

1 ANNEX I - THE ACTION

1.1. Description of the Action

2.1.1 Description

The proposed project **addresses the mismatch between the vocational education and labour market needs within a broader lifelong learning context in Georgia.**

The **Overall Objective of the proposed action is improving the labour market responsiveness of the formal and non-formal VET system and promoting the lifelong learning process in Georgia.** The action will concentrate on two specific objectives that target continuous improvement of the capacity and quality of formal VET education on one hand, and introduction and recognition of non-formal learning in the VET sphere on the other. The action will be implemented at both the national level (for conceptual work in the field of non-formal VET education under the Specific Objective and regional level (in selected pilot regions - mountainous areas of Samegrelo and Svanetia, and conflict-affected areas in Shida Kartli).

UNDP Country Office in Georgia will implement the proposed action together with the co-applicants, as well as the broad range of partners at national and local levels.

Given UNDP's extensive experience and coverage in the field of VET in Agriculture, the **proposed action plans to focus on filling the remaining gaps and addressing VET in non-agriculture sector (and the related training and services) in rural areas.** The pilot activities are supposed to have impact mainly across tourism and construction sectors.

Activities carried out under the **Specific Objective 1 "Quality of the formal VET education is improved and it responds more effectively to labour market needs"** should result in increased employability and productivity of VET graduates (Result 1), as well as in better transition from education to employment and reduced skill mismatch at the Georgian labour market (Result 2).

While initiatives to improve the quality and attractiveness of the formal VET in Georgia are of critical importance, it is equally essential to focus the attention on the non-formal VET training in the context of lifelong learning opportunities. The field of non-formal learning remains underdeveloped in Georgia, which holds back the growth of productivity among the Georgian workforce. Given the importance of the lifelong learning targets in the Strategy Europe2020, the lifelong learning issues have been part of the Association Agreement between the Georgia and the EU. Therefore, the **Specific Objective 2 "Non-formal VET learning is introduced and recognized in Georgia"** aims at the introduction of life-long learning opportunities for adults in the VET segment through the provision of non-formal learning. The activities carried out under this objective should result in established non-formal learning opportunities for adult population in VET (Result 3), and in higher skills and productivity of workers in professions (Result 4).

In addition to the above-mentioned results, the action should contribute to the more global goals of increasing the attractiveness of VET education in Georgia and to improved transitions from education to labour market. An important aspect of the action is support to public-private partnerships among the VET institutions and private employers in order to achieve sustainability and multiplier effects. Through mobilisation of employers the "arrows" should be changed from the current direction VET-to-employer to the future direction employer-to-VET provider. Last but not least, the conceptual work and pilot activities under the Specific Objective 2 (non-formal VET) should facilitate the future opening-up of the training segment to multiple providers (public and private institutions).

The proposed action builds on the previous experience of the applicants. Since 2012, the UNDP has been implementing the "Skills for Employment Programme" under which the project 'Support to Modernisation of Vocational Education and Teaching and Extension Systems Related to Agriculture in Georgia' focuses on institutionalizing VET teacher's continuous skills development, improving learning environment and supporting modular approach in training and re-training of adults. UNDP has been one of the pioneers to introduce the modular approach into VET education in Georgia since

2007. While implementing these projects, the UNDP and its co-applicant the Georgian Employers Association (GEA) have built strong working relations with major stakeholders in the field, such as the Ministry of Education and Science (MoES), Ministry of Labour, Health and Social Affairs (MOLHSA), as well as with numerous VET colleges. As a result, the applicants have accumulated a sound understanding of the current challenges in the VET education system and the related labour market problems in Georgia. This background and experience have been used in the preparation of the proposed action.

The action is directly related to the general objective of the SRC by addressing the transition from training to employment through building linkages among VET students/trainees, training providers and employers. It is also directly linked to the global objective of the call by focusing on the synergy between labour market demands and skills and qualifications offered by the VET system. It also seeks to improve the skills and qualifications of VET students and trainees in both formal and non-formal learning environments. The Specific Objective 1 of the proposed action responds to the specific objective of the call in introducing and testing important novelties into VET and labour market reforms (VET training for unemployed, new training programs corresponding to the priorities of rural and regional development, better matching of skills and job requirements). The Specific Objective 2 of the proposed action reflects the specific objective of the call (strengthening the links between labour market needs and formal and non-formal learning in VET sector). Increased productivity and employability of VET graduates is among the expected results of the proposed activities. The activities include capacity building of VET providers and other national stakeholders, including the social partners. The appreciation of social partnership at the labour market is demonstrated through direct involvement of the employers organisation (the co-applicant GEA is the umbrella employers organisation that represents Georgia also at the International Labour Organisation). It is understood that social partners belong to the key national stakeholders in the training and employment processes.

While the VET sector is relatively well represented in the national legislation and development strategies in Georgia, the labour market issues receive much less attention, and the lifelong learning topics are absent in the national policy and regulatory frameworks. Government's support for VET system and labour market development is reflected in major national development strategies, such as the country Development Strategy "Georgia 2020" and "State Strategy for Labour Market Formation" that underline the importance of development of human capital and the special role of the vocation education system therein. The Government has also approved the 'Vocational Education and Training Development Strategy for 2013-2020' that among its specific objectives includes the creation of a nationwide flexible VET network promoting excellence in skills development, full and equal inclusion of all segments of the population in the opportunities for personal development of their potential, and equipping the population with well paid remunerative employment or self-employment.

The lifelong learning-related topics have not been explicitly mentioned in the national development frameworks so far. They are, however, included among the priorities in the Association Agreement between the EU and Georgia. Thus the approach proposed in this action closely follows the EU strategic programs and frameworks, such as (a) the Europe 2020 Strategy that strives to increase the participation of adult population in lifelong learning and to achieve inclusive growth based on innovations and knowledge societies, (b) EU Guidelines on recognition of non-formal and informal learning, (c) EU Directive on validation on non-formal and informal learning, and (d) the conclusions of Torino process assessment for Georgia.

Expected results of the action and their effects on the target groups

The design of the action is based on the assessment and analysis of the VET and labour market situation in Georgia. The Georgian labour market outcomes point towards a stagnant structural problem linked to the fields of training and skills. In particular, overall unemployment rate in Georgia is still high - 14.6 % in 2013 (based on Integrated Household Survey data). Youth unemployment rates are particularly high, affecting more than one third of active young males and almost 40 % of active young females. Furthermore, according to the Global Employment Trends 2014 by the International Labour Organisation (ILO), Georgian labour productivity is extremely low not only as compared to the developed economies or the CEE, but also compared to most CIS countries. Among the latter, only Uzbekistan and Tajikistan has lower labour productivity than Georgia. Georgian labour productivity is

lower than the world average, as well as the average productivity for all major world regions, including Sub-Saharan Africa. This observation implies that the Georgian labour force by and large does not possess the qualifications, skills and competencies that would match the job requirements. Although the labour productivity is influenced by many other factors, such as, for example, the sectoral structure of output and employment, the fact that the Georgian labour productivity is low compared also to countries characterized by high degree of informality (e.g. Sri Lanka), high share of agriculture (e.g. Congo), high share of self-employment (e.g. Thailand), and low female activity rates (e.g. Egypt) implies that the Georgian outcome is indeed rooted in the low skills and competences of the labour force.

Although educational mismatch at the labour market is difficult to assess due to lack of data about the vacancies and the demand side in particular, several assessments confirmed a high degree of qualifications and skills mismatch, noting the excess supply of higher qualifications. For example, the World Bank (2013) shows that the unemployment rate for people with higher education was at 18.7 %, as compared to the average of 14.6 %, and that for people with VET education of 12.3 %. Share of workers with higher education in Georgia was higher than in many high-income economies and the OECD average.

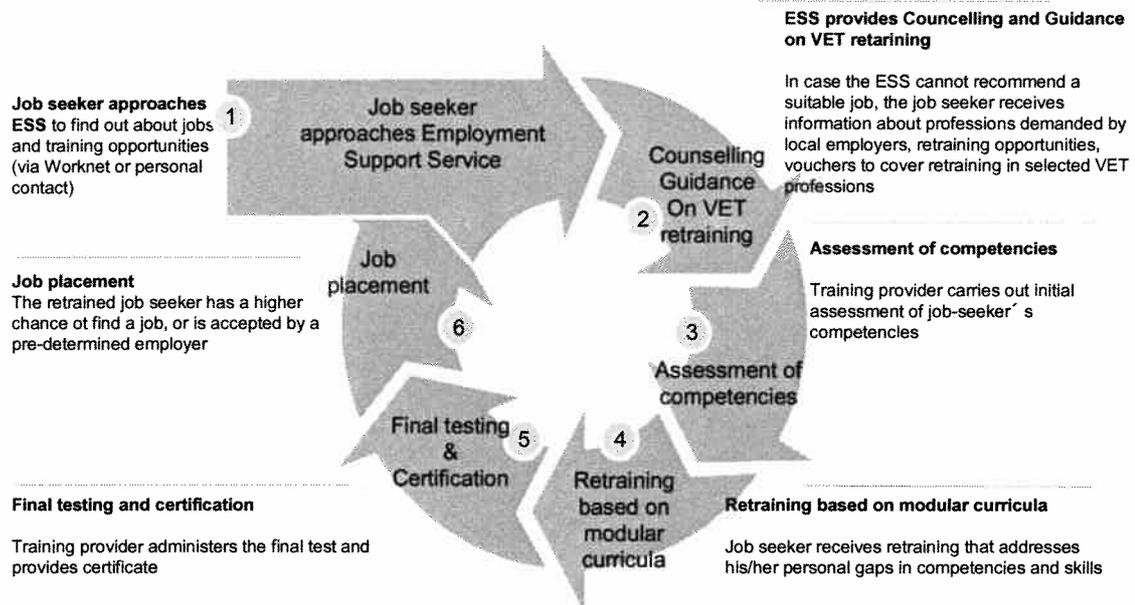
According to the analysis based on individual HBS data, „approximately 31 percent of youth (persons aged 15-24) are not in education, employment or training (known as NEET). This figure is two to three times higher than in most EU countries (European Commission 2010), where the share of NEET rarely exceeds 15 percent. The high share of NEET is yet another indication that the productive potential of young people is grossly underutilized in Georgia.” (Skills Mismatch and Unemployment. Labour Market Challenges in Georgia, Report No. 72824-GE, September 2012, World Bank). Furthermore, the age-profile of unemployment rate in Georgia shows a declining tendency. While the prime age cohort of workers (20-24 years) faces the unemployment rate of almost 34 %, the cohort aged 60-64 has unemployment rate of only about 6 %. The declining age-unemployment profile reinforces the need to increase employability of younger and mid-age cohorts by the means of practical training (non-formal learning) and recognition of the skills and competencies obtained through prior learning.

The Georgian formal VET system has been undergoing certain reforms fostering labour market orientation (e.g. introducing modular curricula, launching tracer study survey of VET graduates, etc). However, the quality of instruction and the links to employers remain very weak. The system also suffers from asymmetric government support recently provided only to public VET schools.

In addition, Georgia is currently characterized by the absence of VET retraining for adult population. Limited retraining activities have been started by the ESS in the framework of the state labour market formation program in 2014. However, these included training in soft skills (CV development, etc.). The practical non-existence of the non-formal learning for adults is exacerbated by the absence of recognition of labour market retraining (even if performed by the government agencies).

The following diagram describes the retraining cycle for adult trainees (job seekers) that should be tested and achieved on a pilot base in the course of the project activities.

Retraining cycle from individual point of view



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The formal VET segment suffers from weak labour market linkages. The private VET schools largely outnumber the public ones (approximately 77 to 14). However, due to the government support to the public schools, the private providers have been rapidly losing the students and currently provide the training practically aimed at completing the already running courses and opening a very restricted spectrum of new courses for which students are willing to pay out of their own pocket (e.g. nurses and office managers).

A recent tracer study of VET graduates carried out by the VET Department of the MoES provided very interesting preliminary findings (draft report was presented by the MoES in the framework of the ETF-organized workshop on LMIS and ALMP in Tbilisi in April 2015). The findings suggest the existence of serious problems in the VET graduates transition to the labour market, as well as a large degree of skill mismatch. For example, only about 38 % of the graduates were employed or self-employed 6 months after leaving the VET school, while 50 % of them were still unemployed (the remaining part was either inactive or continued further education). Among those employed or self-employed, as many as 60 % stated that their current activity was not related to their field of study. These findings show the need for fostering better linkages to labour market for both the VET graduates and those who can benefit from the VET-related skills during their career. The provision of modular competency-based VET training proposed in the framework of the project goes in this direction.

The focus on non-formal learning under the Specific Objective 2 is justified by the prior assessment carried out by the UNDP in 2014 that showed several serious shortcomings in the field. Firstly, the labour legislation in Georgia is not conducive for retraining. In particular, no facilitating provisions are included in the Labour Code. Quite the opposite - according to the Labour Code - training is considered to be a reason for temporary suspension of labour agreement, which is allowed for a maximum of 30 days per year and is not supported by the employer (the wage is not paid during the period and the costs of training have to be born by the trainee). At the same time, inadequate skills or competences represent one of the legal reasons for the termination of labour agreement. Reportedly,

the Employment Act regulating the provision of retraining in the framework of active labour market policies is currently under preparation.

Secondly, the provision of non-formal learning is currently limited to a narrow circle of providers (e.g. only formal VET schools can deliver the recognition of prior learning (RPL) procedure). A wide circle of potential providers of recognised non-formal learning, such as private companies, non-for profit or on-governmental organisations currently cannot participate in the process.

Thirdly, there is a number of technical problems, such as, for example, the non-existence of accreditation system that would give the right to deliver the recognised non-formal learning courses and the right to provide RPL to a broader set of providers. Furthermore, the professional standards do not contain assessment standards and they do not support the partial qualifications that could facilitate the recognition of non-formal learning in the context of LLL. Likewise, a system of credit accumulation for non-formal learning activities is missing.

Against this background, it can be assumed that the expected results of the project are linked to multiple benefits, such as contributing to increasing overall employability and employment rate, decreasing unemployment rate, decreasing the NEET rate among youth, increasing the prestige and recognition for vocational professions, improving the quality of job-worker matching, reducing the information gap and signalling problem for employers, increasing labour productivity and potentially also wages, and increasing the motivation of workers to be trained. In particular, the target groups and beneficiaries would benefit from the following effects:

- Improved skills of labour force would contribute to decreasing the high unemployment rates.
- The improved VET education and retraining would benefit the Georgian youth that currently represents marginalized labour market group characterized by low activity and employment rates and high NEET and unemployment rates. Georgian young females represent by far the most adversely affected group, as their activity rates are extremely low and unemployment rates extremely high by international comparison. Providing practical and labour market oriented skills for youth ranks among the highest national priorities. The current formal education system does not lead to the desired labour market outcomes for youth.
- Formalization of retraining would address another Georgian labour market peculiarity - the declining age-unemployment profile. Retraining focused on middle age cohorts would increase the employability and thus lower the unemployment rate among this group of workers that should be enjoying the peak of their working careers.
- The high share of self-employed in Georgia (about 60 % of total employment) shows that there is a sizeable group of workers who cannot rely on their employers in terms of retraining opportunities or support. These workers are left on their own. Even if they manage to increase their skills through retraining, the outcome is not formally recognized.
- The unemployment rate for people with higher education in 2013 exceeded the average, while that for the VET group was lower. The share of workers with higher education in Georgia is high by international comparisons.
- The formalization of retraining would improve the skills and competences of the labour force, thus contributing towards increasing the currently very low labour productivity in Georgia.

The relevance of the proposed action to the expected results under call is demonstrated by the expected results of the proposed objectives and activities, i.e. the increased employability and productivity of VET students (in both formal and non-formal learning systems). The increased employability reduces frictions of transition from training to employment, increases employment rate and reduces unemployment or underemployment. The increased productivity improves the quality of worker-job matches, raises the wage or income derived from self-employment. All these contribute towards reducing poverty and enhancing social cohesion.

The planned activities cover the target sectors of the call: training programs will be designed for construction, energy and tourism sectors and piloted in the rural mountainous regions and conflict affected regions. The focus on energy and transport sector will be secured by the means of cooperation and pilot activities with private companies in these sectors (Energopro, Georgian Railway, Agara

(sugar producing company) and broader cooperation with employers facilitated by the Georgian Employers Association.

