

FINANCING AGREEMENT

SPECIAL CONDITIONS

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

of the one part, and

Montenegro, hereinafter referred to as "**IPA III beneficiary**", represented by the Ministry of European Affairs,

of the other part (individually a "Party" and collectively the "Parties"),

have agreed as follows:

Article 1 - The Programme

(1) The EU agrees to finance, and the IPA III beneficiary agrees to accept the financing of the following Programme:

Multi-annual action in favour of Montenegro for 2025-2027

Global commitment number for year 2025: JAG.SUM.1893648

This Programme is financed from the EU Budget under the following basic act: Instrument for Pre-Accession Assistance (IPA III).¹

- (2) The total cost of this Programme for the period 2025-2027 is estimated at EUR 46 123 000.00. The Commission undertakes to provide an EU contribution up to a maximum estimated amount of EUR 45 000 000.00 for the entire duration of the implementation of this Programme.
- (3) The EU contribution shall be split into yearly commitments for the period 2025 - 2027 in accordance with Annex I. The financial commitment for 2025 for the amount of EUR 20 000 000.00 is available at the conclusion of the Financing Agreement. The planned financial commitments from the general budget of the European Union for the subsequent years (2026 and 2027) are subject to the availability of appropriations for the respective financial years following the adoption of the relevant annual budget.
- (4) Nothing in this Financing Agreement can be interpreted as implying a financial commitment of the EU in relation to appropriations which have not yet been approved by adoption of the corresponding annual EU budget. The Commission shall notify the IPA III beneficiary in writing or inform by exchange of letters about the approval of the subsequent financial commitments indicated in Annex I, and, where relevant, shall confirm the measures to be supported.

¹ Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-accession Assistance, (OJ L 330, 20.9.2021, p. 1, ELI: <http://data.europa.eu/eli/reg/2021/1529/oj>).

- (5) This Programme requires financial contributions from both the IPA III beneficiary and the EU. The breakdown of the respective financial contributions is set out in Annex I.
- (6) The Programme shall be implemented in accordance with the description provided in Annex I, which is further detailed in Action fiches agreed upon by the Commission and the IPA III beneficiary.

Article 2 – Execution period and operational implementation period

- (1) The execution period of this Financing Agreement, as defined in Article 12 of Annex II (General Conditions), is set at 12 years from the conclusion of this Financing Agreement.
- (2) The duration of the operational implementation period, as defined in Article 12 of Annex II (General Conditions), is set at 6 years, from the conclusion of this Financing Agreement for the budget allocation for the first year and from the date of notification letter from the Commission or the conclusion of the exchange of letters between the Commission and the IPA III beneficiary for the budget allocations for subsequent years.
- (3) These periods may be extended as provided for in Article 17 of Annex II.

Article 3 – Addresses and Communication

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

(1) for the Commission

Ms Valentina Superti
Director B, Western Balkans
Directorate-General for Enlargement and Eastern Neighbourhood (DG ENEST)
Rue de la Loi 15
European Commission
B-1049 Brussels, Belgium
e-mail: ENEST-B@ec.europa.eu

(2) for the IPA III beneficiary

Ms Maida Gorčević
National IPA Coordinator
Minister of European Affairs
Bulevar Ivana Crnojevicica 167
81000 Podgorica, Montenegro
e-mail: maida.gorcevic@mep.gov.me

Article 4 – OLAF contact point

The contact point of the IPA III 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:

Ms Nataša Kovačević
Ministry of Finance of Montenegro
AFCOS contact point/AFCOS office Stanka Dragojevića 2, 81000 Podgorica, Montenegro
e-mail: natasa.kovacevic@mif.gov.me

Article 5 – Financial Framework Partnership Agreement

The Programme shall be implemented in accordance with the provisions of the Financial Framework Partnership Agreement (FFPA) between the European Commission and Montenegro on the arrangements for implementation of EU financial assistance to Montenegro under the Instrument for Pre-Accession Assistance (IPA III) which entered into force on 2 November 2022 (hereafter referred to as “the FFPA”). This Financing Agreement supplements the provisions of the FFPA. In case of conflict between, on the one hand, the provisions of this Financing Agreement and, on the other hand, the provisions of the FFPA, the latter shall take precedence.

Pursuant to Article 157(5) of the Financial Regulation, the implementation of the Programme in indirect management by the IPA beneficiary shall be complemented with the ad-hoc measures stated in Article 7.

Article 6 - Annexes

(1) This Financing Agreement is composed of:

- (a) these Special Conditions;
- (b) Annex I: Action Document for the multi-annual action in favour of Montenegro for 2025 - 2027
- (c) Annex II: General Conditions;
- (d) Annex III: Financial Report template as per Article 61(2)(a) and 61(3) of the FFPA, including the template of forecasts for likely payment requests as per Article 33(3) of FFPA;
- (e) Annex IV: Accrual Based Accounting System Minimum Specification .

(2) In the event of a conflict between the provisions of the Annexes and the provisions of these Special Conditions, the latter shall take precedence. In the event of a conflict between the provisions of Annex I and the provisions of Annex II, the latter shall take precedence.

Article 7 – Provisions derogating from or supplementing Annex II

The following shall supplement Annex II:

The Commission intends to progressively introduce an electronic exchange system for the reporting of contracts under indirect management by IPA III beneficiary (“IPA-APP”). The IPA III beneficiary will be required to register in and use IPA-APP to allow for the e-management of Financing Agreements.

The part of the Financing Agreement concerning entrusted implementation tasks under Indirect management by the IPA III Beneficiary and all Beneficiary’s rights and obligations hereunder are suspended in line with Article 15 FFPA until conditions of Article 12 FFPA are fulfilled.

National structures and authorities are prohibited from entering into new legal commitments, including award decision under this Programme, before a satisfactory outcome of the entrustment audit mission. Transfer of funds under this Programme by DG ENEST to the IPA III Beneficiary are suspended until a satisfactory outcome of the entrustment audit mission.

Article 8 – Conclusion and entry into force

This Financing Agreement shall be considered concluded on the date on which it is signed by the last party, and at the latest by 31 December 2026.

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

The part of the Programme implemented in indirect management with the IPA III beneficiary (with the exception of launching award procedures) shall only start once the necessary entrustment of budget implementation tasks has been finalised.

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

For the IPA III beneficiary

Ms Maida Gorčević
National IPA Coordinator
Minister of European Affairs
Podgorica, Montenegro

Date: 05.12.2025.

Signature

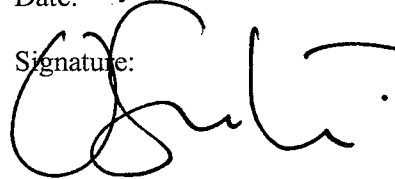


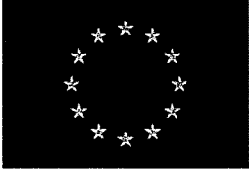
For the Commission

Ms Valentina Superti
Director B, Western Balkans
Directorate-General for Enlargement and Eastern
Neighbourhood
European Commission

Date: 10 SEP. 2025

Signature:





EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX I

To the Financing Agreement for the multiannual action in favour of Montenegro 2025-2027

Action Document for the multiannual action in favour of Montenegro for 2025 - 2027

1. SYNOPSIS

1.1 Action Summary Table

Title OPSYS Basic Act	Multi-annual action in favour of Montenegro for 2025 - 2027 Commission Implementing Decision on the financing of the multiannual action plan in favour of Western Balkans for 2025-2027 OPSYS business reference: FD-2328 Commitment level 1 number: JAG.SUM.1893648 for financial year 2025, JAG.SUM.1893676 for financial year 2026, and JAG.SUM.1893686 for financial year 2027 Financed under the Instrument for Pre-Accession Assistance (IPA III)
Beneficiary of the action	The action shall be carried out in Montenegro
Programming document	IPA III Programming Framework
Link with relevant strategic programming documents	Window 1: Rule of law, fundamental rights and democracy Window 2: Good governance, <i>acquis</i> alignment, good neighbourly relations and strategic communication
BUDGET INFORMATION	
Amounts concerned	Total estimated cost: EUR 46 123 000 Total amount of EU budget contribution EUR 45 000 000, out of which EUR 20 000 000 in 2025, EUR 13 600 000 in 2026, and EUR 11 400 000 in 2027 Budget line(s) (article, item): 15.020101.01: EUR 45 000 000 out of which: - For 2025 – EUR 20 000 000; - For 2026 – EUR 13 600 000; - For 2027 – EUR 11 400 000. The contribution from the general budget of the European Union is subject to the availability of appropriations for the respective financial years

	<p>following the adoption of the relevant annual budget, or as provided for in the system of provisional twelfths.</p> <p>This action is co-financed in joint co-financing by Montenegro for an amount of EUR 1 123 000.</p>
MANAGEMENT AND IMPLEMENTATION	
Implementation modalities (management mode and delivery methods)	<p>Direct management through:</p> <ul style="list-style-type: none"> - Grants - Twinning Grants - Procurement <p>Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.3.3</p> <p>Indirect management with Montenegro</p>
Final date for conclusion of multi-annual Financing Agreement	At the latest by 31 December 2026 for 2025 allocation
Final date for exchange of letters or notification letter on subsequent yearly budget allocations for implementation of the Financing Agreement	<p>For the budgetary commitment of 2026 at the latest by 31 December 2027</p> <p>For the budgetary commitment of 2027 at the latest by 31 December 2028</p>
Final date for concluding / legal commitments	3 years following the date of conclusion of the financing agreement for the 2025 allocation (or 3 years from the date of conclusion of the exchange of letters or notification letter for the subsequent budgetary instalments), with the exception of cases listed under Article 114(2) of the Financial Regulation

1.2. Summary of the Action

This Action will strengthen the capacity and accountability of the Montenegrin public administration in its preparations for EU membership, and assist the Government in advancing Montenegro's reform process.

The Action is designed under the participatory development and good governance (principal objective under the DAC markers) criteria, and addresses Gender equality and Women's and Girl's Empowerment and Digitalisation as significant objectives. It will primarily contribute to SDG 5 *Gender Equality*, SDG16 *Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels* and SDG 17: *Strengthen the means of implementation and revitalize the global partnership for sustainable development*.

The EU Integration Facility (EUIF) will enhance Montenegro's capacities for advancing the alignment to and implementation of EU *acquis*. The EUIF will provide flexible support to national authorities to address specific needs identified during the negotiations and implementation of IPA III and can also be used in ad-hoc circumstances or in case of a crisis. It will for example be used to address issues and challenges of the closing benchmarks as identified during the negotiation process. For example, the Montenegrin **financial sector** requires further strengthening of supervisory and regulatory capacities and further alignment of regulatory framework. Similarly, Montenegro needs to enhance its ability to effectively **manage and supervise financial markets**, ensuring stability, transparency, and alignment with EU financial regulations. In addition, national **statistics** authorities need to develop new methods for data collection and creating new services related to data delivery for the society and to other partners linked to EU requirements. Further, work to ensure protection of the EU's financial interests as part of Negotiation Chapter 32 - **Financial Control** is also expected to need support. Interventions could also include continued support for **Public Administration Reform, including strengthening central and local governments' effectiveness and ability to manage EU policies and funds**, continued support in the area of **Rule of Law**, as well as support to **gender equality** and anti-discrimination measures. Furthermore, for the accession process to be a success and gain the support of the citizens, its opportunities, results and challenges must be **communicated** clearly to citizens.

