

# **FINANCING AGREEMENT**

## **SPECIAL CONDITIONS**

The European Commission, hereinafter referred to as "**the Commission**", acting on behalf of the European Union, hereinafter referred to as "**the Union**",

of the one part, and

Montenegro, hereinafter referred to as "**IPA II beneficiary**", represented by the Office for European Integration

**of the other part,**

have agreed as follows:

### **Article 1 - The Programme.**

- (1) The Union agrees to finance and the IPA II beneficiary agrees to accept the financing of the following Programme:

Annual Action Programme for Montenegro for the year 2019

Global commitment number (CRIS): IPA/2019/041-168 for Objective 1

Global commitment number (CRIS): IPA/2019/041-169 for Objective 2

This Programme is financed from the Union Budget under the following basic act:  
Instrument for Pre-Accession Assistance, IPA II.<sup>1</sup>

- (2) The total estimated cost of this Programme is EUR 30 015 000 and the maximum Union contribution to this Programme is set at EUR 30 015 000.  
No financial contribution is required from the IPA II beneficiary.
- (3) The Programme shall be implemented in accordance with the description provided in Annex I, which is further detailed in Action documents to be agreed on by exchange of letters between the Commission and the IPA II beneficiary.

### **Article 2 – Execution period and operational implementation period**

- (1) The execution period of this Financing Agreement as defined in Article 12 of Annex II (General Conditions) is fixed at 12 years, from the entry into force of this Financing Agreement.
- (2) The duration of the operational implementation period as defined in Article 12 of Annex II (General Conditions) is fixed at 6 years, from the entry into force of this Financing Agreement.

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<sup>1</sup> Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II), OJ L 77, 15.03.2014, p. 11.



### **Article 3 – Addresses and Communication**

All communication concerning the implementation of this Financing Agreement shall be in writing, shall refer expressly to this Programme as identified in Article 1(1) and shall be sent to the following addresses:

**(1) for the Commission**

Ms Genoveva Ruiz Calavera  
Director D, Western Balkans  
Directorate- General for Neighbourhood and Enlargement Negotiations  
European Commission, 15 Rue de la Loi  
B- 1049 Brussels, Belgium  
E-mail: NEAR-D1@ec.europa.eu

**(2) for the IPA II beneficiary**

Mr Aleksandar Drljević  
National IPA Co-ordinator, Chief Negotiator  
Office for European Integration  
Bulevar revolucije, br. 15  
81000 Podgorica, Montenegro  
E-mail: aleksandar.drljević@gsv.gov.me

### **Article 4 – OLAF contact point**

The contact point of the IPA II beneficiary having the appropriate powers to cooperate directly with the European Anti-Fraud Office (OLAF) in order to facilitate OLAF's operational activities shall be:

AFCOS contact point/AFCOS office Nataša Kovačević  
Ministry of Finance of Montenegro  
Stanka Dragojevića 2, 81000 Podgorica, Montenegro  
Tel: + 382 20 224 480, Fax: + 382 20 224 450  
E-mail: natasa.kovacevic@mif.gov.me

### **Article 5 – Framework Agreement**

The Programme shall be implemented in accordance with the provisions of the Framework Agreement between the European Commission and Montenegro on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-Accession Assistance (IPA II) which entered into force on 4 June 2015 (hereafter referred to as “the Framework Agreement”). This Financing Agreement supplements the provisions of the Framework Agreement. In case of conflict between, on the one hand, the provisions of this Financing Agreement and, on the other hand, the provisions of the Framework Agreement, the latter shall take precedence.

### **Article 6 - Annexes**

(1) This Financing Agreement is composed of:

(a) these Special Conditions;



- (b) Annex I: Annual Action Programme, detailing the objectives, expected results, activities, description of the budget-implementation tasks entrusted and budget of this Programme;
- (c) Annex IA: Budget Support
- (d) Annex II: General Conditions;
- (e) Annex III: Model Annual Report on the implementation of IPA II assistance as per Article(s) 58 and 59(1) of the Framework Agreement;
- (f) Annex IV: Model Financial Report as per Article 59(2) of the Framework Agreement ;
- (g) Annex V: Accrual Based Accounting System Minimum Specification;
- (2) In the event of a conflict between, on the one hand, the provisions of the Annexes and, on the other hand, the provisions of these Special Conditions, the latter shall take precedence. In the event of a conflict between the provisions of Annex I and/or Annex IA on the one hand and, the provisions of Annex II, on the other hand, the latter shall take precedence.

#### **Article 7 – Provisions derogating from or supplementing Annex II**

It is not possible to re-allocate funds between the amount of EUR 1 715 000 of global commitment number IPA/2019/041-168 and the amount of EUR 28 300 000 of global commitment number IPA/2019/041-169.

#### **Article 8 – Entry into force**

This Financing Agreement shall enter into force on the date on which it is signed by the last party at the latest 15 November 2020.

This Financing Agreement is drawn up in duplicate in the English language, one being handed to the Commission and one to the IPA II beneficiary.


For the IPA II beneficiary:



Mr Aleksandar Drljević  
National IPA Co-ordinator,  
Chief Negotiator  
Office for European Integration

Podgorica, 28/8/2020

For the Commission:



Ms Genoveva Ruiz Calavera  
Director D, Western Balkans  
Directorate- General for Neighbourhood  
and Enlargement Negotiations

Brussels, 31/7/2020





## ANNEX I

### Annual Action Programme for Montenegro for the year 2019

#### 1 IDENTIFICATION

<b>Beneficiary</b>	Montenegro
<b>Basic act:</b> <b>CRIS/ABAC Commitment references and budget line(s):</b>	Instrument for Pre-accession Assistance (IPA-II) 2019/041-168 EUR 1 715 000 from 22.02 01 01 2019/041-169 EUR 28 300 000 from 22.02 01 02
<b>Total cost:</b> <b>EU Contribution:</b>	EUR 30 015 000 EUR 30 015 000
<b>Method of implementation</b>	<p><u>Direct management by the European Commission for:</u></p> <ul style="list-style-type: none"> <li>• <i>Action 1 – EU Integration Facility</i></li> <li>• <i>Action 2 - Support to COVID-19 crisis response in Montenegro (Budget Support)</i></li> </ul> <p>Direct management by the European Commission for all activities, with the exception of one complementary support activity.</p> <p>Indirect management with the International Labour Organization (ILO) <i>for a complementary activity</i> under action 2 - <i>Support to COVID-19 crisis response in Montenegro</i></p> <ul style="list-style-type: none"> <li>•</li> </ul>
<b>Final date for concluding <u>Financing Agreement(s)</u> with the IPA II beneficiary</b>	At the latest by 15 November 2020
<b>Final date for contracting, including the conclusion of contribution/delegation agreements</b>	Three years following the date of conclusion of the Financing Agreement
<b>Indicative operational implementation period</b>	Six years following the date of conclusion of the Financing Agreement.
<b>Final date for implementing the Financing Agreement</b> (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement.




## 2 DESCRIPTION OF THE ACTION PROGRAMME

### 2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

- Rationale for the selection of the specific sectors under this programme:

The *Annual Action Programme (AAP) for Montenegro for the year 2014* contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro and its subsequent revision through actions covering six of the eight priorities defined in the ISP. The first sectors initially covered by IPA II funds included *democracy and governance, the rule of law and fundamental rights, environment and climate action, transport, competitiveness and innovation, and the Agriculture and rural development sector.*

The *Annual Action Programme for Montenegro for the year 2015* covered *Democracy and governance* and the *Rule of law and fundamental rights* sectors. It also included the first sector budget support programme aimed at supporting the implementation of the integrated border management strategy.

In 2015, Montenegro developed a *Regional Development Operational Programme 2016-2020 (RDOP)* to provide a multiannual framework for IPA programming in *environment, competitiveness and transport* sectors. Two actions, focusing on economic development and growth by providing assistance to the Environment and climate action and Competitiveness and innovation sectors, were included in the *Action Programme for the year 2016*. A third action aiming at the improvement and development of the transport sector was included in part 1 of the *Annual Action Programme for Montenegro for the year 2017*.

The *Annual Action Programme for Montenegro for the year 2017* part 2 strengthened and complemented the existing EU support to the democracy and governance sector targeting the area of public administration reform (PAR), which is one of the key priorities of the Enlargement Strategy.

In 2018, the *Annual Action Programme for Montenegro* addressed issues concerning the Democracy and Governance, Rule of Law and Fundamental Rights and Competitiveness and Innovation, Agriculture and Rural Development. In addition, the AAP 2018 included an action funded under the performance reward granted to Montenegro in the area of Education, Employment and Social Policies focusing in the area of Health.

**The current Annual Action Programme for Montenegro for the year 2019 (AAP 2019)** focuses on two sectors: Democracy and Governance, and Education, employment and social policies.

Under the **Democracy and Governance sector**, the AAP 2019 will set up a new EU Integration Facility (EUIF) with EUR 1 715 000 EU contribution. The EU Integration Facility focuses mainly on technical support and capacity building related to the EU accession process. By ensuring the effectiveness and impact of actions financed through IPA II, the EUIF will also help the preparation for future cohesion and structural funds. In addition, special attention will be granted to ensuring good communication and visibility of EU actions in specific sectors as well as performing programme evaluations that will inform and steer preparation of future IPA III programmes.



Within Education, employment and social policies sector, EUR 28 300 000 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID 19 pandemic.

- Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sector: **Education, employment and social policies**
- Within the Response to the COVID-19 crisis, in order to mitigate the impact of the COVID-19 pandemic and crisis in Montenegro, a large-scale and all-encompassing budget support programme, worth EUR 40.5 million EU contribution has been identified as the most effective and efficient intervention to help Montenegro reduce the macro-economic effects of the crisis on the economy, preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services and increase access of vulnerable business to economic relief.
- In the EU response to the crisis, synergies are sought between this programme and the following operations, either already provided or planned, also in conjunction with other donors:
- Montenegro has requested an emergency financial support from the **European Macro Financial Assistance** (MFA), up to EUR 60 million. MFA is an EU crisis response instrument linked to the emergency Rapid Financing Instrument of the International Monetary Fund (IMF). The objective of this assistance is to ease the country's external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the country address the current external and financial vulnerabilities. The MFA is available for 12 months period and disbursed in two instalments of up to EUR 30 million each. The policy conditions attached to this assistance will be based on the economic stabilisation and reform programme endorsed by the Montenegrin authorities and consistent with agreements reached by Montenegro with the IMF. The process of agreeing upon a Memorandum of Understanding and setting the MFA conditionality is ongoing.
- **SOPEES programme** (National IPA 2020, EUR 3.5 million): the programme aims at enhancing inclusion and employability of the long-term unemployed, with the focus on social welfare beneficiaries, women, youth, by supporting life in the community and through local partnerships initiatives for employment.
- **Improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System (National IPA 2014, EUR 1.3 million)**: the project aims to increase fiscal sustainability and sound management of public finances in line with EU requirements. The specific objectives of the contract are: a) the full implementation of a medium-term budget framework, b) the full development and implementation of a program budgeting based system and c) the improvement of Public Internal Financial Control system. The contract will include complementary activities to support the transition to accrual accounting, to improve the quality of budget documents and for the establishment of a system of prevention and recovery from potential threats to business continuity.





