

FINANCING AGREEMENT

SECTOR REFORM CONTRACT

SPECIAL CONDITIONS

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

of the one part, and

The Government of Georgia hereinafter, referred to as "**the Beneficiary**",

of the other part,

have agreed as follows:

Article 1 – Nature of the action

- 1.1. The EU agrees to finance and the Beneficiary agrees to accept the financing of the following budget support action:

Support to Regional Development – Phase II
ENPI/2013/024-707

This action is financed from the EU Budget under the following basic act: European Neighbourhood and Partnership Instrument (ENPI) under the Multiannual Financial Framework 2007-2013.

- 1.2. The total estimated cost of this action is EUR 30 000 000 and the maximum EU contribution to this action is set at EUR 30 000 000.

This budget support action is composed of:

- (a) a budget support component with a maximum EU contribution of EUR 26 000 000.
- (b) a complementary support component with a total estimated cost of EUR 4 000 000 and a maximum EU contribution of EUR 4 000 000.

- 1.3. The Beneficiary shall not co-finance the action.

Article 2 – Execution period

- 2.1. The execution period of this Financing Agreement as defined in Article 15 of Annex II (General Conditions) shall commence on the entry into force of this Financing Agreement and end 84 months after this date.
- 2.2. The duration of the operational implementation phase is fixed at 60 months.
- 2.3. The duration of the closure phase is fixed at 24 months.

Article 3 – Addresses

All communications concerning the implementation of this Financing Agreement shall be in writing, shall refer expressly to this action as identified in Article 1.1 of these Special Conditions and shall be sent to the following addresses:

a) for the Commission

Mr Janos Herman
Head of Delegation
EU Delegation to Georgia
38 Nino Chkheidze Street
0102 Tbilisi, Georgia
Email: Delegation-georgia@eeas.europa.eu

b) for the Beneficiary

Mr David Bakradze
State Minister for European and Euro-Atlantic Integration
National Co-ordinator of EU Assistance Programmes
7 Ingorokva Street
0134 Tbilisi, Georgia
Email: office@eu-nato.gov.ge

Article 4 – OLAF contact point

The contact point of the 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:

Mr. Lasha Tordia
Auditor General
0144, Tbilisi: N96, Saint Queen Ketevan Avenue
Tel: (+995 32) 243 84 38 (178)
Fax: (+995 32) 243 81 60
E-mail: sao@sao.ge

Article 5 – Annexes

5.1. This Financing Agreement is composed of:

(a) these Special Conditions;

(b) Annex I: Technical and Administrative Provisions, containing the detailed breakdown of the activities of this action;

(c) Annex II: General Conditions;

(d) Annex III: Reporting Template - not applicable to and not included in this Financing Agreement;

(e) Annex IV: Management Declaration Template - not applicable to and not included in this Financing Agreement.

5.2. 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, on the one hand, the provisions of Annex I (Technical and Administrative Provisions) and, on the other hand, the provisions of Annex II (General Conditions), the latter shall take precedence.

Article 6 – Provisions derogating from or supplementing Annex II (General Conditions)

The foreign exchange transfers will be accounted for under the value date of the notification of credit to the Treasury account to the National Bank of Georgia. The exchange rate will be the standard National Bank of Georgia rate for incoming transfers on the value date of the notification of credit.

Article 7 – Entry into force

This Financing Agreement shall enter into force on the date on which it is signed by the last party.

Done in two original copies, one copy being handed to the Commission and one to the Beneficiary.

FOR THE COMMISSION

Michael A. Köhler
Director Neighbourhood
Directorate-General for Development
and Cooperation - EuropeAid

Date

17.11.2014

FOR THE BENEFICIARY

David Bakradze
State Minister for European and
Euro-Atlantic Integration
National Co-ordinator of EU Assistance
Programmes

Date

18.11.2014

ANNEX II - GENERAL CONDITIONS

Part One: Provisions Applicable to Activities for which the Beneficiary is the Contracting Authority

Article 1 – General principles

- 1.1 The purpose of Part One is to define the budget-implementation tasks entrusted to the Beneficiary in indirect management as described in Annex I (Technical and Administrative Provisions) and to define the rights and obligations of the Beneficiary and of the Commission in carrying out these tasks.

These tasks encompass the implementation by the Beneficiary as contracting authority of procurement and grant award procedures, and the awarding, signing and enforcing the resulting procurement and grant contracts.

As a rule, the Commission shall carry out related payments to contractors and grant beneficiaries. However, the Beneficiary shall carry out certain payments including to its own staff on the basis of a programme estimate as defined in Article 5 of these General Conditions.

Where the Beneficiary is an ACP State and the action is financed by the EDF pursuant to Article 1.1 of the Special Conditions, the tasks entrusted shall be those listed in points (c) to (k) of the sixth subparagraph of Article 35(1) and in Article 35(2) of Annex IV to the ACP-EC Partnership Agreement.

Where the Beneficiary is an OCT and the action is financed by the EDF pursuant to Article 1.1 of the Special Conditions, the tasks entrusted shall be those listed in points (c) to (k) of the fifth subparagraph of Article 14(1) and in Article 14(2) of Commission Regulation (EC) No 2304/2002 of 20 December 2002 implementing the Council Decision 2001/822/EC on the association of the overseas countries and territories with the European Community.

- 1.2 The Beneficiary shall remain responsible for the fulfilment of the obligations stipulated in this Financing Agreement even if it designates other entities identified in Annex I (Technical and Administrative Provisions) to carry out certain budget-implementation tasks in the context of the implementation of a programme estimate referred to in Article 5 of these General Conditions. 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.

1.3 The tasks identified in Article 1.1 of these General Conditions shall be carried out by the 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 force at the time of the launch of the procedure in question.

1.4 The Beneficiary shall set up and ensure the functioning of an effective and efficient internal control system. The Beneficiary shall respect the principles of sound financial management, transparency and non-discrimination and avoid from situations of conflict of interest.

A conflict of interest exists where the impartial and objective exercise of the functions of any responsible person is compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with a tenderer or applicant, or contractor or grant beneficiary.

Internal control system is a process aimed at providing reasonable assurance that operations are effective, efficient and economical, that the reporting is reliable, that assets and information are safeguarded, that fraud and irregularities are prevented, detected and corrected, and that risks relating to the legality and regularity of the financial operation are adequately managed, taking into account the multiannual character of the activities as well as the nature of the payments concerned.

In particular, where the Beneficiary carries out payments pursuant to a programme estimate, the functions of the authorising and accounting officers shall be segregated and mutually incompatible and the Beneficiary shall operate an accounting system that provides accurate, complete, reliable and timely information. The Beneficiary shall also reasonably protect data enabling the identification of a natural person (personal data).

1.5 The report on the implementation of the tasks entrusted to the Beneficiary shall follow the template provided in Annex III. However, where programme estimates are used pursuant to Article 5 of these General Conditions, the report shall follow the requirements stipulated in the standard documents referred to in Article 5.3 of these General Conditions.

1.6 An independent external audit opinion on the management declaration, performed in accordance with internationally accepted auditing standards, does not have to be provided in this case as the Commission shall conduct the audits for this action. These audits will verify the truthfulness of the assertions made in the management declaration and the legality and regularity of the underlying transactions made.

1.7 The Beneficiary shall conduct the procurement and grant award procedures and conclude the resulting contracts in the language of this Financing Agreement.

- 1.8 The Beneficiary shall inform the Commission when a candidate, tenderer or applicant is in a situation of exclusion from participating in procurement and grant award procedures referred to in Article 1.3 and when a contractor or grant beneficiary has been guilty of making false declarations or has made substantial errors or committed irregularities and fraud, or has been found in serious breach of its contractual obligations.

In such cases, without prejudice to the power of the Commission to exclude an entity from future procurement and grant contracts financed by the EU according to the applicable Financial Regulation, financial penalties mentioned in the provisions on administrative and financial penalties of the General Conditions of procurement and grant contracts concluded by the Beneficiary pursuant to standard documents referred to in Article 1.3 may be imposed on the contractors and grant beneficiaries by the Beneficiary if this is allowed by its national law. Such financial penalties shall be imposed following an adversarial procedure ensuring the right of defence of the contractor or grant beneficiary.

The Beneficiary may take into account, as appropriate and on its own responsibility the information contained in the Central Exclusion Database, when awarding procurement and grant contracts. Access to the information can be provided through the liaison point(s) or via consultation to the Commission¹ (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). The Commission may refuse payments to a contractor or grant beneficiary in an exclusion situation.

- 1.9 The 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 which is stipulated as the start date of cost eligibility in Article 6 of the Special Conditions for five years as from the end of the execution period, in particular, the following:

Procurement procedures:

- 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

¹ The Beneficiary shall be allowed to have direct access to the Central exclusion database through a liaison point when the Beneficiary certifies to the Commission service responsible that it applies the adequate data protection measures as provided in the Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data (OJ L 8, 12.1.2001, p. 1).

- 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 received²
- k. Notification letter
- l. Supporting documents
- m. Cover letter for submission of contract
- n. Letters to unsuccessful candidates
- o. Award / cancellation notice, including proof of publication
- p. Signed contracts, amendments, riders and relevant correspondence

Calls for proposals and direct award of grants:

- a. Appointment of the evaluation committee
- b. Opening and administrative report including annexes and applications received³
- 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 case of programme estimates: In addition to the above, all relevant documentation relating to payments, recoveries and operating costs.

Article 2 – Deadline for the signature of the procurement and grant contracts by the Beneficiary

- 2.1 The procurement and grant contracts shall be duly signed by both parties during the operational implementation phase of this Financing Agreement and at the latest within three years of the entry into force of this Financing Agreement.

Where this action is financed from the EDF, programme estimates referred to in Article 5 of these General Conditions shall also be endorsed by the Commission within that three-year deadline.

² Elimination of unsuccessful bids five years after the closure of the procurement procedure.

³ Elimination of unsuccessful applications three years after the closure of the grant procedure.

That three-year deadline may not be extended, except in Article 6 of the Special Conditions when the action is financed by the EDF.

