

PROGRAMME RULES ON ELIGIBILITY OF EXPENDITURES

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INTRODUCTION

This document sets Programme rules on eligibility of expenditures and provides guidance for the beneficiaries requesting IPA II co-funding, as well as for Programme management bodies including First Level Control, as regards the funding conditions and certification of expenditures in the Interreg IPA Cross-border Cooperation Programme Croatia-Bosnia and Herzegovina-Montenegro 2014-2020.

The rules shall apply to all Operations¹ approved under this Programme and shall apply to all expenditures declared within Progress Reports.

The document is approved by the Joint Monitoring Committee and regularly revised and updated. The update of the document may be proposed by all relevant programme bodies (NA, FLC, JS, CA, etc.) to the Managing Authority which is in charge of initiating the procedure for the amendment of the document.

In case of discrepancies between this document and other Programme documents, the provisions given in this document shall prevail.

1. LIST OF DEFINITIONS

Audit: Audit relates to second level control process. As far as operations are concerned, audits will verify the accuracy, reliability and eligibility of the expenditure validated as eligible by the FLC and included in a payment order submitted to the Certifying Authority.

Audit trail: A sequence of information/documentation/systems (e.g. accounting records) that provides detailed information about expenditure actually incurred. Such documentation shows the date of creation, the amount of each item of expenditure, the nature of the supporting documents and the date and method of payment. The audit trail provides evidence of the expenditure claimed and enables tracing the financial data to its source.

Beneficiary: A public or private body, responsible for initiating or initiating and implementing operations. In the context of this Programme, this includes Lead Beneficiaries and Project Partners participating in an operation.

Eligible expenditure: Expenditure that complies with all relevant EU legislation, Programme rules and national legislation.

Expenditure category: Represents the main category of expenditures according to EU Regulation No 481/2014 (e.g. staff costs, travel and accommodation costs, etc.). One expenditure category consists of one or more budget lines (e.g. within expenditure category staff costs PPs can define budget line project manager, financial manager, etc.).

Financial correction: deduction of reported expenditures due to error or irregularity that takes place after payments to operations has been made.

First Level Control: Body or individual in charge of performing verification of expenditure as described in the Description of National Control System of each Participating Country and within Control Guidelines for Interreg IPA CBC Programmes².

¹ Including Technical Assistance Operations. However, specific rules for TA operations are given in Manual for Managing Technical Assistance.

² These documents are Annexes to the Description of the Management and Control System.

Ineligible expenditure: Expenditure declared by the beneficiary which does not comply with the eligibility rules and which cannot be validated as eligible or expenditure validated as eligible by the FLC, but which is not considered as such by the Programme bodies (JS, MA, CA) and/or by the second level control (AA).

Irregularity: any breach of Union law, or of national law relating to its application, resulting from an act or omission by an economic operator which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified item of expenditure to the budget of the Union (Article 2(36) of CPR).

Recovery: Process of claiming and recovering the amount which has been paid to beneficiaries as a result of an irregularity, due to underspending of funds, termination of contract, etc. This process is initiated by the MA.

2. LIST OF ABBREVIATIONS

AA	Audit Authority
CA	Certifying Authority
CPR	Regulation (EU) No 1303/2013
EC	European Commission
eMS	Electronic Monitoring System
ERDF	European Regional Development Fund
ETC Regulation	Regulation (EU) No 1299/2013
EU	European Union
FLC	First Level Control
IPA II	Instrument for Pre-accession Assistance
IPA IR	Commission Implementing Regulation (EU) No 447/2014
JMC	Joint Monitoring Committee
JS	Joint Secretariat
LB	Lead Beneficiary
MA	Managing Authority
NA	National Authority
PC	Participating Country
PP	Project Partner
TA	Technical Assistance

3. LEGISLATIVE BACKGROUND

This document sets out the rules on eligibility of expenditure in accordance with EU regulations, Programme documents and national legislation.

A clear definition of the hierarchy of eligibility rules applicable to operations funded within the European Territorial Cooperation objective of the Cohesion Policy 2014-2020 is defined by Article 18 of Regulation (EU) No 1299/2013 as follows:

1. General eligibility rules are laid down in, or on the basis of Articles 65 to 71 of Regulation (EU) No 1303/2013. The Commission adopted Delegated Regulation (EU) No 481/2014

laying down specific rules on eligibility of expenditure for cooperation programmes with regard to staff costs, office and administrative expenditure, travel and accommodation costs, external expertise and services costs, and equipment expenditure.

EU rules on eligibility of expenditure are given in:

- Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006,
- Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006,
- Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal,
- Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, hereinafter referred to as the Financial Regulation,
- Regulation (EU, EURATOM) No 547/2014 of the European Parliament and of the Council of 15 May 2014 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union,
- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action,
- Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II),
- Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union,
- Commission Implementing Regulation (EU) No 447/2014 of 2 May 2014 on the specific rules for implementing Regulation (EU) 231/2014 of 11 March 2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession assistance (IPA II),
- Commission Delegated Regulation (EU) No 481/2014 of 4 March 2014 supplementing Regulation (EU) No 1299/2013 of the European Parliament and of the Council with regard to specific rules on eligibility of expenditure for cooperation programmes.
- Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC.

- Without prejudice to the eligibility rules laid down in EU regulations, the Participating Countries establish additional rules on eligibility of expenditure for the Programme as a whole.

These rules are given in:

- Programme rules on eligibility of expenditures (this document),
 - Call specific documents (e.g. Application Package, Guidelines for Applicants, Project Implementation Manual, etc.).
- For matters not covered by eligibility rules laid down in, or on the basis of EU or Programme rules, the national rules of the Participating Country in which the expenditure is incurred shall apply.

Other relevant national (including institutional) legal acts (non exhaustive list):

For Croatia:

- Value Added Tax Act (Official gazette 73/13, 148/13, 143/14, 115/16),
- Rulebook on Value Added Tax (Official gazette 79/13, 85/13-corrigendum, 160/13, 35/14, 157/14, 130/15, 1/17, 41/17),
- Ordinance on the Value Added Tax (OG, No 79/13, 85/13, 160/13, 35/14, 157/14).

For Bosnia and Herzegovina:

- Instruction on procedure for exercising the right to customs and tax exemptions in accordance with the Framework Agreement between Bosnia and Herzegovina and the European Commission on arrangements for implementation of the Union's financial assistance to Bosnia and Herzegovina within the Instrument of Pre-Accession Assistance (IPA II), Official Gazette No. 91 on 30 November 2015.

For Montenegro:

- Regulation on recovery of costs to the civil servants and employees (from 30 June 2016),
- Rulebook on value added tax exemptions for investors and supply of certain products and services (Official Gazette of Montenegro, 17/15 of 17 April 2015, 68/15 of 8 December 2015),
- Instructions on how to implement the procedure for exercising the right to exemption from value added tax for projects financed by the European Union (EU).

Any other relevant internal document issued by the beneficiary (e.g. regulation/ordinance of beneficiaries, internal rules of compensation and remuneration, travel, etc.).

4. ELIGIBILITY OF EXPENDITURES

There are several dimensions of eligibility:

- Basic conditions of the eligibility of expenditure,
- Geographical eligibility,
- Implementation period,
- Ineligible costs in general,
- Eligible expenditure categories.

4.1. Basic conditions of the eligibility of expenditure

Eligible costs are costs actually incurred by the LB/PPs of a grant and paid solely by LB/PPs which meet all of the following criteria:

- they incurred during the implementation period of the Operation, with the exception of preparatory costs and closure costs;
- they are indicated in the latest version of the Application/budget;
- they are necessary for the implementation of the Operation which is the subject of the grant;
- they are identifiable, verifiable and documented (e.g. contract, invoice, order form³), in particular being recorded in the accounting records of the beneficiary and determined according to the applicable accounting standards of the country where the beneficiary is established and according to the usual cost accounting practices of the beneficiary;
- they comply with the requirements of applicable tax and social security legislation;
- they are reasonable, justified, and comply with the principle of sound financial management, in particular regarding economy and efficiency;
- they incurred in accordance with the relevant EU legislation, Programme rules, and when applicable national legislation, and other relevant documents (e.g. Financing Agreement);
- they are not listed as an ineligible expenditure;
- they are not double funded (i.e. they are not financed from other sources under the Union Funds or other (national) Funds);
- one expenditure item cannot be listed or declared under more than one expenditure category or under more than one budget line under a specific expenditure category;
- amounts declared in Partner Progress Report/statement of expenditure do not exceed amounts in the approved Operation budget (in line with the provisions of the Subsidy Contract/Addenda/accepted modifications);
- co-financing rate (as stipulated in the Subsidy Contract) is applied to each eligible cost under all expenditure categories (including preparatory and closure costs).