- **Development and strengthening of the capacities of State Audit Institution and Audit Authority (National IPA 2014, EUR 0.6 million):** the project aims to further strengthening public sector external audit in Montenegro by providing support to Audit Authority (AA) and State Audit Institution (SAI). This includes strategic advice, improvements of operational manuals and procedures for different type of audit including usage of ad hoc IT tools, trainings, on the job assistance and strengthening relationships with the parliament.
- **Support to strengthening health systems and vulnerable groups (EUR 20 million IPA multicountry):** 1. New interventions to support needs of vulnerable groups, especially elderly and children; 2. Interventions to improve the resilience of health systems, by intensifying existing work through the European Centre for Disease Prevention and Control, as well as a new engagement with the WHO.
- **Economic Reactivation Package (EUR 455 million, IPA multicountry):** The interventions will support the economy recover and inject much needed liquidity to financial intermediaries and small and medium enterprises (SMEs) in the region through work with the IFIs (EUR 202 million reorientation of existing programmes, plus “new funding” including: EUR 95 million reprogrammed IPA funds, EUR 38 million of the IPA 2020 programme adapted to COVID-19, and EUR 120 million of the Western Balkans Guarantee reoriented to mitigate the socio-economic consequences of the pandemic).
- In addition, a package of **emergency support measures dedicated to Western Balkan Countries** has being discussed, to be implemented by the European Investment Bank (EIB), in the amount of EUR 700 million. Funds will be granted, if requested, primarily to help the health sector, small and medium-sized enterprises and entrepreneurs to overcome the liquidity problems caused by the pandemic crisis. The assistance will also include the expertise of the EIB together with partner banks in the countries. The definition of needs and priorities is ongoing.
- In the response of the international community, close coordination will be ensured between the EU and the following entities and projects:
- **The Rapid Financing Instrument (RFI) (IMF, EUR 30 million)** provides rapid and low-access financial assistance to its member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and post-conflict situations, and emergencies resulting from fragility. Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. Montenegro requested RFI assistance in April, and the procedures for its approval is ongoing.
- **Second Fiscal and Financial Sector Resilience Policy-Based Guarantee** (World Bank, EUR 80 million) was used for the execution of EUR 250 million syndicated loan in May from commercial banks. The 12-year loan has been withdrawn in mid-May, with a 3.63% interest rate. Its release was conditioned to the implementation of governmental reforms to safeguard fiscal sustainability and make the financial sector more resilient to potential shocks. The WB is considering to increase the guarantee of additional EUR 25 million with the aim to further ease the COVID-19-related pressure on the public finances.



- **Support to the reform of the system for determination of disabilities (the UN Development Programme (UNDP), EUR 1 million EU support):** the purpose of this action is to rationalise the way the National Disability Determination System is conducted in Montenegro, as to facilitate access to the adequate services to the right users. The foreseen result will be the establishment of a functional national disability determination system. This area has been identified by the EU as a gap in the overall governmental programme dealing with the social card system.
- **Gender Programme (UNDP, EUR 0.735 million EU support):** the project focuses on 3 areas of gender equality: economic empowerment of women, fight against gender based violence and political participation of women. The activities include training of around 150 women in entrepreneurship in Podgorica and Nicksic, with the development of business plans. In addition, 16 municipalities allocated budget lines for women entrepreneurship (EUR 120 000).
- **Protection of children from violence (the UN's Children's Fund UNICEF, EUR 0.3 million EU support):** the project aims at providing quality prevention and protection services so that children are effectively protected from all forms of violence and exploitation. Its specific objective is to strengthen the capacities of social and child protection, health, education, police, and justice professionals to prevent and protect children from violence and to enhance inter-sectoral collaboration so that children are provided with high quality, multi-sectoral support. Activities include the *improvement of the case management system* and *training for case managers* who work with children who were exposed to violence;
- The project **Early Childhood Development (ECD) in Montenegro (UNICEF, EUR 1 million EU support)** aims to support the improvement of health and development of children up to 6 years of age, including children with disabilities, in order to reach their full potential. Its specific aim is to ensure that young children, especially the most vulnerable, and their parents/caregivers benefit from quality, equitable, mutually reinforcing systems of health, education, social and child protection. In addition, the action will support the development of the first national ECD policy, with a costed Action Plan and a clear monitoring and evaluation framework. Start date: 1 August 2020.
- **Supporting Entrepreneurship through Advanced Advisory and Information Services for SMEs (the European Bank for Reconstruction and Development (EBRD), EUR 1.4 million (EU support):** the project aims to enhance the business environment and competitiveness of the private sector of Montenegro, by providing direct advisory assistance for SME and by supporting the development of the Single Access Point for business information.

*List of Actions foreseen under the selected Sectors/Priorities:*

Sector/Priority/Action	Direct management [EUR]	Indirect management	
		With entrusted entity [EUR]	With IPA II beneficiary [EUR]
Democracy and Governance			

EU Integration Facility	1 715 000	0	0
<b>Education, employment and social policies</b>			
Support to COVID-19 crisis response in Montenegro	28 100 000	200 000	0
<b>TOTAL</b>	29 815 000	<b>200 000</b>	<b>0</b>




## 2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

The envisaged assistance is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU<sup>1</sup>.

<b>SECTOR</b>	<b>Democracy and Governance</b>	<b>EUR 1 715 000</b>
<b>Action 1</b>	<b>EU Integration Facility</b>	<b>EUR 1 715 000</b>

### (1) Description of the Action, objectives, expected results and key performance indicators

- Description of the action and objectives

This action will provide effective and efficient response to emerging priorities linked to the EU accession process as well as to improve the quality and maturity of planning and programming documents and to support effective implementation and visibility of EU assistance.

This action focuses mainly on technical support and capacity building related to the EU accession process and it should ensure adequate visibility, effectiveness and impact of actions financed through IPA II. The EU Integration Facility provides flexible support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA II, but it may also be used in ad-hoc circumstances where EU assistance is required and/or suggested.

The **objective** of the action is to support Montenegro in the successful conducting of the EU accession process, including compliance with cohesion and structural funds related rules and standards.

- Expected results and key performance indicators

The **expected results** of this action are:

- R1: Legislative and institutional capacities of Montenegrin administration for transposition and implementation of the EU *acquis* and capacities for leading and carrying out the accession negotiations strengthened.
- R2: Capacities and relevant documentation for identification, programming, implementation, visibility and evaluation of EU assistance developed.

The achievement of the results envisaged by the action will be measured by the following **indicators**:

- Number of projects focusing on capacity building activities under the EUIF.
- Percentage of successful EUIF applications.
- Number of Actions Programmes adopted by the European Commission.

### (2) Assumptions and conditions

Assumptions for this action are:

<sup>1</sup> [https://eeas.europa.eu/headquarters/headquarters-homepage/8442/consolidated-list-sanctions\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/8442/consolidated-list-sanctions_en)



- Continued commitment of government structures to the accession process;
- Ensured adequate staff for state administration;
- All relevant coordination mechanisms established and functioning;
- Availability and commitment of staff for capacity building interventions.

**Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.**

### **(3) Implementation modalities:**

**(3)(a) Indirect management** with international organisation.

(i) A part of this action may be implemented in indirect management with an entity which will be selected by the Commission services using the following criteria: nature of the action, operational and technical capacity, value added, transparency and absence of conflict of interest. The implementation by this entity entails the activities deemed necessary to be implemented under Indirect Management with International Organisations. This modality will contribute to achieve both results mentioned in section (1). Its use will depend on the beneficiary's needs and requests.

**(3)(b) Direct management (project approach)**

#### **Procurement:**

The envisaged procurements will contribute to achieving all results of the action. The action provides flexible support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA II, including ad hoc requests. Scope covered by the procurement will depend on the specific request of the beneficiary.

The global budgetary envelope reserved for procurement: EUR 1 000 000.

#### **Grants**

##### **a) Purpose of the grants:**

Potential grants would address all objectives and results of the action depending on the specific request of the beneficiary.

In case of twinning contracts the result targeted would be to provide support to legislative and institutional capacities of Montenegrin administration for transposition and implementation of the EU *acquis* and capacities for leading and carrying out the accession negotiations.

##### **b) Type of applicants targeted:**

In case of grants:

Legal entities, natural persons or groupings without legal personality, local authorities, public bodies, international organisations.

In the case of Twinning:

Applicants must be EU Member State administrations or their mandated bodies.

The global budgetary envelope reserved for grants: EUR 715 000.

#### (4) Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

- a) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

<b>SECTOR</b>	<b>Education, employment and social policies</b>	<b>EUR 28 300 000</b>
<b>Action 2</b>	<b>Support to COVID-19 crisis response in Montenegro</b>	<b>EUR 28 300 000</b>

#### (1) Description of the Action, objectives, expected results and key performance indicators

- The Action consists of a new budget support contract (Resilience Contract).<sup>2</sup>
- The **objective** of the action is to mitigate the impact of the COVID-19 crisis in Montenegro.
- The **specific objectives** are three-folds: to reduce the negative effects of the crisis on the economy; to preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services; to increase access of vulnerable business to economic relief.
- Expected results and key performance indicators  
The **expected results** of this action are:
  - R1: *The negative effects of the crisis on the economy are reduced*
  - R2: *Vulnerable social groups are preserved from the disruptive effects of the crisis*
  - R3: *Access of vulnerable business to economic relief is increased*

<sup>2</sup> NB: This action concerns, in addition to the AAP 2016, also AAPs 2019 and 2020. Funds are drawn from three different decisions: AAP 2016 (Decision C/2016/8226): EUR 5 334 025; AAP 2019 (Decision C/2019/8343): EUR 28 300 000; AAP 2020 (Decision C/2020/447): EUR 6 865 975. Total amount for the action is EUR 40 500 000 (EU contribution).



The achievement of the results envisaged by the action will be measured by the following *indicators*:

For R1:

- Number of subsidised wages
- Number of beneficiaries of the Government response measures

For R2:

- Number of Social Card beneficiaries \*
- Number of cases entered in the Case Management System
- Amount of social allowances as % of the state budget
- Number of unemployed people\*

For R3:

- Number of beneficiaries of grant schemes\*
- Number of enterprises who can accede to credit instruments\*
- Number of enterprises who can accede to non-financial services\*

(\* Indicator will be disaggregated by gender and ethnicity, whenever possible)

## **(2) Assumptions and conditions**

Assumptions for this action are:

- The country remains politically stable
- The promised IMF and World Bank interventions and the EU Macro-financial support will materialise before the end of 2020.
- The national authorities have the capacities to conceive and quickly implement a grant scheme in favour of micro and small enterprises.
- Notwithstanding possible situations of *force majeure*, the circumstances should allow technical assistance to continue and help finalise the actions launched in 2019.
- Montenegrin authorities will use the funds provided through this budget support programme to increase the country resilience to external shocks and to preserve the access of population to basic services

**Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.**

## **(3) Implementation modalities:**

**(3)(a) Indirect management** with an international organisation

*Under this Budget support action, a complementary activity will be implemented under indirect management with the International Labour Organisation (ILO).*

This implementation entails that budget implementation tasks are entrusted to the entity. ILO, in close cooperation with the beneficiaries, will implement activities aimed at strengthening the capacities of the Ministry of Labour and Social Welfare, of the Employment Agency of Montenegro, and of other institutions (e.g. the Ministry of Education,

the Centre for Social Welfare, the Labour Inspectorate, the Social Council, the Competitiveness Council, and others) concerned with improving access to the labour market of the vulnerable population categories identified in the COVID-19 response. Additionally, ILO will deliver new policy measures targeting vulnerable groups.

The envisaged EU contribution will be EUR 200 000.

The entrusted entity has been selected on the basis of the following criteria:

- The ILO office for Central and Eastern Europe (CEE) provides advisory services to governments, employers' and workers' organizations in the region. The ILO operates a wide range of programmes and projects in Central and Eastern Europe focusing on international labour standards, job creation, social security, social dialogue and equality and discrimination at work.
- ILO has a long-term commitment with the Montenegrin authorities and the European Union Delegation to Montenegro.
- In terms of operational capacity, it has a positive record of working specifically on: support to public employment services for vulnerable groups such as persons with disabilities, long term unemployed or youth; modernisation of labour market administration processes through digitalisation; strengthening labour inspectorates and establishing social and economic councils. In addition, ILO will assist in laying the foundations for peaceful mediation of labour conflicts, and supporting Employers' organizations in improving the business environment. Ongoing ILO project includes an EU funded Project 2018/403-957 "Improving Labour market governance through effective social dialogue over labour reforms" thus additionally corroborating its competence in this field, which brings added value. The action foreseen under the present sector budget support programme would have a leverage effect on cooperation with the beneficiaries, would increase efficiency and reduce transaction costs. They would also benefit from the acquired know-how and the networks already established by the ILO at national and international level.
- ILO will ensure a complete alignment with the work already undertaken and strengthen complementarities and synergies among the activities implemented by the partners in the sector.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria.

(ii) If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section (3)(b).

### ***(3)(b) Direct management (project approach)***

#### **Procurement:**

- **Visibility and communication for budget support** (horizontal activity)  
Description: visibility and communication actions will aim at highlighting to the relevant target audiences the benefit and impact of the EU's interventions and will promote transparency and accountability on the use of funds.





Value: EUR 10 000

- **Mid-term/final evaluation of budget support** (horizontal activity)

Description: the evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the impact of public expenditure on final beneficiaries identified in the action and the capacity of government authorities to respond to the unknown challenges set by the pandemic crises.