- 2.2 However, the following transactions may be signed at any time during the operational implementation phase.
- a. procurement and grant contracts implementing the imprest component of a programme estimate financed under the EDF;
 - b. amendments to procurement and grant contracts already signed;
 - c. individual procurement contracts to be concluded after early termination of an existing procurement contract;
 - d. amendment of this Financing Agreement resulting from the change of the entity charged with the entrusted tasks, referred to in Article 1.2 of these General Conditions; the amendment shall also stipulate a new period within which procurement and grant contracts shall be concluded by this new entity in accordance with Article 2.1.
- 2.3 After expiry of the three years of the entry into force of this Financing Agreement, any financial balance for activities entrusted to the Beneficiary for which contracts have not been duly signed shall be decommitted by the Commission.
- 2.4 Article 2.3 shall not apply to any financial balance of the contingency reserve or to funds available again after early termination of a contract. This balance or funds may be used to finance contracts referred to in Article 2.2.
- 2.5 A procurement or grant contract which has not given rise to any payment within three years of its signature shall be automatically terminated and its funding shall be decommitted.

Article 3 – Visibility

- 3.1 The Beneficiary shall take the necessary measures to ensure the visibility of EU funding for the activities entrusted to it or for other activities under this action. These measures shall either be defined in Annex I (Technical and Administrative Provisions) or shall be agreed later between the Beneficiary and the Commission.

These communication and information measures 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 measures.

Article 4 – Provisions on payments made by the Commission to contractors and grant beneficiaries on behalf of the Beneficiary

4.1 The Beneficiary shall provide the Commission with the approved payment requests within the following deadlines, starting from the date of receipt of the payment request, not counting the periods of suspension of the time-limit for payment:

(a) for pre-financing specified in the procurement or grant contract:

- (i) 15 calendar days for an action financed under the Budget;
- (ii) 30 calendar days for an action financed under the EDF;

b) 45 calendar days for other payments;

The Commission shall act in accordance with Articles 4.6 and 4.7 within the period amounting to the time-limit for payment provided for in the procurement and grant contracts minus the above deadlines.

4.2 Upon receipt of a payment request from a contractor or grant beneficiary, the Beneficiary shall inform the Commission of its receipt and shall immediately examine whether the request is admissible, i.e. whether it contains the identification of that contractor or grant beneficiary, the contract concerned, the amount, the currency and the date. If the Beneficiary concludes that the request is inadmissible, it shall reject it and inform the contractor and grant beneficiary of this rejection and of its reasons within 30 days of receipt of the request. The Beneficiary shall also inform the Commission of this rejection and its reasons.

4.3 Upon receipt of an admissible payment request, the Beneficiary shall examine whether a payment is due, i.e. whether all contractual obligations justifying the payment have been fulfilled, including examining a report, where applicable. If the Beneficiary concludes that a payment is not due, it shall inform the contractor or grant beneficiary thereof and of the reasons. The dispatch of this information suspends the time-limit for payment. The Commission shall receive a copy of the information so dispatched. The Commission shall also be informed of the reply or corrective action of the contractor or grant beneficiary. That reply or action aimed at correcting the non-compliance with its contractual obligations shall restart the time-limit for payment. The Beneficiary shall examine this reply or action pursuant to this paragraph.

4.4 If the Commission disagrees with the Beneficiary's conclusion that a payment is not due, it shall inform the Beneficiary thereof. The Beneficiary shall re-examine its positions and, if it concludes that the payment is due, it shall inform thereof the contractor or grant beneficiary. The suspension of the time-limit for payment shall be lifted upon dispatch of this information. The Beneficiary shall also inform the Commission. The Beneficiary shall further proceed as provided for in Article 4.5.

If disagreement between the Beneficiary and the Commission persists, the Commission may pay the undisputed part of the invoiced amount provided that it is clearly separable

from the disputed amount. It shall inform the Beneficiary and the contractor or grant beneficiary of this partial payment.

- 4.5 Where the Beneficiary concludes that the payment is due, it shall transfer the payment request and all necessary accompanying documents to the Commission for approval and payment. It shall provide an overview of how many days of the time-limit for payment are left and of all periods of suspension of this time-limit.
- 4.6 After transfer of the payment request pursuant to Article 4.5, if the Commission concludes that the payment is not due, it shall inform the Beneficiary and, in copy, the contractor or grant beneficiary thereof and of the reasons. Informing the contractor or grant beneficiary shall have the effect of suspending the time-limit for payment, where provided for in the contract concluded. A reply or corrective action of the contractor or grant beneficiary shall be treated by the Beneficiary in accordance with Article 4.3.
- 4.7 Where the Beneficiary and the Commission concludes that the payment is due, the Commission shall execute the payment.
- 4.8 Where late-payment interest is due to the contractor or grant beneficiary, it shall be allocated between the Beneficiary and the Commission pro rata to the days of delay in excess of the time limits stipulated in Article 4.1, subject to the following:
- (a) the number of days used by the Beneficiary is calculated from the date of the registration of an admissible payment request referred to in Article 4.3 to the date of the transfer of the request to the Commission referred to in Article 4.5 and from the date of information by the Commission referred to Article 4.6 to the following transfer of the request to the Commission referred to in Article 4.5. Any period of suspension of the time-limit for payment shall be deducted.
 - (b) the number of days used by the Commission is calculated from the date following that of transfer of the request by the Beneficiary referred to in Article 4.5 to the date of payment and from the date of transfer to the date of informing the Beneficiary pursuant to Article 4.6.
- 4.9 Any circumstances unforeseen by the above procedure shall be solved in a spirit of cooperation between the Beneficiary and the Commission by analogy to the above provisions while respecting the contractual relations of the Beneficiary with the contractor or grant beneficiary.

Where feasible, one party shall cooperate at the request of the other party in providing useful information for the assessment of the payment request, even before the payment request is formally transferred to or returned from the first party.

Article 5 – Programme estimate

- 5.1 When the Beneficiary is additionally entrusted with making payments to contractors, grant beneficiaries and/or in the context of direct labour, it shall do so on the basis of a programme estimate agreed by the Beneficiary and the Commission beforehand. Article 1.3 of these General Conditions shall not apply to purchases made in the context of direct labour.
- 5.2 The programme estimate is a document laying down the programme of activities to be carried out and the human and material resources required, the corresponding budget and the detailed technical and administrative implementing arrangements for the execution of these activities over a specified period by means of procurement, grants and/or direct labour.

The programme estimate shall have an imprest component and a component of specific commitments.

Under the imprest component of a programme estimate, the Beneficiary shall be entrusted with implementing the procurement and grant award procedures and carry out the related payments and the payments for direct labour.

Under the component for specific commitments, the Beneficiary shall carry out tasks as referred to in the second subparagraph of Article 1.1 of these General Conditions; the Commission shall carry out related payment to contractors and grant beneficiaries. Certain identified activities, including audits, evaluations and recourse to the framework contract, may be implemented directly by the Commission.

Where the action is financed under the EDF, the tasks described in Annex 1 may be implemented by a body governed by private law on the basis of a service contract, awarded by the Beneficiary in accordance with the procedures and standard documents referred to in Article 1.3.

- 5.3 All programme estimates implementing the Financing Agreement must respect the procedures and standard documents concerning programme estimates and laid down by the Commission, in force at the time of the adoption of the programme estimate in question.

Ordinary operating costs incurred by the entity in charge of the tasks entrusted to the Beneficiary referred to in Articles 1.1 and 5.1 of these General Conditions shall be eligible for EU financing under the imprest component of a programme estimate during the entire duration of the execution period of this Financing Agreement, unless an earlier start of cost eligibility is stipulated in Article 6 of the Special Conditions. These costs are incurred in carrying out budget-implementation tasks and include local staff, utilities (e.g. water, gas, and electricity), rental of premises, consumables, maintenance,

short-term business trips and fuel for vehicles. They shall not include purchase of vehicles or of any other equipment, or any operational activity. Article 1.3 and 2.1 of these General Conditions shall not apply to these ordinary operating costs.

- 5.4 The Beneficiary shall submit to the Commission annually, by the date stipulated in Article 6 of the Special Conditions, a management declaration signed by the Beneficiary at the appropriate level using the template in Annex IV.

Article 6 – Payments to the Beneficiary implementing the imprest component of a programme estimate

- 6.1 The Commission shall transfer funds no later than 30 calendar days after the date on which it registers an admissible payment request for pre-financing from the Beneficiary which contains the date, the amount and the currency; the time-limit shall be 90 calendar days for a payment request for replenishment or closure. Late-payment interest shall be due pursuant to the applicable Financial Regulation. The time-limit for the payment may be suspended by the Commission by informing the Beneficiary, at any time during the period referred to above, that the payment request cannot be met, either because the amount is not due or because the appropriate supporting documents have not been produced. If information which puts in doubt the eligibility of expenditure appearing in a payment request comes to the notice of the Commission, the Commission may suspend the time-limit for the payment for the purpose of further verification, including an on-the-spot check, in order to ascertain, prior to payment, that the expenditure is indeed eligible. The suspension and the reasons for it shall be communicated to the Beneficiary as soon as possible. The time-limit for the payment shall resume once the missing supporting documents have been provided or the payment request has been corrected.
- 6.2 The Commission shall make payments to a bank account opened at a financial institution accepted by the Commission.
- 6.3 The Beneficiary shall guarantee that funds paid by the Commission can be identified in this bank account.
- 6.4 Transfers in euro shall, if necessary, be converted into the Beneficiary's national currency as and when payments have to be made by the Beneficiary, at the bank rate in force on the day of payment by the Beneficiary.
- 6.5 The imprest component of a programme estimate which has not given rise to any payment to the Beneficiary within three years of the conclusion of the programme estimate shall be automatically terminated, and the corresponding committed amount shall be decommitted.

Article 7 – Publication of information on procurement and grant contracts by the Beneficiary

- 7.1 The Beneficiary undertakes to publish each year in a dedicated and easily accessible place of its internet site, for each procurement and grant contract for which it is contracting authority under Part One, its nature and purpose, the name and locality of the contractor (contractors in case of a consortium) or grant beneficiary (grant beneficiaries in case of a multi-beneficiary grant), as well as the amount of the contract.

The locality of a natural person shall be a region at NUTS2 level. The locality of a natural person shall be its address.

If such internet publication is impossible, the information shall be published by any other appropriate means, including the official journal of the Beneficiary.

Article 6 of the Special Conditions shall stipulate the location, on the internet or otherwise, of the place of publication; reference shall be made to this location in the dedicated place of the internet site of the Commission.

- 7.2 Scholarships to, and direct financial support of natural persons most in need shall be published anonymously and in an accumulated manner by category of expenditure.

