



**Managing Authority**  
State Shared Service Centre

**Estonia – Russia**  
**Cross Border Cooperation Programme**  
**2014-2020**  
**EC decision No C (2015) 9193**

## **Project implementation guidelines**

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## **INTRODUCTION**

These guidelines are compiled to give particular assistance to the beneficiaries when implementing the projects of the Estonia-Russia Cross Border Cooperation Programme 2014-2020 (the Programme). They apply to large infrastructure projects (the LIPs) as well as to projects of the call for proposals and technical assistance.

The guidelines set out the eligibility rules for costs, procurement rules and tender procedures, reporting requirements, financing rules and other implementation requirements aimed to make the project realization an efficient and smooth process.

Please note that the English version of the document is approved by the Joint Monitoring Committee (the JMC) of the Programme and takes precedence over other language versions. These guidelines do not in any way replace the obligations and provisions set out in the respective EU and national Estonian and Russian legislation. In case of doubt, the latest provisions prevail.

## 1. General information about the Programme

### 1.1 Background

The Estonia – Russia Cross Border Cooperation Programme is co-financed by the European Union within the framework of the European Neighbourhood Instrument (ENI) and by the Republic of Estonia and the Russian Federation.

### 1.2 Legal framework and documents related to project implementation

The following EU legal acts and working documents provide further detailed information about the management and implementation of the Programme:

<b>Regulation No 232/2014</b>		Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument (ENI regulation)
<b>Regulation No 236/2014</b>		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
<b>Commission Implementing Regulation No 897/2014</b>		Commission Implementing Regulation (EU) No 897/2014 of 18 August 2014 laying down specific provisions for the implementation of cross-border cooperation programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighbourhood Instrument (Implementing Rules)
<b>Regulation No 966/2012</b>		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
<b>Programming Document</b>		Programming document for EU support to ENI Cross-Border Cooperation (2014-2020) adopted by the Commission on 8 October 2014
<b>Joint Operational Programme</b>		Estonia–Russia Cross Border Cooperation Programme 2014–2020 approved by European Commission on 18 December 2015, decision No C(2015)9193 (JOP)
<b>Financing Agreement</b>		Financing Agreement between the European Union, the Russian Federation and the Republic of Estonia signed on 29 December 2016

Please note that all relevant national legislation is directly applicable for the projects among others:

- The Concept for the Foreign Policy of the Russian Federation (adopted by the President of the Russian Federation on February 12<sup>th</sup>, 2013);
- The Strategy of the Social and Economic Development of the North-West Region of the Russian Federation till 2020 approved with the Government Executive Order of the Russian Federation № 2074-p of November 18<sup>th</sup>, 2011;
- Federal law on procurement № 44-FZ of April 5<sup>th</sup>, 2013;
- Federal law № 223-FZ of July 18<sup>th</sup>, 2011;
- Tax Code of the Russian Federation;
- Related decrees of the President of the Russian Federation and the Russian Government The Concept of Cross-Border Cooperation of the Russian Federation;
- The Concept of the Long-term Social and Economic Development of the Russian Federation through to 2020;

- 2014-2020 Structural Assistance Act of Estonia;
- Public Procurement Act of Estonia.

### **1.3 Programme area**

#### **1.3.1 Programme area for projects of the call for proposals**

The Programme area lies in the east of the Baltic Sea region and covers two distinct territories, namely the southern, northern, and eastern parts of Estonia and the north-western section of the Russian Federation, including the city of St Petersburg.

The Programme area includes the following NUTS III regions (the nomenclature of territorial units for statistics) or their equivalents as **core regions**:

Estonia: Kirde-Eesti, Lõuna-Eesti, Kesk-Eesti;

Russia: St Petersburg, Leningrad and Pskov regions.

The Programme area includes the Põhja-Eesti region (including Tallinn) in Estonia as an **adjoining region**. Involvement of the adjoining region is only allowed under thematic objectives (TO) 1 and 6 (for additional information: see the JOP).

#### **1.3.2 Programme area for LIPs**

For LIPs, in addition to the information and regions mentioned in point 1.3.1, the Programme area on the Russian side includes Moscow as a major economic, social and cultural centre. The scope of eligible partners from Moscow is limited to public entities only (for additional information: see guidelines for LIP applicants).

## **2. Eligibility of costs**

### **2.1 General principles**

Only costs related to the project are eligible costs. These must have incurred (for projects of the call for proposals) at the earliest on the day after the decision of the Joint Monitoring Committee (the JMC) to grant the support, i.e. the activities to be financed cannot start before the grant decision is made by the JMC and take place after the ending date of the project. Preparation cost are an exception to this rule.

The costs have to be incurred in relation to project activities taking place in the Programme area, to initiating or implementing the project. The costs, which have incurred in relation to project activities outside the Programme area, are eligible only in exceptional cases, if these are vital to the success of the project as a whole. Any project activity taking place outside the Programme area is eligible only when specified in the application form that is attached to the grant contract and approved by the JMC.

For matters not covered by eligibility rules laid down in, or on the basis of, Chapter 3 of Commission Implementing Regulation (EU) No 897/2014 of 18 August laying down specific provisions for the implementation of cross-border cooperation programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighbourhood Instrument (*Implementing Rules*), or in rules established jointly by the participating countries in the JMC, the national rules of the participating country in which the expenditure is incurred shall apply.

Only eligible costs shall be taken into account for a grant. The categories of costs considered as eligible and non-eligible are described below in points 2.5.1 and 3. Note that the eligible costs must be based on real costs<sup>1</sup> and backed by supporting documents during the project implementation.

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<sup>1</sup> Except indirect costs on a flat-rate basis calculated on the basis of a fair, equitable and verifiable method.

The project budget has to be in line with the principles of economy, efficiency and effectiveness.

The principle of economy requires that the resources used by the institution for the pursuit of its activities shall be made 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.

For technical assistance, also the following explanations and principles apply:

1) Technical assistance activities include preparation, management, monitoring, evaluation, information, communication, networking, complaint resolution, control and audit activities related to the implementation of the Programme and activities to reinforce the administrative capacity for implementing the Programme. Technical assistance for activities referred to in this point should be used for the needs, of both Programme structures and beneficiaries.

2) Expenditure for activities concerning promotion and capacity building incurred outside the programme area may be covered within the limit indicated in Article 39(2) of the Implementing Rules and provided the conditions set out therein are fulfilled;

3) Eligibility requirements set out in point 2.3 of this document apply *mutatis mutandis* to technical assistance costs. Costs concerning officials, staff and experts of the participating countries assigned to the Programme may be considered eligible as technical assistance costs.

4) Interpretation and translation costs can be covered by technical assistance budget at Programme level;

5) The usage of the technical assistance budget is eligible after the JMC has approved the planned use of technical assistance.

## **2.2 Co-financing rate**

Not less than 10% of the total eligible costs of the project are the lead beneficiaries' and the beneficiaries own contribution to the project and must be financed from their resources or from sources other than the Programme budget. Please note that every beneficiary has to co-finance the project with at least 10% contribution of their own part of the project budget. The co-financing sources shall come from source other than the European Union. The beneficiary (including the lead beneficiary) has to co-finance at least 10% of all its eligible costs.

For project of the open call, the small and medium sized enterprises (SMEs) participating in the project from the Russian Federation can get the maximum co-financing from the Programme for 50% of the total eligible costs for respective beneficiary.

Issues regarding state aid of Estonian beneficiaries, including thresholds and maximum support rates in case of state aid, are considered in relevant state aid regulations and described in more detail in the [State aid guidelines](#).

### **2.3 General eligibility criteria**

2.3.1 Eligible costs are costs actually incurred by the beneficiary which meet all of the following criteria:

1) they are incurred during the implementation period of the project. In particular:

a) costs relating to services and works shall relate to activities performed during the implementation period. Costs relating to supplies shall relate to delivery and installation of items during the implementation period. Signature of a contract, placing of an order, or entering into any commitment for expenditure within the implementation period for future delivery of services, works or supplies after expiry of the implementation period do not meet this requirement; cash transfers between the lead beneficiary and the other beneficiaries may not be considered as costs incurred;

b) costs incurred should be paid before the submission of the final reports;

c) an exception is made for costs relating to final reports, including expenditure verification, audit and final evaluation of the project, which may be incurred after the implementation period of the project;

d) procedures to award contracts, as referred to in Article 52 and following, may have been initiated and contracts may be concluded by the beneficiary(ies) before the start of the implementation period of the project, provided the provisions of Article 52 and following have been respected<sup>2</sup>;

2) they are indicated in the project's estimated overall budget;

3) they are necessary for the project implementation;

4) they are identifiable and verifiable, in particular being recorded in the accounting records of the beneficiary and determined according to the accounting standards and the usual cost accounting practices applicable to the beneficiary;

5) they comply with the requirements of applicable tax and social legislation;

6) they are reasonable, justified, and comply with the requirements of sound financial management, in particular regarding economy and efficiency;

7) they are supported by invoices or documents of equivalent probative value.

### **2.4 Direct eligible costs of the beneficiary:**

Subject to point 2.3, the following direct costs of the beneficiary shall be eligible:

1) the costs of staff assigned to the project under the following cumulative conditions:

a) they relate to the costs of activities which the beneficiary would not carry out if the project was not undertaken;

b) they must not exceed those normally borne by the beneficiary unless it is demonstrated that this is essential to carry out the project;

c) they relate to actual gross salaries including social security charges and other remuneration-related costs.

