



Project Implementation Manual

Eligible Costs

1. INTRODUCTION	1.1 Purpose and Use 1.2 ENPI CBC Mediterranean Sea Basin Programme Description 1.3 Annotated Glossary & Acronyms
2. UNDERSTANDING CONTRACTUAL OBLIGATIONS	2.1 Contractual Obligations 2.2 Contractual Modifications 2.3 Partnership Agreement 2.4 How to contract the External Auditor
3. PLANNING, MONITORING & AUDITING	3.1 Scheduling and Review of Project Activities 3.2 Financial Planning & 1 tool 3.3 Internal Monitoring System 3.4 Internal Accounting System & Annex 3.5 Internal Control System & Annex
4. PROCUREMENT	4.1 Eligible Costs & 2 tools 4.2 Procurement of Services, Supplies and Works & 4 tools
5. REPORTING	5.1 Reporting (technical part) 5.2 Financial Flows & 1 tool 5.3 Reporting (financial part)
6. COMMUNICATION	6.1 Communication and Visibility Guidelines & Annex

Version # 1, 2012/04/10

Disclaimer: The content of the manual is the sole responsibility of the ENPI CBC MED Programme and can in no way be taken to reflect the views of the European Union. The ENPI CBC MED Programme is not legally bound by the information contained in or omitted in the manual and does not accept any liability in this respect. Only the Contractual Conditions and the relevant legal and regulatory framework which apply to the implementation of the ENPI CBC MED Programme and project's Grant Contract are binding. All information in the manual is based on the reference materials presented in the introduction plus the development of some examples and case-studies adapted to the ENPI CBC MED context.



Introduction

The aim of this chapter is to make fully understandable the rules of eligibility of expenditures; “formal” issues are also very important in order to prove such eligibility (i.e. the characteristics and contents of the supporting documents)¹.

Article 14 of the General Conditions of your Grant Contract (and its modifications foreseen by art. 7.2.10 and 7.2.11 of the Special Conditions) provides the legal requirements concerning eligibility of costs, together with ENPI CBC MED and PraG Rules.

Source	Text
ENPI MED Implementing Rules (EC reg. 951-2007)	Article 36. Eligible costs at project level: <ul style="list-style-type: none">• Expenditures shall be incurred during the execution period of each relevant contract• “Eligible costs, non-eligible costs (...) shall be described in the contracts concluded with the Beneficiaries or contractors” (i.e. between the Beneficiary and the JMA)
PraG section 6.1.1	The grant is expressed by ways of a percentage and a maximum amount of the eligible costs of the action actually incurred by the Beneficiary
PraG section 6.4.10.3	The Community finances a specific percentage of the total eligible costs rather than a particular part of the action. If at the end of the action, the actual eligible cost is lower than anticipated, the grant will be reduced proportionately
Grant Contract between Beneficiary and JMA	<ul style="list-style-type: none">• Article 14 of the General Conditions (Annex II)• Article 7.2.10 and 7.2.11 of the Special Conditions

Definitions and general principles

“**Eligibility of an expenditure**” can be assumed when the features – under which an internal cost, a tender bid, a good purchasing, etc., have been carried out – as reported in the Progress Report, are in line with the Programme rules, and therefore accepted by JMA.

According to Article 14.1 of the General Conditions of the Grant Contract, first of all eligible costs must be “**actually incurred**”, meaning fully paid and receipted (i.e. with evidence of payment) by the Beneficiary or one of the Partners, and therefore also the expense-related documents (e.g. the invoice) must be entitled to the relevant Beneficiary/ Partner

¹ The eligibility check is an ex-post exercise, carried out by the Project Auditor(s) and verified by the JMA: therefore the elements presented in this chapter cannot avoid the risk of having non-accepted expenses (i.e. not certified as eligible); but it should help you in selecting the most suitable way to have compliant expenditures and appropriate supporting documents.