Otherwise, names of natural persons shall be replaced by "natural person" two years after publication. The name of a legal entity containing that of a natural person involved in this entity shall be treated as a natural person's name.

Publication of names of natural persons shall be waived if such publication risks violating their fundamental rights or damaging their commercial interests.

The Beneficiary shall present a list of data to be published on natural persons with any justifications for proposed waivers of publication to the Commission which must grant prior approval to this list. Where necessary, the Commission shall complete the locality of the natural person limited to a region at NUTS2 level.

- 7.3 Publication of the procurement and grant contracts concluded (i.e. signed by the Beneficiary and the contractor or grant beneficiary) during the reporting period shall take place within six months following the date for submitting the report pursuant to Article 6 of Special Conditions.

- 7.4 Publication of contracts may be waived if such publication risks harming the commercial interests of contractors or grant beneficiaries. The Beneficiary shall present a list with such justifications to the Commission which must grant prior approval to such publication waiver.

Article 8 – Recovery of funds

8.1 The Beneficiary shall take any appropriate measures to recover the funds unduly paid.

Amounts unduly paid and recovered by the Beneficiary, amounts from financial guarantees lodged on the basis of procurement and grant award procedures, amounts from financial penalties imposed by the Beneficiary on candidates, tenderers, applicants, contractors or grant beneficiaries, as well as damages awarded to the Beneficiary shall be returned to the Commission.

8.2 Without prejudice to the above responsibility of the Beneficiary to recover funds unduly paid, the Beneficiary agrees that the Commission may, in accordance with the provisions of the Financial Regulation applicable and this Financing Agreement, formally establish an amount as being unduly paid under procurement and grant contracts financed under Part One and proceed to its recovery by any means on behalf of the Beneficiary, including by offsetting the amount owed by the contractor or grant beneficiary against any of his claims against the EU.

8.3 To this end, the Beneficiary shall provide to the Commission all the documentation and information necessary. The Beneficiary hereby empowers the Commission to carry out the recovery in particular by calling on a guarantee of a contractor or grant beneficiary of which the Beneficiary is the contracting authority or by offsetting the funds to be recovered against any amounts owed to the contractor or grant beneficiary by the Beneficiary as contracting authority and financed by the EU under this or another Financing Agreement.

8.4 The Commission shall inform the Beneficiary that the recovery proceedings have been initiated (including where necessary before a national court).

8.5 Where the Beneficiary is a sub-delegatee of an entity with which the Commission concluded an indirect management delegation agreement, the Commission may recover funds from the Beneficiary which are due to the entity but which the entity was not able to recover itself.

Article 9 – Financial claims under procurement and grant contracts

The Beneficiary undertakes to confer with the Commission before taking any decision concerning a request for compensation made by a contractor or grant beneficiary and considered by the Beneficiary to be justified in whole or in part. The financial consequences may be borne by the EU only where the Commission has given its prior approval. Such prior approval is also required for any use of funds committed under the present Financing Agreement to cover costs arising from disputes relating to contracts.

Article 10 – Cost overruns and ways of financing them

- 10.1 Individual overruns of the budget headings of the activities implemented by the Beneficiary shall be dealt with by reallocating funds within the overall budget, in accordance with Article 26 of these General Conditions.
- 10.2 Wherever there is a risk of overrunning the amount foreseen for the activity implemented by the Beneficiary, the Beneficiary shall immediately inform the Commission and seek its prior approval for the corrective activities planned to cover the overrun, proposing either to scale down the activities or to draw on its own or other non-EU resources.
- 10.3 If the activities cannot be scaled down, or if the overrun cannot be covered either by the Beneficiary's own resources or other resources, the Commission may, at the Beneficiary's duly substantiated request, decide to grant additional EU financing. Should the Commission take such a decision, the excess costs shall be financed, without prejudice to the relevant EU rules and procedures, by the release of an additional financial contribution to be set by the Commission. This Financing Agreement shall be amended accordingly.

Part Two: Provisions Applicable to the Budget Support Component

Article 11 – Policy dialogue

The Beneficiary and the EU commit to engage in a regular constructive dialogue at the appropriate level on the implementation of this Financing Agreement.

[For ACP States financed under the EDF: This dialogue may form a part of the broader political dialogue provided for in Article 8 of the ACP-EC Partnership Agreement.]

Article 12 – Verification of conditions and disbursement

- 12.1. The Commission shall verify the conditions for the payment of the tranches of the budget support component, as identified in Annex I (Technical and Administrative Provisions).

Where the Commission concludes that the conditions for payment are not fulfilled, it shall inform the Beneficiary thereof without undue delay.

- 12.2. Disbursement requests submitted by the Beneficiary shall be eligible for EU financing provided that they are in accordance with the provisions set out in Annex I (Technical and Administrative Provisions) and that they are submitted during the operational implementation phase.

- 12.3. The Beneficiary shall apply its national foreign exchange regulations in a non-discriminatory manner to all disbursements of the budget support component.

Article 13 – Transparency of budget support

The 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. Such publication shall not contain any data in violation of the EU laws applicable to the protection of personal data.

Article 14 – 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 Beneficiary, in particular if the Beneficiary provided unreliable or incorrect information, or if corruption or fraud was involved.

Part Three: Provisions Applicable to This Action as a Whole, Irrespective of the Management Mode

Article 15 – Execution period and contracting deadline in direct management

- 15.1 The execution period of this Financing Agreement shall comprise two phases:

- an operational implementation phase, in which the principal operational activities of the action are carried out. This phase shall start on the entry into force of this Financing Agreement and end with the opening of the closure phase;
- a closure phase, during which final audits and evaluation are carried out and contracts and programme estimates for the implementation of this Financing Agreement are technically and financially closed. The duration of this phase is stipulated in Article 2.3 of the Special Conditions. It starts after the end of the operational implementation phase. Only expenditure necessary for the closure shall be eligible.

These periods shall be reflected in the agreements to be concluded by the Beneficiary and by the Commission in the implementation of this Financing Agreement, in particular in delegation agreements and procurement and grant contracts.

- 15.2 Costs related to the principal operational activities shall be eligible for EU financing only if they have been incurred during the operational implementation phase; the costs incurred by the Beneficiary before the entry into force of this Financing Agreement shall not be eligible for EU financing unless provided otherwise in Article 6 of the

Special Conditions. Costs related to final audits and evaluation, and to closure activities shall be eligible until the end of the closure phase.

- 15.3 Any balance remaining from the EU contribution will be automatically decommitted no later than six months after the end of the execution period.
- 15.4 In exceptional and duly substantiated cases, a request may be made for the extension of the operational implementation phase and correlatively of the execution period. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the operational implementation phase and approved by the Commission before that end. This Financing Agreement shall be amended accordingly.
- 15.5 In exceptional and duly substantiated cases, and after the end of the operational implementation phase, a request may be made for the extension of the closure phase and correlatively of the execution period. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the closure phase and approved by the Commission before that end. This Financing Agreement shall be amended accordingly.
- 15.6 Article 2 of these General Conditions shall apply to activities implemented by the Commission as contracting authority (direct management) with the exception of the second and third subparagraph of Article 2.1. For the purpose of direct management, audit and evaluation contracts shall be added to the exceptions stipulated in Article 2.2.

Article 16 – Verifications and checks by the Commission, the European Anti-Fraud Office (OLAF) and the European Court of Auditors

- 16.1 The Beneficiary shall assist and support the verifications and checks carried out by the Commission, OLAF and the Court of Auditors at their request.

The Beneficiary agrees to the Commission, OLAF and the European Court of Auditors conducting documentary and on-the-spot controls on the use made of EU financing under the activities under this Financing Agreement and carrying out a full audit, if necessary, on the basis of supporting documents of accounts and accounting documents and any other documents relating to the financing of the activities, throughout the duration of this Financing Agreement and for seven years after the date of its closure.

- 16.2 The Beneficiary also agrees that OLAF may carry out on-the-spot checks and verifications in accordance with the procedures laid down by EU law for the protection of the EU's financial interests against fraud and other irregularities.

To that end, pursuant to Regulation (EC, Euratom) No. 2185/96 and to Regulation (EC, Euratom) No. 883/2013, the Beneficiary shall grant officials of the Commission, OLAF and the European Court of Auditors and their authorised agents access to sites and premises at which operations financed under this Financing Agreement are carried out, including their computer systems, and to any documents and computerised data concerning the technical and financial management of those operations, and to take every appropriate measure to facilitate their work. Access by authorised agents of the Commission, OLAF and the European Court of Auditors shall be granted on conditions of strict confidentiality with regard to third parties, without prejudice to public law obligations to which they are subject. Documents must be accessible and filed in a manner permitting easy inspection, the Beneficiary being bound to inform the Commission, OLAF or the European Court of Auditors of the exact location at which they are kept.

- 16.3 The checks and audits described above shall also apply to contractors and grant beneficiaries, and subcontractors who have received EU financing.
- 16.4 The Beneficiary shall be notified of on the spot missions by agents appointed by the Commission, OLAF or the European Court of Auditors.

Article 17 - Tasks of the Beneficiary in fighting irregularities, fraud and corruption

- 17.1 The Beneficiary shall immediately inform the Commission of any element brought to its attention which arouses suspicions of irregularities, fraud or corruption and of any measure taken or planned to deal with them.
- 17.2 The Beneficiary shall ensure and check regularly that the actions financed from the budget are effectively carried out and implemented correctly. It shall take appropriate measures to prevent, detect and correct irregularities and fraud and where necessary, bring prosecutions and recover funds unduly paid.

"Irregularity" shall mean any infringement of this Financing Agreement, implementing contracts and programme estimates or of EU law resulting from an act or omission by anyone who has, or would have, the effect of prejudicing the funds of the EU, either by reducing or losing revenue owed to the EU, or by an unjustified item of expenditure.

"Fraud" shall mean any intentional act or omission concerning:

- the use or presentation of false, incorrect or incomplete, statements or documents which has as its effect the misappropriation or wrongful retention of funds from the general budget of the EU or the EDF;
- non-disclosure of information in violation of a specific obligation, with the same effect;

- the misapplication of such funds for purposes other than those for which they are originally granted.

17.3 The Beneficiary undertakes to take every appropriate measure to prevent, detect and punish any practices of active or passive corruption during the implementation of the Financing Agreement.

"Passive corruption" shall mean the deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the EU's financial interests.

