

**EUROPEAN UNION**  
**GRANT AGREEMENT FOR PILLAR ASSESSED ORGANISATIONS**  
**(PA GRANT AGREEMENT)**

*DOGER/SDPF/TR2013/0740.10-02/GRA/003*  
(the "Agreement")

The **Central Finance and Contracts Unit (CFCU)** with its office at Eskişehir Yolu 4. Km 2180 Cad. (Halkbank Kampüsü) No: 63 C-Blok, 06510, Söğütözü/Ankara, TURKEY represented by **Ms. Emine Döğer, Acting PAO-CFCU Director** (the "Contracting Authority") of the one part, and

**United Nations Development Programme (UNDP)** with its Head office at One UN Plaza, New York, NY 10017, USA represented for the purpose of this contract by UNDP Country Office Turkey with its office at UN House, Birlik Mahallesi, 415. Cadde (Katar Cad.), No: 11, 06610 Çankaya, Ankara, TURKEY, represented by **Mr. Kamal Malhotra, Resident Representative**, hereinafter the "Organisation", of the other part,

(individually a "Party" and collectively the "Parties") have agreed as follows:

**SPECIAL CONDITIONS**

**Article 1 — Purpose**

- 1.1 The purpose of this Agreement is the award of a financial contribution by the Contracting Authority to finance the implementation of the action entitled: **Support to Development of a Policy Framework on Total Factor Productivity** (the 'Action') described in Annex I.
- 1.2 The Organisation shall be awarded the contribution on the terms and conditions set out in this Agreement, which consists of these special conditions (the 'Special Conditions') and the annexes, which the Organisation hereby declares it has noted and accepted.
- 1.3 The Organisation accepts the contribution and undertakes to be responsible for carrying out the Action.
- 1.4 In the performance of the activities, the Organisation applies its own internal control and accounting systems as well as the rules and procedures for an independent external audit which have been positively assessed in the ex-ante pillars assessment, as well as any other Regulations and Rules, to the extent that these are not in conflict with the provisions of this Agreement.
- 1.5 This Action is an EU External Action. The Action is financed under Instrument for Pre-Accession Assistance (IPA) – Transition Assistance and Institution Building Component for the Year 2013.
- 1.6 This Agreement is subject to the provisions of the "Financial and Administrative Framework Agreement between the European Union represented by the European Commission and the United Nations", signed on the 29/04/2003 and amended on the 26/02/2014.

**Article 2 — Implementation and execution period of the Action**

- 2.1 This Agreement shall enter into force on the date when the second of the two Parties signs.
- 2.2 Implementation of the Action shall begin on the day after the last Party signs.
- 2.3 The Implementation Period of the Action is **30 months**.
- 2.4 The Execution Period of this Agreement shall end on the end date as stipulated under Article 13.5 of Annex II.

**Article 3 — Financing the Action**

- 3.1 The total eligible costs of the Action are estimated at **EUR 2.975.411,30** as set out in Annex III.
- 3.2 The Contracting Authority undertakes to finance a maximum amount of **EUR 2.975.411,30**. This contribution is further limited to **100,00%** of the total eligible cost of the Action.

The final amount of the Contracting Authority's contribution shall be determined in accordance with Articles 24, 25, 27 and 28 of Annex II.

- 3.3 Pursuant to Article 25 of Annex II, eligible indirect costs shall be declared on the basis of a flat-rate of 7,00% of the final amount of direct eligible costs of the Action established in accordance with Articles 24, 25, 27 and 28 of Annex II.

#### Article 4 — Reporting and payment arrangements

- 4.1 Payments shall be made in accordance with Article 26 of Annex II

The agreed pre-financing rate is 95%.

Initial pre-financing instalment: EUR 1.222.908,68

Further pre-financing instalments  
(subject to the provisions of Annex II): EUR 1.603.732,05

Forecast balance of the final amount of the contribution  
(subject to the provisions of Annex II): EUR 148.770,57

#### Article 5 — Communication language and contacts

- 5.1 All communications to the Contracting Authority in connection with the Agreement, including reports referred to in Article 3 of Annex II, shall be in English. If requested by the Contracting Authority they shall be accompanied by a translation or a summary in English or French where the language of the Agreement is not English or French.
- 5.2 Any communication relating to the Agreement shall be in writing, shall state the number and/or title of the Action, and shall use the following addresses below.
- 5.3 Any communication relating to the Agreement, including payment requests and attached reports, and requests for changes to bank account arrangements shall be sent to:

##### For the Contracting Authority

*Central Finance and Contracts Unit (CFCU)*

Ms. Emine Döğler Acting PAO - CFCU Director

Eskişehir Yolu 4.Km 2180 Cad. (Halkbank Kampüsü)

No: 63 C-Blok 06510, Söğütözü, Ankara/TURKEY

Phone : +90.312.295 49 00

Fax : +90.312.286 70 72

A copy of the reports referred to in Article 4.1 shall be sent to the concerned service of the European Commission, at the following address:

*Delegation of the European Union to Turkey*

Uğur Mumcu Cad. 88, 4<sup>th</sup> floor,

Gaziosmanpaşa, 06700 Ankara/TURKEY

Phone : +90.312.459 87 00

Fax : +90.312.447 40 07

##### For the Organisation

*Birleşmiş Milletler Kalkınma Programı Türkiye Ofisi (UNDP)*

(United Nations Development Programme Country Office Turkey)

UN House, Birlik Mahallesi, 415. Cadde (Katar Cad.)

No: 11, 06610 Çankaya, Ankara/TURKEY

Phone : +90.312.454 11 00

Fax : +90.312.496 14 65

- 5.4. Ordinary mail shall be deemed to have been received on the date on which it is officially registered at the address referred to above.

- 5.5 The contact point within the Organisation which shall have the appropriate powers to cooperate directly with the European Anti-Fraud Office (OLAF) in order to facilitate the latter's operational activities shall be: Office of Audit and Investigations, Head of Investigations Section, United Nations Development Programme, One United Nations Plaza, 4<sup>th</sup> floor, New York, NY 10017 USA.

#### **Article 6 — Annexes**

- 6.1 The following documents are annexed to these Special Conditions and form an integral part of the Agreement:

- Annex I: Description of the Action (including the Logical Framework of the Project)
- Annex II: General Conditions for PA Grant or Delegation Agreements (Part II on Delegation Agreements does not apply)
- Annex III: Budget for the Action
- Annex IV: Financial identification form
- Annex V: Standard request for payment
- Annex VI: Communication and Visibility Plan
- Annex VII: Taxes and Customs Arrangements

- 6.2 In the event of a conflict between the provisions of the present Special Conditions and any annex thereto, the Special Conditions shall take precedence. In the event of a conflict between the provisions of Annex II and those of the other annexes, those of Annex II shall take precedence.

#### **Article 7 — Other specific conditions applying to the Action**

##### **7.1 The General Conditions are supplemented by the following:**

- 7.1.1 Supplementary to the Article 9.1, ownership, title and industrial and intellectual property rights of the results of the Action shall be vested also in the Ministry of Development without prejudice to the Commission's right under the Article 9.2.

- 7.1.2 The Agreement is, as a rule, exempt from all taxes and duties, including value added tax (VAT) and Special Consumption Tax (SCT), Motor Vehicle Tax, Special communication tax, Inheritance and Transfer tax, customs or import duties, charges, and/or taxes of equivalent effect, stamp or registration duties or any other charge having equivalent effect, pursuant to the provisions of Articles 25 & 26 set out in the Framework Agreement signed between Turkey and the EU in 2008. If necessary, the Organisation shall accordingly complete the necessary formalities with the relevant authorities to ensure that the goods and services required for performance of the Contract are exempt from taxes, customs, import duties, levies and/or taxes of equivalent effect, and stamp or registration duties or any other charge having equivalent effect.

- 7.1.3 Supplementary to the Article 25.7 of the General Conditions, the following costs (in addition to items listed in the article) are not eligible for the activities described in Annex I:

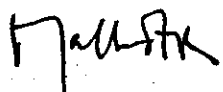
- (a) taxes, including value added taxes;
- (b) customs and import duties, or any other charges;
- (c) purchase, rent or leasing of land and buildings;
- (d) fines, financial penalties and expenses of litigation;
- (e) operating costs except for the costs of the office to be rented for the purpose of this action;
- (f) second-hand equipment;
- (g) bank charges, costs of guarantees and similar charges;
- (h) conversion costs and exchange losses associated with any of the component specific Euro accounts;
- (i) contribution in kind;
- (j) any leasing costs;
- (k) depreciation costs.