The Reform Facility for Montenegro will address structural reforms, complementing other reform-focused investment support available to Montenegro, including additional and on-going bilateral IPA assistance, Western Balkans Investment Framework (WBIF) support, Economic and Investment Plan (EIP), the new Reform Agenda, loans and grants. The support will focus on transfer of knowledge and providing solutions to tackle outstanding reforms, considering priorities identified in the accession process, the enlargement package, and in particularly Montenegro's own Reform Agenda and Economic Reform Programme. The Reform Facility will be implemented in close cooperation with other policy-oriented partners, based on their comparative strengths and mandates, notably International Financing Institutions (IFIs), international organisations, private specialised service providers, and EU Member States. The Action itself will present a continuation of the practice, established through the IPA 2021 programme, while the focus will be on the current reforms and priorities. The facility will work in parallel with on-going policy dialogue between Montenegro, the EU and IFIs in the above areas and further support and attract public and private investments in strategic domains by ensuring a better use of available instruments (guarantee schemes, loans, policy-based lending etc.).

1.3. Beneficiary of the action

This action shall be carried out in Montenegro.

2. PURPOSE OF THE ACTION (WHY)

2.1. Overall rationale

Montenegro has demonstrated a strong commitment to the EU accession process, having opened all negotiation chapters and provisionally closed six. Despite overall progress, the gradual closing of other chapters requires significant effort, involving both human and financial resources. After receiving the closing benchmarks for rule of law Chapters 23 and 24 in June 2024, Montenegro entered in a very demanding phase of closing these chapters, which requires fulfilling all the benchmarks, and closing other open negotiating chapters. The EU Integration Facility should be leveraged to tackle challenges identified during the negotiation process, across the different chapters.

The specific goal of IPA III, regarding administrative capacity and alignment with the EU *acquis*, is to align policies and legislation with EU standards and to enhance administrative capacity for the effective implementation of sector policies and adopted legislation. Public Administration Reform is one of the fundamentals of the enlargement policy and it will continue to be a priority. To support Montenegro's EU accession, the Action will build on the achievements of the PAR Strategy 2022-2026 and the relevant Sector Budget Support, focusing primarily on, but not limited to, the overall strategic planning, institutional and organisational assessment, efficient service delivery, strengthening local self-government, enhancing the civil service system, enhancing transparency and accountability, improving communication and promoting gender mainstreaming and gender responsive governance. Furthermore, the Action will support the strengthening of administrative capacities across the public administration in preparation for EU accession and its associated obligations, with a special emphasis on developing mature actions and ensuring the effective management of EU funds.

Economic reform continues to be critically important for Montenegro's EU accession efforts, with ongoing focus on aligning the country's policies with EU standards. These reforms remain essential to improving the socio-economic context of the country, alongside with improving rule of law, safeguarding fundamental rights, and modernising the public administration.

The need for economic diversification remains a top priority for Montenegro. The country has taken steps toward expanding its renewable energy sector, fostering entrepreneurship, and improving its digital infrastructure (broadband and 5G networks). However, reforms in these areas are still in the early stages, and significant progress is needed to reduce dependency on tourism and create a more resilient and diversified economy. In 2024, the government continued to prioritise foreign investments in renewable energy and technology, seeking to attract new sectors that can contribute to long-term sustainable growth.

The social impact of the pandemic, particularly on vulnerable groups, continues to be significant. Women, children, and ethnic minorities, especially the Roma community, are still disproportionately affected by economic and social challenges. While government initiatives to address social inequality and improve access to education and healthcare are ongoing, the pace of change has been slow. Unemployment, particularly among youth and women, remains high, and social protection systems require further strengthening to ensure that marginalised groups receive adequate support.

Montenegro's public debt, which surged to over 100% of GDP at the height of the pandemic, has been a major issue in the country's economic policy. Due to strong GDP growth in 2022 – 2023, the debt-to-GDP ratio declined to 61.3% by end-2024. In late 2024 Montenegro adopted the Europe Now 2.0

programme, which halved pension contributions and increased mandatory spending. Resulting budget deficits together with large debt refinancing needs require additional borrowing and more ambitious fiscal consolidation than envisaged in the latest Fiscal Strategy for 2024-2027. Debt sustainability remains a key concern for the country's economic future.

2.2. Context and problem analysis

After receiving the closing benchmarks for rule of law Chapters 23 and 24, in June 2024, Montenegro entered a very demanding phase of closing these chapters, which requires fulfilling all the benchmarks, and closing other open negotiation chapters. Substantial IPA support for these efforts and broader *acquis* alignment and implementation has already been provided and is still ongoing in many areas. During the remaining period of IPA III, assistance on various chapters is expected to be needed to address outstanding issues that will emerge as the ongoing support comes to a close, and as negotiations intensify. Enhanced communication towards citizens will also be needed. In this context **the EU Integration Facility** should be foreseen as a flexible tool to meet emerging needs for capacities for advancing/finalising the accession process. This involves transposition and implementation of the *acquis*, and meeting closing benchmarks within various chapters, as well as continued efforts relating to public administration reform.

For example, further capacity strengthening and technical support is expected to be needed in, but not limited to, the areas below:

Budget inspection, suppression of irregularities and fraud: The Budget Inspection needs strengthening in both organisational and human capacities terms, as well in standardisation of the approach for conducting the activities of budget inspection. Furthermore, following Ministry of Finance taking over jurisdiction over area of games of chance and public procurement, a stable system of oversight and control is needed in this area. Also, public procurement inspection needs to have a stable system of oversight and control. For all areas, a key challenge is to have adequate number of employees with the adequate set of skills and experience. The main stakeholder in this area is the Ministry of Finance; as well as all the institutions directly or indirectly involved with budget inspection, suppression of irregularities and fraud processes. Activities in this area of support would be in line with the activities and priorities set up in Montenegro's Program of Accession to the European Union 2024-2027 (PAEU) as well as priorities recognised in the Public Finance Management Reform Program 2022-2026.

Regulation of **financial services**: A series of activities are necessary to implement relevant EU directives and regulations of Montenegro's capital market. This includes adopting laws and by-laws that regulate the crypto-asset market, investment firms, covered bonds, and market infrastructure. Proper implementation of these measures is essential for Montenegro to successfully close Chapter 9 (Financial Services) in its EU accession process.

Advancing the development of a regulatory framework and capacity building are preconditions for the increase in availability of innovative technology solutions in Montenegro's **insurance market**. The administrative capacity in the Insurance Supervision Agency (ISA) needs support in this regard, in line with the European Union's standards, policies and practices. It also needs support to take on the supervisory responsibilities, in line with the EU Digital Finance Strategy.

In order to ensure the stability and integrity of Montenegro's **financial system** and to bring it in line with the requirements of the European Systems of Central Banks (ESCB), the institutional and human capacities of the Central Bank of Montenegro (CBCG) need further strengthening. Efforts are needed to align its rules, policies and operations with the ESCB standards and ensure its future successful participation in the ESCB and Economic and Monetary Union (EMU), enable effective execution of its core functions, and close the benchmarks within the three negotiation Chapters 4 – Free Movement of Capital, 9 – Financial Services, and 17 – Economic and Monetary Union.

Key stakeholders are Ministry of Finance, as the central authority overseeing the integration of EU directives into national law, Montenegrin Capital Market Authority (CMA) as a key regulatory body and in the insurance area Insurance Supervision Agency, Central Bank of Montenegro, participants in insurance market, start-ups, Fintech companies, policyholders, citizens. Activities in this area of support would be closely tied to several key national strategies: Strategy for the Development of the Financial Market (2022-2026), Public Administration Reform Strategy (2022-2026), Montenegro's Programme of Accession to the European Union 2024 – 2027, National Strategy for Sustainable Development until 2030, Strategy for the Prevention and Fight against Financial Crime (2023-2027).

Montenegro still faces challenges to compile the high quality **Government Finance Statistics (GFS)** and statistics for the Excessive Deficit Procedure (EDP) in line with the EU *acquis*. Montenegro needs to undertake preparatory work in order to guarantee a smooth transition into the GFS and EDP reporting process. Some technical support is needed in relation to the provisional closure of the Chapter 18 – Statistics. In addition, linked to Cohesion policy requirements, a methodology must be prepared to present the main development challenges of Montenegro, considering economic, social and territorial disparities as well as inequalities. Support in order to ensure production of statistical data required under the Methodology on the allocation of global Cohesion resources per Member State is also requested. The main stakeholders in this area are the Statistical Office of Montenegro (MONSTAT) as well as the Central Bank of Montenegro, Ministry of Finance of Montenegro and other official statistics producers defined by the Official Statistics Programme. Relevant national strategies include the Development Strategy of Statistics 2024-2028, Digital Transformation Strategy and the Public Administration Reform Strategy 2022-2026.

Capacity of the **Anti-fraud Coordination Service (AFCOS)** in Montenegro, and improving the efficiency, accountability, and public trust in the use of EU funds: Montenegro has advanced in adopting the EU legal framework in relevant chapters, but protection of the EU's financial interests as part of Negotiation Chapter 32 - Financial Control - requires further capacities. The functioning of public administration bodies and involvement of institutions in the protection of the EU's financial interests in terms of detecting, preventing and responding to fraud and irregularities effectively needs to be strengthened. While Montenegro's track-record of reported irregularities has improved compared to previous years, there is still room for improvement. In addition, visibility and importance of protection of financial interests of EU should be strengthened.

The main stakeholders in this area are the Ministry of Finance, Ministry of Justice, Ministry of European Affairs, Ministry of Internal Affairs, Police Administration, Tax Administration, Customs Administration, Audit Authority, State Prosecutor's Office, and Agency for the Prevention of Corruption. Any activities would correlate with the priorities defined in the Montenegro's Program of Accession to the European Union 2024-2027 (PAEU) as well as priorities recognised in the Public Finance Management Reform Program 2022-2026 and Strategy for the Fight against Fraud and the

Management of Irregularities in order to protect the Financial Interest of the EU for the Period 2019-2022.

Montenegro needs to enhance institutional capacities for benefitting from **EU cohesion** policy and managing and absorbing future Structural Funds. For this purpose, Montenegro needs to develop comprehensive programmes that align with EU cohesion policy priorities and goals, build adequate administrative structures to plan, manage and implement funds, including with a gender equality perspective. Montenegro also needs to establish a robust electronic Monitoring Information System (MIS) for tracking progress and compliance (a closing benchmark for Chapter 22). As part of preparations, Montenegro needs to perform a comprehensive analysis of the Union programmes, capacities, feasibility, and funding opportunities. Overall, this work can benefit also from the experience and continued upgrading of the institutional structures for implementation, monitoring and evaluation of pre-accession funds, for which there is also a need.

In the same logic, the Ministry of Economic Development needs to further strengthen its administrative capacities and institutional structures to **prepare for management of Structural Funds**. Studies have pointed out the interest in establishing an Agency for Micro, Small and Medium Enterprises (MSMEs), as a central hub to enhance SME competitiveness while ensuring the efficient management of structural and investment funds in Montenegro. Such an Agency would implement programs for MSMEs and serve as an Intermediate Body (IB) for managing future European Structural and Investment Funds (ESIF), particularly those targeting SME support. The main stakeholders in this area are the Ministry of European Affairs, Ministry of Economic Development, Ministry of Finance, the MSME Agency to be established, including regional and local stakeholders, while Montenegro's MSMEs would be end beneficiaries.

There may be additional needs relating to **Public Administration Reform and Rule of Law and Fundamental rights**, including for **gender equality, anti-discrimination, and rights of the child**. Additional support may be needed for overall strategic planning, institutional and organisational assessment, efficient service delivery, strengthening local self-government, enhancing the civil service system, enhancing transparency and accountability, improving communication about the PAR agenda and promoting gender mainstreaming and gender responsive governance.