"Active corruption" shall mean the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official, for himself or for a third party, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the EU's financial interests.

17.4 The Beneficiary shall immediately inform the Commission (contacts pursuant to the third subparagraph of the Article 1.8 of the General Conditions) of the name of the entity that has been the subject of a judgment which has the force of res judicata for fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity detrimental to the EU's financial interests.

17.5 If the Beneficiary does not take appropriate measures to prevent fraud, irregularities and corruption, the Commission may adopt precautionary measures including the suspension of this Financing Agreement.

Article 18 – Suspension of payments

18.1 Without prejudice to the suspension or termination of this Financing Agreement according to Articles 27 and 28, respectively, the Commission may suspend payments partially or fully, if:

- a) The Commission has evidence that the Beneficiary has committed substantial errors, irregularities or fraud in the procurement and grant award procedure or in the implementation of the action, or if the Beneficiary fails to comply with its obligations under this Financing Agreement, including obligations regarding the implementation of the Communications and Visibility plan;
- b) The Commission has evidence that the 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 which call into question the reliability of the Beneficiary's internal control system or the legality and regularity of the underlying expenditure;

- c) The Commission suspects that the Beneficiary committed substantial errors, irregularities, fraud or breach of obligations committed by the Beneficiary in the procurement and grant award procedure or in the implementation of the action and needs to verify whether they have occurred.
 - d) it is necessary to prevent significant damage to the financial interests of the EU.
- 18.2 The Commission shall immediately inform the Beneficiary about the suspension of payments and of the reasons for this suspension.
- 18.3 The suspension of payments shall have the effect of suspending payment time-limits for any payment request pending.
- 18.4 In order to resume payments the Beneficiary shall endeavour to remedy the situation leading to the suspension as soon as possible and shall inform the Commission of any progress made in this respect. The Commission shall, as soon as it considers that the conditions for resuming payments have been met, inform the Beneficiary thereof.

Article 19 – Allocation of funds recovered by the Commission to the action [Article 16.2 FA GC]

Where the action is financed under the EDF, amounts unduly paid and recovered by the Commission, amounts from financial guarantees lodged on the basis of procurement and grant award procedures, amounts from financial penalties imposed on candidates, tenderers, applicants, contractors or grant beneficiaries, as well as damages awarded to the Commission shall be allocated to this action.

Article 20 – Right of establishment and residence

- 20.1 Where justified by the nature of the procurement or grant contract, the Beneficiary shall entitle natural and legal persons participating in invitations to tender for works, supply or service contracts or calls for proposals and entities expected to be entrusted with budget-implementation tasks identified in Annex I with a provisional right of establishment and residence in the Beneficiary's territory(ies). This right shall remain valid for one month after the contract is awarded.
- 20.2 The Beneficiary shall also entitle procurement contractors and grant beneficiaries, entities entrusted with budget-implementation tasks identified in Annex I (Technical and Administrative Provisions), natural persons whose services are required for the

performance of this action and members of their families with similar rights during the implementation of the action.

Article 21 – Tax and customs provisions

21.1 The Beneficiary shall apply to procurement contracts and grants financed by the EU the most favoured tax and customs arrangements applied to States or international development organisations with which it has relations.

Where the Beneficiary is an ACP State, account shall not be taken of arrangements applied by it to the other ACP States or to other developing countries for the purpose of determining the most-favoured-State treatment.

21.2 Where a Framework Agreement is applicable, which includes more detailed provisions on this subject, these provisions shall apply as well.

Article 22 – Confidentiality

22.1 The Beneficiary agrees that its documents possessed by an entity to which the Commission entrusted budget-implementation tasks in the framework of this or another Financing Agreement may be forwarded to the Commission by that entity for the sole purpose of monitoring the execution of those tasks. The Commission shall respect all confidentiality arrangements agreed between the Beneficiary and that entity.

22.2 Without prejudice to Article 16 of these General Conditions, the Beneficiary and the Commission shall preserve the confidentiality of any document, information or other material directly related to the implementation of this Financing Agreement that is classified as confidential.

22.3 The Parties shall obtain each other's prior written consent before publicly disclosing such information.

22.4 The Parties shall remain bound by the confidentiality until five years after the end of the execution period.

Article 23 - Data protection

23.1 The Beneficiary shall ensure a reasonable protection of personal data. Personal data means any information related to a natural person. Any operation performed upon personal data, such as collection, recording, organisation, storage, adaption or alteration, retrieval, consultation, use, disclosure, erasure or destruction, shall be based on rules and procedures of the Beneficiary and shall only be done as far as it is necessary for the implementation of this Financing Agreement.

23.2 In particular, the Organisation shall take appropriate technical and organisational security measures concerning the risks inherent in any such operation and the nature of the information relating to the natural person concerned, in order to:

- a) Prevent any unauthorised person from gaining access to computer systems performing such operations, and especially unauthorised reading, copying, alteration or removal of storage media; unauthorised data input as well as any unauthorised disclosure, alteration or erasure of stored information;
- b) Ensure that authorised users of an IT system performing such operations can access only the information to which their access right refers;
- c) Design its organisational structure in such a way that it meets the above requirements.

Article 24 – Use of studies

The procurement contract related to any study financed under this Financing Agreement shall include the right for the Beneficiary and for the Commission to use the study, to publish it and to disclose it to third parties.

Article 25 – Consultation between the Beneficiary and the Commission

- 25.1 The 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 29 of these General Conditions.
- 25.2 Where the Commission becomes aware of problems in carrying out procedures relating to management of this Financing Agreement, it shall establish all necessary contacts with the Beneficiary to remedy the situation and take any steps that are necessary.
- 25.3 The consultation may lead to the amendment, suspension or termination of this Financing Agreement.
- 25.4 The Commission shall regularly inform the Beneficiary of the implementation of activities described in Annex I which do not fall under Part One of these General Conditions.

Article 26 – Amendment of this Financing Agreement

- 26.1 Any amendment of this Financing Agreement shall be made in writing, including an exchange of letters.
- 26.2 If the request for an amendment comes from the Beneficiary, the latter shall submit that request to the Commission at least three months before the amendment is intended to enter into force, except in cases which are duly substantiated by the Beneficiary and accepted by the Commission. In exceptional cases of an adjustment of the objectives of the action, an increase in the EU contribution or an extension of the deadline pursuant to the third subparagraph of Article 2.1, such request shall be submitted at least six months before the amendment is intended to enter into force.

- 26.3 If the adjustment does not significantly affect the objectives of the activity implemented pursuant to Part One of these General Conditions, if it concerns matters of detail which do not affect the technical solution adopted, and if it does not include the reallocation of funds or, for an action funded by the EDF, if it concerns reallocations of funds within the limit of the contingency reserve, the Beneficiary shall inform the Commission of the adjustment and its justification in writing as soon as possible and may apply that adjustment.
- 26.4 The use of contingency reserve for an action funded by the EU Budget shall be subject to the Commission's prior written approval. For an action funded by the EDF, the Commission shall be informed of the use of the contingency reserve.
- 26.5 Where the Commission considers that the Beneficiary ceases to perform satisfactorily the tasks entrusted pursuant to Article 1(1) of these General Conditions and without prejudice to Articles 27 and 28 of these General Conditions, the Commission may decide to retake the tasks entrusted from the Beneficiary in order to continue the implementation of the activities on behalf of the Beneficiary after informing the latter in writing.

Article 27 – Suspension of this Financing Agreement

27.1 The Financing Agreement may be suspended in the following cases:

- The Commission may suspend the implementation of this Financing Agreement if the Beneficiary breaches an obligation under this Financing Agreement.
- The Commission may suspend the implementation of this Financing Agreement if the Beneficiary breaches any obligation set under the procedures and standard documents referred to in Article 1.3 and 5.3 of these General Conditions.
- The Commission may suspend this Financing Agreement if the Beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption.
- 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.

- Neither of the Parties shall be held liable for breach of its obligations under the Agreement if it is prevented from fulfilling them by force majeure, provided it takes measures to minimise any possible damage.

27.2 The Commission may suspend this Financing Agreement without prior notice.

27.3 The Commission may take any appropriate precautionary measure before suspension takes place.

27.4 When the suspension is notified, the consequences for the on-going procurement and grant contracts and programme estimates and for contracts and programme estimates to be signed shall be indicated.

27.5 A suspension of this Financing Agreement is without prejudice to the suspension of payments and termination of the Agreement by the Commission in accordance with Article 18 and 28 of the General Conditions.

27.6 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 action to the new implementing conditions, including, if possible, the extension of the implementation period, or the termination of the Agreement in accordance with Article 28.

Article 28 – Termination of this Financing Agreement

28.1. 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 this Financing Agreement at 30 days' notice.

28.2. This Financing Agreement shall be automatically terminated, if within the period of three years of its signature:

- a) it has not given rise to any payment;
- b) no implementing contract has been signed;
- c) and where this action is financed under the EDF, no programme estimate has been signed;

28.3 When the termination is notified, the consequences for the on-going procurement and grant contracts and programme estimates and for contracts and programme estimates to be signed shall be indicated.

Article 29 – Dispute settlement arrangements

- 29.1 Any dispute concerning this Financing Agreement which cannot be settled within a six-month period by the consultations between the parties provided for in Article 25 of these General Conditions may be settled by arbitration at one of the parties' request.

Where the Beneficiary is an ACP State and this action is financed under the EDF, the dispute shall be submitted, prior to arbitration and after the consultations provided for in Article 25 of these General Conditions, to the ACP-EC Council of Ministers, or, between its meetings, to the ACP-EC Committee of Ambassadors, pursuant to Article 98 of the ACP-EC Partnership Agreement. If the Council or Committee does not succeed in settling the dispute, either party may request settlement of the dispute by arbitration in accordance with Articles 29.2, 29.3 and 29.4.

- 29.2 In this case 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.
- 29.3 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.
- 29.4 Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.

