Times	Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
	20	7	1	14.29 %	19.00	6	85.71 %	33.50
	30	328	230	70.12 %	18.47	98	29.88 %	56.63
	45	3046	2645	86.84 %	20.54	401	13.16 %	69.28
	60	131	129	98.47 %	21.68	2	1.53 %	120.50
	90	1	1	100.00 %	50.00			

Total Number of Payments	3513	3006	85.57 %		507	14.43 %	
Average Payment Time	27.10			20.44			66.62

Target Times							
Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	912	466	51.10 %	12.08	446	48.90 %	38.50
30	2601	1797	69.09 %	16.79	804	30.91 %	52.53

Total Number of Payments	3513	2263	64.42 %		1250	35.58 %	
Average Payment Time	27.10			15.82			47.53

Suspensions							
Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
0	33	585	16.65 %	3513	184,128,609.11	19.77 %	931,416,836.49

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)
DG ELARG	65010000	Interest expense on late payment of charges	22 133.34
			22 133.34

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5		
Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	2,383,914.93	195,142.34	2,579,057.27	1,033,250.20	176,480.20	1,209,730.40	1,369,326.87
57	OTHER CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH THE ADMINISTRATIVE OPERATION OF THE INSTITUTION	210.00	0.00	210.00	210.00	0.00	210.00	0.00
	Total Title 5	2,384,124.93	195,142.34	2,579,267.27	1,033,460.20	176,480.20	1,209,940.40	1,369,326.87
Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES								
66	OTHER CONTRIBUTIONS AND REFUNDS	62,812,502.16	15,815,026.74	78,627,528.90	46,688,866.84	15,113,402.64	61,802,269.48	16,825,259.42
	Total Title 6	62,812,502.16	15,815,026.74	78,627,528.90	46,688,866.84	15,113,402.64	61,802,269.48	16,825,259.42
Title 9: MISCELLANEOUS REVENUE								
90	MISCELLANEOUS REVENUE	42,332.10	0.00	42,332.10	42,332.10	0.00	42,332.10	0.00
	Total Title 9	42,332.10	0.00	42,332.10	42,332.10	0.00	42,332.10	0.00
Total DG ELARG		65,238,959.19	16,010,169.08	81,249,128.27	47,764,659.14	15,289,882.84	63,054,541.98	18,194,586.29

TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Error		Irregularity		OLAF Notified		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2002							1	37,349.36	1	37,349.36
2004	1	657,665.96	5	5,359,390.97			4	1,024,476.06	10	7,041,532.99
2005	5	1,667,915.72	10	7,958,409.72	1	4,922.50	19	5,853,667.94	35	15,484,915.88
2006	5	322,087.04	1	114,019.35			26	16,073,481.41	32	16,509,587.80
2007	7	359,606.76	11	423,515.78			17	661,269.67	35	1,444,392.21
2008	6	257,063.41	5	165,659.63			14	666,095.45	25	1,088,818.49
2009	2	59,333.43					10	273,318.51	12	332,651.94
2010	1	210.00					1	12,000.00	2	12,210.00
No Link	17	1,574,747.92	40	14,724,470.32	4	1,954,549.06	37	6,579,033.50	98	24,832,800.80
	44	4,898,630.24	72	28,745,465.77	5	1,959,471.56	129	31,180,691.90	250	66,784,259.47

EXPENSES

	Nbr	Amount
INCOME LINES IN INVOICES	0	

	Error		Irregularity		No error / irregularity		OLAF Notified	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	36	1,265,435.44	63	11,244,471.39	24	2,331,056.24	1	799,854.00

	Error		Irregularity		No error / irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES	85	-1,400,658.94	123	-1,318,688.60	20	-95,572.27

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2010 FOR ELARG

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
1999	2		-100.00 %	50,591.54		-100.00 %
2000	2	1	-50.00 %	102,055.00	91,219.00	-10.62 %
2001	1	1	0.00 %	18,573.00	18,573.00	0.00 %
2002	2	2	0.00 %	135,463.66	135,463.66	0.00 %
2003	1	1	0.00 %	36,053.00	36,053.00	0.00 %
2004	2	2	0.00 %	32,885.00	32,885.00	0.00 %
2006	3	2	-33.33 %	2,221,843.67	62,081.72	-97.21 %
2007	2	2	0.00 %	93,565.39	93,565.39	0.00 %
2008	8	5	-37.50 %	164,889.73	121,442.87	-26.35 %
2009	43	7	-83.72 %	13,132,678.24	129,002.60	-99.02 %
2010		56			17,474,300.05	
Totals	66	79	19.70 %	15,988,598.23	18,194,586.29	13.80 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2010 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
1	3233100245	3240802998	-2,159,761.95	Private Companies		

Total DG ELARG	2,159,761.95
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Number of RO waivers	1
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TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ELARG - YEAR 2010

Contracts > €60.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 126 1b	1.	800,000.00
Art. 126 1e	1.	67,646.00
Total	2.	867,646.00

External Action Contracts > €10.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 242 1h	1.	13,681.26
Total	1.	13,681.26

External Action Contracts > €10.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 242 1b	3.	1,446,326.00
Art. 242 1c	2.	597,500.00
Art. 242 1f	1.	135,000.00
Art. 244 1b	1.	1,089,512.00
Art. 244 1d	6.	1,606,134.00
Art. 246 1b	1.	283,186.47
Art. 246 1c	3.	18,374,112.65
Total	17.	23,531,771.12

TABLE 12 : SUMMARY OF PROCEDURES OF DG ELARG EXCLUDING BUILDING CONTRACTS

Internal procedures > €60,000	2010	
	Contract Class	Count
Service	5.	16,267,646.00
TOTAL	5.	16,267,646.00

Procedure Type	Count	Amount (€)
Negotiated Procedure without publication of a contract notice Art. 126 IR	1.	800,000.00
Service-International Restricted Procedure with four to eight tenderers after prior pub. (Art. 241.1&2 IR)	1.	15,000,000.00
Service - Negotiated Procedure with a single offer (Art. 242 IR)	1.	67,646.00
Negotiated Procedure with at least three candidates (Art. 129.2 IR)	2.	400,000.00
TOTAL	5	16,267,646.00

External procedures > €10,000	2009		2010	
	Contract Class	Count	Amount (€)	Count
Service	75	115,680,466.72	132	160,018,035.10
Supply	12	4,893,468.77	126	63,288,448.20
Works	13	41,321,726.03	37	170,267,122.40
TOTAL	100.	161,895,661.52	295.	393,573,605.70

Procedure Type	Count	Amount (€)	Count	Amount (€)
Open Procedure (Art. 122.2 IR)	1	3,499,440.00		
Service - Competitive Negotiated Procedure with at least three candidates without pub. (Art. 241.1&3)	4	687,000.00	15	3,000,000.00
Service-International Restricted Procedure with four to eight tenderers after prior pub. (Art. 241.1&2 IR)	67	107,794,682.72	111	154,796,441.84
Service - Negotiated Procedure with a single offer (Art. 242 IR)	3	3,699,344.00	6	2,178,826.00
Supply - Competitive Negotiated Procedure with at least three candidates without publ. (Art. 243.1&2 IR)	1	60,000.00	3	180,000.00
Supply - International Open Procedure after publication of a contract notice (Art. 243.1 IR)	8	4,383,468.77	115	60,262,802.20
Supply - Local Open Procedure after publication of a contract notice (Art. 243.1 IR)	3	450,000.00	1	150,000.00
Supply - Negotiated Procedure with a single offer (Art. 244 IR)			7	2,695,646.00

Works - Competitive Negotiated Procedure with at least three candidates without publ. (Art. 245.1&2 IR)			3	900,000.00
Works International Open Procedure after publication of a contract notice (Art. 245.1 IR)	8	16,321,726.03	15	75,709,823.28
Works - Local Open Procedure after publication of a contract notice (Art. Art. 245.1 IR)	5	25,000,000.00	15	75,000,000.00
Works - Negotiated Procedure with a single offer (Art. 246 IR)			4	18,657,299.12
TOTAL	100.	161,895,661.52	295.	393,530,838.00

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)
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No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)
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No data to be reported

ANNEX 4: Materiality criteria

MATERIALITY CRITERIA USED

As regards quantitative criteria the principle applies that a weakness will be considered to be material if the amount of transactions affected is estimated to be more than 2% of the budget allocated to the activity.

