



**EUROPEAN UNION**

DELEGATION TO BOSNIA AND HERZEGOVINA

Sarajevo, 29 July, 2016

## **CONSULTATION**

### **REQUEST FOR EXPRESSION OF INTEREST FOR CANDIDATE ENTITIES TO BE ENTRUSTED WITH THE IMPLEMENTATION OF THE IPA 2016 SUPPORT IN THE SECTOR OF COMPETITIVENESS AND INNOVATION: LOCAL DEVELOPMENT STRATEGIES**

In view of potentially entering into formal negotiation leading to the signature of an Indirect Management Delegation Agreement in the course of 2017

#### **Legal bases and considerations:**

The European Union Delegation, building on the suggestions of Bosnia and Herzegovina's authorities is looking into possibilities for indirect management with other entities, besides the EU and the national structures, to implement parts of the 2014-2020 Instrument for Pre-accession Assistance (IPA II) foreseen for the country.

Following the financial rules applicable to the Union budget, specifically Articles 58 (1) (c) and 60 of Financial Regulation (EU Euratom) No 966/2012 from 25/10/2012, Regulation (EU) No 231/2014 from 11/03/2014, establishing an Instrument for Pre-accession Assistance (IPA II), Articles 1 (4) and 5 (4) of the Regulation No 236/2014 from 11/03/2014 laying down common rules and procedures for the implementation of the Union's instruments financing external action, allow the possibility for the Union's financial assistance to be implemented indirectly by entrusting budget implementing tasks to among others, international organisations and their agencies and Member States agencies.

This request for expression of interest aims at identifying entities, which could be later on invited to exploratory talks on a potential subsequent entrustment of the Union's budget implementation tasks (BIT) in respect to specific actions of the 2016 Action Document for Competitiveness and Innovation: local development strategies. The organisation in expressing an interest to this consultation does not commit itself. At the same time, the European Commission reserves the right to take its final decision on the delegated actions upon its discretion.

*A budget implementation tasks (BIT) means that the entrusted entity is responsible for:*

- *Implementation of grant award and procurement procedures*
- *Award decisions for grants and procurement – complementary decisions to reject the other applicants and tenderers;*
- *Implementation of contracts: signature of legal commitments, authorisation of payments and recoveries, audits and follow-up*
- *Implementation of financial instruments*
- *Treasury and accounting.*

## **IPA II Action context**

The overall objective of the IPA 2016 Action Document “Competitiveness and Innovation: local development strategies”<sup>1</sup>, is to strengthen Bosnia and Herzegovina’s capacity for generating growth and employment through support to competitiveness and innovation. The specific objective of this document is to support Bosnia and Herzegovina’s private sector development with a focus on export oriented, agro-rural and tourism sectors and on enhancing the operational environment for MSMEs.

The foreseen Action could be implemented by the Entrusted entity/Delegated body which has the highest competences and specialisation in this given area and has a proven track record in EU member states, candidate and potential candidate countries.

### **Responsibilities of the future entrusted entity/Delegated body:**

The entrusted Entity/Delegated body would be responsible for implementing the envisaged overall Action described in the IPA 2016 Action Document “*Competitiveness and Innovation: local development strategies*” which includes the tasks described in Annex I. The entrusted Entity/Delegated body shall be responsible for the overall administration of all the tasks required to implement the above *Action*, among others, preparation, implementation and conclusion of procurement contracts, and management of corresponding expenditures. The entrusted Entity/Delegated body will participate in coordination meetings and other jointly organised common activities with the European Union.

In performing the *Action* entrusted to it, the Entity/Delegated body may not carry out tasks involving a large measure of discretion implying political choices and it may not set nor modify the primary objectives of the activities as described in Annex I, without the consent of the European Union. The Delegatee may directly provide technical assistance with its own staff, which should be indicated. The financing of the actions would be done by the European Union as prescribed in the Financing Decision. A flat rate of maximum 7% administrative cost is applicable to all Indirect Management Delegation Agreement contracts and will be subject to further discussions and negotiations.

### **Selection process:**

**Submission Requirements:** Interested entities are hereby invited to submit expressions of interest by replying to the questions mentioned under **Annex II**.

The information should be sent by email to the following e-mail address: [delegation-bih@eeas.europa.eu](mailto:delegation-bih@eeas.europa.eu), by **1<sup>th</sup> of September 2016, 24:00 o'clock, CET, the latest**.