Reforms in the area of **rule of law and fundamental rights** remain Montenegro's key priority on its path towards full membership in the European Union, determining the overall pace of the accession negotiations. In June 2024, the European Commission set benchmarks for closing Chapters 23 (Judiciary and Fundamental Rights) and 24 (Justice, Freedom and Security). The full implementation of those criteria is a priority and goal of further development in the field of the rule of law and fundamental rights in Montenegro. Therefore, building on the results of ongoing activities, there may be a need to support the further reform of the judiciary and the law enforcement.

Across these areas, **gender equality, anti-discrimination** and the **rights of the child** are integral to the EU enlargement agenda and Montenegro's accession process, and will need attention, in complementarity with ongoing support under IPA, and commitments taken under Montenegro's Reform Agenda. One of the core issues is the necessary reform of public administration at all levels in developing and implementing gender responsive policies and implementing gender mainstreaming in all levels of policy making. In this context, there may be a need for background studies providing

relevant information for evidence-based policies for children and disadvantaged groups, such as the multiple indicator cluster household survey (MICS7).

Main stakeholders are a wide range of Ministries, Ministry of Public Administration and the Human Resources Management Agency, local self-governments, Ministry of Human and Minority Rights, Department for Gender Equality, the Council for Gender Equality, Ministry of Social Welfare, Family Care and Demography, Ministry of Sport and Youth, National Statistical Office of Montenegro, Activities would be aligned with international frameworks, notably the United Nations' Agenda 2030 and the Sustainable Development Goals (SDGs), with a specific focus on SDG 5: Gender Equality. The National Strategy for Gender Equality, adopted in 2021, the EU Gender Equality Strategy 2020–2025, and the EU Gender Action Plan III (GAP III); as well as the EU Strategy on the Rights of the Child 2021-2024.

The reforms to be supported by the **EU Reform Facility** are meant to address longer-term structural challenges of the country's economic framework, and tackle obstacles to the fundamental drivers of growth. This may include reforms for example in the area of agriculture, health and social development, in addition to continuous reforms in the areas of labour, product and service markets. Sound public finances, efficient and effective management of the public investments as well as reforms in the management structures of state-owned enterprises are set to contribute to the overall success of the structural reforms, in the context of the enlargement process, supported by the ERP process, IPA funds and the reforms foreseen under the Growth Plan and Reform Agenda.

Montenegro is still navigating through a complex political transition. The political landscape, which shifted in December 2020 with the formation of a new government, has continued to evolve, marked by instability and changing coalitions. The period since 2020 has been characterised by fluctuating governments, early elections, and a lack of political consensus, particularly over key reforms related to EU integration. In 2024, Montenegro went through a Government reshuffle and the newly established Government reaffirmed its commitment towards the Montenegrin road to EU. The pro-European sentiment remains strong, however, internal political divisions continue to affect governance and reform progress. Disinformation remains an issue of concern.

Moreover, Montenegro still faces structural and functional challenges in attracting foreign investments which also is an obstacle to fully benefit from the EIP. The EIP currently foresees more than EUR 9 billion of funds available for the wider region, much of which to be implemented via the WBIF. Gaining access to and utilising EIP funds through WBIF needs a sound and long-term strategic planning, and most importantly, technical knowledge and capacities of the institutions involved. This requires functioning national structures, which are coordinated, staffed and experienced in order to plan, design and implement in longer term perspective.

In 2023, Montenegro's economy grew by 6%, the highest in the Western Balkans and one of the strongest in Europe. Key sectors like exports (up 8.6%), private consumption (up 5.4%), and gross fixed capital formation (up 4.8%) contributed to this growth. Private consumption and budget revenues reached record levels, bolstered by domestic policies, wage increases, social transfers, and tax reforms, alongside the introduction of the electronic fiscalisation system and a rise in foreign residents starting businesses in Montenegro. The tourism sector saw revenues soar by 43.7%, surpassing pre-crisis levels.

Montenegro's economic growth moderated in 2024, but recently adopted policy measures are expected to provide a boost to GDP growth in 2025. Strong private consumption and recovering investment were the key drivers of economic growth in 2024, estimated at 3.0%. The 2024 general government budget performed close to the revised target and recorded a 3.2% of GDP deficit, compared to a small surplus in 2023. The 2025 budget targets a 3.5% deficit due to the full-year effect of 'Europe Now 2.0' implementation including a large cut in pension contributions, accelerated capital investment, and some offsetting measures from raising indirect taxes. The public debt ratio, which has fallen very substantially in recent years due partly to strong nominal GDP growth, is projected to decline to 60.2% of GDP in 2025 and increase to 64.6% in 2027. High mandatory spending and a limited revenue base, together with high debt repayment needs call for more prudent fiscal policies. Recent measures, including efforts to substantially reduce the labour tax wedge and permanent increases in social transfers, increased the structural gap between revenue and spending. Marginal progress has been made on the review of tax expenditures and preparing concrete budgetary recommendations, while the work on public investment management is still at an early stage.

The main element of the new fiscal strategy is the reduction of the labour tax wedge, resulting in a sizable revenue loss which is only partly offset. This follows a number of measures implemented in previous years that weakened the tax base and resulted in higher mandatory spending. The 'Europe Now 2.0' programme, adopted in September and effective since October 2024, further reduced the tax wedge on labour by cutting employee's pension contributions from 15% to 10% and abolishing employer contributions (5.5%).

The proposed Action involves a range of key stakeholders across various sectors, depending on the specific area of support, each with specific mandates, roles, and capacity considerations. However, the Ministry of European Affairs, together with the EU Delegation to Montenegro, plays a central role in overseeing relevant policy development and implementation.

Civil society plays a critical role in ensuring community participation, raising awareness, and advocating for quality services.

2.3. Lessons learned

The **EU Integration Facility** funds from previous IPA programmes have proven highly useful to address challenges related to the accession process. They have been used to provide targeted and ad-hoc assistance in establishing strategic frameworks across various sectors, often leading to better planning of financial resources needed for their effective implementation. This support has included various activities, from support related to alignment within specific negotiation chapters, facilitating stakeholder consultations in relation to the EU-funded actions, gender mainstreaming, and building government capacity to prepare IPA programmes, and manage EU funds, etc. In the previous financial framework, the EU Integration Facility was also highly effective in providing urgent, necessary support during the COVID-19 pandemic. These lessons have significantly informed the design of the current EUIF, which continues to foresee similar types of support as in earlier years, in a flexible manner complementary to other ongoing efforts.

Note must be made of the evaluation of the current PFM programme and the current PAR budget support which have highlighted areas which have progressed and which need further support. Outputs and outcomes from the IPA PFM-PAR Budget Supports are of particular interest.

The IMF, the World Bank and the Commission, together with Montenegrin authorities themselves, have underlined the limited absorption capacities, in terms of TA. The evaluation of the previous PFM programme has, as one of the main recommendations, underlined the need to ensure ownership of the Ministry of Finance and of all actors involved in PFM.

As regards the **EU Reform Facility**, the Action itself will represent a continuation of the EU Reform Facility Action from the IPA 2021 programme and will follow up on the results and reforms that have been built through the planned activities.

In addition, since 2024, Montenegro has been participating as an observer in a pilot for enlargement countries under the Technical Support Instrument¹. The aim of the pilot is to accelerate enlargement countries' EU accession by establishing connections between enlargement countries and EU Member States, and introducing enlargement countries to the types of reforms and projects done by EU Member States post-accession. In particular, Montenegro participates in two projects with the overall objectives of strengthening capacity to model the macroeconomic effects of 'green' policies and investments through the Green REFORM model, and promoting the mental health of youth by addressing the risks of online gambling and gaming.

3. DESCRIPTION OF THE ACTION (WHAT)

3.1. Intervention Logic

The impact (overall objective) of the action is to facilitate Montenegro's EU accession progress. Further objective is to improve the overall socio-economic standing of Montenegro.

1. European Union Integration Facility

Outcome 1 (specific objective 1) is: increased capacity and preparedness of Montenegrin public administration for EU membership.

The outputs are (this is not an exhaustive list):

- Output 1.1: Strengthened technical and institutional capacities of the Montenegrin administration at central and local level to transpose and implement the EU *acquis* and standards, including IT and data management;
- Output 1.2: Improved capacity of Montenegrin public administration institutions at central and local level to carry out preparations for meeting the requirements of EU cohesion policy including programming, management, implementation, monitoring and evaluation, including as regards gender equality, anti-discrimination and including IT and data management;
- Output 1.3: Enhanced communication to Montenegrin citizens about the EU integration process and EU support.

Indicative list of activities:

¹ Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument OJ L 57. 18/02/2021, p. 1–16 <https://eur-lex.europa.eu/eli/reg/2021/240/oj/eng>

- Support / capacity building for transposition and implementation of the *acquis* and standards, as well as finalisation of the accession negotiations. This could cover, but would not be limited to, the organisational unit responsible for budget inspection, suppression of irregularities and fraud; financial sector regulations of Montenegrin institutions, such as the Capital Market Authority (CMA) and Insurance Supervision Agency (ISA); as well the Central Bank of Montenegro to effectively regulate and oversee financial markets; production and transmission to Eurostat high quality GFS and EDP statistics for validation and publication; AFCOS office and related bodies to detect, prevent, and respond to fraud and irregularities effectively; institutions and bodies responsible for gender equality, anti-discrimination, etc.
 - Support / capacity building of Montenegrin central and local public administration institutions to carry out preparations for meeting the requirements of EU common agricultural policy, EU cohesion policy and structural funds, including programming, management, implementation, monitoring and evaluation – including as regards gender equality and anti-discrimination; as well as preparations of bodies foreseen to take on the role as Intermediary Bodies, including in relation to business development;
 - Support to implementation, monitoring and evaluation of actions under IPA, including gender equality aspects;
 - Studies providing relevant background information for evidence-based policies, such as the multiple indicator cluster household survey (MICS7);
 - Support to design and development of software, licences and trainings, as well as purchase of hardware, including end-user equipment;
- Communication activities on the relevance and value of the EU integration process and EU support.

2. European Union Reform Facility

Outcome 2 (specific objective 2) is: enhanced reform and policy-making, planning and management capacities of Montenegrin institutions, as well as enhanced ability of Montenegrin administration to align with EU *acquis* and implement reforms needed for accession.

Targeted reform areas may include (but not be limited to) public investment planning; restructuring of state-owned enterprises (SOEs); innovation and smart specialisation and diversification of the economy; fiscal decentralisation; green transition; agricultural land management, and health.

The outputs are (this is not an exhaustive list)

- Output 2.1 Central and local Montenegrin institutions' capacities for public investment portfolio planning and management enhanced.
- Output 2.2 Central and local Montenegrin institutions' capacities for design, launch and management of socio-economic and fiscal reform processes enhanced.

