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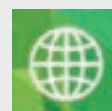
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Special Report

**EU Pre-accession  
Assistance to Serbia**



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Special Report

## EU Pre-accession Assistance to Serbia

(pursuant to Article 287(4), second subparagraph, TFEU)

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## **Reply of the Commission**

- CSO:** civil society organisation
- DIS:** decentralised implementation system
- EP:** European Parliament
- EPD:** enhanced permanent dialogue
- IA:** Interim Agreement on Trade and Trade-related Matters
- IPA:** Instrument for Pre-accession Assistance
- MIFF:** multiannual indicative financial framework
- MIPD:** multiannual indicative planning documents
- NAD:** needs assessment document
- NIPAC:** national IPA coordinator
- PAR:** public administration reform
- PEFA:** public expenditure and financial accountability
- PFM:** public finance management
- ROM:** result-oriented monitoring
- SAA:** Stabilisation and Association Agreement
- SAP:** stabilisation and association process
- SEIO:** Republic of Serbia European Integration Service
- SIGMA:** support for improvement in governance and management
- SME:** small and medium-sized enterprise

## I

Since 2007, the EU's financial support to Serbia through the Instrument for Pre-accession Assistance (IPA) has amounted to approximately 170 million euro per year. Governance, identified by the Commission as the most challenging area for Serbia, received a quarter of the IPA funding. The EU complements the IPA funding with some non-financial means to help Serbia prepare for EU membership.

## II

The audit objective was to assess whether the Commission is managing pre-accession support to Serbia effectively, and, in greater depth, its support for the key area of governance. The audit covered the 2007–13 period and addressed the following two questions.

- (a) Has the Commission been managing IPA projects effectively?
- (b) In its support for governance, has the Commission been managing non-financial assistance effectively?

## III

The audit examined the IPA programming process and 15 IPA-funded projects from the 2007, 2008 and 2009 IPA annual programmes for Serbia, with a particular focus on the projects' results. The non-financial assistance audited included the EU–Serbia dialogue on governance issues and cooperation to prepare Serbia for decentralised management of EU funds. The Court also reviewed another sample of 10 IPA projects from the 2010, 2011 and 2012 annual programmes to check whether governance and the fight against corruption were cross-cutting issues in projects where good governance was not a primary objective.

## IV

The audit found that, overall, the Commission is managing pre-accession support to Serbia effectively. The financial pre-accession assistance to Serbia, along with other forms of support effectively helps Serbia to implement social and economic reforms and to improve governance in the country. Based on the experience gained in other IPA beneficiary countries, the Commission is putting increasing emphasis on governance issues in planning its financial and non-financial assistance to Serbia.

## V

The Commission has been managing IPA projects effectively. Programming of the IPA financial assistance is based on a coherent strategic framework and the approach to selecting projects relevant to preparing Serbia for accession is gradually improving. On the whole, the audited projects produced their planned outputs but suffered from weaknesses regarding their design, implementation and sustainability. When drawing up the latest IPA annual programmes, the Commission took steps to address the shortcomings identified by the Court in the earlier IPA projects.

### VI

The Commission was effective in managing non-financial assistance to Serbia in the area of governance. The audit found that the EU–Serbia structured dialogue adequately covered the key governance areas and made the link between political priorities and policy formulation. The emphasis put on governance in the dialogue was generally not explicit in the projects' design, but most of the projects reviewed by the Court had indirectly contributed to better governance and/or to the fight against corruption through their activities related to building administrative capacity. Regarding Serbia's preparation for decentralised management of EU funds, the audit found that the Commission's approach was effective in supporting governance, but only in the limited sphere of the IPA management structures. The Commission's audit work on the national IPA structures, in accordance with the IPA regulation, was not part of a comprehensive assessment of public finance management at country level.

### VII

The report sets out concrete recommendations to improve the programming, design and implementation of IPA projects in Serbia. In relation to the non-financial assistance, the Court recommends that the Commission support the Serbian authorities in further rationalising their national strategies and finalising a fully-fledged public finance management roadmap, improve the consultation mechanism of the CSOs, systematically assess the need for specific anti-corruption or other good-governance measures during project design and take steps to integrate the Commission's audit work on the national IPA structures into the countrywide assessment of public finance management.



## Background

### 01

After the fall of Slobodan Milošević's regime in October 2000, Serbia, the largest of the western Balkan countries in terms of both population and land area<sup>1</sup>, began its route to EU pre-accession within the framework of the stabilisation and association process.

**Figure 1** provides an overview of the key events that marked EU–Serbia relations between 1999 and 2014.

1 The Serbian territory covers 77 474 km<sup>2</sup> with a population of 7,2 million inhabitants (2014 data, CIA World Factbook).

Figure 1

### Key dates in EU–Serbia relations

2014	<ul style="list-style-type: none"> <li>21 January — The first intergovernmental conference (Council of the European Union, European Commission and Serbia) takes place, signalling the formal start of Serbia's accession negotiations.</li> </ul>
2013	<ul style="list-style-type: none"> <li>1 September — The EU–Serbia Stabilisation and Association Agreement enters into force. The analytical examination of the <i>acquis</i> ('screening') starts.</li> <li>28 June — The European Council decides to open accession negotiations with Serbia.</li> </ul>
2012	<ul style="list-style-type: none"> <li>1 March — The European Council confirms Serbia as a EU candidate country.</li> </ul>
2011	<ul style="list-style-type: none"> <li>14 October — The Commission issues its opinion on Serbia's application for EU membership.</li> <li>20 July — Arrest of Goran Hadžić, the last fugitive sought by the International Criminal Tribunal for the former Yugoslavia (ICTY).</li> <li>26 May — Arrest of Ratko Mladić.</li> </ul>
2010	<ul style="list-style-type: none"> <li>1 February — Interim Agreement on Trade and Trade-related Matters (part of the EU–Serbia Stabilisation and Association Agreement) enters into force.</li> </ul>
2009	<ul style="list-style-type: none"> <li>22 December — Serbia applies for EU membership.</li> <li>19 December — Visa-free travel to Schengen area for citizens of Serbia.</li> </ul>
2008	<ul style="list-style-type: none"> <li>21 July — Arrest of Radovan Karadžić.</li> <li>29 April — The EU–Serbia Stabilisation and Association Agreement, along with the Interim Agreement on Trade and Trade-related Matters, is signed.</li> </ul>
2006	<ul style="list-style-type: none"> <li>3 May — The EU suspends the EU–Serbia Stabilisation and Association Agreement talks, stating that Serbia is not fully cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY).</li> </ul>
2005	<ul style="list-style-type: none"> <li>1 October — Serbia starts negotiations with the EU on the signing of the international treaty called the EU–Serbia Stabilisation and Association Agreement.</li> </ul>
2003	<ul style="list-style-type: none"> <li>1 June — The Thessaloniki European Council confirms the EU perspective for the western Balkan countries.</li> </ul>
2001	<ul style="list-style-type: none"> <li>1 April — Arrest of Slobodan Milošević.</li> </ul>
2000	<ul style="list-style-type: none"> <li>1 June — The Santa Maria da Feira European Council states that all the stabilisation and association process countries are potential candidates for EU membership.</li> </ul>
1999	<ul style="list-style-type: none"> <li>26 May — A Commission proposal on the stabilisation and association process, the EU policy towards the western Balkan countries, is established with the aim of eventual EU membership.</li> </ul>

## 02

The stabilisation and association process initiated by the EU in 1999 after a decade of turmoil and armed conflicts in the former Socialist Federal Republic of Yugoslavia was underpinned by the idea that only the real prospect of integration into the EU could bring sustainable peace, stability and democracy to the Balkan countries. The stabilisation and association process combines contractual links in the form of the Stabilisation and Association Agreements (SAAs), trade measures providing the region with free access to the EU markets for almost all goods and substantial financial assistance from the EU budget.

## 03

The EU insisted that Serbia both deliver suspected war criminals to the International Criminal Court in The Hague and find a lasting solution to its relations with Kosovo before it could make significant progress towards EU membership. Serbia submitted its application for EU membership on 22 December 2009 and was granted the status of candidate country on 1 March 2012 by the European Council on the basis of the conclusions of the General Affairs Council of 28 February. In particular, the conclusions noted Serbia's progress in its dialogue with Kosovo<sup>2</sup>. Progress made by Serbia towards meeting the political elements of the Copenhagen criteria<sup>3</sup> and the surrender to the judicial authorities of several alleged war criminals were also determining factors in the Council decision.

## 04

Accession negotiations with Serbia were formally opened on 1 January 2014. The European Commission had previously indicated that it viewed governance issues as the main challenge faced by Serbia and decided that this most difficult area should be tackled early in the chapter-by-chapter negotiations<sup>4</sup>.

- 2 The 'Belgrade–Pristina' dialogue was mediated by the High Representative of the Union for Foreign Affairs and Security Policy and Vice President of the European Commission Catherine Ashton, supported by the European External Action Service.
- 3 The Copenhagen criteria set by the European Council in June 1993 consist of:
  - (a) political criteria: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
  - (b) economic criteria: the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces in the EU;
  - (c) the ability to assume the obligations of membership, including adherence to the aims of political, economic and monetary union.
- 4 To facilitate accession negotiations, the process is divided into 35 EU policy chapters. Negotiations on the various chapters are not limited to regulatory and legislative aspects, but also cover the setting up of the necessary administrative structures and the progress achieved in building up their management capacity. Chapters related to governance are essentially chapters 23 (Judiciary and fundamental rights) and 24 (Justice, freedom and security).

## Introduction

### EU pre-accession assistance to Serbia

#### 05

The priorities of EU pre-accession assistance include helping the beneficiary countries to strengthen their administrative capacity and to support the adoption and implementation of the *acquis communautaire*<sup>5</sup>. To strengthen administrative capacity, the Commission funds activities such as institution building, the setting up of management systems and training.

#### 06

Over the 2007–13 period, the EU provided assistance to Serbia in the field of administrative capacity through Component I (Transition assistance and institution building) of the Instrument for Pre-accession Assistance (IPA)<sup>6</sup>. IPA funding — about 170 million euro per annum on average — has been quite evenly allocated over a broad range of sectors as shown in **Table 1**. The area of governance — ‘justice and home affairs’, including the fight against corruption, and ‘public administration reform’, including public finance management (or PFM) reform — received a quarter of the funding, which reflects the Commission’s recognition of the importance of tackling shortcomings in this area.

- 5 The *acquis* denotes the whole range of principles, policies, laws, practices, obligations and objectives that have been agreed or developed within the European Union.
- 6 The IPA was established by Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82) and Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an Instrument for Pre-accession Assistance (IPA) (OJ L 170, 29.6.2007, p. 1).

Table 1

### IPA assistance to Serbia (2007–13)

Sector	Allocation (million euro)	Percentage of total allocations
Justice and home affairs	117	9,7 %
Public administration reform	164	13,6 %
Social development	171	14,2 %
Private sector development	109	9,1 %
Transport	146	12,1 %
Environment, climate change and energy	192	16,0 %
Agriculture and rural development	109	9,1 %
Other EU <i>acquis</i> and horizontal activities	195	16,2 %
<b>Total</b>	<b>1 203</b>	

Source: Multiannual indicative planning document for Serbia, 2011–13.

## 07

The audit objective was to assess whether the Commission is managing pre-accession support to Serbia effectively and, in greater depth, its support for the key area of governance. The audit addressed two main questions:

- (a) Has the Commission been managing IPA projects effectively?
- (b) In its support for governance, has the Commission been managing non-financial assistance effectively?