Please note that, in the contracting phase, the expenditures included in the Application/budget shall be verified during budget optimisation process. However, final eligible expenditure will be calculated on the basis of reported eligible expenditures after adequate controls by the relevant Programme bodies have been performed.

4.2. Geographical eligibility

Operations have to be located in the Programme area comprising the part of the territory of the Participating Countries as defined in the Cooperation Programme approved by Commission Implementing Decision C(2015)8447 from 24 November 2015. The Programme area includes 12 counties on the Croatian side, Brčko District and 109 municipalities on the side of Bosnia and Herzegovina and 10 municipalities on the Montenegrin side.

According to Article 44 of IPA IR, in exceptional cases, MA may accept that all or part of an operation is implemented outside the Programme area when all of the following conditions are satisfied:

³ Standardized form for procurement of the desired items (narudžbenica).

- the Operation is for the benefit of the Programme area⁴;
- the total amount allocated under the Programme to operations located outside the Programme area does not exceed 20% of the EU contribution at Programme level;
- justification is provided within the Application.

4.3. Implementation period

In line with Article 43 of IPA IR and Commission Implementing Decision C(2015)8447 from 24 November 2015, expenditure under the Programme are eligible for funding:

- a) if the expenditures have been incurred by the beneficiaries from Croatia and paid between 1 January 2014 and 31 December 2023, or
- b) if the expenditures have been incurred by the beneficiaries from Bosnia and Herzegovina and Montenegro and paid after the submission of the Cooperation Programme (18 November 2014) and not later than 31 December 2023, and they are in line with Financing Agreements signed between Bosnia and Herzegovina and European Commission, and between Montenegro and European Commission.

Implementation period of the operations is defined in the Subsidy Contract.

Expenditure is eligible according to the following periods:

- a) Operation preparatory period

According to Article 2(1) of Regulation 481/2014, eligible expenditure shall relate to the costs of initiating or initiating and implementing an operation or part of an operation, hereinafter referred to as preparatory costs.

Approved operations are entitled to receive reimbursement of their preparatory costs in the form of a lump sum in the total amount of up to EUR 3.000. Preparatory costs may include costs of meetings between potential beneficiaries, related staff costs, travel costs, costs of external experts related to the preparation of the documentation, studies, translation of documents, consultations and any other costs related to the preparation of the operation activities carried out before signing the Subsidy Contract.

The following eligibility rules apply to preparatory costs:

- the lump sum of up to EUR 3.000 per Operation is acceptable.
- preparatory costs need to be inserted in the Application (under the External expertise and services expenditure category) within the budget of the Lead Beneficiary together with a short justification.
- the total amount of preparatory costs should be estimated based on the activities which are planned to be done during the preparatory phase of the Operation.
- the lump sum will be transferred to the bank account of the LB after the submission and approval of the Zero Progress Report.
- the LB is responsible to use the granted lump sum only for the preparatory activities of the respective Operation.

⁴ For example, in case of workshops, trainings or meetings organized by the Programme bodies which are located outside the Programme area.

- reallocations of preparatory costs are not acceptable.
- in the occurrence that the Operation is not implemented following the signature of the Subsidy Contract, the LB will have to recover in full the amount granted as preparatory costs to the CA.

b) Operation implementation period

Costs for the implementation of an approved operation are eligible from its start date until its end date as set in the Subsidy Contract. The only costs that are considered eligible and may occur before start date are preparatory costs and the only costs that are considered eligible and may occur after implementation period are costs related to the closure of the Operation.

Payment of costs incurred in the last reporting period must take place within 1 month after the Operation implementation end date. However, when prolongation of the deadline for the submission of the Progress Report is approved to the LB/PP, payment of costs must take place at the latest prior to the approved extended deadline for the submission of the Final Progress Report to the Control Body. Costs paid after this deadline shall be considered ineligible even if incurred during the Operation implementation period.

c) Operation closure period

Approved operations are entitled to receive reimbursement of their closure costs in the form of a lump sum in the total amount of up to EUR 2.000.

The closure costs refer to activities related to the preparation and submission of the Final Progress Report of the Operation. This amount aims to compensate the work related to the Operation closure after the end date of the operation implementation period.

The following eligibility rules apply to closure costs:

- the lump sum of up to EUR 2.000 per Operation is acceptable.
- the total amount of closure costs should be estimated taking into account actual costs and needs.
- closure costs need to be planned in the Application (under the External expertise and services expenditure category) within the budget of the LB together with a short justification.
- the lump sum will be transferred to the bank account of the LB after the submission and approval of the Zero Progress Report.
- the LB is responsible to use the granted lump sum only for the closure activities of the respective Operation.
- reallocations of closure costs are not acceptable.
- in the occurrence that the operation is not implemented following the signature of the Subsidy Contract, the LB will have to recover in full the amount granted as closure costs to the CA.

4.4. Ineligible costs in general

The following expenditures shall not be eligible for funding under Interreg IPA CBC Programme Croatia-Bosnia and Herzegovina-Montenegro 2014-2020:

- In line with Article 43(2) and (3) of IPA IR:

- interest on debt;
 - value added tax (VAT) except where it is non-recoverable under national VAT legislation;
 - the decommissioning and the construction of nuclear power stations;
 - investment to achieve the reduction of greenhouse gas emissions from activities falling under Annex I to Directive 2003/87/EC of the European Parliament and of the Council;
 - the manufacturing, processing and marketing of tobacco and tobacco products;
 - undertakings in difficulties as defined under Union State aid rules;
 - investment in airport infrastructure unless related to environmental protection or accompanied by investment necessary to mitigate or reduce its negative environmental impact;
 - the purchase of land not built on and land built on exceeding 10% of the total eligible expenditure for the Operation concerned. For derelict sites, for sites formerly in industrial use which comprise buildings, and for operations concerning environmental conservation, this limit shall be increased to 15%;
 - operations shall not be selected for IPA II assistance where they have been physically completed or fully implemented before the application for funding under the Programme is submitted by the beneficiary to the Managing Authority, irrespective of whether all related payments have been made by the beneficiary.
- In line with Articles 65(11) and 69(1) of CPR:
 - the expenditure item included in the statement of expenditure which received support from another Fund or Union instrument, or support from the same Fund under another programme or State budget;
 - contributions in kind.
 - In line with Article 2 of Regulation No 481/2014:
 - fines, financial penalties and expenditure on legal disputes and litigation;
 - costs of gifts, except those not exceeding EUR 50 per gift where related to promotion, communication, publicity or information;
 - costs related to fluctuation of foreign exchange rate.
 - Other ineligible expenditures as defined by the Programme:
 - consultant fees between partners for services and work carried out within the operation;
 - contracting of employees (staff) of the beneficiary and partner organisations as external experts (e.g. as freelancers, translators, IT experts, etc.);
 - unjustified ad-hoc salary bonuses that are not directly attributable to operation delivery;
 - alcohol, except in duly justified cases, when related to the operation theme/subject⁵;

⁵ Please note that, wine is considered a food product, in line with EU and national legislations.

- purchases of equipment not indicated in the Application or specifically approved during Operation implementation by the relevant Programme body;
- equipment purchased from another Project Partner;
- cost for infrastructure and works outside the Programme area;
- shared costs;
- charges for national financial transactions;
- sub-granting (e.g. small grant initiatives under grant Operation);
- costs of audits and evaluations at Operation level.

Additional ineligible costs may be defined in other relevant Programme documents (e.g. call specific documents).

4.5. Eligible expenditure categories

The following expenditure categories are eligible under the Programme:

- 1) staff costs,
- 2) office and administrative expenditure,
- 3) travel and accommodation costs,
- 4) external expertise and services costs,
- 5) equipment expenditure,
- 6) infrastructure and works expenditure,
- 7) preparatory and closure costs.

Specific provisions on eligibility of expenditures, forms of reimbursement, reporting and audit trail for each expenditure category are given below.

4.5.1. Staff costs

Staff costs are defined as gross employment costs of staff employed by the beneficiary, who are formally engaged to work on the Operation. Staff can either be already employed by the beneficiary or employed specifically for the Operation in line with national legislation and internal rules of the beneficiary institution.

Staff may be employed in the operation in one of the following ways:

- full time,
- part-time with a fixed percentage of time worked per month,
- part-time with a flexible number of hours worked per month⁶, or
- on an hourly basis.

Co-financing of the Operation via staff costs is not eligible under this Programme.

Co-financing rate (as stipulated in the Subsidy Contract) is applied to each eligible cost under all expenditure categories including staff costs.