Value: EUR 90 000

The global budgetary envelope reserved for procurement: EUR 100 000.

Should contribution agreement with ILO fail, detailed under **(3)(a) Indirect management with an international organisation**, direct management is to be used as the fall-back option and a procurement procedure will be launched with the same objective, in the amount of EUR 200 000, in which case the global budgetary envelope reserved for procurement shall be: EUR 300 000.

**(3)(c) Direct management through Budget Support**

a) Eligibility for budget support

- Satisfactory progress in the implementation of the government response measures to COVID-19 and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards reducing imbalances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

Summary of the eligibility criteria:

- Public policy

Following the outbreak of COVID-19 pandemic, the Government reacted to the health emergency with a “Country Preparedness and Response plan”, which was presented on 27 March, with an overall cost of EUR 59 million for the first three months of implementation. The plan, prepared in collaboration with the World Health Organisation, covered immediate health priorities, with some focus on the social implications of the crisis. The plan outlined the necessary sanitary and health measures, including actions to enhance the core capacities under International Health Regulations and to reinforce the early detection and monitoring capacities of the public health services and of other partners.

The national authorities adopted two fiscal stimulus packages, with the aim to mitigate the crisis’ substantial disruptive effects on growth and employment. On 19 March, the government adopted a first package of measures with an estimated cost of ca. 2.1% of GDP. The measures mainly focused on improving supplies and health sector capacity by cutting daily budget spending, the deferral of tax and social security payment obligations for 90 days. It included delayed payments for the lease of state-owned property, a moratorium on loan repayments of up to 90 days and giving companies access to subsidised credit through the Investment Development Fund to improve their liquidity.



A second package of measures was adopted on 24 April and its estimated budget cost is around EUR 75 million (or ca. 1.5% of GDP). It provided for two-months wage subsidies of up to 100 % of the minimum wage for companies in lockdown sectors, 70% of wage subsidies for employees on paid leave, quarantine or isolation, 50% of the minimum wage for companies in the affected (vulnerable) sectors, six-month wage subsidies of 70% of the minimum wage for newly reported employment, and proportional exemption of taxes and contributions to those wage subsidies. It also included support to agriculture and fisheries sector, and one-off assistance for pensioners, registered unemployed and vulnerable groups. Along with the second package of measures, the government cut wages of the highest public officials for two months with the aim to free resources for crisis response measures.

A third complementary package of measures has been announced for mid-June 2020, following adoption of 2020 budget rebalance. The new package of measures is planned to focus on investments and financial support for the real economy, in particular the tourism sector. Given informal economy's large scale, estimated between 25% and 30% of GDP, new support measures should include employees and companies from this segment of the economy in order to ensure their formalization and social inclusiveness.

- Macroeconomic policy

Already before the Covid-19 crisis outbreak, economic activity has started to slow as investment growth declined markedly. After strong real GDP growth in 2017 and 2018, the rate of economic expansion decelerated to 3.6% y-o-y in 2019. The deceleration reflects a slowdown in investment as large infrastructure projects were completed. Meanwhile, private consumption has become the main driver of growth, boosted by a strong tourism performance, growing employment and increasing household loans. Strong domestic demand and a high import-dependence continued to fuel a very large current account deficit. In 2019, the current account deficit totalled 15.2% of GDP, a substantial increase compared to a 10.1% of GDP gap recorded in 2015. Despite the faster increase of merchandise exports, the trade deficit expanded by 2 percentage points over the last five years, to 42.1% of GDP, reflecting a highly import-dependent economy and the impact of the investment cycle. Inflation decelerated in 2019 and early 2020. Economic growth, reform of social benefit schemes for mothers and support for young unemployed helped improve labour market conditions. However, the halt of economic activity introduced in March to contain the COVID-19 had a negative impact on the labour market. The unemployment rate rose to 17.4% in April, up from 15.3% in March and 16.4% a year earlier.

Significant underspending in public investment and recovery of tax arrears reduced the budget deficit. The budget balance improved considerably in the last two years owing to fiscal measures introduced since 2017. The budget deficit narrowed to 2% of GDP in 2019, down from 3.9% a year earlier owing to improved tax revenue collection. The 2020 budget, adopted on 27 December 2019, introduced a series of ad-hoc expenditure increases totalling 2% of GDP, including a 9% increase in public health and education salaries, extra funds for the purchase of medicines, writing-off debts owed by the national air carrier and the carryover of underspent funds for the highway construction. Overall, the 2020 budget targeted a deficit of 1% of GDP, well below the fiscal rule ceiling of 3%, but a noticeable deviation from the 0.2% surplus planned in the 2019 Economic Reform Programme (ERP). However, the COVID-19 derailed budget plans, confronting public finances with a triple shock: the collapse of tax revenue due to the interruption of economic activity, a sudden surge of healthcare expenditure, and the need to finance support measures to preserve the economy. The public debt ratio continued to increase from an already high level, partly due to liability management operations, which reduced refinancing risks. Following the adoption

of the new medium-term debt management strategy in April 2018, the government has more actively managed its public debt portfolio.

Overall, the COVID-19 pandemic is expected to push Montenegro into a deeper recession than the global financial crisis in 2009. Travel and tourism, as critical driver of country's growth accounting for some 25% of Montenegro's GDP in total, will be particularly affected. Public debt growth would be partially limited in 2020 owing to the use of government reserves that were built-up to pay maturing debt in 2020 and 2021. According to 2020 budget rebalance, the estimated shortfall in the government coffers will amount to EUR 877.5 million, including funds needed for the repayment of maturing obligations in 2021. Out of that amount, around EUR 500 million will be provided through arrangements with financial institutions, and EUR 250 million World Bank-guaranteed syndicated loan has been already secured.

The planned EU support in the amount of EUR 100 million (EUR 40 million budget support and EUR 60 million Macro-Financial Assistance) will be therefore crucial to support the balance of payments and further close the financing gap.

The response to the crisis is assessed as relevant and credible to restore key macroeconomic balances. Close monitoring of the situation will be performed in coordination with the IMF and other partners like the World Bank and UNDP.

- Public financial management

Montenegro adopted a multiannual Public Finance Management Reform Programme (2016-2020) in December 2015 which addresses several key weaknesses of the budget system. The objectives of the strategy are twofold: a) strengthen the capacities to identify, prevent and manage fiscal risks, excessive fiscal deficits and harmful macroeconomic imbalances b) Ensure that public spending is structured in a way that maximises the development impact on the national economy and ensures better quality of life for the citizens.

Montenegro underwent a new PEFA assessment in 2019, covering the PFM system performance in fiscal years 2016, 2017 and 2018, conducted by the World Bank, using the most recent PEFA methodology. Compared to PEFA 2009 and 2013, PEFA 2019 results show an overall tendency of improvement. Main performance progress is observed in (i) budget reliability (ii) extent of unreported government operations (iii) taxpayer registration and tax assessment (iv) procedures for contracting and reporting debt and issuing guarantees (v) improved procurement management (vi) effective internal controls (vii) strengthened internal audit, external audit and parliamentary scrutiny. Monitoring of fiscal risks arising from local governments by the central government has deteriorated.

Main weaknesses are related with medium-term budgetary planning, poor link with strategic planning and lack of monitoring and reporting of potential fiscal risks. Budget execution suffers from weak commitment and cash management, limited management of public assets and capital investments. The PFM Reform Programme 2016-2020 has shown a moderate rate of implementation during the first years, however it continues to address some of the key weaknesses of the PFM system and remains therefore relevant, as confirmed by the results of the ongoing PEFA exercise. Main achievements since 2019 are reported in the following areas: increased capacity for public internal financial control, external audit and debt management; the macroeconomic model was improved; tax administration and revenue collection operations became more efficient. Montenegrin authorities continue working on some crucial reform activities, strongly supported by existing external assistance, and there is



reasonable evidence that this budget support and the parallel macro-financial support operation may further encourage them to continue on the reform path.

- Budget transparency and oversight of the budget

The entry point for Budget Transparency continues to be met, as the Government of Montenegro published 5 basic budgetary documents available to the public in due time:

1. The annual budget proposal for 2020 was submitted by the Government to the Parliament on 15.11.2019 and complete documentation was published on the website of the Parliament on that day.
2. The Budget Law for 2020 was adopted on 27.12.2019 and published on 30.12.2019 in the Official Gazette of Montenegro no 7/4/2019.
3. In-year budget execution reports are made available to the public with nearly two months delay (last one published in late April 2020)
4. The annual budget execution report for 2019 was published on the Ministry of Finance website in March 2020.
5. The audit report for the final accounts for the 2018 budget was published on State Audit Institution website on 14.10.2019.

In addition to the above, Government of Montenegro also issues other relevant documents, such as: pre-budget statements, other external audit reports (SAI reports) and summary of budget proposals.

Overall, PEFA 2019 assessed that fundamentals of the PFM system are in place with main functions performance measured with high-ranking scores. This refers to the budget preparation and reliability, transparency of budget and fiscal information, revenue mobilization and budget execution, internal control and internal audit, external audit and parliamentary scrutiny. Nevertheless, more advanced components of PFM demonstrate needs for further improvement and constant reinforcement.

Montenegro scored 44.43 out of possible 100 in the Open Budget Index being classified as a country with limited budget openness and overall belonging to the group of countries with insufficient budget transparency. Yet, the scores are over the average recorded in the region. In November 2018 Montenegro regained its active status in the Open Government Partnership (OGP) Initiative.

The COVID-19 crisis and the upcoming election in September 2020 may cause delays in the budget approval process. Exceptional procedures or derogations used by the authorities during the COVID-19 crisis should be closely monitored and the necessary safeguards/oversight measures applied in accordance with the regulatory framework. Expenditures have to be properly recorded, as they will most likely lead to payment arrears. The same applies to revenue, as a result of tax relief granted to businesses. Transparency on exceptional measures should be ensured and oversight/anticorruption/fraud bodies should be involved in monitoring and reporting on their implementation.

b) Objectives

The **overall objective** of the action is to mitigate the impact of the COVID-19 crisis in Montenegro.

The **specific objectives** are three-folds:

- To mitigate the negative effects of the crises on the economy;

- To preserve vulnerable social groups from the disruptive effects of the crises and guarantee their continued access to basic social services;
- To support the recovery and development of SMEs of vulnerable business, in particular owned by women.

c) Expected results

The **expected results** of this action are:

- R1: *the negative effects of the crisis on the economy are reduced*
- R2: *Vulnerable social groups are preserved from the disruptive effects of the crisis*
- R3: *Access of vulnerable business to economic relief is increased*

d) Main budget support activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development. Engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

e) Complementary actions

Under the total amount of mobilised funds for this budget support action, a total of EUR 500 000 are foreseen to be spent for complementary actions as well as for horizontal activities, e.g. communication/visibility action and evaluations. Within **this Annual Action Programme**, a total of EUR 300 000 should be covered as explained under points (3)(a) and (3)(b) above.

The total amount allocated for the budget support, including complementary and horizontal actions, is EUR 40.5 million. Within **this Annual Action Programme**, a total of **EUR 28 million** is foreseen for covering the fixed tranche of the budget support action.

**(4) Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

- a) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.



### 3 BUDGET

#### 3.1 INDICATIVE BUDGET TABLE - ANNUAL ACTION PROGRAMME FOR MONTENEGRO

		Indirect management		Direct management	Total EU contribution (EUR)	IPA-II beneficiary or other third party contribution (EUR)	Total (EUR)
		with IPA-II beneficiary	with entrusted entity				
		EU contribution (EUR)	EU contribution (EUR)	EU contribution (EUR)			
Objective 1	01 Democracy and Governance	0	0	1,715,000	1,715,000	0	1,715,000
	Action 1- EU Integration Facility	0	0	1,715,000	1,715,000	0	1,715,000
Objective 2	07 Education, employment and social policies	0	200,000	28,100,000	28,300,000	0	28,300,000
	Action 2 <i>Support to COVID-19 crisis response in Montenegro</i>	0	200,000	28,100,000	28,300,000	0	28,300,000
	<b>TOTAL</b>	<b>0</b>	<b>200,000</b>	<b>29,815,000</b>	<b>30,015,000</b>	<b>0</b>	<b>30,015,000</b>

#### 4 PERFORMANCE MONITORING ARRANGEMENTS

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, National IPA Coordinators (NIPACs) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by the European Commission (DG NEAR) and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.