Qualitative criteria for defining significant weaknesses include:

- significant repetitive errors,
- a significant weakness in one of the control systems,
- a significant reputational risk.

ANNEX 5: Internal Control Template for budget implementation (ICT)

Characteristics of DG Enlargement's policy environment

DG Enlargement has the responsibility for implementing pre- and post-accession assistance in 5 candidate countries, 4 potential candidate countries and 12 post-accession states.

Starting with the 2007 programme year, the single legal framework for delivery of pre-accession assistance is the IPA regulation⁶⁰. However, up until at least 2010/2011, DG ELARG continues to manage and control a large number of diverse programmes under previous legal arrangements through to their final closure. Total budget per year is currently approximately € 1 billion in both commitment and payment appropriations.

DG Enlargement implements its budget in exceptionally complex circumstances which create specific risks and require a broad variety of controls and audits. Risk factors are inter alia:

- ▶ many different levels of intervention (national, regional, bilateral);
- ▶ a multitude of sectors and line ministries involved in the beneficiary countries;
- ▶ an implementation environment which is constantly changing in line with the progress made by the candidate countries and potential candidate countries;
- ▶ many different modes of implementation: centralised direct (from Brussels and deconcentrated), centralised indirect, joint; decentralised with ex ante-control and without ex-ante control (EDIS) with the application of several sets of rules;
- ▶ the use of many different award/procurement rules: Financial Regulation, PRAG and for Member States National Procurement Rules in local languages.

Internal control template for DECENTRALISED management

Characteristics of the decentralised management modes

Summary

In the decentralised management modes (with and without ex-ante control on procurement), the underlying transactions are not undertaken by Commission staff. However, the Commission AOD remains accountable for those transactions. His level of accountability is closer to that of centralised direct management than that of shared management where responsibility is explicitly shared with MS. The Commission is managing pre-accession aid through agreements with third parties or countries which in turn manage the implementation at transaction level. The Commission relies on the quality of the systems of the accredited implementing bodies. The Commission's accountability for the underlying transactions is primarily fulfilled by ensuring that the National Authority (or implementing body) itself has adequate financial circuits and overall control systems. The Commission should therefore not primarily rely on repeating substantial transaction checks – although a certain number of

⁶⁰ Council regulation (EC) No 1085/2006 of 17 July 2006. Note that a separate regulation applies for the specific aid programme to the Turkish Cypriot Community: the Council Regulation EC No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community.

transaction checks are always undertaken by the Commission.

In the case of decentralised management such transaction checks⁶¹ may be particularly indicated at the early stages of the decentralising process (where EU Delegations undertake detailed ex-ante controls of procurement and grant project selection) in order to test the quality of the national authorities' systems for managing the legality and regularity of the transactions prior to eventually waiving Commission ex-ante control checks.

Since in decentralised management reliance is essentially on the systems, the efficacy of the Commission controls is to some extent dependent on a well-established financial correction policy⁶² where transaction irregularities are identified. Such a policy should, inter alia, allow DG Enlargement both

- to make financial corrections based solely on identified systems weaknesses without regard to whether underlying irregularities are detected or not (flat rate corrections);
- and to effect 'extrapolations' of identified irregularities where a systemic risk is identified from the individual case.

Key inherent risks in this environment

Decentralised management modes involve greater inherent risk than centralised ones. The primary and secondary controls ensuring the legality and regularity of individual tenders, contracts and payments are carried out by National Administrations who have their own organisational culture and 'tone at the top'.

Under decentralised management, implementation is devolved to the competent national bodies to which conferral of management powers was granted in a Commission Decision. The primary responsibilities lie with the National Authorising Officer (NAO) for systems and financial management, and with the National IPA Coordinator (NIPAC)⁶³ for programming and monitoring. Programme Authorising Officers are sub-delegated by the NAO for transaction-level contracts and payment decisions. National authorities are responsible for ensuring legality and regularity and sound financial management. They are responsible for all tendering and contracting, implementation and payments. After accession, in all new Member States, the use of EU Public Procurement Directives (rather than External Aid rules) is mandatory – normally through national procurement rules (although grant awards may continue under PRAG). Procurement and grant awards are always required to be subject to adequate ex-ante control by the national authorities.

Further risks are generated by the fact that implementation of pre- and post-accession assistance includes all kinds of grants (individual and grant schemes) and of procurement (works – usually called 'investment' – , supplies, service). Furthermore, several different sets of award/procurement rules are applicable:

For example, a) Title V/ Title VI of part 1 of the Financial Regulation directly; b) PRAG (under Title V/VI modified by Title IV of part 2 of the Financial Regulation); c) Twinning manual (sui generis under Title VI modified by Title IV of part 2 of FR); d) Art 53 / Art 165 FR (for joint management with Sigma, EBRD, EIB, UN agencies); as well as e) 12 sets of domestic national procurement rules used by the new Member States for decentralised procurement (which are available only in the local language).

⁶¹ For example, detailed ex-ante control by Delegations over procurement and grant awards. Note that, unlike DG DEVCO, DG Enlargement has never imposed ex-ante controls over underlying payments.

⁶² In June 2010 DG Enlargement adopted a financial correction policy including a flat rate correction methodology as part of a clearance of accounts policy for pre-IPA instruments (Ares(2010)345107). This should be extended *mutatis mutandis* to IPA as the first IPA programmes draw to a close.

⁶³ For the instruments before IPA: the National Aid Coordinator (NAC).

Management mode

Decentralised with ex-ante control - Decentralised Implementation System (DIS) (the funds are managed by the national authorities of the beneficiary country but procurement is subject to ex-ante control by the Delegation)

Decentralised without ex-ante control -Extended Decentralised Implementation System (EDIS) (the funds are managed by the national authorities of the beneficiary country without procurement being subject to ex-ante control by the Delegation)

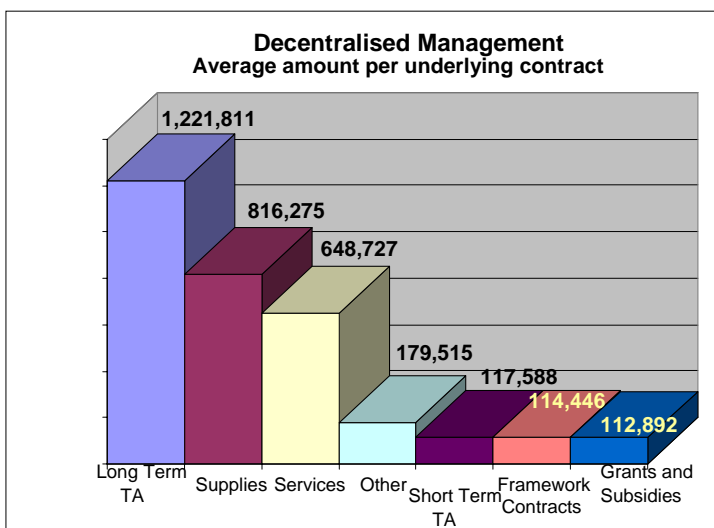
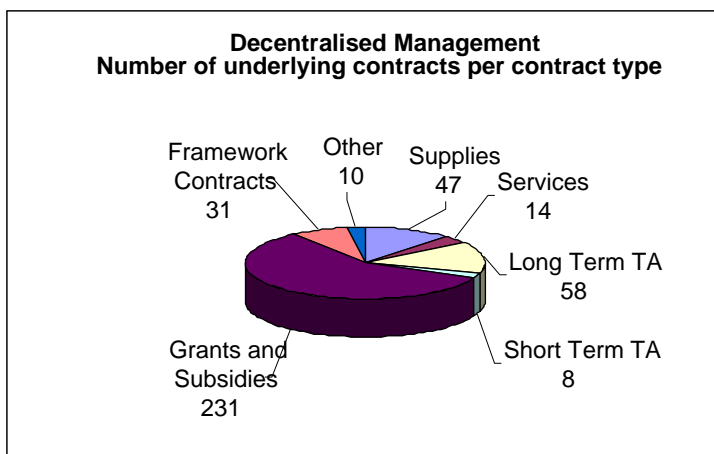
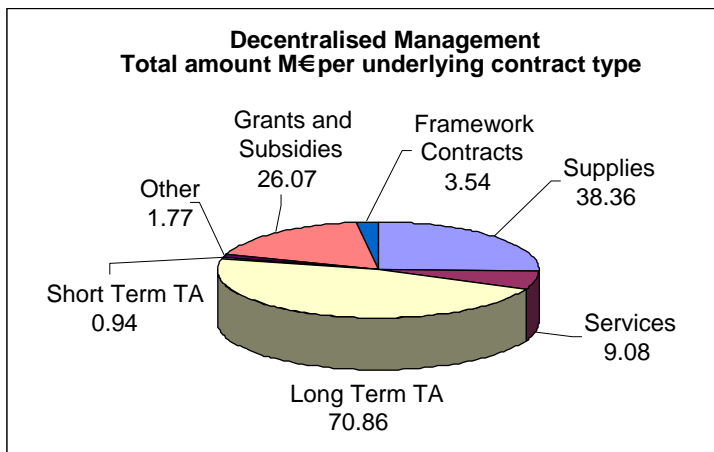
Key figures

In 2010, DG Enlargement committed **€290 million** and paid **€197 million** in implementation through the *decentralised management system with ex-ante controls (DIS)*. Programmes concerned: Croatia, Turkey, and former Yugoslav Republic of Macedonia programmes (no payments in decentralised management in this country in 2010).

