

ANNEX II

GENERAL CONDITIONS APPLICABLE TO GRANT CONTRACTS

DEFINITIONS

The following definitions apply for the purpose of the contract:

ACTION	set of activities or the project for which the grant is awarded, to be implemented by the beneficiary as described in Annex I to the contract.
BENEFICIARY
BREACH OF OBLIGATIONS	failure by the beneficiary to fulfil one or more of its contractual obligations.
CONFIDENTIAL INFORMATION OR DOCUMENT	any information or document (in any format) received by either party from the other or accessed by either party in the context of the implementation of the contract that any of the parties has identified in writing as confidential. It does not include publicly available information.
CONFLICT OF INTERESTS	situation where the impartial and objective implementation of the contract by the beneficiary is compromised for reasons involving family, emotional life, political or national affinity, economic interest, or any other shared interest with the contracting authority or any third party related to the subject matter of the contract.
CONTRACT	grant contract between contracting authority and beneficiary
CONTRACTING AUTHORITY	e-Governance Academy
DIRECT COSTS	those specific costs which are directly related to the implementation of the action and can therefore be attributed directly to it.
FORCE MAJEURE	any unforeseeable, exceptional situation or event beyond the control of the parties that prevents either of them from fulfilling any of their obligations under the contract, which is not attributable to error or negligence on their part or on the part of the subcontractors' affiliated entities or third parties in receipt of financial support and which proves to be inevitable despite their exercising due diligence. The following cannot be invoked as <i>force majeure</i> : labour disputes, strikes, financial difficulties or any default of a service, defect in equipment or materials or delays in making them available, unless they stem directly from a relevant case of <i>force majeure</i> .
FORMAL NOTIFICATION	form of communication between the parties made in writing by mail or electronic mail which provides the sender with compelling evidence that the message was delivered to the specified recipient.
FRAUD	any intentional act or omission affecting the contracting authority's financial interests relating to the use or presentation of false, incorrect, or incomplete statements or documents, to non-disclosure of information in violation of a specific obligation.
IMPLEMENTATION PERIOD	the period of implementation of the activities forming part of the action, as specified in the special conditions and Annex I to the contract.
IRREGULARITY	any infringement of a provision of applicable European Union, international or national law resulting from an act or omission by the beneficiary, which has or would have the effect of prejudicing the contracting authority's financial reporting.
MAXIMUM AMOUNT OF THE GRANT	the maximum contracting authority contribution to the action, as defined in the special conditions.

PRE-EXISTING MATERIAL	any materials, document, technology, or know-how which exists prior to the beneficiary using it for the production of a result in the implementation of the action.
PRE-EXISTING RIGHT	any industrial and intellectual property right on pre-existing material; it may consist in a right of ownership, a license right and/or a right of use belonging to the beneficiary or any other third parties.
RELATED PERSON	any person who has the power to represent the beneficiary or to take decisions on its behalf.
STARTING DATE	the date on which the implementation of activities starts as provided for in the special conditions.
SUBCONTRACT	a procurement contract within the meaning of Article 10 of this Annex, which covers the implementation by a third party of tasks forming part of the as described in Annex I to the contract.
SUBSTANTIAL ERROR	any infringement of a provision of an agreement resulting from an act or omission, which causes or might cause a loss to the contracting authority's financial reporting.

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

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A - LEGAL AND ADMINISTRATIVE PROVISIONS

ARTICLE 1 - OBLIGATIONS OF THE BENEFICIARY

- 1.1. Beneficiary and contracting authority are the only parties to this contract. This contract and payment obligations arising from this contract may not be assigned to a third party in any manner whatsoever without prior written consent of contracting authority.
- 1.2. PROCESSING OF PERSONAL DATA
 - a) Any personal data included in the contract is processed by the contracting authority in accordance with the General Data Protection Regulation EU 2016/679 (GDPR) and other related laws and regulations (hereinafter: data protection laws).
 - b) Beneficiary has the right to access and correct its own personal data. For this purpose, it shall send any queries about the processing of its personal data to the grant contract data identified in Article 5 of the special conditions.
 - c) Beneficiary shall process personal data under the contract in compliance with applicable European Union and national law on data protection, including authorisations or notification requirements.
 - d) Beneficiary may grant its personnel access only to data that is strictly necessary for implementing, managing, and monitoring the contract.
 - e) Beneficiary shall implement appropriate technical and organisational measures to ensure compliance with the requirements of data protection laws upon processing of personal data, including to ensure:
 - i. pseudonymisation and encryption of personal data;
 - ii. ongoing confidentiality, integrity, availability and resilience of processing systems and services;
 - iii. ability to restore the availability and access to personal data in timely manner in the event of physical or technical incident;
 - iv. security of personal data processing;
 - v. personal data protection from accidental or unlawful destruction, loss, alteration, unauthorised disclosure of or access to personal data transmitted, stored, or otherwise processed.
 - f) Contracting authority may require beneficiary to demonstrate compliance with the requirements of data protection laws.
 - g) The parties shall use reasonable endeavours to prevent or avoid taking any action that may cause the other party to be in breach of any applicable data protection laws.
 - h) Should applicable data protection laws require implementation of additional measures, the parties shall negotiate in good faith to agree on such measures which are reasonably necessary for each party to comply with data protection laws.
- 1.3. ROLE OF BENEFICIARY
 - a) Beneficiary shall implement the action jointly and solitarily with contracting authority, undertaking all necessary and reasonable measures to ensure that the action is implemented in accordance with the description of the action (Annex I) and the terms of the contract.
 - b) Beneficiary shall implement the action with required care, efficiency, transparency and diligence, in accordance with the principle of sound financial management and best practices in the field.
 - c) Beneficiary shall be responsible to comply with any obligations under the contract as well as any legal obligations which shall be binding under applicable European Union, international and national law.
 - d) Beneficiary shall inform contracting authority immediately of any events or circumstances of which the beneficiary is aware, that are likely to affect or delay the implementation of the action.
 - e) Beneficiary shall inform contracting authority immediately of any change in its legal, financial, technical, organizational or ownership situation and of any change in its name, address, or legal representative.
 - f) Beneficiary shall forward to contracting authority all the reports, financial statements and other information or documents required by the contract and its annexes, as well as any information necessary for audits, inspections, monitoring or evaluations as described in Article 16.
 - g) Beneficiary must ensure that the subcontractors and all natural persons related to implementation of the action, including participants to workshops or trainings, do not include or benefit any entities,