## 08

The audit work, performed between May 2013 and January 2014, involved the following:

- (a) The examination of 15 IPA-funded projects with a particular focus on the project results (see **Annex I**)<sup>7</sup>. The sample included eight governance projects to reflect the audit's focus on governance, and seven projects from other fields of intervention — social development, transport, energy, rural development and private sector development.

- (b) The desk review of another sample of 10 IPA projects selected from the 2010, 2011 and 2012 annual programmes (see **Annex II**) to assess the integration of governance and the fight against corruption as cross-cutting issues in projects where good governance was not a primary objective.
- (c) The review of the IPA programming process, of the dialogue mechanisms on governance issues and of the procedures in place to assess Serbia's readiness to manage a decentralised implementation system (DIS) for the IPA assistance.
- (d) Audit visits undertaken from 17 to 28 June 2013 to the European Union's delegation in Belgrade and the relevant Serbian line ministries, agencies<sup>8</sup> and regional or local authorities, as well as public enterprises. Project sites were visited in Belgrade, Horgos, Kragujevac, Kraljevo, Leskovac, Niš, Novi Sad, Obrenovac, Prokuplje, Subotica, and Ušće.

7 The 15 IPA projects audited were selected from the 2007, 2008 and 2009 IPA annual programmes for Serbia because these projects should have achieved their expected results by the time of the audit (mid 2013). The only budget support programme to date for Serbia, funded under IPA 2009 for 100 million euro, was also part of the audit scope.

8 Notably the Republic of Serbia European Integration Service, the Anti-Corruption Agency and the Public Procurement Office.

## Part one — Commission management of IPA projects

### Funding decisions were derived from relevant strategies

#### 09

The Court examined whether the strategic documents were consistent with each other and contained clear priorities and performance indicators, and whether the Commission and the Serbian authorities had developed a process to select the most relevant projects for IPA funding. The Court also examined whether IPA assistance for governance adequately involved civil society organisations and whether donor coordination was functioning.

### IPA assistance is based on a coherent set of strategic documents

#### 10

The IPA programming framework is complex and consists of numerous documents defining political goals and strategic priorities (see paragraphs 13, 14 and **Figure 3**). Nevertheless, the documents are generally consistent with each other in the assessment of country needs and priorities. The IPA programming documents for Serbia are also consistent with the national strategy for EU integration, as well as the national needs assessments.

#### 11

The Serbian authorities have developed more than 70 national strategies and action plans to address various political and socio-economic issues, but their quality was not always uniform. In addition, the broad range of national strategies did not cover two major governance-related areas:

- due to the politically sensitive nature of territorial decentralisation in Serbia, the decentralisation process has been implemented without a strategic framework fixing the national priorities and a time frame for their implementation;
- there was no overarching strategy to coordinate the implementation of public finance management (PFM) reform.

#### 12

The coalition government in power between July 2012 and spring 2014 made great efforts to consolidate the Serbian strategic framework for EU accession preparations, i.e. the adoption, in December 2012, of an action plan to follow up the findings of the Commission's progress reports and, in February 2013, of the 'national plan for the approximation with the *acquis*'. In the meantime, the Commission and the Republic of Serbia European Integration Service (SEIO) also took measures to improve the coherence of the Serbian strategic framework, for instance, by their efforts to consolidate the numerous national strategies in the 2011–13 needs assessment document (NAD). Alignment between the national strategies and the IPA goals has become even more consistent by virtue of the sector-based approach since 2012.

### Strategic documents contained relevant priorities and definition of the objectives and performance indicators was gradually improving

#### 13

The latest European Partnership with Serbia, prepared in 2007<sup>9</sup>, served as a policy framework to encourage reforms and, through a conditionality clause, the basis for potentially suspending financial assistance<sup>10</sup>. It gave a very broad set of short and medium-term priorities covering the accession criteria and the enforcement of EU standards, but without any ranking of these priorities according to their importance to Serbia's EU accession or receipt of EU funding.

#### 14

The multiannual indicative planning documents (MIPDs), the Serbian NAD and the subsequent programming documents defined a number of objectives and performance indicators, but these were often too broad. This made it difficult to evaluate progress in the areas of intervention objectively<sup>11</sup>. The newly created sector-monitoring sub-committees (SMSCs, see paragraph 58) confirmed the seriousness of the problem. For example, the SMSCs for the rule of law and public administration both reported in November 2012 that it was generally not possible to measure progress due to poorly defined indicators and recommended improving the definition of indicators in future programming cycles<sup>12</sup>.

#### 15

However, with the gradual move to the sectoral approach, changes were introduced during the 2012 and 2013 IPA programming processes. RACER indicators<sup>13</sup>, baselines and targets for the period until 2020, linked to the latest Serbian NAD, were agreed at the sector working groups for inclusion in the 2013 sector and project documents<sup>14</sup>.

### The Commission, with the Serbian authorities, has been gradually improving its methodology to select relevant projects

#### 16

In the first part of the 2007–13 programming period, project prioritisation by the SEIO, the EU delegation and Commission headquarters did not prevent the selection of immature or problematic projects. Those projects should not have been selected or should have been kept in reserve for a subsequent annual programme<sup>15</sup>. Problems relevant to programming identified by the Commission's monitoring work include the lack of national authority support; a lack of interinstitutional coordination; weak project design; poor definition of terms of reference; unsustainable financing solutions; and inadequate use of lessons learnt from previous projects.

- 9 Council Decision 2008/213/EC of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with Serbia including Kosovo as defined by United Nations Security Council Resolution 1244 of 10 June 1999 and repealing Decision 2006/56/EC (OJ L 80, 19.3.2008, p. 46).
- 10 Assistance is conditional on progress on satisfying the Copenhagen criteria and on meeting the specific priorities of the European partnerships themselves (Annex 1, point 5 of Council Decision 2008/213/EC).
- 11 The evaluation of the IPA assistance for agriculture and rural development in the period 2007–11 concluded that the measurement of expected performance and impact was an 'area of continuing weakness', owing to the lack of appropriate and measurable indicators in programming documents — Evaluation report by AESA Consortium, January 2013.
- 12 Minutes of the rule of law SMSC meeting of 15.11.2012 and of the public administration reform SMSC of 16.11.2012.
- 13 RACER stands for relevant, i.e. closely linked to the objectives of the intervention; accepted by all stakeholders; credible for non-experts and easy to interpret; easy to monitor, e.g. data collection possible at low cost; and robust, i.e. difficult to manipulate.
- 14 Sector and project documents are standardised documents submitted to the Commission by the IPA beneficiary country, for a given year, following discussions between the Commission and the beneficiary country. The fiches shall set out clearly, at sector or project level, the priority axes, the objectives, the envisaged operations, the expected results and related objectively verifiable indicators and the envisaged implementing modalities, including milestones.
- 15 During the period May 2009–May 2013, there was a monthly average of 14 IPA projects considered by the EU delegation as problematic.

### 17

The level of co-funding of the projects and the leverage effect expected from the IPA funding were not criteria used in the selection process. Up to 2012 there were no European Commission-issued guidelines on parallel co-financing in relation to the IPA. Serbia committed to a contribution of 289 million euro co-financing to the 2007–12 IPA annual programmes, i.e. 24 % of the overall national and EU IPA funding<sup>16</sup>. However, it was difficult to monitor whether the national co-financing commitment had been met and there were no guidelines on action to be undertaken when such commitments were not fulfilled.

### 18

Both the EU delegation and the Serbian authorities made genuine efforts to resolve the problems identified and to take them into account in the subsequent programming exercises. In addition, selection process improvements introduced by the Commission together with the SEIO under the IPA 2012 and 2013 programmes included:

- (a) stricter requirements on project readiness;
- (b) a 2012 Commission agreement with Serbian authorities on guidelines for parallel co-financing.

### IPA funding for governance increasingly involved civil society organisations

### 19

The European enlargement strategy places an emphasis on strengthening civil society organisations (CSOs) and their involvement in policy development. Four support for civil society projects were approved within the 2007–10 IPA annual programmes for Serbia, for a total amount of 9 million euro.

### 20

Since 2007, the status of CSOs and the government's cooperation with them has considerably improved. The CSOs in Serbia are now very active in the field of governance and anti-corruption<sup>17</sup>. More generally, since 2010, it has been possible to consult the CSOs on IPA programming on a regular basis, but at the time of the audit the use of the consultation mechanism was not yet widespread.

16 Based on the data in the IPA annual programmes for Serbia. This high co-financing level was achieved mainly because, in 2011, the Serbian authorities committed themselves to allocating 122 million euro to the municipal environment grant-loan investment programme (MEGLIP) in the environment, climate change and energy sector.

17 See for instance the results of project 15, 'Civil society dialogue', in **Box 8**.

## Coordination with other donors was only partially effective but is improving

### 21

Despite some efforts, there was no strict discipline in the coordination of early IPA projects with those of other donors with a view to ensuring complementarity and avoiding overlaps, notably in the rule-of-law sector (see **Box 1**).

#### Box 1

### Examples of coordination gaps in the rule-of-law sector

Project 3, 'Judiciary system', is a clear example of poor coordination, from design to implementation. Indeed, the EU-funded case management system ran in parallel with another system funded by USAID. The lack of coordination and local ownership with regard to IT issues in the rule-of-law sector is demonstrated by the fact that major IPA IT investments have been implemented without a proper IT strategy.

### 22

However, since implementation of the sector approach, IPA documentation testifies to improved and more systematic donor coordination. Donors are now regularly consulted by the sector working groups and, in its dialogue with Serbia, the Commission relies extensively on the involvement of international organisations in their respective areas of expertise, notably the World Bank (PEFA reports), the European Bank for Reconstruction and Development, the Organisation for Economic Cooperation and Development (SIGMA assessments), the Organisation for Security and Cooperation in Europe, the Council of Europe and United Nations organisations<sup>18</sup>.

### The Commission has started to address project design weaknesses which have contributed to delays in implementation

### 23

The Court examined whether the 15 projects audited (see **Annex I**) pursued precise objectives and were based on a specific needs assessment, and whether the project design included relevant conditionality. The Court also examined whether the projects were implemented according to the planned timetable and properly monitored, and whether corrective actions were taken where appropriate.

18 The Commission's partnership with international organisations is not confined to the generation of information to be used for the dialogue. A number of IPA projects are actually implemented with the involvement of these organisations, such as project 'Corridor X' (2010) with the World Bank; project 'Good local governance' (2007) and project against 'Money laundering' (2010) with the Council of Europe; project 'Hospital information system' (2008) with the UN Office for Project Services; project 'Support for civil society' (2010) with the OSCE; and project 'Support for SME development' (2012) with the EBRD.



**In project and contract design, the Commission initially paid inadequate attention to precise definition of the project objectives, specific assessment of the needs and lessons learnt from past projects**

**24**

All the projects examined matched the priorities set out in the IPA strategy documents but about half of them pursued objectives that were too vague or unrealistic (see **Box 2**). At the same time, the Commission was flexible in adjusting the list of objectives and expected deliverables where the long period of time — up to 4 or 5 years — between the project outline and the actual delivery of the outputs made it necessary<sup>19</sup>. This flexibility counterbalanced substantially — though not fully — the adverse effect of initial vague or unrealistic project objectives.

**25**

Some audited projects were designed and implemented without reference to a precise needs assessment, which in some cases has led to inefficient allocation of IPA funds (see **Box 3**). In 2012 the Commission started to introduce measures that placed more emphasis on needs assessment in the intervention design, as demonstrated by the Court’s review of the 2012 IPA project and sector documents.