#### 5 EVALUATION

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for problem solving, and learning purposes, in particular with respect to inform future programming in the same sector.

The Commission shall inform the implementing partner at least three months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the IPA II beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the IPA II beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.



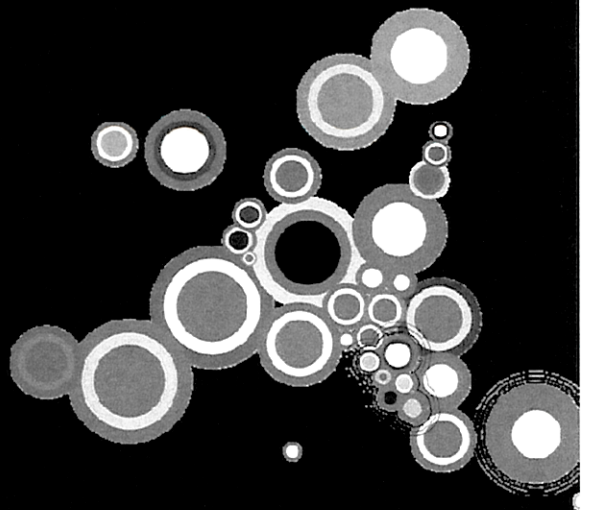




# INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

## ANNEX IA BUDGET SUPPORT

of the Financing Agreements 2016, 2019 and 2020



### **Action Summary**

The **overall objective** of this budget support programme is to mitigate the impact of the COVID-19 crisis in Montenegro.

The **specific objectives** are three-folds: to reduce the negative effects of the crisis on the economy; to preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services; to increase access of vulnerable business to economic relief.

Specific indicators and targeted policy dialogue will mitigate the risks associated with this programme. Ad hoc complementary measures will increase the capacities of the national authorities to face the consequences of the crisis. The programme is complementary to other existing actions implemented by the EU and by other international organizations. Strong coordination with donors, with the European Macro-Financial Assistance and with the European regional assistance will maximize the impact of the operation and the effectiveness of the European Commission support against the pandemic crisis.

Action Information	
<b>Action Programme Title</b>	Annual Action Programme for IPA II for years 2016, 2019 and 2020
<b>Action Title</b>	Support to COVID-19 crisis response in Montenegro
<b>Action ID</b>	IPA/2016/037-896. 03/ME/Support to COVID-19 crisis response in Montenegro IPA/2019/041-169. 02/ME Support to COVID-19 crisis response in Montenegro IPA/2020/042-145. 06/ME/Support to COVID-19 crisis response in Montenegro
Sector Information	
<b>IPA II Sector</b>	Response to the COVID-19 crisis
<b>DAC Sector</b>	15110 – Public sector policy and administrative management
Budget	
<b>Total cost</b>	40 500 000 euro
<b>EU contribution</b>	40 500 000 euro
<b>Budget line(s)</b>	22.02 01 02
Management and Implementation	
<b>Method of implementation</b>	I. Direct : SRBC, Direct: service contract for the Support the Ministry of Labour Definition in the implementation of a set of active labour market measures for those who lost their job due to the pandemic II. Indirect management by the International Labour Organization (ILO) for complementary activity: to support the Ministry of Labour Definition in the implementation of a set of active labour market measures for those who lost their job due to the pandemic
<i>Direct management:</i> <b>EU Delegation</b> <i>Indirect management:</i> <b>National authority or other implementing body</b>	EU Delegation to Montenegro  International Labour Organization (ILO)
<b>Implementation responsibilities</b>	Hermann SPITZ (Head of Cooperation Section) Andreas GLATZ (Head of Finance, Contracts and Audit section )
Location	
<b>Zone benefiting from the action</b>	Montenegro
Timeline	
<b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>	AAP 2016: the Financing Agreement has been signed on 22/12/2017 AAP 2019: at the latest by 15 November 2020 AAP 2020: at the latest by 15 November 2020

<b>Final date for concluding contribution/delegation agreements, procurement and grant contracts</b>	AAP 2016: 3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation. <sup>1</sup>  AAP 2019 and AAP 2020: 3 years following the date of conclusion of the corresponding Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation. <sup>2</sup>
<b>Final date for operational implementation</b>	6 years following the conclusion of the corresponding Financing Agreement
<b>Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)</b>	12 years following the conclusion of the corresponding Financing Agreement

**Policy objectives / Markers (DAC form)**

<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	<input type="checkbox"/>	X	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>Internal markers<sup>3</sup></b>			
Migration <sup>4</sup>	<input type="checkbox"/>	X	<input type="checkbox"/>
COVID-19 response	<input type="checkbox"/>	<input type="checkbox"/>	X

<sup>1</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298, 26.10.2012, p.1

<sup>2</sup> Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and repealing Regulation (EU, Euratom) No 966/2012, OJ-L 193, 30.07.2018, p.1

<sup>3</sup> These markers have a different scope/rationale than the DAC codes. Posting criteria related to the encoding of the financial breakdown in CRIS/ABAC

<sup>4</sup> Please refer to note Ares(2019)1031349 of 19/02/2019.



## 1. DESCRIPTION OF THE ACTION

### 1.1. Objectives/results

The overall objective of this budget support is to mitigate the impact of the COVID-19 crisis in Montenegro. The specific objectives are three-folds:

- To mitigate the negative effects of the crisis on the economy;
- To preserve vulnerable social groups from the disruptive effects of the crises and guarantee their continued access to basic social services;
- To increase access of vulnerable business, in particular owned by women, to economic relief.

During the implementation of the programme, and in coordination with the European Macro-Financial assistance and the Economic Reform Programme (ERP), policy dialogue will focus on:

- Finalization of the review of the social protection system and preparation of an outline for concrete implementation of social protection reforms;
- Active labour market policies and targeted measures to increase employment opportunities, especially for those who lost their job due to the COVID-19 crises;
- Ensure that people in informal employment are eligible for relief and support measures to avoid adversely disadvantaging the female workforce
- Measures to improve business environment for micro and small enterprises;
- Measures to promote the formalization of the grey economy; The need that post-COVID-19 recovery reflects the principles of sustainability, resilience and climate neutrality facilitating the transition to resource efficient and circular economies thus integrating the principles at the core of the European Green Deal.

Specific indicators and targeted policy dialogue will mitigate the risks associated with this programme and ad hoc complementary measures will increase the capacities of the national authorities to face the consequences of the crises.

1. Number of eligible requests for subsidies paid through second package of COVID-19 measures;
2. Number of micro and small enterprises benefitting of a grants scheme offered through a program for stimulating competitiveness of economy of Montenegro, with the purpose to increase their liquidity and their resilience to the COVID crisis;
3. Amount of social allowances for most vulnerable people state budget;
4. Improvement of the efficacy of the Case Management System by reducing the average number of cases per operator;
5. Adoption of legislation to ensure progress in introducing medium term budgetary framework and programme budgeting as from 2021.

The programme is complementary to existing actions implemented by the EU and by other international organizations. Strong coordination with donors, with the European Macro Financial Assistance, and with European regional assistance in the area, will maximize the impact of the operation and the effectiveness of the European Commission support against the pandemic crisis.



## 1.2. Main activities

### 1.2.1. Budget support

The Action consists of a new budget support contract (Resilience Contract), which will assist Montenegro through financial transfers, policy dialogue and capacity development:

### 1.2.2. Complementary support

A complementary support envelope will be used for the following activities:

- Support the Ministry of Economy in the swift implementation of a grant scheme for micro and small enterprises;
- Support the Ministry of Labour Definition in the implementation of a set of active labour market measures for those who lost their job due to the pandemic.

The activities will increase the capacities of the Ministry of Economy and the Ministry of Labour, which are heavily involved in managing the COVID-19 crisis. In addition, they will contribute to a timely service delivery in favour of the final beneficiaries of this budget support operation.

In addition, a project for the provision of non-financial services to micro and small enterprises (mentoring services) is to be financed via the European Integration Facility.

## 1.3. Intervention logic

Results chain			Indicator	Source of data
IMPACT	Impact (overall objective)	<i>To mitigate the impact of the COVID-19 crisis in Montenegro</i>	<ul style="list-style-type: none"><li>- GDP growth rate</li><li>- Budget Deficit as a % to GDP</li><li>- Unemployment rate*</li></ul>	<ul style="list-style-type: none"><li>- Annual reports of: MONSTAT</li><li>- Central Bank</li><li>- Ministry of Finance</li><li>- International Community (ECFIN, IMF, WB)</li></ul>
	Outcome 1 (specific objective)	<i>Macro-economic effects of the crisis on the economy are reduced</i>	<ul style="list-style-type: none"><li>- Number of subsidised wages</li><li>- Number of beneficiaries of the Government response measures</li></ul>	<ul style="list-style-type: none"><li>- Statistics provided by the "Subsidies Request Programme IT system"</li><li>- Reports on the implementation of the Government response measures to COVID-19</li><li>- Evaluation report</li></ul>
OUTCOME(S)	Outcome 2 (specific objective)	<i>Vulnerable social groups are preserved from the disruptive effects of the crises</i>	<ul style="list-style-type: none"><li>- Number of Social Card beneficiaries*</li><li>- Number of cases entered in the Case Management System</li></ul>	<ul style="list-style-type: none"><li>- Statistics provided by the Social Card system</li><li>- Execution reports on the (amended) state budget 2020 and on state</li></ul>

Results chain			Indicator	Source of data
			<ul style="list-style-type: none"> <li>- Amount of social allowances as % of the state budget</li> <li>- Number of unemployed people*</li> </ul>	<ul style="list-style-type: none"> <li>budget 2021</li> <li>- Statistics provided by the Unemployment Agency</li> <li>- Evaluation report</li> </ul>
	Outcome 3 (specific objective)	Access of vulnerable business to economic relief is increased	<ul style="list-style-type: none"> <li>- Number of beneficiaries of grant schemes*</li> <li>- Number of enterprises who can accede to credit instruments*</li> <li>- Number of enterprises who can accede to non-financial services*</li> </ul>	<ul style="list-style-type: none"> <li>- Reports on the implementation of the Government response measures to COVID-19</li> <li>- Reports prepared by Monstat, the Central Bank and the Ministry of Economy, as well as the international community (ECFIN, IMF, WB)</li> <li>- Evaluation report</li> </ul>
INDUCED OUTPUT(S)	Induced Output(s) related to Outcome 1	1.1 Government response measures are successfully implemented	<ul style="list-style-type: none"> <li>Number of measures</li> <li>Amount of support as % to GDP</li> <li>Status of implementation of government measures</li> </ul>	<ul style="list-style-type: none"> <li>- Reports on the implementation of the Government response measures to COVID-19</li> <li>- Reports of the civil society and of international organizations</li> </ul>
	Induced Output(s) related to Outcome 2	2.1 Programmes to support vulnerable groups continue to be successfully implemented	<ul style="list-style-type: none"> <li>Number of programmes</li> <li>Status of implementation</li> </ul>	<ul style="list-style-type: none"> <li>- Government reports</li> <li>- Reports of the civil society and of international organizations</li> </ul>
	Induced Output(s) related to Outcome 3	3.1 Financial and non-financial programmes to facilitate access to liquidity for SMEs are successfully implemented	<ul style="list-style-type: none"> <li>Number of programmes</li> <li>Amount of capital made available by public and private institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Government reports</li> <li>- Reports of the civil society and of international organizations</li> </ul>

\* Indicator will be disaggregated by gender and ethnicity, whenever possible.

## **2. IMPLEMENTATION**

### **2.1. Rationale for the amounts allocated to budget support**

The amount allocated for the budget support component is EUR 40 million (EUR 0.5 million for complementary support). This amount stems from the most recent forecasts of the fiscal impact of the crisis, which could result in shortfall of revenue and additional spending estimated at around 877 million euro (some 9% of *GDP*).

### **2.2. Criteria for disbursement of budget support**

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the government response measures to COVID-19 and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The following performance indicators for disbursement of the variable tranche will be used to measure the effectiveness of the response to the COVID-19 crisis:

1. Number of eligible requests for subsidies paid through the second package of COVID-19 measures;
2. Number of micro and small enterprises benefitting of a grant scheme offered through a program for stimulating competitiveness of economy of Montenegro, with the purpose to increase their liquidity and their resilience to the COVID-19 crisis;
3. Amount of social allowances for most vulnerable people;
4. Average number of cases by operator in the Case Management System;
5. Adoption of necessary legislation to ensure progress introducing medium-term budgetary framework and programme budgeting as from 2021.