In 2010, DG Enlargement committed no new funds, and disbursed **€114 million** through the *Extended Decentralised Implementation System without ex-ante controls (EDIS)*. Programmes concerned: Ongoing programmes in the twelve New Member States.

NOTE: The contracts in the charts shown are final contracts between national authorities and final beneficiaries. They are not financing agreements between the Commission and national authorities, for which such a breakdown would be meaningless. As a consequence, total number and value of 2010 contracts in the charts does not match totals for implementation under decentralised management in 2010 shown in DG Enlargement's AAR, which are based on said financing agreements.

Total amount contracted € 150 million



Management and control systems : stages and main actors

Selection process

Under both DIS and EDIS, national authorities are responsible for all

<p>(of beneficiaries, intermediaries, agencies, contractors etc.), including preventive measures</p>	<p>tendering and contracting, implementation and payments. Under DIS, all aspects of the tendering and contracting processes are, however, subject to ex-ante controls by the relevant EU Delegation – they are waived upon the conferral of management powers for extended decentralisation (EDIS). Under IPA, this waiver can be granted separately for individual steps of the tendering and contracting procedure.</p> <p>After accession, the use of national procurement rules is obligatory in accordance with EU public procurement law.</p> <p>In both DIS and EDIS, the Commission relies on the systems, as accredited and audited through systems and sub-systems audits. In DIS, reliance is additionally on ex-ante Commission checks.</p>
<p>Communication and information measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</p>	<p>In decentralised modes, the national authorities report all underlying transactions to the Commission through an IT system – iPerseus – on a regular basis. At the end of the implementation of each Financing Memorandum, the National Authorising Officer submits a Final Declaration (financial) accompanied by a Progress Report (substantive) which is the basis for a clearance of accounts procedure.</p> <p>Regular communication with the beneficiaries and national authorities, including implementation reviewing, is ensured through Joint Monitoring Committees and Subcommittees.</p>
<p>Preventive and corrective controls and audit</p>	<p><u>Preventive controls and audits</u></p> <p>This section outlines the controls which are undertaken <i>prior to the commitments and payments</i> of the underlying implementation transactions.</p> <p><i>Systems audits</i></p> <p>Audits of national authorities’ systems are designed to support the operational Unit’s decisions as regards conferral of management powers (decentralisation). After the decision on conferral of management powers, systems audits test continued compliance with the underlying management standards. Findings may lead to requests for reinstatement of compliance, to financial corrections or to the withdrawal of the conferral of management powers decision if necessary.</p> <p><i>Ex ante transaction controls</i></p> <p>In decentralised management in general, the Commission AOSD for commitments engages himself at project fiche level only. The responsibility of the AOSD for payments (and of the person responsible for the related Certified Correct visa) must therefore extend to ensuring the legality and regularity of the underlying contracting undertaken by the National Authorities, which comes after the formal act of the AOSD for commitments⁶⁴.</p> <p>In terms of management responsibility, the AOSDs for commitments are fully responsible for ensuring the project fiches meet the requirements mentioned above⁶⁵.</p>

⁶⁴ Following an IAC audit on the DG’s financial circuits, the DG decided in early 2011 to optimise its control and organisational approach to decentralised and centralised direct management. The AOSD responsibilities for commitments and payments, formerly split, are to be brought together under the Director responsible for operations in a given country or area.

⁶⁵ It is worth noting that in strictly legal terms the project fiches are not the subject of the Commission decision. They are only ‘for information’ in the inter-service consultation. Neither are they part of the Financing Agreement legal commitment. They come into force by a separate legal commitment through exchange of letters which details the Financing Agreement. They are considered to have passed through the same circuit as the Financing Agreement – but this

	<p>In decentralised implementation, a substantial degree of reliance is placed on the national structures. For National Programmes, the operational Directorate's (AOSD) assessment is supported by a visa on 'implementability' given by the Head of Delegation. Nonetheless, it is finally the responsibility of the operational AOSD in this case to avoid the risk that the design and selection process put in place is not adequate. The levels of responsibility for amendments to 'project fiches' are set out in a specific Vademecum⁶⁶. In all circumstances implementation is bound by the project fiche which is in force at that time.</p> <p>The exact organisational responsibilities of different actors are defined in the IPA regulation and coordinated where possible with DG REGIO, DG EMPL and DG AGRI, which also operate under the same regulation.</p> <p>Delegations focus on helping the National Authorities improve their systems and thus reduce the 'rejection rates' of the procurement files they submit to ex ante approval, rather than on heavy direct intervention at transaction level to ensure high contracting rates.</p> <p>IPA implementing rules include detailed provisions for calculating and applying financial corrections including possible flat rate or extrapolated financial corrections.</p>
<p>Detective and corrective controls:</p> <p>Checks and monitoring during the initial phases of the programme/contract</p> <p>Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p>Detective controls and audits</p> <p>This section outlines the controls which take place after the underlying implementation transactions. In the case of 2-level implementations like decentralised management these may include controls which are detective from the point of view of the implementation transactions but preventive from the point of view of the Commission's payment (or clearance) transactions.</p> <p>If undertaken prior to the Commission payment, the latter will be undertaken for the benefit of the AOSD for payments. If undertaken after the Commission payment they will be for the benefit of higher AO(S)Ds.</p> <p><i>Ex post controls at transaction level in decentralised management</i></p> <p>a) <i>At national level</i></p> <p>The National Authorities themselves should already undertake some ex-post controls ('secondary' controls according to the terminology of the Court of Auditors). These may already be at 2 levels: i) those undertaken by the NAO to ensure confidence in the work of the PAO; and ii) those undertaken independently of the NAO by an Audit Authority to provide the Commission with comfort. The latter controls are the only legally mandatory for IPA.</p> <p>b) <i>At Commission level, prior to payment (or clearance)</i></p> <p>The Commission monitors the general adequacy and the performance of those national systems. The main tool for monitoring project progress are the monitoring reports from the National Authorities and where appropriate evaluation reports from the Commission. The main tools for monitoring the effectiveness of systems in ensuring legality and regularity are National</p>

means it is possible to modify project fiches without another Commission decision, so long as the changes are relatively limited and do not change the substance of the objectives which *are* included in the Financing Decision / Financing Agreement. Limited changes mean both changes within project fiches without budgetary impact, consisting of "minor changes to the essential elements of an indicative nature", and changes between project fiches with budgetary impact consisting of reallocations from one project's unspent funds to another one up to a limit of 15% of the first project's allocation.

⁶⁶ Vademecum for the adoption of amending Financing Decisions and Administrative Support Programmes under components I and II.