<sup>19</sup> The long turnaround times are also noted by CONT’s draft report on EU pre-accession funds, ref. 2011/2033(INI), 20.6.2013, Article 11, p. 25.

**Box 2**

**Examples of vague or unrealistic project objectives**

As no benchmark data were provided, it was difficult to assess the extent of the achievement of project purposes such as ‘strengthen the role of the Ministry of Health’ in project 10, ‘Emergency medical service’; or ‘enhancing the accession process through the promotion and improvement of mutual knowledge and the understanding of Serbia’s EU integration process’ in project 15, ‘Serbia–EU civil society dialogue’.

Project 7, ‘Public Procurement Office’, included an e-procurement element, which subsequently proved to be unrealistic.

**Box 3**

**Examples of weak needs assessment**

In project 14, ‘Rural development’, 40 % of the IT equipment delivered was not used and some of it was still in the paying agency warehouse at the time of the audit visit.

## Observations

### 26

The design of the audited projects made little use of the lessons learnt from the implementation of previous projects. The lessons learnt sections in the project documents were more of a formal exercise. In addition, none of the audited project fiches mentioned specific lessons learnt from similar projects in other beneficiary countries. In fact, the lessons-learnt mechanisms within the Commission relied principally on the findings of macro-level evaluations, sometimes years after the fact, and therefore were not geared to feeding into timely responses at project design level.

### **Weaknesses in the conditionality for launching the projects and sequencing the operations were progressively being mitigated**

### 27

Inadequate attention to conditionality and sequencing in project design often threatened smooth and timely implementation of the IPA projects (see **Box 4**).

### 28

The Commission usually checked whether national legislation was in place to ensure that the intervention was effective. Elements of two of the audited projects, however, were not sufficiently aligned with the current or prospective Serbian legislation and were therefore useless (see **Box 5**).

### 29

In projects made up of complementary contracts for supply and capacity building, the conditionality did not include in-depth preparatory market analysis, particularly in the case of specialised or sensitive equipment. No market research was requested for instance in project 1, 'Police reform'. Failure of the supply contract fundamentally affected the relevance and effectiveness of the complementary twinning contract.

#### Box 4

### **Examples of poor conditionality and sequencing in projects**

There was poor sequencing between the two service contracts that made up project 9, 'Regional development'. The regional development strategies were drafted before the national plan for regional development and therefore had to be subsequently redrafted to be aligned with it.

In project 12, 'Žeželj bridge', obtaining the necessary building permits was not a prerequisite but was an activity within the project. This proved to be a problem because obtaining building permits is a lengthy process in Serbia. Indeed, the project started in March 2011 but the contractors did not receive the essential permits until April 2012, consequently delaying the project.

## Box 5

**Examples of legal inconsistencies**

An element of project 1, 'Police reform', had to be dropped as the beneficiary claimed that integrity testing of police was not allowed under Serbian law.

In project 10, 'Emergency medical service', the defibrillators that were ordered for public display and use have gone virtually unused since Serbian law does not permit the use of defibrillators by persons other than medical staff.

**30**

At the same time, conditionality was robust and strictly implemented in calls for proposals, e.g. in project 15, 'Serbia–EU civil society dialogue', which benefited from the high level of commitment among the CSOs and their project partners.

**31**

Compared to IPA 2007 and 2008, the programming documents after 2012 reflect increased emphasis on conditionality. Project proposals were postponed due to missing permits<sup>20</sup> or downscaled following the lack of the required feasibility study.

**Delays occurred in implementing the audited projects, but overall IPA absorption capacity was assessed as good by the Commission****32**

Implementation of all the audited projects was affected by sometimes significant delays, which may indicate that the capacity of some of the Serbian project partners to implement the intervention was overestimated. There were frequent bottlenecks in relation to the absorption capacity in large infrastructure projects such as project 12, 'Žeželj bridge' (see paragraph 43). Better absorption of IPA funds was reflected by the success of the calls for proposals, notably in the grant scheme included in project 5, 'Municipal support programme', where more than 200 projects were submitted, of which 67 were financed and mostly completed their activities within the planned time frame.

20 An example is the intermodal transport project, which has been postponed for several programming years since IPA 2011 due to missing permits.

## Observations

### 33

At the same time, despite delays and no-cost extensions of the contracts in the audited sample, the high contracting and payment rates reported by the EU delegation for the whole 2007–13 programming cycle suggest rather high absorption capacity at national level for the entire IPA scheme.

#### **IPA interventions were monitored at contract level, but not at project level**

### 34

IPA interventions were not monitored systematically at project level. Steering committees, though misleadingly called 'project steering committees', were only in charge of certain contracts and not the overall project.

### 35

Practices regarding on-site inspections by the EU delegation initially varied but the EU delegation improved the overall situation in 2011 by launching a formal mechanism for internal monitoring. The result-oriented monitoring (ROM) initiated in 2009 is now a prevalent external monitoring mechanism for capacity-building projects. The Court found that the ROM reports on the audited projects generally provided adequate information on the progress of projects.

### 36

In projects where a national element and an IPA element coexisted, such as project 6, 'Support for customs', the two elements were managed separately without any formal flow of information between the Serbian authorities and the EU delegation. The time constraints applicable to national elements were also less demanding than those applicable to IPA components. Since 2012, the agreement concluded with the Serbian authorities on parallel co-financing has allowed the Commission to step up its efforts to address this lack of coordination (see paragraphs 17 and 18).

#### **The Commission's approach in terms of corrective action was rather limited**

### 37

The Commission's corrective actions taken, where necessary, during the implementation process, did not address the difficulties which caused delays (see paragraph 16). They mainly consisted in flexibly extending the duration of the contract without incurring any extra cost or amending the contract activities. Where, for instance, a project was blocked because of inadequate commitment from the Serbian authorities, the IPA-funded resources were reallocated to other new activities. Stronger reaction, e.g. postponement of the implementation until issues were resolved or even cancellation of the project, was not considered by the Commission.

## 38

The conditions embedded in the project design were generally not restrictive enough to automatically lead to corrective action (see paragraphs 27 to 29)<sup>21</sup>. At the same time, the EU delegation addressed and resolved important problems on the beneficiary side that might jeopardise the tendering, contracting, and implementation processes. Issues that could not be resolved at EU delegation level were escalated to the monitoring committees and ultimately to the IPA Joint Monitoring Committee.

### IPA projects generally produced the planned outputs but results beyond the outputs may not be sustainable

## 39

The Court examined whether the planned outputs and other results were obtained and whether the tendering and procurement procedures were properly implemented. The Court also examined whether the project outputs and other results were likely to remain sustainable after the end of the IPA funding.

## 40

**Table 2**, for governance-related projects, and **Table 3**, for projects in areas other than governance, show a detailed view of the Court's findings regarding the projects' outputs and other results. The Court's assessment took into account, where available, relevant conclusions from ROM reports and evaluations<sup>22</sup>.

### The IPA projects produced most of the planned outputs and results beyond the outputs

## 41

Despite systematic delays, the audited projects completed at the time of the audit had delivered most of the outputs initially planned or revised during project implementation. Delivering the outputs was in fact a prerequisite for the execution of final payments by the Commission, which explains why there were very few cases of outputs which had not been fully achieved upon project completion (see **Boxes 7, 9 and 10**). However, some of the audit findings raised the issue of the usefulness of certain, often relatively minor, project outputs in the medium or long term (see paragraph 48).

## 42

The projects generally achieved good results, even beyond the outputs, contributing to the achievement of the IPA assistance goals. Overall, the eight audited governance-related IPA projects have helped to increase the capabilities of the beneficiary institutions and/or to improve the national legal framework (see **Box 6**). The Court identified material shortcomings in terms of results in four governance projects (see **Box 7**).

- 21 As confirmed by the 'Evaluation of the rule of law sector implemented and financed by IPA and other donors in Serbia' (covering the 2007–11 period), May 2013 draft: 'It is always a sign of poor design if a project is commenced under circumstances which are premature for proper delivery of its activities' (p. 24) and 'Conditionality should be introduced, with the possible sanction of suspending the implementation of the project' (p. 59).
- 22 Notably the interim evaluation and meta-evaluation of IPA assistance, country report Serbia, Ecorys, August 2013. See also the evaluations referenced in footnotes 22, 24, 28 and 30.

## Box 6

**Examples of tangible results from governance-related projects**

Project 2, 'Fight against corruption', successfully supported the strengthening of the administrative capacity of the Anti-Corruption Agency (ACA), notably by providing IT solutions. It also improved the legal and institutional framework for the fight against corruption by contributing to the drafting of a revised anti-corruption strategy and action plan.

Project 5, 'Municipal support programme', contributed to enhancing the capabilities of local administrations and improving the quality of services to citizens. This was confirmed by the Court's on-site audits in Kraljevo (Geographic Information System) and Niš (Call Centre and Building Permits Centre). The project also helped improve communication and cooperation between the municipalities and the public utility companies active in their areas.

## Box 7

**Examples of mixed results from governance-related projects**

Within the framework of project 5, 'Municipal support programme', the specific module supporting the municipal bonds initiative had limited results. The Standing Conference of Towns and Municipalities (SCTM) encouraged municipal bonds as an alternative to traditional bank loans, but had to face opposition from the banks and resistance to change by the municipalities. The volume of municipal bonds was extremely weak. By mid 2013 only two cities had issued municipal bonds: the City of Novi Sad, for 35 million euro, and the City of Pančevo, for 1 million euro. The secondary market funded by IPA had never started working due to the low number of issuances.

Project 8, 'Public internal financial control', was successful in establishing a central harmonisation unit (CHU) within the Ministry of Finance, but at the time of the audit the unit was focusing all its resources on training activities and did not yet exercise other traditional responsibilities of a CHU, like developing internal audit strategies and standards. In particular, the CHU had not yet provided support on risk assessment and fraud management to financial managers and internal auditors. The planned internal audit units were formally in place but were facing personnel problems. The project, however, succeeded in developing a certification scheme for internal auditors.

## Box 8

**Examples of good results from non-governance-related IPA projects**

IPA-funded elements of project 13, 'Electric power of Serbia', had achieved the expected results concerning capacity building for procurement and the installation of anti-pollution systems compliant with the *acquis*.

The corruption-related CSO grants included in project 15, 'Civil society dialogue', achieved sustainable results such as the development of hands-on methodologies for fighting corruption in the health sector and monitoring public procurement procedures by citizens, and the realisation of a national integrity system survey.

## 43

Out of the seven projects audited in fields of intervention other than governance, four had achieved or were largely on track to achieve the planned results beyond the outputs (see **Box 8**) and two were assessed as partially effective (see **Box 9**). The seventh project, project 12, 'Žeželj bridge', at the time of the audit was ongoing and expected to face an 18-month delay. The large infrastructure projects are prevalent in the bottleneck lists and reveal a recurring problem of stalled progress and missed deadlines<sup>23</sup>. The EU had previously funded two other projects to support the reconstruction of the Žeželj bridge: a CARDS 2004 project<sup>24</sup> to finance the detailed design specification and an IPA 2008 project for the supervision of the reconstruction. Despite substantial EU funding and technical assistance, Serbian authorities remain weak in planning and implementing investment projects. The availability of building permits continues to be a serious issue that the Commission is progressively addressing in the IPA programming (see paragraph 31).

- 23 Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia per sector, Maxima Consulting, reference SWE14/OC01-18, 2014, p. 80.
- 24 During the 2000–06 period, the programmes supporting Serbia were mostly financed under the CARDS regulation, Council Regulation (EC) No 2666/2000 of 5 December 2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia, repealing Regulation (EC) No 1628/96 and amending Regulations (EEC) No 3906/89 and (EEC) No 1360/90 and Decisions 97/256/EC and 1999/311/EC (OJ L 306, 7.12.2000, p. 1). CARDS stands for Community assistance for reconstruction, development and stabilisation.