natural persons or recipients of financial support to third parties that are subject to restrictive measures adopted under [Article 29 of the Treaty on the European Union](#) or [Article 215 of the Treaty on the Functioning of the EU](#).

ARTICLE 2 - OBLIGATION TO PROVIDE FINANCIAL AND NARRATIVE REPORTS

- 2.1. Beneficiary shall provide contracting authority interim report(s) and final report (hereinafter: the reports) with all required information on the implementation of the action. Additional reporting requirements may be set out in special conditions.
- 2.2. The reports shall include description of implementation of the action in accordance with the planned activities as described in Annex I to the contract, encountered difficulties and implemented measures to address the problems, possible modifications, and the achievement of the results (impact, outcomes, or outputs).
- 2.3. The reports shall be prepared clearly and understandably, to allow monitoring of the objective(s), the means planned or used and the budget details of the action. The level of detail of the report should correspond to the description and budget of the action.
- 2.4. Contracting authority may request additional information at any time. Beneficiary shall provide this information within 30 (thirty) days of the request, in the language of the contract.
- 2.5. Reports shall be submitted with the payment requests, according to Article 15 of this Annex. If beneficiary fails to provide any report or fails to provide any additional information requested by contracting authority within the set deadline without an acceptable and written explanation of the reasons, contracting authority may terminate this contract according to Article 12.2 (a) and point (vi) of this Annex.
 - a) The reports shall:
 - i. cover the entire action, regardless of which part is financed by the contracting authority;
 - ii. consist of a narrative and a financial report prepared using the templates provided in Annex V to the contract;
 - iii. provide full report on all relevant details relating to the implementation of the action for reporting period;
 - iv. where appropriate, include the current results within an updated table based on the logical framework matrix including the results achieved by the action (impact, outcomes or outputs) as measured by their corresponding indicators; agreed baselines and targets, and relevant sources of verification;
 - v. where appropriate, determine if the intervention logic is still valid and propose any relevant modification including regarding the logical framework matrix;
 - vi. be drafted in the currency and language of the contract;
 - vii. include any update on the communication plan, if such a plan has been requested by the contracting authority;
 - viii. include any relevant reports, publications, press releases and updates related to the action;
 - ix. where appropriate, include any update on the self-evaluation questionnaire on sexual exploitation, abuse, and harassment (SEA-H) or a list of the proposed measures submitted in the contract award procedure.
 - b) Additionally, the final report shall:
 - i. cover any period not covered by the previous reports;
 - ii. include the proofs of the transfers of ownership as referred to in Article 7.6 if this Annex.

ARTICLE 3 - LIABILITY

- 3.1. Contracting authority shall not under any circumstances or for any reason whatsoever be held liable for damage or injury sustained by the staff or property of beneficiary during or as result of implementation of the action. Therefore, contracting authority shall not accept any claim for compensation or increases in payment relating with such damage or injury. Beneficiary shall remain

solely liable to third parties, including liability for any loss or damage they may suffer during or as a result of implementation of the action.

- 3.2. Beneficiary shall discharge contracting authority from any claim or action arising from any breach of the rules or regulations or any infringement of the rights of a third party caused by beneficiary or employees of beneficiary or persons for whom such employees are responsible. For the purposes of Article 3 of this Annex, the employees of the beneficiary shall be considered as third parties.