Indicative list of activities:

- Support / capacity building / advice and expertise for sector, sub-sector or multi-sector analysis, including socio-economic and gender analysis
- Support / capacity building / advice and expertise for definition of reform packages, including balancing of socio-economic and gender impacts, and including outreach and communication with citizens
- Support / capacity building / advice and expertise for legal assessments related to reforms
- Support / capacity building / advice and expertise for definition of accompanying measures to reforms, including staffing implications,

- Support / capacity building / advice and expertise for roll out and management of reforms, including pilots
- Support / capacity building / advice and expertise for managing public investment planning and implementation,
- Support to monitoring and dialogue of Montenegro's Reform agenda
- Studies relating to the above areas

3.2 Contribution to horizontal priorities and mainstreaming

Environmental Protection, Climate Change and Biodiversity

The EU Integration Facility embodies the European Union's enduring commitment to tackling environmental and climate change issues while promoting sustainable development. The development of Environment protection legislation in Montenegro is going through an intensive and challenging process of harmonisation with the EU *acquis*. As an EU candidate country, Montenegro has committed to international climate efforts by ratifying the Paris Agreement and aligning with the Energy Community Treaty and EU targets on renewable energy, energy efficiency, and greenhouse gas (GHG) emission reductions. The Law on Protection against the Negative Impacts of Climate Change, adopted in 2019, includes key elements of the EU's Clean Energy for All Europeans package, covering GHG inventory systems, carbon capture, and ozone protection. The law, subject to further amendments to ensure compliance with EU and Paris Agreement standards, will also establish a Low-Carbon Development Strategy and a National Adaptation Plan, while work on the National Energy and Climate Plan (NEPC) is underway. On February 2025, Montenegro updated its Nationally Determined Contribution (NDC), committing to a multi-year target of a domestic economic-wide reduction of net GHG emissions by at least 55% and 60% compared to 1990 by 2030 and 2035 respectively.

The country has set ambitious goals: to reduce GHG emissions by 55% by 2030, to achieve a 50% share of renewable energy in gross final consumption, and to improve energy efficiency. Montenegro's National Climate Change Strategy until 2030 serves as a key policy instrument, outlining the country's vision for low-carbon sustainable development. This strategy in line with the EU Green Agenda for the Western Balkans, which aims to achieve for climate neutrality by 2050. The proposed Action will accordingly give due attention and assist Montenegro foster its climate change and environment - related objectives and agenda . All aspects of mainstreaming during the implementation period will adhere to the **Greening EU International Cooperation Toolbox**.

The outcome of the Strategic Environmental Assessment screening (SEA – relevant for budget support and strategic-level interventions) concluded that no further action is required.

The outcome of the Environmental Impact Assessment (EIA) screening concluded that an EIA is not required (Category C).

The outcome of the Climate Risk Assessment (CRA) screening concluded that this is a low-risk project: no further action is required.

Gender equality, empowerment of women and girls and anti-discrimination

The Action will ensure that the internal policies, structures or operating procedures conform with and promote equal opportunity. In supporting legislative harmonisation, gender needs will be taken into consideration and provisions that enhance equal opportunities will be introduced. All Action activities will respect the principles of equal treatment and opportunities for women, especially trainings and

awareness events. In terms of the implementation (scope and nature of funded activities) of this action, attention will also be given to actions aimed at enhancing the living conditions and inclusion of Roma communities, as a specific group recognised as a priority one for social inclusion according to the social policies of the Government of Montenegro.

To enhance the integration of gender considerations in its external policies, the EU has established three successive Gender Action Plans (GAP I, GAP II, and GAP III) since 2010, with GAP III currently in effect until the end of 2025. GAP III serves as the EU's primary tool for promoting gender equality and empowering women in its relations with third countries and within international forums and institutions, providing essential guidance for implementing all EU external policies. In the enlargement context, alignment with relevant EU *acquis* and standards relating to gender equality are inherent in the support.

According to the OECD Gender DAC codes referenced in section 1.1, this action is categorised as G1. This designation indicates that gender mainstreaming will be a key outcome of the program, with specific activities as well as a broader integration of gender considerations throughout the entire program. Several outputs and activities involve efforts for promoting gender equality.

Human rights

Support for aligning with the *acquis* and related policies must consistently address the needs of vulnerable groups in Montenegro, ensuring their active involvement and representation. Overall, the efforts to achieve *acquis* alignment and meet accession targets align with the principle of "Leaving no one behind," a fundamental aspect of the 2030 Agenda for Sustainable Development. This principle guides public administrations in fulfilling their roles, emphasising effectiveness, inclusivity, and accountability. It is essential that policies and laws adequately consider the interests of minorities, individuals with disabilities, and other vulnerable groups.

Disability

The Action is dedicated to adopting a Rights-Based Approach that considers the unique needs of various groups, particularly socially vulnerable populations, throughout the planning, programming, and implementation of IPA III Actions. This commitment extends to the development of *acquis*-related policies and legislation, ensuring they are guided by principles of inclusivity, non-discrimination, participation, transparency, and accountability as fundamental elements of the Action's implementation.

3.3 External assumptions and risks

External assumptions

Assumptions at the Outcome Level:

- The Government of Montenegro is dedicated to the EU integration process.
- There is strong commitment and support from decision-makers within the institutions involved in implementing EU support.
- There is effective collaboration among relevant ministries, implementing bodies, and other public Bodies/Agencies/Authorities that benefit from the Action.

- The establishment and functioning of all relevant coordination mechanisms related to the state bodies, in particular the line ministries who will be beneficiaries of the Action, and the availability and commitment of the staff of the Government bodies for capacity building interventions, are the main requirements for the implementation of this Action and are key for its successful implementation
- Selected projects receive timely approval from the Steering Committee and are swiftly prepared.

Assumptions at the Output Level:

- Project selection is based on objective criteria, including relevance and readiness.
- There is strong cooperation among ministries and other relevant institutions.
- Counterpart staff in beneficiary institutions are identified, available, and willing to collaborate on project implementation.
- The existing institutional structure and specific responsibilities are upheld to ensure effective and successful execution of project activities.
- Sufficient human resources and staff are in place to receive necessary support.
- The sustainability of the project and its outputs is guaranteed through timely and high-quality preparation of project documentation.
- Outputs from previous projects in related fields are considered.
- The recruitment of new staff for public administration occurs concurrently.

Action Document template NDICI-GE and IPA III Financing Decisions 2025-27
Version: 18 December 2024

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
R1	Unstable administrative environment and changes of organisational structure of the administration	M	M	Ensuring a smooth transition of procedures, document handover, and workflow in the case of changes to the administration's organisational structure, as well as during new hiring and capacity-building initiatives.
R2	High fluctuation of staff or inadequate number of staff working in state administration, particularly in the beneficiary institutions/ absorption capacity	M	M	Adequate retention and stimulus policies are in place in order to keep experienced staff, which will help to preserve the institutional knowledge and dissemination of the aforementioned to the new staff. The Government of Montenegro is committed to the implementation of staff retention policy measures with the aim to reduce the staff turnover in the IPA and negotiating structures, as well as in Ministry of Finance (MF), Ministry of Economic Development (MED), Central Bank of Montenegro (CBCG), MONSTAT, Capital Projects Administration (CPA) and ISA to its further strengthening in the next period. The flexibility of the EUIF mechanism will allow to adjust the request to the absorption capacity of the line Ministries/administrations.
R3	Legislative Delays: Delays in drafting, reviewing and adopting laws and by-laws due to lengthy parliamentary procedures, political instability or bureaucratic inefficiencies.	M	M	Establish clear timelines for the legislative process, ensure active engagement with stakeholders, and provide technical and legal support to accelerate drafting and review phases. Engage the Parliament early in discussions to minimise potential delays.
R4	Insufficient involvement of institutions in the protection of the EU's financial interests in terms of	M	M	Ensuring adequate plan for education and training for all relevant employees within the system, covering all the topics regarding prevention, detection of

	detecting, prevent, and respond to fraud and irregularities effectively.			irregularities and frauds, recovery of the funds inappropriately used and management of all processes of the projects funded by EU money.
R5	IT System Risk - Cyberattack	M	H	To ensure an adequate backup system in order to save data and institution memory in the public administration.
R6	Resistance to gender equality initiatives from public administration or traditional societal norms could limit the effectiveness of the action.	M	M	Conduct public awareness campaigns to promote gender equality. Work closely with stakeholders and gender advocates to build support within institutions.

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing agreement

In order to implement this action, a financing agreement will be concluded with Montenegro.

4.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of conclusion of the financing agreement (and the notification letter or exchange of letters for the subsequent annual budgetary instalments).

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer in duly justified cases.

4.3. Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.²

4.3.1. Direct management (grants)

4.3.1.1. Grants

a) Purpose of the grant

²EU Sanctions Map. The sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

Call(s) for proposals will be organized to award several grants that will contribute to implementing part of Outcome 1 – ‘Enhance the capacity of Montenegrin public administration institutions to transpose and implement the EU *acquis* and standards; increase preparedness for benefitting from opportunities that will become available through EU membership; and strengthen communication of the EU accession process to the public’.

Specifically, the grants will support municipalities' development potential and improve environmental and socio-economic conditions in local communities, by enhancing the quality of municipal infrastructure, enabling the delivery of high-standard public services, and stimulating local economic development; they will also assist municipalities in achieving their strategic development goals and implementing strategic plans, including optimising the absorption of EU funds and ensuring alignment with EU standards.

A call has been launched on 3 April 2025 under a suspensive clause prior to the adoption of this Decision. This is justified because of the accelerated path towards the EU accession and commitment of Montenegro demonstrated by progress on closing of 6 chapters in total, obtaining interim benchmark report for chapters 23 and 24 (IBAR). Montenegro needs timely additional support to municipalities which play a key role in the development of local communities and assisting them in the provision of services to citizens. Immediate local level engagement is important in order to keep the momentum for the society's support to the accession process.

b) Type of applicants targeted

The type of applicants targeted is non-governmental organisation and/or a competent association of sub-national (regional or local) authorities, public body, or relevant mandated body of a Government Department of a European Union Member State; as defined in Article 62 (c) of the EU Financial Regulations.

4.3.1.2. Twinning Grants

a) Purpose of the grant(s)

Twinning grants are one of the possible implementation modalities for policy advice to relevant Ministries and state bodies, aiming at sharing good practices developed within the EU with beneficiary public administrations through peer-to-peer support.

Twinning grants are foreseen to contribute to implementing part of the outcome 1 of the action: Enhance the capacity of Montenegrin public administration institutions to transpose and implement the EU *acquis* and standards; increase preparedness for benefitting from opportunities that will become available through EU membership; and strengthen communication of the EU accession process to the public. In line with needs defined during implementation of this action, twinning grants may be called on to contribute to other outputs as well.

b) Type of applicants targeted

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

4.3.2. Direct management (Procurement)

Procurement will contribute to achieving part of outcome 1 - increased capacity and preparedness of Montenegrin public administration for EU membership, increased preparedness for benefitting from opportunities that will become available through EU membership; and strengthen communication of the EU accession process to the public.

As Montenegro makes its way through an intensive period of the EU accession negotiations, intensified efforts will be needed to align further with EU *acquis*, implement relevant reforms, and reach the closing benchmarks. Some of these efforts will need to be accompanied by specialised technical assistance. Assistance may also be needed to support the Government in coordinating the EU integration process, as well as for planning for the management of future EU assistance.

4.3.3. Indirect management with a pillar-assessed entity³

A part of this action may be implemented in indirect management with the World Bank, European Bank for Reconstruction and Development (EBRD), United Nations (UN) and Gesellschaft für Internationale Zusammenarbeit (GIZ). The implementation of the EUIF and EURF entails enhanced reform and policy-making, planning and management capacities of Montenegrin institutions, as well as enhanced ability of Montenegrin administration to align with EU *acquis* and implement reforms needed for accession. The expected outputs are (not limited to) - central and local Montenegrin institutions' capacities for public investment portfolio planning and management enhanced and capacities for design, launch and management of socio-economic and fiscal reform processes increased. The envisaged entity(ies) have been selected using the following criteria: to be an International Organisation, an International financial institution (IFI), an EU Member State financial or administrative body, or another partner possessing adequate expertise on the particularities and nature of the action; to have strong operational capacity and demonstrate added value, technical expertise in the sectors and policies covered by present Action, and knowledge of the Western Balkans region as well as of the particular context of Montenegro.