The **applicants** include UNDP Office in Georgia (coordinator), the Georgian Employers Association and VET college Lakada in Jvari (co-applicants). Further **partners** under the project include VET college Tetnaldi in Mestia, Gori University, Sakrebulo (Municipality Representative Body) in Tsalenjikha and Mestia, local staff of the Employment Support Service, Secondary Schools in Khashuri and Agara village.

In line with the Guidelines for the call, the proposed action is focused on the following **target groups among the final beneficiaries**: youth (mainly under Specific Objective 1 related to formal VET); and long-term unemployed, self-employed persons in low-productivity/low paid employment, and IDPs (under the Specific Objective 2 related to non-formal learning).

Women and girls represent important target group under the action. Gender mainstreaming will be the main cross-cutting principle of the proposed action. The participation of women will be encouraged and ensured in all project activities. The pilot training curricula will include professions suitable for women. Participation of women and girls will be secured both among the trainees and teachers. Their participation in the project-based workshop and conferences will be encouraged. Wherever possible, gender-sensitive clauses will be included in the project invitations and campaigns. Gender-disaggregated statistics will be collected in the course of the project-based research, monitoring and evaluation. The focus on women and girls will be reinsured also by the partnership with the UN WOMEN Office in Georgia. The Office has been implementing activities aimed at assisting the vulnerable women in the conflict-affected areas. The action will lead to partnership at the local level in the conflict affected area of Shida Kartli where the beneficiaries identified with the help of UN WOMEN Office can be involved in the retraining carried out under the proposed action.

Special precautions will be made for the participation of people with disabilities. The latter will be facilitated by the use of modular training methods that allow for individualized and flexible training profiles that can be fine-tuned to the specific needs of the disabled in target areas. Introducing of innovative approaches that enhance the access to training (e.g. mobile training groups, e-learning and other appropriate methods) will largely facilitate the participation of people with disabilities in the VET training. Approaches based on the People Disabilities Work Guidebook (ILO) will be reflected in the project activities.

The **target groups among the direct beneficiaries** of the project include the Government agencies (MoES, MoLHSA, NCEQE, Employment Support Service), VET providers (public and private Colleges), private employers and social partners.

The **MoES** oversees and coordinates the VET formal provision in Georgia mainly through its VET Department and the National Centre for Enhancement of the Quality Education. The NCEQE coordinates the Sector Committees for development of professional and occupational standards (there are currently 14 such committees). Their work suffers from very weak participation of employers (the standards are often determined by the officials and invited experts without the participation and feedback from the employers). Thematic Groups have been also set up under the coordination of inter-agency VET Council.

MoLHSA has recently re-established within its structure the Employment Department and the public employment service (Employment Support Service – ESS operates within the structure of the Social Security Agency). The Employment Department of MoLHSA have modest budgets and staffing that face a daunting task of re-establishing the state employment policies in Georgia based on active labour market measures, such as labour market oriented retraining and support to start-ups. The newly re-established public ESS faces multiple limitations in terms of staff time, experience, and operational capacity to deliver the retraining programs (the ESS has currently 1 staff member in each of the Georgian districts).

The circle of **VET providers** in Georgia currently includes 14 state vocational colleges and 77 private vocational colleges, along with 4 Community Colleges delivering higher vocational education. The VET providers in Georgia strive to ensure high demand for their services and develop partnerships with **employers**. However, in many cases the relationship is limited to a formal membership of employers' representatives in the school boards and committees. The real co-operation in terms of placing students into jobs and providing skills requirements or feedback for the training process is still very weak. The project will develop the capacities of both VET colleges and employers aimed at establishing result-oriented sustainable partnerships.

In the process of the planning of the action, the UNDP carried out a field mission to the pilot regions in order to ascertain the interest and motivation of the local partners. Meetings were held with the Gamgebeli of Tsalenjikha Municipality and his team, the Head of Municipality in Mestia and the representatives of the Khashuri Municipality (Shida Kartli). The choice of the proposed pilot sites (VET colleges in the mountainous regions, rural population in conflict affected zone) was consulted with the local authorities who expressed their full support to this choice and the proposed action. Further partner institutions were identified among the local companies and employers (e.g. Energo-Pro and the Water Distribution Company in Tsalenjikha, Tetnuldi Hotel in Mestia, Georgian Railways (in location of Khashuri) and Agara Sugar Plant) that expressed their interest to participate in the action.

Several participatory meetings were organized by the UNDP in the course of the preparation for the action where the activities were discussed with the local stakeholders. The meeting revealed a large potential for further follow-up and sustainability of the proposed activities. Several sectors were preliminarily identified that according to the participants provide a good ground for economically viable local employment or self-employment. A number of project extensions were proposed that could contribute to its sustainability. For example, the local stakeholders in Jvari district suggested that the trained or retrained electricians, plumbers and welders would be immediately employed by the local companies, notably the Energo-Pro, the water distribution company, two municipal companies, and a large-scale construction site for electrical power station and transmission facility. The municipality officials confirmed the potential for enhancing job mediation and counselling for unemployed in cooperation with the local branches of SSA and ESS.

Similarly, the local community in Mestia stated that their region suffered from isolation due to the distances and the mountainous terrain. The local population faces problems with accessing the government-supported schemes for SMEs, because the network of commercial banks that participate in the schemes is underdeveloped in the region. The local employers and small businesses in Mestia exhibit a good degree of mutual cooperation. The prospective economic activities are services in tourism, services, construction, energy and agriculture. The municipality of Mestia supports local development. It prints and distributes information materials and leaflets in 3 languages to propagate the services of the local small businesses and self-employed. New economic opportunities are arising in the area as a new cable car has been built recently and construction of other new facilities for tourism is underway. Tourism, services and agriculture-related services provide a solid potential for many new income generating opportunities. According to the local community representatives, the most wanted professions in Mestia are electricians, mountain guides, plumbers, joiners, and providers of various services for hotels and restaurants.

The training activities proposed under the action should be realized in two pilot vocational colleges - the Lakada college in Jvari and the Tetnuldi college in Mestia. In the conflict affected area the training will be based by the nearby Gori University. The university has been active in the field of processing and industrial sectors. Thus the project activities are likely to initiate further follow-up and sustainable activities linked to the local value chain. The involvement of the university will contribute towards the development of innovative approaches in services. The project activities can lead to spin-offs and self-employment start-ups in the services in non-agricultural sector in rural areas.

The Lakada college in Jvari is currently under reconstruction (rehabilitation) by the local government. The works should be finished by the summer of 2015. The college was already involved in the implementation of three projects with international background (funded by USAID, Norwegian

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Refugee Council, and DVV). The Tetnaldi college in Mestia was rehabilitated and received a new equipment. Currently the college rehabilitates another building. Thus the material conditions of the college are very good; however, the curricula have not been modularized yet and the training is provided on a longer-term basis (which limits the retraining opportunities). The colleges are very interested in modularization of their curricula and in participation in the non-formal learning by training and retraining adults for labour market opportunities.

Gender mainstreaming will represent the main cross-cutting priority and principle of the proposed action. Participation of women and men will be encouraged in all project activities. Gender disaggregated statistics will be collected in the course of the project-based research, monitoring and evaluation. Special precautions will be made for participation of people with disabilities. The latter will be fostered mainly due to the use of modular training methodologies that allow for individualized and flexible training profiles fine-tuned to the special needs of the disabled. Introducing of innovative approaches that enhance the access to training (e.g. mobile training groups and e-learning/distance learning methods) will largely facilitated the participation of people with disabilities. Special approaches based on the People Disabilities Work Guidebook (ILO) will be tested within the project activities.

VET students, graduates and job seekers represent the final beneficiaries group. The action will specifically concentrate on women, youth, IDP's, and rural population in the conflict affected areas. Currently, in the absence of passive labour market policy and with the limited extent of active labour market measures, the major responsibility for job search and retraining opportunities is on the VET graduates and job-seekers. However, it cannot be expected that they will cope with the situation without further institutional support. Graduates of VET Colleges often face problems with transition from training to employment. VET students suffer from low quality of education and the related labour market detachment. According to the tracer study of VET graduates carried out by the MoES, during fall 2014, the employment rates of graduates are in general below 40% (the highest rate of employment 6 months after graduation were observed among guides (61%), cooks (55%), and plumbers (52%)). Adult population is in utter need of training and retraining provided outside the formal learning system. The proposed action is focused on the introduction and provision of formal and non-formal VET retraining programs that will be designed in a labour-market responsive way, contributing to improvement of lifelong learning environment, access to VET for broader groups of beneficiaries (with special emphasis on youth, women, high mountain population, PWD, IDP and conflict affected areas population).

The planned activities cover the target sectors of the call: training programs will be designed for services, tourism and construction sector and piloted in the rural mountainous regions and conflict affected regions. The relevance to the expected results under call is demonstrated by the expected results of the proposed objectives and activities, i.e. the increased employability and productivity of VET students (in both formal and non-formal learning systems). The increased employability reduces frictions of transition from training to employment, increases employment rate and reduces unemployment or underemployment. The increased productivity improves the quality of worker-job match, raises the wage or income derived from the self-employment. All these contribute towards reducing poverty and enhancing social cohesion.

Description of activities

Duration of the proposed action is 2 years. The activities are phased into a logical sequence that allows for establishing connections and achieving synergies between the two specific objectives. The proposed activities are aligned with the priorities of the two relevant major national strategies - the National Strategy for VET Development, and the National Strategy for Labour Market Formation (focused on the improvement of formal VET learning and on the provision of VET retraining in the framework of active labour market policies, respectively). A close interaction and coordination between the project activities and the implementation of the strategies will be ensured through project management arrangements.

In order to achieve the expected results under **Specific Objective 1**, the action will include activities belonging to three broader areas: a) monitoring the introduction and implementation of the modular VET teaching; b) introducing innovative ways for accessing VET education (mobile VET services, e-learning programs in VET, distance learning for trainers, support to international mobility programs, introducing industrial simulations at the premises of VET colleges), and c) capacity-building of the VET providers.

a) Monitoring the introduction and implementation of the modular VET teaching

A1.1 – "Monitoring the introduction and effectiveness of modular teaching in VET" (R1)

These activities will be informed by the experience and the approaches of the previous UNDP projects that has been focusing on introducing the modular training in VET colleges. The activities will include training of college teachers and managers in the delivery of modular teaching programs, quality assurance and other management aspects. Developing guidelines for teachers for 4 non-agricultural vocations, and developing practical training materials will be also included. Last but not least, the activities will be focused on the development of practical assessment tools for 4 non-agricultural professions. The assessment tools will serve for the examination of students' achievements and learning outcomes. They will be also used as the basis for adaptation into ex-ante assessment of competences for the purposes of adult retraining under the Specific Objective 2.

A1.2 – Elaborating and implementing the capacity-building program for the involved stakeholders" (R1)

The activity will focus on developing capacities of the project stakeholders in piloting the VET schemes that link directly to the labour market. This will also entail developing and strengthening partnerships between relevant stakeholders. The participatory approach will be used for elaborating the capacity development programmes addressing primary needs of the respective institutions. The programme will be elaborated and implemented by GEA. While UNDP will ensure dialogue with the national stakeholders in order to secure dissemination of pilot experiences by the national institutions and partners beyond the pilot project sites.

b) Introducing the innovative ways for accessing VET education (mobile VET centres, e-learning programs in VET, distance learning for trainers, support to international mobility programs, introducing industrial simulations at the premises of VET colleges)

A2.1 – Introducing innovative ways for accessing VET (R2)

The activities will introduce the mobile VET centre aimed at overcoming the access problems in the mountainous regions. Similarly, the e-learning packages developed by the UNDP will be introduced at the pilot training sites. Distance learning options will be developed for teachers and trainers who will benefit from improved access and flexibility of their training in the design and delivery of modular-based VET courses. Support to international mobility of VET students and staff will be provided in order to increase the quality and attractiveness of VET training.

c) Capacity-building of the VET providers.

A2.2 – Increasing institutional capacity of VET providers (introducing VET education in secondary schools of Shida Kartli, developing partnership with private sector; Introducing learning workshops in the private sector" (R2).

The activity will spread the knowledge generated under the activity 1.1 in VET colleges across the training sites in Shida Kartli and train the involved partners) in the development and usage of the methodologies. Building on the achievements and outcomes of the previous activities, on the job training will be organised at the sites of the partner employers' organisations in Samegrelo, Svaneti and Shida Kartli.

The activity will increase accessibility of VET in Shida Kartli based on PPP format. UNDP in consultations with MoES and regional authorities has selected two locations for testing VET providers and industry cooperation formats. The PPP will be based on cooperation among private companies, local municipalities and VET providers (identified two Secondary Schools) in selected locations – in

the areas where VET colleges are not present. The project will develop the capacities of the selected Secondary Schools and will ensure their authorisation for the modular vocational courses teaching. In addition these schools will be capacitated to provide local labour market responsive short-term training and re-training for adults.

In addition to supporting the above-mentioned public-private partnerships in the field of formal VET in Georgia, the action proposes essentially new approaches in VET, such as providing professional skills and competences to adult population by the means of labour market-oriented retraining (non-formal learning), and introducing innovative techniques in Vocational colleges (formal learning) aimed at improving its accessibility, quality, and response to labour market needs. While the activities build on the previous work in the field of VET, the innovative feature of the proposed approach is the accent on non-formal education and its lifelong learning aspects. Non-formal education is currently not recognised in Georgia, which limits the opportunities for lifelong learning in general. The project is focused on both formal and non-formal VET (covered under the Objectives 1 and 2, respectively), and proposes to use the previous experiences and approaches piloted in formal VET learning (relatively better established field in Georgia) for introduction of VET training in the non-formal learning context (less developed field in Georgia). Outputs of activities implemented under Specific Objective 2 (non-formal VET learning), such as the links and feedback mechanism between employers' needs and training offer will be utilised under the Specific Objective 1 (formal VET education) to improve the labour market relevance of the training.

The main activities under the **Specific Objective 2** will focus on a) conceptualizing and developing the vision for LLL provision in Georgia (identifying legal, regulatory and institutional gaps and creating the respective action plan to tackle the most pressing issues); b) including the private sector as service provider in non-formal VET (piloting the schemes for VET-based retraining of adults, developing related organizational approach and policy); c) developing the minimum standards for teaching environment (standards for workshops/mini-plants – teaching materials, equipment, instruments and materials, and d) creating modular VET programs in LLL format.

a) Conceptualizing and developing the vision for LLL provision in Georgia (identifying legal, regulatory and institutional gaps and creating the respective action plan to tackle the most pressing issues)

In the framework of this activity a conceptual work be undertaken to assist the process of lifelong learning in Georgia. Several publications will be produced as described in more details below.

Activity A3.1 – " Develop the concept of non-formal LLL learning in Georgia " (R3)

Under this activity a study will be carried out by international experts that will lead to the development of Concept for formalization of retraining in Georgia. The Study will cover three broader segments dealing with the legal framework, methodological framework, and training framework).

Activity 3.2 – " Identify legal, regulatory and institutional gaps " (R3)

Outcome of the activity will be used as an integral part of the study and the Concept. The proposed Concept will include also a Roadmap and a practical action plan (as described under Activity A3.3)

Activity 3.3 – " Create the action plan to tackle the most pressing problems " (R3)

The activity will be focused on developing action plan with concrete recommended steps towards formalization of labour market retraining in the LLL context in Georgia. The action plan will focus on the enhancements of the already institutionalized practices, activities aimed at the institutionalisation of the existing practices and pilot experience, and activities aimed at the introduction of qualitatively new approaches. The latter will be illustrated and piloted also in the framework of the current action (Activities A1.1.2 to A1.1.4 described in more details in the logical framework).

b) Including the private sector as service provider in non-formal VET (piloting the schemes for VET-based retraining of adults, developing related organizational approach and policy)

The activities will cover piloting the schemes for VET-based retraining of adults and developing the related organizational approach and policy. Limited capacities of national employment service of Georgia presents to be obstacle for large scale implementation of various of measures in labour market policies. One of the solutions for this problem is outsourcing of active labour market measures to increase the accessibility of VET services of various market operators: individual providers, educational facilities, non-governmental organisations and etc. Therefore, this activity will ensure connection between employer service, service (training) provider and employer. The strength of this scheme is that it is oriented on employers demand and can reflect linked with labour market. Under this activity the modular training will be piloted in the premises of private employers in cooperation with the Georgian Employers Association (GEA) and Employment Supporting Services (ESS). GEA has a prior experience or participation in the projects aimed at the development of modular training materials and organisation of the training process

c) Developing the minimum standards for teaching environment

Activities under this group will deal with the practical aspects of the training delivery. In particular, minimum standards for teaching environment will be developed (standards for workshops/mini-plants – teaching materials, equipment, instruments and materials) that will guide and facilitate the training process. The existence of standards will also guarantee the quality of the training and will provide the basis for assessment of trainees' competences and certification of learning outcomes. These standards should be applicable for authorisation of public and private VET service providers.

d) Creating modular VET programs in LLL format

The activity will be focused on the adaptation of the existing modular VET curricula to suit the retraining of adults. It will include creation of VET retraining programs in modular format and piloting the short-term VET training courses for adults that will lead to acknowledged (partial) qualifications and competencies recognition. The activity is linked to the conceptual work carried out under the Specific Objective 2 and to illustrating the use of the proposed concepts in practice.