TECHNICAL AND ADMINISTRATIVE PROVISIONS

PARTNER COUNTRY/REGION	Georgia		
BUDGET HEADING	Budget Line 21.035100 (formerly 19.080103)		
TITLE	Support to Regional Development – Phase II CRIS number: ENPI/2013/024-707		
TOTAL COST	Total amount of EU budget contribution: EUR 30.0 million, of which: EUR 26.0 million for budget support EUR 4.0 million for complementary support		
BUDGET SUPPORT			
AID METHOD / MANAGEMENT MODE AND TYPE OF FINANCING	Direct management implemented by the Commission as the Contracting Authority Sector Reform Contract		
DAC CODE	15110	SECTOR	Public sector policy and administrative management
COMPLEMENTARY SUPPORT			
AID METHOD/ MANAGEMENT MODE AND TYPE OF FINANCING	Direct management implemented by the Commission as the Contracting Authority: Grants – calls for proposals Procurement of services		
DAC CODE	15110	SECTOR	Public sector policy and administrative management

1. DESCRIPTION

The programme will target the following four reform areas:

1) Promotion of regional cohesion

Given the current stage of development of Georgia, regional disparities are mainly due to uneven availability of and access to basic services (e.g. in areas such as infrastructure development, support to agriculture, to VET and SME development), which reflect on economic opportunities open to citizens dwelling in different parts of the country.

The provision of basic services and infrastructure are therefore a key to improving the situation in the poorest areas of the country. The programme will aim at reducing the gap between areas with well-developed infrastructure networks and easily accessible public services (e.g. Tbilisi region) and those still under-developed.

Uneven infrastructure development, in particular access to water, gas and the road network, generate huge disparities in terms of economic opportunities, especially roads, and living conditions (access to gas and water networks). With about 55% of the population living in the countryside and involved in farming activities, agriculture development is a key factor to reducing the strong urban/rural divide gap in the country. Labour mismatch is considered a key problem to solve with a view to increasing economic activity in Georgia's regions; and the production of correct skills depending on regional specifics through an appropriate VET policy will contribute to improve regional competitiveness.

2) Strengthened policy framework

While the basic framework of a regional development policy has been set up (e.g. the State Strategy for Regional Development and its associated Action Plan, the creation of Regional Development Councils, etc.), a proper coordinated implementation system for it has still not been established, nor budgetary resources allocated to it. Furthermore, while the State Strategy for Regional Development identifies a number of priority areas, it does not address the problem of regional disparities within Georgia, both between Tbilisi and the rest of the country and between the rural and urban areas outside Tbilisi.

The programme will assist in improving the linkage between national and sector strategies, their inclusion into the MTEF ("Basic Data and Directions") and their effective funding by central budget. An integrated Regional Development Programme (RDP) covering the period 2015-2017¹, thus following the existing Action Plan which expires in 2014, will set out what is to be done, by whom and with what resources to improve regional cohesion. It establishes clear targets in terms of the results that the RDP is expected to achieve.

3) Reinforced Financial Management and Control systems

A strong focus will be put on strengthening the management of funds for regional development and on the assessment of projects to be funded. At present there is a lack of transparency in how funding decisions are taken and there is a pressing need for a more objective approach to appraisal of expenditure, allowing for the introduction of both principles of objectivity and value for money. This would pave the way to a more comprehensive system of socio-economic appraisal of policy measures and projects.

Building on the improvement of management processes of the Fund for Projects to be implemented in Regions (FPIR), the programme will address financial control issues and result based monitoring procedures. Close coordination with the relevant PFM operation will be maintained.

Attention will be paid also to the quality of infrastructure construction, addressing, for example, as part of the implementation procedures for the revised and updated Action Plan, improvement of capacities in project design, supervision and maintenance, and also in the effective mainstreaming of impact assessments (economic, environmental, social) in the project cycle.

4) Improved management capacities and information systems

Special attention will be paid to enhancing the Georgian authorities' analytical capacity in terms of territorial management, leading to building up an informed regional development decision-making process. This sub-component will pave the way for a strong information and

¹ The Regional Development Programme introduces features of Operational Programmes used, for instance, in the ERDF. These are e.g. an integrated approach (several line ministries will be concerned) clear definition of responsibilities and sources of funding, a reliable system for monitoring and evaluation.

statistical environment.

The programme will not only continue to support the strengthening of information systems, through further supporting the national statistics office as well as other data producers (e.g. line ministries or agencies) but will also promote data collection as an integral part of the project management cycle.

The programme will support **cross-cutting issues** such as preservation of the environment and biodiversity as well as disaster preparedness and climate change mitigation/adaptation policies.

The programme will be geared with a view to contribute to alleviating gender and minorities-related imbalances through, in particular:

- Promotion of equal opportunities for women and men to take an active part in regional development matters;
- Fostering minorities participations in planning and implementation of regional/local development strategies;
- Improving the capacity of information systems to reflect gender and minorities participation in regional and local economic development activities.

The programme aims at gradually harmonizing key principles and implementation standards underpinning Georgia's regional policy with those used within the EU regional policies instruments, e.g. the Cohesion Fund or the European Regional Development Fund.

In particular, the *concentration of resources* on poorest regions and the *concentration of efforts* on most demanding issues will be supported by the programme. Policy development and implementation through *partnerships* will be further promoted as well, i.e. the involvement of central and local authorities together with private actors. Should political circumstances allow it, the benefits of the programme shall be extended to the breakaway regions.

1.1. Objectives

General objective

The main objective of the State Strategy for Regional Development of Georgia is to create a favourable environment for the socio-economic development of the regions and improve living standards and conditions of the population through a balanced socio-economic development of the regions and increased competitiveness.

The **general objective** of the proposed Sector Reform Contract is to contribute to the growth and development of all Georgian regions and the reduction of regional disparities.

Specific objectives

The **specific objective** is to strengthen the capacity of the Georgian authorities at central and regional/local level to formulate and implement effective regional development policies and programmes.

1.2. Expected results

R1 – Promotion of Regional Cohesion

The Regional Development Programme for 2015-2017 (RDP) provides the policy rationale, the objectives and the measures specifically linked to Georgia's regional cohesion.

Progress will be observed through infrastructure/facilities/support services made available to the population in each of the 5 priority areas:

- Priority 1- Improvement of Physical Infrastructure and Environmental Protection
- Priority 2- Supporting the development of SMEs and the creation of new jobs
- Priority 3- Tourism development
- Priority 4- Agriculture/Rural development
- Priority 5- Improvement of human capital and development of vocational education.

R2 – Strengthened policy framework at national and subnational level

- In each region, Regional Consultative Councils (RCC) review and monitor the implementation of their Regional Development Strategies and Action Plans vis-à-vis RDP.
- RCCs contribute to identifying the key actions of their Regional Development Strategies and Action Plans to be implemented by Local Authorities.
- An appropriate monitoring system for the implementation of RDP is elaborated.

R3 – Reinforced Financial management and Control Systems

- Project appraisal procedures, manuals and guidelines allowing fair and transparent appraisal of projects, ensuring best value for money, are developed, approved by the Government of Georgia and applied at state and municipal levels.
- Capacities for project appraisal and management are built in relevant agencies so as to allowing an efficient implementation of systems newly established.
- Appropriate financial provisions for the implementation of the Regional Development Programme will be made in the State Budget.
- Modern planning technics are introduced allowing for improvement of infrastructure quality.

R4 – Improved Management Capacities and Information Systems

- A regional policy monitoring and evaluation information system is developed. Following the 2014 census, reliable and relevant data is made available for regional policy purposes.
- Capacities for data collection and information management are built in relevant agencies so as to allowing an efficient implementation of systems newly established.

1.3. Main activities

The main activities to implement the budget support component are budget support dialogue and policy dialogue, financial transfer, performance assessment, reporting and capacity development.

1.3.1. Budget Support

This component covers engagement in policy dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

1.3.2. Complementary support

As anticipated from the current SRC, technical cooperation will remain crucial to gear the policy course towards best EU practices in regional development, especially, but not exclusively, with regard to policy implementation mechanisms and financial control and management. The amount foreseen for technical cooperation is EUR 4.0 million (i.e. about 13% of the programme total budget). More specifically, technical cooperation will tackle the following areas:

1) Regional Development Policy implementation

The Georgian authorities require technical support to the implementation of the Regional Development Programme, including setting up relevant structures, establishing effective inter-agencies coordination and helping to develop and implement a monitoring and evaluation information system. This will be achieved through the provision of technical assistance (service contract). Additionally, grant contracts will be used for financing independent studies and other actions on regional development by the Academia and/or relevant civil society organisations (CSOs) and think tanks.

2) Quality of infrastructure

For the time being, infrastructure development is a key tool to reducing regional disparities in Georgia. It is therefore important to support the Government of Georgia's endeavours to ensure that public money is spent efficiently in this area, for instance by introducing modern planning techniques, including adequate provisions for maintenance and integrating environment considerations. Support in this area will be provided through Twinning.

3) Performance evaluation and programme technicalities and visibility

Part of the complementary support will be used for reviewing the Government of Georgia's performance in fulfilling the programme's indicators, for visibility, and for a final audit and evaluation.

2. IMPLEMENTATION

2.1. Indicative operational implementation period

The indicative operational implementation period of this action is as specified in Article 2 of the Special Conditions.

2.2. Amounts allocated for budget support

The total amount allocated to Regional Development under the NIP is EUR 30 million, which is the amount of the present programme, out of which EUR 26 million is to be delivered via budget support.

2.3. Criteria and indicative schedule of disbursement of budget support

2.3.1. Budget Support details

The Budget support is non-targeted and will be allotted in 3 instalments, comprising fixed and variable tranches.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of Georgia.

Georgia	2015				2016				2017				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Fixed Tranche		3.0				3.0				3.0			9.0
Variable tranche		5.0				6.0				6.0			17.0
Total		8.0				9.0				9.0			26.0

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Georgian Lari will be undertaken at the appropriate exchange rates in line with Article 6 of the Special Conditions.

2.3.2. Disbursement criteria

The general conditions for disbursement of all tranches are as follows: satisfactory progress in the implementation of the Regional Development Programme 2015-2017 by the Government of Georgia, and the monitoring of its implementation by the Governmental Commission on Regional Development and continued credibility and relevance thereof; implementation by the Government of Georgia of a credible stability-oriented macroeconomic policy; satisfactory progress in the implementation of the Government of Georgia programme to improve and reform public financial management; satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended in line with Article 27.1 of the general conditions of the financing agreement, or temporarily suspended or reduced.

The disbursement arrangements and timetable is described in Annex 2 of these TAPs.

The specific conditions for disbursement are linked to the 4 reform areas: (a) promoting regional cohesion; (b) strengthening the policy framework at national and subnational level;

(c) reinforcing financial management and control systems; and (d) improving management capacities and information systems.