The eligible costs have to meet **all** the following criteria:

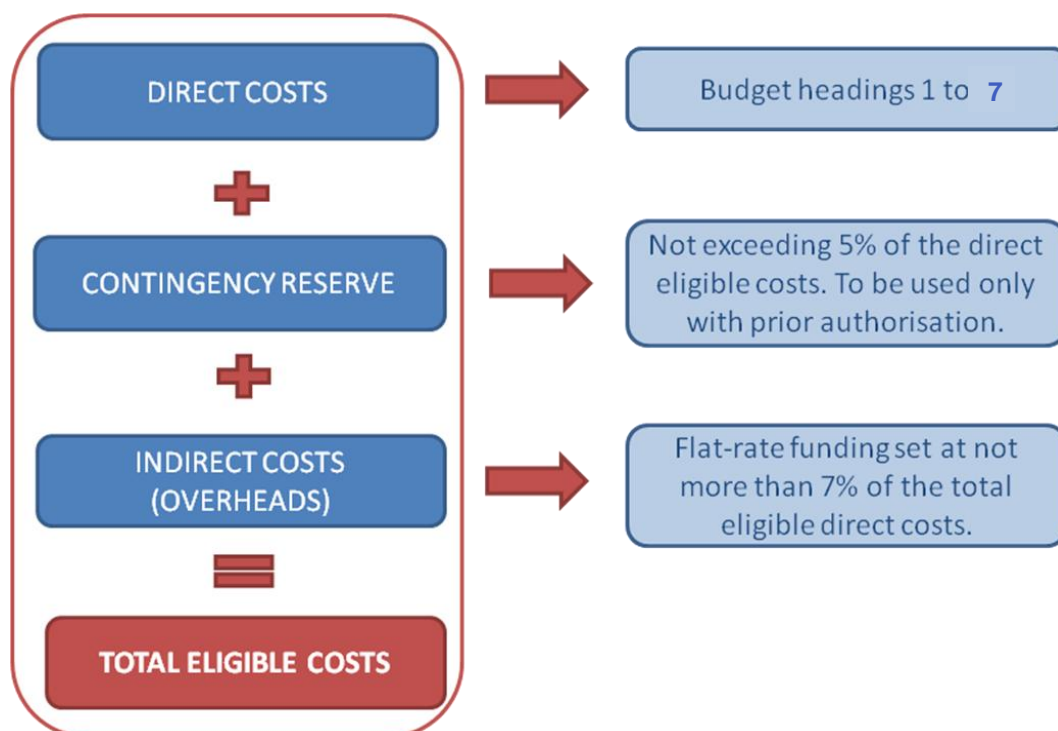
- Have been incurred during the project implementation period
- Are indicated in the estimated overall budget of the project
- Are necessary for the implementation of the action
- Are identifiable and verifiable, recorded in the accounting of Beneficiary and Partners and backed-up by originals of supporting documents
- Are reasonable, justified and complying with the requirements of sound financial management, in particular regarding economy and efficiency

Some remarks on these requirements	
Have been incurred during the project implementation period	<ul style="list-style-type: none"> • All expenditure included in any Progress Report has to be already paid out by the end of the concerned reporting period. • Except for the costs related to expenditure verification and other administrative activities (i.e.: Auditor, project evaluation and preparation of the Final Report, which can be paid out by the end of the 3rd month following the conclusion of project activities) • Procedures for awarding contracts by the Beneficiary or Partners may be initiated but not concluded (i.e.: signature of the contract) before the start of the implementation period of the project; that is, any costs deriving from contracts signed before the start date of the project are not eligible.
Are indicated in the estimated overall budget for the project	<p>Only the costs explicitly indicated in the budget can be considered as eligible.</p> <p>If you need to create new sub-headings you must follow the rules for Contract amendments (see chapter 2.2 Contract modifications).</p>
Are necessary for the implementation of the project	<p>This applies to new sub-headings you could propose to be integrated in the budget, since as far as the existing ones are concerned, such assessment was already carried out during the “negotiation” phase. Therefore you need to ensure that such new costs correspond to activities as described in your Grant Application Form or are necessary for achieving the expected project results.</p>
Are identifiable and verifiable	<p>I.e. they ease the identification and verification work carried out by the Auditor, the Programme Managing Bodies, and may be by the European Commission or the European Court of Auditors.</p>



Are reasonable, justified and comply with the requirements of sound financial management	<p>Article 27 of the Financial Regulation states that: "Budget appropriations shall be used in accordance with the principle of sound management, namely in accordance with the principle of economy, efficiency and effectiveness.</p> <p>The legal definitions of the three principles are:</p> <ul style="list-style-type: none">• The principle of economy requires that the resources used by the institution for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.• The principle of efficiency is concerned with the best relationship between resources employed and results achieved.• The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.
---	---

All the costs foreseen in a project are included within one of the three different types of eligible costs which are shown in the figure below.