Financial Support to Third Parties

The financial support will be provided to the following third parties: 1/ Vocational college 'Tetnaldi' (Mestia, Samegrelo Zemo Svaneti region), 2/ Agara Secondary School and 3/ Khashuri Secondary School.

1/ Vocational college 'Tetnaldi':

Objective of the financial support to the vocational college 'Tetnaldi' (Mestia, Samegrelo Zemo Svaneti region) is (a) application of the vocational training and re-training schemes in the selected professions from tourism, construction, services and energy sectors demanded by the local market and (b) increasing accessibility of vocational retraining and consultations in the most remote mountainous areas of Svaneti through mobile VET Centre.

The financial support will render the following **results**:

- a/ Vocational training will be provided for up to 60 local adults in 4 most demanded vocations including 3-4 month apprenticeship.
- b/ Population of 4 communities (up to 400 self-employed) located in the most remote mountainous areas of Mestia Municipality will receive vocational retraining and consultations based on their needs (possible areas include entrepreneurship, family hotel and restaurant management, ecotourism and agrotourism).

Activities to be conducted with the financial support include:

- A) Vocational training

- 1.1/ Retraining of local teachers from Tetnuldi College in professional skills in 4 selected vocations
- 1.2/ Conducting vocational training for local adults in 4 selected vocations including 3-4 month apprenticeship.
- 1.3/ Introducing multi-lateral certification of the trainees, which entails establishing of multi-lateral Certification Commission consisting of representatives of 1/Employment Support Service (ESS), 2/VET college quality manager and 3/employer. The Commission will grant acknowledged (partial) qualifications to the training course graduates.

b/ Mobile VET Centre

- 2.1/ Identifying 4 communities located in the most remote mountainous areas of Mestia Municipality for coverage by mobile VET Centre
- 2.2/ Conducting needs assessment in the selected 4 communities in the areas of entrepreneurship, family hotel and restaurant management, ecotourism and agrotourism.
- 2.3/ Developing training and consultation programs based on identified needs
- 2.4/ Identifying and training local consultants for provision of consultations
- 2.5/ Conducting demonstration projects

Types/categories of persons who will receive financial support: staff members of Tetnuldi Vocational College: Management (Team Leader, Methodological Manager, Finance manager, procurement manager) and Professional staff (teachers and trainer-consultants).

Criteria for selecting Tetnuldi College: Selection of Tetnuldi college was preconditioned by its location in the remote mountainous region and development of mountainous region s was declared government priority (Law on Development of Mountainous Regions was adopted by the Parliament in 2015). Besides, the college was recommended by the Ministry of Education and Science, which has already invested in rehabilitation and equipping of the College. And College is officially authorized to conduct vocational education programs.

The amount of financial support was determined based on local market rates/salary scales and tasks (duration and number of vocational courses, estimated number/types of teaching tools, estimated number and frequency of consultations).

The financial support to Tetnuldi college will amount to **60,000EUR**.

2-3/ Agara and Khashuri Secondary Schools:

Objective of the assistance is to introduce in Georgia school-based VET service delivery schemes through establishing vocational education and training programs in Agara and Khashuri schools and obtaining official authorization of VET institution for each school.

Results: The financial support will render the following results:

- 1/ VET learning environment will be established in the schools through collaborative efforts of private sector, local authorities and EU financial support. Private sector and local authorities will rehabilitate and equip schools, while schools will purchase teaching tools through EU financial support.
- 2/ 2 vocational education programs and 4 training programs will be established in Agara and Khashuri school
- 3/ Up to 60 local adults trained in 4 most demanded vocations (per schools)
- 4/ Agara and Khashuri schools will obtain authorization of VET institution.

Activities to be conducted with the financial support include:

- 1.1/ Selecting of most demanded vocations from the list of vocations developed by the Government
- 1.2/ Purchasing of teaching tools for both schools.

1.3/ Identifying and training of management staff (program manager, quality manager) in managing of vocational education

1.4/ Identifying and training of local teachers in professional skills in 4 most demanded vocations per school

1.5/ Training of management and trainers in teaching and assessment methods, modular teaching methodology.

1.6/ Conducting vocational training for local adults (up to 60) in 4 selected vocations including 3-4 month apprenticeship and certification of the trainees, through multi-partner Certification Commission, which will consist of representatives of 1/ Employment Support Service (ESS), 2/ VET college quality manager and 3/employer. The Commission will grant acknowledged (partial) qualifications to the training course graduates.

1.7/ Developing guidelines for teachers and assessment tools for 2 vocational education programs to be delivered in each school

1.8/ Preparing schools for obtaining authorization of VET institution through compliance with all requirements (legal, physical environment, business processes, quality of teaching, etc)

1.9/ Conducting monitoring of 2 vocational education modular programs, which will be financed by the Government in order to ensure their efficient implementation.

Types/categories of persons who will receive financial support: staff members of Agara and Khashuri secondary schools: Management (Team Leader, Quality Manager, Finance/Procurement manager) and Professional staff (teachers).

Criteria for selecting Agara and Khashuri schools: Selection of these schools was preconditioned by their location in the 2008 conflict affected region of Shida Kartli. Besides, these schools were recommended by the Ministry of Education and Science and proposed by large local employers and local authorities, which expressed their willingness to invest in rehabilitation/equipping of these schools.

The amount of financial support was determined based on local market rates/salary scales and tasks (duration and number of vocational and teachers/management training courses, number of guidelines and assessment tools, estimated number/types of teaching tools).

The financial support per each secondary school will amount to **25,000EUR**.

Adjustment of the information provided in the concept note.

During the consultations with stakeholders of the project various needs and circumstances revealed led to the need of adjustment of the initial concept in the following directions:

- ‘Mobile VET Extension Centre’ (under specific objective 1.3 ‘Introducing innovative ways for accessing VET’ creation was changed into mobile VET centre due to consideration of sustainability of this initiatives and institutional affiliations.
- Support to milk collection centres establishment in the para ‘1.3.4. Particular added-value elements’ will be replaced by other support to the population in Shida Kartli with consideration of individual self-employment schemes support and emphasis on non-agriculture component of rural development.
- Additional sub-activity was added .1.1.5 to the work-plan – ”Monitoring of VET modular teaching process” to reflect the needs of continuous support to application of modular teaching methodology.

Methods of implementation and rationale

The proposed action will be implemented through the combination of methodologies that had already proved effective in similar environments and/or in the previous projects implemented by the applicants.

Competency-based training through training modules will be chosen as the primary method of implementation. The origins of the method date back to the 1970-ties when the International Labour Organisation (ILO) started to develop flexible, employment-oriented approach to TVET that became known as modules of employable skills (MES) (see, for example Qudenau, 1977, Chrosciel and Plumbridge, 1992). The modular approach has been adopted and developed by many organizations. An influential example is the DACUM (Designing A Curriculum) methodology developed at the Centre for Education and Training for Employment of the Ohio State University by Robert N. Norton. The methodology has been adopted under the competency-based training (CBT) heading by the GTZ and other EU-based institutions.

The project will primarily use the experience of EU in supporting modular programmes elaboration and application (follow up of DACUM methodology based occupational standards elaboration in Georgia in 2012).

Modularization of curricula is also possible and feasible in the formal education segment – the VET Colleges. Some countries of the CIS made early steps in the modularization of its TVET curricula. For example, Ukraine issued a Presidential Decree that allowed for modular approaches in formal VET in the early 1990-ties. In Georgia the modular curricula should be obligatory for VET training as of 2017.

The main point of departure in the curricula development is a partition of the work tasks and processes into elements that can be assembled into functional modules. The curricula are thus modularized, which allows for designing short-term, individualized and flexible training programs. This makes the competency-based training particularly suitable for the non-formal segment of VET and for adult training. Thus the modular competency-based training is a prerequisite for delivering labour market oriented retraining in the context of lifelong learning (the non-formal learning).

In this regard Georgia has made significant efforts towards modularization of its training curricula. The National Centre for Enhancing the Quality of Education (NCEQE) has been working on the modular curricula and the corresponding qualification standards (within the broader National Qualification Framework). The use of modular methodologies thus has been officially adopted in the country at the conceptual level and the development of modular curricula and the corresponding standards is underway (previous UNDP projects also provided assistance in this regard). Furthermore, a new VET law that is under preparation (to be adopted around 2016) already introduces the notion of partial qualifications and competences recognition, which can be considered as another important step towards formalization of non-formal learning (which typically does not give access to full qualifications). Reportedly, the draft VET law also refers to the non-formal education, albeit in general terms.

The adoption of modular VET curricula, however, is not a sufficient condition for the delivery of non-formal training. Firstly, the VET teachers and instructors need to be retrained in order to be able to teach according to the modular curricula. The approach is more demanding on the teachers, however, it delivers better and more practical training to the students. While in the classical classroom/blackboard approach the students listen to lessons with little exposure to practical tasks, in the modularized training they pass through the logical sequence of practical elements and modules, thus completing the tasks with their own hands. The higher requirements on the teachers and technology thus pay off by delivering more practical individually fine-tuned training that leads to higher employability and productivity of the graduates. In the previous projects the UNDP introduced the modular VET training and re-training of adults. In several VET colleges in Georgia where the teachers and instructors were retrained for the use of modular curricula. UNDP has been one of the pioneers to introduce the modular approach into VET education in Georgia since 2007. This experience will be used in the extension of modular-based teaching to the pilot VET colleges and other pilot sites for the training delivery under the proposed project.

As regards the non-formal training methodology, Georgia currently lacks approaches and methods that could be used for the retraining of adults on the basis of modular curricula. In particular, the methods of determining of individual competences and the training needs have not been yet developed. This represents the first steps in the delivery of non-formal modular training to adults who typically have certain skills and competences prior to the training and need to acquire other competences in order to

deepen, increase or extend their qualifications, or to gain particular skills and competences that give them immediate access to job opportunities. Therefore, the project proposes to develop the approaches and methods suitable for non-formal training and to introduce them in the pilot regions and in the partner organizations. The methodology involves several steps from the prior assessment of learners' skills and competences, through the provision of modular courses to the final examination/testing, and certification.

The assessment methods carried out prior to the training are not widely used in Georgia. There is certain practice, as well as certain legal ground for the assessment in the framework of the recognition of prior learning (RPL) procedure. Currently all the VET schools are obliged to provide for RPL, however, the procedure is used only to a very limited extent. Firstly, it only applies to the first three levels of VET education. Secondly, in practice it is used only to overcome certain "cul-de-sac" in the formal education system, whereas the students cannot pass to the higher levels of VET from the general educational stream. Therefore, the RPL is used in order to grant access for these students to the higher VET education. It is thus applied in rather formally way (essentially like entry examination). RPL for adult learners in the context of lifelong learning has not been practiced so far. The practical training needs assessment for unemployed or other adult learners is not provided by the training facilities. Their development will represent a part of the project activities. To this end, the experience and methodology of the previous UNDP projects will be employed (e.g. the assessment methods for testing the learning outcomes in the formal VET can be adapted to the ex-ante assessment procedures for adult learners).

Within the broader implementation methodology, *the public-private partnership* will be used as guiding principle for the action. It has been widely recognized that the involvement of employers in education and training is beneficial for reducing the skills mismatch at the labour market. To this end the project proposes cooperation with private employers, ranging from their participation in the job placement of training graduates, to a more conceptual work in terms of their involvement in the training process (developing and adjustment of curricula, etc.). The conceptual link between education and employment has been suffering from various deficiencies in Georgia where the entrepreneurs' understanding of their social role as employers is rather weak. Therefore, a strong accent will be placed on the participation of employers in the training process. The involvement of the Georgian Employers Association (the main umbrella organization of Georgian employers representing the country in the International Labour Organisation) will largely facilitate the work with employers and the creation of public private partnerships. The participation of the employers' organisation also enhances the prospects for sustainability of the project activities. Best practices of selected EU and OECD countries in the field of public-private partnerships will also be studied and considered. In this regard the national stakeholders (MoES and MoLHSA) in the course of preliminary consultations expressed their interest in the Finnish and Estonian model of cooperation with employers (e.g. the Kutsekode agency and its practice in securing employers participation in the development of professional standards) and in the Australian model of employment services and job mediation (e.g. the outsourcing of labour market retraining to private training providers).

Further methods applicable to the proposed action include the use of *distance learning and virtual learning* tools. In this regard the UNDP has already piloted several activities that resulted in the creation of virtual training packages – i.e. computer-based training material and testing tools for several professions. Notably, the e-training soft were developed for milk processing, as well as for the training of electricians. These materials will be used in the framework of project activities and will be introduced in the pilot colleges and other partners for both formal and non-formal VET training. The use of e-materials and PC-based training and testing tools should increase the attractiveness of the training both among the youth and the employers. The e-learning training tools for electricians will be used in all the pilot venues, given that this profession has been prioritized by the local stakeholders in all the pilot regions. The Georgian public employment service also confirmed that amongst the vacancies collected through their online system (Worknet), the profession of electrician is among the most wanted ones. Learning workshops based on e-materials will be introduced in the private sector companies.

Finally, the method of distance learning will be used in order to improve the access and effectiveness of the training of teachers (training of trainers) enabling them to use the modular curricula. The

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training of trainers typically ranges from one to weeks of intensive work, thus putting strain on the staff and increasing the training costs. Switching the training or its part to the distance learning method alleviates these pressures. Typically a brief introductory face-to-face training is used to explain the main principles, motivate the group and introduce the learners to the distance learning platform. The introductory face to face training is followed by training in distance learning mode. The approaches have been tested in the framework of the ILO International Training Centre in Turin (e.g. DELTA platform and dedicated). Open-source distance learning platforms (e.g. Moodle) can be used to design the learning interface.

Several general principles and methods for the implementation of the action will be used as cross-cutting methodologies. In particular, *participatory approaches* and *gender mainstreaming* will be applied across all the activities in order to secure the transparency and equity of the action. The participatory approach has been used by the UNDP wherever possible in order to generate the local ownership and support the sustainability of action. In the planning phase of this project, several participatory meetings were held with the local communities in the pilot regions where the representatives of the local stakeholders and the community came together and expressed their needs and preferences (please refer to the description contained in the previous section).

Gender mainstreaming will be used as a cross-cutting approach for all activities and at all levels of the project management. The developed training curricula will include professions suitable for women or supporting the income generating opportunities for women (e.g. service and tourism sectors). Women will be represented among the teachers, trainers and experts who will participate in the project activities. The monitoring and achievement indicators will be formulated in gender-sensitive manner where possible. All the statistics and data carried out by the project will be monitored and provided in breakdowns by gender. Finally, the consultation and cooperation with the UN WOMEN office (as described in the previous section) will guarantee a due attention to the gender aspects of the action and generate a potential for further synergies in terms of activities focused on women.

Previous actions in the field

Previous actions in the field include several large-scale project implemented by the UNDP and its partners at the national level. A major intervention has been implemented in the framework of the project “Modernization of the Vocational Education and Training and Extensions Systems related Agriculture in Georgia”. Given that the agricultural sector plays an important role in social and economic development of Georgia this project provides support to the Georgian farmers through development of a high quality training and extension system that will provide the farmers with the necessary knowledge to increase their productivity and income. In the past, UNDP with the support of SDC has assisted the Government in establishing a coherent re-training system throughout the country coupled with farmer advisory services and business counselling. This support will now be expanded. The project aims to contribute to the development of a system of high quality vocational training and extension services in agriculture that will result in improved livelihoods of the rural population.