	<p>Authorities' own ex-ante controls and audits, together with operational and audit reports from the Commission.</p> <p>The principal forum at which the Commission engages with the National Authority on these matters is the Joint Monitoring Committee (JMC). It includes all relevant stakeholders, i.e. the National Aid Coordinator, National Authorising Officer, Implementing Agencies and the Commission. The JMC reviews the programme based on comprehensive implementation status reports and agrees on corrective action to improve implementation and address problematic issues. The JMC is supported by Sectoral Monitoring Committees and project level Steering Committees. The Commission is represented in the JMCs by its Geographical / Operational Units and its Delegations (where they exist).</p> <p>The Commission transfers funds to the national authorities on the basis of forecasts of needs. The AOSD for payments executes these transfers when he is assured that the conditions laid down in the financing agreements have been met. This assurance is mainly based on national authorities' reporting, joint monitoring, the Commission's own regular monitoring, reliance on the national systems based on initial accreditation of systems documentation prior to decentralisation⁶⁷, regular follow-up audits of the national systems or parts of these systems, and some statistically sampled transaction ex-post controls. Where implementation is being phased out in new Member States, reporting and monitoring is gradually simplified to take account of decreasing risk where appropriate.</p> <p>The most essential controls prior to these payments are those which support the 'certified correct' visa. This is given by the Head of Delegation⁶⁸.</p> <p>These visas should confirm reasonable assurance of legality and regularity of both commitments and payments at transaction level (and of co-financing where appropriate). They may be supported by the ex-ante controls over procurement and grant award – and, in the case of payments, by some sampled monitoring on-the-spot of deliverables⁶⁹.</p> <p>These controls are complemented by the financial verification controls undertaken by the Financial Execution Unit and also by follow-up systems audits – both audits following up on the conditions of a conferral of management decision and deeper subsystem audits taking account of transaction file reviews.</p> <p><i>c) At Commission level after payment</i></p> <p>To provide further assurance to the Director General concerning the functioning of the control systems the operational audit unit takes a random sample of underlying contracts from each year's programmes as declared in final statements of claim by the National Authorities and audits them with a view to forming an overall statistical opinion across the whole programme.</p>
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⁶⁷ For all decentralisations since 2001.

⁶⁸ Prior to the waiver of ex-ante control, which in practice so far has normally taken place on accession; by a post-accession task force in Brussels after closure of the Delegations.

⁶⁹ Intermediate claims from national authorities in decentralised programmes reflect real progress in project implementation, as confirmed by the holder of the certified correct visa. Nonetheless, it is not realistic to reach an overall reasonable assurance opinion on legality and regularity of the underlying contracts and payments until the final statement of claim has been received; some of the local payments cleared are themselves only national pre-financings rather than interim and final payments.

The clearance at the level of the transfer by the Commission of the requested funds does not therefore mean that a full position on underlying legality and regularity has been taken by the AOSD for payments concerned.

	<p>The results of these audits at contract level may secondarily lead to recoveries.</p> <p>It should be noted that, with IPA, national audit authorities will be expected to conduct such a sampled ex post control in support of the final declaration submitted by the NAO to the Commission for each programme. These controls will therefore change nature, and become, from the Commission's point of view, ex ante to (final) payment as they will form part of the input to the certified correct visa at Commission level in the financial circuit for the clearance of accounts.</p> <p>The independent Commission-side control level in this respect will then be a systems-level control (albeit naturally with a transaction-level component) of the audit authorities' ex post control work.</p>
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Internal control template for **CENTRALISED – DIRECT** management

Characteristics of the Centralised – Direct management mode

Summary

In the case of centralised direct management, the legal commitments of DG Enlargement are direct contracts or grant awards which are subject to extensive procedural legality and regularity obligations which must be managed for each transaction by Commission staff under DG Enlargement responsibility (in Brussels or Delegations). Each individual transaction is subject to a decision taken by relatively senior AOSDs. The control systems in place are directly installed by the AOD but continually assessed for effectiveness by the senior AOSDs, who set an example as role models of sound management. Those systems are monitored and adjusted from time to time, but the AOD's primary assurance for underlying transactions comes from reliance on his own staff's transaction decisions. If an irregularity in a transaction is identified ex-post it might sometimes be possible to undertake a recovery. However, it would be rare to consider any extrapolation of the recovery to other transactions since the contractors would normally be different for most transactions.

A policy for monitoring and controls leading to payment claim validation is in force since 2009, covering the roles of output monitoring, document desk review and on-the-spot checks, including audit, in centralised management⁷⁰.

Key inherent risks in centralised-direct management

Inherent risks in this environment can be considered relatively low since DG Enlargement has direct access to all relevant information and can ensure appropriate ex-ante controls and subsequent checks through its financial circuits. A similar risk level is present where DG ELARG grants cross-delegations to another Commission service (such as DG ECFIN or DG ESTAT). DG ELARG can rely on the fact that these other Commission services apply similar controls and checks.

In the case of the de-concentrated mode where implementation is carried out in Delegations, the inherent risks are determined by the control environment put in place in the Delegation. Difficulties result from the fact that a number of important management decisions, concerning e.g. staffing and staffing levels, general training and IT, are taken outside DG Enlargement.

⁷⁰ Note 200943 of 2 April 2009, annex 2.

Management mode:

Centralised direct – central (the funds are managed by DG ELARG services at HQ)

Centralised direct – de-concentrated (the funds are managed by the Delegations under the supervision of DG ELARG)

Cross-delegated to other DGs (the funds are managed by another service of the Commission)

Key figures:

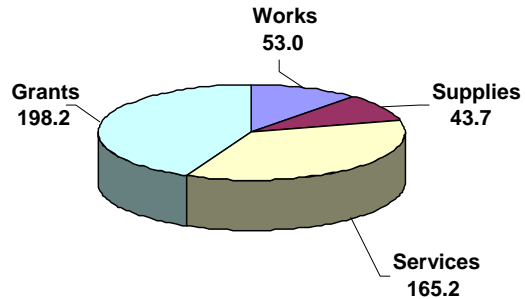
Under centralised direct management in HQ, DG Enlargement committed € **83.7 million** and paid € **134.4 million**.

Under deconcentrated management, DG Enlargement committed € **348 million** and paid € **412.6 million**.

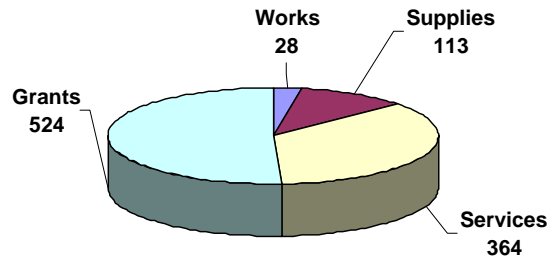
Under cross-delegation DG Enlargement delegated € **35.6 million** for commitments and € **101.1 million** for payments.

Total amount contracted €460.1 million
(level 2 commitments, 2010)

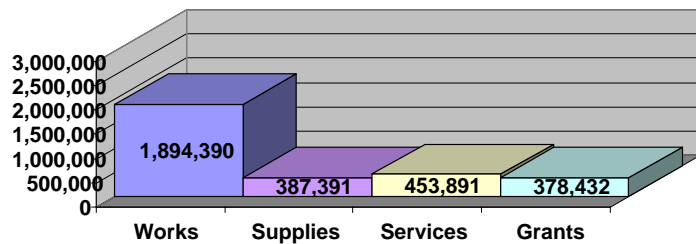
Centralised Management
Total amount M€, per type of contract



Centralised Management
Number of contracts per type



Centralised Management
Average amount per type of contract



Management and control systems : stages and main actors

Selection process (of beneficiaries, intermediaries, agencies, contractors etc.), including **preventive** measures

Headquarters or the Delegations are responsible for tendering, contracting, implementation and payments. Contracting follows the provisions of the Commission external aid framework (the practical guide) in line with the Financial Regulation.