ARTICLE 4 - CONFLICT OF INTERESTS AND CODE OF CONDUCT

- 4.1. Beneficiary shall take all necessary measures to prevent or end any situation that could compromise the impartial and objective performance of the 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 the contract must be notified in writing to contracting authority without delay. Beneficiary shall immediately implement all necessary measures to eliminate any conflict of interest identified.
- 4.3. Contracting authority shall reserve the right to verify that implemented measures are appropriate and may require implementation of additional measures, if necessary.
- 4.4. Beneficiary shall ensure that its staff, including management, are not placed in situations that may create conflict of interest. Without prejudice to its obligations under this contract, beneficiary shall replace, immediately and without compensation from the contracting authority, any of its staff member involved in such situation.
- 4.5. Beneficiary shall at all-time act impartially and as a faithful adviser in accordance with the code of conduct of its profession as well as with appropriate discretion. Beneficiary shall avoid making any public statements relating to the action or services without prior consent of contracting authority.
- 4.6. Beneficiary shall not undertake any commitment to the contracting authority without its prior consent and shall make this obligation clear to third parties.
- 4.7. Beneficiary shall inform contracting authority of any breach of ethical standards or code of conduct as described in this Article. In case the beneficiary is aware of any violations of the abovementioned standards, it shall report in writing within 30 (thirty) days to the contracting authority. Physical abuse or punishment, or threats of physical abuse, sexual abuse or exploitation, harassment, and verbal abuse, as well as other forms of intimidation shall be prohibited.
- 4.8. Beneficiary and its staff shall respect human rights, applicable data protection rules and environmental legislation applicable in the country(ies) where the action is implemented and internationally agreed core labour standards, e.g. the ILO core labour standards, conventions on freedom of association and collective bargaining, elimination of forced and compulsory labour, elimination of discrimination in respect of employment and occupation, and the abolition of child labour.
- 4.9. Beneficiary or any related person shall not abuse of its entrusted power for private gain. Beneficiary or any of its subcontractors, agents or staff shall not receive or agree to receive from any person or offer or agree to give to any person or procure for any person, gift, gratuity, commission, or consideration of any kind as an inducement or reward for performing or refraining from performing any act relating to the performance of the contract or for showing favour or disfavour to any person relating to the contract. Beneficiary shall comply with all applicable laws and regulations and codes relating to anti-bribery and anti-corruption.
- 4.10. Payments to the beneficiary under the contract shall constitute the only income or benefit derived from the contract, except in the case of revenue-generating activities. Beneficiary and its staff shall not exercise any activity or receive any benefits which are not in accordance with their contractual obligations.
- 4.11. Performance of the contract shall not involve any unusual operating expenses. Unusual operating expenses are commissions not specified in the contract or not arising from any properly concluded agreement referring to the contract, commissions not paid for actual and proper service, commissions paid to tax haven, commissions paid to recipient who is not clearly identified, or commissions paid to company which appears to be front company. Contracting authority shall reserve the right to perform

necessary documentary or on-the-spot checks to obtain evidence in case of suspected unusual operating expenses.

- 4.12. Compliance with the code of conduct set out in this Article shall constitute contractual obligation. Failure to comply with the code of conduct shall always be considered breach of the contract in accordance with Article 12 of this Annex. Furthermore, failure to comply with the provisions of this Article may be qualified as professional misconduct leading to suspension or termination of the contract, without prejudice to administrative penalties, including exclusion from participation in future contract award procedures. In the event of a breach of Article 4.6 of this Annex, the contracting authority shall consider, where appropriate, the information contained in the self-assessment questionnaire on sexual exploitation, abuse, and harassment (SEA-H) and in the related list of proposed measures indicated therein and submitted during the award procedure.

ARTICLE 5 - CONFIDENTIALITY

- 5.1. During the implementation of the action and for a period of five (5) years following the final payment, the parties shall treat confidential information and documents confidentially.
- 5.2. The parties may not use confidential information and documents for any purpose other than the implementation of their contractual obligations. Use of confidential information and documents for any other purposes shall be permitted only with the prior written consent of the other party.
- 5.3. Confidentiality obligations do not apply if:
- i. disclosing party agrees to release the other party from those obligations;
 - ii. confidential information or documents become public through other means than breach of confidentiality obligations;
 - iii. disclosure of confidential information or documents is required by law.

ARTICLE 6 - VISIBILITY

- 6.1. Beneficiary may use the European Commission emblem only with prior agreement and authorisation of the contracting authority. Unless otherwise required or agreed by the contracting authority, any communication or publication by the beneficiary relating to the implantation of the action shall:
- i. indicate that the action has received funding from the European Commission;
 - ii. display the European Commission emblem.
- 6.2. Beneficiary shall authorise 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 cost of the action, as stated in the special conditions. Derogation from publication of this information may be granted if it could endanger the beneficiary or harm their interests.
- 6.3. Any communication or publication made by the beneficiary, in whatever form and by whatever means, relating to the implementation of the action shall indicate that it reflects only the beneficiary's view, and that the contracting authority is not responsible for any use that may be made of the information it contains.
- 6.4. The parties shall consult immediately and endeavour to resolve any detected shortcomings in implementing the visibility and, if applicable, communication requirements set out in this Article. Failure to perform the obligations set out in this Article can constitute a breach of contractual obligations and can lead to corresponding measures taken by the contracting authority, including suspension of payment as stated in Article 15.5. and/or a reduction of the final payment as stated in Article 17.2 of this Annex.

ARTICLE 7 - OWNERSHIP AND USE OF THE RESULTS

- 7.1. Unless otherwise stipulated in the special conditions, ownership of the results of the action, reports and other documents relating to the action, as well as intellectual and industrial property rights, shall belong to the beneficiary.
- 7.2. Without prejudice to Article 7.1, the beneficiary shall grant the contracting authority (and the European Commission) the right to use freely and according to their own discretion, 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 shall ensure that it has all rights to use any pre-existing intellectual property rights necessary for implementation of the action and this contract.
- 7.4. In case natural, recognisable persons are depicted in a photograph or film, the beneficiary shall, in the final report to the contracting authority, submit a statement of these persons providing their permissions for the described use of their images. This provision shall not apply to photographs taken or films made in public places, where members of the public are only hypothetically identifiable, or to public figures acting in the course of their public activities.
- 7.5. Unless otherwise clearly specified in the description of the action (Annex I), the equipment, vehicles, and supplies (hereinafter: the items), financed from the budget for the implementation of the action, shall be transferred to final beneficiary(ies) of the action, at the latest when submitting the final report. If there are no final beneficiary(ies) of the action to whom the equipment, vehicles and supplies can be transferred, the beneficiary may transfer the items to:
 - i. local authority(ies);
 - ii. local beneficiary(ies)
 - iii. local affiliated entity(ies), or
 - iv. exceptionally, retain ownership of the items.
- 7.6. In the cases described in Article 7.5 of this Annex, the beneficiary shall submit to the contracting authority a justified written request for further use of the items. This written request, together with a list of the items concerned and a proposal for their use, must be submitted at the latest with the final report.
- 7.7. The end-use of the items shall not under any circumstances jeopardise the sustainability of the action or result profit for the beneficiary.
- 7.8. 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.