**All additional questions related to this Letter should be addressed to the EU Delegation not later than 26 August 2016 12:00 o'clock, CET.**

The organisations that would respond to this expression of interest will be assessed along a transparent set of criteria mentioned below. The best-placed entity will be invited to start negotiations, potentially leading to a Delegation Agreement, subject to confirmation of funding by the European Union. The selection would be made from responses to this notification.

---

<sup>1</sup> Further referred as “Action”

The selection of the entities under indirect management should not to be compared with, and does not constitute, a full competitive procedure. However, the present Request for Expression of Interest with all potentially eligible/interested entities ensures a transparent selection process on objective grounds.

The potential Delegation Agreement signature is expected before the end 2017, following a negotiation procedure.

More information on the type of arrangements for managing the EU projects (referred to as 'management modes') is available on the EU website [https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/how-do-we-offer-funding\\_en](https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/how-do-we-offer-funding_en)

## Annex I – Brief description of the Action "Competitiveness and Innovation: local development strategies"

*The overall objective* of the IPA 2016 Action Document "Competitiveness and Innovation: Local Development Strategies" is to strengthen Bosnia and Herzegovina's capacity for generating growth and employment through support to competitiveness and innovation.

*The specific objective* of this document is to support Bosnia and Herzegovina's private sector development with a focus on export oriented, agro-rural and tourism sectors and on enhancing the operational environment for MSMEs.

*The foreseen results are:*

1. MSMEs performance is increased due to better access and availability of innovative business development services in competitive export oriented sectors
2. Business environment for development of new businesses and support to existing ones is improved
3. Entrepreneurial initiatives in tourism and rural value chains for income and employment generation are increased.

### **Rationale**

BiH economy is gradually recovering from the impact of the economic and financial crisis and major challenges are associated to the predominance of low value-added industries, weaknesses in workforce skills and difficulties in attracting investment. Small and medium-sized enterprises (SME) sector is the backbone of BiH economy<sup>2</sup>. However, the complexity of **business environment** and the lack of policy coordination are preventing a more dynamic SME development for increasing country's competitiveness and creation of a single economic space. Similar to other countries in the region, BiH is also facing the significant challenges in terms of economic governance, low levels of investment and high unemployment rate (27.7%)<sup>3</sup>, in particular amongst young people. Hence, creation of new jobs should improve livelihoods and increase income generation perspective of the working age-population in general.<sup>4</sup>

BiH is mainly an import-oriented economy<sup>5</sup>, while the **export** is predominantly made up of commodities and energy with very little value-added products, contributing cca 55% to the country's GDP. Given that a diverse export-orientated economy tends to employ more people, there is a need to further support the export-oriented sectors in BiH including metal, wood processing and textile sectors, which are traditionally the strongest export sectors in BiH.

The private sector is characterised by low number of **innovative MSME** and the export of innovative products and knowledge-intensive services is amongst the lowest in Europe.<sup>6</sup> Investment in research and innovation is significantly below 1% of GDP which is mainly attributed to high cost for MSMEs to invest in innovation, limited access to knowledge and to some institutional factors.

---

<sup>2</sup> 99.3% of enterprises in BiH are SMEs with share in overall employment by 67% and with value added contribution to economy by 62% according to 2016 SME Policy Index

<sup>3</sup> Women 30.7% and men 25.8% , *Labour Force Survey*, BHAS, 2015

<sup>4</sup> Recent *UN Youth Employment programme* survey indicate that 65% youth (aged 15-30) would leave BiH for temporary jobs

<sup>5</sup> Import coverage ratio was around 60 % in 2015.

<sup>6</sup> 14,2% of enterprises in BiH were innovative in the period 2010-2012 according to BHAS, 2014

To increase **competitiveness of MSMEs** in general, BiH needs to address the weaknesses related to better skilled workforce, export promotion, access to technologies and know-how for development of value-added products and introduction of EU technical standards and certificates, as well as to facilitate MSMEs access to more affordable finance.

Furthermore, the revitalisation of **rural economies** is essential for BiH<sup>7</sup> in particular by connecting the under-developed municipalities with more developed ones for sharing the best development practices. Similar to other regional economies, BiH's **agricultural sector** is largely featured by subsistence farming, which often compensate for the lack of earnings by the socially vulnerable categories.<sup>8</sup> The challenges in this sector are associated to compliance of products with EU food safety standards, as well as to a need for strengthening value chains for value added products through better access to knowledge, technology, innovation and diversified financial sources.