Direct costs

Direct costs are those referring to an **actual purchase** (of goods, of services) or **use of internal resources** (staff).

They must be indicated in the project budget within a specific cost category (listed below) and have an individual Budget Line number.

They must be **demonstrated with formal documents** (“supporting documents”) that justify the occurred payment and detail amount, currency, place and date of the occurred payment.

They are described in Article 14.2 of the Grant Contract General Conditions (as modified by Article 7.2.10 of Grant Contract Special Conditions) and, with the exception of staff costs, they are also subject to the relevant provisions of Annex IV of the Grant Contract which describes the applicable procurement rules.²

Direct costs are subdivided in seven categories:

1. Staff
2. Travel and subsistence
3. Equipment
4. Infrastructures
5. Offices
6. Subcontracting services
7. Other costs

1. Staff Costs

Staff costs are the costs of the actual time worked for the implementation of the project by the employees of the Beneficiary and Partners organizations. An employee can be already working in the organization before the project implementation starts, or can be hired afterwards. In any case, the **recruitment of staff (employees) is not subject to public procurement rules**, and it must respect the national and/or contracting organization rules.

Only the cost of the staff directly employed by the Beneficiary and Partners is eligible. It is not possible to report staff costs from non-partner organizations, not even organizations fully-owned by the Beneficiary or any Partner, but financially and functionally independent, can charge their staff costs to this cost category.

² see chapter 4.2 *Procurement Services, Supplies and Works*



How to distinguish between employees and external experts or other consultants

Employees (to be included under Budget Heading 1: Human resources)	Experts (to be included under Budget Heading 6: Subcontracted Services)
Have a working (labour) contract with the Beneficiary or Partners and are usually subject to specific national or organizational rules regarding salary, timetable, holidays, etc.	Have a service contract which is subject to the relevant procurement rules. The specific conditions for the delivery of the service are described in the contract.
Receive a monthly salary supported by salary slips.	Receive fees after the submission of invoices, in accordance with the payment conditions in their contract.
Their social charges are paid by the employer .	Their social charges are paid by themselves .
Usually work in the premises of the employer and use its facilities (telephone, computers, etc.)	Usually work in their own premises , or on-site where the services are to be delivered, and use their own resources (such as computers) which are included in their fee rate and cannot be included as incidental costs in their contracts.

In case you still have any doubt, please contact your National Contact Point for the most compliant application of these principles.

The cost of each employee (already existing before project start) assigned to the project must not exceed those **normally borne** by the concerned organization for that profile; as far as an *ad hoc* recruited human resource cost is concerned, the latter must be comparable with a similar profile already existing or foreseen in the organization structure.

Staff costs shall be calculated on the basis of the **actual monthly gross salary** (or wage) plus the **obligatory social charges, insurance** and any other statutory costs included in the remuneration (and deriving from national rules), but **excluding any variable cost**. Overtime can be charged to the project only if the total job time of the concerned staff is devoted to the project implementation.

Unpaid voluntary work is not eligible.



How to calculate staff costs

- Get a **copy of the working contract** of each employee foreseen in the project and eventually any other organization rules affecting his/her work (working hours per day, timetable, etc.)
- Choose the **number of time units per year** according to their contract or your organization rules, that can be for example:
 - Number of working months (10.5 is a usual calculation), or
 - Number of working days (220 days is a usual calculation), or
 - Number of working hours per year (1.760 hours is a usual calculation).

NB The calculations take into account annual and public holidays and may vary according to each country and type of organization.

- Calculate the Gross Salary (see template in annex) and the **costs per unit rate** (monthly, daily, or hourly costs, as indicated in the approved budget). The Gross Salary must be calculated at least once per year and every time that there is a change in the costs (increases in salary, etc.).
- Use a monthly **timesheet** (see two templates in annex) to be filled in by each person, reporting all the hours actually worked per day, and signed by the relevant responsible person in the organization (normally the employee's manager or boss).
- **Report in your budget** the actual time devoted (as showed in the timesheet) to the project – expressed in the same unit of time (months, days or hours) – respecting the foreseen ratio, if part time.