The minimum and maximum limit for staff costs per Operation is indicated in call specific documents (e.g. Guidelines for Applicants).

⁶ The employment option 1.c (a) for staff costs is applicable only for the 1st Call for Proposals (please see page 16).

4.5.1.1. General principles

The beneficiaries should take in consideration the following general principles during operation development phase:

- Employment document is an employment⁷/work contract, signed both by the legal representative of the employer and the employee, or an appointment decision issued by the legal representative of the employer's institution which complies with the national legislation;
- Staff costs are limited to salary payments related to the activities which the beneficiary would not carry out if the operation concerned was not undertaken, fixed in the employment document or by law, relating to responsibilities specified in the job description of the staff member concerned;
- Staff costs include any other costs directly linked to salary payments incurred and paid by the employer, such as employment taxes and social security provided that they are:
 - fixed in an employment document or by law;
 - in accordance with the legislation referred to in the employment document and with standard practices in the country and/or organisation where the individual staff member is actually working;
 - not recoverable by the employer.
- Additional benefits (e.g. monthly transport costs) must be directly linked to the salary payments and incurred and paid by the beneficiary in accordance with the employment contract or relevant national legislation.
- Overheads and any other office and administrative expenditure cannot be included under this expenditure category.
- Daily allowances and any other travel and accommodation costs cannot be included under this expenditure category.
- Costs arising from a contract stipulated with a natural person that results to be not equivalent to an employment document according to national/institutional rules belong to the external expertise and services expenditure category and have to comply with all provisions applicable to that expenditure category.
- Overtime is eligible only in justified cases and when it is directly related to the Operation and it is in line with national legislation and relevant procedure used by the employer institution (if applicable).

4.5.1.2. Forms of reimbursement

Staff costs may be reimbursed in two ways:

1. on a real cost basis (proven by the employment document and payslips),
2. as a flat rate of up to 20% of direct costs other than staff costs of that Operation.

⁷ Employment contract in Bosnia and Herzegovina and Montenegro is acceptable as service/fee based contract (ugovor o djelu) when relevant employment procedure is applied. For beneficiaries from Croatia this option is not applicable for employment of staff.

Each Applicant must decide on the reimbursement option and indicate the choice in the Application. The chosen reimbursement option will apply to all staff members of the beneficiary institution working on the operation and it will be set for the entire implementation period of the Operation. However, different beneficiaries in the same Operation may choose different options for reimbursing staff costs.

1. Real costs

The following principles shall apply to staff costs determined on a real cost basis:

- The beneficiary is responsible to ensure adequacy of staff costs. When claimed staff costs are not adequate in quality and/or quantity in relation to realised operation deliverables and outputs, as listed in the approved Application, a flat rate correction may be applied following the principle of proportionality.
- Costs directly linked to salary payments incurred and paid by the employer, such as employment taxes and social security or other remuneration-related costs are only eligible if foreseen in the approved Application (including modifications), national and internal regulations and they are in line with the employment policy of the beneficiary (ad hoc regulations/provisions applicable only to the operation are not allowed). They must be directly linked to the salary payments and properly documented (e.g. payslip, etc).
- Staff costs must be calculated individually for each staff member charged to the Operation.
- List of personnel working on the Operation (free form) signed by the legal representative of the beneficiary institution should be enclosed in the eMS together with the 1st Partner Progress Report and may be updated later during the implementation of the Operation (if applicable). This List contains all employees of the beneficiary institution involved in Operation activities.

1.a Calculation of real costs for staff working full-time on the operation

The employment document (and, when applicable, including related annexes) must provide at least the following:

- Information that the employee is working 100 % of its working time on the Operation;
- Job description or other relevant document containing description of the main tasks and responsibilities of the employee (e.g. Assignment order)⁸.

In case of changes in the assignment, the employment document (or related annex) must be revised and the related calculation of costs must be adapted to the revised assignment.

The following documents must be available for control purposes as an audit trail for each employee:

- Employment document clearly stating that an employee is working full time on the Operation,
- Job description or other relevant document providing information on tasks and responsibilities related to the operation,

⁸ Template of Assignment Order is Annex to Project Implementation Manual. The Assignment order may be used in case the job description does not contain all the requested information.

- Proof of payment of gross employment costs (e.g. payslip, payroll, bank statements) and accounting record (e.g. extract from a reliable accounting system of the beneficiary).

No working time registration system (time-sheet) is required for staff working full-time in the operation!

1.b Calculation of real costs for staff working part-time with a fixed percentage of time worked per month on the operation

For individuals employed by the beneficiary to work part of their time on the operation according to a fixed percentage of time per month, the reimbursement of staff costs shall be calculated by applying the percentage stipulated in the employment document to the monthly gross employment cost.

The employment document (and, when applicable, including related annexes) must provide at least the following:

- Information on the expected fixed percentage of the employee's working time on the operation and in the case that the employee is involved in other EU and/or national co-funded operations implemented by the beneficiary's institution, name and funding reference of the concerned operation(s), as well as information on the expected percentage of the employee's working time on each operation (no double funding is permissible);
- Job description or other relevant document containing description of the main tasks and responsibilities of the employee (e.g. Assignment Order).

In case of changes in the assignment, the employment document (or related annex) must be revised and the related calculation of costs must be adapted to the revised assignment.

The following documents must be available for control purposes as an audit trail for each employee:

- Employment document,
- Job description or other relevant document providing information on tasks and responsibilities related to the operation,
- A document clearly stating the fixed percentage of time worked by the employee on the operation and the duration of the working time. It can be employment document itself and/or an official assignment of the employee to the operation. In the case that the employee is involved in other EU and/or national co-funded operations implemented by the beneficiary's institution, name and funding reference of the concerned operation(s), as well as statement on the expected percentage of the employee's working time on each co-funded operation and activities done in a certain operation;
- Proof of payment of gross employment costs (e.g. payslip, payroll, bank statements) and accounting record (e.g. extract from a reliable accounting system of the beneficiary),
- Periodic staff report with a summary description of the tasks and missions carried out by the employee in each reporting period.

For staff working part-time in the operation with a fixed percentage of time per month, no working time registration system (time-sheet) is required for operation purposes.

1.c Calculation of real costs for staff working part-time with a flexible number of hours worked per month on the operation

For individuals employed by the beneficiary to work part of their time on the operation with a flexible number of hours per month, the reimbursement of staff costs shall be calculated on the basis of real worked hours in the operation in the concerned month, as resulting from the time-record of the total time worked by the employee (time-sheets).

Costs to be claimed in the operation are calculated multiplying the hourly rate by the number of hours actually worked on the operation. In line with Article 3(6) of the Regulation 481/2014, the hourly rate to be applied for the calculation can be determined either by:

a) dividing the monthly gross employment cost by the monthly working time fixed in the employment document expressed in hours:

$$\text{Hourly rate} = \frac{\text{Monthly gross employment costs}}{\text{Monthly working time expressed in hours}}$$

NOTE!

This option 1.c (a) for the employment of staff in the operation is applicable only for operations contracted within the 1st Call for Proposals and shall not be used by the applicants of the 2nd Call for Proposals.

b) through the following formula, in line with Article 68(2) of the CPR:

$$\text{Hourly rate} = \frac{\text{Latest documented annual gross employment costs}}{1720 \text{ hours}}$$

The latest documented annual gross employment costs do not necessarily have to refer to the previous calendar year (e.g. from 1 January to 31 December of the year), but they have to refer to the latest available data relating to last 12 consecutive months prior to start date of the implementation period.

In the case that data on the latest documented annual gross employment costs of the concerned employee is not available (i.e. for staff employed by the beneficiary for less than one year), costs cannot be calculated with this method.

The hourly rate calculated on the basis of the formula set out above is to remain the same as from when it has been firstly calculated until the end of the operation implementation period. The total amount of hours worked in one year by an employee cannot be higher than 1720 hours and cannot be changed irrespective to the contractual conditions applicable to the employee to be accounted in the operation.

The following documents must be available for control purposes as an audit trail for each employee:

- Employment document,

- Job description or other relevant document providing information on tasks and responsibilities related to the operation (e.g. Assignment order),
- Proof of the latest monthly (option a/annual (option b) gross employment costs documented through accounts, pay roll reports, payslips, tax form, etc. which allow proof of payment of gross employment costs (e.g. confirmation of tax authority, bank statement or other similar relevant document), accounting record (e.g. extract from a reliable accounting system of the beneficiary) accompanied by the document (free form) showing the calculation of the hourly rate,
- Monthly data from the working time registration system (e.g. time-sheets), with at least the following information for each day of the month:
 - number of hours worked on the operation,
 - where applicable, number of hours worked in other activities, including other EU or national co-funded operations implemented by beneficiary's institution together with name and funding reference of the concerned operation(s), so as to cover 100% of the actual worked time of the employee for the beneficiary institution in the concerned month.