The project is focused on 3 areas:

- (1) 8 VET colleges and 7 state Information Consultancy Centres will be assisted in the development and delivery of innovative, relevant and effective training programmes and advisory services. At least 10,000 farmers will have access to these systems.
- (2) Systems to produce qualified human resources (multipliers) that can offer various types of trainings and services to farmers and capacitate them with knowledge and practical skill will be set up in close collaboration with national partners and other SDC projects.
- (3) By bringing the strengths of the private and public sectors together the project will facilitate the setting up of a public private cooperation and partnership model for coordination and provision of VET and extension services in agriculture. Public and private stakeholders’ capacities will be strengthened, and cooperate under a national level platform.

According to the Interim Progress Report for the period up to 2014, the project has supported the nation-wide application of the new model of VET– modular teaching approach in agriculture. Currently the MoES and the public vocational colleges deliver the modular programmes in 8 most

demanding professions in agriculture. Furthermore, the adopted draft of VET Teachers Skills Development Concept approved by MoES is a result of the advocacy and assistance of the project. The adopted Concept will lay down the ground and priorities for the development of the system of VET teachers training. Qualifications framework and relevant supporting and guideline materials for extension workers' skills development were elaborated in partnership with the higher education institution (Agrarian University of Georgia, AUG). New teaching materials (some of them adopted from the Swiss system) for VET students filled the gap of learning materials for newly introduced profession of Farmer and advanced the ones for the existing professions. This can be treated as the initial step toward introducing the system for developing high quality teaching materials. The learning infrastructure in 5 target VET colleges was adapted to the needs of the newly introduced modular programmes to ensure high quality of teaching in target colleges.

The lessons learnt from the project activities are as follows:

- i. One of the most important challenges in Vocational Education and Training is to raise the low image of this type of education in general. There are several opportunities to raise the image of VET, but one is an increased quality of VET. The quality of VET is very much depending on existing mechanisms how to address skills and knowledge needs on farm level in learning process, although the modular programmes and curricula are already outcomes based.
- ii. A key element for a better quality will be the introduction of a work-based-learning approach, where private farms/companies are working in close relation with the VET systems. The learning places, classroom, VET college based workshop and farm (ideal private farms with real operations) are all three important to train the students according to the required knowledge, skills and competences.
- iii. The project supports the Ministry of Education and Sciences in elaborating a legal framework for a work-based-learning approach, which should be ready to be piloted after the summer holiday 2015.
- iv. The challenges arising from the implementation of a modular programme and a work-based-learning approach will require support from the project. The project is ready to support the Ministry of Education especially in this field and will make use of other donor (especially SDC) founded projects in the agricultural sector to enable private farms to participate in the piloting.
- v. In the field of extension services two main lessons learnt can be addressed: several donor organizations are supporting the Ministry of Agriculture to setup a public extension system including support for a scientific centre. Since many donor organizations are active in this field, the Ministry of Agriculture is requested to have a good donor co-ordination in place. UNDP and SDC are ready to take an active role to support MoA in the field of co-ordination.

The experience gained by this project guided the design of the activities under the proposed action. The previous experience will be under the proposed action extended and transferred for agriculture to the other target sectors. Another novelty of the proposed action is the extension of the VET training to the non-formal education segment that has not been covered by the previous projects.

The planned action is closely linked also to the Skills for employment program implemented by the UNDP in Georgia. Phase 1 of the project laid down the basis for modularization of VET training in agricultural sector, developed a number of training curricula and piloted training programs in several regions, Phase 2 (implemented in 2014-2015) is focused on developing primarily non-agriculture VET system in Georgia and the employment policy. The programme is designed to advocate for development of a more diverse and high quality VET system and effective employment policy measures and their piloting.

Potential synergies with EU programs and other initiatives

The planned action would create synergies with several other efforts implemented in the field of VET in Georgia. An example of such a significant effort at the national level is the development of the

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Labour Market Information System (LMIS), which represents conditionality under the EU SRC. The National Concept Note on LMIS in Georgia has been developed with the support from the European Training Foundation (ETF) and adopted by the MoLHSA. The implementation of the related LMIS Roadmap includes the piloting of two surveys of skills needs among employers (currently implemented by the Employment Support Service), as well as launching of a regular series of VET graduates tracer studies (already started by the VET Department of the MoES). The ETF continues to provide support to these activities aimed at collection, analysis and dissemination of labour market information.

Several of the activities planned in the LMIS Roadmap have been already started with the support from the EU Technical Assistance (TA) Project. For example, the two employers' surveys launched by the Employment Support Service include a qualitative survey (the results will be available by May 2015) and a quantitative survey (the results will be available by July 2015). Furthermore, the first round of tracer study of VET graduates has been carried out during the fall of 2014 by the Ministry of Education and Science (based on the total population of 2,800 VET graduates of the school year 2013/14). The results of these surveys will be taken into consideration in the course of the implementation of the proposed activities. Notably the first tracer study of VET graduates provided valuable findings and data that can be used as a baseline for several indicators of achievements under this project. Further rounds of the tracer study will allow for the monitoring of progress in terms of project outcomes.

Further synergies with EU programs will be created by links to the Torino process assessment of Georgia completed by the ETF in December 2014. Important guidance for project activities will be provided by the Assessment of the Verification of Non-Formal and Informal Learning (VNFIL) in Georgia and its recommendations prepared by the ETF in 2014.

A general synergy with the EU Strategy 2020 is secured through the development of LLL system which represents one of the target areas (according to the Strategy, 15 percent of the EU population should participate in the LLL process by 2020). The proposed action is also in line with other EU Directives and programs in the VET and LLL fields.

The year 2015 has been declared the Year of Women in Georgia by the Georgian President and the UN WOMEN Program in Georgia. An increased attention is thus being paid to the gender issues in both national and international contexts. In the course of the preparatory work for the project, consultations were held with the UN WOMEN Office in Georgia. The Office focuses its activities, among other things, on sustainable livelihoods for women who suffered from the recent conflicts (women IDPs and women in rural areas affected by the conflict). The UN WOMEN Office is interested in cooperation with the project at the ground level in the conflict affected areas (in Shida Kartli) where the training beneficiaries can be selected from amongst the UN WOMEN target groups.

Follow up and evaluation procedures

Follow up of the action will be carried out by the beneficiary institutions and other partners. In particular, the VET colleges will be enabled to use the modular curricula in their training programs for both students in the formal educational process and the adult learners in need of professional retraining. The involvement of private actors (employers) will guarantee follow-up and sustainability of the training process. Notably the innovative approaches and methods (e.g. e-learning materials and distance learning platforms) are supposed to motivate the private employers to participate. Another motivation comes from the need to organize job-based retraining that currently lies fully on the shoulders of the companies and that will be effectively aided by the project in the pilot companies.

The project follow-up will be enabled also by the equipment procured under the project, which will be at the end of the project transferred to the partner institutions under a standard transfer act accompanied by MoU agreement about continued support to the activities piloted by the project..

Evaluation of the project will follow the standard UNDP procedures. All projects and programs implemented by the UNDP are subject to internal evaluation. The internal evaluation is carried out in the framework of regular programming cycle by internal evaluators and regular audits (financial,

functional, and gender audits) by the UNDP Headquarters and expert evaluators. Projects with budget over USD are subject to independent evaluation by external evaluators. To this end, all the projects keep a budgetary reserve to cover the costs of independent evaluation. Another source of evaluation will be the Project Management Board that will meet regularly throughout the implementation in order to review the project progress, evaluate interim results and suggest corrections if needed.

The project will be implemented by the project team consisting of the Project Manager, Project Officer/Assistants and short-term experts. The direct managerial responsibility will rest with the Project Manager who will report to the UNDP Economic Development Team Leader. Overall management of the project will be guided by the Project Management Board consisting of the representatives of the applicant and co-applicants. The Board will closely cooperate with the partner institutions and key stakeholders (MoLHSA and MoES). The Board will regularly review the project progress against the workplan, discuss any challenges and deviations from the plan and suggest a remedial action in the case of need.

The main proposed for the implementation of the action include equipment and materials. The mobile VET centre vehicle will be procured in order to provide extension services to the final beneficiaries of non-formal training in the mountainous areas (focused on the provision of practical short-term training and the related services) where the access to training is limited by the distances and lack of transportation possibilities (in particular for women, youth, disables and vulnerable groups). Further means will include materials and supplies for training in the prioritized professions, PCs for project office (project coordinator and project assistant), and standard office equipment. The durable equipment will be upon the completion of the project transferred to the local partners (municipalities, VET colleges).

In the process of the project preparation, the key stakeholders were consulted at both national and local level. At the national level the representatives of MoES (Deputy Minister and the Head of VET Department), NCEQE (Adviser to the Director and Manager of TVET Qualification Development Support Program), MoLHSA (Head of the Employment Policy Department), and ESS (Head of the Employment Service) were consulted.

At the local level meetings were held with the Governor of Tsalenjikha Municipality and his team, local municipality in Mestia and Khashuri (Shida Kartli), representatives and staff of the VET colleges Lakada (Jvari), Tetnultdi (Mestia), and representatives of the Gori University. The local stakeholders expressed their full support to the proposed action. The meetings revealed a large potential for further follow-up and sustainability of the proposed activities and their development in the segment of business development services in tourism (Mestia, Svaneti) and food processing (Shida Kartli, Gori).

The project activities will contribute towards the local economic development in the pilot regions, as the trained and retrained persons will be placed into jobs by the participating private employers (e.g. the company Energo-Pro and the water distribution company in Jvari, Agara factory in Shida Kartli) and municipal companies. Furthermore, the project activities will lead to self-employment in certain segments (e.g. tourism and non-agricultural services in Mestia and Shida Kartli), which creates further potential for business development and for building up the value chains in the pilot regions and sectors). The action will thus contribute to sustainable livelihoods in the mountainous areas and conflict affected areas.

The key stakeholders at the national level include MoES, MoLHSA, their structures (NCEQE, ESS), social partners' organisations, selected vocational colleges and training providers. The stakeholders have experience in the implementation of activities aimed at improving the quality of VET education and reducing the skills mismatch in Georgia. The stakeholders broadly coordinate their actions in the framework of the tripartite national VET Council. The project objectives coincide with the goals expressed in the stakeholders' program documents, such as the National Strategy of VET and the National Strategy for Labour Market Formation in Georgia. Leading officials at the MoES and MoLHSA have been consulted and expressed their interest and support for the proposed activities. Representatives of the target group organizations and beneficiaries (including women, PWD, youth, IDP and conflict affected area population) will participate in the task force dedicated to the specific

objectives and capacity development in the field of formal and non-formal VET-based training and linkages to labour market.

The information about project activities will be permanently disseminated by the dedicated project website, leaflets and other dissemination channels (meetings, workshops, etc.). The EU logos will be used throughout the project materials and publications that will acknowledge the EU support. The project will provide active inputs into the media/visibility campaigns by the UNDP and the GEA.

2.1.2 Duration and indicative action plan for implementing the action

The duration of the action will be 24 months.

Applicants should not give a specific start-up date for the implementation of the action but simply refer to 'month 1', 'month 2', etc.

Applicants are recommended to base the estimated duration of each activity and the total period on the most probable duration and not on the shortest possible duration, by taking into consideration all relevant factors that may affect the implementation timetable.

The activities stated in the action plan should match those described in detail in Section 2.1.1. The implementing body must be either the applicants or any of the affiliated entity(ies), associates or subcontractors. Any months or interim periods without activities must be included in the action plan and count toward the calculation of the total estimated duration of the action.

The action plan for the first 12 months of implementation should be sufficiently detailed to give an overview of the preparation and implementation of each activity. The action plan for each of the subsequent years may be more general and should only list the main activities proposed for those years. To this end, it must be divided into six-month periods (NB: A more detailed action plan for each subsequent year must be submitted before any new pre-financing payments are received under Article 4.1 of the Special Conditions of the grant contract).

Duration and indicative action plan for implementing the action (max 4 pages)

| Year 1 | | | | | | | | | | | | | | Implementing body |
|--|-------------|---|---|---|---|---|-------------|---|---|----|----|----|--------|--|
| Activity | Half-year 1 | | | | | | Half-year 2 | | | | | | months | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | | |
| Preparation Activity 1.1 <i>Monitoring and introduction and effectiveness of modular teaching in VET</i> | | | | | | | | | | | | | | UNDP, GEA |
| Execution Activity 1.1 | | | | | | | | | | | | | | UNDP, GEA |
| Preparation Activity 1.2 <i>Elaborating and implementing the capacity-building program for the involved stakeholders"</i> | | | | | | | | | | | | | | UNDP, GEA |
| Execution Activity 1.2 | | | | | | | | | | | | | | UNDP |
| Preparation Activity 2.1 <i>Introducing innovative ways for accessing VET</i> | | | | | | | | | | | | | | UNDP, GEA |
| Execution Activity 2.1 | | | | | | | | | | | | | | UNDP, Identified Secondary schools in Shida Kartli, GEA |
| Preparation Activity 2.2 <i>Increasing institutional capacity of VET providers (introducing VET education in secondary schools of Shida Kartli, developing partnership with private sector; Introducing learning workshops in the private sector</i> | | | | | | | | | | | | | | UNDP, Identified Secondary schools of Shida Kartli, GEA |
| Execution Activity 2.2 | | | | | | | | | | | | | | UNDP, subcontracted international consultant |
| Preparation Activity 3.1 <i>Develop the concept of non-formal LLL learning in Georgia</i> | | | | | | | | | | | | | | UNDP, subcontracted international consultant |
| Execution Activity 3.1 | | | | | | | | | | | | | | UNDP, subcontracted national and international consultants |
| Preparation Activity 3.2 <i>Identify legal, regulatory and institutional gaps</i> | | | | | | | | | | | | | | |

- b. Institutional sustainability: e.g. structures that would allow the results of the action to continue to be in place after the end of the action, capacity building, agreements and local 'ownership' of action outcomes.
- c. Policy level sustainability: e.g., where applicable, structural impact (improved legislation, consistency with existing frameworks, codes of conduct, or methods).
- d. Environmental sustainability: what impact will the action have on the environment — have conditions been put in place to avoid negative effects on the natural resources on which the action depends and on the broader natural environment?

The proposed action will lead to multiple impacts at several levels. At technical level the impact will be facilitated by a number of technical norms and documents aimed at the regulation, organisation and quality improvement of the training process. Such outputs include, for example:

- Technical Quality standards
- Adapted VET curricula for retraining of adults
- Methodology for assessment of professional competences
- Certification procedures for learning outcomes

At the economic level the main impact will be represented by higher skills and qualifications of VET students and retrained adults that will result in higher employability and higher productivity on the job. A major achievement of the project will be also the possibility to participate in retraining for adults in need of improving their skills. Currently such option is not institutionally supported in Georgia. Finally, a major impact will be achieved through enabling employers to actively participate in the training process (design of standards, practical training on the job, etc.). This experience will be further institutionalised with the support of the relevant Concept note and Action Plan, as well as through active participation of the GEA.

The social impact of the proposed action will include increased attractiveness of VET for VET students and increased prestige of VET training and professions at the individual level. Broader societal impact will be achieved through the newly developed policy notes and concepts institutionalising the non-formal learning and eventually improved legislation (reflection of the policy concepts and recommendations in legal acts such as the VET Law, NQF regulations, preparation of LLL law, etc.)

Dissemination and extension

VET colleges that did not participate in the project will be granted access to the materials and methodologies developed by the project and they will be able to introduce the modular training curricula technical standards and assessment mechanism in their training process, thus spreading the know-how to potentially all VET colleges in the country.

The experience of private employers who participate in the VET retraining will be spread to other private sector companies (with the assistance of the GEA and other sector or professional associations).

The project follow-up will be enabled also by the equipment procured under the project, which will be at the end of the project transferred to the partner institutions under a standard transfer act accompanied by MoU agreement about continued support to the activities piloted by the project..

NCEQE will be enabled to launch accreditation mechanism for granting the right to retraining of adults within the LLL. Further providers will be enabled to enter into adult retraining activities. There is a question whether group of authorized providers will be limited to public VET schools or to private

providers. This is a political decision to be made by the government. However, even if the range of providers remains narrower, the practice of on-the-job based retraining established in the course of the project will have enabled private companies to retrain their own employees on the job.

At the local level meetings were held with the Governor of Tsalenjikha Municipality and his team, local municipality in Mestia and Khashuri (Shida Kartli), representatives and staff of the VET colleges Lakada (Jvari), Tetnuldi (Mestia) and representatives of the Gori University. The local stakeholders expressed their full support to the proposed action. The meetings revealed a large potential for further follow-up and sustainability of the proposed activities and their development in the segment of business development services in tourism (Mestia, Svanetia).