A table with a detailed description of the indicators, means of interpretation and baselines, as well as delivery date and source of verification, is available in Annexes 1 and 2.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the National IPA Coordinator may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### **2.3. Budget support details**

The budget support component consists of a fixed and a variable tranche to be disbursed indicatively in September 2020 (fixed tranche) and September 2021 (variable tranche).





Budget support is provided as direct untargeted budget support to the national treasury.

#### **2.4. Organisational set-up and responsibilities**

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate as an observer in governance structures set up for governing the implementation of the action.

#### **2.5. Performance monitoring and reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Ministry of Finance (tbc), in close cooperation with the Ministry of Economy and the Ministry of Labour, will be responsible for monitoring and reporting on the implementation of this action. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system and elaborate regular progress reports (not less than annual). Every report shall provide an accurate account of implementation of the operation, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. A description of the visibility actions realized, in accordance with the visibility plan. The final report, narrative and financial, will cover the entire period of the action implementation.

The reports will be published to allow for public scrutiny.

The Commission may undertake additional monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

#### **2.6. Evaluation and audit**

Having regard to the importance of the action, a mid-term/final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term/final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the impact of public expenditure on final beneficiaries identified in the action and the capacity of government authorities to respond to the unknown challenges set by the pandemic crises.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the IPA II beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the



evaluations and, where appropriate, in agreement with the IPA II beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary.



## **LIST OF ANNEXES**

- 1. Performance indicators used for disbursements**
- 2. Disbursement arrangements and timetable**
- 3. Complementary activities**
- 4. Performance Assessment Framework *(if available)***





## ANNEX 1: Performance indicators used for disbursements

<b>Indicator 1:</b>	<b>Number of eligible requests for subsidies paid through second package of COVID-19 measures</b>
Target:	At least 90%
Programme:	Government Response Measures to the COVID crisis
Institution responsible:	Ministry of Finance and Ministry of Economy
<b>Description of the Indicator</b>	
Indicator type:	Quantitative indicator
Measurement unit:	Percentage
Periodicity of measurement:	Single measurement
<b>Development and quality of the indicator</b>	
Method of data collection:	Through the ad hoc website "Subsidies Request Programme"
Departments responsible for collection:	Ministry of Economy - Directorate General for Investments, Development of SMEs and Management of EU Funds
Method of calculation:	Number of eligible requests for subsidies paid since the adoption of the "Government Response Measures" out of the total number of eligible requests received
<b>Means of interpretation</b>	
Known limits and bias:	None
Means of interpretation:	The indicator refers to the following subsidies planned under the second package of COVID 19 measures: wage subsidies.
<b>Documentation schedule</b>	
Delivery date:	By 31/12/2020

<b>Indicator 2:</b>	<b>Number of micro and small enterprises benefitting of a grants scheme offered through a program for stimulating competitiveness of economy of Montenegro, with the purpose to increase their liquidity and their resilience to the COVID crisis.</b>
Target:	At least 100 micro and small enterprises, among them at least 20 women owned
Programme:	Government Response Measures to the COVID crisis
Institution responsible:	Ministry of Economy
<b>Description of the Indicator</b>	
Indicator type:	Quantitative indicator
Measurement unit:	Absolute number
Periodicity of measurement:	Single measurement
<b>Development and quality of the indicator</b>	
Method of data collection:	Reports on implementation of the Program for stimulating competitiveness of economy of Montenegro, including disaggregated per sector and number of employees

Departments responsible for collection:	Ministry of Economy - Directorate General for Investments, Development of SMEs and Management of EU Funds
Method of calculation:	Number of grants awarded to micro and small enterprises since the adoption of the "Government Response Measures"
<b>Means of interpretation</b>	
Known limits and bias:	None
Means of interpretation:	Micro and small enterprises are defined according to the European classification of SMEs. The grant scheme may take different forms, including the reimbursement of operating costs or innovation costs under the submission of justification documents. It may also imply a co-financing by the entrepreneurs. It may also target existing clusters of companies, with the aim to preserve and strengthen supply chain.
<b>Documentation schedule</b>	
Delivery date:	01/07/2021

<b>Indicator 3:</b>	<b>Amount of social allowances for most vulnerable people state budget.</b>
Target:	Not less than EUR 50 860 000 (subject to indexation)
Programme:	None
Institution responsible:	Ministry of Finance and Ministry of Labour
<b>Description of the Indicator</b>	
Indicator type:	Quantitative indicator
Measurement unit:	Absolute number
Periodicity of measurement:	Single
Last known result:	Appropriations for social allowances for most vulnerable people in the 2020 state budget: Children allowance: 5,300,000.00; Family material (security) support: 15,500,000.00; Help and care support, personal disability allowance, parent guardian allowance for disabled person: 25,160,000.00; Single financial support/assistance: 700,000.00; <sup>5</sup> Care of protégé/wards in homes: 4,200,000.00 (Total allowances EUR 50 860 000).
<b>Development and quality of the indicator</b>	
Method of data collection:	Amended state budget for 2020, adopted state budget 2021, budget execution reports
Departments responsible for collection:	Directorate for Information and Analytical and Statistical Affairs, Ministry of Labour and Social Welfare
Method of calculation:	The calculation of the total amount of social allowances must be done according to the legislation in force at the time of the signature of the Financing Agreement, taking into consideration the number of beneficiaries on 01/07/2021 and the indexation method in use on 01/07/2020

<sup>5</sup> Planned in the current budget 2020. So far, 429 650 euro have been spent for 8592 families in social need, as support due to the COVID crisis.

<b>Means of interpretation</b>	
Known limits and bias:	The number of beneficiaries changes from year to year and so the amounts. For the amounts of the different years to be comparable, the indexation method in use in July 2020 has to be applied.
Means of interpretation:	Most vulnerable people considered in the calculation of the indicator include <b>beneficiaries in the social card</b> : <b>1. Beneficiaries of material allowances</b> (children and people with disabilities, children and families in material need and others <sup>6</sup> ).; <b>2. Beneficiaries of child welfare and social services – case management</b> (children without parental care - on foster care and in Children's home "Mladost", children with disabilities in small group homes, children in conflict with the law, children in the Centre "Ljubovic", victims of domestic violence - Domestic violence database, victims of other types of violence, victims of peer violence, victims of neglecting elderly people in nursing homes – Pljevlja, Bijelo Polje, Grabovac, adult people with disabilities in Institute "Komanski most", vulnerable adults on foster care, vulnerable children and people under custody, <sup>7</sup> and other beneficiaries not considered as specifically vulnerable
<b>Documentation schedule</b>	
Delivery date:	31/07/2020 (amended state budget) and 31/12/2020 (2021 state budget)

<b>Indicator 4:</b>	<b>Average number of cases by operator in the Case Management System</b>		<b>Target:</b>	<b>Reduction by 20%</b>
Programme:	None			
Institution responsible:	Ministry of Labour			
<b>Description of the Indicator</b>				
Indicator type:	Qualitative and quantitative indicator			
Measurement unit:	Percentage			
Periodicity of measurement:	Single			
Last known result:	01/07/2020	One case manager (an operator) on average is responsible for 98 cases <sup>8</sup>		
<b>Development and quality of the indicator</b>				
Method of data collection:	Social Welfare Informational System - SWIS <sup>9,10</sup>			

<sup>6</sup> "Others" are persons that are not considered as vulnerable but are covered by specific allowances according to the law on Child and Social Protection of Montenegro.

<sup>7</sup> Vulnerable groups included in SWIS.

<sup>8</sup> The average number of cases per case manager varies from centre to centre. The indicator takes into consideration only the centres for social work with the highest average number per case manager: Cetinje (128.5), Golubovci (111), Podgorica (88) Danilovgrad (88), Bijelo Polje (74). Method of calculation to define the average number of the cases:  $128.5 + 111 + 88 + 88 + 74 = 489.5 / 5 = 97.9$  (98 cases)

<sup>9</sup> The number of employees currently engaged in the Case Management System in this five centres on the aforementioned cases is: 28 source of information (Social Card)

Departments responsible for collection: Directorate for Information and Analytical and Statistical Affairs, Ministry of Labour and Social Welfare  
 Method of calculation: Final number of cases per operator – initial number of cases per operator/initial number of cases per operator

**Means of interpretation**

Known limits and bias: A reduction of the average number of cases per operator may be the result of a reduced number of cases entered in the system  
 Means of interpretation: The calculation considers all ongoing cases in the Case Management System on 01/07/2021.

**Documentation schedule**

Delivery date: 01/07/2021

**Indicator 5:** Adoption of legislation to ensure progress in introducing medium term budgetary framework and programme budgeting as from 2021

Target: Necessary legislation adopted  
 Programme: Public Finance Management Reform Programme  
 Institution responsible: Ministry of finance

**Description of the Indicator**

Indicator type: Qualitative indicator  
 Measurement unit: N/A  
 Periodicity of measurement: Single  
 Last known result: 31/12/2019

**Development and quality of the indicator**

Method of data collection: Official Gazette of Montenegro and adopted state budget for 2021.  
 Departments responsible for collection: Ministry of Finance, Budget Directorate  
 Method of calculation: N/A

**Means of interpretation**

Known limits and bias: The introduction of medium-term budgetary framework and programme budgeting as from 2021 may depend also on the adoption of manuals/rulebooks that does not necessarily need secondary legislation  
 Means of interpretation: The introduction of medium-term budgetary framework and programme budgeting is a step-by-step process. This indicator considers the actions planned for 2020 under the PFM Reform Action Plan.

**Documentation schedule**

10 Source of verification that confirms the number of workers is: Payment Roll (From the Informational System)



Delivery date:	31/12/2020
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## ANNEX 2: Disbursement arrangements and timetable

This appendix covers the following four main areas according to the country/intervention sector context: (1) responsibilities; (2) the indicative disbursement timetable; (3) the general conditions for each disbursement tranche; (4) the specific conditions for each disbursement tranche.

### 1. Responsibilities

On the basis of the disbursement conditions stipulated in the Financing Agreement, the National Authorising Officer will send a formal request to the European Commission for the disbursement of each tranche in accordance with the timetable specified in Table A below. The request must include: (i) a full analysis and justification for payment of the funds, with the required supporting documents attached; (ii) a financial information form, duly signed, to facilitate the corresponding payment.

### 2. Indicative disbursement timetable

An indicative timetable is given below:

**Table A: Indicative disbursement timetable**

Country fiscal year	2020				2021				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Fixed tranche			28 M€						28 M€
Variable tranche							12 M€		12 M€
Total			28M€				12 M€		40 M€



### 3. General conditions for the disbursement of each tranche

The general conditions set out below for the disbursement of each tranche shall apply to the disbursement of all tranches and all tranche release requests must be accompanied by all appropriate information and documents.

**Table B: General conditions for the release of tranches**

Area	Conditions	Verification source
Public Policy	Satisfactory progress in the implementation of the Government Response Measures to the COVID crisis and continued credibility and relevance of that or any successors of the ongoing COVID-19 Response Measures.	Fixed tranche, variable tranche I: Primary: Government Response Measures reports; Secondary: International organizations' assessments; reports of non-governmental organizations; Quarterly expenditure reports, according to the corresponding MFA conditionality.
Macroeconomic stability	Implementation of a credible stability-oriented macroeconomic policy.	Fixed tranche, variable tranche I: Primary: Economic Reform Programme of Montenegro (ERP); Secondary: EC DG ECFIN Assessments; IMF Art. IV Assessments.
Public financial management	Satisfactory progress in the implementation of the programme to improve public financial management	Fixed tranche, variable tranche I: Primary: PFM Annual Monitoring Report; Secondary: PAR Special Group Reports; SIGMA Baseline Assessment on Public finance Management; IMF Art. IV Assessments, TA evaluations.
Budget Transparency	Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.	Fixed tranche, variable tranche I: Primary: PFM Annual Monitoring Report; Secondary: PAR Special Group Reports; SIGMA Baseline Assessment on Public finance Management; Open Budget Survey (International Budget Partnership), TA evaluations.