The performance indicators used for disbursements are described in Annex 1 of these TAPs. The chosen performance targets and indicators specified in Annex 1 will apply for the duration of the programme. However, in duly justified circumstances, the Government of Georgia may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

2.4. Details on complementary support

2.4.1. *Grants: call for proposals for Academic and scientific studies and analysis on regional development issues (direct management implemented by the Commission as the Contracting Authority)*

- (a) Objectives of the grants, fields of intervention, priorities of the year and expected results

Financing independent studies and other actions on regional development by Academia and/or relevant civil society organisations and think tanks.

- (b) Eligibility conditions

Potential applicants include academia and civil society organisations, including think tanks.

- (c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

- (d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Article 192 of Regulation (EU, Euratom) No 966/2012 if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the Commission in the award decision, in respect of the principles of equal treatment and sound financial management.

- (e) Indicative quarter to launch the call

2nd quarter of 2016.

2.4.2. Grants: call for proposals for Twinning projects (direct management implemented by the Commission as the Contracting Authority)

Under the present programme, it is expected to conclude one Twinning grant contract.

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The Twinning call for proposals modality will be used for implementing action under section 1.3.2.2 (quality of infrastructure).

(b) Eligibility conditions

In line with Article 15(2)(a) ENPI, participation in Twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for Twinning grant contracts is 100%².

(e) Indicative timing to launch the call

1st quarter of 2015

(f) Use of lump sums/flat rates/unit costs

Twining contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. This system of unit costs and flat rates exceeds the amount of EUR 60 000 per beneficiary of a Twinning contract.

² As foreseen in the Twinning Manual.

2.4.3. Procurement (direct management implemented by the Commission as the Contracting Authority)

Subject	Type	Indicative number of contracts	Indicative quarter of launch of the procedure
Support for Georgian authorities	Services	Up to 2	Q1, 2015
Review of the implementation of the programme	Services	Up to 3	2 quarters ahead of budget support disbursements
Evaluation and audit	Services	1	Q2, 2017
Communication and visibility	Services	Up to 2	According to needs (see section 2.8)

2.4.4. 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 Regulation (EU) No 236/2014 (CIR Regulation) shall apply.

The Commission may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 (CIR Regulation) on the basis of urgency or of the unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

2.5. Indicative budget

Module	EU contribution (in EUR million)
2.2. – Budget support Sector Reform Contract	26.0
2.4.1. – Call for proposals for Academic and scientific studies and analysis on regional development issues (direct management implemented by the Commission as the Contracting Authority)	0.5
2.4.2 – Call for proposals for Twinning projects (direct management implemented by the Commission as the Contracting Authority)	1.5
2.4.3. – Procurement (direct management implemented by the Commission as the Contracting Authority)	1.5
2.7. – Evaluation and audit	0.4
2.8. – Communication and visibility	0.1
Totals	30.0

2.6. Performance monitoring and donor coordination

Oversight of the proposed programme will be entrusted to the Governmental Commission for Regional Development (GCRD) chaired by the Ministry of Regional Development and Infrastructure (MRDI). Continuous sector monitoring is a general pre-condition for the budget support.

The GCRD will organise semi-annual sector coordination meetings, involving the EU Delegation and other relevant agencies (including but not limited to all ministries and agencies represented in the GCRD, the Prime's Minister's Office, the Office of the State Minister for Euro-Atlantic integration, the National Statistics Office).

As Chair of the GCRD, the MRDI will establish internal monitoring mechanisms to the programme and be responsible for preparing progress reports and other analysis which shall ensure regular technical and financial monitoring of the programme. Sector coordination meetings will be an opportunity to assess progress in the implementation and deciding of any modification of the Programme by the Steering Committee.

The Steering Committee will include all members of the Sector coordination meetings mentioned above, and will be open to observers (i.e. development partners involved in the sector, amongst others Member States representatives, International Financial Institutions and CSOs).

On the donor side, a Donor Coordination Group for Regional Development was formally established in 2011, which aims at increasing the overall effectiveness of development assistance in this sector. The Group is coordinating donor support so that it is aligned with the strategic directions of the Government of Georgia, in particular as delineated in the 2011-2014 Action Plan for regional development, and the Government of Georgia economic development and decentralization strategies.

2.7. Evaluation and audit

Budget support:

External Review missions will verify compliance with relevant conditions prior to the release of each instalment (see "Performance indicators used for disbursement ", Annex 1 and "Disbursement arrangements and timetable", Annex 2 of these Technical and Administrative Provisions).

These External Review missions shall be initiated by the EU Delegation to Georgia or at the request of the Government of Georgia and will be carried out by independent teams of experts, specifically recruited for this purpose.

Complementary support

A final audit of the Complementary support component and a final evaluation of the Programme are foreseen.

Overall, this programme may be monitored through the Results-Oriented Monitoring (ROM) system for EU funded projects and programmes.

2.8. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan for the Action, to be elaborated before the start of the implementation and supported with the budget indicated in section 2.5 above.

The communication and visibility measures shall be implemented either (a) by the Commission, and/or (b) by the partner country. Appropriate contractual obligations shall be included in, respectively, procurement and grant contracts.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Communication should focus on the achievements and impact of the action. In order to maximise the impact of communication efforts, both the Government and implementation partners of this programme, will adopt a communication and visibility plan in accordance with the Communication and Visibility Manual for European Union External Actions Financing Agreement ENPI/2013/024-707 – Technical and Administrative Provisions

(http://ec.europa.eu/europeaid/work/visibility/index_en.htm) and in agreement with the EU Delegation to Georgia, within six months after the signature of the Financing Agreement or as an annex of the Inception report for technical assistance project(s). The communication plan will be endorsed by the relevant Steering Committees of the Budget Support Programme which will include representatives of the EU Delegation to Georgia.

As part of promoting mutual accountability and transparency as well as enhancing the visibility of its support, the EU will publish relevant information on the budget support financing agreement and performance reviews (including disbursement conditions and assessments in agreement with the partner country). This should also include publication of press releases – jointly with other budget support donors wherever possible – regarding budget support payments made and results achieved (and reasons for non or only partial payment where applicable).

Annexes

1. Performance indicators used for disbursements
2. Disbursement arrangements and timetable
3. Policy Reform Matrix

Annex 1: Performance indicators used for disbursements

The general conditions detailed in section 3 of Annex 2 are integral part of the Programme's conditions and policy measures. Compliance with all four general conditions will result in the release of the fixed tranche of each instalment.

Compliance with the general conditions is a pre-requisite for the assessment of compliance with the specific conditions, which shall result in the disbursement of the variable tranche of each instalment. Failure to fulfil the conditions attached to the fixed tranche will result in the irrevocable loss of the entire instalment, including its variable component.

The specific conditions are related to 4 different priority policy areas:

1. Promotion of regional cohesion
2. Strengthened policy framework national and subnational levels
3. Reinforced financial management and control systems
4. Improved management capacities and information systems

These areas have been chosen carefully on the basis of various criteria, such as:

- Being declared as priority by the Georgian Government, the EU and/or the ENP Action Plan;
- Contribution to regional cohesion and reduction of territorial disparities;
- Added value of the EU – Regional policy is an important EU policy in budgetary terms and has proven instrumental in reducing regional disparities among European regions as well as fostering economic growth across Europe;
- Synergies with other programmes/actions by the EU;
- No significant presence of other donors, to avoid overlaps;
- Background of the EU support to the sector - the EU has been providing substantial support to regional policy since the very onset in 2008, via early policy advice projects and an on-going sector reform contracts (2011-2013).

The indicators and sub-indicators of the different areas of the programme are respectively:

(1) Promotion of regional cohesion

(1.1.i) The Regional Development Plan 2015-2017 (RDP) provides the policy rationale, the objectives and the measures specifically linked to Georgia's regional cohesion.

(1.1.ii) The RDP will support regional cohesion through the 5 priorities below:

Priority 1- Improvement of Physical Infrastructure and Environmental Protection

Priority 2- Supporting the development of SMEs and the creation of new jobs

Priority 3- Tourism development

Priority 4- Agriculture/Rural development

Priority 5- Improvement of human capital and development of vocational education.

(1.2.i) The RDP is implemented through the measures identified under each of the 5 priorities.

(1.2.ii) Progress on regional cohesion will be observed through: (1) the relevance of the RDP objectives and priorities, (2) infrastructure/facilities/support services made available to the Financing Agreement ENPI/2013/024-707 – Technical and Administrative Provisions

population in each of the 5 priority areas (3) recommendations on future revision of the regional policy/priorities.

(1.3.i) The RDP is implemented through the measures identified under each of the 5 priorities.

(1.3.ii) Progress on regional cohesion will be observed through: (1) the relevance of the RDP objectives and priorities, (2) infrastructure/facilities/support services made available to the population in each of the 5 priority areas (3) recommendations on future revision of the regional policy/priorities.

(2) Strengthened policy framework at national and subnational level

(2.1.i) An effective monitoring mechanism for the implementation of the RDP is elaborated under the supervision of the Ministry for Regional Development and Infrastructure, and endorsed by the GCRD.

(2.1.ii) In each region, Regional Consultative Councils (RCC) review their Regional Development Strategies and Action Plans vis-a-vis the RDP.

RCCs observations regarding the alignment of their Regional Development Strategies and Action Plans with the RDP are documented and sent to the GCRD.

(2.1.iii) In each region, RCCs review whether the priorities of their Regional Development Strategies and Action Plans are included in the respective local self-government's medium term planning and budgeting documents ("Priority Documents").

(2.2.i) Monitoring data on the implementation of the RDP is collected in accordance with the developed monitoring plan.

GCRD semi-annual monitoring reports will include (1) the presentation of RDP specific results so far achieved, (2) regional policy related annual budget allocations as reflected in the programmes of line ministries involved in the RDP and (3) recommendations, if any, for specific RDP improvements together with related responsibilities and time schedules.

(2.2.ii) RCCs meet at least on a semi-annual basis to monitor the implementation and update their Regional Development Strategies and Action Plans based on previous year's findings.

(2.2.iii) RCCs contribute to identifying the key actions of their Regional Development Strategies and Action Plans to be implemented by Local Authorities in the framework of Municipal budgets.

(2.3.i) Monitoring data on the implementation of the RDP is collected in accordance with the developed monitoring plan.