Supporting documents

- *Contract*

Copy of the contract of already recruited staff (internal staff of the organization) indicating the position of the staff (according to the national legislation and the cost foreseen). **For ad hoc recruited temporary employee**, the recruitment procedure (in this case a public comparative procedure is always recommended)

- *Terms of References*

In line with the national and/or internal rules of the organization must be provided to the Auditor together with the contract and they must demonstrate that the temporary employee's working time is exclusively devoted to the project. "**Appointment Order**"

For already recruited employee, the staff must be specifically seconded to the project through an ad hoc "Order" where the Manager of the concerned employee declares that the activities carried out are an additional task with respect to the existing ones and indicates the percentage rate of the total employee's working time devoted to the project. The eligibility period of this human resource starts according to the date indicated in the accompanying document.



- Gross salary sheet (see template in annex)

It is the **tool to identify the total cost** (see above) of each hour worked by the concerned person. It has to be built up taking in consideration the gross salary actually received for each single month (also the ones in which the person did not work for the project) of the year of the reported costs, and calculated on an annual basis, in order to have a fix hour/cost for all the concerned year.

- Timesheet (see template in annex)

They have to **report all the time foreseen by the contract** and, in the case of already recruited employees, both the time worked for the project and the time worked on other activities. Entire numbers should be indicated, no decimals. Each timesheet has to be stamped and signed by the concerned person and by the project responsible.

- Pay slips

Copies of pay slips of each concerned month have to be provided to the Auditor, in order to check the reliability of the Gross salary sheet. If they are signed by the concerned employee, they can substitute the “proof of payment” (see below) of the relevant part of the gross salary (net salary), because with the signature the Beneficiary of the payment (i.e. the employer) “receipts” the latter.

- Proof of payment

Any kind of official document issued by the bank or accounting department of the organization, **proving that the organization bank has settled the payment** of all the relevant costs (net salary to the employee, social charges payment to the State, etc.) and indicating amount, reason and date. In the event the social security charges or any other contract-related costs are paid cumulatively by the organization – and therefore an individual proof of payment is unavailable – the cumulative proof of payment must be accompanied by a declaration of the organization’s accounting office, detailing the amount paid for each person involved in the project.

2. Travel and Subsistence Costs

Travel and Subsistence costs are **those incurred by staff or any other person taking part in the project** (e.g. speakers, stakeholders invited to events, etc.) and may not exceed those normally borne by the Beneficiary or Project Partners. Therefore, the usual policy for such costs has to be documented, either through the internal regulation, or through the accounting for trips paid prior to project implementation.

Any flat-rate allowance – **or the total reimbursed costs** (accommodation, meals, local travel within the place of mission and sundry expenses) for **subsistence costs – must not exceed the rates (per diems) published by the European Commission** at the time of signing the Grant Contract³.

³ These can be found at:

http://ec.europa.eu/europeaid/work/procedures/implementation/per_diems/index_en.htm



As a general rule, for travel the most economic form of transport must be used – e.g. economy class air fares – where **‘economic’ does not mean the ‘cheapest’ but the best value/price ratio.**

Travel and Subsistence costs are **eligible for the following items:**

- Fuel (for vehicle belonging to the Beneficiary/Partner organization);
- Kilometre costs (in case of use of private car);
- Taxi or car rental, only when public transport means are not available or for other exceptional reasons;
- Public transportation (planes, trains, buses, etc.);
- Accommodation, during travel;
- Food, during travel.

Per diem (it can cover accommodation, meals, local transportation within the place of mission and sundry expenses) as normally calculated by the concerned organization endorsing the cost; but bear in mind that the eligibility threshold is the EC per diem (see footnote n.3) that is calculated **per each overnight** stay and **not** per travel duration (number of days); moreover make sure that each cost included in the per diem – accommodation, meals, etc. – has not been reported also as a separate cost.

Concerning the **use of private car** (only in case the public means do not allow a reasonable time to reach the location) make reference to your national and/or organization rules: in the absence of specific rules, it must be priorly authorized by the project responsible and be reasonable, i.e. applying calculation methods based on national/organization rules (e.g. amount to be reimbursed is the fifth of gasoline current price at country level per each occurred Km).

The purchasing of the travel related services (flight and hotel) must respect for the service provider the “Nationality rule” as described in art. 7.3.1 of “Grant Contract Special Conditions” (see chapter 4.2 *Procurement of Services, Supplies and Works*).