ARTICLE 8 – MONITORING AND EVALUATION OF THE ACTION

- 8.1. Contracting authority reserves the right to evaluate and monitor implementation of the action in accordance with the activities described in Annex I to the contract. Method and timing of evaluation and monitoring shall be decided by contracting authority after giving reasonable notice.
- 8.2. Beneficiary is obligated to provide all documents or information necessary for such evaluation or monitoring. Evaluation and monitoring carried out by contracting authority is primarily based on the reports submitted by the beneficiary.

ARTICLE 9 – AMENDMENT OF THE CONTRACT

- 9.1. Any amendment to the contract shall be made in writing and shall be made only during execution period of the contract.
- 9.2. Purpose or effect of the amendment shall not conflict with award decision or equal treatment of applicants. Maximum amount of the grant referred to in Article 3.2 of the contract shall not be increased.
- 9.3. Any request for amendment shall be:
 - i. duly justified;
 - ii. accompanied by appropriate supporting documents; and
 - iii. sent to the other party in due time before it is due to take effect, and in any case one month before the end of the implementation period.
- 9.4. Amendments enter into force on the date on which the last party signs the amendment or on a date agreed by the parties.
- 9.5. Where the amendment to the budget does not affect the expected results of the action (i.e. impact, outcomes, outputs), 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, beneficiary shall reserve right to amend the budget and shall be obligated to inform contracting authority accordingly in writing not later than three (3) working days following the amendment. 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 defined in the contract.

- 9.6. Changes in description of the action (Annex I to the contract) and expected results (impact, outcomes, outputs) shall be agreed in writing with contracting authority before making the amendment. Approved changes must be described and explained in the next report submitted by beneficiary.
- 9.7. Changes of contact information, bank account or auditor shall be notified by beneficiary. However, contracting authority shall reserve the right to object to proposed change, including require replacement of the auditor in case of doubt on the auditor's independence or compliance with professional standards.

ARTICLE 10 — IMPLEMENTATION

10.1. IMPLEMENTATION CONTRACTS

- i. If the implementation of the action requires the beneficiary to procure goods, works or services, it shall respect the contract-award rules and rules of nationality and origin set out in procurement rules for beneficiaries (Annex IV of this contract).
- ii. To the extent relevant, the beneficiary shall ensure that the conditions applicable to them under Articles 3 Liability, 4 Conflict of Interests, 6 Visibility and 16 Accounts and technical and financial checks of these general conditions are also applicable to contractors awarded an implementation contract.

10.2. SUBCONTRACTING

- a) Beneficiary may subcontract tasks forming part of the action. If it does so, it must ensure that, in addition to the conditions specified in Article 9, the following conditions are met:
 - i. subcontracting does not cover core tasks of the action;
 - ii. recourse to subcontracting is justified because of the nature of the action and what is necessary for its implementation;
 - iii. estimated costs of the subcontracting are clearly identifiable in the estimated budget set out in Annex III to the contract;
 - iv. any recourse to subcontracting, if not provided for in Annex I, is communicated by the beneficiary and approved by the contracting authority.

10.3. FINANCIAL SUPPORT TO THIRD PARTIES

- a) 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 provided to third parties, the beneficiary may award financial support if so provided by the special conditions.
- b) Maximum amount of financial support shall be limited to EUR 60 000 per each third party, except where achieving the objectives of the action would otherwise be impossible or overly difficult.
- c) Description of the action shall define the types of entities eligible for financial support and include fixed list with the types of activity which may be eligible for financial support.
- d) Beneficiary shall define criteria for selection of third parties recipient of this financial support, including criteria for determining the exact amount of financial support.
- e) To the extent relevant, the beneficiary shall ensure that the conditions applicable to them under Articles 3, 4.1-4.4, 6 and 16 of these general conditions are also applicable to third parties awarded financial support.
- f) Beneficiary remains solely responsible for the implementation of the action and for compliance with the contract.

ARTICLE 11 — EXTENSION AND SUSPENSION

11.1. EXTENSION

- a) Beneficiary shall inform contracting authority without delay of any circumstances that may prevent or delay implementation of the action. Beneficiary may request extension of implementation period of the action in accordance with Article 9. Submitted request must include reasoned justification and relevant documentation to support processing of the request.

11.2. SUSPENSION BY BENEFICIARY

- a) Beneficiary may suspend implementation of the action, or any part thereof, in case of exceptional circumstances make such implementation excessively difficult or dangerous (e.g. force majeure). Beneficiary shall inform contracting authority without delay, stating the nature, probable duration, and potential impact of suspension.
- b) Beneficiary or contracting authority may terminate the contract in accordance with Article 12.1 of this Annex. If the contract is not terminated, beneficiary shall undertake reasonable efforts to minimise the time of suspension and any possible damage. Beneficiary shall continue implementation as soon as the grounds for suspension are eliminated, informing contracting authority accordingly.