7.1.4 Where the implementation of the Action requires the setting up or the use of local infrastructure in the partner country (field office), the Organisation may declare as eligible direct costs the capitalised and operating costs of local infrastructure if all the following conditions are fulfilled:

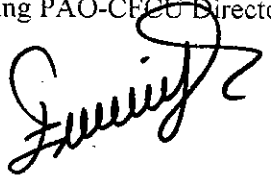
- a) They comply with the cost eligibility criteria referred to in Article 25.1 of the General Conditions;
- b) They fall within one of the following categories:
  - i) costs of staff, including administrative and support staff, directly assigned to the operations of local infrastructure;
  - ii) travel and subsistence costs for staff and other persons directly assigned to the operations of local infrastructure;
  - iii) depreciation costs, rental costs or lease of equipment and assets composing local infrastructure.
  - iv) costs of maintenance and repair contracts specifically awarded for the operations of local infrastructure;
  - v) costs of consumables and supplies specifically purchased for the operations of local infrastructure;
  - vi) costs of IT and telecommunication services specifically purchased for the operations of local infrastructure;
  - vii) costs of energy and water specifically supplied for the operations of local infrastructure;
  - viii) costs of facility management contracts including security fees and insurance costs specifically awarded for the operations of local infrastructure;
- c) The Organisation declares as direct eligible costs only the portion of the capitalised and operating costs of local infrastructure which corresponds to the duration of the Action and
  - i) the rate of actual use of local infrastructure for the purposes of the Action; or
  - ii) the rate of use of local infrastructure for the purposes of the Action, determined by the Organisation on the basis of a simplified allocation method, provided that the allocation method is:
    - compliant with the Organisation's usual accounting and management practices and applied in a consistent manner regardless of the source of funding, anbased on an objective, fair and reliable allocation key.

Done in English in three originals, one original being for the Contracting Authority, one original being for the European Commission, and one original being for the Organisation.

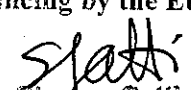
**For the Organisation**

Name : **Kamal Malhotra**  
Position : Resident Representative  
Signature :   
Date : 11/11/2015

**For the Contracting Authority**

Name : **Emine Döger**  
Position : Acting PAO-CFCU Director  
Signature :   
Date : 28 SEP 2015

**Endorsed for financing by the European Union**

Name :   
Position : **Simona Gatti**  
Signature : **Head of Cooperation**  
Date : 16/10/15

<b>Item 1</b>	<b>Opening</b>
<b>Conclusion</b>	Agreed
<b>Action</b>	None required

<b>Item 2</b>	<b>Presentation of the proposed project, expected outputs and activities</b>
<b>Discussions</b>	<p><u>PR</u>: The proposed project has two outputs:</p> <p>In Turkey, productivity is the main obstacle of the growth. The purpose of the Project is to produce a policy framework, which is shaped by a forward-looking analysis, based on economic convergence scenarios, and which at the same time takes into account the fundamental differences between manufacturing industries in terms of Total Factor Productivity (TFP) constraints.</p> <p>In order to craft an effective policy framework, it is important to start with an understanding of the fundamental differences between manufacturing industries, as well as the global trends that affect how such industries function. This requires company-level assessments to identify TFP constraints, as well as an international benchmarking exercise that would produce scenarios from a convergence perspective. The analysis of convergence scenarios is critical for identifying the interplay between different components of TFP. Such an approach will provide the policy makers with the opportunity to “quantify” impact of various TFP determinants on long-term growth trajectories. Therefore the first output of the Project targets to identify factors limiting Total Factor Productivity in Turkey through detailed field analysis with specific research objectives. In addition a detailed benchmarking exercise will be carried out to identify several best practices which can be utilised in our analysis. Finally field analysis and benchmarking results will be integrated in a synthesis report to identify the main obstacles and opportunities for Turkish context.</p> <p>Second output will be focusing on development and operationalization of a macro-level policy framework that would boost total factor productivity. Activities here will be informed by the findings of the first output and concerns (1) development of a national policy framework for boosting TFP in Turkey, (2) operationalization of the said policy framework through pilot initiatives, and (3) enhancement of the institutional capabilities to ensure sustainable implementation of the policy framework. As such, this output is composed of 3 activity groups: 2.1: Development of the Policy Framework 2.2: Piloting the Operationalization of the Policy Framework, and 2.3: Strengthening the Institutional Framework.</p>
<b>Comments</b>	<p><u>MAF</u>: Action was developed with MoD, EUD and UNDP. EUD is extremely keen to move forward and very interested to have the outputs and supporting tools which will be developed within the Action. Since these will be key to sustain the results and contribute national priorities. It took quite a long time to come to this stage and EUD is looking forward to see the Project moving as planned.</p> <p><u>PY</u>: The project document has been prepared in close cooperation with the</p>