1.d Calculation of real costs for staff contracted for operation purposes on an hourly basis

For individuals employed by the beneficiary on an hourly basis, staff costs shall be calculated multiplying the number of hours actually worked on the operation by the hourly rate agreed in the employment document. The hourly rate has to be in line with budgeted payments for similar job positions.

The services which can be carried out within the scope of regular tasks performed by the project partners themselves cannot be outsourced to external service providers.

The following documents must be available for control purposes as an audit trail for each employee:

- Employment document, clearly stating hourly rate,
- Job description or other relevant document providing information on tasks and responsibilities related to the operation (e.g. Assignment order),
- Payslips or other documents of equivalent probative value which allow proof of payment of gross employment costs (e.g. confirmation of tax authority, bank statement, or other similar relevant document) and accounting record (e.g. extract from a reliable accounting system of the beneficiary),
- Monthly data from the working time registration system (e.g. time-sheets), with at least the following information for each day of the month:
 - Number of hours worked on the operation;
 - Where applicable, number of hours worked in other activities, including other EU or national co-funded operations implemented by the beneficiary's institution together with name and funding reference of the concerned operation(s), so as to cover 100 % of the actual worked time of the employee for the beneficiary institution in the concerned month.

2. Flat rate up to 20 % of direct costs other than staff costs

Applicants may choose to calculate their staff costs on a flat rate basis. Staff costs may be calculated as a flat rate of up to 20% of the direct costs other than the staff costs of partner budget. In that respect, the flat rate applicable for the project partner is up to 20% of the direct costs incurred in the relevant reporting period, excluding staff costs.

The eligible expenditure categories that form the basis for the calculation of the flat rate for staff costs are: travel and accommodation costs, external expertise and service costs, equipment expenditure and infrastructure and works expenditure.

The expenditure planned under office and administrative expenditure category and under preparatory and closure expenditure category is not included in the basis for the calculation of the staff costs.

In case that costs used as calculation basis for determining staff costs are found to be ineligible, the determined amount of staff costs will be re-calculated and reduced accordingly.

Flat rate will be verified by the respective Programme body prior to contracting.

The following documents must be available for control purposes as an audit trail:

- List of personnel working on the Operation (free form) should be enclosed in the eMS together with the 1st Partner Progress Report.
- The beneficiary has to demonstrate that it has at least one employee involved in the operation through a declaration issued by the beneficiary's legal representative (or delegated person) certifying that at least an employee of the beneficiary institution has worked in the operation in the concerned reporting period.
- In case of small institutions where no staff is employed and the work is provided by the institution's owner(s)/director(s), the legal representative of the institution has to issue a self-declaration certifying that the owner(s) /director(s), of the institution has(have) directly worked in the operation in the concerned reporting period.

No documentation on staff costs will be required to be provided to the Control Body. However, the beneficiary is responsible to ensure that under this expenditure category only staff costs are incurred.

4.5.2. Office and administrative expenditure

Office and administrative expenditure covers operating and administrative expenses of the beneficiary organization necessary for the implementation of the operation.

Office and administrative expenditure shall be limited to the following elements:

- office rent,
- insurance and taxes related to the buildings where the staff is located and to the equipment of the office (e.g. fire, theft insurances),
- utilities (e.g. electricity, heating, water),
- office supplies (e.g. paper, coffee/biscuits⁹, education/guidance books, etc.),

⁹ Eligible under this expenditure category if not procured as a service (catering).

- general accounting provided inside the beneficiary organisation,
- archives,
- maintenance, cleaning and repairs,
- security,
- IT systems (IT system support of an administrative nature, linked to the implementation of the operation),
- communication (e.g. telephone, fax, internet, postal services, business cards),
- bank charges for opening and administering the account or accounts where the implementation of an operation requires a separate account to be opened,
- charges for transnational financial transactions.

This list is exhaustive.

4.5.2.1. General principles

- Office equipment, IT hardware and software, and furniture and fittings cannot be included under this expenditure category; the cost must be reported as equipment expenditure. This does not include IT system support of an administrative nature; the cost falls under the office and administrative expenditure category.

4.5.2.2. Forms of reimbursement

Office and administrative expenditure are reimbursed by the Programme on a flat rate basis of up to 15% of staff costs.

Office and administrative expenditure are calculated as flat rate regardless of the form of reimbursement applied under the staff costs category.

In case that staff costs used as calculation basis for determining office and administrative expenditure are found to be ineligible, the determined amount of office and administrative expenditure will be re-calculated and reduced accordingly.

The costs incurred under this expenditure category cannot be claimed under other expenditure categories i.e. no double funding is permissible.

4.5.2.3. Audit trail

Being that the office and administrative expenditure are reimbursed according to a flat rate, beneficiaries do not need to document that the expenditure has been incurred and paid or that the flat rate corresponds to the real costs. Accordingly, no documentation on office and administrative expenditure is required to be provided to the Control Body. However, the beneficiaries are responsible to ensure that under this expenditure category only above listed elements are incurred.

4.5.3. Travel and accommodation costs

Travel and accommodation costs refer to the expenditure on travel and accommodation of the staff of the beneficiary organization¹⁰ for missions necessary for the implementation of the operation.

Expenditure on travel and accommodation costs shall be limited to the following elements:

¹⁰ All employees indicated in the List of personnel of the Operation.

- travel costs (e.g. tickets, travel and car insurance, fuel, car mileage, toll, and parking fees),
- the costs of meals,
- accommodation costs,
- visa costs,
- daily allowances/per diem.

4.5.3.1. General principles

- Travel and accommodation costs must be clearly linked to the operation and be essential for effective delivery, promotion and/or sustainability of the operation activities;
- Costs must be borne by the beneficiary institution. Direct payment by a staff member of the partner organisation must be supported by a proof of reimbursement from the employer;
- Any element listed under this expenditure category covered by the daily allowance/per diem cannot be reimbursed in addition to the daily allowance/per diem (e.g. cost of meals), i.e. no double funding is permissible;
- Applicants are obliged to choose between using daily allowances or per diems. The option chosen in the Application shall be applied during the whole Operation implementation period¹¹;
- Daily allowances and per diems must be in line with relevant national and internal rules of the beneficiary institution;
- The maximum amount of per diem must be in line with those defined at the relevant Commission internet pages¹²;
- Travel and accommodation costs of external experts and service providers (including speakers, chairpersons, teachers, stakeholders, etc.) contributing to the operation cannot be included under this expenditure category; they must be reported as external expertise and services costs;
- The principle of sound financial management should apply to the choice of transport and accommodation;
- Costs of taxi are eligible in duly justified cases;
- Costs of private car are eligible in justified cases (e.g. when institutional rules allow it);
- Business or first-class airline tickets are eligible only in exceptional cases it can be proved (e.g. through screenshots or booking webpages) that the related costs are in line with principle of sound financial management (e.g. it is the most economical travel option) or it can be proved as cost-effective;
- Accommodation in hotels with a rating higher than 4* is eligible only in exceptional cases it can be proved that it is in line with principle of sound financial management (e.g. it is the most economical accommodation) or it can be duly justified;
- Costs for CO₂ compensation are eligible.

¹¹ This restriction does not refer to TA beneficiaries.

¹² The latest per diem rates are indicated at the following link:

https://ec.europa.eu/europeaid/work/procedures/implementation/per_diems/index_en.htm_en

The MA may accept the costs of travel, accommodation and meals taken in establishments located outside the Programme area as eligible, if incurred in accordance with Article 20(2) of ETC Regulation. This shall also apply to costs of travel to and from the location of an event or an action inside or outside the Programme area for the staff of beneficiaries located outside the Programme area. However, the conditions regarding the eligibility of costs outside the Programme area have to be respected, as described in Chapter 4.2. Geographical eligibility.

4.5.3.2. *Forms of reimbursement*

Travel and accommodation costs of the staff of the beneficiary institution shall be reimbursed by the Programme on a real cost basis.