Employment opportunities have also increased in **tourism** sector<sup>9</sup>, which is featured by a limited offer, which need to become more diversified, both in terms of destinations and entertainment activities. Also, rural tourism has potential to boost local development but it needs better infrastructure/facilities and promotion.<sup>10</sup>

Finally, some segments of BiH population are facing more **difficulties with obtaining employment** such as women<sup>11</sup> and youth (age 15-24), which unemployment is highest in the region and with significant number of young people willing to leave the country for better employment opportunities<sup>12</sup>.

To assist addressing the needs of above-described challenges in BiH, the foreseen *Action* would include the combination of *grant support* (for achievement of results 1 and 3) and *technical assistance* (for achievement of result 2).

Specifically, *grants will target final beneficiaries* (MSMEs, entrepreneurs, young men and women, farmers, etc) through the activities which are stimulating business, tourism and agri-rural networking to promote best EU innovative practice (i.e. *product development and technology transfer to MSMEs* in competitive sectors as well as *inclusive entrepreneurship models* for start-ups and added-value clustering in *tourism, agri-food value chains and rural development*).

To ensure better sustainability of grant support, technical assistance would include *capacity building* of the main stakeholders *for monitoring and evaluation of local economic development measures* to serve as input for better policy planning and identification of measures that will be harmonised throughout the country and are in line with the Reform Agenda.

The stakeholders will be either direct or indirect beneficiaries of various measures under this Action. In addition, line ministries, and relevant agencies, will participate in monitoring and evaluation of overall Action and specific measures.

---

<sup>7</sup> 60% of BiH population (cca 2 000 000 people) live in rural areas which are covering 80% of BiH territory

<sup>8</sup> For illustration, the sector absorbs around 20% of employed males and 18% of employed females.

<sup>9</sup> Tourism contributed 2,5 % to GDP in 2014 and it is forecasted to increase 5% annually until 2025

<sup>10</sup> Strategy for Tourism Development in Federation of Bosnia and Herzegovina 2008-2018

<sup>11</sup> Women are by third less likely to participate in the labour force than men

<sup>12</sup> Youth unemployment rate is cca 62% (59,5 % men and 67,3% women)

## **Description of related tasks**

The Action will be implemented through a Delegation Agreement for indirect management. The entrusted Entity/Delegated body will be responsible for managing the overall Action, which will comprise of technical assistance (app. 25% of the total EU contribution) and a Grant Fund Facility for the rest of the EU contribution (app. 75%).

The core activities which present component of the Grant Fund Facility (GFF) will be channelled under the principle of sub-granting, via launched call for proposals with following specified lots per area of intervention:

- (i) MSME competitiveness in export-oriented sectors;
- (ii) development of tourism product via clustering; and
- (iii) support to agri-food value chains and rural development.

The EU contribution for the GFF is envisaged to be equally split between the above areas of intervention. The entrusted Entity/Delegated body will sign and implement resulting contracts.

The entrusted Entity/Delegated body will also provide the technical assistance either via sub-contracting or with its own expertise. This component will primarily aim at establishing the stakeholders' structure for result oriented monitoring and evaluation of GFF. It will include, amongst other, development of grant selection criteria and performance benchmarks, methodology for monitoring and evaluation of grants, capacity building for SWOT, gender and stakeholder analysis, policy advocacy and similar.

A bottom-up development approach would be an important tool to improve the business environment, especially considering the difficulties by the Government to undertake specific measures to facilitate it. Hence, the ultimate goal of the project should be to ensure political ownership and governmental support to SME policies. Involving the public sector, raising awareness about the importance of having a single economic space for eliminating current market distortions, coordinating role of the State should complement the Action. The sustainability aspect of the Action should be in particular embedded in the implementing methodology proposed by the entrusted Entity/Delegated body.

The capacities of the following existing working groups may be utilised in this regard:

- SBA network coordinated by the National SBA Coordinator;
- Working group in the field of tourism;
- Working group in the field of agriculture and rural development.

The entrusted Entity/Delegated body will establish the Steering Committee at the start of implementation, whose role, amongst other will be to monitor the progress of Action implementation, provide advice, and include main institutional stakeholders in accordance with common practice under the chair of the EU Delegation to BiH.