2) travel and accommodation costs of staff and other persons taking part in the project, provided they do not exceed the costs normally paid by the beneficiary according to its rules and regulations;

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<sup>2</sup> The procurement rules and tender procedures are described in Annex I to these guidelines



- 3) purchase or rental costs for equipment (new or used) and supplies specifically for the purpose of the project, provided they correspond to market prices;
- 4) the cost of consumables specifically purchased for the project;
- 5) costs entailed by contracts awarded by the beneficiaries for the purposes of the project;
- 6) costs deriving directly from requirements imposed by the Implementing Rules and the project (such as information and visibility operations, evaluations, external audits, translations), including financial service costs (such as costs of bank transfers and financial guarantees).

## **2.5 Cost categories (budget headings) of eligible costs and the eligibility requirements of such costs**

The project budget of eligible costs has to be divided between the six budget headings described below. Each budget heading is including:

- 1) the description of the heading listing the costs/activities which have to be indicated under it;
- 2) principles and rules of the costs;
- 3) list of more concrete eligible costs or the budget heading specific rules;
- 4) requirement of the audit trail.

If the beneficiary has to comply with State aid rules (for Estonian beneficiaries), the eligible costs are also stipulated in the appropriate State aid regulations.

The following costs can be included as direct eligible costs:

### **2.5.1 Heading 1: staff costs**

#### 2.5.1.1 Description

Includes only the costs of the staff of the lead beneficiary and the beneficiaries assigned directly to the project and relate to the costs of activities which the lead beneficiary and beneficiaries would not carry out if the project was not undertaken. Staff costs include staff costs of employees in line with the employment/work contract. The costs shall correspond to actual gross salaries (including wages, employment taxes, social security charges, health insurance and pension contributions etc.). Salaries must not exceed those normally borne by the employer (organisation of the lead beneficiary or beneficiaries) as the case may be, unless it is justified in the application by showing that it is essential to carry out the project. The staff costs should be comparable with the salaries on the market and have to be calculated based on national legislation requirements and principles.

Staff costs are eligible only if they are sufficiently justified and documented in beneficiary document recording system and accountancy according to national legislation and internal procedures of concrete beneficiary. The internal recognised practise of organisation should be followed in relation to the costs incurred by the project.

Employees can be employed:

- full-time;
- part-time:
  - part-time with a fixed percentage of time dedicated to the project per month;
  - part-time with a flexible number of hours worked on the project per month;
- contracted on an hourly basis (eligible for 1<sup>st</sup> and 2<sup>nd</sup> Call for proposals projects).

For the 3<sup>rd</sup> Call for proposals this cost category is settled down as a flat rate. Applicant may indicate an amount of staff costs as a flat-rate up to 15% from eligible direct costs excluding staff costs of the project and submit before contracting the methodology defining

the expenditure amount and calculation method for each partner separately provided that no supported documents are needed for reporting purposes afterwards. The restriction of 15% applies for each partner. Those costs will be restricted on each reporting period as 15% from other eligible direct costs and are not checked by the auditors.

If the lead beneficiary and/ or the beneficiary's institutions do not have the necessary human resources to ensure implementation of project, needed specialists can be employed on the basis of service contracts. In this case their costs have to be budgeted under the budget heading 4 "External expertise and services".

The employment/work contract is hereinafter referred to as 'employment document'.

#### 2.5.1.2 Principles and rules of the costs

- 1) Staff costs must relate to activities which the partner organisation would not carry out if the project was not undertaken;
- 2) Overheads and any other office and administration costs cannot be included under this budget line;
- 3) Daily allowances and any other travel and accommodation costs cannot be included under this budget line;
- 4) Staff costs must relate to actual gross salaries including social security charges and other remuneration costs;
- 5) In case the staff member is working part-time for the project and part-time for other tasks in the partner organisation, the actual salary rate must be used, when calculating his/her costs in the project budget. Different hourly rates in the frame of the same employment contract are not allowed (for part-time working a separate contract must be concluded);
- 6) The programme covers staff costs only on the basis of real costs:
  - a) staff costs cover real costs paid out based on a payslip or a document of equivalent probative value;
  - b) the following costs are eligible components of staff costs:
    - salary payments fixed in the employment/work contract, an appointment decision or by law;
    - any other costs directly linked to the salary payments, incurred and paid by the employer, such as employment taxes and social security including pension payments or holiday payments as long as they are fixed in the employment document and they are in accordance with the legislation and standard practices in the country and/or organisation. Organisation standard practices shall refer to all staff of the organisation and no special rules can be made for project employees.
- 7) The salary payments must relate to responsibilities specified in a job description of the individual staff member;
- 8) Costs of social security including pensions' payments are only eligible if they are resulting from national or normal employer's obligations;
- 9) Taxable benefits linked to salary payments are eligible as long as they are foreseen in the project application and in line with the employment policy of the partner organisation, e.g. bonus payments, relocation benefits.<sup>3</sup> They must be directly linked to the salary payments and figure on the payslips;
- 10) Holidays and vacations as resulting from national or normal employer's obligations are eligible. The cost forms part of the gross employment cost;
- 11) Overtime is eligible, provided it is in conformity with the national legislation and the employment policy of the partner organisation, and it is actually paid to the staff member;
- 12) Staff costs must be calculated individually for each staff member.

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<sup>3</sup> Extra bonuses or changes to salaries due to running of an EE-RU CBC project should be evaluated against sound financial management principles (if they are justified by e.g. special qualifications, changes to the task description, etc.). If the project wants to change the salaries of the project staff, then the project must justify it and coordinate with the JTS.

2.5.1.3 Calculation of staff costs and audit trail

**Depending on the assignment (full-time, part-time, contracted on an hourly basis) to work on the project, staff costs of each individual are calculated according to the options below. The selected method may be reviewed by the beneficiary in justified cases and must be coordinated with the JTS as described in a point 5.10 of current document (in case the initial method is changed by the beneficiary). Submitted time-sheets have to be signed by the employee and by the respective authorized person.**

<p><b>Full-time</b></p>	<p>An individual dedicates 100% of his/her working time to the project.</p> <p><b>Staff costs = total of the gross employment cost.</b></p> <p><u>Audit trail</u> The following main documents must be available for control purposes:</p> <ul style="list-style-type: none"> <li>- Employment/work contract or an appointment decision/contract considered as an employment document;</li> <li>- Job description providing information on responsibilities related to the project;</li> <li>- Payslips or other documents of equivalent probative value (internal time recording tables for Russian beneficiaries);</li> <li>- Proof of payment of salaries and taxes;</li> <li>- <b>No submission of project time sheets is required.</b></li> </ul>
<p><b>Part-time assignment with a fixed percentage of time worked on the project per month</b></p>	<p>An individual dedicates a fixed percentage of his/her working time to the project.</p> <p><b>Staff costs = fixed percentage of the gross employment cost in line with a fixed percentage of time worked on the project.</b></p> <p><u>Audit trail</u> The following main documents must be available for control purposes:</p> <ul style="list-style-type: none"> <li>- Employment/work contract or an appointment decision/contract considered as an employment document with reference to the project and programme;</li> <li>- Document setting out the fixed percentage of time worked on the project per month;</li> <li>- Job description providing information on responsibilities directly related to the project;</li> <li>- Payslips or other documents of equivalent probative value (internal time recording tables for Russian beneficiaries);</li> <li>- Proof of payment of salaries and taxes;</li> <li>- No submission of working time registration system, e.g. project time sheets are not required.</li> </ul> <p>Staff costs = fixed percentage * monthly gross employment costs of the employee</p>
<p><b>Part-time assignment with a flexible number of hours worked on the project per month</b></p>	<p>An individual dedicates a flexible share of his/her working time to the project.</p> <p><b>Staff costs = part of the gross employment cost depending on the number of hours actually worked on the project.</b></p>

	<p>The staff costs are based on a monthly hourly rate which is calculated based on the monthly working time and monthly salary fixed in the employment document.</p> <p>Hourly rate = monthly gross employment cost/number of hours per month fixed in the employment document          Staff costs = hourly rate * number of hours worked on the project per month</p> <p><u>Audit trail</u>          The following main documents must be available for control purposes:</p> <ul style="list-style-type: none"> <li>- Employment/work contract or an appointment decision/contract considered as an employment document (including information on the monthly working time);</li> <li>- Job description including information on tasks related to the project;</li> <li>- Payslips or other documents of equivalent probative value (internal time recording tables for Russian beneficiaries);</li> <li>- Data from the working time registration system, e.g. time sheets, providing information on the number of hours spent per month on the project. The time registration system must cover 100% of the actual working time of the individual;</li> <li>- Proof of payment of salaries and taxes.</li> </ul>
<p><b>Contracted on an hourly basis (eligible for 1<sup>st</sup> and 2<sup>nd</sup> Call for Proposals projects)</b></p>	<p>An employee is contracted on an hourly basis and dedicates a certain number of hours to work on the project.</p> <p><b>Staff costs = part of the gross employment cost depending on the number of hours worked on the project.</b></p> <p>The staff costs are calculated on the basis of an hourly rate fixed in the employment document.</p> <p>Hourly rate = fixed in the employment document          Staff costs = hourly rate * number of hours worked on the project</p> <p><u>Audit trail</u>          The following main documents must be available for control purposes:</p> <ul style="list-style-type: none"> <li>- Employment/work contract or an appointment decision/contract considered as an employment document (including information on the hourly rate);</li> <li>- Job description providing information on responsibilities related to the project;</li> <li>- Payslips or other documents of equivalent probative value (internal time recording tables for Russian beneficiaries);</li> <li>- Data from the working time registration system, e.g. time sheets, providing information on the number of hours spent per month on the project and on the tasks performed for the project. The time registration system must cover 100% of the actual working time of the individual;</li> <li>- Proof of payment of salaries and taxes.</li> </ul>

## **2.5.2 Heading 2: travel and accommodation costs**

### 2.5.2.1 Description

Only travel costs (e.g. tickets, insurance, fuel, car mileage, parking fees, car rent), accommodation costs, visa costs, waiting area costs and daily allowances can be included under this budget line. Travel costs (business trips) to project related activities and events are only eligible if they are directly related to and essential for the effective implementation of the project.