GCRD semi-annual monitoring reports will include (1) the presentation of RDP specific results so far achieved, (2) regional policy related annual budget allocations as reflected in the programmes of line ministries involved in the RDP and (3) recommendations, if any, for specific RDP improvements together with related responsibilities and time schedules.

(2.3.ii) RCCs meet at least on a semi-annual basis to monitor the implementation and update their Regional Development Strategies and Action Plans based on previous year's findings.

(2.3.iii) Regional Councils contribute to identifying the key actions of their Regional Development Strategies and Action Plans to be implemented by Local Authorities in the framework of Municipal budgets.

(3) Reinforced financial management and control systems

(3.1.i) Project appraisal procedures, manuals and guidelines allowing for fair and transparent appraisal of projects are developed and approved by the Government of Georgia.

(3.1.ii) The RDP 2015-2017 includes a baseline analysis, priorities, objectives, measures, financial targets and indicators for the line ministries involved in the RDP implementation.

(3.1.iii) Training sessions on the new project appraisal procedures and guidelines are prepared by the MRDI, targeting relevant line ministries and other institutions responsible for project preparation.

(3.2.i) Newly approved RDP projects appraisal procedures and guidelines are being piloted at state level.

(3.2.ii) Annual actual expenditure under the regional development programme should be within 70% of the overall public/budgetary expenditure foreseen for the RDP in the year in question.

(3.2.iii) At least 50 civil servants, at state level, have attended the relevant training session on guidelines and procedures.

Information sessions on the project appraisal guidelines and procedures for economic actors and CSOs are organized in Tbilisi and in the regions.

(3.3.i) RDP projects appraisal procedures and guidelines are being applied at state level and piloted at sub-national level.

(3.3.ii) Annual actual expenditure under the programme should be within 80% of the overall public/budgetary expenditure foreseen for the RDP in the year in question.

(3.3.iii) At least 250 civil servants, at sub national level, have attended the relevant training session on guidelines and procedures.

Information sessions on the project appraisal guidelines and procedures for economic actors and CSOs are organized in Tbilisi and in the regions.

(4) Improved management capacity and information systems

(4.1.i) The GCRD identifies and approves the key data set for the monitoring and evaluation information system (including relevant sources of information allowing the evaluation of the socio-economic situation in the regions).

(4.2.i) Making reference to preliminary data from the general census, the GCRD carries out an initial update of the regional (including social) disparities in Georgia.

(4.2.ii) Relevant staff in the line ministries involved in the RDP implementation, Geostat and at sub-national level receives training in the monitoring and evaluation information system.

(4.3.i) A review of regional statistics is prepared and published, drawing on both, the initial update of regional disparities and the interim evaluation of RDP implementation. The review includes recommendations for any necessary changes to the collection of socio-economic data in Georgia.

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 conditions for disbursement set out in this Financing Agreement, the competent authorities of Georgia shall make a formal request to the European Commission for each tranche disbursement, indicatively in the first quarter of each year and based on progress achieved in the previous year, and including: (i) the fullest possible analysis and justification for the release of funds, including all necessary supporting documentation and (ii) a duly signed Financial Identification Form in order to facilitate corresponding payment.

2. Indicative disbursement timetable

An indicative timetable is given below:

Table A: Indicative disbursement timetable

Country fiscal year	2015				2016				2017				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Fixed tranche		3				3				3			9
Variable tranche		5				6				6			17
Total		8				9				9			26

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 Regional Development Programme and continued credibility and relevance of that or any successor strategy.	<p>For the 1st tranche:</p> <p>(i) A Regional Development Programme (RDP) for the period 2015-2017 is adopted and published by the Government of Georgia, after consultation with key stakeholders including, the Governmental Commission on Regional Development (GCRD), relevant line ministries, donors and CSOs.</p> <p>(ii) The RDP measures for 2015-2017 are duly reflected and costed in the multiannual Basic Data and Directions Document (BDD) and in the annual budget law submitted to the Parliament for 2015.</p> <p>For the 2nd tranche:</p> <p>(i) The Government prepares and publishes on its website a yearly report ("RDP Report") highlighting the main progress during 2015 regarding the implementation of the RDP 2015-2017, after consultation with key stakeholders.</p> <p>(ii) The Governmental Commission on Regional Development (GCRD) meets at least twice a year to review progress and to ensure regular consultation with stakeholders.</p> <p>(iii) The RDP measures for 2015-2017 are duly reflected and costed in the multiannual Basic Data and Directions Document (BDD) and in the annual budget law submitted to the Parliament for 2016.</p> <p>For the 3rd tranche:</p> <p>(i) The Government prepares and publishes on its website a yearly report ("RDP Report") highlighting the main progress during 2016 regarding the implementation of the RDP 2015-2017, after consultation with key stakeholders.</p> <p>(ii) The Governmental Commission on Regional Development (GCRD) meets at least twice a year to review progress and to ensure regular consultation with stakeholders.</p> <p>(iii) The RDP measures for 2015-2017 are duly reflected in and costed in the multiannual Basic Data and Directions Document (BDD) and in the annual budget law submitted to the Parliament for 2017.</p> <p>(iv) An interim evaluation of the RDP is completed and published by the end of the year.</p>
Macroeconomic stability	Implementation of a credible stability-oriented macroeconomic policy.	IMF, WB, EU reports
Public financial	Satisfactory progress in the implementation of the Government	PFM performance reviews

management	of Georgia programme to improve and reform public financial management.	
Budget Transparency	Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.	1. Open Budget Index 2. IMF, WB, EU Reports

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 a specific 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 tranches

Tranche	Amount (in EUR million)	Indicative date of disbursement request (month/year)	Indicative date of disbursement (month/year)	Conditions/criteria/ activities for disbursement
First variable tranche	5.0	March, 2015	June, 2015	(i) Promotion of Regional Cohesion (ii) Strengthened Policy Framework at national and subnational level (iii) Reinforced Financial Management and Control Systems (iv) Improved management capacities and information systems
Second variable tranche	6.0	March, 2016	June, 2016	(i) Promotion of Regional Cohesion (ii) Strengthened Policy Framework at national and subnational level (iii) Reinforced Financial Management and Control Systems (iv) Improved management capacities and information systems
Third variable tranche	6.0	March, 2017	June, 2017	(i) Promotion of Regional Cohesion (ii) Strengthened Policy Framework at national and subnational level (iii) Reinforced Financial Management and Control Systems (iv) Improved management capacities and information systems

5. Variable tranche calculation

Method for attributing a score to each indicator

Once compliance with the general conditions has been established, the variable tranche will be paid according to the level of compliance with each of the specific conditions. This compliance will be assessed on the basis of the agreed indicators and targets, as detailed in the Policy Reform Matrix (Annex 3). Full compliance with one specific condition/indicator will entail the release of the full corresponding quota of the variable tranche (as detailed in table D). Partial compliance will entail the release of half of the corresponding quota. Non-compliance will entail no release of funds. For each specific condition, compliance corresponds to all indicators being met. Partial compliance corresponds to more than half of the indicators being met. Non-compliance corresponds to half or less than half of the indicators being met.

In exceptional and duly justified cases financing agreements can allow for a re-assessment of certain unmet targets in the following year against the original target if there is a positive trend and the government did not reach the target because of external shocks.

Table D: Variable Tranche

	1st Instalment		2nd Instalment		3rd Instalment		TOTAL
	% total instalment	maximum amount	% total instalment	maximum amount	% total instalment	maximum amount	
TOTAL	100	8.0	100	9.0	100	9.0	26.0
Fixed tranches							
	37.5	3.0	33.33	3.0	33.33	3.0	9.0
Variable tranches (up to)	62.5	5.0	66.66	6.0	66.66	6.0	17.0
(1) Promotion of regional cohesion	40	2.0	8.33	0.5	8.33	0.5	3.0
(1.1.i) The Regional Development Plan 2015-2017 (RDP) provides the policy rationale, the objectives and the measures specifically linked to Georgia's regional cohesion.		1.75					
(1.1.ii) The RDP will support regional cohesion through the 5 priorities below:		0.25					
Priority 1- Improvement of Physical Infrastructure and Environmental Protection							
Priority 2- Supporting the development of SMEs and the creation of new jobs							
Priority 3- Tourism development							
Priority 4- Agriculture/Rural development							
Priority 5- Improvement of human capital and development of vocational education.							
(1.2.i) and (1.3.i) The RDP is implemented through the measures identified under each of the 5 priorities.				0.25		0.25	
(1.2.ii) and (1.3.ii) Progress on regional cohesion will be observed through: (1) the relevance of the RDP objectives and priorities, (2) infrastructure/facilities/support services made available to the population in each of the 5 priority areas (3) recommendations on future revision of the regional policy/priorities.				0.25		0.25	

(2) Strengthened policy framework at national and subnational level		30	1.5	33.33	2.0	25	1.5	5.0
(2.1.i) An effective monitoring mechanism for the implementation of the RDP is elaborated under the supervision of the Ministry for Regional Development and Infrastructure, and endorsed by the GCRD.			0.5					
(2.1.ii) In each region, Regional Consultative Councils (RCC) review their Regional Development Strategies and Action Plans vis-a-vis the RDP. RCCs observations regarding the alignment of their Regional Development Strategies and Action Plans with the RDP are documented and sent to the GCRD			0.5					
(2.1.iii) In each region, RCCs review whether the priorities of their Regional Development Strategies and Action Plans are included in the respective local self-government's medium term planning and budgeting documents ("Priority Documents")			0.5					
(2.2.i) and (2.3.i) Monitoring data on the implementation of the RDP is collected in accordance with the developed monitoring plan. GCRD semi-annual monitoring reports will include (1) the presentation of RDP specific results so far achieved, (2) regional policy related annual budget allocations as reflected in the programmes of line ministries involved in the RDP and (3) recommendations, if any, for specific RDP improvements together with related responsibilities and time schedules.					0.8		0.8	
(2.2.ii) and (2.3.ii) RCCs meet at least on a semi-annual basis to monitor the implementation and update their Regional Development Strategies and Action Plans based on previous year's findings.					0.6		0.35	
(2.2.iii) and (2.3.iii) RCCs contribute to identifying the key actions of their Regional Development Strategies and Action Plans to be implemented by Local Authorities in the framework of Municipal budgets.					0.6		0.35	