At the start of implementation, the entrusted Entity/Delegated body will refine the matrix of indicators for the Action after undertaking the necessary research and data collection to define accurate baselines and realistic targets. The matrix of indicators will be discussed with the EU Delegation to BiH and approved by the Steering Committee. The monitoring arrangements (including data to be collected, responsibilities, tools and frequency of monitoring activities) will be detailed in the Implementation Manual to be developed at the start of the Action.

## Indicative Targets and Indicators:

Indicator	Baseline	Target 2020
Improved Doing Business distance to frontier score	52.04 in 2010	65
SME Policy Index, dimension 10.1 Export promotion	2.44 in 2015	2.64 in 2021
SME Policy Index, dimension 10.2 Integration of SMEs into global value chains	1.17 in 2015	1.50 in 2021
Share of high and medium value exports in overall exports	23.1 % in 2010	43.8% in 2021
Number of newly registered firms and/or business/service providers	0	80 newly registered firms and/or business/ services providers out of which minimum 30 % owned by women
New jobs created for youth (sex disaggregated data)	0	15% out of 300 new jobs created out of which 50% refer to women
The contribution of Travel and Tourism to GDP	9.3% total contribution to GDP in 2010	11% total contribution to GDP in 2021
The contribution of Travel and Tourism to employment	10.7% total contribution to employment in 2010	12% total contribution to employment in 2021
Number of individuals (sex disaggregated) or firms gaining access to a value chain and new jobs created	0	30 firms gaining access to value chains Min 300 new jobs created

**Indicative allocation for this Action:**

EUR 15 million

**Location:**

Bosnia and Herzegovina countrywide

**Indicative implementing period:**

Q1 2018 – Q4 2021

## **I. ELIGIBILITY CRITERIA**

### 1) The actors:

Eligibility of the potential entities for a Delegation Agreement is conditioned to the new Pillar Assessment which is requested by the EU under the new Financial regulation. The potential entrusted Entity/Delegated body submitting the expression of interest should be:

- a. An International (inter-governmental) Organisation as defined by Article 43 of the Rules of application of the EU Financial Regulation<sup>13</sup> whose pillars have been positively assessed for Budget Implementation Tasks (BIT) by the European Commission; or
- b. The EU Member States Body<sup>14</sup>

The pillar assessed entrusted Entity/Delegated body (as a coordinator) may work with implementing partner(s) and/or *exceptionally* pillar assessed sub-delegatee(s), to demonstrate the experience in the relevant sectors specified below.

### 2) Technical capacity

- a. The potential entrusted Entity/Delegated body has to demonstrate capacity for managing large scale interventions which should combine technical assistance and grants (therefore ensuring transparency of the grant award and management procedures) on at least one relevant project completed in the past 10 years (08/2006-08/2016), preferably in EU member state and/or EU candidate countries and/or EU potential candidate.
- b. The potential entrusted Entity/Delegated body should demonstrate inter-sectoral competences, either individually, or, by working with implementing partner(s) and/or sub-delegatee(s), in the fields relevant to the intervention (namely MSME competitiveness, tourism and agro-rural development), on at least one project completed in the past 10 years (08/2006-08/2016) in EU member state and/or EU candidate countries and/or EU potential candidate.

*(Please provide a complete list of relevant projects, with title, scope, duration, amount, source of funding and results achieved.)*

**The potential applicants which pass the eligibility criteria will be assessed further as per selection criteria specified in Annex II.**

---

<sup>13</sup> International organisations are international public-sector organisations set up by intergovernmental agreements as well as specialised agencies set up by them; the International Committee of the Red Cross (ICRC) and the International Federation of National Red Cross and Red Crescent Societies are also recognised as international organisations.