The implementation by the entities entails management of allocated EU funds and implementation of operational activities covering the objectives set out in point 3 Description of the Action, in particular relating to capacity building (both related to outcome 1 and outcome 2). It should be ensured that any entity selected has been pillar-assessed or is currently undergoing an ex-ante assessment including the complementary pillar assessment, keeping in mind the potential need of any relevant supervisory measures.

4.3.4. Indirect management with an IPA III beneficiary

³ The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessment.

A part of this action will be implemented under indirect management by Montenegro. This will contribute to implement activities under outcome 1, in particular activities which relate to design and development and procurement of IT solutions, notably for line ministries and other relevant institutions.

The managing authority responsible for the execution of the action is Ministry of European Affairs, the National Instrument for Pre-accession Assistance Coordinator (NIPAC) Office. The managing authority shall be responsible for the legality and regularity of expenditure, sound financial management, programming, implementation, monitoring, evaluation, information, visibility and reporting of IPA III activities.

The managing authority shall rely on sectoral expertise and technical competence of the Ministry of Finance and Ministry of Agriculture, Forestry, and Water Management and Ministry of Health as intermediate body for policy management of the outputs. It shall ensure sound financial management of the action.

Budget implementation tasks such as calls for tenders, calls for proposals, contracting, contract management, payments and revenue operations, shall be entrusted to the following intermediate body for financial management: the Directorate for Financing and Contracting of EU Funds (CFCU), in the Ministry of Finance. It shall ensure legality and regularity of expenditure.

4.3.5. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances

If the implementation modality under indirect management as defined in section 4.3.3 cannot be implemented, due to circumstances beyond the control of the Commission, the modality of implementation by grants would be used, except for parts requiring procurement of equipment, according to the following element.

(a) Purpose of the grant: The purpose of one concerned grant will be to prepare Montenegro for the accession to the EU by assisting it to align with and effectively implement the relevant EU *acquis* and EU standards in the fields of Justice and Security.

(b) Type of applicants targeted

EU Member States Public law bodies or private law bodies with entrustment from the public administration to perform activities on its behalf in the fields related to Justice and Home Affairs.

4.4. Scope of geographical eligibility for procurement and grants only if procurement or grants will be used

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

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other

duly substantiated cases where application of the eligibility rules would make the realisation of this action plan impossible or exceedingly difficult (Article 28(10) NDICI Regulation).

4.5. Indicative budget

Indicative budget ⁴	EU contribution 2025 (EUR)	EU contribution 2026 (EUR)	EU contribution 2027 (EUR)	Total EU contribution 2025-27 (EUR)	Third-party contribution 2025-27 (EUR)
	Implementation modalities				
Methods of implementation – cf. Section 4.3					
Grants – (direct management) cf. section 4.3.1.1	2 250 000	0	0	2 250 000	
Twinning grants – (direct management) cf. section 4.3.1.2	2 000 000	0	0	2 000 000	
Procurement (direct management) - cf. section 4.3.2	6 350 000	4 150 000	1 000 000	11 500 000	
Indirect management with pillar-assessed entities – cf. section 4.3.3	7 550 000	8 600 000	8 050 000	24 200 000	
Indirect management with Montenegro – cf. section 4.3.4	1 850 000	650 000	2 350 000	4 850 000	1 123 000
Evaluation – cf. section 5.2		200 000		200 000	
Audit and verification – cf. section 6					
Totals	20 000 000	13 600 000	11 400 000	45 000 000	1 123 000

5. PERFORMANCE MEASUREMENT

⁴ N.B: The final text on audit/verification depends on the outcome of ongoing discussions on pooling of funding in (one or a limited number of) Decision(s) and the subsequent financial management, i.e. for the conclusion of audit contracts and payments.

5.1 Monitoring and reporting

Monitoring activities carried out for this action will aim to identify successes, problems and/or potential risks so that corrective measures are adopted in a timely fashion. Both types of internal monitoring will be undertaken in an inclusive way, involving key stakeholders.

Internal monitoring

The day-to-day technical and financial monitoring of the implementation of this action or parts of the action will be a continuous process and part of both the implementing partners' and Commission responsibilities.

External monitoring

In line with the Commission rules and procedures, the Commission may undertake additional monitoring through independent external consultants recruited by the Commission. External monitoring is supported by both types of internal monitoring described above.

5.2 Evaluation

The Commission may carry out a mid-term, final or ex post evaluation for this action or parts of the action. In case a mid-term or final evaluation is not foreseen, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the Montenegro. As recalled by the Better Regulation guidelines⁵ evaluations may be identified as a result of new strategic decisions or significant (negative) feedback on performance (e.g. implementation problems, findings from monitoring results, complaints or infringements, audit reports).

In line with the spirit of partnership, Commission services and Montenegro and other key stakeholders may also carry out joint evaluations.

The Montenegro and other key stakeholders shall contribute to and provide the necessary information for the different evaluation exercises. Following agreement among the parties, evaluation reports could be made public to allow the relevant stakeholders, including civil society representatives, to express their views so as to contribute to the accountability function of evaluation.

As a result of an evaluation, and where appropriate, in agreement with the Montenegro, the Commission and the implementing partner jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the relevant components.

Evaluation services may be contracted under a framework contract.

6. AUDIT AND VERIFICATIONS

Without prejudice to the obligations applicable to contracts concluded for the implementation of interventions under this action, the Commission may, on the basis of a risk assessment, contract

⁵ Better Regulation Guidelines, SWD(2021) 305 final.

independent audit or verification assignments for one or several contracts or agreements concluded for interventions or their parts deriving from this action.

7. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external interventions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the interventions concerned. To that end they must comply with the instructions given in the 2022 guidance document *Communicating and raising EU visibility: Guidance for external actions* (or any successor document).

This obligation will apply equally, regardless of whether the concerned interventions are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

For the purpose of enhancing the visibility of the EU and its contribution, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the intervention and its objectives as well as on EU funding of the intervention should be measured.

Implementing partners shall keep the Commission and the EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before the implementation. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication activities as well as the results to the relevant monitoring committees.

Sections of Action Document annexed to the Financing Decision	Include in Annex to “normal” Financing Agreement
1. SYNOPSIS	
1.1. Action Summary Table	Yes
1.2. Summary of the Action	Yes
1.3. Beneficiaries of the action	Yes
2. PURPOSE OF THE ACTION	
2.1. Overall rationale	No
2.2. Context and Problem Analysis	No
2.3. Lessons Learnt	No
2.4. Specific Areas of Assessment for Budget Support Actions	No
2.4.1. Public policy	No
2.4.2. Macroeconomic Policy	No
2.4.3. Public Financial Management	No
2.4.4. Transparency and Oversight of the Budget	No
3. DESCRIPTION OF THE ACTION	
3.1. Intervention logic	Yes
3.2. Team Europe initiatives	Yes
3.3. Contribution to horizontal priorities and mainstreaming	Yes
3.4. External assumptions and risks	No
4. IMPLEMENTATION ARRANGEMENTS	
4.1. Financing Agreement	No
4.2. Indicative Implementation Period	No
4.3. Implementation of the Budget Support Component (and subsections)	Yes
4.4. Implementation Modalities (and subsections)	Yes
4.5. Scope of geographical eligibility for procurement and grants	Yes
4.6. Indicative Budget	Yes
5. PERFORMANCE MEASUREMENT	
5.1. Monitoring and Reporting	Yes

Action Document template NDICI-GE and IPA III Financing Decisions 2025-27
Version: 18 December 2024

5.2. Evaluation	Yes
6 AUDIT AND VERIFICATION	Yes
7. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY	Yes

ANNEX II - GENERAL CONDITIONS

Contents

Part One: Provisions applicable to activities for which the IPA III beneficiary is the contracting authority under IMBC	2
Article 1 - General principles	2
Article 1a – Procurement and grant award	2
Article 1b – Exclusion and administrative sanctions.....	4
Article 2 - Communication and Visibility	4
Article 3 - Ex-ante and ex-post controls on grant and procurement procedures and ex-post controls on contracts and grants to be performed by the Commission.....	4
Article 4 - Bank accounts, accounting systems, and costs recognised	5
Article 5 - Provisions on payments made by the Commission to the IPA III beneficiary.....	6
Article 6 - Interruption of payments.....	6
Article 7 - Recovery of funds	7
Article 7a – Financial corrections and closure	7
Part Two: Provisions applicable to budget support	8
Article 8 - Policy dialogue.....	8
Article 9 - Verification of conditions and disbursement	8
Article 10 - Transparency of budget support.....	8
Article 11 - Recovery of budget support	8
Part Three: Provisions applicable to this Financing Agreement as a whole, irrespective of the implementation method	9
Article 12 – Signature, execution period, operational implementation period and contracting deadline..	9
Article 13 - Permits and authorisation.....	10
Article 14 - Reporting requirements.....	10
Article 15 - Intellectual property rights	10
Article 16 - Consultation between the IPA III beneficiary and the Commission	11
Article 17 - Amendment of this Financing Agreement	11
Article 18 - Suspension of this Financing Agreement.....	11
Article 19 - Termination of this Financing Agreement	12
Article 20 – Applicable law, settlement of disputes	12
Article 21 – EU restrictive measures.....	14

Part One: Provisions applicable to activities for which the IPA III beneficiary is the contracting authority under IMBC

Article 1 - General principles

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

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

- (2) The IPA III beneficiary shall remain responsible for the fulfilment of the obligations stipulated in this Financing Agreement and in the Financial Framework Partnership Agreement (FFPA). In accordance with Article 6, Article 18, Article 19 and Article 21, the Commission reserves the right to interrupt payments, and to suspend and/or terminate this Financing Agreement.
- (3) The IPA III beneficiary shall respect the minimum rate of its contribution specified in Annex I. In case of contributions from both the IPA III beneficiary and the Union, the IPA III beneficiary contribution shall be made available at the same time as the corresponding contribution from the Union.
- (4) For the purpose of the application of Article 25 of the FFPA on data protection, personal data shall be:
- processed lawfully, fairly and in a transparent manner in relation to the data subject;
 - collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes;
 - adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;
 - accurate and, where necessary, kept up to date;
 - processed in a manner that ensures appropriate security of the personal data and
 - kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed.

Personal data included in documents to be kept by the IPA III beneficiary in accordance with paragraph 2 of Article 1a has to be deleted once the deadlines set out in that paragraph have expired.

Article 1a – Procurement and grant award

- (1) Without prejudice to Article 18(5) of the FFPA, the tasks referred to in paragraph 1 of Article 1 shall be carried out by the IPA III beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts in external actions, in particular, the practical guide on contract procedures for European Union external action (PRAG), in force at the time of the launch of the procedure in question, as well as in accordance with the required visibility and communication standards referred to in Article 2(2).

The IPA III beneficiary shall conduct the procurement and grant award procedures, conclude the resulting contracts, and ensure that all relevant documents for audit trail are in the language of this Financing Agreement.