### 4. Specific conditions for the disbursement of tranches



The specific conditions for the disbursement set out in Table C and D shall apply to the disbursement of the variable tranche. Tranche release requests must be accompanied by all appropriate information and documents on the specific conditions.

**Table C: Specific conditions for the release of the variable tranche**

Tranche	AAP	Amount (EUR)	Indicative date of the disbursement request (month/year)	Indicative disbursement date (month/year)	Conditions/criteria/ activities for disbursement	Verification source including timing or data availability (where applicable)
Variable tranche	2016	5,334,025	July 2021	September 2021	Variable tranche indicators detailed in Annex 1	Detailed in Annex 1
	2020	6,665,975	July 2021	September 2021	Variable tranche indicators detailed in Annex 1	Detailed in Annex 1
	<b>Total</b>	<b>12,000,000</b>				

The disbursement conditions for the variable tranche are set for the first year and may be amended.




#### . Variable tranche calculation

Each quantitative indicator will be scored 0, 0.5 or 1 depending on whether there was (i) no or insignificant progress up to 49,99%, (ii) significant but partial progress between 50-79,99%, or (iii) target met above 80%.

The variable tranche disbursement will be calculated by summarizing the scores of the five indicators.

Indicators as per Table D	Weight	Year 1 maximum amount EUR	AAP
1. Number of eligible requests for subsidies paid through the second package of COVID measures	26%	3 100 000	AAP 2016 & AAP 2020
2. Number of micro and small enterprises benefitting of a grant scheme offered through a program for stimulating competitiveness of economy of Montenegro, with the purpose to increase their liquidity and their resilience to the COVID crises.	26%	3 100 000	AAP 2016
3. Amount of social allowances for most vulnerable people	18%	2 150 000	AAP 2020
4. Average number of cases by operator in the Case Management System.	18%	2 150 000	AAP 2020
5. Adoption of necessary legislation to ensure progress introducing medium term budgetary framework and programme budgeting as from 2021	12%	1 500 000	AAP 2020
<b>Total</b>	<b>100%</b>	<b>12,000,000</b>	



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**ANNEX 3: Complementary activities: indicative budget breakdown and planning for contracting procedures**

IMPLEMENTATION MODALITIES	BUDGET (IN MILLION €)			
	Total	EU contribution		
		AAP 2016	AAP 2019	AAP 2020
INDIRECT MANAGEMENT (CONTRIBUTION AGREEMENT)  Support the Ministry of Labour for the definition and implementation of a set of active labour market measures for those who lost their job due to the pandemic.	0.20		0.20	
PROCUREMENT (DETAILS PER TYPE OF CONTRACT SHOULD BE PROVIDED)  Support the Ministry of Economy in the swift implementation of a grant scheme for micro and small enterprises	0.20			0.20
Visibility and communication for budget support	0.01		0.01	
Mid-term/final evaluation of budget support	0.09		0.09	
DIRECT MANAGEMENT THROUGH BUDGET SUPPORT	40.00	5.334025	28.00	6.665975
<b>TOTAL</b>	<b>40.50</b>	<b>5.334025</b>	<b>28.30</b>	<b>6.865975</b>




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## ANNEX II - GENERAL CONDITIONS

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## **Part One: Provisions Applicable to Activities for which the IPA II beneficiary is the Contracting Authority**

### **Article 1 - General principles**

- (1) The purpose of Part One is to lay out the rules for implementing the entrusted budget-implementation tasks as described in Annex I and to define rights and obligations of the IPA II beneficiary and the Commission respectively in carrying out these tasks.

Part One shall apply to the budget-implementation tasks entrusted to the IPA II beneficiary related to the Union contribution alone, or combined with funds of the IPA II beneficiary or funds of a third party, in case such funds are implemented in joint co-financing, i.e. where they are pooled.

- (2) The IPA II beneficiary shall remain responsible for the fulfillment of the obligations stipulated in this Financing Agreement and in the Framework Agreement, even if it sub-delegates to other entities identified in Annex I to carry out certain entrusted budget implementation tasks. The Commission, in particular, reserves the right to suspend payments, and to suspend and/or terminate this Financing Agreement on the basis of the acts, omissions and/or situations of any designated entity.
- (3) The tasks referred to in paragraph 1 of this Article shall be carried out by the IPA II beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts in external actions, in force at the time of the launch of the procedure in question (PRAG), as well as in accordance with the required visibility and communication standards referred to in Article 2(2).  
The IPA II beneficiary shall conduct the procurement and grant award procedures, conclude the resulting contracts, and ensure that all relevant documents for audit trail are in the language of this Financing Agreement. For the purpose of Part One of this Financing Agreement every reference to grant contracts shall also include contribution agreement and every reference to grant beneficiaries shall also include organisations having signed contribution agreements.
- (4) The IPA II beneficiary shall respect the minimum rate of its contribution specified in Annex I. In case of contributions from both the IPA II beneficiary and the Union, the IPA II beneficiary contribution shall be made available at the same time as the corresponding contribution from the Union.
- (5) The IPA II beneficiary shall keep all relevant financial and contractual supporting documents from the date of the entry into force of this Financing Agreement or as from an earlier date in case if the procurement procedure, call for proposals or direct grant award procedure was launched prior to the entry into force of this Financing Agreement:
- (a) For procurement procedures in particular:

- a) Forecast notice with proof of publication of the procurement notice and any corrigenda;
- b) Appointment of shortlist panel;
- c) Shortlist report (incl. annexes) and applications;
- d) Proof of publication of the shortlist notice;
- e) Letters to non-shortlisted candidates;
- f) Invitation to tender or equivalent;
- g) Tender dossier including annexes, clarifications, minutes of the meetings, proof of publication;
- h) Appointment of the evaluation committee;



- i) Tender opening report, including annexes;
  - j) Evaluation / negotiation report, including annexes and bids received;<sup>1</sup>
  - k) Notification letter;
  - l) Cover letter for submission of contract;
  - m) Letters to unsuccessful candidates;
  - n) Award / cancellation notice, including proof of publication;
  - o) Signed contracts, amendments, riders, implementation reports, and relevant correspondence.
- (b) For calls for proposals and direct award of grants in particular:
- a) Appointment of the evaluation committee;
  - b) Opening and administrative report including annexes and applications received;<sup>2</sup>
  - c) Letters to successful and unsuccessful applicants following concept note evaluation;
  - d) Concept note evaluation report;
  - e) Evaluation report of the full application or negotiation report with relevant annexes;
  - f) Eligibility check and supporting documents;
  - g) Letters to successful and unsuccessful applicants with approved reserve list following full application evaluation;
  - h) Cover letter for submission of grant contract;
  - i) Award/cancellation notice with proof of publication;
  - j) Signed contracts, amendments, riders and relevant correspondence.

In addition, financial and contractual documents referred to in paragraph 5(a) and (b) of this Article shall be complemented by all relevant supporting documents as required by the procedures referred to in section 3 of this Article, as well as all relevant documentation relating to payments, recoveries and operating costs, for example project and on the spots checks reports, acceptance of supplies and works, guarantees, warranties, reports of supervising engineers.

All relevant financial and contractual documents shall be kept for the same duration in accordance with Article 49 of the Framework Agreement.

- (6) For the purpose of the application of Article 25 of the Framework Agreement on data protection, personal data shall be:
- processed lawfully, fairly and in a transparent manner in relation to the data subject;
  - collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes;
  - adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;
  - accurate and, where necessary, kept up to date;
  - processed in a manner that ensures appropriate security of the personal data and

<sup>1</sup> Elimination of unsuccessful bids five years after the closure of the procurement procedure.

<sup>2</sup> Elimination of unsuccessful applications three years after the closure of the grant procedure.



- kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed.

Personal data included in documents to be kept by the IPA II beneficiary in accordance with Article 1.5 has to be deleted once the deadlines set out in Article 1.5 have expired.

#### **Article 1a - Duty to inform, administrative sanctions, and failure to act**

- (1) When applying the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts, the IPA II beneficiary shall accordingly ensure that no EU financed procurement or grant contract is awarded to an economic operator or grant applicant if the economic operator or grant applicant who either itself, or a person having powers of representation, decision making or control over it is in one of the exclusion situations provided for in the relevant procedures and standard documents of the Commission.
- (2) The IPA II beneficiary shall inform the Commission immediately when a candidate, tenderer or applicant is in a situation of exclusion from participating in procurement and grant award procedures, has committed irregularities and fraud, or has been found in serious breach of its contractual obligations.
- (3) The IPA II beneficiary shall take into account the information contained in the Commission's 'Early Detection and Exclusion System' (EDES) when awarding procurement and grant contracts. Access to the information can be provided through the liaison point(s) or via consultation using the following means: (European Commission, Directorate-General for Budget, Accounting Officer of the Commission, BRE2-13/505, B-1049 Brussels, Belgium and by email to BUDG-C01-EXCL-DB@ec.europa.eu in copy to the Commission address identified in Article 3 of the Special Conditions).
- (4) Where the IPA II beneficiary becomes aware of an exclusion situation in the implementation of the tasks described in Annex I, the IPA II beneficiary shall impose upon an economic operator or a grant applicant an exclusion from its future procurement or grant award procedures. The IPA II beneficiary may also impose a financial penalty proportional to the value of the contract concerned. Exclusions and/or financial penalties shall be imposed following an adversarial procedure ensuring the right of defence of the person concerned. The IPA II beneficiary shall notify the Commission in accordance with paragraph 1 of this Article.
- (5) In respect of paragraph 4 of this Article, the IPA II beneficiary is considered in failure to act, if it does not impose exclusion and/or a financial penalty upon the economic operator or grant applicant.
- (6) In the case of a failure to act, the IPA II beneficiary shall notify the Commission explaining the reasons for its failure to act. The Commission reserves the right to exclude an economic operator or a grant applicant from future EU financed award procedures, and/or impose a financial penalty on an economic operator or a grant applicant between 2 % and 10 % of the total value of the contract concerned.

#### **Article 2 - Visibility and communication**

- (1) In accordance with Article 24(3) of the Framework Agreement, the IPA II beneficiary shall take the necessary measures to ensure the visibility of EU funding for the activities entrusted to it, and prepare a coherent plan of visibility and communication activities which should be submitted to the Commission for an agreement within 2 months after the entry into force of this Financing Agreement.
- (2) These communication and visibility activities shall comply with the Communications and Visibility Manual for EU External Actions laid down and published by the Commission in force at the time of the activities.



**Article 3 - *Ex-ante* controls on grant and procurement procedures and on *ex post* controls on contracts and grants to be performed by the Commission**

- (1) The Commission may exercise *ex ante* controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants for the following stages of procurement or grant award:
  - (a) approval of contract notices for procurement, work programmes for calls for proposals, and any corrigenda thereof;
  - (b) approval of tender dossiers and guidelines for applicants on grants;
  - (c) approval of the composition of Evaluation Committees;
  - (d) approval of evaluation reports and award decisions<sup>3</sup>;
  - (e) approval of contract dossiers and contract addenda.
- (2) With regard to *ex ante* controls the Commission shall decide:
  - (a) to perform *ex ante* controls on all files, or
  - (b) to perform *ex ante* controls on a selection of such files, or
  - (c) to completely dispense with *ex ante* controls.
- (3) If the Commission decides to perform *ex ante* controls in accordance with paragraph 2(a) or (b) of this Article, it shall inform the IPA II beneficiary of the files selected for *ex ante* controls. The IPA II beneficiary shall provide all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex ante* control, at the latest at the time of submission of the contract notice or the work programme for publication.
- (4) The Commission may decide to perform *ex post* controls, including audits and on-the-spot controls, at any time on any contracts or grants awarded by the IPA II beneficiary arising out this Financing Agreement. The IPA II beneficiary shall make available all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex post* control. The Commission may authorize a person or an entity to perform *ex post* controls on its behalf.