<sup>14</sup>“ EU Member States Bodies” refers to EU Members States Agencies which covers the EU Member States’ Development Agencies, EU Member States’ development banks and financial institutions



## **Annex II – Standard template for assessing potential applicants responding to a consultation process for expression of interest**

### **1. CONTEXT**

- **Introductory part not requested to be filled by the potential Delegated body:**
  1. Country / Project/Programme Title: **Bosnia and Herzegovina/ "Competitiveness and Innovation: local development strategies"**
  2. Sector: **Competitiveness and Innovation: local development strategies**
  3. Short description of the project/programme and its general objectives: **Please refer to Annex I of this Expression of Interest**
  4. EU programme amount / other contributions (if any): **EU Programme – indicative allocation of EUR 15 million**
  
- **For the potential entrusted Entity/Delegated body – To be filled in by the entity replying to the expression of interest:**
  5. Name of potential entrusted Entity/Delegated body and implementing partner(s) and/or sub-delegatee(s), (if any):
  6. Eligibility – Please provide relevant information to demonstrate eligibility as per criteria defined on page 8 of this document.

### **II. SELECTION CRITERIA**

- **For the potential Delegated body – To be filled in by the entity replying to the expression of interest on max 6 pages, in Times New Roman 11**
- Please draft your expression of interest using the following structure which follows the selection criteria:

#### **1. Methodology (weight 10%)**

*1.1. How would you see the implementation of the tasks described under Annex I? Please provide a brief methodology and a concept for implementation with special emphasis on the following issues:*

*- your approach to the definition of the Grant Fund Facility (GFF) selection criteria (i.e. do you envisage any specific challenges for each of the sub-sectors) as well as to an achievement of the performance indicators (provided on page 7).*

*- your approach to monitoring and evaluation of GFF and the proposed stakeholders involvement in this process.*

*- please identify, in your view, what are the main areas and key stakeholders for capacity building and awareness raising for better policy planning based on the lessons learnt from GFF implementation.*

*- your proposal for a bottom-up coordinated approach to SME policy development to ensure political ownership and governmental support for implementation of reforms related to business environment.*

## **2. Technical capacity (weight 40%)**

*2.1. Please describe your capacities for managing large scale interventions which combine technical assistance and grants, as well as your capacity for a transparent implementation of grant award and management procedures.*

*Furthermore, please address in particular the following issues:*

*- Will the potential entrusted Entity/Delegated body, manage the funds and the procurement procedures itself and/or does it intend to work with implementing partners, and/or, exceptionally, through a sub-delegation to another entrusted body? In case of sub-delegation, please provide an indicative list of sub-delegatee(s) and indicative amounts to be sub-delegated.*

*2.2. The potential entrusted Entity/Delegated should provide indications on its long-standing experience in the private sector development with a focus on competitiveness and innovation, demonstrated either individually, or preferably, by working in the partnership.*

*In this respect, please summarise the relevant projects/assignments, by also referring to your familiarity/ concrete contribution to achievement of some indicative targets/ performance indicators from the page 7 of this document.*

*2.3 What is the comparative advantage of the organisation in the sector, including on policy dialogue?*

## **3. Administrative/professional capacity (weight 30%)**

*3.1. Please provide information of the profile of the potential entrusted Entity/Delegated body, namely the organisation and staffing—internationally, in the Region, and in the country, if relevant.*

*In particular, please specify the following:*

*- The number of staff working in the field related to this expression of interest.  
- Will you implement technical assistance with your own staff or will you sub-contract this component?*

*3.2. Please indicate how you will ensure a country-wide coverage of the foreseen intervention.*

*- In this respect, please indicate your current/future local offices.*

**4. Involvement in the beneficiary country (weight 10 %)**

*4.1. Please indicate your past and current involvement in the private sector development in the country and/or in the Western Balkans?*

*4.2. What is the overall commitment to work together with the EU on introducing sector based approach conditions and improving sector (donor) coordination on the ground?*

**5. Other (weight 10%)**

*5.1. Are you willing to co-finance and/or complement this Action with your own resources and what would be the appropriation from your side. Please differentiate between grant and loan funding.*

*5.2. What are your overall commitment and specific activities envisaged to guarantee the visibility of the EU funding?*

## Contact Sheet

<b>Full legal name of Lead Organisation/ Individual:</b>	
<b>Name</b> (if different from above):	
<b>Country of Registration:</b>	
<b>Address of registered office:</b>	
<b>Postal address</b> (if different from above):	
<b>Telephone number</b> (including country code):	
<b>Fax number</b> (including country code):	
<b>Main contact person for this assignment:</b>	
<b>Main contact person's position in the Organisation:</b>	
<b>Contact person's email address:</b>	
<b>Alternate contact person:</b>	
<b>Alternative E-mail:</b>	
<b>Website of the Organisation:</b>	