Two cases can occur:

- The Applicant or a Partner contracts (according to the rules set in Annex IV) a travel agency for purchasing the travel-related items. In this case the travel agency must be located in a country respecting the rule of Nationality⁴, in order to comply with it. Therefore the travel agency could book a flight ticket also from an airline not respecting the rule of Nationality, since the “service” is provided by an eligible provider (the travel agency) and the invoice is issued by the travel agency itself.

⁴ Participation in the award of procurement contracts financed under ENPI-CBC should be open to all natural persons who are nationals of, and legal persons established in a Member State or a country eligible under ENPI CBC (and other EU financial instruments). They should also be open to International Organisations.



- The Applicant or a Partner purchases directly the flight ticket from the website: the concerned airline must be located in an eligible country, according to the rule of Nationality; otherwise this cost **cannot** be eligible for ENPI funds.

Travels' destination

Travels normally occur within the project-concerned areas, i.e. the ENPI MED eligible regions where the project activities are carried out.

If the project has foreseen to involve in its activities other eligible areas of the ENPI MED Programme not represented by the partnership, the related travels are eligible if foreseen in the approved budget.

If the Applicant/Partner would like to take part to an event (meeting, conference, etc.) organized by a body not being part of the project partnership and this trip has not been already foreseen by the project in the Full Application Form and in the budget, the following rules apply:

- *Travels outside the project areas but within ENPI CBC MED Programme eligible areas: eligible but to be justified;*
- *Travels outside the ENPI CBC MED Programme eligible areas to be priority approved by JMA on a case by case basis.*

Supporting documents

- Authorization to travelling

Issued **before the travel** and signed by the travellers' manager/boss.

- Receipts of expenses

They are for instance the train, bus and/or flight ticket (the latter must be accompanied by the printed boarding passes); taxi, restaurant/bar and hotel bill; in the event the car of the organization is used, the receipt of fuel purchase and excerpt of official "travel book" indicating the occurred Km.; motorway tolls; in case of use of private car, national/organization rule reference and methodology for occurred Km reimbursement; travel agency invoice if the ticket purchased was sub-contracted to a travel agency.

- Event-related documents

Meeting/event agenda, list of attendance, audience pictures.

- Per diem regulation

In case of per diem, national (or organization) **law reference** with description of the eventually different foreseen categories (hierarchical level of the traveller, national/abroad travel, etc.).

- Proof of payment

Any kind of official document issued by the bank or accounting department of the organization, **proving that the bank of the organization has settled the payment**



concerning all the relevant costs (reimbursement to the traveller, payment to the agency, etc.) and indicating the amount, the reason and the date.

3. Equipments

Definition

Purchase (or rental or leasing) costs for **equipment** and **durables** (new or used) specifically identified and exclusively devoted for the purpose of the project, as well as the costs of services linked to the transportation and installation, provided they correspond to market rates.

It refers to all the materials (**durable goods with a lifetime of at least one year**) that are used to perform the project actions and which have to be (after the purchase) listed in the “inventory of durable goods” of the organization.

Every purchase procedure must respect the “Nationality rule” for the good provider, as described in art. 7.3.1, and the “Rule of origin” for the purchased equipment, as described in art. 7.3.2 of “Grant Contract Special Conditions” (see chapter *Procurement of Services, Supplies and Works*).

In particular for a purchase of more than 5.000 € per unit cost a “Certificate of origin” must be provided to the Auditor. This “Certificate of origin” must be issued by the competent authorities (e.g. Chamber of Commerce) of the country of origin of the supplies or of the country of the supplier and must comply with the rules laid down by the relevant Community legislation. For unit costs below this threshold the Certificate does not have to be provided, but the respect of the rule must be proved (e.g. declaration of the supplier, indication of the origin in the equipment itself, etc.).

The purchased equipment must respect also the Communication and Visibility rules as foreseen by art. 6 of General Conditions of the Grant Contract (as emended by art. 7.2.4 and 7.2.5 of the Special Conditions of the Grant Contract) i.e. it must have at least a sticker with EU and ENPI-MED logos.

As ruled in art. 7.2.7 of the Special Conditions of the Grant Contract, in the event a Beneficiary/Partner – located in EU Member States – is implementing activities in a Mediterranean Partner Country and this requires the purchase of equipment, vehicles and durables, the purchased equipment/vehicle/durable must be transferred to the Partner pertaining to the Country where the activities were carried out, or to the final recipients of the activity, at the latest by the end of the project implementation period.