- (2) Without prejudice to Article 49 of the FFPA, the IPA III beneficiary shall keep all relevant financial and contractual supporting documents from the date of the entry into force of this Financing Agreement, or as from an earlier date in case the procurement procedure, call for proposals or direct grant award procedure was launched prior to the entry into force of this Financing Agreement, for five years as from the date of closure of a programme. The IPA III beneficiary shall keep in particular

the following:

(a) Procurement procedures:

- i) Forecast notice with proof of publication of the procurement notice and any corrigenda;
- ii) Appointment of shortlist panel;
- iii) Shortlist report (incl. annexes) and applications;
- iv) Proof of publication of the shortlist notice;
- v) Letters to non-shortlisted candidates;
- vi) Invitation to tender or equivalent;
- vii) Tender dossier including annexes, clarifications, minutes of the meetings, proof of publication;
- viii) Appointment of the evaluation committee;
- ix) Tender opening report, including annexes;
- x) Evaluation / negotiation report, including annexes and bids received;¹
- xi) Notification letter;
- xii) Cover letter for submission of contract;
- xiii) Letters to unsuccessful candidates;
- xiv) Award / cancellation notice, including proof of publication;
- xv) Signed contracts, amendments, riders, implementation reports, and relevant correspondence.

(b) Calls for proposals and direct award of grants:

- i) Appointment of the evaluation committee;
- ii) Opening and administrative report including annexes and applications received;²
- iii) Letters to successful and unsuccessful applicants following concept note evaluation;
- iv) Concept note evaluation report;
- v) Evaluation report of the full application or negotiation report with relevant annexes;
- vi) Eligibility check and supporting documents;
- vii) Letters to successful and unsuccessful applicants with approved reserve list following full application evaluation;
- viii) Cover letter for submission of grant contract;
- ix) Award/cancellation notice with proof of publication;
- x) Signed contracts, amendments, riders and relevant correspondence.

In addition, financial and contractual documents referred to in paragraph 2(a) and 2(b) shall be complemented by all relevant supporting documents as required by the procedures referred to in paragraph 1, as well as all relevant documentation relating to payments, recoveries and operating costs, for example project and on the spot check reports, acceptance of supplies and works, guarantees, warranties, reports of supervising engineers.

- (3) Operations co-financed by the Union under the Programme may also receive financing from an international organisation, a Member State, a third country or a regional organisation.

¹ Elimination of unsuccessful bids five years after the closure of the procurement procedure.

² Elimination of unsuccessful applications three years after the closure of the grant procedure.

Article 1b – Exclusion and administrative sanctions

- (1) When applying the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts, the IPA III beneficiary shall accordingly ensure that no EU financed procurement or grant contract is awarded to an economic operator or grant applicant if the economic operator or grant applicant, who either itself, or a person having powers of representation, decision making or control over it, is in one of the exclusion situations provided for in the relevant procedures and standard documents of the Commission.
- (2) The IPA III beneficiary shall inform the Commission immediately when a candidate, tenderer or applicant is in an exclusion situation referred to in paragraph (1), or has committed irregularities and fraud as defined in Article 51(5) of the FFPA, or has shown significant deficiencies in complying with main obligation in the implementation of a legal commitment financed by the Union budget.
- (3) The IPA III beneficiary shall take into account the information contained in the Commission's Early Detection and Exclusion System (EDES) when awarding procurement and grant contracts. Access to the information can be provided through the liaison point(s) or via consultation using the following means: (European Commission, Directorate-General for Budget, Accounting Officer of the Commission, MO15, B-1049 Brussels, Belgium and by email to BUDG-EDES-DB@ec.europa.eu with copy to the Commission address identified in Article 3 of the Special Conditions). Any contract or grant concluded with a contractor or grant beneficiary that is in an exclusion situation at the time of conclusion of the contract shall be excluded from Union financing and the financial corrections mechanism in accordance with Article 7a may be applied.
- (4) Where the IPA III beneficiary becomes aware of an exclusion situation referred to in paragraph (1) in the implementation of the tasks described in Annex I, the IPA III beneficiary shall, under the conditions of its national legislation, impose upon the economic operator or grant applicant, a rejection from the given procedure and an exclusion from its future procurement or grant award procedures. The IPA III beneficiary may also impose a financial penalty proportional to the value of the contract concerned. Rejections, exclusions and/or financial penalties shall be imposed following an adversarial procedure ensuring the right of defence of the person concerned. The IPA III beneficiary shall notify the Commission in accordance with paragraph (2) of this Article.

Article 2 - Communication and Visibility

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

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

- (1) The Commission may exercise *ex-ante* controls on award procedures for procurement and grants for the following stages:
 - (a) approval of contract notices for procurement and any corrigenda thereof;
 - (b) approval of tender dossiers and guidelines for applicants for grants;
 - (c) approval of the composition of Evaluation Committees;
 - (d) approval of evaluation reports, rejection and award decisions³;

³ For service contracts this steps includes *ex-ante* controls concerning approval of the shortlist.

- (e) approval of contract dossiers and contract addenda.
- (2) With regard to *ex-ante* controls the Commission shall decide:
 - (a) to perform *ex-ante* controls on all files, or
 - (b) to perform *ex-ante* controls on a selection of such files, or
 - (c) to completely dispense with *ex-ante* controls.
- (3) If the Commission decides to perform *ex-ante* controls in accordance with paragraph 2(a) or (b) it shall inform the IPA III beneficiary of the files selected for *ex-ante* controls. The IPA III beneficiary shall provide all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex-ante* control, at the latest at the time of submission of the contract notice or the guidelines for applicants for publication.
- (4) The Commission may decide to perform *ex-post* controls on the award procedures that have not been subjected to *ex-ante* control (within 6 months of the signature of the contract).
- (5) The Commission may decide to perform *ex-post* controls, including audits and on-the-spot controls, at any time on any contracts or grants awarded by the IPA III beneficiary arising out this Financing Agreement. The IPA III beneficiary shall make available all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex-post* control. The Commission may authorise a person or an entity to perform *ex-post* controls on its behalf.

Article 4 - Bank accounts, accounting systems, and costs recognised

- (1) After the entry into force of this Financing Agreement, the Accounting Body and the Intermediate Body for Financial Management (IBFM) of the IPA III beneficiary that is the Contracting Authority for the Programme shall open at least one bank account denominated in euro per yearly budget allocation. The total bank balance for the Programme shall be the sum of the balances on all the Programme bank accounts held by the Accounting Body and all participating IBFMs in the IPA III beneficiary. Reporting on all bank accounts linked to each programme shall be recorded via IPA-APP⁴.
- (2) The IPA III beneficiary shall prepare and submit to the Commission disbursement forecast plans for the duration of the implementation period of the Programme following the template in point (d) of Annex III. These forecasts shall be updated and submitted with each request for funds referred to in Article 5(1) and 5(3), with the annual financial report referred to in Article 14(2) and with the forecast of likely payment requests referred to in Article 33(3) FPPA. The disbursement forecasts plans shall be based on real and actual needs and supported by a documented detailed analysis (including the planned contracting and payment schedule per contract) which shall be available to the Commission upon request.
- (3) The initial disbursement forecast plan shall contain summary annual disbursement forecasts per yearly budget allocation for the whole implementation period and monthly disbursement forecasts for the first twelve months of the Programme. Subsequent plans shall contain summary annual disbursement forecasts per yearly budget allocation for the balance of the implementation period of the Programme and monthly disbursement forecasts for the following fourteen months.
- (4) The IPA III beneficiary is required to establish and maintain an accounting system in accordance with Clause 4(3)(a) of Annex A to the FPPA which will hold at least the information for the contracts managed under the Programme indicated in Annex IV.
- (5) Pursuant to Article 57(2) of the FPPA, costs recognised in the accounting system maintained under the section 4 of this Article must have been incurred, accepted and paid and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA III beneficiary under local contracts.

⁴ IPA-APP is a dedicated IT application developed by DG NEAR to replace iPerseus that was the tool used for monitoring the implementation of pre-accession funds under indirect management by beneficiary countries (IMBC).

Article 5 - Provisions on payments made by the Commission to the IPA III beneficiary

- (1) Each request for pre-financing shall comprise a declaration of expenditure for the Programme, including the amounts contracted, disbursed and costs recognised.
- (2) The first pre-financing payment shall be for 100% of the forecast disbursements for the first year of the disbursement forecast plan pursuant to Article 4(2). This request for pre-financing shall be supported by the bank mandates for all the bank accounts of the Programme, if applicable.
- (3) The IPA III beneficiary shall submit subsequent pre-financing payment requests when the total bank balance for the Programme falls below the disbursements forecast for the following five months of the Programme.
- (4) Each request for additional pre-financing shall include:
 - a) The bank balances for the Programme at the cut-off date of the request;
 - b) The updated bank mandates for all the bank accounts of the Programme, if applicable;
 - c) A forecast of disbursement for the Programme for the following fourteen months at the cut-off date of the request as referred to in Article 4(2);
 - d) Reporting in IPA-APP.
- (5) The IPA III beneficiary may request for each subsequent pre-financing the amount of total disbursements forecast for the fourteen months following the cut-off date of the request, less the balances referred to in paragraph 4(a) at the cut-off date of the request for funds, increased by any amount funded by the IPA III beneficiary under paragraph 6 and not yet reimbursed.

The Commission reserves the right to reduce each subsequent pre-financing payment if the total bank balances held by the IPA III beneficiary under this Programme exceeds the disbursement forecast for the next fourteen months.
- (6) Where the payment is reduced under paragraph 5, the IPA III beneficiary must fund the Programme from its own resources up to the amount of the reduction. The IPA III beneficiary may then request the reimbursement of that funding as part of the next request for funds as specified in paragraph 5.
- (7) Pursuant to Article 33(1) of FFPA, the Commission reserves the right to process partial payments within the limits of the funds available. Once funds are made available again, the Commission shall process immediately the payment of the remaining amount.
- (8) The Commission shall have the right to recover excessive bank balances which have remained unused for more than twelve months. Before exercising this right, the Commission shall invite the IPA III beneficiary to give reasons for the delay in disbursing the funds and to demonstrate a continuing need for them within the next following two months.
- (9) Interest generated by the bank accounts used for this Programme shall not be due to the Commission.
- (10) Following Article 33(4) of the FFPA, when the time limit for payment request is interrupted by the Commission for more than two months, the IPA III beneficiary may request a decision by the Commission on whether the interruption is to be continued.
- (11) The certified final statement of expenditure referred to in Article 36(1)(a) of the FFPA shall be submitted by the NAO no later than 16 months after the end of operational implementation period.

Article 6 - Interruption of payments

- (1) Without prejudice to the suspension or termination of this Financing Agreement according to Articles 18 and 19 respectively, as well as without prejudice to Articles 38 and 39 of the FFPA, the Commission may interrupt payments partially or fully, if:
 - (a) the Commission has established, or has serious concerns that the IPA III beneficiary has committed substantial errors, irregularities or fraud questioning the legality or regularity of the underlying particular transactions in the implementation of the Programme, or has failed to

comply with its obligations under this Financing Agreement, including obligations regarding the implementation of the Visibility and Communication plan;

- (b) the Commission has established, or has serious concerns, that the IPA III 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 of this Financing Agreement or call into question the reliability of the IPA III beneficiary's internal control system or the legality and regularity of the underlying expenditure.

Article 7 - Recovery of funds

- (1) In addition to cases referred to in Article 40 of the FFPA, the Commission may recover the funds from the IPA III beneficiary as provided in the Financial Regulation, in particular in case of:
 - (a) failure to ensure achievement of outcomes and use of outputs for the intended purpose as set out in Annex I
 - (b) non eligible expenditure;
 - (c) non respect of the co-financing rate, as provided in Annex I;
 - (d) expenditure incurred as a result of errors, irregularities, fraud or breach of obligations in the implementation of the Programme, in particular in the procurement and grant award procedures.
 - (e) weakness or deficiency in the management and control systems of the IPA III beneficiary which leads to application of financial correction.
- (2) In accordance with national law, the NAO shall recover the Union contribution paid to the IPA III beneficiary from recipients who were in any situation defined in paragraph 1 points (b) or (d) of this Article or referred to in Article 40 of the FFPA. The fact that the NAO does not succeed in recovering all or part of the funds shall not prevent the Commission from recovering the funds from the IPA III beneficiary.
- (3) Amounts unduly paid or recovered by the IPA III beneficiary, amounts from financial, performance and pre-financing guarantees lodged on the basis of procurement and grant award procedures, amounts from financial penalties imposed by the IPA III beneficiary on candidates, tenderers, applicants, contractors or grant beneficiaries, to the IPA III beneficiary shall be either re-used for the Programme or returned to the Commission.