Daily allowances for project staff included in the budget heading 1 "Staff" shall be planned under this budget heading.

The lead beneficiaries and the beneficiaries have to follow their usual practice in setting the daily allowance and accommodation rates based on the national legislation and internal procedures of the concrete organisation setting limits for the business trips. The daily allowances rates as well as accommodation that exceed the maximum limits set by national legislation and internal regulation of current beneficiary are eligible from the budget of the project only in duly justified cases by showing that it is essential to carry out the project.

Also visa and travel insurance costs<sup>4</sup> are to be listed under this budget heading.

All costs budgeted under this budget heading should be supported by the documentary evidence for the travel such as business trip requests, orders and reports, agendas, travel tickets, invoices, boarding passes, etc.

All travel and accommodation costs (including daily allowances) for external experts must be included into their service contracts and budgeted in the budget heading 5 "External expertise and services".

In case travelling outside the Programme territory is foreseen in the project, costs shall be planned under separate line within this budget heading.

### 2.5.2.2 Principles and rules of the costs

- 1) Travel and accommodation costs must clearly link to the project and be essential for effective delivery of the project activities;
- 2) Costs must be definitely borne by the partner organisation. Direct payment by a staff member of the partner organisation must be supported by a proof of reimbursement from the employer;
- 3) In Estonia, in accordance with the respective national legislation daily allowance may be paid also to third parties i.e. persons who are not working in partner organisations on the basis of employment contracts or public service act (e.g. civil servants);
- 4) Travel and accommodation costs can be covered only for persons who are directly related to project or Programme activities;
- 5) The principle of sound financial management should apply to the choice of transport and accommodation. In line with the result-oriented policy approach, effectiveness should be the leading principle. In the second instance, cost-efficiency should be ensured, taking into account the entire cost of the mission (travel costs, staff costs related to the travel, etc.);
- 6) Travel and accommodation costs of external experts and service providers (e.g. speakers, chairpersons, teachers, etc.) contributing to the project or Programme must be included into their service contracts and must be reported as external expertise and services costs;
- 7) Costs of travel and accommodation related to activities outside the Programme area are only eligible, if those activities have been included in the approved application form.

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<sup>4</sup> In case of travel insurance, insurance extensions are eligible (such as natural disaster and terrorism or the cancellation of the event).

Travelling in Estonia and Russia outside the Programme territory does not have to be explained in the application form in case it is necessary for:

- a) meeting project partners, who are located outside the Programme area;
  - b) meeting the Programme institutions in Tallinn and Moscow;
  - c) transporting materials directly related to project;
  - d) participating at the events organised by the Programme.
- 8) Travelling in Estonia and Russia outside the Programme territory to events, which are not foreseen in the application form, but have a clear link with the activities of the project and are for the benefit of the project (e.g. thematic conferences and workshops), is in general acceptable. However, partners must consult with JTS before such trips, to avoid problems during processing of partner and consolidated reports;
- 9) Maximum daily rates for hotel and daily allowance should be respected, in accordance with the national legislation;
- 10) Travel and accommodation costs should be properly documented in line with the Programme rules, the national legislation and/or internal policy of the partner organization. If possible, electronic travel documents (i.e. bus tickets or boarding passes) and accommodation documents should be used and archived instead of paper documents in order to prefer green solutions;
- 11) If person's travel and accommodation costs (incl. visa and waiting area costs) are related to several projects (events of different projects during one trip), then costs should be divided according to justified and equitable method;
- 12) Travel and accommodation costs are eligible in the event the journey is cancelled only in cases when the journey was cancelled due to unforeseen circumstances or an extraordinary event beyond the control of the beneficiary, e.g. illness, strike, volcanic eruption, or other force majeure;
- 13) Checked baggage is eligible when travelling by plane or train;
- 14) City tax and registration fee at the hotel are eligible.

#### 2.5.2.3 Audit trail

The following main documents must be available for control purposes:

- a) Agenda or similar document/explanation of the meeting/seminar/conference;
- b) Paid invoices (e.g. hotel bills, travel tickets);
- c) Daily allowance claims;
- d) Proof of payment;
- e) Travel reports, route sheets, and other documents as required by national legislation.

### **2.5.3 Heading 3: Equipment costs**

#### 2.5.3.1 Description

Expenditure for the financing of equipment purchased or rented by a partner, necessary to achieve objectives of the project.

Costs for purchase or rent of new equipment and supplies are eligible, if these items are specifically needed for the purpose of the implementation of the project, are listed in the approved project budget, correspond to market price and are purchased following the relevant procurement procedures.

Every co-financed piece of equipment must comply with the information and visibility rules.

#### 2.5.3.2 Principles and rules of the costs

- 1) Costs of equipment are eligible if no other EU funds or Estonian or Russian national funds have contributed towards financing of the same expenditure item, i.e. no double funding is permissible;
- 2) Full purchase cost of equipment is eligible, if the equipment is in line with aims of the Programme and crucial for the achievement of the project's objective, and incurred within the implementation period;
- 3) Depreciation of the equipment purchased from project cannot be placed in the project budget;

- 4) For equipment that has been purchased before the project approval, depreciation costs are eligible only when the following conditions are fulfilled:
  - a) the amount of the expenditure is duly justified by supporting documents having equivalent probative value to invoices for eligible costs where reimbursed;
  - b) the costs relate exclusively to the period of support for the operation;
  - c) public grants have not contributed towards the acquisition of the depreciated assets.
- 5) For equipment that has been purchased before the project approval but used solely for the project or equipment purchased during the project lifetime but used partially for the project, only a pro rata depreciation cost related to the project (duration, degree of use) is eligible. This share has to be calculated according to a justified and equitable method in line with the legislation or general accounting policy of the partner organization;
- 6) Full purchase cost of equipment that is not depreciable (e.g. low-value asset) is eligible;
- 7) Purchase cost of second-hand equipment is eligible, provided the equipment complies with applicable norms and standards and its price does not exceed the generally accepted price on the market. Costs for purchase or rent of equipment and supplies are eligible, if these items are specifically needed for the purposes of the implementation of the project, are listed in the approved project budget and are purchased following the relevant procurement procedures. Used equipment cannot be originally bought by public funds (another project etc.). The price of the used equipment has to be lower than for the same new equipment. The technical specification of the equipment has to meet the applicable requirements of the rule of origin (the declaration of origin of the equipment has to be provided etc.);
- 8) Equipment cannot be purchased, rented or leased from another partner.

#### 2.5.3.3 Eligible costs

- 1) Office equipment (including office consumables which are recorded in the beneficiaries accounting system as an asset);
- 2) IT hardware and software;
- 3) Furniture and fittings;
- 4) Laboratory equipment;
- 5) Machines, tools, instruments or devices;
- 6) Maintenance and repairs of equipment needed for the project;
- 7) Goods assimilated to equipment needed for the project, e.g. fuel to run the equipment; Where the goods are assimilated to office equipment (i.e. equipment is used for administrative purposes), then these cost fall under the 'office and administration' heading (e.g. changing toner for a printer);
- 8) Other goods and materials needed for the project (not necessarily assimilated to equipment), e.g. chemicals, seeds, animals;
- 9) Vehicles;
- 10) Other specific equipment needed for the project;
- 11) Setting up the purchased equipment, including initial instruction costs from the equipment provider to the beneficiary;
- 12) Transportation costs of the equipment.

#### 2.5.3.4 Audit trail

- 1) Invoice (or a supporting document having equivalent probative value to invoices, in the case of depreciation) providing all relevant information in line with the applicable accountancy rules;
- 2) Proof of payment.

### **2.5.4 Heading 4: External expertise and service costs**

#### 2.5.4.1 Description

All services/works sub-contracted to an external service provider should be listed under this budget heading (e.g. external management of the project, consultants, speakers for workshops, experts, web-design, organisation of meetings, conferences, seminars and

trainings(including catering costs<sup>5</sup> of the meetings and events), organization of translation, interpretation, reproduction, dissemination of information, evaluation specific to the project, information and publicity, publications, research, other services necessary for the project, financial service costs if they are not included into administrative costs (in particular the bank charges for the project account, the costs of financial transfers and financial guarantees, etc.).

Allocate under this budget heading also costs for the expenditure verification for beneficiaries registered and located in the Russian Federation.

Work of the external experts should be essential for the project, rates should be reasonable compared to the level of experience and expertise according to the standard rates in the respective country where the project partner is located, market rates resulting from the procurement procedures are applied; and quality of produced outputs is ensured.

All the travel and accommodation costs (including daily allowances) for external experts should be part of their service contracts and listed under this budget heading.

Purchase of services/ expertise is subject to relevant procurement procedures.

The lead beneficiary and the beneficiaries as well as associates are not allowed to sub-contract each other (or themselves) or employees of their organisations in order to carry out project activities.