The project activities will contribute towards the local economic development in the pilot regions, as the trained and retrained persons will be placed into jobs by the participating private employers (e.g. the company Energo Pro and the water distribution company in Jvari, Agara factory in Shida Kartli) and municipal companies. Furthermore, the project activities will lead to self-employment in certain segments (e.g. tourism and non-agricultural services in Mestia and Shida Kartli), which creates further potential for business development and for building up the value chains in the pilot regions and sectors. The action will thus contribute to sustainable livelihoods in the mountainous areas and conflict affected areas.

Risk analysis

Physical risks

Physical risks under the action include any injuries or damages that could happen during the training process. In order to guarantee the safety of the training process, two precautions will be held. Firstly, the VET curricula contain modules on occupational health and work safety that are adapted to the trained profession. These will be used in the course of training and retraining. Secondly, the teachers will be trained also in the health and safety procedures as a part of their capacity building program. Furthermore, the quality standards and monitoring developed during the adaptation process will provide assurance that the training activities will be free of any physical risks.

Another physical risk rests in the possibility of further conflicts in the border areas (as the project plans some operations in the conflict affected zones of Shida Kartli). The contingency plan would include evacuation of project staff and equipment. Activities implemented by the UNDP are monitored by the UN Security staff. All UNDP officials and experts operating in the regions with higher security phases are trained in Basic Security in the Field (BSIF) and Advanced Security in the Field (ASIF). UNDP vehicles possess security features and equipment Radio connections, etc.), and they are regularly monitored by the UN security staff. However, it is not likely that during the project time span there would be an escalation of the conflict in border areas. The mountainous regions are not exposed to the conflict due to its geographical location.

Political risks

Political risks are represented mainly by the change of the Government, which could result in a shift of the overall political paradigm towards more liberal approaches. However, as the current Government is determined to strengthen labour market structures and to lead the country towards EU standards, it is unlikely that the current course would be abandoned. Furthermore, the time horizon of the project is within the scope of the current term of the current Government, thus a stable political regime and support can be expected. In this respect a safeguarding clause is the reference to the promotion of lifelong learning in the Association Agreement between the EU and Georgia. The Agreement is likely to be respected by any Georgian Government in the foreseeable future, thus securing the political support at the highest level.

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Economic risks

The main economic risk dwells in the volatility of the exchange rate EUR/USD. Given that the applicant carries out its operations in USD, further depreciation of EUR vis-à-vis the USD would bring about financial losses in the implementation phase. The magnitude of financial losses in relation to the USD/EUR exchange rate is illustrated in the table below:

| USD/EUR | EUR | 100 000 | Difference | EUR | 500 000 | Difference |
|---------|-----|---------|------------|-----|---------|------------|
| 1,1239 | USD | 112 390 | | USD | 561 950 | |
| 1 | USD | 100 000 | 12 390 | USD | 500 000 | 61 950 |
| 0,9 | USD | 90 000 | 22 390 | USD | 450 000 | 111 950 |

The table implies that at the current ECB exchange rate of 1,1239 USD/EUR (as of 13 May 2015), the USD equivalent the total requested contribution from the EC is 112390 USD. However, if the Euro depreciates to 1 USD/EUR, the equivalent will decrease to 500 000 USD, and in case of further depreciation 0,9 USD/EUR the equivalent would decrease further to 450 000 USD. Thus the move of the exchange rate from 1,1239 to 0,9 could bring about a financial loss in the interval (0-111 950) USD. However, the lower bound of depreciation is consistent with rather pessimistic scenario about the Euro zone development. It is more likely that the FED activities will prevent the strong USD appreciation. Therefore, the depreciation to 1 USD/EUR can be considered as the limiting case, implying total loss of 61 950 USD. The mitigation strategy will be based on the expectation of the EUR depreciation within the suggested limits and taking special precautions during the project implementation (interim financial balance, continuous update and projection of the expenditures) by the project managers to make sure that the activities would not be stalled by any financial losses incurred due to the exchange rate differences.

Finally, there are no direct social risks embedded in the proposed action. Likewise, there are no clear environmental risks associated with the action.

Sustainability of the action**Financial sustainability**

Financial sustainability will be achieved by both public and private resources. The Government will fund the implementation of training for the VET curricula that have been accredited for the VET colleges by the NCEQE. Thus the curricula adapted and introduced under the project will be institutionalized with the government funding. Furthermore, the rehabilitation and refurbishment of the VET colleges in pilot regions have been already underway in both Jvari and Mestia. In the private sector further means will be invested in the training activities by the employers and companies that will continue to benefit from the skilled workers retrained at their premises or for their production activities.

Municipalities also pledged continued financial support to the project activities when the retrained staff will be employed by the municipality and municipal companies (for example, the Jvari village of (Tsalenkikha Municipality) is a site of a large-scale construction in the area of energy transmission and expressed urgent need in retrained workers in several related professions – welders, plumbers, etc.).

Institutional stability

Institutional sustainability will be achieved through the direct involvement of VET colleges and employers (companies) in the training process. In this regard the capacity building of employers will play a major role. The institutional sustainability will be further strengthened through local ownership of the municipalities and other local actors and stakeholders (described in the previous sections) that

will establish closer ties with each other in the format resembling LED forum (in Jvari) or LED agency (in Mestia)

Policy level sustainability

Sustainability at the policy level will be achieved mainly due to the conceptual work planned under the Specific Objective 2 of the proposed action. In particular, the development of Concept Note aimed at non-formal training and its conceptualisation within a broader LLL framework, as well as the related Action Plan would provide policy anchors that would guarantee further follow up at the national level. Major elements of the proposed policies will involve the accreditation process (by NCEQE) and certification process (by training providers). The activities could eventually result also in improved legislation in the LLL field (Act on Employment, Act on VET, Act on LLL).

Environmental sustainability

The action is environmentally neutral as it does not have direct impact on the environment. However, in a smaller scale the impact can be possibly positive due to the effect of the quality standards for the training process that is directly related to quality and safety.

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LOGICAL FRAMEWORK

Project "Deepening linkages between formal/non-formal VET system and labour market needs in the context of lifelong learning in Georgia"

| | Intervention logic | Objectively verifiable indicators of achievement | Sources and means of verification | Assumptions |
|----------------------------|---|--|---|--|
| Overall objective | " Formal/non-formal VET system responds to labour market needs and promotes lifelong learning in Georgia" | " Indicator 1- Placement rate of VET trainees and re-trainees reaches at least 60%" "Indicator 2- VET retraining of adults in the pilot professions leads to formal certification linked to the relevant occupational standards" "Indicator 3- Modular VET training and retraining of adults is introduced based on PPP schemes" | Data base of Employment Support Service (Worknet) System of informal VET certification system is introduced MoUs signed between the employers/trainees and VET colleges, employers joining the Boards of Trustees of the selected VET colleges | The National Strategy of Labour Market Formation by MoLSHA and the relevant action plans continue to support adult retraining among the active labour market measures in Georgia Employers are interested in participating in the retraining in order to secure skilled workers |
| Specific objectives | SO1 – "Quality of the formal VET education is improved and it responds more effectively to labour market needs" | SO1. Indicator 1 – Employers participation and contribution to the application of modular training programmes and elaboration of teaching materials in VET colleges"; modular curricula for 4 professions are developed in cooperation with the GEA. SO1. Indicator 2 " Share of certified VET graduates reaches 95%". | MoUs on cooperation signed between the employers/trainees organizations and VET colleges, VET colleges' authorisation/accreditation for new modular programmes implementation from NCEQE. Regular tracer study of VET graduates undertaken regularly | NCEQE continues the process of modularization of the VET curricula in Georgia The teaching process schedule allows to track the certification process unlike the employment where detection of employment status if graduates is possible after some time lag MoLSHA takes an active role in the development of the Concept in cooperation with other key stakeholders (MoES, social partners, etc.) |
| | SO2 – " Non-formal VET learning is introduced and recognized in Georgia" | SO2. Indicator 1- Concept of non-formal VET learning is adopted by the Ministry of Labour, Health and Social Affairs " SO2. Indicator 2 " Modular VET retraining for adults is introduced in Georgia " : retraining in total 8 vocations introduced in at least 2 public VET colleges and at least 2 private employers" | Collection of regulatory acts Training materials adapted, assessment standards introduced, and VET staff trained to teach on the basis of modular curricula | MoES/NCEQE and MoLSHA cooperate in setting the rules of the certification process |
| Expected results | R1 – "Increased employability and productivity of VET graduates " | 1.1 "Indicator 1- placement rate of VET trainees and re-trainees 6 months from after graduation in pilot locations increases " : to 60% (baseline NA) (R1) | Tracer study of VET trainees, re-trainees and graduates (Indicator 1.1, 1.2) | Modular VET training curricula for selected professions are accredited with the NCEQE in a due time to be ready for their use by the VET colleges as of 2016. The status will be detected after completion of the project. |

| | | | |
|---|--|--|---|
| | <p>Training, Studies, TA: International Consultancy</p> | <p>A2.1.1: Other costs, services EUR 40,200 A2.1.1.1: Vehicle purchase EUR 21,000 A2.1.1.1: Teaching equipment and inventory EUR 8,500 A2.1.2: Other costs, services EUR 17,600 A2.1.3: Other costs, services EUR 8,800 A2.1.4: EOther costs, services EUR 15,000</p> | <p>areas</p> <p>Agreement and participation of private employers is secured Agreements with other educational institutions/providers abroad are secured</p> |
| | | | <p>Agreement and participation of private employers and secondary schools is secured</p> |
| <p>A2.1.1 Mobile VET centre A2.1.2 Distance learning, e-learning A2.1.3 On-the-job training; A2.1.4. Supporting international mobility of students</p> | <p>A2.2 – Staff, Equipment, Supplies, Training, Operational facilities</p> | <p>Project website; Project report; Websites of the partners A2.2.1 Other services, costs: EUR 50,000 A2.2.2 Other services, costs: EUR 8,800</p> | <p>Agreement and participation of private employers and secondary schools is secured</p> |
| <p>A2.2.1 - introducing VET education in secondary schools of Shida Kartli A2.2.2 - developing partnership with private sector; Introducing learning workshops in the private sector</p> | <p>A3.1 – Staff, TA: International consultancy, Study</p> | <p>Project website; Project reporting; Partners/Stakeholders 'websites'; Publications Other services, costs: EUR 22,300 Costs of conferences/seminars: EUR 2,580</p> | <p>Cooperation and participation of the key stakeholders at the national level (MoLSHA, MoES, social partners, etc.) is secured</p> |
| <p>A3 A3.1 – " Develop the concept of non-formal LLL learning in Georgia " (R3) A3.2 – " Identify legal, regulatory and institutional gaps " (R3)</p> | <p>A3.2 – Staff, TA: International consultancy, Study</p> | | <p>Participatory approach towards the identification of the gaps within complex framework (viewpoints of all relevant stakeholders including final beneficiaries and notably vulnerable beneficiaries are</p> |

| | | | | | |
|--|--|--|--|---|--|
| | | | | Overall management: Human resources: EUR 102,200 Computer equipment: EUR 2,500 Local office costs: EUR 30,780 Audit cost: EUR 3,500 Evaluation cost: EUR 4,495 | |
| | | | | | Certification process is facilitated in cooperation with the national authorities (MoES and/or MoLSHA) |

ACRONYMS USED:

NCEQE - National Centre for Enhanced Quality of Education

MoES – Ministry of Education and Science

MoLSHA – Ministry of Labour, Health and Social Affairs

LLL – Life-long Learning

IDP's - Internally Displaced Persons

TA: technical assistance

ESIDA – Education and Scientific Infrastructure Development Agency

ANNEX II
General Conditions applicable to European Union-financed grant contracts for external actions

CONTENTS

Explanations of the terms used throughout these General Conditions may be found in the 'Glossary of terms', Annex A1 to the Practical Guide.

In case of operating grants, the term "Action" should be understood as "Work Programme".

The term "Coordinator" refers to the Beneficiary identified as the Coordinator in the Special Conditions.

The term "Beneficiary(ies)" refers collectively to all Beneficiaries, including the Coordinator, of the Action. When there is only one Beneficiary of the Action, the terms Beneficiary(ies) and Coordinator should both be understood as referring to the only Beneficiary of the Action.

The term "party(ies) to this Contract" refers to the party signatory of this Contract (i.e. the Beneficiary(ies) and the Contracting Authority).

All references to "days" in this Contract are to calendar days, unless otherwise specified.

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GENERAL AND ADMINISTRATIVE PROVISIONS

ARTICLE 1 - GENERAL PROVISIONS

General principles

- 1.1. The Beneficiary(ies) and the Contracting Authority are the only parties to this Contract. Where the European Commission is not the Contracting Authority, it is not party to this Contract, which confers on the European Commission only the rights and obligations explicitly mentioned in this Contract.
- 1.2. This Contract and the payments attached to it may not be assigned to a third party in any manner whatsoever without the prior written consent of the Contracting Authority.

Data protection

- 1.3. Any personal data will be processed solely for the purposes of the performance, management and monitoring of this Contract by the Contracting Authority and may also be passed to the bodies charged with monitoring or inspection tasks under European Union law. Beneficiaries will have the right of access to their personal data and the right to rectify any such data. If the Beneficiary(ies) have any queries concerning the processing of personal data, they shall address them to the Contracting Authority. The Beneficiary(ies) will have right of recourse at any time to the European Data Protection Supervisor.
- 1.4. The Beneficiary(ies) shall limit access and use of personal data to that strictly necessary for the performance, management and monitoring of this Contract and shall adopt all appropriate technical and organisational security measures necessary to preserve the strictest confidentiality and limit access to this data.

Role of the Beneficiary(ies)

- 1.5. The Beneficiary(ies) shall:
 - a) carry out the Action jointly and severally vis-a-vis the Contracting Authority taking all necessary and reasonable measures to ensure that the Action is carried out in accordance with the Description of the Action in Annex I and the terms and conditions of this Contract.

To this purpose, the Beneficiary(ies) shall implement the Action with the requisite care, efficiency, transparency and diligence, in line with the principle of sound financial management and with the best practices in the field.
 - b) be responsible for complying with any obligation incumbent on them from this Contract jointly or individually;
 - c) forward to the Coordinator the data needed to draw up the reports, financial statements and other information or documents required by this Contract and the Annexes thereto, as well as any information needed in the event of audits, checks, monitoring or evaluations, as described in Article 16;
 - d) ensure that all information to be provided and requests made to the Contracting Authority are sent via the Coordinator;
 - e) agree upon appropriate internal arrangements for the internal coordination and representation of the Beneficiary(ies) vis- a-vis the Contracting Authority for any matter concerning this Contract, consistent with the provisions of this Contract and in compliance with the applicable legislation(s).

Role of the Coordinator

1.6. The Coordinator shall:

- a) monitor that the Action is implemented in accordance with this Contract and ensure coordination with all Beneficiary(ies) in the implementation of the Action;
- b) be the intermediary for all communications between the Beneficiary(ies) and the Contracting Authority;
- c) be responsible for supplying all documents and information to the Contracting Authority which may be required under this Contract, in particular in relation to the narrative reports and the requests for payment. Where information from the Beneficiary(ies) is required, the Coordinator shall be responsible for obtaining, verifying and consolidating this information before passing it on to the Contracting Authority.

Any information given, as well as any request made by the Coordinator to the Contracting Authority, shall be deemed to have been given in agreement with all Beneficiary(ies);

- d) inform the Contracting Authority of any event likely to affect or delay the implementation of the Action;
- e) inform the Contracting Authority of any change in the legal, financial, technical, organisational or ownership situation of any of the Beneficiary(ies), as well as, of any change in the name, address or legal representative of any of the Beneficiary(ies);
- f) be responsible in the event of audits, checks, monitoring or evaluations, as described in Article 16 for providing all the necessary documents, including the accounts of the Beneficiary(ies), copies of the most relevant supporting documents and signed copies of any contract concluded according to Article 10.
- g) have full financial responsibility for ensuring that the Action is implemented in accordance with this Contract;
- h) make the appropriate arrangements for providing the financial guarantee, when requested, under the provisions of Article 4.2 of the Special Conditions
- i) establish the payment requests in accordance with the Contract;
- j) be the sole recipient, on behalf of all of the Beneficiary(ies), of the payments of the Contracting Authority. The Coordinator shall ensure that the appropriate payments are then made to the Beneficiary(ies) without unjustified delay;
- k) not delegate any, or part of, these tasks to the Beneficiary(ies) or other entities.