11.3. SUSPENSION BY THE CONTRACTING AUTHORITY

- a) Contracting authority may request beneficiary to suspend implementation of the action, or any part thereof, in case of exceptional circumstances make such implementation excessively difficult or dangerous (e.g. force majeure). Contracting authority shall inform beneficiary without delay, stating the nature, probable duration of suspension.
- b) Beneficiary or contracting authority may terminate the contract in accordance with Article 12.1 of this Annex. If the contract is not terminated, beneficiary shall undertake reasonable efforts to minimise the time of suspension and any possible damage. Beneficiary shall continue implementation as soon as the grounds for suspension are eliminated and after obtaining written approval from contracting authority.
- c) Contracting authority may also suspend the contract or beneficiary's participation in the contract if:
 - i. grant award procedure or implementation of the action have been subject to breach of obligations, irregularities, or fraud;
 - ii. beneficiary has breached any substantial obligation under the contract.
- d) Beneficiary shall be obligated to provide any requested information, clarification, or document within 30 (thirty) days of receipt of the requests sent by contracting authority. If, notwithstanding the information, clarification or document provided by beneficiary, the award procedure or implementation of the action prove to have been subject to breach of obligations, irregularities, fraud, or breach of obligations, then contracting authority may terminate this contract according to Article 12(2) h of this Annex.

11.4. FORCE MAJEURE

- a) 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. Decision of the European Union to suspend the cooperation with contracting authority or partner country shall be considered a case of force majeure when it implies suspension of funding for implementation of the action.
- b) Beneficiary shall not be held in breach of its contractual obligations if it is prevented from fulfilling them by circumstances of force majeure.

11.5. EXTENSION OF IMPLEMENTATION PERIOD FOLLOWING A SUSPENSION

- a) In case of suspension according to Articles 11.2 and 11.4 of this Annex. 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.

ARTICLE 12 — TERMINATION OF THE CONTRACT

12.1. TERMINATION IN CASE OF FORCE MAJEURE

- a) In the cases foreseen in Article 11.2 and 11.4 of this Annex, if beneficiary or contracting authority believes that the contract can no longer be executed effectively or appropriately, it shall duly consult the other party. Failing agreement on solution, beneficiary or contracting authority may terminate the contract by notifying the termination in writing 60 (sixty) days in advance, without being required to pay indemnity.

12.2. TERMINATION BY THE CONTRACTING AUTHORITY

- a) Without prejudice to Article 12.1, in the following circumstances contracting authority may, after having duly consulted beneficiary, terminate the contract or participation of beneficiary in the contract without any indemnity when:
- i. beneficiary fails, without justification, to fulfil any substantial contractual obligation, following written notification by contracting authority of its failure to fulfil those obligations, either fails to fulfil its obligations or does not provide satisfactory explanation within 30 (thirty) days of receipt of the notification;
 - ii. beneficiary or any person that assumes unlimited liability for the debts of beneficiary is bankrupt, subject to insolvency or winding up procedures, is having its assets administered by liquidator or by courts, has entered an arrangement with creditors, has suspended business activities, or is in any analogous situation arising from similar procedure provided for under any national law or regulations relevant to beneficiary;
 - iii. beneficiary, or any related entity or person, have been found guilty of grave professional misconduct proven by any means which contracting authority can justify;
 - iv. it has been established by final judgment or final administrative decision or by proof in possession of contracting authority that beneficiary has been guilty of fraud, corruption, involvement in a criminal organisation, money laundering or terrorist financing, terrorist related offences, child labour or other forms of trafficking in human beings or circumventing fiscal, social or any other applicable legal obligations, including through creation of entity for this purpose;
 - v. change to beneficiary's legal, financial, technical, organisational or ownership situation or termination of participation of beneficiary substantially affects implementation of the contract or calls into question the decision awarding the grant;
 - vi. beneficiary or any related person, are guilty of misrepresentation in supplying required information in award procedure or in implementation of the action or fail to provide any information related to the action required by contracting authority;
 - vii. beneficiary has not fulfilled obligations relating to payment of social security contributions or other taxes in accordance with legal provisions of the country of residence of the beneficiary;
 - viii. contracting authority has evidence that beneficiary, or any related entity or person, has committed breach of obligations, irregularities or fraud in award procedure or in implementation of the action;
 - ix. contracting authority has evidence that beneficiary is subject to conflict of interests;
 - x. European Commission has evidence that beneficiary has committed systemic or recurrent errors or irregularities, fraud, or serious breach of obligations under other grants financed by European Union and awarded to that beneficiary under similar conditions, provided that those errors, irregularities, fraud, or serious breach of obligations have material impact on this grant.

12.3. Termination of the contract under Article 12.2 (a) points (ii), (iii), (iv), (vii), (ix) and (x) of this Annex may refer also to persons who are members of administrative, management or supervisory body of beneficiary and/or to persons having powers of representation, decision or control with regard to beneficiary.

12.4. In the cases referred to in Article 12.2 (a) points (iii), (vi), (viii) and (x) of this Annex, any related person means any physical person with powers of representation, decision-making or control in relation to beneficiary.

12.5. END DATE:

- a) payment obligations of contracting authority under the contract shall end 18 months after the implementation period specified in Article 2 of special conditions, unless the contract is terminated

according to Article 12.

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

12.6. The contract shall be terminated automatically if contracting authority has made any payment to beneficiary within two years of signing it.