#### 2.5.4.2 Principles and rules of the costs

1) The work by external experts and service providers must be linked to the activities in the project application;

2) No sub-contracting between project partners (or themselves) is allowed;

3) All costs of external expertise and services that are linked to an investment in infrastructure should be included under this budget line, e.g. feasibility studies (if not included in the budget heading "Investment costs");

4) Costs of external expertise related to activities outside the Programme area are only eligible, if those activities have been included in the approved application form;

5) Advance payments to the external service providers can be reported in the partner report only after the partial or full delivery of the purchased services/goods, the allowed advance payment is up to 1/3 of the total sum of the signed contract with suppliers and contractors;

6) Catering must be foreseen in the event agenda otherwise catering costs are not eligible. Alcoholic beverages are eligible only together with catering costs planned in the agenda of a project event and in moderation, forming up to 1/4 of the respective invoice.

#### 2.5.4.3 Eligible costs

1) Studies or surveys (e.g. evaluations, strategies, concept notes, design plans, handbooks, permits, external research, environmental impact assessment, feasibility study if they are not included in to investment costs);

2) Trainings;

3) Translations;

4) IT systems and website development, modifications and updates, maintenance and repair, software licenses directly related to project activities;

5) Promotion, communication, publicity or information linked to the project;

6) Financial management and project management;

7) Services related to the organisation and implementation of events or meetings (including rent, translation, catering, which is foreseen in the agenda);

8) Participation in events (e.g. registration fees);

9) Legal consultancy and notarial services, technical and financial expertise, other consultancy and accountancy services if needed for project or Programme activities;

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<sup>5</sup> Costs of groceries for the meeting and events are eligible if they are foreseen in the „external expertise and services “budget in the project application and purchased either within catering contract or separately.



- 10) Intellectual property rights;
- 11) Travel and accommodation costs for external experts, speakers, chairpersons of meetings and service providers should be part of the service contract;
- 12) Other specific expertise and services needed for the project or for the Programme, audit costs for Russian partners, financial service costs (if they are not included into administrative costs);
- 13) Costs of promotional gifts not exceeding EUR 50 per item and clearly related to promotion, communication, publicity or information<sup>6</sup>.

#### 2.5.4.4 Audit trail

- 1) A contract or a written agreement laying down the services to be provided with a clear reference to the project. For experts paid on the basis of a daily fee, the daily rate 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 procurement rules and must be documented;
- 2) An invoice or a request for reimbursement providing all relevant information in line with the applicable accountancy rules;
- 3) Outputs of the work of external experts or service deliverables;
- 4) Proof of payment;
- 5) Act of delivery and receipt;
- 6) Photo of the object in case of promotional gifts.

### **2.5.5 Heading 5: Investment costs**

#### 2.5.5.1 Description

All costs of works and services related to construction, renovation, installation of infrastructure and their supervision should be listed under this budget line. List each work and service contract as a separate item in the project budget.

Investments are financed only in case they are necessary for reaching the results of the project and the Programme, including delivering a cross-border impact and benefits.

Any project including an infrastructure component shall repay the Programme contribution if, within five years of the project closure or within the period of time set out in state aid rules (for Estonian beneficiaries), where applicable, it is subject to a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives. Sums unduly paid in respect of the project shall be recovered by the Managing Authority in proportion to the period for which the requirement has not been fulfilled.

#### 2.5.5.2 Principles and rules of the costs

- 1) Full costs of infrastructure and construction works (according to the building design documentation) that form part of the project are eligible, i.e. no depreciation is eligible;
- 2) Documents specifying the ownership of land and/or buildings where the works will be carried out must be provided;
- 3) Purchase of land cannot exceed 10% of the total eligible expenditure of the project;
- 4) All compulsory requirements set by the EU and national legislation related to the respective investment in infrastructure must be fulfilled (e.g. feasibility studies, environmental impact assessments in case they are not included to external expertise costs, building permission, supervision, ensuring the fulfilment of programme visibility requirements etc.);
- 5) In the case of investments in fixed equipment and when the fixed equipment forms part of an investment in infrastructure, full cost of the fixed equipment as approved by the Programme is eligible, i.e. no depreciation is eligible.

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<sup>6</sup> Visual identity of promotional items should be in the line with Communication and Visibility Guidelines of the Programme

#### 2.5.5.3 Audit trail

- 1) Contract laying down the works/infrastructure, with clear reference to the project and the Programme. For contracts based on a daily fee, such fee together with the number of days contracted and the total amount of the contract must be provided;
- 2) Invoice providing all relevant information in line with the applicable accountancy rules;
- 3) Proof of payment and delivery;
- 4) Act of delivery and receipt.

#### 2.5.5.4 Eligible costs

Eligible costs are those directly related to construction and works including costs for site preparation, delivery, handling, installation, fixed equipment, renovation, and purchase of land, when applicable.

### **2.5.6 Heading 6: Indirect costs (office and administration)**

#### 2.5.6.1 Description

Expenditure on office and administration costs. They cover operating and administrative expenses of the partner organisation that support delivery of project activities.

#### 2.5.6.2 Principles and rules of the costs

- 1) No cost item can be taken into account twice as direct and indirect, i.e. no double funding is permissible;
- 2) Office equipment, IT hardware and software, and furniture and fittings cannot be included under this budget line; these cost must be reported as equipment expenditure. This does not include IT system support of an administrative nature which shall falls under this budget heading;
- 3) Costs of control and audit of the project cannot be included under this budget line; they must be reported as external expertise and services costs;
- 4) The programme uses a flat rate for calculating and reporting office and administrative expenditure (except for technical assistance). **Eligible indirect costs under the office and administration budget line are calculated as a flat rate up to 7% of eligible direct costs excluding costs incurred in relation to the provision of infrastructure and not exceeding EUR 60 000 per beneficiary and per project. The rate has to be calculated on the basis of a fair, equitable and verifiable calculation method;**
- 5) The bases for the calculation are forecasted costs of all project partners in the office and administration budget line. Flat rate will be calculated for each beneficiary separately (based on the method referred to in point 4 of this section and information about each partner will be provided within full application form), after which the lead beneficiary will calculate the average rate for the whole project. This average rate will be fixed on the project level in the grant contract.

#### 2.5.6.3 Eligible costs

- 1) Office rent;
- 2) 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);
- 3) Minor office supplies (e.g. paper, pencils for daily office work, this includes also coffee and snacks for meetings). Consumables, which are recorded in the beneficiaries accounting system as an asset should be budgeted under the budget line "equipment";
- 4) General accounting provided inside the beneficiary organization;
- 5) Archives;
- 6) Maintenance, cleaning and repairs;
- 7) Security;
- 8) IT system support (this concerns IT system support inside the beneficiary organisation in example maintenance and repairs of office IT hardware);

- 9) Communication (e.g. telephone, fax, internet, postal services, business cards);
- 10) Bank charges for opening and administering the account or accounts where the implementation of an operation requires a separate account to be opened;
- 11) Charges for financial transactions (in case they are not included under budget heading "External expertise and services").

#### 2.5.6.4 Audit trail

By applying the up to 7% flat rate, partners do not need to document that the expenditure on office and administration costs has been incurred and paid. Information about the calculation method should be provided with Full Application Form.

### **3. Non-eligible costs**

The following costs relating to the implementation of the project shall not be considered eligible:

- 1) Debts and debt service charges (interest);
- 2) Provisions for losses or liabilities;
- 3) Costs declared by the beneficiary and already financed by the Union budget and/or other international or national budget;
- 4) Purchases of land or buildings for an amount exceeding 10 % of the eligible expenditure of the project concerned;
- 5) Exchange rate losses;
- 6) Duties, taxes and charges, including VAT, except where non-recoverable under the relevant national tax legislation, unless otherwise provided in appropriate provisions negotiated with Russian Federation in accordance with the Financing Agreement;
- 7) Loans to third parties;
- 8) Fines, financial penalties and expenditure on legal disputes and litigation;
- 9) Contributions in kind;
- 10) Any costs incurred before and/or after the implementation period of the project, except preparation costs and costs related to preparation of final reports, as referred to in point 2.3.1 (1)(c).
- 11) Preparation costs that have incurred earlier than 01.01.2016 and preparation costs that have incurred during the implementation period of the project;
- 12) Costs that have been made in conflict with the procurement rules and tender procedures (annex I to these guidelines);
- 13) Subcontracting between project partners, from the beneficiary and associated partners including consultant fees or other service costs between partners for services and works carried out within the project;
- 14) Costs of promotional gifts, except those not exceeding EUR 50 per gift clearly related to promotion, communication, publicity or information;
- 15) Daily travels of project staff from home to office and back;
- 16) Alcoholic beverages as a part of catering costs planned in the agenda of a project event that form more than 1/4 of the respective catering invoice;
- 17) Parallel remuneration systems and topping ups.

### **4. Preparation costs (retroactively awarded grants and costs to allow the preparation of strong partnerships)**

Preparation costs are eligible only for projects approved by the JMC.

#### **4.1 Preparation costs of projects of the call for proposals**

The Programme covers project preparation costs as a lump sum of 1000 EUR. This includes all costs that partners have during the project preparation. This expenditure will be included in the lead partner's project reports without any calculations and cost documents.

Only awarded projects will be able to claim the reimbursement of the preparation costs. The applicant must clearly indicate these costs in the project summary and the full application.

#### **4.2 Preparation costs of LIPs**

All studies and documentation for project have to be in appropriate quality and up-to-date. 1 January 2016 is the starting date for preparation of eligible documents.