ARTICLE 2 - OBLIGATION TO PROVIDE FINANCIAL AND NARRATIVE REPORTS

2.1. The Beneficiary(ies) shall provide the Contracting Authority with all required information on the implementation of the Action. The report shall be laid out in such a way as to allow comparison of the objective(s), the means envisaged or employed, the results expected and obtained and the budget details for the Action. The level of detail in any report should match that of the Description of the Action and of the Budget for the Action. The Coordinator shall collect all the necessary information and draw up consolidated interim and final reports. These reports shall:

- a) cover the Action as a whole, regardless of which part of it is financed by the Contracting Authority;
- b) consist of a narrative and a financial report drafted using the templates provided in Annex VI;
- c) provide a full account of all aspects of the Action's implementation for the period covered, including in case of simplified cost options the qualitative and quantitative

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information needed to demonstrate the fulfilment of the conditions for reimbursement established in this Contract ;

- d) be drafted in the currency and language of this Contract;
 - e) include any update on the Communication plan as provided by Article 6.2
 - f) include any relevant reports, publications, press releases and updates related to the Action;
- 2.2. Additionally the final report shall:
- a) cover any period not covered by the previous reports
 - b) include the proofs of the transfers of ownership as referred to in Article 7.5.
- 2.3. The Special Conditions may set out additional reporting requirements.
- 2.4. The Contracting Authority may request additional information at any time. The Coordinator shall provide this information within 30 days of the request, in the language of the Contract.
- 2.5. Reports shall be submitted with the payment requests, according to Article 15. If the Coordinator fails to provide any report or fails to provide any additional information requested by the Contracting Authority within the set deadline without an acceptable and written explanation of the reasons, the Contracting Authority may terminate this Contract according to Article 12.2 (a) and (f).

ARTICLE 3 - LIABILITY

- 3.1. The Contracting Authority cannot under any circumstances or for any reason whatsoever be held liable for damage or injury sustained by the staff or property of the Beneficiary(ies) while the Action is being carried out or as a consequence of the Action. The Contracting Authority cannot, therefore, accept any claim for compensation or increases in payment in connection with such damage or injury.
- 3.2. The Beneficiary(ies) shall assume sole liability towards third parties, including liability for damage or injury of any kind sustained by them while the Action is being carried out or as a consequence of the Action. The Beneficiary(ies) shall discharge the Contracting Authority of all liability arising from any claim or action brought as a result of an infringement of rules or regulations by the Beneficiary(ies) or the Beneficiary(ies)'s employees or individuals for whom those employees are responsible, or as a result of violation of a third party's rights. For the purpose of this Article 3 employees of the Beneficiary(ies) shall be considered third parties.

ARTICLE 4 - CONFLICT OF INTERESTS AND GOOD CONDUCT

- 4.1. The Beneficiary(ies) shall take all necessary measures to prevent or end any situation that could compromise the impartial and objective performance of this Contract. Such conflict of interests may arise in particular as a result of economic interest, political or national affinity, family or emotional ties, or any other relevant connection or shared interest.
- 4.2. Any conflict of interests which may arise during performance of this Contract must be notified in writing to the Contracting Authority without delay. In the event of such conflict, the Coordinator shall immediately take all necessary steps to resolve it.
- 4.3. The Contracting Authority reserves the right to verify that the measures taken are appropriate and may require additional measures to be taken if necessary.

- 4.4. The Beneficiary(ies) shall ensure that its staff, including its management, is not placed in a situation which could give rise to conflict of interests. Without prejudice to its obligation under this Contract, the Beneficiary(ies) shall replace, immediately and without compensation from the Contracting Authority, any member of its staff in such a situation.
- 4.5. The Beneficiary(ies) shall respect human rights and applicable environmental legislation including multilateral environmental agreements, as well as internationally agreed core labour standards.

ARTICLE 5 - CONFIDENTIALITY

- 5.1. Subject to Article 16, the Contracting Authority and the Beneficiary(ies) undertake to preserve the confidentiality of any information, notwithstanding its form, disclosed in writing or orally in relation to the implementation of this Contract and identified in writing as confidential until at least 5 years after the payment of the balance.
- 5.2. The Beneficiary(ies) shall not use confidential information for any aim other than fulfilling their obligations under this Contract unless otherwise agreed with the Contracting Authority.
- 5.3. Where the European Commission is not the Contracting Authority it shall still have access to all documents communicated to the Contracting Authority and shall maintain the same level of confidentiality.

ARTICLE 6 - VISIBILITY

- 6.1. Unless the European Commission agrees or requests otherwise, the Beneficiary(ies) shall take all necessary steps to publicise the fact that the European Union has financed or co-financed the Action. Such measures shall comply with the Communication and Visibility Manual for European Union External Actions laid down and published by the European Commission, that can be found at:
http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibility_manual_en.pdf
or with any other guidelines agreed between the European Commission and the Beneficiary(ies).
- 6.2. The Coordinator shall submit a communication plan for the approval of the European Commission and report on its implementation in accordance with Article 2.
- 6.3. In particular, the Beneficiary(ies) shall mention the Action and the European Union's financial contribution in information given to the final recipients of the Action, in its internal and annual reports, and in any dealings with the media. It shall display the European Union logo wherever appropriate.
- 6.4. Any notice or publication by the Beneficiary(ies) concerning the Action, including those given at conferences or seminars, shall specify that the Action has received European Union funding. Any publication by the Beneficiary(ies), in whatever form and by whatever medium, including the internet, shall include the following statement: 'This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of < Beneficiary(ies)'s name > and can under no circumstances be regarded as reflecting the position of the European Union.'
- 6.5. The Beneficiary(ies) authorises the Contracting Authority and the European Commission (where it is not the Contracting Authority) to publish its name and address, nationality, the purpose of the grant, duration and location as well as the maximum amount of the grant and the rate of funding of the Action's costs, as laid down in Article 3 of the Special

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Conditions. Derogation from publication of this information may be granted if it could endanger the Beneficiary(ies) or harm their interests.

ARTICLE 7 - OWNERSHIP/USE OF RESULTS AND ASSETS

- 7.1. Unless otherwise stipulated in the Special Conditions, ownership of, and title and intellectual and industrial property rights to, the Action's results, reports and other documents relating to it will be vested in the Beneficiary(ies).
- 7.2. Without prejudice to Article 7.1, the Beneficiary(ies) grant the Contracting Authority (and the European Commission where it is not this Contracting Authority) the right to use freely and as it sees fit, and in particular, to store, modify, translate, display, reproduce by any technical procedure, publish or communicate by any medium all documents deriving from the Action whatever their form, provided it does not thereby breach existing industrial and intellectual property rights.
- 7.3. The Beneficiary(ies) shall ensure that it has all rights to use any pre-existing intellectual property rights necessary to implement this Contract.
- 7.4. In case natural, recognizable persons are depicted in a photograph or film, the Coordinator shall, in the final report to the Contracting Authority, submit a statement of these persons giving their permissions for the described use of their images. The above does not refer to photographs taken or films shot in public places where random members of the public are identifiable only hypothetically and to public persons acting in their public activities.
- 7.5. Unless otherwise clearly specified in the Description of the Action in Annex I, the equipment, vehicles and supplies paid for by the Budget for the Action shall be transferred to the final beneficiaries of the Action, at the latest when submitting the final report.

If there are no final beneficiaries of the Action to whom the equipment, vehicles and supplies can be transferred, the Beneficiary(ies) may transfer these items to:

- local authorities
- local Beneficiary(ies)
- local affiliated entity(ies)
- another action funded by the European Union
- or, exceptionally, retain ownership of these items.

In such cases, the Coordinator shall submit a justified written request for authorisation to the Contracting Authority, with an inventory listing the items concerned and a proposal concerning their use, in due time and at the latest with the submission of the final report.

In no event may the end use jeopardize the sustainability of the Action or result in a profit for the Beneficiary(ies).

- 7.6 Copies of the proofs of transfer of any equipment and vehicles for which the purchase cost was more than EUR 5000 per item, shall be attached to the final report. Proofs of transfer of equipment and vehicles whose purchase cost was less than EUR 5000 per item shall be kept by the Beneficiary(ies) for control purposes.

ARTICLE 8 – EVALUATION/MONITORING OF THE ACTION

- 8.1. If the European Commission carries out an interim or ex post evaluation or a monitoring mission, the Coordinator shall undertake to provide it and/or the persons authorised by it with the documents or information necessary for the evaluation or monitoring mission.

Representatives of the European Commission shall be invited to participate in the main monitoring and in the evaluation missions relating to the performance of the Action performed by the Beneficiary(ies).

- 8.2. If either the Beneficiary(ies) or the European Commission carries out or commissions an evaluation in the course of the Action, it shall provide the other with a copy of the evaluation report.

ARTICLE 9 — AMENDMENT OF THE CONTRACT.

- 9.1. Any amendment to this Contract, including the annexes thereto, shall be set out in writing. This Contract can be modified only during its execution period.
- 9.2. The amendment may not have the purpose or the effect of making changes to this Contract that would call into question the grant award decision or be contrary to the equal treatment of applicants. The maximum grant referred to in Article 3.2 of the Special Conditions may not be increased.
- 9.3. If an amendment is requested by the Beneficiary(ies), the Coordinator shall submit a duly justified request to the Contracting Authority thirty days before the date on which the amendment should enter into force, unless there are special circumstances duly substantiated and accepted by the Contracting Authority.
- 9.4. Where the amendment to the Budget or Description of the Action does not affect the basic purpose of the Action and the financial impact is limited to a transfer between items within the same main budget heading including cancellation or introduction of an item, or a transfer between main budget headings involving a variation of 25% or less of the amount originally entered (or as modified by addendum) in relation to each concerned main heading for eligible costs, the Coordinator may amend the budget and inform the Contracting Authority accordingly, in writing and at the latest in the next report. This method may not be used to amend the headings for indirect costs, for the contingency reserve, for in-kind contributions or the amounts or rates of simplified cost options.
- 9.5. Changes of address, bank account or auditor may simply be notified by the Coordinator. However, in duly substantiated circumstances, the Contracting Authority may oppose the Coordinator's choice.
- 9.6. The Contracting Authority reserves the right to require that the auditor referred to in Article 5.2 of the Special Conditions be replaced if considerations which were unknown when this Contract was signed cast doubt on the auditor's independence or professional standards.

ARTICLE 10 — IMPLEMENTATION

Implementation contracts

- 10.1. If the Beneficiary(ies) have to conclude implementation contracts with contractors in order to carry out the Action, these may only cover a limited portion of the Action and shall respect the contract-award procedures and rules of nationality and origin set out in Annex IV of this Contract.
- 10.2. To the extent relevant, the Beneficiary(ies) shall ensure that the conditions applicable to them under Articles 3, 4, 5, 6, 7, 8 and 16 of these General Conditions are also applicable to contractors awarded an implementation contract.
- 10.3. The Coordinator shall provide in its report to the Contracting Authority a comprehensive and detailed report on the award and implementation of the contracts awarded under article 10.1, in accordance with the reporting requirements in section 2 of Annex VI.

Financial support to third parties

- 10.4. In order to support the achievement of the objectives of the Action, and in particular where the implementation of the Action requires financial support to be given to third parties, the Beneficiary(ies) may award financial support if so provided by the Special Conditions.
- 10.5. The maximum amount of financial support shall be limited to EUR 60 000 per each third party, except where the main purpose of the Action is to redistribute the grant.
- 10.6. The Description of the Action, in conformity with the relevant instructions given in this regard by the Contracting Authority, shall define the types of entities eligible for financial support and include a fixed list with the types of activity which may be eligible for financial support. The criteria for the selection of the third parties recipient of this financial support, including the criteria for determining its exact amount, shall also be specified.
- 10.7. The Coordinator shall provide in its report to the Contracting Authority a comprehensive and detailed report on the award and implementation of any financial support given. These reports should provide, amongst other, information on the award procedures, on the identities of the recipient of financial support, the amount granted, the results achieved, the problems encountered and solutions found, the activities carried out as well as a timetable of the activities which still need to be carried out.
- 10.8. To the extent relevant, the Beneficiary(ies) shall ensure that the conditions applicable to them under Articles 3, 4, 5, 6, 7, 8 and 16 of these General Conditions are also applicable to third parties awarded financial support.

ARTICLE 11 – EXTENSION AND SUSPENSION

Extension

- 11.1. The Coordinator shall inform the Contracting Authority without delay of any circumstances likely to hamper or delay the implementation of the Action. The Coordinator may request an extension of the Action's implementation period as laid down in Article 2 of the Special Conditions in accordance to Article 9. The request shall be accompanied by all the supporting evidence needed for its appraisal.

Suspension by the Coordinator

- 11.2. The Coordinator may suspend implementation of the Action, or any part thereof, if exceptional circumstances, notably of force majeure, make such implementation excessively difficult or dangerous. The Coordinator shall inform the Contracting Authority without delay, stating the nature, probable duration and foreseeable effects of the suspension.
- 11.3. The Coordinator or the Contracting Authority may then terminate this Contract in accordance with Article 12.1. If the Contract is not terminated, the Beneficiary(ies) shall endeavour to minimise the time of its suspension and any possible damage and shall resume implementation once circumstances allow, informing the Contracting Authority accordingly.

Suspension by the Contracting Authority

- 11.4. The Contracting Authority may request the Beneficiary(ies) to suspend implementation of the Action, or any part thereof, if exceptional circumstances, notably of force majeure, make such implementation excessively difficult or dangerous. To this purpose, the Contracting Authority shall inform the Coordinator stating the nature and probable duration of the suspension.

- 11.5. The Coordinator or the Contracting Authority may then terminate this Contract in accordance with Article 12.1. If the Contract is not terminated, the Beneficiary(ies) shall endeavour to minimise the time of its suspension and any possible damage and shall resume implementation once circumstances allow and after having obtained the approval of the Contracting Authority.
- 11.6. The Contracting Authority may also suspend this Contract or the participation of a Beneficiary(ies) in this Contract if the Contracting Authority has evidence that, or if, for objective and well justified reasons, the Contracting Authority deems necessary to verify whether presumably:
- a) the grant award procedure or the implementation of the Action have been subject to substantial errors, irregularities or fraud;
 - b) the Beneficiary(ies) have breached any substantial obligation under this Contract.
- 11.7. The Coordinator shall provide any requested information, clarification or document within 30 days of receipt of the requests sent by the Contracting authority. If, notwithstanding the information, clarification or document provided by the Coordinator, the award procedure or the implementation of the grant prove to have been subject to substantial errors, irregularities, fraud, or breach of obligations, then the Contracting Authority may terminate this Contract according to Article 12(2) h.

Force majeure

- 11.8. The term force majeure, as used herein covers any unforeseeable events, not within the control of either party to this Contract and which by the exercise of due diligence neither party is able to overcome such as acts of God, strikes, lock-outs or other industrial disturbances, acts of the public enemy, wars whether declared or not, blockades, insurrection, riots, epidemics, landslides, earthquakes, storms, lightning, floods, washouts, civil disturbances, explosion. A decision of the European Union to suspend the cooperation with the partner country is considered to be a case of force majeure when it implies suspending funding under this Contract.
- 11.9. The Beneficiary(ies) shall not be held in breach of its contractual obligations if it is prevented from fulfilling them by circumstances of force majeure.

Extension of the implementation period following a suspension.

- 11.10. In case of suspension according to Articles 11.2, 11.4 and 11.6, the implementation period of the Action shall be extended by a period equivalent to the length of suspension, without prejudice to any amendment to the Contract that may be necessary to adapt the Action to the new implementing conditions. This Article 11.10 does not apply in case of an operating grant.

ARTICLE 12 — TERMINATION OF THE CONTRACT

Termination in case of force majeure

- 12.1. In the cases foreseen in Article 11.2 and 11.4, if the Coordinator or the Contracting Authority believes that this Contract can no longer be executed effectively or appropriately, it shall duly consult the other. Failing agreement on a solution, the Coordinator or the Contracting Authority may terminate this Contract by serving two months written notice, without being required to pay indemnity.