Article 7a – Financial corrections and closure

Further to Articles 42, 43 and 47 of the FFPA, supplementary guidance on the examination and acceptance of accounts procedure, including financial corrections, and closure shall be provided by the Commission.

Part Two: Provisions applicable to budget support

Article 8 - Policy dialogue

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

Article 9 - Verification of conditions and disbursement

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

Article 10 - Transparency of budget support

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

Article 11 - Recovery of budget support

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

Part Three: Provisions applicable to this Financing Agreement as a whole, irrespective of the implementation method

Article 12 – Signature, execution period, operational implementation period and contracting deadline

- (1) The execution period of the Financing Agreement is the period during which the Financing Agreement is implemented and includes the operational implementation period as well as a closure phase. The duration of the execution period is stipulated in Article 2(1) of the Special Conditions, and it shall start on the conclusion of this Financing Agreement and it shall end on the final date for implementing the Financing Agreement.
- (2) The operational implementation period is the period in which all operational activities covered by procurement contracts, grant contracts and contribution agreements are completed. The duration of this period is stipulated in Article 2(2) of the Special Conditions, and it shall start on the conclusion of this Financing Agreement for the budget allocation for the first year and on the date of the notification letter from the Commission or the conclusion of the exchange of letters between the Commission and the IPA III beneficiary for the budget allocations of subsequent years.
- (3) The operational implementation period shall be respected by the Contracting Authority when concluding and implementing procurement contracts, grant contracts and contribution agreements within this Financing Agreement.
- (4) Without prejudice to Article 29(2) of the FFPA, costs related to the activities shall be eligible for EU financing only if they have been incurred during the operational implementation period. The costs incurred before the entry into force of this Financing Agreement shall not be eligible for EU financing unless provided otherwise in Article 7 of the Special Conditions.
- (5) Pursuant to Article 29(3)(b) of the FFPA, and without prejudice to Article 28 thereof and Article 7 of the Special Conditions, the following expenditure incurred by the IPA III beneficiary shall not be eligible for funding under this financing agreement:
 - a) bank charges, costs of guarantees and similar charges;
 - b) fines and financial penalties;
 - c) expenses of litigation;
 - d) currency exchange losses;
 - e) debts and debt service charges (interest);
 - f) provisions for losses, debts or potential future liabilities;
 - g) credits to third parties, unless otherwise specified in the special conditions;
 - h) negative interest charged by banks or other financial institutions.
- (6) Legal commitments for the implementation of this Financing Agreement (procurement contracts, grant contracts and contribution agreements) shall be concluded at the latest within three years of the conclusion of the Financing Agreement for the budget allocation available at the time of conclusion. Procurement contracts, grant contracts and contribution agreements funded from -the respective subsequent budget allocations to this action shall be signed within three years from the date on which the budget allocation is made available for the action, as specified in the notification sent by the Commission to the IPA III beneficiary or the exchange of letters between the Commission and the IPA III beneficiary.
- (7) The deadlines referred to in paragraph (6) do not apply to:
 - (a) multi-donor actions, where a fixed deadline for contracting is set out in the Special Conditions.

- (a) amendments to legal commitments already concluded, which do not result in an increase of the EU contribution;
 - (b) legal commitments to be concluded after early termination of an existing legal commitment;
 - (c) legal commitments relating to communication and visibility, audit and evaluation, which can be signed after the operational implementation period;
 - (d) change of the implementing entity.
- (8) A procurement contract, grant contract or contribution agreement which has not given rise to any payment within two years of its signature shall be automatically terminated and its funding shall be de-committed, except in case of litigation before judicial courts or arbitral bodies.
- (9) In case either of the Parties signs the Financing Agreement, amendments thereto or any other document required for the implementation of the Financing Agreement using qualified electronic signature(s), the Parties shall accept the validity of such qualified electronic signature and recognise the latter as equivalent to a hand-written signature, provided that it is compliant with Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC.

Article 13 - Permits and authorisation

Without prejudice to Article 27 of the FFPA, any type of permit and/or authorisation required for the implementation of the Programme shall be provided in due time by the competent authorities of the IPA III beneficiary, in accordance with national law.

Article 14 - Reporting requirements

- (1) For the purpose of the general reporting requirements to the Commission set out in Article 59 of the FFPA on the annual report on the implementation of IPA III assistance, the NIPAC shall use the template provided by the Commission.
- (2) For the purpose of Article 60 of the FFPA, the NIPAC shall submit a final report to the Commission on the implementation of the activities implemented under indirect management by the IPA III beneficiary of this Programme at the latest sixteen months after the end of operational implementation period. The NIPAC shall use the template provided by the Commission.
- (3) For the purpose of Article 61(1) of the FFPA the NAO shall provide by 15 January of the following financial year in electronic format a copy of the data held in the accounting system established under Article 4(4). This should be supported by a signed un-audited summary financial report in accordance with point (c) of Annex III.
- (4) For the purpose of the specific reporting requirements under indirect management set out in Article 61(2)(a) and 61(3) of the FFPA, the NAO in the IPA III beneficiary shall use the templates provided for in points (a) and (b) of Annex III.

Article 15 - Intellectual property rights

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

Article 16 - Consultation between the IPA III beneficiary and the Commission

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

Article 17 - Amendment of this Financing Agreement

- (1) Any amendment of this Financing Agreement shall be made in writing, including by an exchange of letters between the Parties.
- (2) If the IPA III beneficiary requests an amendment, the request shall be submitted to the Commission at least three months before the amendment is intended to enter into force except in duly justified cases.
- (3) The Commission can amend the documents in Annexes III and IV without this necessitating an amendment to this Financing Agreement. The IPA III beneficiaries shall be informed in writing about any such amendment and its entry into force.
- (4) Without prejudice to paragraph (1), the budget allocations for subsequent years in accordance with Article 1(3) of the Special Conditions shall be made through a written notification by the Commission to the IPA III beneficiary, or by an exchange of letters between the Parties, specifying the amount of the respective budget allocation and the date from which it is made available for the action. Where relevant, the notification or exchange of letters shall also confirm the measures to be supported.

Article 18 - Suspension of this Financing Agreement

- (1) The Financing Agreement may be suspended in the following cases:
 - (a) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary breaches an obligation under this Financing Agreement;
 - (b) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary breaches any obligation set under the procedures and standard documents referred to in Article 18(2) of the FFPA;
 - (c) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary does not meet requirements for entrusting budget implementation tasks;
 - (d) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary decides to suspend or cease the EU membership accession process;
 - (e) The Commission may suspend this Financing Agreement if the IPA III beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption or if the IPA III beneficiary is guilty of grave professional misconduct proven by any justified means. Grave professional misconduct is to be understood as any of the following:
 - a violation of applicable laws or regulations or ethical standards of the profession to which a person or entity belongs, or
 - any wrongful conduct of a person or entity which has an impact on its professional

credibility where such conduct denotes wrongful intent or gross negligence.

- (f) This Financing Agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the parties' control which prevents either of them from fulfilling any of their obligations, not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmountable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by a case of force majeure of which the other party is duly informed. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage. If force majeure impacts only part of the Programme, the suspension of the Financing Agreement can be partial. Neither of the Parties shall be held liable for breach of its obligations under this Financing Agreement if it is prevented from fulfilling them by force majeure, provided it takes measures to minimise any possible damage.
- (2) The Commission may suspend this Financing Agreement without prior notice.
- (3) The Commission may take any appropriate precautionary measure before suspension takes place.
- (4) When the suspension is notified, the consequences for the on-going or to be signed procurement contracts, grant contracts, and contribution agreements shall be indicated.
- (5) A suspension of this Financing Agreement is without prejudice to the interruption of payments and termination of this Financing Agreement by the Commission in accordance with Article 6 and Article 19.
- (6) The parties shall resume the implementation of the Financing Agreement once the conditions allow, with the prior written approval of the Commission. This is without prejudice to any amendments of this Financing Agreement which may be necessary to adapt the Programme to the new implementing conditions, including, if possible, the extension of the operational implementation and execution periods, or the termination of this Financing Agreement in accordance with Article 19.

Article 19 - Termination of this Financing Agreement

- (1) If the issues which led to the suspension of this Financing Agreement have not been resolved within a maximum period of 180 days, either party may terminate the Financing Agreement at 30 days' notice.
- (2) When the termination is notified, the consequences for the on-going procurement and grant contracts, contribution agreements and such contracts or grants, and contribution agreements to be signed shall be indicated.
- (3) The termination of this Financing Agreement shall not preclude the possibility of the Commission to make financial corrections in accordance with Articles 43 and 44 of the FPPA.

Article 20 – Applicable law, settlement of disputes

- (1) This Agreement is governed by EU law.
- (2) If a dispute concerning the interpretation, application or validity of the Agreement cannot be settled amicably, it shall be settled by arbitration in accordance with the 2012 PCA Arbitration Rules, subject to the following:
- (a) Panel composition
- For claims of EUR 500 000 or above: the panel shall be composed of three arbitrators. Each party shall appoint one arbitrator within 40 calendar days after the notice of arbitration has been sent. The two arbitrators appointed by the parties shall in turn appoint a third arbitrator to act as presiding arbitrator.

For claims below EUR 500 000: the panel shall be composed of one arbitrator, unless the parties agree otherwise.

If the panel is not composed within 80 calendar days after the notice of arbitration is sent, either party may request the PCA Secretariat or other mutually acceptable other neutral authority to appoint the necessary arbitrator(s).

(b) Seat

The seat of the arbitration panel shall be The Hague, Netherlands.

(c) Language

The language of the proceedings shall be English or another mutually acceptable official language of the European Union. Evidence may be produced in other languages, if agreed by the parties.

(d) Procedure

Recourse to interim measures, third party interventions and amicus curiae interventions is excluded.

If the panel is requested by a party to treat information or material confidentially, the decision shall be made in form of a reasoned order and after hearing the other party (10 calendar days to submit observations). The panel shall weigh the reasons for the request, the nature of the information and the right to effective judicial protection. The panel may in particular:

- make disclosure subject to specific undertakings or
- decide against disclosure, but order the production of a non-confidential version or summary of the information or material, containing sufficient information to enable the other party to express its views in a meaningful way.

If the panel is requested to hear the case in camera, the decision shall be made after hearing the other party (10 calendar days to submit observations). The panel shall take into account the reasons for the request and the objections of the other party (if any).

If the panel is requested to interpret or apply European Union law, it shall stay the proceedings and request the 'President of the High Court of Paris' (Président du Tribunal de grande instance de Paris, 'juge d'appui'), in accordance with Articles 1460 and 1505 of the French Civil Procedural Code to request a preliminary ruling from the Court of Justice of the European Union in accordance with Article 267 TFEU. The proceedings before the arbitral tribunal shall resume once the decision by the juge d'appui is taken. The decision of the Court of Justice and of the juge d'appui shall be binding on the panel.