4.5.3.3. *Audit trail*

The following documents must be available for control purposes as an audit trail:

- internal travel sheet (travel order and travel invoice)¹³ of the institution filled in with the following information: authorisation of mission, subject of the mission, the destination and the start and end date of the mission accompanied by reimbursement calculation and travel report,
- proof of expenditure for costs incurred (e.g. invoice of travel agent, plane tickets, e-tickets, boarding pass, bus or metro tickets, meal receipts, etc.),
- proof of payment (e.g. a receipt, bank account statement) and accounting record (e.g. extract from a reliable accounting system of the beneficiary),
- in case of traveling by private car, the costs have to be in line with the calculation method in travel sheet indicating the distance covered, the cost per unit according to national or institutional rules/legislation and total cost,
- in case of traveling by institution's car, the calculation formula for average travel cost calculation should be used (calculation table is Annex to Project Implementation Manual), other supporting documents, if applicable (e.g. invitation or agenda, proof of participation such as: list of participants or meeting minutes or photos from the event/meeting or e-mail confirmation of participation, or travel report etc.),
- in case of travel in business or first class by an airplane, travel by a private car or a taxi, and accommodation in a hotel with a rating higher than 4* justification must be provided (within travel report), as well as proof (through screenshots or booking webpages) that the relevant costs are in line with principle of sound financial management (e.g. it is the most economical travel option) or that they are cost-effective;
- in case of local travel, a calculation formula for traveling by institution's car should be submitted for cases when travel order is not required by national/institutional rules. However, a proof of travel may be requested for control purposes (e.g. invitation, travel report or photos, if applicable).

¹³ If the travel and accommodation costs are declared cumulatively in the Partner Progress Report (all costs from the travel order are reported as one cost) the date of payment (reimbursement) by the institution shall be considered as the time when the cost incurred. In case all costs from the travel order are declared separately in the report, the date of actual payment for each cost will be relevant as the time when the cost incurred.

4.5.4. External expertise and services costs

External expertise and services are provided by a public or private body or a natural person outside of the beneficiary organization. External expertise and services cover costs paid on the basis of contracts/written agreements and against invoices/requests for reimbursement to external experts and service providers sub-contracted to carry out certain tasks or activities linked to the implementation of the operation.

The following expenditure on external expertise and service is eligible under this expenditure category:

- studies or surveys (e.g. evaluations, strategies, concept notes, design plans, handbooks),
- trainings,
- translations,
- IT systems and website development, modifications and updates,
- promotion, communication, publicity or information linked to an operation or to the Programme,
- financial management,
- services related to the organisation and implementation of events or meetings (including rent, catering or interpretation),
- participation in events (e.g. registration or participation fees),
- legal consultancy and notarial services, technical and financial expertise, other consultancy and accountancy services,
- intellectual property rights,
- certification and audit costs on Programme level under Articles 126 and 127 of CPR,
- the provision of guarantees by a bank or other financial institution where required by EU or national law or in a programming document adopted by the Joint Monitoring Committee,
- travel and accommodation for external experts, speakers, chairpersons of meetings, service providers and stakeholders,
- external researches,
- other external expertise and services related to the investments in infrastructure (e.g. hydrology study, environmental impact assessment, feasibility study, etc.),
- IT consultants,
- design, edit, print, distribution of brochures, leaflets, and other publications, etc.,
- publishing of promotion articles, inserts in newspapers, press releases, etc.,
- external speakers,
- other specific expertise and services needed for operations.

4.5.4.1. General principles

- The work by external experts and service providers must be relevant for implementation of the Operation.
- The services planned under this expenditure category relate to the services which cannot be carried out within scope of regular tasks performed by the project partners themselves and are therefore outsourced to external service providers.

- No sub-contracting between project partners is allowed.
- Each partner organisation is responsible for ensuring that Programme procurement rules are respected, especially public procurement principles (transparency, non-discrimination, equal treatment, fair competition, mutual recognition, proportionality).
- Costs claimed under the external expertise and services expenditure category cannot be reimbursed under any other expenditure category.
- Travel and accommodation costs of stakeholders can be covered from this expenditure category only in duly justified cases. Programme procurement rules and relevant principles have to be respected.
- The price of the external service or expertise has to be calculated in line with the principle of sound financial management (e.g. according to the standard rates of the country where the project partner concluding the contract is located).
- Advance payments to external service providers may be acceptable, when it is in line with the applicable public procurement rules and when it is agreed in the external service contract.

4.5.4.2. Forms of reimbursement

External expertise and service costs shall be reimbursed by the Programme on a real costs basis.

4.5.4.3. Audit trail

The following documents must be available for control purposes as an audit trail:

- evidence of the implemented procurement procedure (announcement, selection, award), in line with Programme procurement rules,
- contract/order form laying down the services to be provided, with clear reference to the Operation and the Programme. For experts paid on the basis of a daily fee, such a fee together with the number of days contracted and the total amount of the contract must be provided. Any changes to the contract must comply with the Programme procurement rules and must be documented,
- an invoice or a request for reimbursement providing all relevant information in line with the applicable accountancy rules, as well as references to the Operation and the Programme in line with Chapter 6.7. Description and retention of documents;
- outputs of the work of external experts or service deliverables, respecting the publicity/visibility rules, where applicable,
- proof of payment (e.g. a receipt, bank account statement, etc.) and accounting record (e.g. extract from a reliable accounting system of the beneficiary).

4.5.5. Equipment expenditure

This expenditure category refers to expenditure for the financing of equipment purchased, rented or leased by the beneficiary of the operation other than those covered by the expenditure category office and administrative expenditure, which is necessary for the implementation of the operation.

Cost of equipment shall be distinguished in:

- 1) Equipment for general (office) use, such as computers, office furniture, etc., which is used for the daily work of the operation staff and which is not already included under the expenditure category office and administrative expenditure.
- 2) Thematic equipment directly linked to (or forming part of) the operation outputs, which will be used by beneficiaries and target groups in line with the operation objectives. Thematic equipment may either form part of – or be independent from – the infrastructure and works expenditure category¹⁴ and, in any case, it must accomplish Programme requirements for investments in order to be considered as eligible.

The following expenditure of equipment is eligible under this expenditure category:

- office equipment,
- IT hardware (computers, monitors, printers, scanners, digital projectors, digital/video cameras, etc.) and software,
- (office) furniture and fittings,
- laboratory equipment,
- machines and instruments,
- tools or devices,
- vehicles (including rent-a-car),
- spare parts/equipment for machines, tools,
- measuring instruments,
- exhibition equipment,
- purchase of consumables necessary for the operation of laboratory equipment, machines and instruments, and other tools or devices (e.g. chemicals, reagents, fuel, protective clothing, etc.). Purchased consumables must directly be used for the implementation of content related activities of the operation to be considered eligible,
- guarantee for the thematic equipment¹⁵,
- insurance for the thematic equipment¹⁶, the certificate issued by the relevant institution confirming the eligible origin of the equipment,
- other specific equipment needed for operations.

4.5.5.1. General principles

- Costs of equipment are eligible if they are relevant for the implementation of an operation, i.e. without this equipment it would not be possible to implement the Operation successfully.
- Costs of equipment are eligible if they have been approved by the Programme (they are detailed in the latest approved version of the operation budget).

¹⁴ Equipment forming part of an infrastructure/work realized within the Operation shall be reported under the “equipment” expenditure category when it cannot be categorized under the “infrastructure and works” expenditure category, i.e. it does not belong to the items listed in Annex II of the Directive 2014/24/EU of the European Parliament and of the Council of 26.2.2014. For further details please see Chapter 4.5.6. Infrastructure and works expenditure.

¹⁵ Including the prolongation of guarantee for the thematic equipment to cover the implementation period of the Operation.

¹⁶ The insurance cost shall be eligible only to cover the implementation period of the Operation.

- Equipment costs shall be eligible only for purchase of new equipment.
- Equipment costs shall be eligible in full for the entire implementation of the operation, i.e. equipment shall not be depreciated.
- Costs of equipment are eligible if no other EU or national funds have contributed towards financing of the same expenditure item, i.e. no double funding is permissible.
- All costs of equipment are subject to Programme public procurement rules and each partner organisation is responsible for ensuring that these rules have been respected.
- Beneficiaries must ensure visibility for the equipment used for the implementation of the operation in line with the provisions set out in the Programme Visibility Guidelines.
- Amortization period of equipment shall be regulated according to the national rules.
- Equipment for general (office) use necessary for smooth implementation of the Operation should be purchased at the initial stage of the implementation period or later in duly justified cases.
- Advance payments may be acceptable when it is in line with the applicable public procurement rules and when it is agreed in the contract.
- Ownership of the equipment, to be retained by the project partner and/or relevant target group/stakeholders which will be in charge of the purchased equipment after Operation closure should be described within the Application.
- Transfer of ownership (if applicable) has to be implemented in line with applicable national rules, i.e. the procedure related to transfer of ownership of the equipment must be clearly traced during Operation implementation (e.g. evidenced in accounting records of involved partners/target groups as fixed assets or in inventory registers) as this may subject of verification by Programme bodies. Please note that the purchased equipment has to stay in public ownership.