Where problems occur in implementation, DG Enlargement takes preventive measures to protect the financial interests of the Community, which may

	include the suspension of projects.
<p>Preventive and corrective controls</p>	<p><u>Preventive controls</u></p> <p>Controls undertaken <i>prior to the commitments</i> and payments of the underlying implementation transactions:</p> <p><i>Ex ante transaction controls</i></p> <p>The authority to take financial implementation decisions at transaction level (principally commitment and payment decisions) is usually subdelegated further by the Director level AOSD. However, the sub-delegating Authorising Officer retains the obligation to supervise the adequacy of the control systems applied by the subdelegated Authorising Officer. Before taking a decision on a transaction, the responsible AOSD has the right and duty to consult a supporting 'financial circuit' on specific aspects of the transaction, as specified by the Director General and described in the guide to Financial Circuits.</p> <p><i>Financial circuits</i></p> <p>In DG Enlargement, specific financial circuits have been set up detailing steps for each financial transaction under each implementation mode.</p> <ul style="list-style-type: none"> ▶ legality and consistency check, aimed at ascertaining the legality and regularity of the contract; ▶ checklist for contracts; ▶ check of the financial/budgetary aspects. <p>Adherence to financial circuits is verified through management supervision.</p>
<p>Detective and corrective controls:</p> <p>Checks and monitoring during the initial phases of the programme/contract</p> <p>Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p><u>Detective controls</u></p> <p>This section outlines the controls which take place <i>after</i> the underlying implementation transactions.</p> <p><i>Centralised direct management in Brussels and in Delegations' deconcentrated management – prior to Commission payments</i></p> <p>In most cases these controls represent supervision over the activities of the transaction level managers in the Commission's staff.</p> <p>They are firstly supervised by the relevant operational Directorates who will receive reports, assess the risk management etc at transaction level.</p> <p><u>Ex-post controls</u></p> <p>In addition, a policy for Directorate E to undertake some systematic ex-post checks of transactions has been adopted. Its implementation started in 2010⁷¹. Some types of ex-post control might be undertaken directly by the transaction level AOSD. If the AOSD is e.g. relying on audit certificates in grants s/he may need to manage the risk of misstatement in these audit certificates – and may from time to time undertake ex-post controls to double-check the quality of the certificates system on which s/he is relying.</p>

⁷¹ However, due to resource bottlenecks, in 2010 only two assignments and one report could be concluded. Full results will be disclosed in AAR 2011.

Internal control template for **JOINT** management

Characteristics of the **JOINT** management mode

Summary

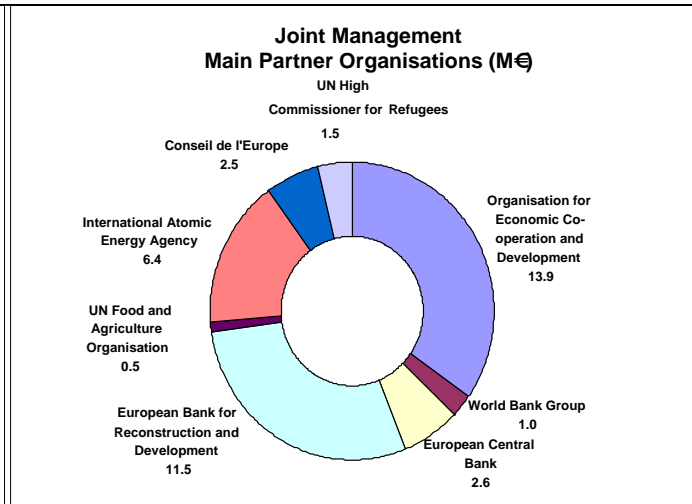
In the case of joint management, the legal commitments of DG Enlargement are implemented with/through international organisations via "Contribution Agreements". These are subject to extensive procedural legality and regularity obligations which must be managed for each transaction by Commission staff under DG Enlargement responsibility (in Brussels or Delegations). Each Contribution Agreement is subject to a decision taken by relatively senior AOSDs. The control systems in place are identical to the ones used for centralised management.

Key inherent risks in centralised-direct management

Inherent risks in this environment can be considered very low since DG Enlargement and the EU Delegations have direct access to all relevant information and can ensure appropriate ex-ante controls and subsequent checks through its financial circuits, and the Commission is working with international organisations which have reliable systems of control, audit, accounting and procurement.

Key figures:

Under joint management, DG Enlargement committed (at level 1) **€145 million** and paid **€54 million**.
 Number of Contribution Agreements signed in 2010: 14, of which 5 in HQ and 9 in EUDs
 Amount of Contribution Agreements signed in 2010: **€ 40 million**, of which €28 million in HQ and €12 million in EUDs



Management and control systems : stages and main actors

The legislators have sought to give a differentiated treatment to contributions to international organisations with reliable systems of control, audit, accounting and procurement (Article 53d FR).

Pursuant to this principle, the international organisation is responsible for implementing an action financed by the Commission, controlling its expenditure and, ultimately, for auditing it. Hence the Commission may rely on the audit arrangements of selected international organisations.

However, it reserves the right to arrange its own controls, including on the spot, of actions implemented by joint management at various stages of implementation, through so called 'verification missions' that assess the financial management system in place and during which a limited number of transactions are selected for checking. The Commission has signed framework agreements on financial and contractual procedures with, inter alia, a number of UN agencies (Financial and Administrative Framework Agreement) and the World Bank (Trust Fund and Co-Financing Framework Agreement).

Selection process
 (of beneficiaries, intermediaries, agencies, contractors etc.), including **preventive** measures

The European Commission must ensure that suitable arrangements exist for the control and audit of the action in its entirety when certain implementation tasks are entrusted to an international organisation. The Commission therefore makes prior (compliance) assessments of the accounting, audit, control and procurement procedures of the organisation. The aim is to assess whether the Organisation's procedures are suitable and offer sufficient guarantees with regards to the management of EC funds. Where this is the case the

	<p>organisation can use its own procedures. If not or in specific cases, the Commission and the organisation agree to apply other rules e.g. Commission procedures, which provide such guarantees. These are specified in the standard contribution agreement signed with the organisation. This check can be realised ex ante or ex post (signature of the agreement based on a "presumption of conformity") based on the Commission's long-standing and problem-free cooperation with the international organisations and the consequent assessment of a low level of risk.</p>
<p>Preventive and corrective controls</p>	<p><u>Preventive controls</u></p> <p>Controls undertaken <i>prior to the commitments</i> and payments of the underlying implementation transactions:</p> <p>These are identical to the ones carried out under the centralised management mode.</p> <p>In addition, representatives of the Commission are invited to join any donor committee which may be set up in connection with Multi-Donor Actions and to participate in the main monitoring and evaluation missions relating to the performance of the action (or the results of such missions are reported).</p> <p>There is also the possibility of evaluation missions by the representatives of the Commission.</p>
<p>Detective and corrective controls: Checks and monitoring during the initial phases of the programme/contract Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p><u>Detective controls</u></p> <p>This section outlines the controls which take place <i>after</i> the underlying implementation transactions:</p> <p>In most cases these controls represent supervision over the activities of the transaction level managers in the Commission's staff.</p> <p>They are firstly supervised by the relevant operational Directorates who will receive reports, assess the risk management etc at transaction level.</p> <p><u>Ex-post controls</u></p> <p>On a risk assessment basis Contribution Agreements are subject to verification through specific Verification Missions.</p>

Applicable to all management modes

Feedback which enables control activities to be optimised	
<p>Verification that processes are working as designed</p>	<p><u>Supervision</u></p> <p>In DG Enlargement, specific financial circuits have been set up detailing steps for each financial transaction under each implementation mode. Adherence to financial circuits is verified through management supervision.</p> <p>The DG's Internal Control Coordinator (ICC) oversees and regularly assesses the effectiveness of DG Enlargement's controls in terms of the Commission's internal control standards. The ICC twice a year submits an Internal Control</p>

Report of the Director General reviewing adherence to internal control standards and developments relating to risk management and implementation of audit recommendations..

Evaluation of the efficiency of the control strategy

Authorising officers plan and demonstrate their assurance concerning the controls which ensure the legality and regularity of underlying transactions through a process which is fully integrated with the management plan and annual activity report processes.

Authorising officers by sub-delegation (Heads of EU Delegation, and Heads of Unit and Directors at headquarters) submit Annual Assurance Strategies early in the year. The assurance strategies describe the overall risk and control context and set out AOSDs' implementation targets, as well as their risk-assessed plans for the mix of control and monitoring tools they intend to use.

Assurance strategies comprise an explanation of the operational risks foreseen in the implementation of the funds; control work plans based on transaction-level risk, including a monitoring plan, a plan for project level evaluations, and an audit plan for audits supporting in-circuit visas. In addition, AOSDs contribute to the DG's central evaluation and systems audits plans.

Quarterly financial reports and twice-a-year AOSD management reports take stock of the implementation of the annual assurance strategies. In these reports, AOSDs are requested to report on the implementation of their assurance strategies and in particular on the "building blocks" for assurance gained from this implementation.

Implementation of the control strategy by the Delegations of the enlargement zone is regularly monitored and discussed with the Heads of Delegation by the geographic Directors.