## Box 9

## Examples of partially effective non-governance-related IPA projects

Project 11, 'Private sector competitiveness', partially achieved the expected results regarding strengthening institutions: at government level, the cluster strategy needs to be redesigned and there is a need to develop effective support measures for local chain development. Partial achievement of the objectives was also noticed for internationalisation: five out of eight objectives were achieved.

Project 14, 'Rural development', was also partially effective. The paying agency and managing authority had been set up, but their accreditation had been delayed (by 1,5 years at the time of the audit) due to developments outside the control of the project. The paying agency was unable to absorb the planned project activities, particularly training. The second project element (Leader) also achieved partial results. Efforts to form the planned local structures were successful but the project was not able to develop a critical mass of trained personnel.

## Tendering and procurement procedures were generally effective

### 44

Tendering and procurement procedures were found generally adequate to ensure the timely delivery of the expected outputs<sup>25</sup>. However, in four audited projects there were severe problems with procuring all or part of the equipment planned, in particular where it concerned specialised and sensitive equipment (see **Box 10**).

### 45

The Commission did not require any summary monitoring document on the history of failed tenders and did not analyse the reasons why some tenders failed, even repeatedly. No evidence has been found that the provisions of IPA programming guide 2008 on specialised equipment were adhered to<sup>26</sup>.

## The sustainability prospects of the IPA projects were not fully satisfactory

### 46

In two thirds of the audited projects, the Court found problems related to the sustainability of certain individual outputs and other results. The sustainability of the benefits provided by the purchased goods was particularly at risk when crucial decisions were missing or when the beneficiary had insufficient budget resources and was donor dependent (see **Box 11**). The sustainability of governance-related projects was especially jeopardised by personnel issues, made more difficult by the austerity measures taken by the government of Serbia in the wake of the global crisis (see **Box 12**).

- 25 As the EU delegation undertook the procurement procedures under centralised management, no conclusion can be drawn from the projects as regards the administrative capacity of the Serbian authorities in the area of procurement.
- 26 For investment projects or elements of projects covering specialised equipment or with a substantial amount earmarked, the final approval of the related project document will be subject to the prior presentation of an adequate market study. Any necessary exceptions from this rule need to be justified by the national IPA coordinator to the European Commission in writing (Part 7.2 of the IPA programming guide).

## Box 10

### Examples of problems in tendering and procurement

In project 1, 'Police reform', the tendering process for the equipment needed for covert surveillance ran out of time and the allocated funds were finally decommitted. The failure to procure the equipment has undermined the beneficiary's commitment and is still impairing the internal control department's capability to effectively combat corruption within the police force, which was a key aim of the project.

In project 6, 'Support for customs', lot 2 of the IPA-funded equipment (clothing) was finally dropped from the tender because of difficulties in complying with the EU rules of origin and has been funded directly by Serbia.



## Box 11

**Examples of risks to sustainability**

For the sustainability of project 3, 'Judiciary system', the crucial decision on which system (EU SAPS or US AVP) to roll out to the Serbian court network had not been yet taken by the Serbian authorities at the time of the audit. The availability of funding for a nationwide rollout was unclear and it was likely to be hampered by software lifetime issues and insufficient or outdated hardware. Around 70 % of the IT budget for the judiciary in Serbia was provided through IPA or other donors, with the remaining 30 % coming from the state budget, which is not a sustainable solution for IT development and ensuring beneficiary ownership.

The main sustainability issue in project 9, 'Regional development', was the unclear organisational set-up for the regional development policy at both national and regional levels. There was no clear consensus about the extent of decentralisation and how regionalisation would fit<sup>27</sup>. There was a substantial risk that the supported regional development agencies (RDAs) could not survive without clear roles and responsibilities. They also faced significant financial problems and were still donor-dependent.

There was no planning and scheduling for replacement of the IPA-funded ambulances which would shortly reach the end of their useful lives and had constantly increasing maintenance costs. It was therefore not certain whether enhanced capabilities resulting from project 10, 'Emergency medical service', could be sustained in the long run.

27 'Ex ante evaluation of the national plan for regional development and the regional development strategies', IBF International Consulting, July 2012, p. 7.

## Box 12

**Examples of personnel issues in governance-related projects**

The sustainability of the results of project 8, 'Public internal financial control (PIFC)', depends on the ability of the Ministry of Finance to create an adequate permanent pool of skilled internal auditors in the public sector. As it is in competition with the private sector and the state audit institution, it has had difficulty finalising its recruitment plan and limiting staff turnover<sup>28</sup>.

Staff turnover also puts at risk the institutional capacity of the new bodies in charge of implementing the rural development component of IPA, funded through project 14, 'Rural development'<sup>29</sup>.

28 The internal audit units met during the audit were facing personnel problems. In the Ministry of Justice, two (not certified) internal auditors were in place instead of the eight planned. In the Ministry of Finance, only one internal auditor (the head of unit) was active out of the three that are planned.

29 See also 'Evaluation of agriculture and rural development sector implemented and financed by IPA programme and other donors', January 2013, sector evaluation, pp. 37–39.

47

Whereas legislation proved to be an obstacle to the effectiveness of certain project elements (see paragraph 28), in some cases it has been conducive to the sustainability of whole projects. The new Serbian public procurement law, for instance, has ensured the sustainability of many of the results of project 7, 'Public procurement', as well as some of the efforts financed from the audited action grants under project 15, 'Civil society dialogue'.

**Table 2 Governance IPA projects — Assessment of outputs and other results**

Audit criteria	Project							
	1. Police reform	2. Fight against corruption	3. Judiciary system	4. Prosecutors and penal system	5. Municipal support programme	6. Serbian customs	7. Public Procurement Office	8. Public internal financial control (PIFC) phase 3
Planned outputs were delivered.	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Expected results beyond the outputs were achieved.	Satisfactory	Satisfactory	Partly satisfactory	NA ongoing	Partly satisfactory	Satisfactory	Satisfactory	Partly satisfactory
Tendering and procurement procedures were adequately prepared in order to ensure timely delivery of the expected outputs.	Not satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Partly satisfactory	Partly satisfactory	Satisfactory
The national legislation necessary to ensure that the intervention is effective was in place.	Partly satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
The project had good prospects for sustainability after the end of IPA funding, in particular: the post-IPA funding was guaranteed and the beneficiary had ownership and capacity to ensure the continuity of the project.	Partly satisfactory	Satisfactory	Not satisfactory	Satisfactory	Partly satisfactory	Satisfactory	Satisfactory	Partly satisfactory

 Satisfactory  
 Partly satisfactory  
 Not satisfactory

48

There is an absence of appropriate follow-up efforts concerning sustainability. Contract impact and usefulness are seldom assessed after contracts are over. *Ex post* ROM exercises have not yet been launched in Serbia with a view to checking the medium- and long-term sustainability of the IPA projects' results. The projects/contracts themselves are not responsible for the medium- or long-term impact or sustainability of the planned results.

Such responsibility ceases immediately with the end of the contracted activities. An appropriate follow-up mechanism is particularly missing when the practical usefulness of certain deliverables can only be assessed years after the project, for instance in the case of policy papers, protocols, procedures, manuals, analyses, various studies, etc., or when it is explicitly stated, e.g. in projects 1, 'Police reform', and 10, 'Emergency medical service'.

Table 3 Non-governance IPA projects — Assessment of outputs and other results

Audit criteria	Project						
	9. Regional development programme	10. Emergency medical services	11. Private sector competitiveness	12. Žeželj bridge	13. Electric power of Serbia	14. Rural development policies	15. Civil society
Planned outputs were delivered.				NA ongoing			
Expected results beyond the outputs were achieved.				NA ongoing			
Tendering and procurement procedures were adequately prepared in order to ensure timely delivery of the expected outputs.							
The national legislation necessary to ensure that the intervention is effective was in place.				NA			
The project had good prospects for sustainability after the end of IPA funding, in particular: the post-IPA funding was guaranteed and the beneficiary had ownership and capacity to ensure the continuity of the project.							

 Satisfactory  
 Partly satisfactory  
 Not satisfactory

## Observations

### Part two — Commission management of non-financial assistance in support of governance

#### The Commission addressed governance issues extensively in its dialogue with Serbia with increasingly positive impact

#### 49

The Court examined whether the EU–Serbia dialogue explicitly addressed key governance issues and included the establishment of action points and their follow-up. It also examined whether political priorities were taken on board in policy formulation and project design. The Court reviewed 10 recent IPA projects implemented in sectors other than governance (see **Annex II**) to assess the extent to which governance and the fight against corruption were embedded as cross-cutting issues into these projects.

#### There was structured Commission–Serbia dialogue on governance

#### 50

The Stabilisation and Association Agreement (see paragraph 2) includes provisions on the EU–Serbia dialogue on political matters and cooperation policies<sup>30</sup>. The Commission has put in place a complex system of official and less formal meetings and documents at multiple levels to enable in-depth continuous dialogue with the Serbian partners. The structures in place for the enhanced permanent dialogue (EPD), interim agreement (IA) dialogue and higher-level IPA dialogue are represented in **Figure 2**. The complexity of the overall policy dialogue and IPA programming is illustrated by **Figure 3**.