Renting or leasing costs of equipment shall be eligible if the following rules are respected:

- Full cost of renting or leasing of equipment can be reported where the equipment is used 100% for the implementation of an Operation.
- For the equipment which is rented or leased by project partners for a certain period during the implementation of an operation, only the rental or leasing costs for the respective time period are eligible.

4.5.5.2. Forms of reimbursement

Equipment expenditure shall be reimbursed by the Programme on a real cost basis.

4.5.5.3. Audit trail

The following documents must be available for control purposes as an audit trail:

- evidence of the implemented procurement process (announcement, selection, award) in line with the Programme procurement rules,
- contract/order form laying down the equipment to be purchased, with clear reference to the operation and Programme in line with Chapter 6.7. Description and retention of documents. Any changes to the contract must comply with the Programme procurement rules and must be documented,

- invoice providing all relevant information in line with the applicable accountancy rules as well as reference to the Programme and the Operation in line with Chapter 6.7. Description and retention of documents,
- proof of payment (e.g. a receipt, bank account statement) and accounting record (e.g. extract from a reliable accounting system of the beneficiary),
- proof of existence for all items of equipment (e.g. deliverable note, picture),
- proof of respect of Programme visibility rules and where relevant, EU and national legislation in terms of environmental impact.

4.5.6. Infrastructure and works expenditure

Infrastructure and works¹⁷ cover costs related to investments in infrastructure that do not fall into the scope of other expenditure categories. These investments may either refer to an object (e.g. a building) that will be set up *ex-novo* or to the adaptation of an already existing infrastructure.

The following expenditure on infrastructure and works is eligible under this expenditure category¹⁸:

- consultancy, surveys preparation, technical assistance related to infrastructure and works (e.g. preliminary/final design of operation, feasibility study, environmental impact assessment study, etc.),
- organisation and preparation of the site designed to the operation (e.g. land levelling, building of access roads, purchase of special traffic signs, etc.),
- land preparation – any works aiming the preparation of the operation site (e.g. demolition, cleaning of the location, disposal of resulted waste, deviation of utility system routes, vertical arrangements, draining, etc.),
- main investments, including building material and labour (e.g. construction contract comprising of general construction, installation and completion of buildings and civil engineering works, construction of roads, airfields and sport facilities, construction of water projects, etc.),
- natural landscape and environment protection related activities (e.g. land planning, rehabilitation to protect the environment, planting trees, makeover of green areas, etc.),
- specialised interventions (e.g. soil remediation, mine-clearing, etc.),
- supervision of works, in line with national legislation of the participating country where the investment is located,
- contingency reserve,
- purchase of land under the following conditions:
 - the purchase of land not built on and land built on in the amount up to 10 % of the total eligible expenditure for the Operation concerned shall be eligible for funding under this Programme.

¹⁷ Article 2(1) of the Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 defines a “work” as “*the outcome of building or civil engineering works taken as a whole which is sufficient in itself to fulfill an economic or technical function*”.

¹⁸ Annex II of the Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 provides a detailed list of all elements that are eligible under this expenditure category.

- for derelict sites and for sites formerly in industrial use which comprise buildings, and for operations concerning environmental conservation, this limit is increased to 15%.
- other infrastructure and works expenditure.

4.5.6.1. *General principles*

- Costs of infrastructure and works are only eligible if they have been approved by the Programme (indicated in the approved Application or specifically approved during Operation implementation by the relevant Programme body).
- Contingency reserve may be envisaged in case of unpredictable costs for planned infrastructure and works. The maximum percentage for the contingency reserve amounts up to 3% of costs for infrastructure/works in question. Use of contingency in the implementation phase must be approved in advance by the MA.
- Costs of infrastructure and works are eligible if no other Union or national funds have contributed towards financing of the same expenditure (no double funding is permissible).
- Beneficiaries must ensure compliance with visibility requirements for all investments in infrastructure within the operation, in line with the provisions set out in the Programme Visibility Guidelines.
- Beneficiaries must ensure compliance with Programme procurement rules given in Project Implementation Manual when selecting the contractors for infrastructure and works investments, respecting the public procurement principles (transparency, non-discrimination, equal treatment, fair competition, mutual recognition and proportionality).
- The contractor cannot be a partner in the Operation.
- Costs of infrastructure and works outside Programme area are not eligible.
- Investments in infrastructure must comply with the durability requirements described in Chapter 5.3. Durability of the operations.
- Advance payments may be acceptable when it is in line with the applicable public procurement rules and when it is agreed in the contract.
- For Operation activities that include infrastructure and works, the following documents will be required prior to signature of the Subsidy Contract:
 - legal documents specifying any legal right under the real-estate law concerning the land and/or buildings (publicly owned) where the works will be carried out;
 - where applicable, necessary permissions for the execution of the works, issued by the national/regional/local relevant authorities.

4.5.6.2. *Forms of reimbursement*

Infrastructure and works expenditure shall be reimbursed by the Programme on a real cost basis.

4.5.6.3. *Audit trail*

The following documents must be available for control purposes as an audit trail:

- evidence of the implemented procurement procedure (announcement, selection, award), in line with Programme procurement rules;
- contract or written agreement laying down the infrastructure/works to be provided with a clear reference to the Operation and the Programme. For contracts including also a daily/hourly fee, such fee together with the number of days/hours contracted and the total amount of the contract must be provided. Any changes to the contract must comply with the applicable procurement rules and must be documented;
- invoice or interim payment certificate providing all relevant information in line with the applicable accountancy rules as well as references to the Operation and the Programme and a detailed description of the infrastructures/works carried out in line with the contents of the contract. For contracts including also a daily/hourly fee, the invoice must include a clear quantification of the days/hours charged, price per unit and total price;
- proof of payment (e.g. a receipt, bank account statement) and accounting record (e.g. extract from a reliable accounting system of the beneficiary);
- proof of respect of Programme visibility rules and where relevant, EU and national legislation in terms of environmental impact;
- other relevant documentation related to infrastructure and works;
- durability statement, as described in Chapter 5.3. Durability of the operations, signed by the LB/PP (following the final payment to the LB/PP).

In addition, the following documents must be available for control purposes as an audit trail in case of purchase of land during Operation implementation:

- legal documents specifying any legal right under the real-estate law concerning the land and/or buildings where the works will be carried out,
- where applicable, necessary permissions for the execution of the works, issued by the national/regional/local relevant authorities.

5. OTHER FINANCIAL PROVISIONS

5.1. Value Added Tax (VAT)

In line with Article 43(2) of IPA IR, value added tax shall not be supported by the Programme, except where it is non-recoverable according to the national VAT legislation.

In that respect, Value added tax (VAT) is eligible, if the following conditions are fulfilled:

- a) it is not recoverable under national VAT legislation;
- b) it is established that it is borne by the beneficiary;
- c) it is clearly identified in the invoice.

If a beneficiary has the right to reimburse the VAT from the state budget, in this case the amount of the VAT is ineligible expenditure within the Programme. If a beneficiary has no right to reimburse the VAT from the state budget then the amount of the VAT is eligible expenditure within the Programme, provided that it is planned in the Application and fulfils all the above conditions.

For beneficiaries from Croatia complying with all the above indicated criteria, VAT is allowed to be claimed within Partner Progress Report/statement of expenditure, whereas, for those beneficiaries not complying with the criterion a) above, the VAT is ineligible. Croatian beneficiaries are obliged to present the declaration on VAT status (VAT Statement) issued by the authorized institution within the 1st Partner Progress Report. In case the VAT status changes during the Operation implementation, the new VAT Statement has to be presented. The change of VAT status entails the change in the Application.

Beneficiaries from Bosnia and Herzegovina and Montenegro are obliged to follow relevant national procedure for VAT exemption. The legal framework for VAT exemption is given in Chapter 3. Legislative background.

5.2. Modifications to the Operation

During the Operation implementation period some modifications may be necessary in relation to the specific details of the Operation defined in the approved Application and Subsidy Contract, if applicable. In all such cases, the Lead Beneficiary has to immediately inform the JS on the planned modification.

The Operation can be modified only during its implementation period and the modification should not affect the basic purpose of the Operation, the grant award decision or be in contrary to the equal treatment of beneficiaries.

Each request for modification should be submitted officially in writing through the eMS by the LB.

The procedure for the modifications is given in the Project Implementation Manual for the relevant Call for Proposals.