A global assessment of the efficiency of the control strategy takes place in the context of the Internal Control Reports and the Annual Activity Report. Where appropriate, the control strategy will be amended in the light of past experience

Ex-post controls

Ex-post controls in centralised and decentralised modes based on samples from closed programmes test the overall performance of the integrated internal control system (Commission and decentralised systems) against legality and regularity standards. These audits are carried out after formal programme expiry but before official closure. They serve as "secondary level controls", reviewing transactions performed by the various actors of the national administrations and Commission services. They mainly focus on financial issues, whereas ex-post evaluations assess the effectiveness and impact of completed programmes. Findings from closure audits are assessed by the AOSD for recoveries and in some cases lead to recovery of funds.

Internal audit

Independent internal audits are carried out by the DG's Internal Audit Capability (IAC) that reviews issues arising from identified risks. The IAC issues recommendations for improvements to management methods. The AOD then invites the operational director(s) responsible for implementation of the given policy area(s) to submit an action plan indicating how they propose to implement these recommendations. The execution of the agreed

	action plans is monitored by the Internal Control Coordinator.
<p>Evaluation and monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<p><u>Evaluation and Monitoring</u></p> <p>DG Enlargement carries out evaluations principally to provide support to operational decision-making (FR 27). These decisions may include both the original programming and also any need for amendments to the project fiche. Evaluations sometimes have an 'accountability' aspect for past use of funds as well, although this is considered a secondary purpose.</p> <p>In particular, evaluations should provide advice on how to improve the intervention approach in order to improve the ability of programmes to deliver on their higher level objectives.</p> <p>Currently, most evaluations have been focussed on the assessment of projects in progress under the 'DAC criteria' of efficiency, effectiveness, relevance, utility and sustainability. However, other types of evaluation are possible which are not based on assessment of progress of ELARG programmes (e.g. thematic evaluations, policy evaluations).</p> <p>Evaluation activities are co-ordinated by the horizontal Operational Audit and Evaluation unit but not limited to evaluations carried out by this unit or commissioned by this unit.</p> <p>In particular, Delegations can and shall carry out or commission their own evaluations.</p> <p>Evaluations can take the form of:</p> <ul style="list-style-type: none"> Ex ante evaluations (including impact assessments) Interim evaluations Ex-post evaluations Ad-hoc evaluations. <p>In the de-centralised management mode, the picture is completed by evaluations carried out by the appropriate national authorities of the beneficiary countries. The Commission (DG Enlargement) carries out interim evaluations only until the Conferral of Management takes place⁷².</p> <p>In addition projects in most beneficiary countries – and for regional and horizontal programmes - are subject to Result Oriented Monitoring (ROM), which is performed by a specialised contractor with resident monitors. ROM also provides early project level information about the DAC criteria. It is important that evaluations are able to focus on their core purpose by building on the results of ROM rather than duplicating information which can be found from ROM.</p> <p>DG Enlargement has established annual CARDS/IPA Monitoring meetings to monitor and review the financial assistance and to prepare the ground for the future set-up of Joint Monitoring Committees (once the assistance to the present potential candidate countries has been decentralised).</p> <p>In the Strategic Programming and Planning (SPP) cycle evaluation results are expected to provide an essential input into discussions and analyses of policy objectives, priority activities and resource requirements. To achieve this, the evaluation results must be fed into the various stages of the SPP cycle. The Resource Directorate, which is in charge of preparing the APS and AMP documents, ensures the necessary integration of efforts and coherent planning</p>

⁷² Article 82 of the IPA Implementation Rules.

	<p>of evaluation activities in order to avoid duplication of efforts and ensure synergies between ex-ante evaluation and impact assessment.</p>
<p>High level management reporting</p>	<p><u>Reporting</u></p> <p>Under centralised (direct) management, the reporting lines go from the Head of unit to the operational Director and from the Director to the Director General.</p> <p>Under decentralised/ deconcentrated management, the Delegation ensures the necessary contacts with the national authorities of the beneficiary country. Within the Commission, the reporting lines go from the Head of Delegation to the geographic Director and from the Director to the Director General.</p> <p>One of the key modalities of the supervision over AOSDs is that each AOSD at each level prepares four quarterly reports on management of funds, including an implementation review, and a management 'AOSD' report every 6 months for the benefit of the AO(S)D from whom delegation is received. The management reports include the summary drawn by the geographical Directors from the reports received from the Delegations and/or the national authorities of the beneficiary country. They include specific reports on risk management, implementation of audit recommendations, internal controls, legality and regularity indicators, and a conclusion on the assurance.</p> <p>This supplements the planning of controls at the Management Plan and Assurance Strategy stage and the annual reporting at the AAR stage. At the planning stage, AOSDs are required to prepare annual assurance strategies, including plans for the implementation of the different types of controls foreseen, e.g. ex ante audits, monitoring plans, self-evaluations, ex post controls.</p> <p>Where ex ante controls or systems audits reveal weaknesses in the systems (e.g. unclear rules, missing detailed instructions, missing supervision of actors, lack of resources...), the competent operational Directorate takes the necessary remedial action.</p> <p>Where ex post controls or investigations by OLAF allow identifying an irregularity or suspicion of fraud affecting a transaction, the competent operational unit initiates recovery of the amount involved. The recovery order is processed by the unit "Financial execution".</p> <p>System findings can lead to flat rate corrections even without identifying an underlying transaction irregularity.</p> <p>Transaction or system findings may also lead to the need to reassess specific transactions already processed. In particular in the case of decentralised management the IPA regulation requires the implications of both transaction irregularities and systems weaknesses to be assessed beyond the specific findings. Where appropriate transaction irregularities should be extrapolated – and weaknesses in key systems may lead to flat rate corrections even when no specific transaction irregularity has been found.</p>

ANNEX 6: Implementation through national or international public sector bodies

EUROPEAN INVESTMENT FUND (EIF)

1. Programmes concerned:

1.1 Participation in the European Fund for South East Europe

The overall objective of European Fund for South East Europe (EFSE) is to foster economic development and prosperity in Southeast Europe, by providing micro credits to enterprises and households. In addition, the special structuring of the funds (public donors carry the first loss risk) attracts private sector capital to invest in the Fund, thereby leveraging scarce public donors' support for the development of the private sector.

The EFSE enabled donors, including the European Commission, to exit from their role as “loan providers” and to “institutionalise” the so-called “European Funds” while leveraging funds already invested. The “European Funds” were set up in the late 90s to address post-war reconstruction needs in the Western Balkans through revolving loan facilities for commercial banks and non-bank financial institutions in Bosnia-Herzegovina, Serbia, Montenegro and Kosovo. The European Commission's participation in EFSE is equity participation and accounted for on the asset side of the Commission's balance sheet until the transfer of ownership of the shares to the beneficiaries in 2015.

1.2. Participation in the Energy Efficiency Fund (Green for Growth)

The overall objective of the Energy Efficiency Fund is to re-finance financial intermediaries for lending to end-borrowers and to ESCOs (Energy Saving Companies) of energy efficient investments, provide direct lending to end-borrowers of energy efficient investments in line with the *acquis* in the field of energy efficiency and with the objectives of the Energy Community Treaty, and to provide technical assistance to end-borrowers and financial intermediaries to engage in energy efficient lending.

2. Annual budget amount entrusted

In 2006 the Commission and the European Agency for Reconstruction authorised the transfer of outstanding loans under the “European Funds” amounting to €41.78 million to the EFSE.

In 2007 the Commission empowered the European Agency for Reconstruction to authorise the Agro-Business Development Unit (ABU) to transfer an outstanding loan with Kreditimi Rural I Kosovës LLC (KRK) amounting to a nominal value of €5.73 million to EFSE.

In 2008 the Commission increased its participation in EFSE by:

investing 14.5 M€ of fresh funds, of which €7.5 million earmarked for Albania and the former Yugoslav Republic of Macedonia;

transferring two loan agreements entered into between EBRD (on behalf of the EC) and ProCredit Bank d.d. dated 8 December 1998 and 15 November 2000 (each as amended) to EFSE at an initial nominal amount of approximately €11.5 million.

In 2009 the Commission decided to increase its participation in EFSE by €10 million of fresh funds to provide additional refinancing loans to Micro and Small Enterprises and equity participations in selected financial institutions (as part of DG Enlargement's financial crisis response package). The net asset value of the Commission's contribution in EFSE stands at €97.4 million as at 31/12/2010.