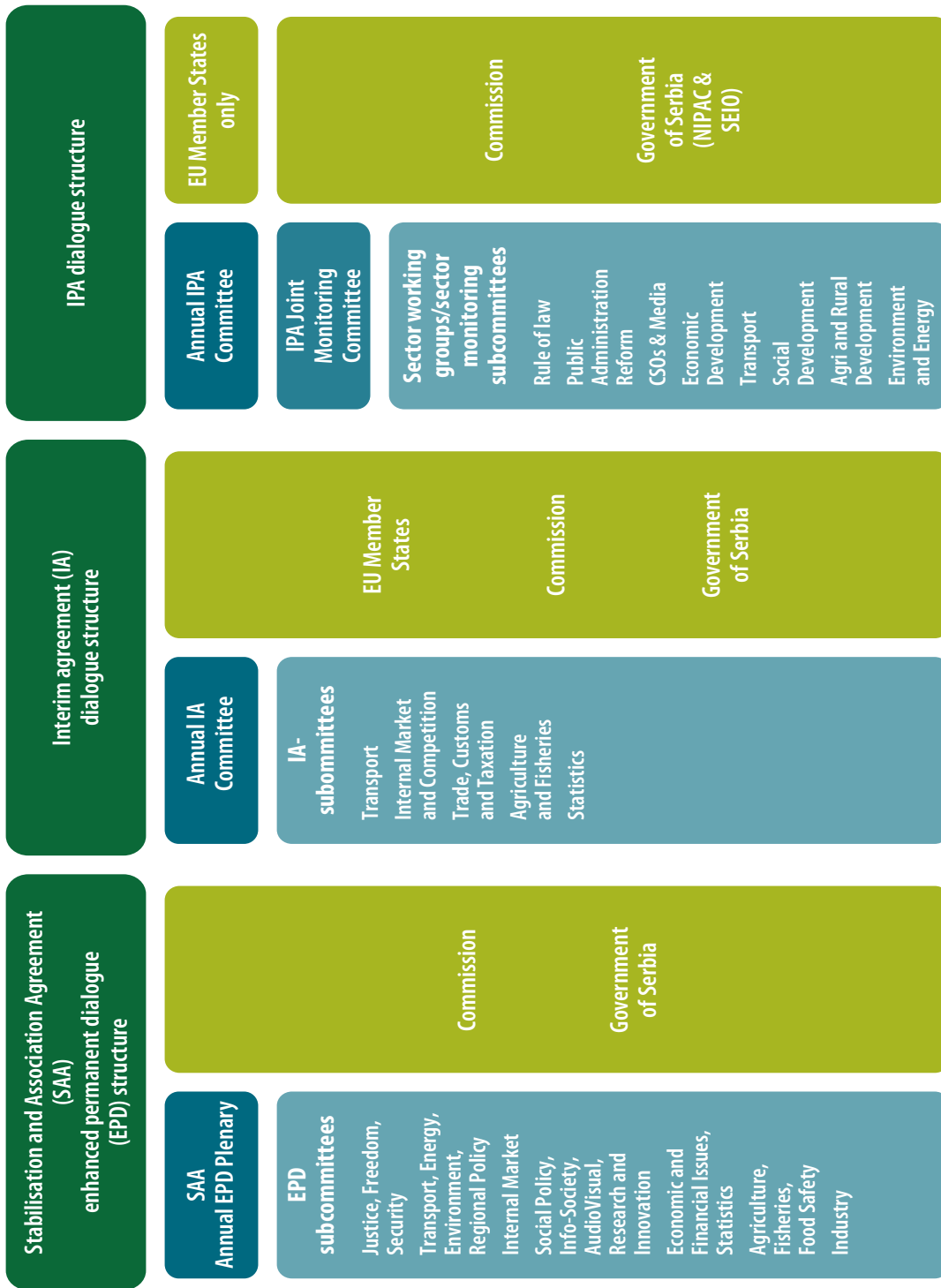
#### 51

The EPD gave great importance to public administration reform (PAR) and justice sector reform, including the fight against corruption, as a part of the political criteria. These areas were consistently addressed in detail by both the EPD plenaries and designated sub-EPDs. The continued importance of judicial reform and the fight against corruption in relation to Serbia's candidate-country status is shown by the fact that the related *acquis* chapters (23 and 24) are tackled early in the negotiation process, based on the experience of previous accession rounds.

30 Notably titles II and VIII of the SAA.

Figure 2

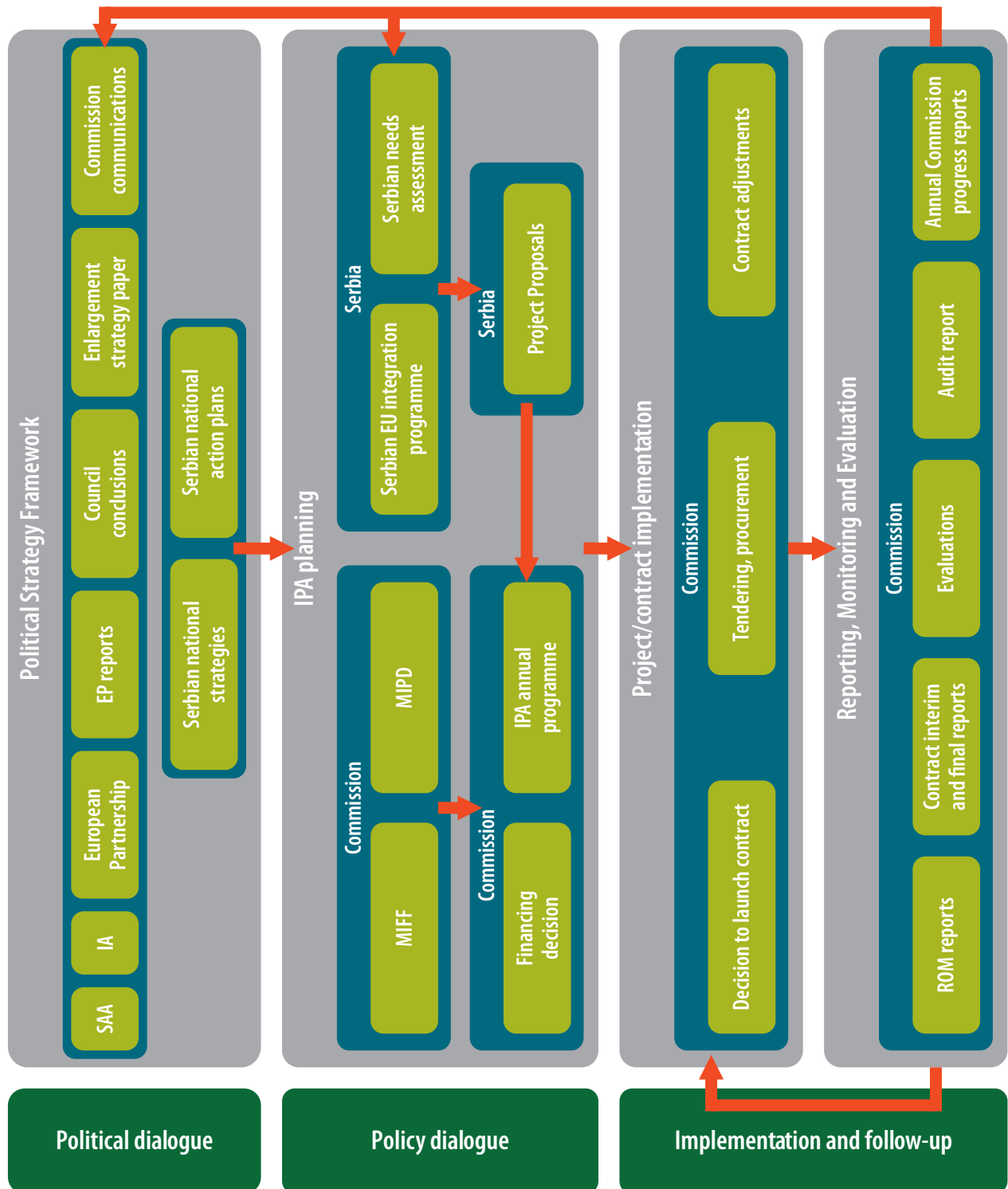
EU–Serbia dialogue structures (until September 2013)



Source: ECA, based on information from the Commission and EEAS.

Figure 3

Key elements of political and IPA-related EU–Serbia dialogue



Source: ECA, based on information from the Commission and EEAS.

### 52

Public finance management (PFM) reform was usually addressed by the EPD plenaries under the heading of PAR, but it received somewhat less intense emphasis than the other governance areas. However, specific PFM topics — such as the state audit institution, public internal financial control (PIFC), the Central Harmonisation Unit, internal audit and budget system law — were addressed in greater detail at sub-EPD level.

### 53

The Commission had an additional opportunity to discuss PFM issues with Serbia when designing the terms of the general budget support programme for Serbia under the IPA component I for 2009. The programme aimed to support macro-financial stability in Serbia in the short term and to allow the country to pursue structural reforms despite the economic crisis<sup>31</sup>. The payment conditions focused notably on the reliability of financial and administrative procedures in Serbia, the submission by the Serbian government of a new budget law and the adoption of a strategy paper on financial control in the public sector. Another condition was the launch of a PEFA update with the aim of preparing a PFM roadmap. The Commission considered that all these conditions were fulfilled by the end of 2010. Although Serbia did not prepare a specific PFM roadmap, the Court found that Serbia's PAR strategy for 2013–16 addresses some PFM issues. In addition, the 2012 law on public procurement rectified a number of the shortcomings identified in the preceding years.

### Dialogue included the systematic establishment of good-governance-related action points and their follow-up

### 54

The multi-level structures (see **Figures 2** and **3**) provided a sound basis for an open dialogue to agree on, establish, follow up and monitor priorities. Action points relating to key governance issues were specifically revisited from year to year by both EPD plenary and subcommittee meetings.

### 55

The Commission's monitoring process is crystallised in the annual progress reports. The Court's analysis has found that the Commission's progress reports realistically assessed progress made in the key areas of governance in Serbia. According to the reports, the years 2007–13 have seen some tangible results in the fight against corruption, ranging from the setting up of an institutional framework — with the involvement of IPA assistance — through the increased participation of CSOs, to investigations into some high-profile corruption cases. Progress was also perceived in the public administration reform and the financial control element of public finance management reform, and also notable progress in the area of public procurement. Justice sector reform was most lacking among the key good-governance areas, with little progress reported since 2007.

31 100 million euro of the 2009 IPA allocation for Serbia was designated for budget support. This supplemented a revised IMF programme of 2,9 billion euro and development policy loans from the World Bank.

### 56

On the Serbian side, from 2010 onwards, the national action plans for the implementation of the Commission's recommendations give evidence of transparent goals and tasks, as well as adequate monitoring and a systematic and easy-to-compare summary of follow-up action.

### The dialogue established links between political priorities and policy formulation

### 57

The main IPA programming documents for Serbia<sup>32</sup> from the years 2007–13 — the upstream of which are basically key dialogue documents — sufficiently covered the key governance areas, although public finance management reform received a somewhat less intense emphasis. The dialogue regularly refers to IPA assistance in general, or to specific IPA projects as important tools for improving governance in Serbia. The IPA Joint Monitoring Committee (see **Figure 2**), which was created in 2008, addressed specific implementation aspects of the higher-level dialogue and also covered the strategic level of financial assistance<sup>33</sup>.

### 58

In 2012, eight sector-monitoring sub-committees started operating under the Joint Monitoring Committee. Their primary focus is the context in which IPA assistance is delivered. They are run by the Commission and Serbia (SEIO), are structured in a transparent way and have put an effective and easy-to-compare monitoring tool in place. The sector-monitoring sub-committees have also significantly improved the coordination between national needs identification and IPA assistance. For example, projects in relation to PAR under the latest IPA national programmes addressed almost every priority defined by the PAR section of the Serbian NAD for 2011–13<sup>34</sup>.

### Emphasis put on governance in the dialogue and the programming process was generally not explicit in project design

### 59

High-level IPA programming took good governance specifically on board, partly in view of the governance problems faced in previous accession rounds, which was considered an indicator of inadequate preparation of the countries concerned. However, this emphasis was in general not reflected explicitly at project-planning level by the Commission and the Serbian authorities.

32 SAA, Commission enlargement strategies, European Partnership, MIPD and annual national IPA programmes.

33 The IPA Joint Monitoring Committee is co-chaired by a high-level (director-level) Commission representative and the national IPA coordinator, who is currently the minister for European integration.

34 In addition, increasing attention paid to governance in policy formulation is reflected in the EU enlargement strategy 2013–14, which envisages substantial further efforts to develop public sector financial management and control.



## Observations

### 60

Fewer than half of the 2007–12 project-design documents contained specific references to good governance. In the case of projects where governance aspects were relevant but not among the primary objectives, the project documentation referred most commonly, in general terms, to the need for transparency. Only in a few project design documents did the Commission and the Serbian authorities refer specifically to the risks of corruption or potential conflicts of interest. However, from 2011, the good-governance language in the project design became stronger.

### 61

The list of cross-cutting issues in the project design did not include good governance or the fight against corruption. In fact, the project-design documents of the 2007–11 period confined themselves strictly to three cross-cutting criteria: equal opportunities, the environment and minorities. Civil society and stakeholder involvement was added as a fourth cross-cutting issue in 2012.

### 62

None of the projects examined (see **Annex II**) included in their design a formal assessment of the need for anti-corruption or other good-governance measures specific to the beneficiary sector, with the exceptions of project E, 'Strengthening legislation at central level', whose project document took up corruption in a limited way, and project I, 'Support for SME development', which explicitly aimed at fighting corruption and the informal economy through the introduction of e-services.