<b>Item 2</b>	<b>Presentation of the proposed project, expected outputs and activities</b>
	Development Ministry. The activities and results will not only contribute to transformation programme #1 but also will be implemented throughout for improving national competitiveness. MoD prioritizes this Action and look forward to working closely with the team.
<b>Conclusion</b>	Agreed
<b>Action</b>	None required

<b>Item 3.a</b>	<b>Other: Implementation modality</b>
<b>Discussions</b>	<u>PR</u> : Project is proposed to be executed under NIM Modality with the MoD as the National Implementing Partner. CFCU will be contracting authority for the Action.
<b>Comments</b>	None
<b>Conclusion</b>	Agreed
<b>Action</b>	None required

<b>Item 3.b</b>	<b>Other: Implementation Period</b>
<b>Discussions</b>	<u>PR</u> : 30 months to begin by the contract signature by UNDP as the last party.
<b>Comments</b>	<u>MH</u> : Considering the intensity of the activities and the Project management structures 30 month period may not be enough for the implementation. What can be the consequences for this? <u>MAF</u> : EUD has set a very clear target for implementation period extensions. As per the recent communication no extension will be exercised for any of the Projects and this can be no exception. <u>MD</u> : We have already started recruitment and other preparations. So all actions will be taken in order to ensure that no extension will be required.
<b>Conclusion</b>	The implementation period will be 30 months
<b>Action</b>	Utmost importance will be given to ensure timely implementation.

<b>Item 3.c</b>	<b>Other: Management arrangements</b>
<b>Discussions</b>	<u>PR</u> : A technical team, Team Leader and Deputy Team Leader will be mobilized with a full time project coordinator. Also UNDP Portfolio Manager and Portfolio Administrator will ensure UNDP's inputs are incorporated. Also short term experts will be mobilized.
<b>Comments</b>	<u>MA</u> : Project management arrangement looks very complicated and crowded. Justification for the reasoning will be required. <u>MD</u> : Since this is a complicated project requires very close follow up more frequent steering committee meetings would be useful.
<b>Conclusion</b>	<u>PR</u> : In line with the formulation of the activities, technical team which will be supported by STEs will be needed. The scope of the activities requires several expertise areas, macro- economic analysis and policy work will be TL's responsibility area. Identification of micro determinants and sectoral inputs will be

<b>Item 3.c</b>	<b>Other: Management arrangements</b>
	<p>DTL's area of work. Loaded schedules will require high level project management skills. Therefore project coordinator role will also be needed. The scope of the activities require technical inputs as well as strong communication and participatory governance systems in place through working groups, scientific committee etc. All components should be run in coherence and will need iterative processes. Therefore strong management team will be needed to ensure healthy communication flow as well as strong technical inputs in a timely manner.</p> <p>Action already covers flexibility on the frequency of the steering committee meetings. Therefore more frequent meetings can be arranged upon the decisions of the committee.</p>
<b>Action</b>	None required

<b>Item 3.d</b>	<b>Other: PD format</b>
<b>Discussions</b>	PD format was shared with the invitation of LPAC
<b>Comments</b>	<p><u>MA</u>: There are some mistakes in the format needs to be corrected. Team cost should be reflected. GMS amount should be included in the cover page. Also other changes should be done according to the format.</p> <p><u>MD</u>: The organization chart will also be updated_project assurance mechanism should reflect the role of portfolio manager, not only the steering committee and scientific committee.</p>
<b>Conclusion</b>	Necessary format changes will be completed.
<b>Action</b>	Updated Project document will be sent to LPAC members along with the minutes of meeting.

<b>Item 4</b>	<b>Closing</b>
<b>Discussions</b>	Parties endorsed project document, subject changes (Item 3.d.) to be made in accordance with the discussions, held at the LPAC meeting. The Project Document needs some editing.
<b>Comments</b>	None
<b>Conclusion</b>	Agreed
<b>Action</b>	UNDP will make the necessary revisions and submit the Project Document and the LPAC MoM to the MFA for approval, as per the established formal signature process.