Termination by the Contracting Authority

- 12.2. Without prejudice to Article 12.1, in the following circumstances the Contracting Authority may, after having duly consulted the Coordinator, terminate this Contract or the participation of any Beneficiary(ies) in this Contract without any indemnity on its part when:
- a) a Beneficiary(ies) fails, without justification, to fulfil any substantial obligation incumbent on them individually or collectively by this Contract and, after being given notice by letter to comply with those obligations, still fails to do so or to furnish a satisfactory explanation within 30 days of receipt of the letter;
 - b) a Beneficiary(ies) is bankrupt or being wound up, is having its affairs administered by the courts, has entered into an arrangement with creditors, has suspended business activities, is the subject of proceedings concerning those matters or is in any analogous situation arising from a similar procedure provided for in national legislation or regulations;
 - c) a Beneficiary(ies), or any related entity or person, have been found guilty of an offence concerning their professional conduct proven by any means;
 - d) a Beneficiary(ies), or any related entity or person, have committed fraud, corruption, or are involved in a criminal organisation, money laundering or any other illegal activity detrimental to the European Union's financial interests;
 - e) a change to a Beneficiary(ies)'s legal, financial, technical, organisational or ownership situation or the termination of the participation of a Beneficiary(ies) substantially affects the implementation of this Contract or calls into question the decision awarding the grant;
 - f) a Beneficiary(ies) or any related person, are guilty of misrepresentation in supplying the information required in the award procedure or in the implementation of the Action or fails to supply – or fails to supply within the deadlines set under this Contract - any information related to the Action required by the Contracting Authority;
 - g) a Beneficiary(ies) has not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provisions of the country in which it is established;
 - h) the Contracting Authority has evidence that a Beneficiary(ies), or any related entity or person, has committed substantial errors, irregularities or fraud in the award procedure or in the implementation of the Action;
 - i) a Beneficiary(ies) is subject to an administrative penalty referred to in Article 12(8);
 - j) the Contracting Authority has evidence that a Beneficiary(ies) is subject to a conflict of interests;
 - k) the European Commission has evidence that a Beneficiary(ies) has committed systemic or recurrent errors or irregularities, fraud, or serious breach of obligations under other grants financed by the European Union and awarded to that specific Beneficiary(ies) under similar conditions, provided that those errors, irregularities, fraud or serious breach of obligations have a material impact on this grant.
- 12.3. In the cases referred to in points (c), (d) (f) (h) and (k) above, any related person means any physical person with powers of representation, decision-making or control in relation to the Beneficiary(ies). Any related entity means, in particular, any entity which meets the criteria laid down by Article 1 of the Seventh Council Directive No 83/349/EEC of 13 June 1983.

Termination of a Beneficiary(ies) participation by the Coordinator

- 12.4. In duly justified cases, the participation of a Beneficiary(ies) in this Contract may be also terminated by the Coordinator. To this purpose, the Coordinator shall communicate to the Contracting Authority the reasons for the termination of its participation and the date on which the termination shall take effect, as well as a proposal on the reallocation of the tasks of the Beneficiary(ies) whose participation is terminated, or on its possible replacement. The proposal shall be sent in good time before the termination is due to take effect. If the Contracting Authority agrees, the Contract shall be amended accordingly in conformity with Article 9.

End date

- 12.5. The payment obligations of the European Union under this Contract shall end 18 months after the implementation period laid down in Article 2 of the Special Conditions, unless this Contract is terminated according to Article 12.

The Contracting Authority shall postpone this end date, so as to be able to fulfil its payment obligations, in all cases where the Coordinator has submitted a payment request in accordance with contractual provisions or, in case of dispute, until completion of the dispute settlement procedure provided for in Article 13. The Contracting Authority shall notify the Coordinator of any postponement of the end date.

- 12.6. This Contract will be terminated automatically if it has not given rise to any payment by the Contracting Authority within two years of its signature.

Effects of Termination

- 12.7. Upon termination of this Contract the Coordinator shall take all immediate steps to bring the Action to a close in a prompt and orderly manner and to reduce further expenditure to a minimum.

Without prejudice to Article 14, the Beneficiary(ies) shall be entitled to payment only for the part of the Action carried out, excluding costs relating to current commitments that are due to be executed after termination.

To this purpose, the Coordinator shall introduce a payment request to the Contracting Authority within the time limit set by Article 15.2 starting from the date of termination.

In the event of termination according to Article 12.1, the Contracting Authority may agree to reimburse the unavoidable residual expenditures incurred during the notice period, provided, the first paragraph of this Article 12.7 has been properly executed.

In the cases of termination foreseen in Article 12.2 a), c), d), f), h) and k) the Contracting Authority may, after having properly consulted the Coordinator and depending on the gravity of the failings, request full or partial repayment of amounts unduly paid for the Action.

Administrative and Financial penalties

- 12.8. Without prejudice to the application of other remedies laid down in the Contract, a Beneficiary(ies) who has made false declarations, substantial errors, irregularities and fraud or was in serious breach of its contractual obligations may be excluded from all contracts and grants financed by the EU for a maximum of five years from the date on which the infringement is established, to be confirmed after an adversarial procedure with the European Commission, in accordance with the Financial Regulations applicable to the contracts covered by the Budget or the EDF. The period may be increased to ten years in the event of a repeated offence within five years of the first infringement.

- 12.9. In addition or in alternative to the administrative sanctions laid down in Article 12.8, a Beneficiary(ies) may also be subject to financial penalties representing 2-10% of the total value of this Contract. This rate may be increased to 4-20% in the event of a repeated offence within five years of the first infringement.
- 12.10. The European Commission shall formally notify the Beneficiary(ies) concerned of any decision to apply such penalties.

ARTICLE 13 — APPLICABLE LAW AND DISPUTE SETTLEMENT

- 13.1. This Contract shall be governed by the law of the country of the Contracting Authority or, where the Contracting Authority is the European Commission, by the European Union law supplemented as appropriate by Belgian law.
- 13.2. The parties to this Contract shall do everything possible to settle amicably any dispute arising between them during the implementation of this Contract. To that end, they shall communicate their positions and any solution that they consider possible in writing, and meet each other at either's request. The Coordinator and the Contracting Authority shall reply to a request sent for an amicable settlement within 30 days. Once this period has expired, or if the attempt to reach amicable settlement has not produced an agreement within 120 days of the first request, the Coordinator or the Contracting Authority may notify the other part that it considers the procedure to have failed.
- 13.3. In the event of failure to reach an amicable agreement, the dispute may by common agreement of the Coordinator and the Contracting Authority be submitted for conciliation by the European Commission if it is not the Contracting Authority. If no settlement is reached within 120 days of the opening of the conciliation procedure, each party may notify the other that it considers the procedure to have failed.
- 13.4. In the event of failure of the above procedures, each party to this Contract may submit the dispute to the courts of the country of the Contracting Authority, or to the Brussels courts where the Contracting Authority is the European Commission.

FINANCIAL PROVISIONS

ARTICLE 14 — ELIGIBLE COSTS

Cost eligibility criteria

- 14.1. Eligible costs are actual costs incurred by the Beneficiary(ies) which meet all the following criteria:
- a) they are incurred during the implementation of the Action as specified in Article 2 of the Special Conditions. In particular:
 - (i) Costs relating to services and works shall relate to activities performed during the implementation period. Costs relating to supplies shall relate to delivery and installation of items during the implementation period. Signature of a contract, placing of an order, or entering into any commitment for expenditure within the implementation period for future delivery of services, works or supplies after expiry of the implementation period do not meet this requirement. Cash transfers between the Coordinator and/or the other Beneficiary(ies) and/or affiliated entity(ies) may not be considered as costs incurred;
 - (ii) Costs incurred should be paid before the submission of the final reports. They may be paid afterwards, provided they are listed in the final report together with the estimated date of payment;

- (iii) An exception is made for costs relating to final reports, including expenditure verification, audit and final evaluation of the Action, which may be incurred after the implementation period of the Action;
 - (iv) Procedures to award contracts, as referred to in Article 10, may have been initiated and contracts may be concluded by the Beneficiary(ies) before the start of the implementation period of the Action, provided the provisions of Annex IV have been respected.
- b) they are indicated in the estimated overall budget for the Action;
 - c) they are necessary for the implementation of the Action;
 - d) they are identifiable and verifiable, in particular being recorded in the accounting records of the Beneficiary(ies) and determined according to the accounting standards and the usual cost accounting practices applicable to the Beneficiary(ies);
 - e) they comply with the requirements of applicable tax and social legislation;
 - f) they are reasonable, justified and comply with the requirements of sound financial management, in particular regarding economy and efficiency.

Eligible direct costs

14.2. Subject to Article 14.1 and, where relevant, to the provisions of Annex IV being respected, the following direct costs of the Beneficiary(ies) shall be eligible:

- a) the cost of staff assigned to the Action, corresponding to actual gross salaries including social security charges and other remuneration-related costs; salaries and costs shall not exceed those normally borne by the Beneficiary(ies), unless it is justified by showing that it is essential to carry out the Action;
- b) travel and subsistence costs for staff and other persons taking part in the Action, provided they do not exceed those normally borne by the Beneficiary(ies) according to its rules and regulations, or the rates published by the European Commission at the time of such mission if reimbursed on the basis of simplified cost options;
- c) purchase costs for equipment (new or used) and supplies specifically for the purposes of the Action, provided that ownership is transferred at the end of the Action when required in Article 7.5;
- d) costs of consumables;
- e) costs entailed by contracts awarded by the Beneficiary(ies) for the purposes of the Action referred to in Article 10.
- f) costs deriving directly from the requirements of the Contract (dissemination of information, evaluation specific to the Action, audits, translation, reproduction, insurance, etc.) including financial service costs (in particular the cost of transfers and financial guarantees where required according to the Contract);
- g) duties, taxes and charges, including VAT, paid and not recoverable by the beneficiaries, unless otherwise provided in the Special Conditions;
- h) overheads, in the case of an operating grant.

Simplified cost options

14.3. In accordance with the detailed provisions in Annex III, eligible costs may also be constituted by any or a combination of the following cost options:

- a) unit costs;
- b) lump sums;
- c) flat-rate financing.

- 14.4. The methods used by the Beneficiary(ies) to determine unit costs, lump sums or flat-rates shall be clearly described and substantiated in Annex III and shall ensure compliance with the no-profit rule and shall avoid double funding of costs. The information used can be based on the Beneficiary(ies)'s historical and/or actual accounting and cost accounting data or on external information where available and appropriate.

Costs declared under simplified cost options shall satisfy the eligibility criteria set out in Article 14.1 and 14.2. They do not need to be backed by accounting or supporting documents, save those necessary to demonstrate the fulfillment of the conditions for reimbursement established in Annex I and III.

These costs may not include ineligible costs as referred to in Article 14.9 or costs already declared under another costs item or heading of the budget of this Contract.

The amounts or rates of unit costs, lump sums or flat-rates set out in Annex III may not be amended unilaterally and may not be challenged by ex post verifications.

- 14.5. The total amount of financing that may be awarded on the basis of simplified cost options may not exceed EUR 60 000 per each Beneficiary, unless otherwise provided for in the Special Conditions.

Contingency reserve

- 14.6. A reserve for contingencies and/or possible fluctuations in exchange rates not exceeding 5% of the direct eligible costs may be included in the budget for the Action, to allow for adjustments necessary in the light of unforeseeable changes of circumstances on the ground. It can be used only with the prior written authorisation of the Contracting Authority, upon duly justified request by the Coordinator.

Indirect costs

- 14.7. The indirect costs for the action are those eligible costs which may not be identified as specific costs directly linked to the implementation of the Action and may not be booked to it directly according to the conditions of eligibility in Article 14.1. However, they are incurred by the Beneficiary(ies) in connection with the eligible direct costs for the Action. They may not include ineligible costs as referred to in Article 14.9 or costs already declared under another costs item or heading of the budget of this Contract.

A fixed percentage of the total amount of direct eligible costs of the Action not exceeding the percentage laid down in Article 3 of the Special Conditions may be claimed to cover indirect costs for the Action. Flat-rate funding in respect of indirect costs does not need to be supported by accounting documents. This amount shall not be taken into account with regard to the maximum amount of simplified cost options.

Indirect costs shall not be eligible under a grant for an action awarded to a Beneficiary who already receives an operating grant financed from the European Union budget during the period in question.

This Article 14.7 does not apply in the case of an operating grant.

In kind contributions

- 14.8. Any contributions in kind, which shall be listed separately in Annex III, do not represent actual expenditure and are not eligible costs. Unless otherwise specified in the Special Conditions, contributions in kind may not be treated as co-financing by the Beneficiary(ies).

If contributions in kind are accepted as co-financing, the Beneficiary(ies) shall ensure they comply with national tax and social security rules.

Notwithstanding the above, if the Description of the Action provides for contributions in kind, such contributions have to be provided.

Non-eligible costs

- 14.9. The following costs shall not be considered eligible:
- a) debts and debt service charges (interest);
 - b) provisions for losses or potential future liabilities;
 - c) costs declared by the Beneficiary(ies) and financed by another action or work programme receiving a European Union grant (including through the European Development Fund);
 - d) purchases of land or buildings, except where necessary for the direct implementation of the Action and according to the conditions specified in the Special Conditions; in all cases the ownership shall be transferred in accordance with Article 7.5, at the latest at the end of the Action;
 - e) currency exchange losses;
 - f) credits to third parties, unless otherwise specified in the Special Conditions
 - g) salary costs of the personnel of national administrations, unless otherwise specified in the Special Conditions and only to the extent that they relate to the cost of activities which the relevant public authority would not carry out if the Action were not undertaken.

Affiliated entities

- 14.10. Where the Special Conditions contain a provision on entities affiliated to a Beneficiary, costs incurred by such entity may be eligible, provided that they satisfy the same conditions under Articles 14 and 16, and that the Beneficiary ensures that Articles 3, 4, 5, 6, 10 and 16 are also applicable to the entity.

ARTICLE 15 — PAYMENT AND INTEREST ON LATE PAYMENT

Payment procedures

- 15.1. The Contracting Authority must pay the grant to the Coordinator following one of the payment procedures below, as set out in Article 4 of the Special Conditions.

Option 1: Actions with an implementation period of 12 months or less or grant of EUR 100 000 or less

- (i) an initial pre-financing payment of 80 % of the maximum amount referred to in Article 3.2 of the Special Conditions (excluding contingencies);
- (ii) the balance of the final amount of the grant.

Option 2: Actions with an implementation period of more than 12 months and grant of more than EUR 100 000

- (i) an initial pre-financing payment of 100 % of the part of the estimated budget financed by the Contracting Authority for the first reporting period (excluding contingencies). The part of the budget financed by the Contracting Authority is

calculated by applying the percentage set out in Article 3.2 of the Special Conditions;

- (ii) further pre-financing payments of 100 % of the part of the estimated budget financed by the Contracting Authority for the following reporting period (excluding not authorised contingencies):
- the reporting period is intended as a twelve-month period unless otherwise provided for in the Special Conditions. When the remaining period to the end of the Action is up to 18 months, the reporting period shall cover it entirely;
 - within 60 days following the end of the reporting period, the Coordinator shall present an interim report or, if unable to do so, it shall inform the Contracting Authority of the reasons and provide a summary of progress of the Action;
 - if at the end of the reporting period the part of the expenditure actually incurred which is financed by the Contracting Authority is less than 70 % of the previous payment (and 100 % of any previous payments), the further pre-financing payment shall be reduced by the amount corresponding to the difference between the 70 % of the previous pre-financing payment and the part of the expenditure actually incurred which is financed by the Contracting Authority;
 - the Coordinator may submit a request for further pre-financing payment before the end of the reporting period, when the part of the expenditure actually incurred which is financed by the Contracting Authority is more than 70 % of the previous payment (and 100 % of any previous payments). In this case, the following reporting period starts anew from the end date of the period covered by this payment request;
 - in addition, for grants of more than EUR 5 000 000, a further pre-financing payment may be made only if the part financed by the Contracting Authority of the eligible costs approved is at least equal to the total amount of all the previous payments excluding the last one;
 - the total sum of pre-financing payments may not exceed 90 % of the amount referred to in Article 3.2 of the Special Conditions, excluding not authorised contingencies;

- (iii) the balance of the final amount of the grant.

Option 3: All Actions

- (i) the final amount of the grant.

Submission of final reports

- 15.2. The Coordinator shall submit the final report to the Contracting Authority no later than three months after the implementation period as defined in Article 2 of the Special Conditions. The deadline for submission of the final report is extended to six months where the Coordinator does not have its headquarters in the country where the Action is implemented.