### 63

However, despite the absence of explicit reference to anti-corruption or governance in their design, most of the projects examined have indirectly contributed to the fight against corruption and for better governance. Activities in some projects that contributed to the dissemination of knowledge about and the use of good practices for procurement and contracts (e.g. projects A, 'Municipal infrastructure', and B, 'Supervision of road construction along Corridor X'), were in line with the national anti-corruption strategy. Project A, 'Municipal infrastructure', also supported good governance through activities dealing with financial management, control and audit at local level and activities dealing with the setting-up of a project pipeline under EU standards. Projects supporting administrative capacity building in the environment and energy sector (projects D, 'Strengthening environmental inspectorate', and H, 'Energy Agency') and in the agriculture sector (projects C, 'Effective land management', and J, 'Support for agriculture') can also be considered as having an effect on curbing corruption.

## In approving Serbia's system for managing EU funds, the Commission did not take full account of Serbia's public finance management

### 64

The Court examined whether the Commission systematically assessed risks in the IPA implementing bodies, whether the Serbian authorities took appropriate mitigating measures and followed them up where necessary and whether this process was part of the Commission's comprehensive assessment of PFM issues.

## The IPA implementing bodies were subject to systematic risk analysis, but there was no comprehensive assessment of public finance management before decentralising the management of EU funds

### 65

The IPA regulation provides that, wherever possible, management of EU funds shall be decentralised from the Commission to candidate countries to enhance beneficiary-country ownership of the management of EU assistance. This is done via new national bodies, collectively known as the decentralised implementation system, implementing the pre-accession assistance. Before deciding to confer management powers<sup>35</sup> on a beneficiary country, the Commission should ensure that the country concerned meets the established conditions, in particular as regards its management and control systems<sup>36</sup>.

### 66

To achieve decentralisation, first with and subsequently without Commission *ex ante* controls, Serbia is following a detailed roadmap with indicative benchmarks and deadlines. As part of the roadmap, the IPA implementing structures<sup>37</sup> were subject to systematic risk assessments within the framework of their accreditation by the Serbian authorities and the Commission. However, the accreditation process concerned only the structures set up for decentralised management of IPA funds. There was no legal requirement to carry out a comprehensive assessment of the overall progress with PFM and the prevention of corruption and fight against it in Serbia. Consequently, the DIS accreditation procedure was effective in supporting governance in the limited sphere of the IPA management structures but was not part of a global PFM strategy at country level.

### 67

A sufficiently developed internal audit capacity at the Ministry of Finance and within line ministries is expected to make a positive contribution to the management and control system required for decentralised management. Despite some recent progress<sup>38</sup>, the national internal audit capacity is still in the early stages of providing effective support for the decentralised management of EU funds. The 2013 SIGMA report<sup>39</sup> indicated that no policy had been adopted on fraud and irregularities in financial management and that the central harmonisation unit<sup>40</sup> at the Ministry of Finance had not provided sufficient methodological support to financial managers and internal auditors on risk assessment and fraud.

- 35 Under decentralised management, the Commission confers the management of certain actions on the beneficiary country, while retaining overall final responsibility for general budget execution.
- 36 Article 56(2) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the financial regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1) and Articles 11 and 19 of the IPA implementing regulation, Regulation (EC) No 718/2007.
- 37 Decentralised management requires Serbia to establish structures for public procurement, contracting, payment, monitoring and reporting on IPA programmes.
- 38 See conclusions on project 8, 'Public internal financial control' in **Boxes 7 and 12**.
- 39 SIGMA assessment Serbia, April 2013, 'Public administration reform coordination, implementation and priorities'.
- 40 The Central Harmonisation Unit's role is to develop and harmonise the public service internal audit capacity. See also **Boxes 7 and 12**.

### 68

In its 2013 enlargement strategy, the Commission took steps in the right direction highlighting the need to address fundamentals first with the enlargement countries. It specifically mentioned that the PFM systems will need to be significantly strengthened to reduce the risk of fraud and corruption. Furthermore, IPA-sector budget support is conditional on meeting the necessary PFM standards.

#### **Measures to mitigate the risks were taken and followed up**

### 69

The measures taken to mitigate the risks identified in the IPA implementing bodies were relevant and their implementation was followed up by the Commission. Once management powers have been conferred, the Commission continues to monitor the system by following up any outstanding issues (e.g. remaining medium and low-risk audit findings). An important risk-mitigating factor is that the Commission can withdraw or suspend its conferral of management powers in the event that requirements are no longer fulfilled.

### 70

Risks related to staff turnover<sup>41</sup> and political change during the implementation of decentralised management that could lead to the loss of experience and synergies cannot easily be addressed at the conferral of management stage and require active follow-up. Furthermore, once hired, staff mainly attend training and have limited opportunity to gain practical experience because there are no transactions yet. This brings further risks in terms of demotivation and high staff turnover.

### 71

Another risk present in the IPA structures is the limitation in the current protection of whistleblowers as recognised by the 2013–18 national anti-corruption strategy. New legislation on whistleblowing is under preparation by the Serbian authorities in order to gain the trust of potential whistleblowers.

41 SIGMA's 2013 report estimates the rate at 15–20 % per year. It also notes that changes in government lead to higher turnover rates, especially in senior positions.

## Conclusions

### 72

Overall, the Commission is managing pre-accession support to Serbia effectively. The financial pre-accession assistance to Serbia along with other forms of support effectively helps Serbia to implement social and economic reforms and to improve governance in the country. Based on the experience gained in other IPA beneficiary countries, the Commission is putting increasing emphasis on governance issues in planning its financial and non-financial assistance to Serbia.

### Has the Commission been managing IPA projects effectively?

### 73

On the whole, the Commission has been managing IPA projects in Serbia effectively. Programming of the IPA assistance is based on a coherent strategic framework and the approach to selecting projects relevant to preparing Serbia for accession is gradually improving (see paragraphs 9 to 22).

### 74

The audited projects, both in the area of governance and in areas other than governance, largely produced their planned outputs (see paragraphs 39 to 43) but suffered from problems regarding:

- (a) Their design: inadequate attention was paid to definition of objectives, assessment of needs, lessons learnt from past projects and conditionality for launching projects and sequencing of operations (see paragraphs 24 to 31).
- (b) Their implementation: the audited projects from the earlier IPA programmes were affected by, sometimes significant, delays; interventions were monitored systematically at contract level, but not at project level, and corrective actions taken by the Commission were mostly limited to changes in the activities; some individual tendering and procurement procedures were not fully efficient or effective (see paragraphs 32 to 38, 44 and 45).
- (c) Their sustainability: results had questionable prospects for sustainability in two thirds of the projects; in particular, the sustainability of governance-related projects was at risk due to personnel issues (see paragraphs 46 to 48).

### 75

The Commission's flexible management approach mitigated the effects of some of these design weaknesses and, when drawing up the latest IPA annual programmes, the Commission had taken steps to address the shortcomings identified in the earlier IPA programmes (see paragraphs 27 to 31 and 38).

## Conclusions and recommendations

### **In its support for governance, has the Commission been managing non-financial assistance effectively?**

#### **76**

Overall, the Commission was effective in managing non-financial assistance to Serbia in the area of governance. It used its dialogue with Serbia effectively in addressing governance issues and the fight against corruption. It gradually improved its approach to take them on board in policy formulation and project design. The Commission was effective in supporting governance within the structures of EU funding but did not fully consider national public finance management (see paragraphs 50 to 71).

#### **77**

The Commission has put in place a structured dialogue on governance issues with Serbia. The dialogue adequately covers the key governance areas, includes the establishment of action points and their follow-up and makes the link between political priorities and policy formulation. The EU enlargement strategy and the revised IPA regulation pay increasing attention to financial and economic governance in the accession countries (see paragraphs 50 to 58).

#### **78**

The Court found that the emphasis on governance in the dialogue and the programming process was reflected to a lesser extent in project design. Account taken of risks related to governance was limited or completely absent in the segments of the project documentation concerning conditionality, the lessons learnt from the past and the cross-cutting aspects. However, despite no explicit mention of the need for anti-corruption or other good-governance measures in most of the recent projects that it reviewed, the Court found that a majority of those projects had indirectly contributed to the fight against corruption and better governance through their activities related to building administrative capacity (see paragraphs 59 to 63).

#### **79**

In approving the DIS, the Commission assessed the Serbian structures for managing EU funds. It systematically assessed the risks within the IPA structures and monitored the measures taken to mitigate them. However, in accordance with the legal requirements, the accreditation process concerned only the IPA implementing bodies, which means that the DIS was not linked to a preliminary comprehensive assessment of public finance management and the fight against corruption at country level (see paragraphs 65 to 71).

### Recommendations

#### 80

To improve the programming, design and implementation of IPA projects, the Commission should:

- (a) Make the project prioritisation and selection processes more transparent and more systematically documented, reflecting the individual stages of reasoned project prioritisation.
- (b) Improve the lessons-learnt process by developing a dedicated database incorporating lessons drawn from past projects in Serbia and other relevant beneficiary countries. Lessons learnt should take into account the track record or typology of failed or repeated tenders. Entering into the database significant recommendations from contract final reports should also be considered. The database could be grouped according to the major sectors used by IPA programming.
- (c) Systematically document the needs assessment underlying the expected outputs from projects and contracts, notably to improve beneficiary ownership of the needs identified.
- (d) Reinforce the principle of conditionality. In particular, the beneficiary's capacity to do what is required for a high-quality project should be verified in advance and in specific measurable terms, as should whether the project elements are compliant with the national legal framework and whether the necessary building permits are available. Stronger conditionality should help to reduce the number of projects that are not ready for implementation, in particular large infrastructure projects.
- (e) Set up a system for a regular brief progress report in order to ensure an appropriate audit trail for the entire project instead of individual contracts. The overview reports should include a complete list of the contracts that come under a given project/sector.
- (f) Put in place a system to check the usefulness of project outputs (including studies, analyses, procedures, protocols and training materials) in the medium and long term. More emphasis on ultimate usefulness should help to shift the focus from output delivery and meeting contracting and payment target figures to more lasting results.

## Conclusions and recommendations

### 81

In relation to its structured dialogue with Serbia on governance issues and to the DIS process, the Commission should carry out the following actions.

- (a) Express the need for the Serbian authorities to further rationalise their set of national strategies and finalise a fully fledged PFM roadmap, and if necessary provide technical support in that respect.
- (b) Take measures, in the IPA programming, to enhance the consultation mechanism with CSOs active in the area of governance.
- (c) Issue guidelines to ensure that the need for sector-specific anti-corruption or other good-governance measures is, wherever relevant, assessed in the project design.
- (d) In its assessment of the country-wide PFM reforms, verify that the audit work done by the Commission in the context of the DIS accreditation process is fully taken into account.

This Report was adopted by Chamber III, headed by Mr Karel PINXTEN, Member of the Court of Auditors, in Luxembourg at its meeting of 21 October 2014.