There are two main eligibility requirements for carrying out appropriate procurement procedures to purchase equipment and supplies⁵:

- the equipment and supplies included under this heading are **specifically used for the project** (e.g. equipment located in the dedicated local office; remember to

⁵ See the chapter 4.2 *Procurement Services, Supplies and Works*



include in your narrative report to the JMA a description of the need and use of the equipment and supplies for the implementation of the project);

- the **prices** paid **correspond to market rates**. When the equipment and supplies are not purchased through an open tender, it is important to keep documentation proving what the markets rates were at the time of the purchase. Please take into account that the prices indicated on web sites have to be printed as they may not be available, or may have changed, when the expenditure is being verified by the auditor or Programme Bodies.

The relevant Auditor has to perform **on-the-spot checks** on each reported piece of equipment and has to include the results in the Annex VII Expenditure verification Report.

Supporting documents

- Procurement procedure documents

Depending on the selected procedure, it refers to public announcement, received tenders, assessment minutes, derogation to “Rule of Origin/Nationality” description, etc.

- Equipment invoice

It must contain a clear **reference to the project** (e.g. project reference number) in order to avoid double funding.

- “Certificate of origin”

For equipments and vehicles of a unit cost of more than € 5.000 a “Certificate of origin” (see above) must be enclosed to the first invoice submitted by the supplier.

- Excerpt from “Inventory of durable goods” / proof of delivery

It is to demonstrate that the purchased equipment has been **integrated in the organization property records**.

- Equipment picture(s)

It has to demonstrate that the purchased equipment is **respecting the visibility rules**.

- Proof of payment

Any kind of official document issued by bank or the accounting department of the organization, proving that the bank of the organization has settled the payment of the relevant bill, indicating amount, reason and date

- Proof of transfer

In case of equipment, vehicles and durables purchased by a EU Beneficiary/Partner implementing activities in a Mediterranean Partner Country, an official document **proving the transfer of such equipment** to the Partner pertaining to the Country where the activities were carried out – or to the final recipients of the activity of equipments and vehicles – must be provided. If any single cost item is more than 5.000 €, it must be enclosed to the project Final Report.

4. Infrastructures



Infrastructures can be defined as **basic facilities, services and installations needed for the functioning of a community or society**.

The Programme can finance small infrastructures – where the "small" size relates also to the concerned costs compared with the overall project budget – that must be dedicated mainly to the project activities.

Public works for restoring/adapting existing infrastructures – to be exploited mainly for project activities implementation – are to be considered in this cost category too.

Every procurement procedure must respect for the service provider the Nationality rule (see chapter 4.2 *Procurement Services, Supplies and Works*). Therefore the tenderer must state and prove its nationality, presenting also a proof of nationality following its national legislation (e.g. Chamber of Commerce registration). This rule does not apply to the human resources included in the offer by the tenderer.

The works must respect the Communication and Visibility rules as foreseen by art. 6 of Grant Contract General Conditions (as amended by art. 7.2.4 and 7.2.5 of Grant Contract Special Conditions) and detailed in chapter 6.1 containing *Communication guidelines*.

The relevant Auditor has to perform **on-the-spot checks** to verify the existence and conformity with the documents of reported infrastructures and to include the results in the Annex VII Expenditure verification Report (see chapter 5.3 *Reporting - Financial*).

Programme managing bodies and EC-related services may also perform such checks by the end of the Programme implementation period.

Supporting documents

- Procurement procedure documents

Depending on the selected procedure, they can be: public announcement, received tenders, proof of the respect of the rule of nationality, derogation to "Rule of Nationality" description, evaluation procedure followed to award the tender and assessment minutes, contract with the tenderer, etc.

- Works Report (or State of Works Advancement)

Official document issued by the works contractor, specifying the actual works carried out and the related costs, and containing a clear **reference to the project** (e.g. project reference number).

- Certificate of regular execution

Official document issued by the contracting body (Beneficiary or Partner) approving the submitted "Works Report" and following an on-the-spot check.

- Civil works bill(s)

It must contain a clear **reference to the project** (e.g. project reference number) and to the "Works Report" in order to avoid double funding.

- Infrastructure picture(s)



It is to demonstrate that the built up/renovated infrastructure is **respecting the visibility rules**.