**On the following website further information can be found about Pillar Assessed or Grant or Delegation Agreements (PaGoDA)**

**<http://ec.europa.eu/europeaid/companion/document.do?isAnnexes=true>**

## **ANNEX IV – Responsibilities of the entrusted bodies under Indirect Management according to Articles 58 and 60 of Financial Regulation (EU Euratom) No 966/2012 from 25/10/2012**

### **Article 58 - *Methods of implementation of the budget***

1. The Commission shall implement the budget in the following ways:

- (a) directly ('direct management'), by its departments, including its staff in the Union Delegations under the authority of their respective Head of Delegation, in accordance with Article 56(2), or through executive agencies as referred to in Article 62;
- (b) under shared management with Member States ('shared management'); or
- (c) indirectly ('indirect management'), where this is provided for in the basic act or in the cases referred to in points (a) to (d) of the first subparagraph of Article 54(2), by entrusting budget implementation tasks to:
  - (i) third countries or the bodies they have designated;
  - (ii) international organisations and their agencies;
  - (iii) the EIB and the European Investment Fund;
  - (iv) bodies referred to in Articles 208 and 209;
  - (v) public law bodies;
  - (vi) bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;
  - (vii) bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;
  - (viii) persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.

2. The Commission remains responsible for the implementation of the budget in accordance with Article 317 TFEU and shall inform the European Parliament and the Council of the operations carried out by the entities and persons entrusted pursuant to point (c) of paragraph 1 of this Article. Where the entrusted entity or person is identified in a basic act, the financial statement provided for in Article 31 shall include a full justification for the choice of that particular entity or person.

3. The entities and persons entrusted pursuant to point (c) of paragraph 1 of this Article shall fully cooperate in the protection of the Union's financial interests. Delegation agreements shall provide for the right of the Court of Auditors and the European Anti-Fraud Office (OLAF) to comprehensively exert their competences under the TFEU in the audit of funds.

The Commission shall entrust budget implementation tasks to entities and persons under point (c) of paragraph 1 of this Article provided that transparent, non-discriminatory, efficient and effective review procedures concerning the actual implementation of such tasks are in place.

4. All delegation agreements shall be made available to the European Parliament and the Council at their request.

5. Entities and persons entrusted pursuant to point (c) of paragraph 1 of this Article shall ensure, in accordance with Article 35(2), appropriate annual ex post publication of information on recipients. The Commission shall be notified of the measures taken in this regard.

6. Entities and persons entrusted pursuant to point (c) of paragraph 1 shall not have the status of authorising officer by delegation.

7. The Commission shall not entrust executive powers to third parties, where such powers involve a large measure of discretion implying political choices.

8. The Commission shall be empowered to adopt delegated acts in accordance with Article 210 concerning detailed rules on the methods of implementation of the budget, including direct management, the exercise of powers delegated to executive agencies, and specific provisions for indirect management with international organisations, with bodies referred to in Articles 208 and 209, with public law bodies or bodies governed by private law with a public service mission, with bodies governed by the private law of a Member State and entrusted with the implementation of a public-private partnership and with persons entrusted with the implementation of specific actions in the CFSP.

#### **Article 60 - Indirect management**

1. Entities and persons entrusted with budget implementation tasks pursuant to point (c) of Article 58(1) shall respect the principles of sound financial management, transparency and non-discrimination and shall ensure the visibility of Union action when they manage Union funds. They shall guarantee a level of protection of the financial interests of the Union equivalent to that required under this Regulation when they manage Union funds, with due consideration for:

- (a) the nature of the tasks entrusted to them and the amounts involved;
- (b) the financial risks involved;
- (c) the level of assurance stemming from their systems, rules and procedures together with the measures taken by the Commission to supervise and support the implementation of the tasks entrusted to them.

2. In order to protect the financial interests of the Union, the entities and persons entrusted pursuant to point (c) of Article 58(1) shall, in accordance with the principle of proportionality

- (a) set up and ensure the functioning of an effective and efficient internal control system;
- (b) use an accounting system that provides accurate, complete and reliable information in a timely manner;
- (c) be subject to an independent external audit, performed in accordance with internationally accepted auditing standards by an audit service functionally independent of the entity or person concerned;
- (d) apply appropriate rules and procedures for providing financing from Union funds through grants, procurement and financial instruments;
- (e) ensure, in accordance with Article 35(2), the ex post publication of information on recipients;
- (f) ensure a reasonable protection of personal data, as laid down in Directive 95/46/EC and Regulation (EC) No 45/2001.