In 2009 the Commission decided to set up the Energy Efficiency fund (Green for Growth) with an amount of €20 million of fresh funds (as part of DG Enlargement's financial crisis response package). The net asset value of the Commission's contribution in Green for Growth stands at €19.3 million as at 31/12/2010.

The European Commission has no direct relation with the European Fund for South East Europe or with the Energy Efficiency Fund. Based on a mandate signed between the European Commission and the European Investment Fund (EIF), the EIF is the registered shareholder in EFSE and the EEF, on behalf of the EC, carries out subscriptions and other tasks as specified under 6.

3. Duration of the delegation

Execution of the participation in the EFSE runs until 31.12.2015, when the agreement with EIF will end and shares are expected to be transferred to beneficiaries. The disbursement deadline is 31.12.2016 (contributions are always fully disbursed up-front).

Execution of the participation in the Energy Efficiency Fund runs until 31.12.2015, disbursement deadline is 31.12.2016.

4. Justification of recourse to Indirect centralised management

The projects, involving specialised financial know-how, should be more efficiently managed by a specialised institution such as the EIF. In addition, as stated above, as regards the EFSE, setting up this fund enabled the European Commission to exit from a role as loan provider and leverage funds already invested.

5. Justification of the selection of the body (identity, selection criteria, possible indication in the legal basis)

The EIF was specifically created to hold, acquire, manage and dispose of participations in any enterprise. It was established by the European Investment Bank (EIB) on 25 May 1994. By Council Decision 94/375/EC of 6 June 1994 the European Community became a member of the EIF. Article 28 of the EIF statutes specifies that EIF may accept the tasks of administering special resources entrusted to it by third parties, provided they are compatible with its tasks, that they are entered into separate accounts and they are adequately remunerated.

6. Synthetic description of the implementing tasks entrusted to this body

The Commission entrusted the EIF with the following tasks:

- (1) to subscribe EU-Programme shares in EFSE and in the Energy Efficiency Fund;
- (2) to take part in the decision making organs of EFSE and the Energy Efficiency Fund;
- (3) to monitor and report on progress of EFSE and of the Energy Efficiency Fund.

GIZ (GTZ till 31.12.2010)

1. Programmes concerned:

1.1 Accession to Internal Market project of the IPA 2009 Montenegro programme

Competition and State Aid - the component 1 of the project provides, among others, for the provision of ongoing support and hands-on training to the newly established Authority for Protection of Competition (APC); Support for the implementation of the strategic development plan and the action plan; development of a comprehensive training programme; preparation of a list of existing state aid schemes, analysis of the schemes and preparation of opinions on their compliance with the State aid regulations and obligations set in the Stabilisation and Association Agreement.

Consumer protection and Market Surveillance project (component 2) provides, among others, for the preparation of selected tables of concordance based upon analysis of the current consumer protection legislation; preparation of a 2nd National Plan for Consumer Protection and corresponding action plan; introducing (drafting, promoting) amendments to Consumer Protection Law; Organisation of information and training sessions for NGOs; Organisation of a public awareness campaign on consumer protection and/or market surveillance issues.

1.2 State Audit Institute of the IPA 2009 Montenegro programme.

The project aims at improving the audit process at the State Audit Institute (SAI), including planning, implementation and reporting, and will ensure its compliance with the EU best practice. It will also support the establishment and the building of the capacity of an Audit Authority for auditing the IPA funds.

2. Annual budget amounts entrusted

The amount allocated in 2009 for components 1 and 2 of the Accession to Internal Market project in Montenegro was €800,000.

The amount allocated in 2009 for the State Audit Institute project in Montenegro was €800,000.

3. Duration of the delegation

- It is foreseen that the implementation of components 1 and 2 of the Accession to Internal Market project in Montenegro runs until 1/10/2011.
- It is foreseen that the implementation of the State Audit Institute project in Montenegro runs until 1/04/2012.

4. Justification of recourse to Indirect centralised management

These types of projects can be equally efficiently managed by a specialised institution such as GIZ. As mentioned below, currently GIZ is implementing a similar project in Montenegro to the full satisfaction of the beneficiaries. Building on this experience facilitates smooth continuation of activities in this key area and strengthens ownership of the European integration process in a potential candidate country by EU member states, while it improves opportunities for the beneficiary to benefit from the Member States' experience.

5. Justification of the selection of the body (identity, selection criteria, possible indication in the legal basis)

- Only two of the accredited agencies are active in Montenegro: ADA (Austrian Development Agency) and GIZ. GIZ is the only EU Member State agency interested in and capable of providing this assistance. The donor cooperation dialogue in Montenegro (meetings held on 08/04/08, on 04/06/09 and on 17/11/08) has not so far resulted in the identification of another Member State interested in taking active measures in the project sector.

More specifically as regards the Internal Market project:

- GIZ has exclusive experience in Montenegro in introducing the EU internal market policies and in contributing to the approximation of the legislation in the key project fields (competition and state aid, consumer protection and market surveillance and IPR). Currently,
- GIZ is implementing TRIM MNE Project to the full satisfaction of the beneficiaries. There is a need to sustain the reforms in the targeted sectors (competition and state aid, consumer protection and market surveillance) without delay and using the momentum gained through the TRIM MNE project. This requires a very quick launch of the current project after the signing of the Financing Agreement as the current TRIM MNE project expires in May 2009.
- GIZ will continue providing financial support to SAI at bilateral level in parallel to this IPA project. The amount of €3 million for the period 2009 – 2010 is dedicated to GIZ's target orientated "Economic development and employment promotion" measure, which correlates with the proposed project. Thus, the two principles of concentration of funds and complementarity of actions and funds will be applied.

More specifically as regards the State Audit Institute project:

- GIZ has exclusive experience in Montenegro in establishing and building the capacity of the State Audit Institution of Montenegro through a previous project funded from the German budget. The president of SAI has expressed high satisfaction with the services provided by GIZ so far and strong willingness to continue this cooperation.
- GIZ will continue providing financial support to SAI at bilateral level in parallel to this IPA project. The amount of €0.8 million for the period 2009 – 2010 is dedicated to GIZ's target orientated "Budget management and effective financial control/ State Audit Institution" measure. Thus, the two principles of concentration of funds and complementarity of actions and funds will be applied.

6. Synthetic description of the implementing tasks entrusted to this body

- Overall project supervision and coordination to ensure high quality outputs and results;
- Mobilising short- and medium term experts and approval of their performance;
- Executing administrative tasks (i.e. preparation of reports, side letters etc.);
- Communication with the beneficiary and the Contracting authority;
- Participation in the regular Steering Committee meetings.

KfW

1. Programmes concerned:

1.1 The Municipal Window of the Infrastructure Project Facility Kosovo Window (IPA 2008 programme for Kosovo)

The project consists of:

- Developing and preparing a pipeline of infrastructure investment projects for support from the IPF Kosovo window
- Technical support to detailed preparation and implementation of pipeline projects (in cooperation with IPF TA)
- Co-financing support for infrastructure investments through joint co-financing
- Consultancy Services during the implementation phase of the investments. A minor part of the co-financing grant may be used for technical assistance directly contracted by the IFI.
- Update of capacity needs assessment of concerned stakeholders directly involved in the implementation of the supported investments
- Training and capacity building of beneficiaries directly involved in the implementation of the Investments.

1.2 Construction of a small hydro power plant Cijevna III (IPA 2009 Bosnia and Herzegovina programme)

The project purpose is to increase the hydro-power availability in Bosnia and Herzegovina and river regulation and reduction of flood events in the Doboj-Modriča area.

1.3 Water supply and Sewerage Collection in Banja Luka (IPA 2009 Bosnia and Herzegovina programme)

The project is embedded in the larger investment programme into the water supply and sewage collection network in Banja Luka. The works include extension and rehabilitation of water supply systems and construction of waste water collection systems, secondary network and house connections.

1.4 Rehabilitation and construction of water, waste water and solid waste infrastructure (IPA National Programme 2010 – Bosnia and Herzegovina)

The project purpose is the construction of the sewerage system in Banja Luka, RS. It contributes to the construction of pumping stations, sewerage mains, secondary network and house connections for the sewage system in Banja Luka.