- Proof of payment

Any kind of official document issued by the accounting department of the organization, **proving that the bank of the organization has settled the payment** of the relevant bill, indicating amount, reason and date.

5. Office

Definition

This expenditures refers to any office **specifically established** and **exclusively devoted** to the implementation of a specific project activity(ies) with the exclusion of project management/coordination.

Therefore the costs of official premises of the headquarters of the Beneficiary/Partner **cannot** be eligible, since the Budget Heading “Administrative Costs” is devoted to cover their functioning expenditures (overheads).

The dedicated office must be foreseen in the Application Form, it can be already owned by the concerned Beneficiary/Partner – so the related costs are only the maintenance ones – or it can be rented. The related costs of consumables are eligible, too.

Activity Reports have to indicate if and which project-related staff are working in the project-dedicated office.

If the **purchase or rent of a vehicle** has been included in the approved Budget the organization can also report the costs deriving from the use of the vehicle (gasoline, oil, maintenance, insurance etc.).

Every purchase procedure must respect the “Nationality rule” for the good provider, as described in art. 7.3.1, and the “Rule of origin” for the purchased equipment, as described in art. 7.3.2 of “Grant Contract Special Conditions” (see chapter 4.2 *Procurement Services, Supplies and Works*).

Supporting documents

- Procurement procedure documents

Depending on the selected procedure, it refers to Contracting body declaration on unavailability of the car, proof of nationality, derogation to “Rule of Nationality” description, public announcement, received tenders, assessment minutes, etc.

- Rent invoice or overhead (electricity, heating, etc.) bill:

These expenditure documents must contain a clear **reference to the project** (e.g. project reference number) in order to avoid double funding.

For **vehicle costs**, a summary list of the distance covered, the average consumption of the vehicles used, fuel costs and maintenance costs must be provided.



- Office picture(s)

It is to demonstrate that the rented office is **respecting the visibility rules**.

- Proof of payment

Any kind of official document issued by the bank or accounting department of the organization, **proving that the organization bank has settled the payment** of the relevant bill, indicating amount, reason and date.

6. Subcontracted Services

Definition

The costs included in this category refers to expenditures linked to **costs entailed in service contracts** awarded to external service providers (being a company or a physical person) by the Beneficiary/Partners for the purpose of the project, following a formal appointment and generally a signed contract.

They are **also costs deriving directly from requirements of the Grant contract** (such as dissemination, evaluation, expenditure verification, etc.) including the financial service costs (i.e. the cost of fund transfers and financial guarantees).

Beneficiaries, Partners and Associates **cannot** be contracted as external experts or subcontractors within the project.

Contracts between affiliated institutions (i.e. contracts between organizations that are formally divided, but personally, financially and functionally connected, e.g. in-house agencies) are eligible only after verification that only actual – without any additional fees – and eligible costs were charged.

To be considered “affiliated”, the institution must respect the following criteria:

- 100% ownership of the affiliated body by the "mother" institution;
- "controlling" function, of the "mother" institution over the affiliated body, comparable to the ordinary control the "mother" institution acts on his own offices;
- core business of the affiliated body coherent with the appointed task

Every procurement procedure must follow the relevant provisions of Annex IV of the Grant Contract, which describes the applicable procurement rules, and in particular must respect the “Nationality rule” for the service provider, as described in art. 7.3.1 of the Special Conditions of the Grant Contract.

Supporting documents

- Procurement procedure documents

Depending on the selected procedure, it refers to public announcement, received tenders, proof of nationality, derogation to “Rule of Nationality” description, assessment minutes, etc.

- Service contract



It must contain (when possible) a clear **reference to the project** (e.g. project reference number) in order to avoid double funding.

- Activity report with deliverables

Issued by the service provider, it shall demonstrate that the foreseen activities have been carried out following the contractual requirements, it encloses any foreseen deliverable (or in case of event, pictures, list of attendance, etc.).

- Certificate of proper execution

Official document issued by the contracting body (Beneficiary or Partner) approving the submitted "Activity Report" and deliverables.

- Invoice on provided services

It must contain a clear **reference to the project** (e.g. project reference number) and to the submitted Activity Report, in order to avoid double funding.

- Proof of payment

Any kind of official document issued by the bank or accounting department of the organization, **proving that the bank of the organization has settled the payment** of the relevant invoice, indicating amount, reason and date.

7. Other Costs

Definition

They are costs which by their nature **cannot be included in any of the previous categories** (e.g. sub-granting).