The applicant must clearly indicate the costs for activities prior to the contract signature in the project summary and in the full application.

The activities eligible for retroactively awarded costs are: preparation of the full application and other documents directly related to preparation of full application, such as information and communication plan, environmental impact assessment, feasibility study, technical documentation for infrastructure component of the project and other relevant costs considering the preparation of project with an infrastructure element.

No grant may be awarded retroactively for projects already completed.

### **5. Project implementation, monitoring, reporting and control**

#### **5.1 Official language**

The official working language of the Programme is English. All official documentation (including grant contracts) and communication related to the preparation and implementation of projects should be in English. Interpretation and translation costs foreseen during the project implementation can be included in the budget of the project.

#### **5.2 Duration of the project**

##### **5.2.1 Duration of the projects of the call for proposals**

Starting date of the project implementation period is defined by the lead beneficiary and the MA and stipulated in the grant contract and it can be either:

- 1) the day following that on which the grant contract is signed by both the lead beneficiary and the MA, or
- 2) a later date agreed in the grant contract, but no later than 3 months after the signing of the grant contract by both the lead beneficiary and the MA;
- 3) exceptionally and subject to conditions on retroactive eligibility as stipulated in Article 48 of the Implementing Rules, a date preceding the signature of the Grant Contract, but not preceding the Lead Beneficiary's request for grant. Implementation of the Project can not start earlier than the date when the project summary is submitted to the JTS.

The maximum project duration is 24 months for projects not exceeding 200 000 EUR and up to 36 months<sup>7</sup> for projects exceeding 200 000 EUR (from the date of which the grant contract is in force). It is recommended to reserve up to 3 months in the end of the project for compiling reports. The activities of the project must be finished on 31 December 2022 at the latest.

##### **5.2.2 Duration of LIPs**

Project starting date is the same as defined in point 5.2.1 of this section. The latest date for signing the grant contract is 30 June 2019. The project duration cannot exceed 31 December 2022.

#### **5.3 Responsibilities within the project**

All projects must follow the **lead beneficiary principle** in the project management. Each project shall designate one lead beneficiary for representing the partnership.

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<sup>7</sup> In duly justified cases, the JMC may approve projects with longer duration.

All beneficiaries shall actively cooperate in the development and implementation of projects. In addition, they shall cooperate in the staffing and financing of projects. **Each beneficiary shall be legally and financially responsible for the activities that it is implementing and for the share of the Programme funds that it receives.**

The Lead beneficiary shall:

- 1) Receive the financial contribution from the MA for the implementation of project activities;
- 2) Ensure that the beneficiaries receive the total amount of the grant as quickly as possible and in full in accordance with the arrangements referred to in point 3). No amount shall be deducted or withheld and no specific charge with equivalent effect shall be levied that would reduce these amounts for the beneficiaries;
- 3) Lay down the partnership arrangements with the beneficiaries in an agreement comprising provisions that, inter alia, guarantee the sound financial management of the funds allocated to the project including the arrangements for recovery of funds unduly paid;
- 4) Assume responsibility for ensuring implementation of the entire project;
- 5) Ensure that the expenditure presented by the beneficiaries has been incurred for the purpose of implementing the project and corresponds to activities set in the contract and agreed between all beneficiaries;
- 6) Verify that the expenditure presented by the beneficiaries has been examined pursuant Article 32(1) of the Implementing Rules.

**The specific obligations as well as the financial responsibilities of the beneficiaries are laid down in the grant contract and the partnership agreement.**

#### **5.4 Ownership of the project results**

The ownership, title, intellectual and industrial property rights to the project's results, reports and other documents relating to it shall be vested in (belong to) the lead beneficiary, beneficiaries, associates or final recipients. The lead beneficiary and beneficiaries grant the MA, the European Commission, Estonia and Russia the right to use freely and as it sees fit all documents deriving from the project, whatever their form, provided it does not thereby breach existing industrial and intellectual property rights.

In case of the transfer of ownership, industrial and intellectual property rights for outputs and results, the transfer shall be done according to the national legislation, taking into account also the transfer of obligations concerning the project. The sustainability requirements defined in the project should not be jeopardised and transfer of the ownership should not result in a profit for the beneficiaries.

According to Article 39(3) of the Implementing Rules, any project including an infrastructure component shall repay the programme contribution if, within five years of the project closure or within the period of time set out in state aid rules (for Estonian beneficiaries), where applicable, it is subject to a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives. Sums unduly paid in respect of the project shall be recovered by the Managing Authority in proportion to the period for which the requirement has not been fulfilled.

The MA should be notified about changes of ownership of the project results during the implementation period of the project and five years (or the period stated in the state aid rules) after completion of the project.

#### **5.5 Visibility and information requirements**

The lead beneficiary and the beneficiaries must take the necessary measures to publicize the programme's financial support to the projects and to give visibility to the financial

contributions of the European Union, the Republic of Estonia and the Russian Federation **in accordance with the [communication and visibility guidelines document for the implementation of projects](#).**

The use of the Programme logo is compulsory on all communication materials and tools (both hard copy and electronic), documents of the project and outputs produced by the project. The use of the Programme logo is also regulated in the **communication and visibility guidelines document for the implementation of projects**.

## **5.6 Payments to the project**

### **5.6.1 Payments to the projects of the call for proposals**

If the total actual costs of the project at the end of the project are less than the estimated total costs laid down in the grant contract, the MA's contribution shall be limited to the amount obtained by applying the percentage laid down in the grant contract to the total actual costs of the approved project.

The following payments options are foreseen for the projects: (1) **pre-financing** (after signing of the grant contract); (2) **interim payment** (during the project implementation); (3) **interim payment** (based on cost reimbursement) (4) **payment of the final balance** (upon completion of the project).

#### 5.6.1.1 Option 1

If the overall duration of the project does not exceed 24 months **and** if the grant does not exceed 200,000 EUR, the pre-financing is paid in two instalments –

- 1) pre-financing, which will be transferred to the account of the lead beneficiary within 45 days after signing the grant contract and submission the request for advance payment. It will be up to 40% of the grant;
- 2) together with the 6-monthly interim report the lead beneficiary may submit the request for an interim payment instalment not exceeding 40% of the project grant.

If the consumption of the previous payment is less than 70%, the amount of the further pre-financing instalment shall be reduced by the unused amounts of the previous payment. The total sum of pre-financing (pre-financing instalment and interim payment instalment) under the grant contract may not exceed 80% of the amount referred to in article 4 of the grant contract.

**Any pre-financing instalment is not applicable for SMEs. Allocation of funds and observing the Programme rules including pre-financing requirements stays upon responsibility of the lead beneficiary.**

The MA will pay the final balance payment within 45 days following the approval of the final report.

#### 5.6.1.2 Option 2

If the overall duration of the project exceeds 24 months or if the grant exceeds 200,000 EUR, the pre-financing instalment will be 40% of the forecast budget for the first 12 months of the grant. It will be transferred to the account of the lead beneficiary within 45 days after signing the grant contract and submission of the request for advance payment.

**Any pre-financing instalment is not applicable for SMEs. Allocation of funds and observing the programme rules including pre-financing requirements stays upon responsibility of the lead Beneficiary.**

The MA shall pay the interim payment instalment for each following twelve-month period of implementation of the project after approval of the 6-monthly interim reports. Interim payment instalment may only be given if the part of the expenditure actually incurred which is financed by the MA (by applying the percentage set out in article 4.3 of the grant contract) stands at least at 70% of the previous payment (and at 100% of any previous

payments) as supported by the corresponding interim report and expenditure verification report (and financial guarantee if required) according to articles 8 and 21 of grant contract.

If the consumption of the previous payment is less than 70%, the amount of the interim payment instalment shall be reduced by the unused amounts of the previous payment. The total sum of the pre-financing (pre-financing instalment and interim payment instalments) may not exceed 80% of the grant costs as referred to in the article 4 of the grant contract. The MA will pay the final balance within 45 days following the approval of the final report.

#### 5.6.1.3 Option 3

In case where the lead beneficiary and beneficiaries intend to pre-finance the start of the project from their own resources there is a possibility to choose option 3 with no pre-financing instalment to be paid by the MA.

Current option is applicable for all projects and all types of beneficiaries.

The MA shall compensate the costs and pay the interim payment instalment (based on cost reimbursement) for each six month period of implementation of the project after approval of the 6-monthly interim report. Together with the 6-monthly consolidated interim report the lead beneficiary may submit the request for interim payment instalment (based on cost reimbursement).

Interim payments (based on cost reimbursement) may not exceed 80% of the grant costs as referred to in the article 4 of the grant contract. The MA will pay the final balance within 45 days following the approval of the final report.

#### 5.6.1.4 Option 4

In case where the lead beneficiary and beneficiaries intend to pre-finance the whole project from their own resources there is a possibility to choose option 4 for payments where the total balance payment from the Programme will be executed after approval of the final report by the MA. The six month reporting period (partner, consolidated reports) is still obligatory, although without getting any interim payments.

The grant shall be paid to the lead beneficiary by the MA in one payment within 45 days after approval of the final report.

### **5.6.2 Payments to LIPs**

If the total actual costs of the project at the end of the project are less than the estimated total costs laid down in the grant contract, the MA's contribution shall be limited to the amount obtained by applying the percentage laid down in the grant contract to the total actual costs of the approved project.