(3) Reinforced financial management and control systems		20	1.0	50	3.0	50	3.0	7.0
(3.1.i) Project appraisal procedures, manuals and guidelines allowing for fair and transparent appraisal of projects are developed and approved by the Government of Georgia.			0.4					
(3.1.ii) The RDP 2015-2017 includes a baseline analysis, priorities, objectives, measures, financial targets and indicators for the line ministries involved in the RDP implementation.			0.3					
(3.1.iii) Training sessions on the new project appraisal procedures and guidelines are prepared by the MRDI, targeting relevant line ministries and other institutions responsible for project preparation.			0.3					
(3.2.i) Newly approved RDP projects appraisal procedures and guidelines are being piloted at state level.					0.5			
(3.2.ii) Annual actual expenditure under the regional development programme should be within 70% of the overall public/budgetary expenditure foreseen for the RDP in the year in question.					2.0			
(3.2.iii) At least 50 civil servants, at state level, have attended the relevant training session on guidelines and procedures. Information sessions on the project appraisal guidelines and procedures for economic actors and CSOs are organized in Tbilisi and in the regions.					0.5			
(3.3.i) RDP projects appraisal procedures and guidelines are being applied at state level and piloted at sub-national level.							0.5	
(3.3.ii) Annual actual expenditure under the programme should be within 80% of the overall public/budgetary expenditure foreseen for the RDP in the year in question.							2.0	
(3.3.iii) At least 250 civil servants, at sub national level, have attended the relevant training session on guidelines and procedures. Information sessions on the project appraisal guidelines and procedures for economic actors and CSOs are organized in Tbilisi and in the regions.							0.5	

(4) Improved management capacities and information systems	10	0.5	8.33	0.5	16.66	1.0	2.0			
(4.1.i) The GCRD identifies and approves the key data set for the monitoring and evaluation information system (including relevant sources of information allowing the evaluation of the socio-economic situation in the regions).		0.5								
(4.2.i) Making reference to preliminary data from the general census, the GCRD carries out an initial update of the regional (including social) disparities in Georgia.				0.3						
(4.2.ii) Relevant staff in the line ministries involved in the RDP implementation, Geostat and at sub-national level receives training in the monitoring and evaluation information system.				0.2						
(4.3.i) A review of regional statistics is prepared and published, drawing on both, the initial update of regional disparities and the interim evaluation of RDP implementation. The review includes recommendations for any necessary changes to the collection of socio-economic data in Georgia.						1.0				

Annex 3: Policy Reform Matrix

Specific Conditions

	1 st Instalment		2 nd Instalment		3 rd Instalment	
	Indicator(s)	Source of verification	Indicator(s)	Source of verification	Indicator(s)	Source of verification
Policy area #1						
Promotion of regional cohesion	<p>(i) The Regional Development Programme 2015-2017 (RDP) provides the policy rationale, the objectives and the measures specifically linked to Georgia's regional cohesion.</p> <p>(ii) The RDP will support regional cohesion through the 5 priorities below:</p> <p>Priority 1- Improvement of Physical Infrastructure and Environmental Protection</p> <p>Priority 2- Supporting the development of SMEs and the creation of new jobs</p> <p>Priority 3- Tourism development</p> <p>Priority 4- Agriculture/Rural development</p> <p>Priority 5- Improvement of human capital and development of vocational education.</p>	RDP 2015-2017 (especially chapter 5)	<p>(i) The RDP is implemented through the measures identified under each of the 5 priorities.</p> <p>(ii) Progress on regional cohesion will be observed through: (1) the relevance of the RDP objectives and priorities, (2) infrastructure/facilities/support services made available to the population in each of the 5 priority areas (3) recommendations on future revision of the regional policy/priorities</p>	<p>(i) Annual reports per priority area prepared by the line ministries</p> <p>(ii) Government RDP yearly report</p>	<p>(i) The RDP is implemented through the measures identified under each of the 5 priorities.</p> <p>(ii) Progress on regional cohesion will be observed through: (1) the relevance of the RDP objectives and priorities, (2) infrastructure/facilities/support services made available to the population in each of the 5 priority areas (3) recommendations on future revision of the regional policy/priorities</p>	<p>(i) Annual reports per priority prepared by the line ministries</p> <p>(ii) Government yearly RDP report</p>
Policy area #2						

<p>Strengthened policy framework at national and subnational level</p>	<p>(i) An effective monitoring mechanism for the implementation of the RDP is elaborated under the supervision of the Ministry for Regional Development and Infrastructure, and endorsed by the GCRD.</p> <p>(ii) In each region, Regional Consultative Councils (RCC) review their Regional Development Strategies and Action Plans vis-a-vis the RDP.</p> <p>RCCs observations regarding the alignment of their Regional Development Strategies and Action Plans with the RDP are documented and sent to the GCRD.</p> <p>iii) In each region, RCCs review whether the priorities of their Regional Development Strategies and Action Plans are included in the respective local self-government's medium term planning and budgeting documents ("Priority Documents")</p>	<p>(i) GCRD decision on creating the RDP implementation monitoring mechanism</p> <p>(ii) RDP methodology and monitoring plan</p> <p>(iii) RCCs meeting minutes</p> <p>(iv) Reports prepared by each Regional Council.</p> <p>(v) Regional/municipal website and/or local media</p>	<p>(i) Monitoring data on the implementation of the RDP is collected in accordance with the developed monitoring plan.</p> <p>GCRD semi-annual monitoring reports will include (1) the presentation of RDP specific results so far achieved, (2) regional policy related annual budget allocations as reflected in the programmes of line ministries involved in the RDP and (3) recommendations, if any, for specific RDP improvements together with related responsibilities and time schedules.</p> <p>(ii) RCCs meet at least on a semi-annual basis to monitor the implementation and update their Regional Development Strategies and Action Plans based on previous year's findings.</p> <p>(iii) RCCs contribute to identifying the key actions of their Regional Development Strategies and Action Plans to be implemented by Local Authorities in the framework of Municipal budgets.</p>	<p>(i) GCRD monitoring reports</p> <p>(ii) RCCs meeting minutes</p> <p>(iii) BDD and Local Governments Priority documents</p> <p>(iv) Regional/municipal website and/or local media</p>	<p>(i) Monitoring data on the implementation of the RDP is collected in accordance with the developed monitoring plan.</p> <p>GCRD semi-annual monitoring reports will include (1) the presentation of RDP specific results so far achieved, (2) regional policy related annual budget allocations as reflected in the programmes of line ministries involved in the RDP and (3) recommendations, if any, for specific RDP improvements together with related responsibilities and time schedules.</p> <p>(ii) RCCs meet at least on a semi-annual basis to monitor the implementation and update their Regional Development Strategies and Action Plans based on previous year's findings.</p> <p>(iii) Regional Councils contribute to identifying the key actions of their Regional Development Strategies and Action Plans to be implemented by Local Authorities in the framework of Municipal budgets.</p>	<p>(i) GCRD monitoring reports</p> <p>(ii) RCCs meeting minutes</p> <p>(iii) BDD and Local Governments Priority documents</p> <p>(iv) Regional/municipal website and/or local media</p>
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Policy Area #3	Indicator(s)	Source of verification	Indicator(s)	Source of verification	Indicator(s)	Source of verification
Reinforced financial management and control systems	<p>(i) Project appraisal procedures, manuals and guidelines allowing for fair and transparent appraisal of projects are developed and approved by the Government of Georgia.</p> <p>(ii) The RDP 2015-2017 includes a baseline analysis, priorities, objectives, measures, financial targets and indicators for the line ministries involved in the RDP implementation.</p> <p>(iii) Training sessions on the new project appraisal procedures and guidelines are prepared by the MRDL, targeting relevant line ministries and other institutions responsible for project preparation.</p>	<p>(i) Project appraisal procedures and manuals and guidelines</p> <p>(ii) Relevant budgetary documentation</p> <p>(iii) Training course on new project appraisal guidelines and procedures</p> <p>(iv) Relevant training centre's activity report</p>	<p>(i) Newly approved RDP projects appraisal procedures and guidelines are being piloted at state level</p> <p>(ii). Annual actual expenditure under the regional development programme should be within 70% of the overall public/budgetary expenditure foreseen for the RDP in the year in question</p> <p>(iii) At least 50 civil servants, at state level, have attended the relevant training session on guidelines and procedures.</p> <p>Information sessions on the project appraisal guidelines and procedures for economic actors and CSOs are organized in Tbilisi and in the regions.</p>	<p>(i) Project appraisal procedures manuals and guidelines</p> <p>(ii) Project appraisal reports</p> <p>(iii) Relevant budgetary documentation</p> <p>(iv) Relevant training centre's activity report</p> <p>(v) Training sessions attendance lists</p>	<p>(i) RDP projects appraisal procedures and guidelines are being applied at state level and piloted at sub-national level</p> <p>(ii) Annual actual expenditure under the programme should be within 80% of the overall public/budgetary expenditure foreseen for the RDP in the year in question.</p> <p>(iii) At least 250 civil servants, at sub national level, have attended the relevant training session on guidelines and procedures.</p> <p>Information sessions on the project appraisal guidelines and procedures for economic actors and CSOs are organized in Tbilisi and in the regions.</p>	<p>(i) Project appraisal procedures manuals and guidelines</p> <p>(ii) Project appraisal reports</p> <p>(iii) Relevant budgetary documentation</p> <p>(iv) Relevant training centre's activity report</p> <p>(v) Training sessions attendance lists</p>
Policy area #4	Indicator(s)	Source of verification	Indicator(s)	Source of verification	Indicator(s)	Source of verification
Improved management capacities and information systems	(i) The GCRD identifies and approves the key data set for the monitoring and evaluation information system (including relevant sources of information allowing the evaluation of the	(i) Relevant RDP evaluation provisions are approved by the GCRD	(i) Making reference to preliminary data from the general census, the GCRD carries out an initial update of the regional (including social) disparities in Georgia.	(i) Updated report of analysis of regional disparities	(i) A review of regional statistics is prepared and published, drawing on both, the initial update of regional disparities and the interim evaluation of RDP	(i) Report on review of regional statistics

	socio-economic situation in the regions).	(ii) Work plan for regional analysis	(ii) Relevant staff in the line ministries involved in the RDP implementation, Geostat and at sub-national level receives training in the monitoring and evaluation information system.	(ii) Training sessions attendance lists	implementation. The review includes recommendations for any necessary changes to the collection of socio-economic data in Georgia.	
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