*For the Court of Auditors*



Vítor Manuel da SILVA CALDEIRA  
*President*

## List of IPA projects audited

Serial No	Title	National programme/ project No	Budget (million euro) <sup>1</sup>
<b>Governance projects</b>			
<b>Justice and home affairs — Fight against corruption and administrative capacity</b>			
1.	Police reform: internal affairs	2007/6	1,0
2.	Fight against corruption	2008/5	2,5
3.	Improvement of efficiency and transparency of judiciary system	2007/4	2,6
4.	Improvement of transparency and efficiency (prosecutors and penal system)	2008/8	4,5
<b>Public administration reform (PAR)</b>			
5.	Municipal support programme	2007/2	22,5
6.	Harmonisation of the Serbian Customs Enforcement Division with the standards, organisation and operational methodology of EU enforcement agencies	2008/6	4,4
<b>Public finance management (PFM)</b>			
7.	Support for the Public Procurement Office	2007/7	2,0
8.	Support for the development of public internal financial control (PIFC) phase 3	2008/2	2,0
<b>Non-governance projects</b>			
<b>Social development</b>			
9.	Regional economic and social development programme	2007/13	23,3
10.	Health sector reform emergency medical services	2007/16	10,0
<b>Private sector development</b>			
11.	Support for private sector competitiveness	2007/22	3,5
<b>Transport</b>			
12.	Žeželj bridge — rebuilding Serbian infrastructure	2009/4	30,0
<b>Environment, climate change and energy</b>			
13.	Environmental protection at the Electric Power of Serbia company	2008/17	11,0
<b>Agriculture and rural development</b>			
14.	Capacity building to implement rural development policies to EU standards	2007/32	4,4
<b>Other EU acquis and cross-cutting activities</b>			
15.	Support for civil society I Support for civil society II	2007/12 2008/11	2,0 2,5
<b>Total</b>			<b>128,4</b>

<sup>1</sup> National co-financing not included.



### List of IPA projects reviewed for examination of governance and the fight against corruption as cross-cutting issues

Serial No	Title	National programme/ project No	Budget (million euro)
A.	Municipal infrastructure support programme — MISP 2010	2010/3	31,1
B.	Supervision of road construction works along corridor X (Grdelica — Vladicin Han and Pirot — Ciflc sections)	2010/15	10,0
C.	Institutional capacity building and support for agriculture and rural development in Serbia	2010/20	2,8
D.	Strengthening the Serbian Environmental Inspectorate and relevant stakeholders	2010/23	2,5
E.	Strengthening legislation, policy and coordination capacities at central level	2011/3	6,5
F.	Socioeconomic development in the Danube region	2011/13	18,5
G.	Municipal environment grant-loan investment programme (Meglip)	2011/17	19,1
H.	Capacity-building for the Energy Agency	2011/19	1,5
I.	Support for SME development	2012/7	6,2
J.	Support for agriculture and rural development (in particular measures 1.4 and 2)	2012/10	15,6
<b>Total</b>			<b>113,8</b>

## Executive summary

### IV

The IPA is focused on needs and its priorities are based on assessments of the level of fulfilment of EU-related criteria, included in particular in the Commission's enlargement strategy paper and the annual reports. The allocation criteria take account of Serbia's capacity to use and to manage the funds and their respect of the conditions for accession. In this way, the IPA provides the link between the political framework for enlargement and the EU budgetary process.

### VI

The Commission acknowledges the fact that the decentralised implementation system (DIS) process has been built for the management of IPA funds. Serbia is currently preparing a comprehensive public finance management (PFM) reform programme, which will be based on a comprehensive diagnostic of the PFM subsystems. Therefore a public expenditure and financial accountability (PEFA) assessment is going to be carried out.

## Observations

### 11

The Commission has already supported the government in improving the quality of its strategic documents through a number of mitigating measures funded from the IPA. The Commission has over the last year conducted a number of sector evaluations on the past IPA and other donor assistance in Serbia in order to support preparations for IPA II, where the objective is to support the implementation of coherent sectoral strategies/programmes through a sectoral approach.

### 11 First indent

The — limited — support provided by the IPA to the decentralisation process was based on the public administration reform (PAR) strategy adopted by the government of Serbia in 2004 and its related action plans. The particular areas of IPA support have derived directly from the PAR strategy action plans. The selected project 5 (municipal support programme) focused on building local administration capacities in priority areas of EU integration. In addition, in line with the PAR strategy action plan, the project was designed to support elaboration of the decentralisation strategy as requested by the then ministry in charge of decentralisation. However, the project suffered from a lack of political will. Nevertheless, the outputs of this project's component are further used by the newly established Council for Decentralisation that reconvened in autumn 2013 to proceed with elaboration of the strategy. Under the new government, the mandate for drafting the decentralisation strategy is given to the Ministry for Regional Development and Local Self Government.

The Commission agrees that any further support under IPA II for any decentralisation process would need to be based on a clear national decentralisation strategy and its action plan.

### 11 Second indent

The Commission acknowledges that there was no overarching PFM strategy covering all key aspects of PFM. Rather, different aspects of PFM have been covered under specific strategies such as the fiscal strategy or the public internal financial control (PIFC) strategy, so that a strategic basis for supporting specific IPA projects existed even in the absence of a formal overarching PFM strategy. The new enlargement strategy 'Fundamentals first' from October 2013 puts special emphasis on economic

governance as well as public finance management and foresees that enlargement countries should prepare specific PFM action plans. Therefore, support under IPA II in this area will be based on a more coherent PFM framework than in the past. It is important to note that the new Serbian PAR strategy for the period 2013–16 also encompasses PFM. This is an important improvement in comparison with the past, because it highlights the fact that PFM concerns all budget users, not only the Ministry of Finance, and that there is a need for coordination and coherence in implementation. Further on, the planned PEFA assessment will contribute to an overall picture of PFM systems in place.

### 13

The purpose of the European Partnerships has been to provide a general reference framework rather than a policy framework, to indicate the priority areas for reform and to provide general guidelines for financial assistance in these priority areas, with the expectation that the country respects the principles and priorities highlighted in it. These principles have been consistently agreed with Serbia and reflected in the national programmes during the first years of IPA programming. A more specific and accession-relevant framework has been provided by the annually updated enlargement strategy and country-specific annual progress reports.

### 14

The Commission recognised the need for improved indicators in the programming of IPA assistance and has addressed this issue in the IPA II framework. The indicative country strategy papers, which will define the long-term strategic orientation for IPA funding per country, include an annex detailing indicators at diverse levels. These, among others, also include indicators in the fields of economic governance and the fight against corruption.

### 16

The Commission recognises that under the earlier IPA programmes some projects were selected due to their importance for Serbia based on assurances provided by the government for their smooth implementation. Much stricter requirements concerning project readiness have already been introduced under the IPA 2012 and 2013 programmes and will be enforced even more systematically under IPA II. The Commission has supported, through IPA assistance, the development of a new methodology for the selection of investment projects that will be part of the national single project pipeline. The methodology aims to help the Serbian government to assess (a) prioritisation and (b) the maturity of projects/programmes in the infrastructure sectors.

### 20

The Commission shares the importance of civil society organisations (CSO) and will further continue to encourage and support the involvement of CSO in IPA programming.

### Box 3

Supplies were synchronised with the inputs of a parallel twinning in support of the institutional development plan for the paying agency (PA). The PA had been allocated 105 posts in the systematisation of the Ministry of Agriculture. During the lifetime of this project the government was reshuffled three times, leading to disruptions in the planned recruitments for the PA.

### 26

Measures have been taken to improve the capacity for retaining lessons learnt from previous experiences and thereby improve the IPA II (2014–20) programming process. Lessons learnt and recommendations of the IPA component I sector assessments in Serbia have been applied in the design of the IPA 2014 programme. A table with the recommendations for each sector individually and for programming as a whole has been introduced as key starting document for the sector working groups in the 2014 programming process.

### 27

Since IPA 2012 programming conditionalities are used in a targeted way, are clearly defined in sector/project documents in a measurable way and enforced during implementation. Numerous projects have been postponed in programming if critical pre-conditions were not in place. The Commission, however, plans to enforce conditionalities more rigorously and made it clear to the Serbian government that only fully mature projects will be considered for programming.

### 33

Indeed, the Commission's reports of the authorising officer by subdelegation present the high targets met and the contracting rates, which have been consistent year after year, therefore demonstrating high absorption capacities.

### 37

The Commission reacted, in particular in the first monitoring committees, in order to safeguard the successful implementation of ongoing projects, which resulted in flexible contract management. This process evolved into stronger monitoring mechanisms and stricter decisions when difficulties appear during the implementation on a case-by-case basis.

### Box 7 — Reply to the first paragraph

The volume of municipal bonds for the city of Novi Sad represents the second largest local government borrowing in Serbia. The results achieved under this programme are still influencing the market in 2014, where for example it is envisaged to introduce further municipal bonds for the cities of Sabac and the municipality of Stara Pazova. The standing conference of towns and municipalities continues to receive requests for providing support for municipal bond issues, representing an alternative to loans. The Commission is of the opinion, that without that support, municipal bond market in

Serbia would probably not exist and municipalities would continue to face high interest rates on bank loans. Therefore, the municipal bond support was an important starting point for local government credit market in Serbia, for communal infrastructure finance and for savings in local budgets.

### Box 7 — Reply to the second paragraph

IPA financial support is assisting the government in meeting the EU criteria and complements the policy dialogue. The Commission highlighted the shortcomings in terms of the activities of the CHU and the staffing of internal audit units in the relevant structures of its political dialogue with the Serbian authorities, in particular in the relevant subcommittee of the SAA as well as in the screening report for chapter 32. Improvement is therefore expected in the short term within the framework of accession negotiations. If the 2008 project was not sufficient to solve all difficulties, it greatly contributed to reaching a level of preparation that would allow the Commission to propose opening chapter 32.

### 43

Generalised conclusions cannot be drawn about the effectiveness of EU support in the field of public works on the basis of this specific project. The majority of delays have been assessed by the engineer to be attributable to the contractor. Further on, in particular as of the IPA 2011, this type of difficulty is now addressed through the improved links between the policy elements and the programming.

### 45

The Commission acknowledges the absence of a summary monitoring document on the history of failed tenders. However, the reasons for a cancelled or failed tender are analysed on a case-by-case basis and taken into account for a possible relaunch.

### **Box 10 — Reply to the first paragraph**

The tendering process for the police reform project failed due to submission of the only application after the formal deadline. After the failure of the tendering process the beneficiary (the Internal Affairs Unit at the Ministry of the Interior) remained committed to the project, while the issues of lack of autonomy of the unit, adequate staff and support from senior managers in the Ministry of Interior continued to affect the internal control department's ability to effectively combat corruption within the police force. These issues have been the object of specific letters sent by the head of the delegation and the ambassador of the twinning partner to the minister.

### **Box 11 — Reply to the first paragraph**

The Commission has already applied the lessons learnt from this experience. In the IPA 2012 programme, the IT aspect for justice includes a needs analysis as the first activity. Any further assistance can only be deployed upon the finalisation of this needs analysis.

### **Box 11 — Reply to the second paragraph**

The Commission agrees that the lack of a clear regional policy framework presented a sustainability risk. There was however no single EU model that could have been proposed as organisational aspects have to be defined nationally as a political decision of the Serbian government. Sustainability became an area of concern when it became apparent that Serbia would not get a regional policy and legislative framework in place early in the process, as well as clear financing mechanisms. The Commission wants to point out that all EU-funded RDAs have remained operational after completion of the project and the EU funding. While still largely project dependent, most of them have gained regional recognition and benefit from cross-border cooperation programmes, national funds, bilateral donors' funds and also private income from various business service provisions. An important lesson to be learnt from the programme is to organise a clear sequencing of activities by which, for example, the adoption of the strategic/legislative framework is a precondition for the granting of further support.

### **Box 11 — Reply to the third paragraph**

The project can be considered as one-off government assistance to the municipal structures, which have only then become responsible for the maintenance and procurement of equipment and infrastructure in their health institutions.