The following payments options are foreseen for the projects:

#### 5.6.2.1 Option 1

The initial pre-financing instalment will be 90% of the 1<sup>st</sup> year's grant of the project. It will be transferred to the account of the lead beneficiary within 45 days after signing the grant contract and submission of the request for advance payment. Further requests for pre-financing instalment can be requested also for the year when the initial pre-financing instalment has been made.

In order to reimburse the costs retroactively, the applicant has to submit a report with the expenditure verification report covering these costs and the request for payment. This can be submitted either together with the request for the initial pre-financing instalment, further pre-financing instalment or separately.

The MA shall pay a further pre-financing instalment for each twelve month period of implementation of the project after approval of the interim report examined by public

officer or auditor. Further pre-financing instalment may be given if the part of the expenditure actually incurred which is financed by the MA stands at least at 70% of the previous payment (and at 100% of any previous payments) as supported by the corresponding interim report, examined by the public officer or auditor.

If the consumption of the previous payment is less than 70%, the amount of the further pre-financing instalment shall be reduced by the unused amounts of the previous payment. The total sum of pre-financing (initial pre-financing instalment and further pre-financing instalments) may not exceed 90% of the total grant.

The MA will pay the balance within 45 days following the approval of the final report.

#### 5.6.2.2 Option 2

In case where the beneficiaries intends to pre-finance the whole project from its own resources there is a possibility to choose option 2 for payments where the total payment from the programme will be executed after approval of the final report by the JMA.

The grant shall be paid to the lead beneficiary by the MA in one payment within 45 days after approval of the final report.

### **5.7 Reporting, monitoring and verification procedures**

#### **5.7.1 Audit and financial control**

##### 5.7.1.1 Verification of expenditure

All costs reported to the programme are subject to examination of expenditures. The examination of expenditure of the lead beneficiary and beneficiaries which are registered and located in Estonia will be performed by public officers from the Interreg Projects Supervision Unit of the State Shared Service Centre of Estonia.

The lead beneficiary and beneficiaries which are registered and located in the Russian Federation have to contract an auditor who will provide the expenditure verification service. The auditor or the competent public officer shall examine whether the costs declared by the beneficiary and the revenue of the project are real, accurately recorded and eligible in accordance with the contract.

This examination shall be performed on the basis of an agreed-upon procedure which will be undertaken in accordance with:

- 1) the International Standard on Related Services 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by International Federation of Accountants (IFAC);
- 2) IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC's International Ethics Standards Board for Accountants.

For public officers, those procedures and standards shall be laid down at national level taking account of international standards.

The auditor shall meet at least one of the following requirements:

- 1) be a member of a national accounting or auditing body or institution which in turn is member of IFAC;
- 2) be a member of a national accounting or auditing body or institution. Where this organisation is not a member of IFAC, the auditor shall commit to undertake the work in accordance with IFAC standards and ethics;
- 3) be registered as a statutory auditor in the public register of a public oversight body in a Member State in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council;
- 4) be registered as a statutory auditor in the public register of a public oversight body in a CBC partner country, provided this register is subject to principles of public oversight as set out in the legislation of the country concerned.



The public officer shall have the necessary technical expertise in carrying out its examination work.

The examination shall ensure that costs declared by the lead beneficiary and beneficiaries are real, exact, accurate and eligible in accordance with the grant contract. 100 % of the expenditure of the project must be examined (except simplified costs options, e.g. flat rate, lump sums etc.). It is possible that on some stage the MA will introduce a sampling method which will be used for expenditure verification (the method will also specify the subjects to whom it will apply).

The verification procedure is done in the eMS environment, where the financial documents of the respective beneficiary shall be uploaded.

Additional requirements for verifications of expenditure:

- 1) expenditure should be identifiable, verifiable and recorded in the accounting records of the lead beneficiary/ the beneficiaries;
- 2) expenditure must be easily identifiable and verifiable and traced to and within the lead beneficiary's/ the beneficiaries accounting and bookkeeping systems.

Based on the results of the performed check, the public officer/auditor issues the report for examination of verification.

Costs for the examination of expenditure shall be included in the budget of the project for the beneficiaries registered and located in the Russian Federation.

#### 5.7.1.2 Managing Authority verification

In addition to the above mentioned expenditure verifications the MA shall perform its own verification of project expenditure. For the purpose of carrying out verifications throughout the whole programme area, the MA may be assisted by the control contact points.

#### 5.7.1.3 Audits by the Audit Authority

In accordance with Article 28 of the Implementing Rules, audits shall be conducted by examining the documents and conducting on-the-spot checks of a sample of projects selected by the Audit Authority.

The lead beneficiary and the beneficiaries shall be informed if the project is selected for the sample check before the check is performed.

#### 5.7.1.4 Any further controls

The Commission, the European Anti-Fraud office (OLAF), the European Court of Auditors and any external auditor authorized by these institutions and bodies, with the support of the Group of Auditors may conduct documentary and on-the-spot checks on the use made of the projects financing and carrying out a full audit, if necessary, on the basis of supporting documents of accounts and accounting documents and any other documents relating to the financing of the projects. Each contract shall expressly stipulate that these institutions and bodies can exercise their power of control, concerning premises, documents and information, irrespective of the medium in which they are stored.

#### 5.7.1.5 On-the-spot checks

Before signing the grant contract by the MA the JTS carries out on-the-spot visits to projects involving infrastructure elements to make sure that project activities have not started before the official project.

After that the JTS will conduct the on-the-spot checks to projects based on risk assessments (the grant amount of the project, the involvement of infrastructure elements, the conducting of procurements, the involvement of private partners, the innovativeness of the project, possible systemic irregularities), but at least once during the project implementation cycle (after the project has been under way in terms of physical and financial progress).

The public officers will conduct their visits according to a risk based sampling method. Upon the results gained from the on-the-spot checks, conducted by the public officers, Russian auditors and the JTS, the MA will see the most problematic and risky issues and take this input into account when performing its annual risk management exercise. If needed, consultations with public officers/auditors, CCPs and the JTS will take place in order to elaborate and adjust the sampling method or to perform additional checks as some high risks are still present.

As the Russian beneficiaries can have an auditor for each project partner then their on-the-spot checks will be conducted to each beneficiary. The auditor shall check the costs according to a sample based methodology.

The public officer`s/auditor`s will check if the information and supporting documents supplied are accurate and that the financial obligations of the grant contract have been fulfilled. The JTS will check if the investment obligations/activities and the set objectives have been fulfilled. Both on-the-spot checks will be carried out using appropriate check-lists. Additional on-the-spot checks will be decided based on risks identified.

The frequency and coverage of the on-the-spot verifications shall be proportionate to the amount of the grant to a project and the level of risk identified. The logic (operations selected, sampling method) and outcomes (conclusions) of any on-the-spot check will be made available and documented.

The MA will conduct the on-the-spots upon need, consulting beforehand with public officers, the JTS and CCP, in order to get their possible opinion or the results of the previously performed checks and to coordinate the workflow. The MA has the right to visit the beneficiary in its premises and get access to the project documentation during the on-the-spot control.

The need of the on-the-spot verifications before the final payment is also related to the overall performance, risks and nature of the concrete project. One principle regarding this issue is that the projects containing infrastructure/investment elements shall be checked on-the-spot before the final payment is made in order to ensure the project is completed and ready to use.

The Commission, the European Anti-Fraud Office, the European Court of Auditors and any external auditor authorised by these institutions and bodies may verify the use of Programme funds by the MA, beneficiaries, contractors, subcontractors and third parties in receipt of financial support by examining documents and/or conducting on-the-spot checks.

#### 5.7.2 Reporting and verification procedures

1) Beneficiaries (including the LB-lead beneficiary), implement their part of activities of the project, cover related costs and retain the accounting documents constituting the audit trail (contracts, invoices, time sheets, calculation and payment evidence, etc.), as well as output documents showing the implementation of the project's activities (minutes of meetings, studies, manuals, policy documents, training materials, etc.);

2) Each beneficiary (including the LB) submits via eMS its report, including cost, supporting (e.g. signed list of participants, agendas) and payment documents (hereinafter referred as interim report). The report shall be submitted within 30 calendar days after the reporting period. Then the public officers/auditors shall examine whether the procurements were organized according to the Programme rules and national legislation, costs declared by the beneficiary and the revenue of the project are real, accurately recorded and eligible in accordance with the grant contract. The public officers/auditors check the interim reports within 60 calendar days from the date of receiving the interim reports (and provide their first set of questions and comments to the beneficiary, if necessary).

In case of question, the public officers/auditors will provide the time-period for answering their questions. The public officer/auditor will prepare an expenditure verification report that will be sent to the beneficiary via eMS. If a beneficiary has no costs to the interim report, it informs about it via eMS.

In addition, the Estonian side CCP will check the expenditure verification reports prepared by the public officers (including costs and other project documents) on a sample basis.

For the Russian side, the JTS will procure auditors who will check, on a sample basis, the verification reports (including costs and other project documents) prepared by the Russian auditors.

The (possible) findings of the contracted auditors will be presented to the MA/JTS for further proceedings and decision making.