12.7. EFFECTS OF TERMINATION

- a) Upon termination of the contract, the beneficiary shall take immediate steps to complete implementation of the action promptly and properly and to minimise further costs.
- b) Without prejudice to Article 14 of this Annex, the beneficiary shall be entitled to payment only for the part of the action carried out, excluding costs relating to current commitments to be settled after termination. To this purpose, the beneficiary shall submit payment request to contracting authority within the time limit set by Article 15.2 of this Annex starting from the date of termination.
- c) In the event of termination according to Article 12.1 of this Annex, contracting authority may agree to reimburse the unavoidable residual expenditures incurred during the notice period, provided that Article 12.7 (a) of this Annex has been properly executed.
- d) In the cases of termination referred to in Article 12.2 (a) points (i), (iii), (iv), (vi), (viii) and (x) of this Annex, contracting authority may, after having properly consulted with beneficiary and depending on the gravity of the failings, request full or partial repayment of amounts unduly paid for the action.

ARTICLE 13 — APPLICABLE LAW AND DISPUTE SETTLEMENT

13.1. This contract shall be governed by the law of the country of contracting authority.

13.2. Disputes arising from the contract shall be settled through negotiations. If no agreement is reached as a result of the negotiations, the disputes shall be settled pursuant to the procedure prescribed by legislation of the country of contracting authority.

13.3. In matters not regulated in the contract, the parties shall follow the legislation and good practice, performing their obligations in a purposeful, economical manner and in the best possible way.

B - FINANCIAL PROVISIONS

ARTICLE 14 — ELIGIBLE COSTS

14.1. Eligible costs of the action are costs actually incurred by beneficiary and which meet the following criteria:

- a) they are incurred within the implementation period, excepting costs relating to the request for payment of the balance and the corresponding supporting documents referred to in Article 2(2) of the contract. In particular:
 - costs for services and works shall relate to activities performed during the implementation period. Costs for supplies shall relate to delivery and installation of items during the implementation period. Signature of a contract, placing of an order, or any commitment of expenditure during the implementation period for provision of future services, works or supplies after expiry of the implementation period do not meet this requirement;
 - costs incurred should be paid before the submission of final report. Costs may be paid afterwards, provided they are included in final report together with the estimated payment date;
 - exception is made for costs relating to final report, including expenditure verification, audit, and final evaluation of the action, which may be incurred after the implementation period of the action;
 - procedures to award contracts, as referred to in Article 10, may be initiated and contracts may be concluded by beneficiary before the start of the implementation period of the action, provided the provisions of Annex IV to the contract is respected.
- b) they are indicated in the budget of the action (Annex III);
- c) they are related to and necessary for the implementation of an action described in Annex I;
- d) they are identifiable and verifiable, in particular they are recorded in beneficiary's accounting records and determined according to the applicable accounting standards of the country where beneficiary is established and according to the beneficiary's usual cost accounting practices;
- e) they comply with the requirements of applicable tax and social legislation;
- f) they are reasonable, justified and comply with the principle of sound financial management, in particular regarding economy and efficiency.

14.2. ELIGIBLE DIRECT COSTS

- a) Eligible direct cost of the action shall comply with the eligibility conditions set out in Article 14.1.
- b) The amount to be paid for achieved results is provided in the budget (Annex III). The payment amount must comply with the principle of sound financial management and avoid double financing of costs. Beneficiary is not obliged to report on costs related to achievement of results. However, beneficiary submits any necessary supporting documents, including where relevant accounting documents, to prove that the results defined in Annex I and Annex III are achieved.
- c) Following categories of costs are eligible direct costs, provided that they satisfy the eligibility conditions set out in Article 14.1 as well as the following conditions:
 - i. costs of personnel working under an employment contract with the beneficiary or an equivalent appointing act and assigned to the action, provided that these costs are in line with the beneficiary's usual policy on remuneration. Those costs include actual salaries, social security contributions and other statutory costs included in the remuneration. They may also comprise additional remunerations, including payments under supplementary contracts regardless of the nature of those contracts, if they are paid consistently whenever same kind of work or expertise is required, independently from the source of funding used. Costs of natural persons working under contract other than employment contract or who are seconded to beneficiary by third party against payment may also be included under such personnel costs, if following conditions are fulfilled:
 - person works under conditions similar to those of employee, particularly organisation of work, performance of tasks and premises where tasks are performed;

- result of the work belongs to beneficiary (unless exceptionally agreed otherwise); and
 - costs are not significantly different from costs of staff performing similar tasks under employment contract with beneficiary.
- ii. costs of travel and related subsistence allowances if these costs are in line with beneficiary's usual practices on travel.
 - iii. depreciation costs of equipment or other assets (new or second-hand) as recorded in beneficiary's accounting statements, provided that the asset:
 - is written off in accordance with international accounting standards and beneficiary's usual accounting practices; and
 - is purchased in accordance with Article 10 of this Annex if the purchase occurred within the implementation period.

Costs of renting or leasing equipment or other assets if these costs do not exceed the depreciation costs of similar equipment or assets and are exclusive of any finance fee.

Only the portion of the equipment's depreciation, rental or lease costs corresponding to implementation period and rate of actual use related to implementation of the action shall be considered in determining eligible costs. Full cost of purchase of equipment may be eligible under the special conditions, if this is justified by the nature of the action and specific use of equipment or assets.