**Article 4 - Bank accounts, accounting systems, and cost recognised**

- (1) After the entry into force of this Financing Agreement, the National Fund and the operating structure of the IPA II beneficiary that is the Contracting Authority for the Programme shall open at least one bank account denominated in euro. The total bank balance for the Programme shall be the sum of the balances on all the Programme bank accounts held by the National Fund and all participating operating structures in the IPA II beneficiary.
- (2) The IPA II beneficiary shall prepare and submit to the Commission disbursement forecast plans for the duration of the implementation period of the Programme. These forecasts shall be updated for the annual financial report referred to in Article 14(2) and for each request for funds. The forecasts shall be based on a documented detailed analysis (including the planned contracting and payment schedule per contract for the following fourteen months) which shall be available to the Commission on request.
- (3) The initial disbursement forecast plan shall contain summary annual disbursement forecasts for the whole implementation period and monthly disbursement forecasts for the first fourteen months of the Programme. Subsequent plans shall contain summary annual disbursement forecasts for the balance of the implementation period of the Programme and monthly disbursement forecasts for the following fourteen months.
- (4) The IPA II beneficiary is required to establish and maintain an accounting system in accordance with

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<sup>3</sup> For service contracts this step includes *ex ante* controls concerning approval of the shortlist.





Clause 2(3)(b) of Annex A to the Framework Agreement which will hold at least the information for the contracts managed under the Programme indicated in Annex V.

- (5) Cost recognised in the accounting system maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary under local contracts.
- (6) The IPA II beneficiary shall provide to the Commission reports as follows:
  - (a) Cut-off report - as set out in Article 14(4);
  - (b) Annual reports as set out in paragraphs (2) to (4) of Article 14;
  - (c) Request for funds reports as referred to in Article 5.

#### **Article 5 - Provisions on payments made by the Commission to the IPA II beneficiary**

- (1) The IPA II beneficiary shall submit its initial disbursement forecast for the Programme, prepared pursuant to Article 4(2), with the first pre-financing payment request. The first pre-financing payment shall be for 100 % of the forecast disbursements for the first year of the disbursement forecast plan.
- (2) The IPA II beneficiary shall submit subsequent pre-financing payment requests when the total bank balance for the Programme falls below the disbursements forecast for the following five months of the Programme.
- (3) Each request for additional pre-financing shall be supported by following documents:
  - a) A summary of all disbursements made for the Programme;
  - b) The bank balances for the Programme at the cut-off date of the request;
  - c) A forecast of disbursement for the Programme for the following fourteen months at the cut-off date of the request in accordance with Annex IV point (d).
- (4) The IPA II beneficiary may request for each subsequent pre-financing the amount of total disbursements forecast for the fourteen months following the cut-off date of the request, less the balances referred to in section 3(b) of this Article at the cut-off date of the request for funds increased by any amount funded by the IPA II beneficiary under paragraph 5 of this Article and not yet reimbursed.

The Commission reserves the right to reduce each subsequent pre-financing payment if the total bank balances held by the IPA II beneficiary under this Programme and on all other IPA I or IPA II programmes managed by the IPA II beneficiary exceeds the disbursement forecast for the next fourteen months.

- (5) Where the payment is reduced under paragraph 4 of this Article, the IPA II beneficiary must fund the Programme from its own resources up to the amount of the reduction. The IPA II beneficiary may then request the reimbursement of that funding as part of the next request for funds as specified in paragraph 4 of this Article.
- (6) The Commission shall have the right to recover excessive bank balances which have remained unused for more than twelve months. Before exercising this right, the Commission shall invite the IPAII beneficiary to give reasons for the delay in disbursing the funds and demonstrate a continuing need for them within the next following two months.
- (7) Interest generated by the bank accounts used for this Programme shall not be due to the Commission.
- (8) Following Article 33(4) of the Framework Agreement, if interruption of time limit for payment request exceeds two months, the IPA II beneficiary may request a decision by the Commission on whether the interruption of time limit is to be continued.
- (9) The final financial declaration referred to in Article 37(2) of the Framework Agreement shall be submitted by the NAO no later than 16 months after the end of operational implementation period.





## **Article 6 - Interruption of payments**

- (1) Without prejudice to the suspension or termination of this Financing Agreement according to Articles 18 and 19 respectively, as well as without prejudice to Article 39 of the Framework Agreement, the Commission may interrupt payments partially or fully, if:
  - (a) the Commission has established, or has serious concerns that the IPA II beneficiary has committed substantial errors, irregularities or fraud questioning the legality or regularity of the underlying particular transactions in the implementation of the Programme, or has failed to comply with its obligations under this Financing Agreement, including obligations regarding the implementation of the Visibility and Communication plan;
  - (b) the Commission has established that or has serious concerns, whether the IPA II beneficiary has committed systemic or recurrent errors, irregularities, fraud or breach of obligations under this or other Financing Agreements, provided that those errors, irregularities, fraud or breach of obligations have a material impact on the implementation on this Financing Agreement or call into question the reliability of the IPA II beneficiary's internal control system or the legality and regularity of the underlying expenditure.

## **Article 7 - Recovery of funds**

- (1) In addition to cases referred to in Article 41 of the Framework Agreement, the Commission may recover the funds from the IPA II beneficiary as provided in the Financial Regulation, in particular in case of:
  - (a) the Commission established that objectives of the Programme set out in Annex I are not achieved;
  - (b) non eligible expenditure;
  - (c) non respect of the contribution rate, as provided in Annex I;
  - (d) expenditure incurred as a result of errors, irregularities, fraud or breach of obligations in the implementation of the Programme, in particular in the procurement and grant award procedure.
- (2) In accordance with national law, the IPA II beneficiary shall recover the Union contribution paid to the IPA II beneficiary from recipients who were in any situation defined in paragraph 1 points b) or d) of this Article or referred to in Article 41 of the Framework Agreement. The fact that the IPA II beneficiary does not succeed in recovering all or part of the funds shall not prevent the Commission from recovering the funds from the IPA II beneficiary.
- (3) Amounts unduly paid or recovered by the IPA II beneficiary, amounts from financial, performance and pre-financing guarantees lodged on the basis of procurement and grant award procedures, amounts from financial penalties imposed by the IPA II beneficiary on candidates, tenderers, applicants, contractors or grant beneficiaries, to the IPA II beneficiary shall be either re-used for the Programme or returned to the Commission.



## **Part Two: Provisions Applicable to Budget Support**

### **Article 8 - Policy dialogue**

The IPA II beneficiary and the Commission commit to engage in a regular constructive dialogue at the appropriate level on the implementation of this Financing Agreement.

### **Article 9 - Verification of conditions and disbursement**

- (1) The Commission shall verify the conditions for the payment of the tranches of the budget support component, as identified in Annex I and Annex IA.
- (2) Where the Commission concludes that the conditions for payment are not fulfilled, it shall inform the IPA II beneficiary thereof without undue delay.
- (3) Disbursement requests submitted by the IPA II beneficiary shall be eligible for EU financing provided that they are in accordance with the provisions set out in Annex I and Annex IA and that they are submitted during the operational implementation phase.
- (4) The IPA II beneficiary shall apply its national foreign exchange regulations in a nondiscriminatory manner to all disbursements of the budget support component.

### **Article 10 - Transparency of budget support**

The IPA II beneficiary hereby agrees to the publication by the Commission, of this Financing Agreement and any amendment thereof, including by electronic means, and of such basic information on the budget support which the Commission deems appropriate. The content of such publication shall be in accordance with the EU laws applicable to the protection of personal data.

### **Article 11 - Recovery of budget support**

All or part of the budget support disbursements may be recovered by the Commission, with due respect to the principle of proportionality, if the Commission establishes that payment has been vitiated by a serious irregularity attributable to the IPA II beneficiary, in particular if the IPA II beneficiary provided unreliable or incorrect information, or if corruption or fraud was involved.



## **Part Three: Provisions Applicable to this Financing Agreement Irrespective of the Management Mode**

### **Article 12 - Execution period, operational implementation period and contracting deadline**

- (1) The execution period is the period during which the Financing Agreement is implemented and includes the operational implementation period as well as a closure phase. The duration of the execution period is stipulated in Article 2(1) of the Special Conditions, and it shall start on the entry into force of this Financing Agreement.
- (2) The operational implementation period is the period in which all operational activities covered by procurement, grant contracts and contribution agreements are completed. The duration of this period is stipulated in Article 2(2) of the Special Conditions, and it shall start on the entry into force of this Financing Agreement.
- (3) The execution and operational implementation periods shall be respected by the Contracting Authority when concluding and implementing procurement, grant contracts and contribution agreements within this Financing Agreement.
- (4) Costs related to the activities shall be eligible for EU financing only if they have been incurred during the operational implementation period; the costs incurred by the IPA II beneficiary before the entry into force of the Financing Agreement shall not be eligible for EU financing.
- (5) The procurement, grant contracts and contribution agreements shall be concluded at the latest within three years of the entry into force of the Financing Agreement, except:
  - (a) amendments to procurement contracts, grant contracts and contribution agreements already concluded;
  - (b) individual procurement contracts to be concluded after early termination of an existing procurement contract;
  - (c) contracts relating to audit and evaluation, which can be signed after operational implementation;
  - (d) change of the entity charged with entrusted tasks.
- (6) A procurement, grant contract or contribution agreement which has not given rise to any payment within two years of its signature shall be automatically terminated and its funding shall be de-committed, except in case of litigation before judicial courts or arbitral bodies.

### **Article 13 - Permits and authorisation**

Any type of permit and/or authorisation required for the implementation of the Programme shall be provided in due time by the competent authorities of the IPA II beneficiary, in accordance with national law.

### **Article 14 - Reporting requirements**

- (1) For the purpose of the general reporting requirements to the Commission set out in Article 58 of the Framework Agreement and the specific reporting requirements under indirect management set out in Articles 59(1) of the Framework Agreement on the annual report on the implementation of IPA II assistance, the NIPACs shall use the template provided for in Annex III to this Financing Agreement.
- (2) For the purpose of the specific reporting requirements under indirect management set out in point (a)



of Article 59(2) of the Framework Agreement on the annual financial report or statements, the NAO in the IPA II beneficiary shall use the templates provided for in points (a) and (b) of Annex IV to this Financing Agreement.

- (3) For the purpose of Article 59(4) of the Framework Agreement, the NIPAC shall submit a final report on the implementation of IPA II assistance of this Programme to the Commission no later than four months after the last disbursement to its contractors or grant beneficiaries.
- (4) For the purpose of Article 59(6) of the Framework Agreement the NAO shall provide by 15 January of the following financial year in electronic format a copy of the data held in the accounting system established under Article 4(4). This should be supported by a signed un-audited summary financial report in accordance with point (c) of Annex IV.

#### **Article 15 - Intellectual property rights**

- (1) Contracts financed under this Financing Agreement shall ensure that the IPA II beneficiary acquire all necessary intellectual property rights with regard to information technology, studies, drawings, plans, publicity and any other material made for planning, implementation, monitoring and evaluation purposes.
- (2) The IPA II beneficiary shall guarantee that the Commission, or anybody or person authorised by the Commission, shall have access and the right to use such a material. The Commission will only use such material for its own purposes.

#### **Article 16 - Consultation between the IPA II beneficiary and the Commission**

- (1) The IPA II beneficiary and the Commission shall consult each other before taking any dispute relating to the implementation or interpretation of this Financing Agreement further pursuant to Article 20.
- (2) Where the Commission becomes aware of problems in carrying out procedures relating to the implementation of this Financing Agreement, it shall establish all necessary contacts with the IPA II beneficiary to remedy the situation and take any steps that are necessary.
- (3) The consultation may lead to an amendment, suspension or termination of this Financing Agreement.
- (4) The Commission shall regularly inform the IPA II beneficiary of the implementation of activities described in Annex I which do not fall under Part One of these General Conditions.

#### **Article 17 - Amendment of this Financing Agreement**

- (1) Any amendment of this Financing Agreement shall be made in writing, including an exchange of letters.
- (2) If the IPA II beneficiary requests an amendment, the request shall be submitted to the Commission at least six months before the amendment is intended to enter into force.
- (3) The Commission can amend the Model Documents in Annex III, IV and V without this necessitating an amendment to this Financing Agreement. The IPA II beneficiaries shall be informed in writing about any such amendment and its entry into force.