3) On the basis of each beneficiary`s (including the LB) interim reports together with public officer/auditor expenditure verification report the LB prepares a consolidated report by adding additional materials to show the overall state of play and progress of project implementation and demonstrate the received project outputs and results. The consolidated report has to be presented within 30 calendar days after receiving the expenditure verification report from the public officer/auditor. The consolidated report is focused more on the content and on the overall project implementation but includes also a financial report to show the overall financial state of play of the project but it does not include additional cost and payment documents. The consolidated report will be submitted by the LB via eMS to the JTS. The JTS has 15 working days for checking the consolidated report from receiving it via eMS. In case of questions and/or comments the JTS provides these to the LB, via eMS or by email, which will be uploaded and stored in eMS. The questions must be answered within 10 working days of receiving the request. If the LB needs more time for responding, then it asks the JTS to extend the time for responding. If needed the JTS may ask additional questions. During its examination the JTS can also analyse each beneficiary`s interim report together with public officer`s/auditor`s expenditure verification report, especially in case of suspicion for fraud, ineligible expenditures etc. As soon as all the questions have been answered, the JTS will prepare conclusions of its examination.

4) The JTS provides the conclusions of its examination via eMS. The MA has 10 working days from receiving the consolidated report via eMS for checking the consolidated report and public officer`s/auditor`s expenditure verification report to verify that services, supplies or works have been performed, delivered and/or installed and whether expenditure declared by the beneficiaries has been paid by them and that it complies with applicable law, Programme rules and conditions for support for the projects. In case of questions and/or comments the MA provides these comments to the JTS via eMS or by email, which will be uploaded and stored in eMS. The questions must be answered by the JTS within 10 working days of receiving the request. In case of need, the JTS asks additional explanations from the LB for answering to the questions. The MA performs its verification on the basis of public officer`s/auditor`s expenditure verification reports and the conclusions of the JTS but may also double-check (in case of suspicion of fraud, ineligible expenditures or other doubts) the eligibility of expenditures and correctness of the documents provided by the beneficiaries and ask additional questions in order to clarify all the open questions.

The MA will approve the consolidated report, if necessary it will also control and check the interim reports. The approval of the consolidated report is the base for MA to initiate a procedure of payment to the account of the LB according to the submitted payment request.

5) The MA executes the prepayment or payment to the LB as quickly as possible after it has approved the consolidated report. The LB transfers the funds to the beneficiaries or contractors or suppliers as defined in the partnership agreement.

6) The final report shall follow the same steps as described above. The final report consists of a narrative part and a financial part and shall contain a detailed description of the conditions in which the project was carried out, information on the steps taken to ensure the visibility of Programme financing, information with which to evaluate the project's outputs, the proof of the transfers of ownership and a final statement of all the eligible costs of the project, plus a full summary statement of the project's income (if needed) and

expenditure and payments received. The final report has to be submitted no later than three months after the finalization of the project implementation.

### **5.7.3 Reporting and verification procedures**

The monitoring of implementation of the project shall be carried out by the MA and the JTS. The monitoring will be performed based on the result oriented evaluations. All beneficiaries shall be ready to report on the results achieved by the project in any point of the project implementation.

The main tools to be used during monitoring are interim reports, surveys, final report and monitoring visits. Moreover, regular communication between the JTS and the lead beneficiary/the beneficiaries shall be ensured during the implementation of the project. The lead beneficiaries are requested to send the prior information to the JTS in regards to the major upcoming events.

If the MA, JTS or European Commission carries out an evaluation or a monitoring mission, the beneficiary and the project partner(s) shall undertake to provide the authorised persons with any document or information which will assist with the evaluation or the monitoring mission.

**If the construction/ renovation works are planned in the project, in 2 weeks after the contract on construction/renovation works is signed within the project, the lead beneficiary shall inform the JTS of the planned construction/renovation works including the start date of the works.**

The JTS will appoint a project consultant to every project to work on the respective project issues. As far as possible the JTS staff would take part in main events of each project. The projects and their progress will be presented at the JMC meetings annually or upon request.

### **5.8 Use of euro**

Payments to the project will be made in **Euro only**.

Conversion into Euro of the real costs borne in national currencies (other than Euro) shall be converted into euro by the lead beneficiary and beneficiaries using the monthly accounting exchange rate of the EC in the month during which that expenditure was incurred (for the reference please see the website: [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm)).

The expenditure in national currency (other than Euro) must be converted into Euro with an accuracy of two digits after the comma (e.g. 0.12).

Please note that any **exchange losses are not eligible** costs and must be covered by the lead beneficiary and/or the beneficiaries.

### **5.9 Keeping the project accounts**

The lead beneficiary and the beneficiaries shall keep accurate and regular accounts of the implementation of the project using an appropriate accounting and bookkeeping system. In order to ensure it the lead beneficiary and all beneficiaries involved in the implementation of the project and receiving funds from the programme must maintain:

- 1) a separate accounting system or
- 2) an suitable accounting code

for all transactions related to the project without prejudice to national accounting rules. In this way all project related expenditure and receipts should be clearly identified.

The beneficiaries shall keep all documents related to the project for five years from the date of payment of the balance to the programme or until the date stipulated in the state aid rules (if applicable). **As the date of the payment of the balance is at the moment not known, it is advised, taking into account the previous experience of the**

**Programme, to keep by now both Programme and project level records and supporting documents until at least the end of 2030<sup>8</sup>.**

In particular they shall keep reports, supporting documents as well as accounts, accounting documents, documents related to the procurements and any other document relating to the financing of the project.

**5.10 Changes in the project and grant contract amendments**

Beneficiaries should implement the project as defined in the grant contract. It is important that the project budget and a plan of activities are carefully observed during the whole period of project implementation. Nevertheless, situations may arise where there is a need to make some changes in the activities and/or budget, update the contact information or replace an expert, etc. However, neither the objectives of the project can be changed nor the total maximum amount of the grant stipulated in the grant contract be increased. The amendment must not cause such changes to the grant contract that could call an award decision into question or put the grant applicants into unequal position.

The procedures for changes and modification of the grant contract are divided into three groups depending on the type of change that should be made:

- 1) Budget flexibility in applying changes between existing budget lines within the same Budget heading.
- 2) Minor changes;
- 3) Major modifications.

**Budget flexibility** in applying changes between existing budget lines within the same Budget heading. As these amendments are adjustments of the project set-up and have more of a technical nature, they do not require an official request for changes and prior approval by the JTS/MA.

Project notifies about budget changes between existing budget lines via reports.

NB! A project's total budget and the partners' total budgets may not be exceeded

**If you plan to make a minor change or major modification in your project, it is recommended to consult and inform JTS before submitting your request.**

**Minor changes** that need to be notified to the JTS (project's contact person) via eMS by submitting a request for changes include:

- 1) Minor changes in activities with no budgetary implications;
- 2) Budget modifications that do not affect the basic purpose of the project; and the financial impact is limited to a transfer between Budget Headings<sup>9</sup> involving a variation of 15% or less of the amount originally entered (or as modified by addendum) under each relevant heading for eligible costs, or cancellation and introduction of new items and budget lines;
- 3) Transfers between budgets of project partners not exceeding 15% of the amount originally entered of each project partner's budget and not affecting the co-financing rate on the project level;
- 4) Change of address or phone/fax number and/or e-mail address;
- 5) Change of bank account;
- 6) Change of staff and key-experts (including all persons under the heading "Staff" and heading "External services" such as project managers, financial managers, coordinators, trainers, etc.);
- 7) Increase or decrease in numbers of equipment or unit prices without significant modification of requirements and without changes of the budget amount allocated for that budget item;
- 8) Change of the auditor (for partners located and registered in Russian Federation).

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<sup>8</sup> In case of State Aid the period can be longer with exact date stated in the grant contract

<sup>9</sup> Total Budget Heading comprising all project partners

**The 15% limit of transfers between budget headings<sup>10</sup> is cumulative. In case if the name of the lead beneficiary or its legal address or bank details change, the JTS/MA must be notified via eMS and provided with a new, original financial ID or legal entity form. The respective changes shall be made also in eMS.**

In case of these minor grant contract changes, the lead beneficiary may apply the amendment **without the prior consent of the Managing Authority**. However, the lead beneficiary should send a notification e-mail to the JTS by filling in a request for changes by using eMS, with justification for requested changes. The JTS will check the requested modifications and unlock the application form for changes. After the changes are made by the lead beneficiary in the application form, the JTS **will accept the changes** (or request for future **technical** modification as many times as needed and then accept the changes). **The responsibility of eligibility of changes lies down on the lead beneficiary and to be examined by auditors.**

**Major modifications** in the grant contract **require a formal addendum** to the grant contract to be signed by the MA and the lead beneficiary **before their implementation**. In case of major modifications of the grant contract, an addendum should be prepared and signed before making the change.

Major modifications include:

- 1) Extension or early closing of the grant contract;
- 2) Significant changes in the activities that effect the basic purpose of the project as long as the proposed changes do not question the grant award decision and are not contrary to the equal treatment of applicants;
- 3) Transfers amongst Budget Headings<sup>11</sup> involving a variation of more than 15% of the amount originally entered under each relevant budget heading for eligible costs;
- 4) Adding a new heading or excluding an existing heading from the budget;
- 5) Transfers between budgets of project partners exceeding 15% of the amount originally entered (or as modified by addendum) of each project partner's budget;
- 6) Change of beneficiaries (dropping out, addition or replacement);
- 7) Use of contingency reserve (for LIPs).

The following general principles must always apply (in case of major modifications):

- 1) The lead beneficiary must substantiate its request to the MA. The MA examines the reasons provided, and rejects requests which have little or no substantiation;
- 2) The modifications must not intend to make such changes to the grant contract that would alter the project objectives or contradict the equal treatment of applicants;
- 3) Grant contracts can only be modified within the lifetime of the contract, modifications cannot be made retroactively;
- 4) The maximum amount of the grant may not be increased;
- 5) Any modification extending the implementation period of the grant contract must envisage that implementation and balance payments can be completed before the expiry of the financing decision, under which the initial grant contract was financed. The implementation period for the projects financed under the programme ends on 31 December 2022;
- 6) Requests for addendum to grant contracts must allow an adequate time-limit (30 days) for the addendum to be signed before the modifications are intended to enter into force.