As far as **sub-granting expenses** are concerned, the list of eligible types of activity and the criteria for the selection of the beneficiaries must be respected as indicated in the Application Form.

The maximum amount of a sub-grant is limited to EUR 10.000 per third party while the total amount which can be awarded as sub-grants to third parties is limited to EUR 100.000.

Every procurement procedure must follow the relevant provisions of Annex IV of the Grant Contract, which describes the applicable procurement rules, and in particular must respect the "Nationality rule" for the service provider, as described in art. 7.3.1 of the Special Conditions of the Grant Contract.

The documents and rules applicable to the expenditure under this category will depend on the nature of the expenditure, but an indicative list of supporting documents is provided below.

Supporting documents

- Procurement/sub-grant procedure documents

Depending on the selected procedure, it refers to public announcement, received applications, assessment minutes, sub-grant award, etc.



- Sub-Grant contract

It must contain a clear **reference to the project** (e.g. project reference number) in order to avoid double funding.

- Sub-Grant “Activity and Financial Report” and deliverables

Issued by the sub-grant beneficiary, it shall demonstrate that the foreseen activities have been carried out following the sub-grant requirement, **it encloses any foreseen deliverable** (or in case of event, pictures, list of attendance, etc.). It must be formally **approved by the granting body**.

- Certificate of proper execution

Official document issued by the contracting body (Beneficiary or Partner) approving the submitted sub-grant “Activity and Financial_Report” and deliverables.

- Proof of payment

Any kind of official document issued by the bank or accounting department of the organization, **proving that the bank of the organization has settled the payment** of the relevant Sub-Grant, indicating amount, reason and date.

Contingency reserve

Definition

The contingency reserve is foreseen by Art. 14.3 of Grant Contract General Conditions and cannot exceed 5% of direct eligible costs.

The contingency reserve can be used – i.e.: transferred to a direct cost budget heading – only when there is an unforeseeable circumstance and *via* prior approval by the JMA.

Indirect or Administrative costs

Definition

Administrative Costs are described in Article 14.4 of the Grant contract General Conditions and are intended to cover the administrative overheads incurred by the Beneficiary and Partners, with a **flat-rate approach**, in order to avoid complicated measurement systems and time-consuming collection of documents.

These costs, included under Budget Heading 11, are claimed as **indirect costs**, i.e. are directly linked to actual occurred expenditures, meaning that they will be reimbursed to the Beneficiary and each Partner only proportionally with the occurred and certified expenditures.

- They are calculated as a fixed percentage (**maximum rate of 7%**) of the total amount of direct eligible costs (categories 1 to 9, including also Contingency reserve).
- This flat-rate funding **does not need to be supported** by accounting documents.
- These indirect costs are incompatible with the receipt of an **operating grant** financed by the EC: when the Beneficiary or a Partner receives this type of grant,



intended to finance its 'regular operating costs', no additional administrative costs can be accepted as eligible costs as this would be considered **double funding**.

Ineligible costs

Art. 14.6 of the Grant contract General Conditions indicate the type of costs which are not eligible.

These are:

- Debts and debt service charges;
- Provisions for losses or potential future liabilities;
- Interest owed (with the exceptions set in art. 15.9 of the Grant Contract "General Conditions");
- Costs declared by the Beneficiary or the Partners but covered by other EU funds;
- Purchases of land or buildings, except where necessary for the direct implementation of the project, provided that Special Conditions do not explicitly exclude this possibility;
- Currency exchange losses;
- Taxes, including VAT, unless the Beneficiary or Partners can show they cannot reclaim them and the applicable regulations do not exclude coverage of taxes. Financing Agreements between the EC and Mediterranean Partner Countries Governments do not consider as eligible VAT and other taxes, therefore Beneficiaries and Partners from aforementioned countries should ask to be exempted from VAT and other taxes related to project expenditures. Please consult your National Contact Point for exemption procedure.
- Credits to third parties unless otherwise specified;
- Fines, financial penalties and other expenditures on legal disputes;
- Contributions in kind because there is no cash-flow.

Useful contacts

This document has been drawn up by the JTS officers. For further information, the Beneficiaries can contact the following officer, preferably by email:

Luca SANTAROSSA
Financial Officer

lsantarossa@regione.sardegna.it
Ph. +39/070/606 2452