- iv. costs of consumables and supplies if they directly related to implementation of the action (Annex I) and foreseen in the budget (Annex III).
- v. service costs arising directly under by the contract (e.g. costs of requested financial guarantees, specific evaluation of the action, audits, information distribution translations, printing).
- vi. costs entailed by subcontracts within the meaning of Article 10 of this Annex, provided that the conditions laid down in Article 10(a)(b)(c) and (d) of this Annex are met;
- vii. duties, taxes, and charges paid by beneficiary, notably value added tax (VAT) if they are included in eligible direct costs and unless specified otherwise in special conditions;
- viii. costs actually incurred in relation to project office used for the action or portion of these costs may be accepted as eligible direct costs if:
 - the need for setting up or using project office is stated in the special conditions;
 - description of project office, including provided services, necessary resources and its overall capacity are provided in the description of the action (Annex I) and budget (Annex III).

14.3. INELIGIBLE COSTS

- a) In addition to any other costs which do not fulfil the conditions set out in Article 14.1 of this Annex, the following costs may not be considered eligible:
 - i. debts and debt service charges (interest);
 - ii. provisions for losses, debts, or potential future liabilities;
 - iii. costs declared by beneficiary and financed by another action or work programme receiving European Union grant;
 - iv. purchases of land or buildings, except if necessary for implementation of the action according to the conditions specified in special conditions and Article 7.5;
 - v. currency exchange losses;
 - vi. costs of bank transfers charged by bank of beneficiary;
 - vii. credits to third parties, unless otherwise specified in special conditions;
 - viii. in kind contributions and except for voluntary work, unless otherwise specified in special conditions;
 - ix. salary costs of the personnel of national administrations, unless otherwise specified in special conditions and only to extent that they relate to cost of activities which relevant public authority

would not carry out if the action were not undertaken;

- x. bonuses included in costs of staff;
- xi. negative interest charged by banks or other financial institutions;
- xii. excessive or reckless expenditure;
- xiii. deductible VAT.

14.4. INDIRECT COSTS

- a) 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 of this Annex. However, they are incurred in connection with the eligible direct costs for the action.
- b) Indirect costs may not include ineligible costs as referred to in Article 14.3 or costs already declared under another costs item or heading of the budget of this contract.
- c) To the extent that it would not generate profit within the framework of the action, fixed percentage of the total amount of direct eligible costs of the action not exceeding the percentage stated in Article 3 of special conditions may be claimed to cover indirect costs for the action.
- d) Value of voluntary work shall be excluded from the calculation of indirect costs.
- e) Article 14.4 does not apply in the case of an operating grant.

14.5. IN KIND CONTRIBUTIONS

- a) Any contributions in kind, which is provided in Annex III to the contract, 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.
- b) If contributions in kind are accepted as co-financing, beneficiary shall ensure they comply with national tax and social security rules.

14.6. VOLUNTARY WORK

- a) Value of the work provided by volunteers can be recognised as eligible cost of the action and as co-financing by beneficiary, considering that voluntary work can cover up to 50% of the co-financing.
- b) Costs related to voluntary work shall be excluded from the grant awarded by the contracting authority and shall be presented separately from other eligible costs in estimated budget (Annex III).

14.7. AFFILIATED ENTITIES

- a) Where special conditions contain provision on entities affiliated to beneficiary, costs incurred by such entity may be eligible, provided that they satisfy the same conditions under Articles 14 and 16 of this Annex, and that the beneficiary ensures that Articles 3, 4, 5, 6, 8, 10 and 16 of this Annex are also applicable to the entity.

ARTICLE 15 — PAYMENT AND REPORTING

15.1. Article 4 of special conditions shall be applied to payment procedures and late-payment interest.

15.2. Without prejudice to Article 4 of special conditions, payment deadlines may be suspended by notifying beneficiary that:

- a) amount indicated in its request of payments is not due, or;
- b) proper supporting documents have is not submitted, or;
- c) clarifications, modifications, or additional information to narrative or financial report are needed, or;
- d) doubts on the eligibility of expenditure exist and it is necessary to carry out additional checks, including on-the-spot checks or audit to verify eligibility of expenditure, or;
- e) it is necessary to verify, whether presumed breach of obligations, 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 have breached any substantial obligations under the contract, or;
- g) visibility and, if applicable, communication obligations set out in Article 6 or in special conditions are breached.

- 15.3. Suspension of payment deadline starts when notification referred to in Article 15.2 is sent to beneficiary and restarts after proper request for payment is received by contracting authority. Beneficiary shall be obligated to provide any requested information, clarification, or document within 30 (thirty) days of the request. If the payment request submitted by beneficiary remains deficient, or if irregularities, fraud or failure to comply with obligations have occurred in the award procedure or in the implementation of the grant, contracting authority may suspend payments and, in the cases provided for in Article 12 of this Annex, terminate this contract accordingly.
- 15.4. Contracting authority reserves right to suspend payments as precautionary measure without prior notice, prior to, or instead of, terminating this contract as provided for in Article 12.
- 15.5. Beneficiary must provide an expenditure verification report for:
 - a) any request for further pre-financing payment for grants over EUR 100,000.00;
 - b) any final report in the case of a grant of more than EUR 30,000.00.
- 15.6. Expenditure verification report shall be issued by independent auditor approved or chosen by contracting authority. Auditor examines whether the costs declared by beneficiary are actually incurred, accurately recorded and eligible under the contract. Expenditure verification report must cover all expenditure not covered by any previous expenditure verification report.
- 15.7. If expenditure verification is not required with requests for pre-financing payments, detailed breakdown of expenditure covering 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. 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), reference to underlying documents (e.g. invoice number, salary slip or other relevant reference), in line with Article 16.1 of this Annex. It shall be provided in electronic form and spreadsheet format (excel or similar) whenever possible.
- 15.8. Detailed breakdown of expenditure covering the whole action must be included in final report.
- 15.9. Contracting authority shall make payments to beneficiary to the bank account referred to in Article 4.5 of the contract, which allows identification of the funds paid by contracting authority. Payments are made in currency specified in special conditions. In the case financial statements are prepared in currencies other than specified in special conditions, conversion is made using the exchange rate at which each payment received from contracting authority was recorded in the beneficiary's accounts, unless otherwise provided for in the special conditions. If no specific provision is foreseen in special conditions, exchange rate of last instalment received from contracting authority shall be applied.
- 15.10. Unless otherwise provided for in special conditions, costs incurred in other currencies than used in beneficiary's accounts shall be converted according to beneficiary's usual accounting practices, provided they respect the following basic requirements: (i) they are written down as an accounting rule, i.e. they are a standard practice of the beneficiary, (ii) they are applied consistently, (iii) they give equal treatment to all types of transactions and funding sources, (iv) the system can be demonstrated and the exchange rates are easily accessible for verifications.
- 15.11. 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