5.3. Durability of the operations

In line with Article 71(1-2) of CPR, an Operation comprising investment in infrastructure or productive investment shall repay the EU contribution if, within five years of the final payment to the LB by the CA, investment is subject to any of the following:

- a. a cessation or relocation of a productive activity outside the Programme area;
- b. a change in ownership of an item of infrastructure which gives to a firm or a public body an undue advantage;
- c. a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives.

An operation comprising investment in infrastructure or productive investment shall repay the EU contribution if within 10 years of the final payment to the LB the productive activity is subject to relocation outside the Union and Programme area.

Following the final payment, the LB/PP in charge of investment shall be obliged to sign and submit the Durability statement (provided by the MA) in order to confirm that the abovementioned conditions will be respected.

Sums unduly paid in respect of the Operation shall be recovered by the Participating Country in proportion to the period for which the requirements have not been fulfilled.

With regard to durability of operations the MA will perform durability checks to ensure compliance with the rules listed above. The durability checks will be performed at least once in five-year/ten-year period.

5.4. Exchange rate

All expenditure reported in the Progress Report/statement of expenditure must be denominated in EUR. This means that the expenditure, which was incurred and paid in the national currency, shall be converted into EUR within the eMS.

The Programme has decided that, in accordance with Article 28 of the ETC Regulation, the expenditures incurred in a currency other than EUR shall be converted into euro using the monthly exchange rate of the Commission in the month during which that expenditure was submitted for verification to the designated FLC. This method shall be applicable to all beneficiaries of the Programme. This exchange rate is published electronically by the EC each month at InforEuro¹⁹.

Thus, the same exchange rate will be applied per reporting period to all expenditure regardless of their payment or invoice dates. The application of correct exchange rate shall be verified by the Control Body in the Participating country in which the beneficiary is located.

The LB will not make any deduction, retention or further specific charge from the amounts that must be transferred to the PP's bank accounts. The LB will transfer the Programme (EU) contribution to each PP within 10 working days from the date of payment from the CA.

Costs related to fluctuation of foreign exchange rate are not eligible according to Article 2(2) of Regulation No 481/2014.

5.5. Revenues

Revenues represent cash in-flows directly paid by external users for the supplies or services provided by the Operation. The most common sources of Operation revenues are entrance fees for events, charges for films, DVDs, books and publications, etc. Revenue can also be generated from payments for the use of infrastructure, sale or rent of land or buildings, or payments for services minus any operating costs and replacement costs of short-life equipment incurred during the corresponding period. Interest on pre-financing payments (on the funds transferred by the CA to the LB) is also considered as revenue.

If revenue generating activities involve operating costs and replacement costs for short-lived equipment, these expenses are deducted from the revenue and represent net revenue. Therefore, the resulting net revenue is then deducted from the amount to be claimed from the Programme.

Furthermore, revenues and net revenues occurred during implementation and/or within 3 years after the closure of an Operation shall be deducted from the eligible EU contribution of the Operation.

Revenues in the application phase

The LB/PP is responsible for estimating the respective revenues and net revenues in the Application. Revenues are planned as a separate category within the budget and the total Operation budget will be automatically reduced for the planned net revenues within eMS.

The methods for calculation of the net revenues are given in Articles 15-19 of the Regulation No 480/2014.

Revenues during implementation period

Revenues generated by operation activities during the implementation of the Operation, which are not deducted in the application phase, must be reported in Partner Progress Reports and they will be deducted from the eligible expenditure.

¹⁹ http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm

Project partners are responsible for keeping account of all the revenues and for keeping the required documentation available (e.g. for control purposes).

Revenues after closure of the Operation

If an Operation expects to have any revenues within three years after the closure, the beneficiaries have to report the respective net revenues to the MA within Final Progress Report, since these revenues have to be deducted from the final payment application submitted to the EU Commission.

Exceptionally, operations under EUR 1.000.000 of total eligible cost do not have to take account the revenue and net revenue after Operation closure. For those operations, monitoring of revenue and net revenue should be performed only during the implementation of the Operation.

6. COMPLIANCE WITH EU POLICIES, PROGRAMME AND OTHER RULES

6.1. Public procurement

The acquisition by means of a public contract of works, supplies or services from economic operators is subject to rules on public procurement. According to Article 45 of IPA IR for the award of service, supply and work contracts, the procurement procedures by beneficiaries shall follow the provisions of Chapter 3 of Title IV of Part Two of the Financial Regulation and of Chapter 3 of Title II of Part Two of Delegated Regulation (EU) No 1268/2012 and shall apply in the whole Programme area.

The detailed rules on public procurement procedures to be applied by the beneficiaries are described in Project Implementation Manual which is related to a specific Call for Proposals. The relevant version of Project Implementation Manual to be used by the beneficiaries is the one available at Programme website (<http://www.interreg-hr-ba-me2014-2020.eu/>) at the time of launching the tender in question.

In case of non-compliance with the public procurement rules, all relevant Programme bodies may apply financial corrections in line with COCOF Guidelines²⁰.

The beneficiaries are responsible for keeping all supporting documents for the procured supplies/services/works in line with the deadlines given in Chapter 6.7. Description and retention of documents.

6.2. In house contracting

In house contracting is considered as contracting of the bodies governed by public law (in house provider)²¹, which are controlled by the contracting authority (beneficiary)²² for the purchase of supplies, services and works.

²⁰ Guidelines for determining financial corrections to be made to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement.

²¹ Body governed by public law means that all of the following conditions are fulfilled:

- a) it is established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character;
- b) it has legal personality; and
- c) it is financed, for the most part, by the State, regional or local authorities, or by other bodies governed by public law; or subject to management supervision by those authorities or bodies; or has an administrative,

In house contracting represents an exemption from the public procurement procedure if the following conditions given by the EU regulations²³ are fulfilled:

- a) the contracting authority exercises over the in-house provider a control which is similar to that which it exercises over its own departments;
- b) more than 80% of the activities of the in-house provider are carried out in the performance of tasks entrusted to it by the controlling contracting authority or by other legal persons controlled by that contracting authority; and
- c) there is no direct private capital participation in the in-house provider with the exception of non-controlling and non-blocking forms of private capital participation required by national legislative provisions, in conformity with the Treaties, which do not exert a decisive influence on the controlled legal person.

Please bear in mind that the intention of in house contracting should be indicated in the Application. Therefore, when preparing the project proposals, the applicants are strongly recommended to assess carefully whether the contractual relationships they plan to enter actually fulfil the abovementioned conditions.

Expenditure referring to tasks contracted with the in-house provider by the beneficiary (including staff and travel and accommodation costs) should be planned under external expertise and services expenditure category if the following conditions are met:

- costs incurred by the in-house provider are charged on a real costs basis without any profit margin;
- the contracting of the in-house provider complies with national public procurement rules.

6.3. State Aid and de minimis

State aid is usually understood to be financial support/aid given to an economic undertaking that is seen as distorting or threatening to distort competition in the internal market.

It is very important to understand the meaning of a number of key terms:

- An undertaking is an entity carrying out an economic activity, regardless of the legal status of the entity and whether it aims to make a profit. Participating in an economic activity is enough to determine whether an entity is an undertaking or not. If an entity is not profit-oriented, state aid rules will apply as long as it competes with companies that are profit-oriented. Therefore, not only private companies are subject to state aid rules but also public authorities if they carry out an economic activity on the market.
- An economic activity is defined as any activity involving the offer of supplies or services on a given market.

managerial or supervisory board, more than half of whose members are appointed by the State, regional or local authorities, or by other bodies governed by public law.

²² Contracting authority means the State, regional or local authorities, bodies governed by public law or associations formed by one or more such authorities or one or more such bodies governed by public law.

²³ Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC.

- Non-economic activities are understood as activities that can only be carried out by the state, such as issuing passports and the provision of similar public goods for which there is no market. This is a fluid term, and understanding is subject to frequent modification. Many operation activities could be considered economic activities but are not considered State Aid because they do not confer a competitive advantage.
- Competitive advantage is defined as any economic benefit the undertaking would not normally gain under normal market conditions.

State Aid is present when all of the following criteria are met:

- Existence of state resources: the aid is granted from the state or state resources (including national, regional or local authorities, a private or public intermediate body appointed by the state, etc.);
- Selectivity: the aid facilitates the development of certain entrepreneurs or of certain products;
- Economic advantage: the aid constitutes an economic advantage that the undertaking would not have received in the normal courses of business. An indirect advantage may also be granted (indirect State aid) if the funds received by entities which are direct beneficiaries of the Programme are channelled to identifiable undertakings/groups of undertakings;
- Effect on competition and trade: the aid distorts, or has the potential to distort, competition and trade within the European Union.

The first two criteria (existence of state resources and selectivity) are always present in the context of EU funded operations.