The arbitral award shall be final and binding on the parties and be carried out by them without delay.

Either party may however request that the award is reviewed by the The Hague Court of Appeal (Gerechtshof Den Haag) on the basis of the applicable national law. In this case, the award shall not be considered final until the end of this procedure. The decision by the reviewing court shall be binding on the panel.

(e) Costs

The costs of arbitration shall consist of:

- the fees and reasonable expenses of the arbitrators
- reasonable costs of experts and witnesses as approved by the panel and
- the fees and expenses of the PCA Secretariat for the arbitration proceedings (e.g. catering, providing for clerks, room, interpretation).

The arbitrators' fees shall not exceed:

- EUR 30 000 per arbitrator if the contested amount is below EUR 1 000 000

- 15% of the contested amount if that amount is above EUR 1 000 000. In any case the arbitrators' fees shall not exceed EUR 300 000.

The costs of arbitration shall be borne by the parties in equal share, unless otherwise agreed.

The parties shall bear their own costs of legal representation and other costs incurred by them in relation to the arbitration.

(f) Privileges and immunities

The agreement to pursue arbitration under the 2012 PCA Arbitration Rules does not constitute and cannot be interpreted as a waiver of privileges or immunities of any of the parties, to which they are entitled.

Article 21 – EU restrictive measures

(1) Definitions

- (a) "EU Restrictive Measures" means restrictive measures adopted pursuant to the Treaty on European Union (TEU) or to the Treaty on the Functioning of the European Union (TFEU).
 - (b) "Restricted Person" means any entities, individuals or groups of individuals designated by the EU as subject to the EU Restrictive Measures⁵.
- (2) In all their relations, the Parties recognise that under EU law no EU funds or economic resources are to be made available directly or indirectly to, or for the benefit of, Restricted Persons.
- (3) The IPA III Beneficiary shall ensure that no transaction subject to a verified hit against the EU sanctions list shall benefit directly or indirectly from EU funding. The IPA III Beneficiary commits to ensure this obligation:
- (a) by screening for hits against the EU sanctions list, before entering into, and before making payments under, the relevant agreements, each Contractor, Grant Beneficiary, and Final Recipient with whom the IPA III Beneficiary has or is expected to have a direct contractual relationship (direct recipient), so as to assess whether such recipient is a Restricted Person.
 - (b) by screening or through other appropriate means (that may include an ex-post verification) on a risk based approach basis, that no entity that would indirectly receive EU funding is a Restricted Person.
- (4) In the event that IPA III Beneficiary assesses that any of the recipients (direct or indirect) of the EU funding is a Restricted Person, IPA III Beneficiary shall promptly inform the Commission.
- (5) Without prejudice to the obligation in point 3 above, should the Commission assess that the use of Union financial assistance under IPA III results or has resulted in a breach of EU restrictive measures, the corresponding amounts shall not be eligible for the Union financial assistance under IPA III. This is without prejudice to any rights that the Commission may have to suspend or terminate the action affected by such breach, to recover any EU funding contributed by the Commission, or to suspend or terminate this financing agreement.
- (6) The determination of remedial measures will be made in accordance with the principle of proportionality. Remedial measures shall apply only to the EU funding made available to, or for the benefit of, a recipient for the period during which it remained a Restricted Person.
- (7) This clause is without prejudice to the exceptions contained in the EU Restrictive Measures.

⁵ www.sanctionsmap.eu. The sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal of the European Union (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

Annex III(b): Annual Financial Report - individual programme EU contribution as per Article Article 61(2)(a) of FPPA

IPA III beneficiary Annual financial report (*)

Programme Reference	Financing Agreement OPSYS reference number	Programme EU Contribution Budget	Local Contract Activities							Total Open Pre-financing %	Open Pre-financing %	
			Total Amount Contracted	Contracted %	Total Amount Decommited on closure	Decommited %	Total Amount Disbursed	Disbursed %	Total Costs Recognised			Costs %
1	2	3	4	5	6	7	8	9	10	11	12	13
AAP 2025	JADXXXXXX			43*100%		64*100%		84*100%		104*100%		124*100%
Action 1	ACTXXXXXX											

(*) 15 February

I, the undersigned _____, NAO for IPA III beneficiary _____, hereby declare that the above financial report/statement is complete, accurate and true in accordance with Article 61(5) of FPPA.

Annex III(c): annual accounting cut-off report as per Article 61(1) of FFPA

IPA III beneficiary annual accounting year-end cut-off report (*)

EU decision	EU contract	Title	Local contract reference	Contractor / Legal Entity Form (LEF)	Contract type	Signature date	Contract implementation start date	Contract implementation end date	Contract status	IPA EU - Initial contract value	IPA EU - Current contract value	IPA EU - Paid amount	RAL	IPA EU - Recoveries	IPA EU - Pre-financing paid	IPA EU - Pre-financing cleared	IPA EU - Open pre-financing	IPA EU - Cost recognised	IPA EU - Incurred and accepted cost not paid	IPA EU - Cost in workflow - Invoice amount (before assessment of amount additional)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	

(*) to be submitted by 15 January
 I, the undersigned _____, NAO for IPA III beneficiary _____ hereby declare that the above financial report/statement is complete, accurate and true in accordance with Article 61(5) of FFPA.
 * This template is also to be used also for IPA I and IPA II programmes

MA

Annex III(e) - forecast of likely payment requests
as per Article 33(3) of FFPA

Data as of: _____

Financing Agreement OPSYS reference number or equivalent	Programme reference	FA entry into force	Contracting Deadline	Operational Implementation Deadline	Local Budget Allocation in EUR*	EU funds paid by EC in EUR	RAL at 31/12/21 in EUR
1	2	3	4	5	6	7	8=6-7
Total of IPA-I Programmes							
Total of IPA II Programmes							
Total of IPA III Programmes							
Total of IPA I & IPA II & IPA III Programmes							

* LBA corresponds to the total EU contribution for IMBC until the contracting deadline; after the contracting deadline it corresponds to the total contracted.

MB

Key data

For each local contract the information required is:

1. EU decision

Programme reference, e.g. Annual Action Programme 2022

2. EU contract

Financing Agreement OPSYS reference number, e.g. 2014/031-878

3. Title

Local contract title

4. Local contract reference

5. Contractor / Legal Entity Form (LEF)

6. Contract type

E.g. Grant, Service, Supply, Works, Twinning,...

7. Contract signature date

Date on which the last party signs the contract

8. Contract implementation start date

The signature date for the contractor, the signature date for the contracting authority, the date on which the contract enters into force and the date on which contract implementation starts are distinct concepts, which may all be the same day or may be different days.

In particular, the contract implementation start date (= first day on which eligible costs under the contract may be incurred) may be established after the contract has been signed through a respective clause in the contract, an Administrative Order, etc. Your system may hold all of these dates; but for the purposes of the year-end cut-off report the critical date is the start date of implementation.

9 Contract implementation end date

final date for completion where this includes time for invoicing, guarantee periods, etc.

The contract implementation end date is the last day on which eligible costs under the contract may be incurred. The contract may allow additional time for finalising the contract administration or a period between the provisional and final acceptance of the work done; but this additional time is not relevant for the year-end cut-off report.

10. Contract status

OPEN, CLOSED, TERMINATED, NOT STARTED (if start date of activities is after cut-off date)

11. IPA EU - Initial contract value

Initial legal commitment amount of the IPA part (EU funding).

12. IPA EU - Current contract value

Amount after amendments (where relevant)

Current contract value will include any change of amounts contracted through an addendum modifying the contract.

13. IPA EU - Paid amount

Total amount paid under the contract; i.e. pre-financing payments + amount of invoices directly paid – recoveries).

14. RAL

The 'reste à liquider' is the 'Outstanding commitment'

The amount committed but not yet paid out to beneficiaries and contractors from the IPA EU amount.

15. IPA EU - Recoveries

Total value of recoveries (both pre-financing recoveries and expenditure recoveries) made under the contract (where relevant).

cash transfers, which have no impact on total cost. Occasionally recoveries will be against payments for expenditure, which were initially accepted as eligible but subsequently rejected on the basis of new information. Expenditure recoveries will reduce the total reported cost on the contract (please see point 19.).

16. IPA EU - Pre-financing paid

Total value of pre-financing paid under the contract (where relevant).

Pre-financing is a payment intended to provide the beneficiary with a float, i.e. a cash advance. As such, it is paid before the goods and services are delivered (in the case of procurement contracts) and before the occurrence of eligible costs by beneficiaries (in the case of grant agreements). Pre-financing is recognised on the balance sheet when cash is transferred to the recipient.

17. IPA EU - Pre-financing cleared

Total value of pre-financing cleared.

The payment of pre-financing is recognised as an asset. In accordance with the relevant accounting rule, the pre-financing asset is generally derecognised (i.e. cleared / reduced) as follows:

- if the amount of an interim/final invoice or cost claim, or part of it, is justifying the use of a pre-financing, then the validation of these eligible expenditures will generate a clearing of the pre-financing;*
- if the beneficiary does not use (part of) the pre-financing, then the pre-financing amount will be partially or totally recovered from the beneficiary.*

18. IPA EU - Open pre-financing

The totals from 16 and 17 will give the total open (un-cleared) pre-financing paid under the programme, i.e. pre-financing paid – pre-financing cleared

19. IPA EU - Cost recognised

clearance of pre-financing under the contract) and proven by supporting documents.

– 14 (RAL) – 18 (IPA EU-Open pre-financing) – 15 (IPA EU – Recoveries) Please include in the calculation of the 'IPA EU – Cost recognised' only recoveries of expenditure reducing the recognised cost (+19 bis (IPA EU – incurred and accepted cost not yet paid) – ONLY if you are not able to implement a separate column 19 bis in the report)

Costs will represent the eligible value of work that has been:

∅ incurred under the contract, accepted, paid by the contracting authority (directly or through cleared pre-financing) and proven by supporting documents, ∅ incurred and paid by the contractor (where relevant - to sub-contractors or by grant beneficiaries, for example) and accepted and paid by the contracting authority; In the case of interim costs the final acceptance is understood to depend on the final outcome of the contract.

Note that:

required.

** Amounts committed but not paid are not costs for the purpose of this report.*

** Pre-financing paid either by the contracting authority or by the contractor (where relevant) is not cost.*

19 bis. IPA EU – Cost incurred and accepted but not yet paid

Examples are:

- *invoices in the workflow that are certified correct (incurred and accepted) but that will be paid only in the following reporting period or*
- *retention monies.*

this column in your report please add the respective amounts exceptionally directly in column 19 notifying the reason for their inclusion stating: ‘Column 19 include cost incurred, accepted but not yet paid, in the amount of ‘(...)’, for the following reason:‘(...)’ or inform us in a side letter of the relevant amounts per contract.

Please further note that the amounts inserted in this column are considered as cost incurred and accepted only for the purpose of this year-end cut-off report but not for the purpose of the Annual Financial Report or the Request for Funds where only cost recognised (incurred, accepted, paid and proven by supporting documents) should be considered.

Where costs are reported with an invoice (usually procurements)

20. Cost in workflow - Invoice amount (before assessment of amount eligible)

Invoices and reports received but not still approved.

Where there is no invoice and costs are identified from a financial report (usually grants)

eligible)

Reports received but not still approved.

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

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

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

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

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

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

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

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

MS

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

Explicit recognition of cost as a charge to expenses for the year. Some payments will directly cover costs already incurred. No pre-financing is involved. They may be final payments where any pre-financing has already been cleared or interim payments where pre-financing has been cleared or where the contract does not include the provision of pre-financing.

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

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

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

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

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

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

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

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