## Article 18 - Suspension of this Financing Agreement

- (1) The Financing Agreement may be suspended in the following cases:
- (a) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary breaches an obligation under this Financing Agreement;
  - (b) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary breaches any obligation set under the procedures and standard documents referred to in Article 18(2) of the Framework Agreement;
  - (c) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary does not meet requirements for entrusting budget implementation tasks;
  - (d) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary decides to suspend or cease the EU Membership accession process;
  - (e) The Commission may suspend this Financing Agreement if the IPA II beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption or if the IPA II beneficiary is guilty of grave professional misconduct proven by any justified means. Grave professional misconduct is to be understood as any of the following:
    - a violation of applicable laws or regulations or ethical standards of the profession to which a person or entity belongs, or
    - any wrongful conduct of a person or entity which has an impact on its professional credibility where such conduct denotes wrongful intent or gross negligence.
  - (f) This Financing Agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the parties' control which prevents either of them from fulfilling any of their obligations, not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmountable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by a case of force majeure of which the other party is duly informed. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage. If force majeure impacts only part of the Programme, the suspension of the Financing Agreement can be partial;
  - (g) Neither of the Parties shall be held liable for breach of its obligations under this Financing Agreement if it is prevented from fulfilling them by force majeure, provided it takes measures to minimise any possible damage.
- (2) The Commission may suspend this Financing Agreement without prior notice.
- (3) The Commission may take any appropriate precautionary measure before suspension takes place.
- (4) When the suspension is notified, the consequences for the on-going or to be signed procurement, grant contracts, and contribution agreements shall be indicated.
- (5) A suspension of this Financing Agreement is without prejudice to the interruption of payments and termination of this Financing Agreement by the Commission in accordance with Article 6 and Article 19.



- (6) The parties shall resume the implementation of the Financing Agreement once the conditions allow with the prior written approval of the Commission. This is without prejudice to any amendments of this Financing Agreement which may be necessary to adapt the Programme to the new implementing conditions, including, if possible, the extension of the operational implementation and execution periods, or the termination of this Financing Agreement in accordance with Article 19.

#### **Article 19 - Termination of this Financing Agreement**

- (1) If the issues which led to the suspension of this Financing Agreement have not been resolved within a maximum period of 180 days, either party may terminate the Financing Agreement at 30 days' notice.
- (2) When the termination is notified, the consequences for the on-going procurement and grant contracts, contribution agreements and such contracts or grants, and contribution agreements to be signed shall be indicated.
- (3) The termination of this Financing Agreement shall not preclude the possibility of the Commission to make financial corrections in accordance with Articles 36 to 44 of the Framework Agreement.

#### **Article 20 - Dispute settlement arrangements**

- (1) Any dispute concerning the Financing Agreement which cannot be settled within a six-month period by the consultations between the parties provided for in Article 16 may be settled by arbitration at one of the parties' request.
- (2) Each party shall designate an arbitrator within 30 days of the request for arbitration. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration (The Hague) to designate a second arbitrator. The two arbitrators shall in their turn designate a third arbitrator within 30 days. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration to designate the third arbitrator.
- (3) Unless the arbitrators decide otherwise, the procedure laid down in the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States shall apply. The arbitrators' decisions shall be taken by a majority within a period of three months.
- (4) Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.



Period covered by the report:  
01/01/20XX-31/12/20XX

Report issued on XX/XX/20XX

**Annual Report on the implementation of IPA II assistance under direct and indirect management by [country] submitted by the National IPA Coordinator**

**I. Executive Summary**

1. Reference to the objectives of the Country Strategy Papers and a brief overview of challenges in the sectors
2. Involvement in programming
3. Relations with the European Commission.
4. Problems encountered in meeting the required conditions for implementation and in ensuring sustainability, related measures taken/planned, recommendations for further action.
5. Relevant issues stemming from the IPA II beneficiary's participation in the IPA monitoring committee and in sectoral monitoring committees (including Joint Monitoring Committee for CBC), if any.
6. Involvement in Multi-country actions and any related issues.
7. Monitoring and evaluation activities, main lessons learned & follow-up to recommendations.
8. Communication and visibility activities.
9. Donor coordination.

*In case of indirect management the executive summary should also cover:*

10. Overall implementation of IPA assistance under indirect management (max. one page).
11. Main horizontal problems encountered in the implementation of IPA assistance and subsequent measures taken/planned (max. half page).
12. Recommendations for further actions (max. half page).
13. Audits – main findings and recommendations and corrective actions taken



## II. Information per Sector

**Sector title<sup>1</sup>:** [*Transport*]

Narrative part: summary per sector, including the following information:

1. Involvement in programming
2. Overview of results in moving towards a fully-fledged sector approach (i.e. targets reached as per sector roadmap in the Sector planning document).
3. Coordination with other instruments and/or donors/ IFI's within the sector
4. The impact of IPA II actions within the sector on the development of the relevant national administrative capacity in the sector, strategic planning and budgeting

*Under indirect management the following information should also be included:*

5. Operating structure(s) in place and related changes, if relevant: [*Ministry of Transport*]
6. Information on the implementation of programmes in the sector
7. Main achievements in the sector
8. Any significant problems encountered in implementing the tasks entrusted e.g. delays in contracting, and subsequent measures taken/planned.
9. Recommendations for further actions
10. Implemented monitoring and evaluation activities, audits – main findings & lessons learned, recommendations, follow-up and corrective action taken

**Sector title: Cross-Border Cooperation<sup>2</sup>**

1. Involvement in programming as appropriate.
2. Progress made in implementing the CBC programme and in particular in achieving the specific objectives per thematic priority (including qualitative and quantitative elements indicating progress in relation to targets)
3. A summary of problems encountered in implementing the CBC programme and any corrective actions taken, as well as recommendations for further corrective actions.

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<sup>1</sup> As per the sectors in the indicative Strategy Papers.

<sup>2</sup> For Cross-border Cooperation specific reporting is required.



Annex III Model Annual Report

4. Monitoring, including data collection arrangements and where applicable evaluation activities.
5. Communication and visibility activities.
6. Coordination with the partner country.

*Under indirect management the following information should also be included:*

1. Operating structure in place and related changes, if relevant.
2. Any significant problems encountered in implementing the tasks entrusted e.g. delays in contracting, and subsequent measures taken/planned.
3. Recommendations for further actions
4. Implemented audits – main findings & recommendations and corrective action taken





**II a. Performance indicators in the [e.g. Transport] sector covering both direct and indirect management:**

**Indicators<sup>3</sup> per programme**

Financing Agreement/Programme reference <sup>4</sup>	Indicator for sector [Transport]	Source	Baseline	Milestone (2017)	Target (2020)	Value (2014 <sup>5</sup> )
2014 country programme	Reduction of average travel time of passengers between major urban centres by transport mode					
2014-20xx multiannual programme	Reduced transportation costs per unit of output					

<sup>3</sup> These should be mostly outcome, as well as selected relevant output indicators

<sup>4</sup> It has to be consistent with the way of programming (annual, multi-annual with or without split commitments) and with the NAO report

<sup>5</sup> Number of columns to be adjusted for all years from 2014 up to the year of the reporting period. Values should be cumulative.




**II b. Overview at the action level for sector [e.g. Transport]**

Financing Agreement/ Programme reference	Action	State of play/Progress for particular action (e.g. ToR in preparation, tender launched, contracted, under implementation, completed)	Main achievements and their assessment	Significant problems encountered in implementing the entrusted tasks and the measures taken/planned to overcome them	Developments that influence implementation for the future	Recommendations for corrective further actions
[2014 country programme]	Electrification of the railway line from xxx to border with xxx	e.g. Service contract for preparation of ToR for the works contract signed and under implementation, tender for works contract to be launched in the second quarter of 2015		e.g. The service contract for the preparation of ToR for the works contract was delayed as the negotiated procedure failed and had to be re-launched	e.g. change of local law, like alignment with and implementation of the fourth Railway package	




*Under indirect management the following annexes should also be provided:*

**Annex 1**

Overview of the functioning of the management and control systems (including changes in the institutional structure) (max. one page).

Transparency, visibility, information and communication activities in line with FWA (max. one page)

**Annex 2**

Success stories (N.B. this section may be used for the annual financial assistance report prepared by the European Commission)

**Annex 3**

Annual procurement plan

*For both direct and indirect management, the following annex should be provided:*

**Annex 4**

Sector approach roadmap – achievements (highlighting whether planned targets have been fulfilled or not)



7.15 February

Annex IV(b): Annual Financial Report - individual programme EU contribution

IPA II beneficiary financial report (\*)

Programme Reference	Financing Agreement contract number	Programme EU Contribution Budget	Local Contract Activities									
			Total Amount Contracted	Contracted %	Total Amount Decommited on closure	Decommited %	Total Amount Disbursed	Disbursed %	Total Costs Recognised	Costs %	Total Open Pre-financing	Open Pre-financing %
1	2	3	4	5	6	7	8	9	10	11	12	13
				4/3*100%		6/4*100%		8/4*100%		10/4*100%		12/4*100%
NP2010	2010/123-456											
Sub-programme Action												

(\*) 15 February



Annex IV (c): Annual Financial Report - simplified consolidated EU contribution

**IPA II beneficiary financial report (\*)**

Programme Reference	Financing Agreement contract number	Programme EU Contribution Budget	Local Contract Activities					Bank Balances
			Total Amount Contracted	Total Amount Decommitted on closure	Total Amount Disbursed	Total Costs Recognised	Total Open Pre-financing	Total
1	2	3	4	5	6	7	8	9
NP2010	2010/123-456							

(\*) 15 January




Annex IV (d) - payments forecast

Programme Reference	Planned Disbursement Forecasts (Add years as necessary)																
	Monthly Disbursement Forecast (12 months for first pre-financing/ 14 months for subsequent prefinancing)														Total Year 1	Year 2	Year 3
	1	2	3	4	5	6	7	8	9	10	11	12	13	14			
NP2010															0		
CBC AA/BB 2010															0		



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Annex V to the Financing Agreement  
Accrual Based Accounting System Minimum Specification

The accounting system of the IPA II beneficiary shall meet following requirements:

1. Reflect the organisational structure put in place for the internal control systems suited to the performance of duties. In particular before an operation is authorised, all aspects (both operational and financial) of the operation have to be verified by members of staff other than the one who initiated the operation. The person dealing with the verification cannot be subordinated to the initiator of the transaction.
2. Include an audit trail for all transactions and amendments.
3. Possess adequate physical and electronic security including back-up and recovery systems.
4. The accounting system should hold at least the following information for the local contracts managed under each programme:
  - (a) Contract reference;
  - (b) Contract value including any amendments;
  - (c) Contract signature dates (both parties);
  - (d) Contract implementation start date;

This is in addition to the contract signature date and may differ from it, as when the contract works start date is given after the signature of the contract through an Administrative Order.

- (e) Contract implementation end date including any amendments;

This is the final date on which eligible costs can be incurred. It does not include any guarantee period or time allowed for report preparation by the contractor.

- (f) Total paid (cash) by contract;
  - (g) Pre-financing paid by contract;

Explicit recognition and recording on the balance sheet of contractually required pre-financing.

- (h) Cost recognised – direct (by contract);

Explicit recognition of cost as a charge to expenses for the year. Some payments will directly cover costs already incurred. No pre-financing is involved. They may be final



Annex V to the Financing Agreement  
Accrual Based Accounting System Minimum Specification

payments where any pre-financing has already been cleared or interim payments where pre-financing has been cleared or where the contract does not include the provision of pre-financing.

(i) Cost recognised – indirect (by contract);

Explicit recognition of cost as a charge to expenses for the year. Some invoices or cost claims submitted by a grant beneficiary or contractor will relate to costs that are covered by pre-financing paid earlier in the implementation period of the grant agreement or contract. In these cases the payment made will be less than the reported cost. It may even be zero if all the cost is covered by pre-financing. (it will certainly be zero if the reported costs are insufficient to absorb the pre-financing and a recovery order is issued for the unused balance of the pre-financing.) In all such cases the system should record the full value of the reported eligible cost as expenses for the year and reduce the balance of pre-financing by the amount of cost offset against the pre-financing when determining the amount payable.

(j) Recovery orders to reduce pre-financing (by contract);

Recognition of the reduction of pre-financing on the balance sheet following a recovery of unused pre-financing.

(k) Recovery orders to reduce cost (by contract);

When a recovery is made against cost that had earlier been accepted – possibly following an investigation for fraud. In such cases the recorded costs for the year must be reduced if the cost was accepted in the same year as the subsequent recovery; or income must be recorded where the cost was accepted in an earlier year than that of the recovery.

(l) Supplier's invoice date for each invoice or other document accompanied by a financial report giving rise to recognised costs;

(m) Recovery context information on ineligible cost and recoveries.