At the time of purchase, the Ministry of Health intended to procure more vehicles to cover for more needs (the fleet should have been 1 000, and Serbia had only close to 400, including the EU donation of 252 vehicles). However, the financial resources are more and more scarce and only repairs and sporadic procurement was made available to the municipal budgets.

The procurement made by the EU could be considered as emergency rehabilitation assistance, since no such purchases were made before 1991 and these vehicles were a serious need for the system. Otherwise the implications for service delivery and health of the population would have been grave.

These vehicles are still the newest ones available in the country and are still used to the maximum, and the project-achieved enhanced capabilities are therefore still sustained. Vehicle renewal depends on the country's future economic development.

### **Box 12 — Reply to the first paragraph**

The Commission agrees to the fact that internal audit staff are difficult to recruit in some ministries. However, Serbia informed the Commission that an internal audit function has been established within 76 budget users (55 at central government level, 21 at local government level). These users account for 90 % of public funds. All ministries have set up internal audit units, but in two ministries positions were still not filled. The smaller budget users can meanwhile either build up a joint internal audit unit or enter into an agreement with budget users who have an internal audit function and use their auditors.

This issue will be covered under chapter 32 in the negotiations, and progress is therefore expected and will be closely monitored in this respect before closure of the chapter.

### Box 12 — Reply to the second paragraph

The Commission recognises the difficulty of retention of trained staff in key administrative structures as a horizontal challenge in the candidate countries. This issue will be monitored in all fields during the negotiations as a chapter can only be closed when legislation is fully aligned with that of the EU and administrative capacity is identified as sufficient for implementation of EU policies.

### 48

Steps to mitigate weaknesses in the field of sustainability have already been taken. The 2014 ROM monitoring schedule includes a number of *ex post* ROM exercises with the aim of checking the medium and long-term sustainability of the IPA projects' results.

### 59

The formal opening of accession negotiations with Serbia in January 2014, starting with the rule-of-law chapters (chapter 23, 'Judiciary and fundamental rights', and chapter 24, 'Justice, freedom and security') put great emphasis on the need to ensure a sound and predictable rule-of-law climate conducive to overall improved governance environment. This entails in particular, and as a matter of priority, an efficient and deterrent fight against corruption at all levels and in all sectors, including at project level.

### 61

In all programming periods, cross-cutting issues were included under the more general rule-of-law issues. Even if not explicitly mentioned in previous years, the Commission tackles those in a cross-cutting manner, acknowledging however that explicit references may serve for more clarity in this regard.

### 66

Serbia is currently preparing a comprehensive public finance management (PFM) reform programme, which would be based on a comprehensive diagnosis of the PFM subsystems. Therefore, a public expenditure and financial accountability (PEFA) assessment is going to be carried out. A comprehensive and reliable PFM reform programme represents one of the key requirements in Serbia's accession negotiations with the European Union and, at the same time, also represents one of the key elements for planning and implementing long-term reforms.

The PEFA assessment will provide the government of Serbia with a snapshot of broad PFM performance allowing to assess the current status in key areas and to identify where the limitations and risks are in moving forward with a new PFM reform strategy. This will also include the assessment of IPA structures within the Serbian authorities.

### 67

The Commission agrees with the need for further efforts in order to safeguard the financial interests of the EU. The internal audit function has been progressively set up in a way to cope with a decentralised management basis. The number of internal auditors and performed audits has increased over time. An effective and functioning internal audit system, however, still remains to be established in line with the budget system law requirements for many budget authorities and beneficiaries. The internal control focus is on *ex post* checking of compliance with laws and detecting potential irregularities, as evidenced by the work performed by internal auditors, centralised budget inspectors and also the state audit institution. In line with the managerial accountability principle, however, the focus should gradually move towards making managers responsible for setting up and implementing appropriate FMC structures, supported by an internal audit function, to prevent irregularities in the first place.

## Reply of the Commission

### 70

The Commission has introduced measures to mitigate risks of high staff turnover. Staff take an active part in tasks performed by the delegation in the current centralised set-up in order to benefit from practical experience on real cases before carrying out the transactions themselves when the decentralised set-up is eventually introduced. These tasks include observing evaluation committees, participating in on-the-spot checks and verification mission to projects.

### 71

Strengthening protection of whistleblowers is an important element already identified in the screening report on chapter 23. The development of a functioning whistleblower protection system should feature prominently in the action plan. Serbia is currently preparing to answer the opening benchmark for this chapter. A draft law on whistleblower protection has been prepared and is to be adopted.

## Conclusions and recommendations

### 74 (a)

The Commission acknowledges some design-related shortcomings, in particular for early IPA projects. Therefore the Commission has improved its sector documents in this respect. The IPA-funded sector evaluations have drawn lessons from the implementation of IPA I (2007–12). The recommendations from these assessments have been fed into working groups and are in the process of being reflected under IPA II programming. Some of the specific recommendations addressed in the sector evaluations have already been reflected in the new IPA II setting (Regulation (EU) No 231/2014), the common implementing regulation (Regulation (EU) No 236/2014) and draft framework agreements, to be concluded with each individual beneficiary.

### 74 (b)

The Commission acknowledges isolated problems in the implementation of earlier projects, which were addressed by the contracting authority in order to safeguard the contractual implementation and provide for sound financial behaviour in contract management. Complexity and technically demanding tendering procedures have led to some failures and were repealed when retendered.

### 74 (c)

The Commission recognises the difficulty of employment and retention of trained staff in administrative structures as a cross-cutting challenge in all candidate countries. This issue will be monitored during the negotiations as a chapter can only be closed when legislation is fully aligned with that of the EU and administrative capacity is identified as sufficient for the implementation of EU policies.

### 76

Serbia is currently preparing a comprehensive public finance management (PFM) reform programme, which would be based on a comprehensive diagnosis of the PFM subsystems. Therefore a public expenditure and financial accountability (PEFA) assessment is going to be carried out. A comprehensive and reliable PFM reform programme represents one of the key requirements in Serbia's accession negotiations with the European Union and, at the same time, also represents one of the key elements for planning and implementing long term reforms.

### 78

In all programming periods cross-cutting themes were included under the more general rule-of-law issues. Even if not explicitly mentioned in previous years, the Commission tackles those in a cross-cutting manner, acknowledging however that explicit references may serve for more clarity in this regard.

### 80 (a)

The Commission accepts the recommendation. The prioritisation and selection process has, overall, already improved over the lifetime of IPA I. Further progress is expected for IPA II projects, in line with the newly developed methodology and the move to a sectoral approach, which will increase links between policy priorities and assistance programming. The key policy priorities for programming will be reflected in the country strategy paper, and gaps assessed yearly in the Commission's strategy document and progress reports. Following the opening of accession negotiations, in each sector, programming should be directly linked to priorities identified in the relevant chapters, first in the screening reports and subsequently in the opening or closing benchmarks, wherever applicable. Another clear improvement in the investment field should result from the development of a national single pipeline of strategic projects in the fields of transport, energy, environment and business infrastructure, to be adopted by the government and used as single basis for IPA support for infrastructure projects.

### 80 (b)

The Commission accepts the recommendation. In the context of thematic sector evaluations, lessons learnt from project implementation, relevant across countries and or sectors, are already shared, and, notably, IPA-funded sector evaluations have drawn lessons from the implementation of IPA I (2007–12). As a result, some of the specific recommendations addressed in the sector evaluations have already been reflected in the new IPA II setting (Regulation (EU) No 231/2014), the common implementing regulation (Regulation (EU) No 236/2014) and draft framework agreements to be concluded with each individual beneficiary. They are also reflected, where applicable, in IPA II programming. For internal monitoring and reporting purposes, a specific table reflects the evolution of the steps taken to implement the main findings and recommendations on past evaluations relating to both sectors

and forms of assistance. Additionally, the Commission intends to study — in the context of setting up a monitoring and reporting framework to meet the reporting requirements flowing from the IPA II legal framework — whether an efficient and cost-effective reporting tool also addressing the tendering process can be established, possibly building on existing tools. Moreover, in line with the recently updated policy orientations on evaluation from DG Enlargement, a review of current monitoring practices and tools is foreseen, as well as a strengthening of the synergies between the evaluation and the monitoring functions, which will contribute to ensuring consistent follow-up to past findings and recommendations.

### 80 (c)

The Commission accepts this recommendation and intends to take it into account by improving the logical framework of interventions within action documents in IPA II, in particular as regards results and outputs from activities, as well as by further improving the documentation related to the needs assessments as annexes of the action documents.

### 80 (d)

The Commission accepts this recommendation. De facto, it is already largely taken into account, as since IPA 2012 programming, conditionalities are used in a targeted way, are clearly defined in sector/project fiches in a measurable way and enforced during implementation. Numerous projects have been postponed in programming if critical pre-conditions were not in place. The Commission, however, plans to enforce conditionalities more rigorously and made it clear to the Serbian government that only fully mature projects will be considered for programming. This policy will be further supported, as regards infrastructure, by the establishment of the single project pipeline, which will include an individual assessment of all projects as to their level of maturity (and fulfilment of conditionalities).



### 80 (e)

The Commission accepts this recommendation. An improved audit trail for the entire project is planned to be included in the 2014 report of the authorising officer by subdelegation, i.e. for the contracts that are included in the annual assurance strategy for 2014 and for the audit plan 2014 onwards. Results, findings and recommendations from the audits and on-the-spot monitorings will be presented in the overview reports containing data regarding the entire project/sector. Those reports will be improved in such a way to facilitate and meet given recommendations.

### 80 (f)

The Commission accepts this recommendation and envisages establishing a system in order to include samples of such checks in its annual audit and on-the-spot verification plans.

### 81 (a)

The Commission accepts the recommendation. The Commission is at the stage of supporting a PEFA assessment in order to provide the government of Serbia with a broad snapshot of PFM performance. Such an assessment will assess the status of key areas and identify where the limitations and risks are in moving forward with a new PFM reform strategy. This will also include the assessment of IPA structures within the Serbian authorities. Serbia is currently preparing a comprehensive public finance management (PFM) reform programme, which will be based on a comprehensive diagnostic of the PFM subsystems. Progress will be closely steered and monitored during the negotiations within the framework of chapter 32 on financial control.

### 81 (b)

The Commission accepts this recommendation and welcomes any further involvement of CSOs in the policy and programming processes. It is actually of the opinion that these measures are already largely in place. The Commission has already provided IPA support for the establishment of an Office for Cooperation with Civil Society. The office was established in 2010. In 2010 national authorities also established a mechanism called SECO (sector civil society organisations) for the participation of civil society in the planning, programming and monitoring of IPA assistance. The SECO mechanism is organised on a sector basis. For each sector, representative CSOs have been registered. IPA support has been provided through technical assistance for the design of the SECO mechanism and for strengthening its influence towards wider policymaking. Even though CSOs have been consulted on regular basis on the programming of the IPA, they have in the past made rather limited use of this mechanism.

### 81 (c)

The Commission accepts this recommendation and will issue guidelines to ensure that the need for sector specific anti-corruption or other good-governance measures is, where relevant, assessed in the project design.

### 81 (d)

The Commission accepts this recommendation and will ensure that the audit work done in the context of the accreditation and conferral of the management decision from March 2014 is going to be taken into account for the PFM reform process.



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This report evaluates whether EU support — about 1,2 billion euro over the 2007–13 period — was effective in preparing Serbia for EU membership. The audited projects delivered their planned outputs although they suffered from weaknesses regarding their design, implementation and sustainability. Overall, the Court concludes that the Commission is rightly putting emphasis on governance issues in planning its assistance to Serbia, and that EU support effectively helps Serbia to implement structural reforms and improve public finance management.



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