- 16.1. Beneficiary shall keep accurate and regular accounts of implementation of the action using appropriate accounting and double-entry book-keeping system. The accounts:
 - a) shall be integral part of beneficiary's accounting system;
 - b) shall comply with accounting policies and rules that apply in country of residence of beneficiary;
 - c) shall enable income and expenditure relating to the action to be easily traced, identified and verified.
- 16.2. Beneficiary shall ensure that any financial report as required under Article 2 can be properly and easily reconciled to accounting system and other relevant records. For this purpose, beneficiary shall

- prepare and keep appropriate reconciliations, breakdowns and other relevant documentation for inspection and verification.
- 16.3. Beneficiary shall allow verifications to be carried out by contracting authority and any external auditor authorised by the contracting authority.
- 16.4. Beneficiary shall allow contracting authority and any external auditor authorised by the contracting authority 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 related to implementation of the action;
 - d) carry out on the-spot-checks;
 - e) conduct a full audit of all accounting documents and any other document relevant to financing of the action.
- 16.5. Beneficiary shall keep all records, accounting and supporting documents related to the contract for 7 (seven) years following the payment of balance and in any case until any on-going audit, verification, appeal, litigation, or pursuit of claim is completed. All the supporting documents (including in electronic form) shall be available in original form.
- 16.6. In addition to reports referred in Article 2, the documents referred to in this article include:
- a) Accounting records from the beneficiary's accounting system such as general ledger, sub-ledgers and payroll accounts, fixed assets registers and other relevant accounting information;
 - b) Proof of implementing 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 contractor;
 - i) Proof of payment of taxes and/or non-recoverable VAT;
 - j) Fuel and oil expenses related to use of vehicles such as description of covered distance, average fuel consumption of used vehicles, 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, broken down into gross salary, social security charges, insurance and net salary.
- 16.7. Failure to comply with the obligations set forth in Article 16.1 to 16.6 constitutes a case of breach of substantial obligation under the contract. In this case, contracting authority may suspend the contract, payments, or payment deadline, terminate the contract and/or reduce the grant.

ARTICLE 17 — FINAL AMOUNT OF THE GRANT

- 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 stated percentage. If eligible costs of the action at the end of the action are less than estimated eligible costs referred to in Article 3.1 of special conditions, the grant shall be limited to the amount by applying the percentage stated in Article 3.2 of special conditions to the eligible costs of the action approved by the contracting authority.
- 17.2. If the action is not implemented in accordance with the description of the action in Annex I, contracting authority may reduce initial grant in accordance with actual implementation of the action and terms of the contract. This applies also to visibility and communication obligations set out in Article 6 and in special conditions. In case of breach of obligations, fraud, or irregularities, contracting

authority may reduce the grant in proportion to seriousness of breach of obligations, fraud or irregularities.

- 17.3. Grant may not generate profit for the beneficiary, unless specified otherwise in special conditions. Profit is defined as surplus of receipts over eligible costs approved by contracting authority when request for payment of balance is made.
- 17.4. Where final amount of the grant results in profit, it shall be reduced by the percentage of profit corresponding to the final contribution to eligible costs actually incurred approved by the contracting authority.
- 17.5. The provisions in Article 17.3. and 17.4 of this Annex shall not apply to:
 - a) actions the objective of which is the reinforcement of the financial capacity of beneficiary, if specified in special conditions;
 - b) actions which generate income to ensure their continuity after the end of the contract, if specified in special conditions;
 - c) actions implemented by non-profit organisations;
 - d) study, research or training scholarships paid to natural persons;
 - e) other direct support paid to natural persons in most need, such as unemployed persons and refugees, if specified in special conditions.

ARTICLE 18 — RECOVERY

- 18.1. If any amount is unduly paid to beneficiary, or if recovery is justified under the terms of the contract, the beneficiary shall repay contracting authority these amounts. In particular, payments made do not preclude possibility for contracting authority to issue recovery order following expenditure verification report, audit or further verification of payment request.
- 18.2. Beneficiary shall repay any amounts paid in excess of the final amount due to contracting authority within 45 (forty-five) days of issuing the letter by which contracting authority requests amount owed by beneficiary (credit-note).
- 18.3. Contracting authority may increase the amounts due by adding interest if beneficiary fails to make repayment within the deadline set by contracting authority, the contracting authority may increase the amounts due by adding interest as described in Article 4.9 of special conditions.
- 18.4. Bank charges incurred by repayment of amounts due to contracting authority shall be borne entirely by beneficiary.