Persons entrusted pursuant to point (viii) of Article 58(1)(c) shall adopt their financial rules with the Commission's prior consent. They shall satisfy the requirements laid down in points (a) to (e) of this paragraph no later than six months after the start of their mandate. Where, at the end of this period, they comply with those requirements only in part, the Commission shall take appropriate remedial measures to supervise and support the implementation of the tasks entrusted to them.

3. The entities and persons entrusted pursuant to point (c) of Article 58(1) shall prevent, detect and correct irregularities and fraud when executing tasks relating to the implementation of the budget. To this end, they shall carry out, in accordance with the principle of proportionality, ex ante and ex post controls including, where appropriate, on-the-spot checks on representative and/or risk-based samples of transactions, to ensure that the actions financed from the budget are effectively carried out and implemented correctly. They shall also recover funds unduly paid and bring legal proceedings where necessary in this regard.

4. The Commission may suspend payments to entities and persons entrusted pursuant to point (c) of Article 58(1), in particular when systemic errors are detected which call into question the reliability of the internal control systems of the entity or person concerned or the legality and regularity of the underlying transactions.

Notwithstanding Article 92, the authorising officer responsible may interrupt payments to such entities or persons fully or partially for the purpose of carrying out further checks where:

- (i) information comes to the notice of the authorising officer responsible indicating a significant deficiency in the functioning of the internal control system or that the expenditure certified by the entity or person concerned is linked to a serious irregularity and has not been corrected;
- (ii) the interruption is necessary to prevent significant damage to the financial interests of the Union.

5. Without prejudice to paragraph 7, the entities and persons entrusted pursuant to point (c) of Article 58(1) shall provide the Commission with:

- (a) a report on the implementation of the tasks entrusted to them;
- (b) their accounts drawn up for the expenditure incurred in the execution of the tasks entrusted to them. Those accounts shall be accompanied by a management declaration confirming that, in the opinion of those in charge of the management of the funds:
  - (i) the information is properly presented, complete and accurate,
  - (ii) the expenditure was used for its intended purpose, as defined in the delegation agreements or, where applicable, in the relevant sector-specific rules,
  - (iii) the control systems put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions;
- (c) a summary of the final audit reports and of controls carried out, including an analysis of the nature and extent of errors and weaknesses identified in systems, as well as corrective action taken or planned.

The documents referred to in the first subparagraph shall be accompanied by an opinion of an independent audit body, drawn up in accordance with internationally accepted audit standards. That opinion shall establish whether the accounts give a true and fair view, whether the control systems put in place function properly, and whether the underlying transactions are legal and regular. The opinion shall also state whether the audit work puts in doubt the assertions made in the management declaration under point (b) of the first subparagraph.

The documents referred to in the first subparagraph shall be provided to the Commission no later than 15 February of the following financial year. The opinion referred to in the second subparagraph shall be provided to the Commission no later than 15 March.

The obligations set out in this paragraph shall be without prejudice to agreements concluded with international organisations and third countries. Such agreements shall include at least the obligation of those international organisations and third countries to provide the Commission annually with a statement that, during the financial year concerned, the Union contribution was used and accounted for in compliance with the requirements set out in paragraph 2 and with the obligations laid down in such agreements.

6. Without prejudice to paragraph 7, the Commission shall:

- (a) supervise the fulfilment by those persons and entities of their responsibilities, in particular by carrying out audits and evaluations on the programme implementation;
- (b) apply procedures for the examination and acceptance of the accounts of the entrusted entities and persons, ensuring that the accounts are complete, accurate and true;



(c) exclude from Union financing expenditure disbursements which have been made in breach of the applicable rules.

7. Paragraphs 5 and 6 shall not apply to the contribution of the Union to entities which are subject to a separate discharge procedure under Article 208.

8. The Commission shall be empowered to adopt delegated acts in accordance with Article 210 concerning detailed rules on indirect management, including the establishment of the conditions under indirect management according to which the systems, rules and procedures of entities and persons are to be equivalent to those of the Commission, management declarations and compliance statements, and the procedures for the examination and acceptance of the accounts and the exclusion from Union financing of expenditure incurred in breach of the applicable rules.