Payment request

- 15.3. The payment request shall be drafted using the model in Annex V and shall be accompanied by:

- a) a narrative and financial report in line with Article 2;
- b) a forecast budget for the following reporting period in case of request of further pre-financing;
- c) an expenditure verification report or a detailed breakdown of expenditure if required under Article 15.7;

For the purposes of the initial pre-financing payment, the signed contract serves as payment request. A financial guarantee shall be attached if required in the Special Conditions.

Payment shall not imply recognition of the regularity or of the authenticity, completeness and correctness of the declarations and information provided.

Payment deadlines

- 15.4. The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the Contracting Authority.

Further pre-financing payments and payments of the balance shall be made within 60 days of receipt of the payment request by the Contracting Authority.

However, further pre-financing payments and payments of the balance shall be made within 90 days of receipt of the payment request by the Contracting Authority in any of the following cases:

- a) one Beneficiary with affiliated entity(ies);
- b) if more than one Beneficiary is party to this Contract;
- c) if the Commission is not the Contracting Authority
- d) for grants exceeding EUR 5 000 000

The payment request is deemed accepted if there is no written reply by the Contracting Authority within the deadlines set above.

Suspension of the period for payments

- 15.5. Without prejudice to Article 12, the Contracting Authority may suspend the time-limits for payments by notifying the Coordinator that:

- a) the amount indicated in its request of payments is not due, or;
- b) proper supporting documents have not been supplied, or;
- c) the Contracting Authority needs to request clarifications, modifications or additional information to the narrative or financial reports, or;
- d) the Contracting Authority has doubts on the eligibility of expenditure and needs to carry out additional checks, including on-the-spot checks to make sure that the expenditure is eligible, or;
- e) it is necessary to verify whether presumed substantial errors, irregularities or fraud have occurred in the grant award procedure or the implementation of the Action, or;
- f) it is necessary to verify whether the Beneficiary(ies) have breached any substantial obligations under this Contract, or;
- g) the visibility obligations set out in Article 6 are not complied with.

The suspension of the time-limits for payments starts when the above notification is sent by the Contracting Authority to the Coordinator. The time-limit starts running again on the

n.g.

date on which a correctly formulated request for payment is recorded. The Coordinator shall provide any requested information, clarification or document within 30 days of the request.

If, notwithstanding the information, clarification or document provided by the Coordinator, the payment request is still inadmissible, or if the award procedure or the implementation of the grant proves to have been subject to substantial errors, irregularities, fraud, or breach of obligations, then the Contracting Authority may refuse to proceed further with payments and may, in the cases foreseen in Article 12, terminate accordingly this Contract.

In addition, the Contracting Authority may also suspend payments as a precautionary measure without prior notice, prior to, or instead of, terminating this Contract as provided for in Article 12.

Interest on late payment

- 15.6. If the Contracting Authority pays the Coordinator after the time limit, it shall pay default interest as follows:
- a) at the rediscount rate applied by the central bank of the country of the Contracting Authority if payments are in the currency of that country;
 - b) at the rate applied by the European Central Bank to its main refinancing transactions in euro, as published in the Official Journal of the European Union, C series, if payments are in euro,
 - c) on the first day of the month in which the time-limit expired, plus three and a half percentage points. The interest will be payable for the time elapsed between the expiry of the payment deadline and the date on which the Contracting Authority's account is debited.

By way of exception, when the interest calculated in accordance with this provision is lower than or equal to EUR 200, it will be paid to the Coordinator only upon demand submitted within two months of receiving late payment.

The default interest is not considered as income for the purposes of Article 17.2.

This Article 15.6 does not apply if the Coordinator is a European Union Member State, including regional and local government authorities or other public body acting in the name and on behalf of the Member State for the purpose of the Contract.

Expenditure verification report

- 15.7. The Coordinator must provide an expenditure verification report for:
- a) any request for further pre-financing payment in case of grants of more than EUR 5 000 000;
 - b) any final report in the case of a grant of more than EUR 100 000.

The expenditure verification report shall conform to the model in Annex VII and shall be produced by an auditor approved or chosen by the Contracting Authority. The auditor shall meet the requirements set out in the Terms of Reference for expenditure verification in Annex VII.

The auditor shall examine whether the costs declared by the Beneficiary(ies) and the revenue of the Action are real, accurately recorded and eligible under this Contract. The expenditure verification report shall cover all expenditure not covered by any previous expenditure verification report.

If no expenditure verification is required with requests for pre-financing payments, a detailed breakdown of expenditure covering the preceding reporting periods not already covered, shall be provided for every other request for further pre-financing payment and starting with the second request for further pre-financing payment (i.e. 3rd, 5th, 7th... pre-financing payment).

The detailed breakdown of expenditure shall provide the following information for each cost heading in the financial report and for all underlying entries and transactions: amount of the entry or transaction, accounting reference (e.g. ledger, journal or other relevant reference) description of the entry or transaction (detailing the nature of the expenditure) and reference to underlying documents (e.g. invoice number, salary slip or other relevant reference), in line with Article 16.1. It shall be provided in electronic form and spread sheet format (excel or similar) whenever possible.

The detailed breakdown of expenditure shall be supported by a declaration of honour by the Coordinator that the information in the payment request is full, reliable and true and that the costs declared have been incurred and can be considered as eligible in accordance to this Contract.

The final report shall in all cases include a detailed breakdown of expenditure covering the whole Action.

Where the Coordinator is a government department or a public body, the Contracting Authority may accept to substitute the expenditure verification with a detailed breakdown of expenditure.

The expenditure verification report shall not be provided by the Coordinator if the verification is directly done by the Contracting Authority's own staff, by the Commission or by a body authorised to do so on their behalf, according to Article of 5.2 of the Special Conditions.

Financial guarantee

- 15.8. If the grant exceeds EUR 60 000 the Contracting Authority may request a financial guarantee for the amount of the initial pre-financing payment.

The guarantee shall be denominated in euro or in the currency of the Contracting Authority, conforming to the model in Annex VIII and, unless the Contracting Authority agrees otherwise, provided by an approved bank or financial institution established in one of the Member States of the European Union. This guarantee shall remain in force until its release by the Contracting Authority when the payment of the balance is made.

This provision shall not apply if the Coordinator is a non-profit organisation, an organisation which has signed a framework partnership agreement with the European Commission, a government department or public body, unless otherwise stipulated in the Special Conditions.

Rules for currency conversion

- 15.9. The Contracting Authority shall make payments to the Coordinator to the bank account referred to in the financial identification form in Annex V, which allows the identification of the funds paid by the Contracting Authority. The Contracting Authority shall make payments in the currency set in the Special Conditions.

Reports shall be submitted in the currency set out in the Special Conditions, and may be drawn from financial statements denominated in other currencies, on the basis of the Beneficiary(ies)'s applicable legislation and applicable accounting standards. In such case and for the purpose of reporting, conversion into the currency set in the Special

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Conditions shall be made using the rate of exchange at which the Contracting Authority's contribution was recorded in the Beneficiary(ies)'s accounts, unless otherwise provided for in the Special Conditions.

Costs incurred in other currencies than the one used in the Beneficiary(ies)'s accounts shall be converted using the monthly Inforeuro on the date of payment or according to its usual accounting practices if so provided for in the Special Conditions.

In the event of an exceptional exchange-rate fluctuation, the Parties shall consult each other with a view to amending the Action in order to lessen the impact of such a fluctuation. Where necessary, the Contracting Authority may take additional measures such as terminating the Contract.

ARTICLE 16 — ACCOUNTS AND TECHNICAL AND FINANCIAL CHECKS

Accounts

- 16.1. The Beneficiary(ies) shall keep accurate and regular accounts of the implementation of the Action using an appropriate accounting and double-entry book-keeping system.

The accounts:

- a) may be an integrated part of or an adjunct to the Beneficiary(ies)'s regular system;
 - b) shall comply with the accounting and bookkeeping policies and rules that apply in the country concerned;
 - c) shall enable income and expenditure relating to the Action to be easily traced, identified and verified.
- 16.2. The Coordinator shall ensure that any financial report as required under Article 2 can be properly and easily reconciled to the accounting and bookkeeping system and to the underlying accounting and other relevant records. For this purpose the Beneficiary(ies) shall prepare and keep appropriate reconciliations, supporting schedules, analyses and breakdowns for inspection and verification.

Right of access

- 16.3. The Beneficiary(ies) shall allow verifications to be carried out by the European Commission, the European Anti-Fraud Office, the European Court of Auditors and any external auditor authorised by the Contracting Authority. The Beneficiary(ies) have to take all steps to facilitate their work.
- 16.4. The Beneficiary(ies) shall allow the above entities to:
- a) access the sites and locations at which the Action is implemented;
 - b) examine its accounting and information systems, documents and databases concerning the technical and financial management of the Action;
 - c) take copies of documents;
 - d) carry out on-the-spot-checks;
 - e) conduct a full audit on the basis of all accounting documents and any other document relevant to the financing of the Action.
- 16.5. Additionally the European Anti-Fraud Office shall be allowed to carry out on-the-spot checks and inspections in accordance with the procedures laid down by the European Union legislation for the protection of the financial interests of the European Union against fraud and other irregularities.

Where appropriate, the findings may lead to recovery by the European Commission.

- 16.6. Access given to agents of the European Commission, European Anti-Fraud Office and the European Court of Auditors and to any external auditor authorised by the Contracting Authority carrying out verifications as provided for by this Article as well as by Article 15.7 shall be on the basis of confidentiality with respect to third parties, without prejudice to the obligations of public law to which they are subject.

Record keeping

- 16.7. The Beneficiary(ies) shall keep all records, accounting and supporting documents related to this Contract for five years following the payment of the balance and for three years in case of grants not exceeding EUR 60 000, and in any case until any on-going audit, verification, appeal, litigation or pursuit of claim has been disposed of.

They shall be easily accessible and filed so as to facilitate their examination and the Coordinator shall inform the Contracting Authority of their precise location.

- 16.8. All the supporting documents shall be available in the original form, including in electronic form.
- 16.9. In addition to the reports mentioned in Article 2, the documents referred to in this Article include:
- a) Accounting records (computerised or manual) from the Beneficiary(ies)'s accounting system such as general ledger, sub-ledgers and payroll accounts, fixed assets registers and other relevant accounting information;
 - b) Proof of procurement procedures such as tendering documents, bids from tenderers and evaluation reports;
 - c) Proof of commitments such as contracts and order forms;
 - d) Proof of delivery of services such as approved reports, time sheets, transport tickets, proof of attending seminars, conferences and training courses (including relevant documentation and material obtained, certificates) etc;
 - e) Proof of receipt of goods such as delivery slips from suppliers;
 - f) Proof of completion of works, such as acceptance certificates;
 - g) Proof of purchase such as invoices and receipts;
 - h) Proof of payment such as bank statements, debit notices, proof of settlement by the contractor;
 - i) Proof that taxes and/or VAT that have been paid cannot actually be reclaimed;
 - j) For fuel and oil expenses, a summary list of the distance covered, the average consumption of the vehicles used, fuel costs and maintenance costs;
 - k) Staff and payroll records such as contracts, salary statements and time sheets. For local staff recruited on fixed-term contracts, details of remuneration paid, duly substantiated by the person in charge locally, broken down into gross salary, social security charges, insurance and net salary. For expatriate and/or European-based staff (if the Action is implemented in Europe) analyses and breakdowns of expenditure per month of actual work, assessed on the basis of unit prices per verifiable block of time worked and broken down into gross salary, social security charges, insurance and net salary.

ARTICLE 17 — FINAL AMOUNT OF THE GRANT

Final amount

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- 17.1. The grant may not exceed the maximum ceiling in Article 3.2 of the Special Conditions either in terms of the absolute value or the percentage stated therein.

If the eligible costs of the Action at the end of the Action are less than the estimated eligible costs as referred to in Article 3.1 of the Special Conditions, the grant shall be limited to the amount obtained by applying the percentage laid down in Article 3.2 of the Special Conditions to the eligible costs of the Action approved by the Contracting Authority.

- 17.2. In addition and without prejudice to its right to terminate this Contract pursuant to Article 12, if the Action is implemented poorly or partially - and therefore not in accordance with the Description of the Action in Annex I - or late, the Contracting Authority may, by a duly reasoned decision and after allowing the Beneficiary(ies) to submit its observations, reduce the initial grant in line with the actual implementation of the Action and in accordance with the terms of this Contract. This applies as well with regards to the visibility obligations set out in Article 6.

No profit

- 17.3. The grant may not produce a profit for the Beneficiary(ies), unless specified otherwise in Article 7 of the Special Conditions. Profit is defined as a surplus of the receipts over the eligible costs approved by the Contracting Authority when the request for payment of the balance is made.

- 17.4. The receipts to be taken into account are the consolidated receipts on the date on which the payment request for the balance is made by the Coordinator that fall within one of the two following categories:

- a) income generated by the Action, unless otherwise specified in the Special Conditions;
- b) financial contributions specifically assigned by the donors to the financing of the same eligible costs financed by this Contract. Any financial contribution that may be used by the Beneficiary(ies) to cover costs other than those eligible under this Contract or that are not due to the donor where unused at the end of the Action are not to be considered as a receipt to be taken into account for the purpose of verifying whether the grant produces a profit for the Beneficiary(ies).

- 17.5. In case of an operating grant, amounts dedicated to the building up of reserves shall not be considered as a receipt.

- 17.6. Where the final amount of the grant determined in accordance with the Contract would result in a profit, it shall be reduced by the percentage of the profit corresponding to the final European Union contribution to the eligible costs actually incurred approved by the Contracting Authority.

- 17.7. The provisions in Article 17.3 shall not apply to:

- a) actions the objective of which is the reinforcement of the financial capacity of a Beneficiary, if specified in Article 7 of the Special Conditions;
- b) actions which generate an income to ensure their continuity beyond the end of this Contract, if specified in Article 7 of the Special Conditions;
- c) other direct support paid to natural persons in most need, such as unemployed persons and refugees, if specified in Article 7 of the Special Conditions;
- d) study, research or training scholarships paid to natural persons;
- e) grants of EUR 60.000 or less.

ARTICLE 18 — RECOVERY

Recovery

- 18.1. If any amount is unduly paid to the Coordinator, or if recovery is justified under the terms of this Contract, the Coordinator undertakes to repay the Contracting Authority these amounts.
- 18.2. In particular, payments made do not preclude the possibility for the Contracting Authority to issue a recovery order following an expenditure verification report, an audit or further verification of the payment request.
- 18.3. If a verification reveals that the methods used by the Beneficiary(ies) to determine unit costs, lump sums or flat-rates are not compliant with the conditions established in this Contract and, therefore an undue payment has been made, the Contracting Authority shall be entitled to recover proportionately up to the amount of the unit costs, lump sums or flat rate financing.
- 18.4. The Coordinator undertakes to repay any amounts paid in excess of the final amount due to the Contracting Authority within 45 days of the issuing of the debit note, the latter being the letter by which the Contracting Authority requests the amount owed by the Coordinator.

Interest on late payments

- 18.5. Should the Coordinator fail to make repayment within the deadline set by the Contracting Authority, the Contracting Authority may increase the amounts due by adding interest:
 - a) at the rediscount rate applied by the central bank of the country of the Contracting Authority if payments are in the currency of that country;
 - b) at the rate applied by the European Central Bank to its main refinancing transactions in euro, as published in the Official Journal of the European Union, C series, where payments are in euros;

on the first day of the month in which the time-limit expired, plus three and a half percentage points. The default interest shall be incurred over the time which elapses between the date of the payment deadline set by the Contracting Authority, and the date on which payment is actually made. Any partial payments shall first cover the interest thus established.

Offsetting

- 18.6. Amounts to be repaid to the Contracting Authority may be offset against amounts of any kind due to the Coordinator, after informing it accordingly. This shall not affect the Parties' right to agree on payment in instalments.

Other provisions

- 18.7. The repayment under Article 18.4 or the offsetting under Article 18.6 amount to the payment of the balance.
- 18.8. Bank charges incurred by the repayment of amounts due to the Contracting Authority shall be borne entirely by the Coordinator.
- 18.9. The guarantee securing the prefinancing may be invoked in order to repay any amount owed by the Beneficiary(ies), and the guarantor shall not delay payment nor raise objections for any reason whatsoever.

18.10. Without prejudice to the prerogative of the Contracting Authority, if necessary, the European Union may, as donor, proceed itself to the recovery by any means.