The applicants will be obliged to fill in the **State Aid self-assessment questionnaire** which is submitted as an Annex of the Application, in order to assess whether the Operation activities are considered as State aid.

The De Minimis Regulation defines a ceiling under which the aid has a negligible impact on trade and competition.. The maximum amount of aid granted to a single recipient should not exceed EUR 200.000 over a period of three fiscal years. This ceiling takes into account all public assistance given as de minimis funding for the current and previous two fiscal years which can take various forms (grants, loans, subsidised contracts, etc.). Therefore, de-minimis aid is acceptable under this Programme taking into account the set limits.

De minimis aid cannot be cumulated with any other aid grant.

The applicants must report any de minimis support granted over the past three fiscal years within the **De minimis self-declaration** (the self-declaration is a part of LB/PPs statements which are annexes of the Application).

All beneficiaries must:

- immediately inform the JS and MA of any grants of public funding received after the completion of the self-declaration,
- keep all records regarding de minimis aid for a minimum of 10 years after receiving the final payment, if applicable.

The JS and MA will support the beneficiaries in the assessment of the existence of state aid/de

minimis during preparation/implementation period of the Operation.

6.4. Visibility

In line with relevant regulations, the Managing Authority is responsible for ensuring coordination of the tasks linked to the communication, information and visibility at Programme level.

General Programme rules on communication, information and visibility are provided in the Programme Communication Strategy (published at Programme website), whereas the detailed practical instructions on information, communication, promotion and visibility for beneficiaries are given in Programme Visibility Guidelines. The Programme Visibility Guidelines provide detailed information and instructions on the use of EU, Programme logo as well as the options for project logo. The Visibility Guidelines are drawn to support the Programme bodies and the beneficiaries of the projects co-financed under the Programme in fulfilling the requirements regarding information and communication measures in a coherent way.

Each beneficiary is responsible to ensure that all information material distributed by the Operation are properly labelled and contain all the necessary information about the Operation co-financed under the Programme according to the rules established in the Programme Visibility Guidelines.

The Control Bodies and other relevant Programme bodies will check whether the Operation activities (including outputs) are implemented in accordance with the Programme Visibility Guidelines.

6.5. Horizontal principles

Horizontal issues are key principles in the implementation of each activity and are inseparably associated with each phase of Operation and the Programme life cycle. Horizontal issues are cited in preambles of EU Regulations (CPR and IPA II Regulation), as well as in relevant sections of the Cooperation Programme.

Sustainable development

Sustainable development is one of the key issues for the Programme area as it is described in the Cooperation Programme's strategy. This Programme with its territory rich in natural and cultural resources has a vast potential to improve the cross-border environmental protection, resource efficiency, climate change mitigation and adaptation, disaster resilience and risk prevention and management.

Operations should also be coherent with the objectives of protection and improvement of the environment. Special attention should be given to the recommendations and requirements set out in SEA study. These requirements are especially relevant for those operations foreseeing infrastructure works and, in general, investments. The Programme bodies have to ensure that the implementation of an Operation does not have any negative impact on the environment. Particular attention should be paid to activities performed or having an impact on the territories with special status.

In that respect, the Programme has identified relevant sustainable development issues to be taken into account when preparing the Application. For more details, please refer to Section 6.1 of the Cooperation Programme.

Equal opportunities and non-discrimination

The beneficiaries should be in particular aware of the following:

- that staff recruitment processes carried out in the Operation are coherent with the principles of equal opportunities,
- that equality is promoted in the Operation's committees and boards,
- that there are no discrimination based on sex, racial or ethnic origin, religion or belief, disability or sexual orientation in any phase of the lifetime of the Operation,
- that the events organized by the Operation do not represent any barrier to participation (e.g. location favouring accessibility),
- that there are no other barriers to participation in trainings, seminars, conferences or other events (unless the activities are not aimed at a specific target group),
- that all national rules on equal opportunities have been respected,
- that each potential participant/sub-contractor, etc. has equal opportunities to participate in the Operation.

Equality between men and women

Equality between women and men has been in focus throughout the entire programming process. Gender gap and gender mainstreaming were analysed during the preparatory process results of which are visible in the situation analysis while principle as such was fully respected in the preparation of the Programme. As one of the fundamental values of the European Union it is incorporated in this Programme which has been designed in order to give equal access to all members of society and contribute to neutralize discrimination and provide equality.

Each Operation supported under this Programme should be asked to indicate how they intend to promote equality between men and women.

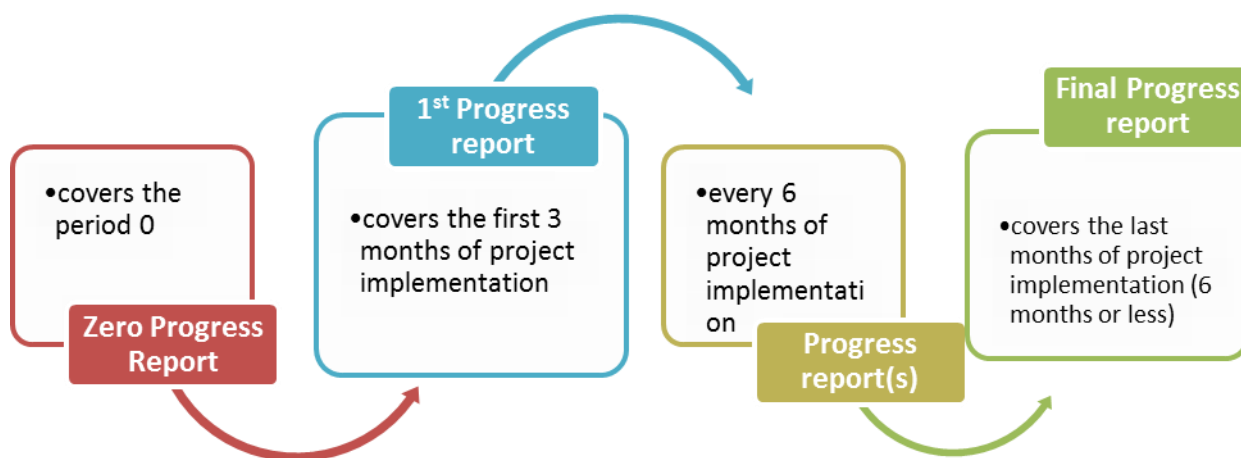
Operations with a gender perspective contribute to the achievement of the policy goals of partner governments and the European Commission regarding women's rights and gender equality.

In order to be fully in line with the European Commission recommendations in these areas, operations supported under this Programme should be gender sensitive in choosing their stakeholders when organizing coordination and management and will respect gender perspective when organizing human resources.

6.6. Reporting process

LB/PPs are obliged to report expenditure incurred and paid in a given reporting period according to the Subsidy Contract and the provisions of the Programme as a general rule.

The certification of expenditure by the Control Body is compulsory and it is carried out in eMS. For this purpose, each LB/PP prepares and submits the Partner Progress Report/statement of expenditure through eMS, accompanied by relevant supporting documents (e.g. invoices, proof of payments, contracts, etc.). Partner Progress Report/statement of expenditure is prepared based on the activities implemented and the expenditure incurred and paid within the implementation period as defined in the Application/Subsidy Contract.



In case the submitted Partner Progress Report is not complete or any modification is needed as a result of the verification of the Report, the LB/PP shall provide the Control Body with the relevant documentation/modifications within 7 working days.

The Control Body validates the expenditures by generating an FLC Certificate in eMS.

After FLC Certificates are issued to the LB and PPs for the relevant reporting period, the LB is responsible for the preparation of the Project Progress Report. The Report shall be submitted to JS/MA within one month following date on which the last FLC Certificate is issued to the LB/PPs for the relevant reporting period.

Exceptionally, in order to obtain the reimbursement of preparatory and/or closure costs the LB shall submit the Zero Progress Report to the JS and MA via eMS without certification of expenditure by the Control Body.

6.7. Description and retention of documents

Accounting documents/invoices for the Operation should include at least the name of the Programme and acronym of the Operation²⁴.

According to Article 140 of CPR, each LB/PP shall preserve all supporting documents relating to specific expenditure for a two year period from 31 December following the submission of the accounts in which the final expenditure of the completed operation is included. These documents shall be made available for any audit, control or verification after operation closure. The Managing Authority will be responsible for notifying the LB on the start date for retention of the operation documents.

The documents shall be kept either in the form of the originals, or certified true copies of the originals, or on commonly accepted data carriers including electronic versions of original documents or documents existing in electronic version only.

²⁴ Exceptionally, the TA operations should include the name of the Programme and the ID of the Operation.