1.5 Construction of Water Treatment Plant for the Regional Water Company Pristina (RWCP) (IPA National Programme 2010 – Kosovo)

Through this project the main transmissions, the existing network and the Badovc water treatment plant will be rehabilitated. The project also addresses water demand management via measures to improve metering, pricing and awareness building. Institutional support is being provided to improve billing and collection efficiency in order to stabilise the income of the water companies, and thereby ensure that investment is sustainable.

1.6 Construction of Water Supply and Sewerage Systems in selected municipalities (IPA National Programme 2010 – Albania)

The purpose of the project is the construction of Water Supply and Sewerage Systems in selected municipalities (Lushnje, Berat/Kucove, Fier, Saranda, Elbasan, and Korca and institutional support of the utility in Lezha.

2. Annual budget amount entrusted

- The amount entrusted in 2009 for the Municipal Window of the Infrastructure Project Facility Kosovo Window was €25 million.
- The amount entrusted in 2009 for the construction of a small hydro power plant Cijevna is €5.5 million.
- The amount entrusted in 2009 for the Water supply and Sewerage Collection in Banja Luka is € 1 million.
- The amount the Commission decided to allocate in 2010 for the project Rehabilitation and construction of water, waste water and solid waste infrastructure in Bosnia and Herzegovina is €1.5 million (the contracting will take place in 2011).
- The amount the Commission decided to allocate in 2010 for the construction of Water Treatment Plant for the Regional Water Company “Pristina” is €5 million (the contracting will take place in 2011).
- The amount the Commission decided to allocate in 2010 for the construction of the water supply and the sewerage systems in selected municipalities in Albania is €20 million.

3. Duration of the delegation

- It is foreseen that the implementation of the Municipal Window of the Infrastructure Project Facility Kosovo Window will run until 14/1/2017.
- It is foreseen that the implementation of the small hydro power plant Cijevna III will run until the second quarter of 2012.

- It is foreseen that the implementation of Water supply and Sewerage Collection in Banja Luka will run until the fourth quarter of 2012.
- It is foreseen that the implementation of the rehabilitation and construction of water, waste water and solid waste infrastructure in Banja Luka will run until the fourth quarter of 2014.
- It is foreseen that the construction of Water Treatment Plant for the Regional Water Company “Pristina” (RWCP) will run until the second quarter of 2014.
- It is foreseen that the construction of the water supply and the sewerage systems in selected municipalities will run until the third quarter of 2015.

4. Justification of recourse to Indirect centralised management

These types of projects should be more efficiently managed by a specialised institution such as KfW. The high level of coordination and transparency in carrying out the action KfW ensures with the EC both at headquarters and Delegation supports the recourse to continuing working with KfW in indirect centralised management.

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis)

KfW finances most of the investments. The presence in the field, direct contact with the end beneficiaries, specialized technical transfer created in the local authorities justify the recourse to their expertise. The institution has also a large capacity of pooling bilateral grants (German Government) to complement the actions.

In particular in Bosnia and Herzegovina, KfW is the only national development bank investing in energy and environment infrastructure and it offered co-financing of projects which are mature and ready to be implemented. KfW finances municipal infrastructure and provides technical assistance to water utilities also in Kakanj, Kostajnica, and Derventa. Apart from Banja Luka, a further project is under preparation in Bihac (wastewater collection and construction of a wastewater treatment plant).

Further on, KfW is the only International Financial Institution operating in Kosovo which is able to perform this kind of activity. This organisation has been working on the water sector for a long time now and has ongoing projects with the Pristina Regional Water Company.

For the project in Albania, the KfW was chosen on the basis of the bank’s broad experience in the water sector in the country and with a view to pool different sources of finance in order to allow implementation of large infrastructure projects. In addition, KfW will co-finance the project preparation phase – feasibility studies, detailed design and tender dossier - as well as the execution of works and supervision.

6. Synthetic description of the implementing tasks entrusted to this body

The tasks entrusted to this body are mainly management and supervision of infrastructure implementation, notably preparation of technical design (including an environmental impact assessment) and technical specifications, preparation of tender documents, tendering and contract award, feasibility studies, civil works, turnkey implementation. In their realization

KfW pays considerable attention to capacity-building at the final beneficiaries (i.e. municipalities) for tendering and administration, raising awareness on the balanced pricing of utilities, supporting regulatory changes, and other collateral activities which are crucial for the project's success.

LUX DEVELOPMENT (LD)

1. Programme concerned: National Programme for Montenegro under the IPA Transition Assistance and Institution Building Component for 2010.

The project consists of providing support for capacity building in the forestry sector. The purpose of the project is to strengthen the capacity of the Montenegro forestry sector through the establishment of, and training in, sustainable forest management systems in line with EU standards, specifically forthcoming EU Regulations on Placing Forest Produce on the EU Market, and the EU Regulation on Rural Development.

2. Annual budget amount entrusted

The amount entrusted in 2010 to Lux Development is €750.000 (the contracting will take place in 2011).

3. Duration of the delegation

It is foreseen that the contribution agreement with LD will run until 31/03/2013.

4. Justification of recourse to Indirect centralised management

This type of strategic projects is more efficiently managed by a specialised body which has already the experience both in the particular field and region.

5. Justification of the selection of the body (identity, selection criteria, possible indication in the legal basis)

The Ministry of Agriculture, Forestry and Water Management proposed LD as the appropriate partner to implement the IPA project because LD is the leading donor in forestry sector in Montenegro and has the existing project management capacity to manage the EC funds with little additional administrative cost.

6. Synthetic description of the implementing tasks entrusted to these bodies

The Commission entrusted the LD with the following tasks: preparation of tender documents; tendering and contract award feasibility studies; execution of the training modules.

ADA - AUSTRIAN DEVELOPMENT AGENCY

1. Programme concerned: National Programme for Albania under the IPA Transition Assistance and Institution Building Component for 2008 and 2010

Two projects will be implemented by ADA:

- Providing technical assistance to the Water Supply and Sanitation Sector (2010).

The aim is to address those areas and subjects where the largest needs are identified for a further strengthening of the sector.

- Project Preparation Facility(PPF) – (Phases I (2008) and II (2010))

The purpose of the project is to ensure that the Albanian authorities submit good quality project proposals to the European Commission for the implementation of European Partnership (EP) and the Stabilisation and Association Agreement (SAA) and to support effective implementation of these projects in Albania

2. Annual budget amount entrusted

The amount entrusted in 2010 to the technical assistance to the Water Supply and Sanitation Sector is €2 million (the contracting will take place in 2011).

The amounts entrusted to the Project Preparation Facility are:

- in 2008 - € 1 million (contracted in 2009)
- in 2010 - €0.5 million (the contracting will take place in 2011).

3. Duration of the delegation

It is foreseen that the delegation agreement for the technical assistance to the Water Supply and Sanitation Sector will run until the third quarter of 2015.

It is foreseen that the delegation agreements for PPF will run respectively:

- Phase I - until the third quarter of 2011.
- Phase II - until the third quarter of 2012

4. Justification of recourse to Indirect centralised management

Providing technical assistance, particularly to water and sanitation projects, is a specific task that requires technical specialisation. The previous experience proves that this type of projects is more efficiently managed by a specialised institution such as ADA. With the high level of expertise, coordination and transparency in carrying out the actions, ADA ensures the successful implementation of the projects in indirect centralised management.

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis)

ADA combines many years of experience and expertise with an efficient structure and stands for modern international cooperation. The sector of water and sanitation is considered one of the key activities of ADA.

The Agency has a proven track record of successful work with water management bodies in Albania and it has been chosen for the complementary technical assistant part of this project.

ADA is successfully implementing the PPF project in Albania since 2008 on the basis of indirect centralised management.

6. Synthetic description of the implementing tasks entrusted to these bodies

The Commission entrusted ADA with the following tasks:

- Technical assistance for sector analysis
- Drafting of (pre-)feasibility and impact studies and carrying out (pre-) investment studies (environmental impact assessments, business plans, market studies, economic and cost-benefit analysis, investment appraisals etc)
- Carry out or facilitate workshops for the stakeholder consultations
- Provide assistance for enhancement of a Web-linked monitoring and evaluation system
- Support in improvement of planning and implementation of investments
- Staff certification
- Support to increase knowledge on sanitation, improve data flow in water sector and public awareness, reinforce the supervision mechanisms
- Provide trainings relevant to the activities mentioned-above