If it is necessary to make changes in the lead beneficiary's or beneficiary's organisation's name or legal status the lead beneficiary must submit an information letter notifying the MA about the upcoming change. When the change of the organisation's name or legal status has taken place, the lead beneficiary will send a request for contract addendum, adding documents that prove the necessary change.

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<sup>10</sup> Total Budget Heading comprising all project partners

<sup>11</sup> Total Budget Heading comprising all project partners

The JTS will provide support on the eligibility of addendum requests. Beneficiaries are strongly advised to avoid making changes that require an addendum. The addendum procedure can be long and complicated so beneficiaries are advised to seek an addendum only if absolutely necessary.

### **5.11 The rules of nationality and origin**

The rule of nationality applies to all service, work and supply contracts within grants, which means that contracts can only be signed with natural or legal persons from the eligible countries listed in this point below. The beneficiaries from the Russian Federation who are considered as public entities have to follow legislation of the Russian Federation and conditions set out in the financing agreement.

In addition, tenderers, applicants and candidates from non-eligible countries or supplies from a non-eligible origin may be accepted as eligible by the Commission in the case of:

(a) countries having traditional economic, trade or geographical links with neighbouring beneficiary countries; or

(b) urgency or the unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of a project, Programme or action impossible or exceedingly difficult.

For actions implemented in shared management, the relevant Member State to which the Commission has delegated implementation tasks shall be entitled to accept as eligible, on behalf of the Commission, tenderers, applicants and candidates from non-eligible countries as referred to in paragraph 2 of Article 9 of Commission Regulation (EU) No 236/2014, or goods from a non-eligible origin as referred to in Article 8(4) of the same regulation.

Experts working for a service provider can however be of any nationality, as long as the service provider is from the eligible countries.

The rule of origin applies to all supplies and materials purchased, incl. the materials to be used for the construction, but does not apply to contractor's equipment to be used during the construction. It means that the supplies must originate from one of the eligible countries listed below.

For audit purposes, the lead beneficiary/beneficiary must be able to demonstrate the nationality of its suppliers, contractors and service providers and have proof of the origin (e.g. invoices, certificates of origin, etc.) of all products.

The financial control/auditor verifies whether the expenditure was incurred in accordance with the rules of nationality and origin by examining the underlying documents of the procurement and purchase process.

With regard to the nationality and origin rules, the eligible countries are:

1) Member States of the European Union: Austria, Belgium, Bulgaria, Czech Republic, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom;

2) ENI countries: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Republic of Moldova, Morocco, occupied Palestinian territory (oPt), Syria, Tunisia, Ukraine;

3) IPA II beneficiaries: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, Turkey, the former Yugoslav Republic of Macedonia;

4) Member States of the European Economic Area: Iceland, Lichtenstein, Norway;

5) Russian Federation.

6) Members of Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyzstan) only applicable for beneficiaries from the Russian Federation.

### Nationality

Participation in the procurement procedures is open on equal terms to all natural and legal persons only from eligible countries mentioned in this point. Tenderers must state, in the tender, the country of which they are nationals by presenting the usual proof of nationality under their national legislation.

The nationality rule applies to the contractor. It does however not apply to the experts proposed by service providers taking part in tender procedures or service contracts financed by the grant. This means that when an expert is proposed by a contractor, the nationality rule does not apply to the expert but to the company but if the expert is contracted individually, then this person has to be from one of the eligible countries listed this point.

### Origin

Goods originating from a country shall be those wholly obtained or produced in that country. Goods whose production involved more than one country shall be deemed to originate in the country where they underwent their last, substantial, economically justified processing or working in an undertaking equipped for that purpose and resulting in the manufacture of a new product or representing an important stage of manufacture. More detailed information on the meaning of this can be found in Articles 23-23 of the Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code

(<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1992:302:0001:0050:EN:PDF>).

Entities established in the Russian Federation shall apply rules of origin in accordance with the applicable legislation of the Russian Federation.

If the latest substantial transformation of supplies, equipment, vehicles has not taken place in a Member State of the European Union or one of the eligible countries mentioned above, the cost of the supplies, equipment and/or vehicles will not be eligible under the project.

The supplier must confirm that the tendered goods comply with the origin requirement specifying the country or countries of origin. When tendering for systems comprising more than one item, the origin of each item in the system must be specified. If requested to do so, the supplier must provide any additional information and/or a certificate of origin in support of the origin claimed in the tender.

Certificates of origin must be issued by the competent authorities of the supplies' or supplier's country of origin and comply with the international agreements to which that country is a signatory.

When submitting the tender, the tenderer must directly state that all of the goods meet the requirements concerning origin, and must also state the countries of origin.

Please be informed, that JTS/MA during the project implementation for the monitoring purposes may ask to provide additional information in this connection from the lead beneficiary/ beneficiaries.

Machinery used by a supply contractor for testing and installing the supplied goods, or equipment used by a works contractor for building a road, do not fall under the rule of origin, unless if the contract would explicitly stipulate that this machinery or equipment also becomes the full property of the project partner at the end of the contract.

The computer used by a consultant to draft the study will only have to respect the rule of origin if the service contract would stipulate that this computer is to be handed over to the project partner at the end of the service contract.

All supplies purchased under a procurement contract shall originate from an eligible country in accordance with above indicated rules of origin and applicable legislation of the



participating countries. An exception is made for the supplies and materials purchased for contracts below EUR 100 000. In this case, supplies may originate from any other country.

National preferences are prohibited, except for contracts with a value not exceeding EUR 20 000 in order to promote local capacities, markets and purchases (if justified and allowed in national legislation). Failure to comply with this principle shall render the related expenditure ineligible.

Exceptions may arise also from the following circumstances:

- 1) Unavailability of the products in the markets of the countries concerned;
- 2) For reasons of extreme urgency;
- 3) If the rule were to make the realisation of a project, a programme or an action impossible or exceedingly difficult.

In exceptional cases the MA may accept the goods and tenderers from non-eligible countries.

## **5.12 Other essential obligations**

### **5.12.1 Avoiding the conflict of interest**

The lead beneficiary and beneficiaries undertake to take all necessary precautions to avoid conflicts of interests and shall inform the JTS without delay of any situation constituting or likely to lead to any such conflict.

Conflict of interest situation is a situation that has the potential to undermine the impartiality of a person because of the possibility of a clash between the person's self-interest and professional interest or public interest. There is a conflict of interests where the impartial and objective exercise of the functions of any person involved in the project is compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with another person.

The personal interests of the representative of the LB /beneficiary should not influence the implementation of the project.

Conflict of interest refers to situations in which:

- a person whose direct or indirect personal interests undermine its independence and impartiality in the preparation or organization of the procurement (incl. public procurement);
- a person whose direct or indirect personal interests undermine its independence and impartiality and influence the outcome of the procurement (incl. public procurement).

## **6. Profit (net-revenue) within the framework of the project**

Similarly as costs incurred, also the revenues of the project must be recorded by the beneficiaries. In general, revenues generated by project are added to the sources of funding, provided there is no profit (net-revenue). The rule of non-profit is essential in the calculation of the final amount of grant.

In case the project generates profit, project eligible costs will be reduced in the amount of profit.

The MA/JTS will check compliance with the non-profit rule when calculating the final balance of the grant after receipt of the last payment request from the beneficiary. This verification:

- 1) Relates to the actual project costs and actual receipts
- 2) Takes into account all the project costs
- 3) Includes earned profit (net-revenue) (collected and entered into the accounts), generated or confirmed on the date when the request for payment of the balance is established.

## **7. State and *de minimis* aid**

The applicable European Union rules on State aid will be taken into account during the implementation of the programme in the territory of the European Union. If needed the relevant Russian legislation on competition will be applied in the territory of the Russian Federation.

According to Article 107 (ex Article 87 TEC) of the Treaty on the Functioning of the European Union (TFEU), state aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods in so far as it affects trade between Member States<sup>12</sup>.

Article 12 of the Commission Implementing Regulation (EU) No 897/2014<sup>13</sup> states that aid granted under the programme shall comply with the applicable Union rules on State aid within the meaning of Article 107 of the Treaty on the Functioning of the European Union. Please see the [State aid guidelines](#) in order to evaluate whether the project activities are State aid relevant or not. Based on the State aid guidelines, please present the State aid declaration where it is stated whether the project activities are State aid relevant or not and if they are, then which State aid schemes (e.g. Regulation (EU) No 651/2014) and articles are applied. It is advised to contact the JTS or the MA in order to get more information about the State aid issues.

The decision which of the regulations/articles to apply shall be indicated by the applicants in the full applications in consultation with JTS/MA. After the eligibility check and the assessment of the project summaries (for the projects of the call for proposals) the JTS will also check the State aid relevance in those applications that will be asked to present the full application. The JTS will consult the applicants in order they could indicate the State aid / de minimis aid schemes in their full applications (if relevant). If the supported project activities are related to different regulations/articles the differentiation should be made in order to understand which activity corresponds to which regulation/article. In addition the overall budget and the eligible costs shall be indicated for every activity. By drawing up the budget and the eligible costs the applicant has to follow the provisions of the corresponding state aid regulations. During the assessment of the full applications the MA and the JTS will check if selected state aid instruments can be applied to the activities for which the support is asked. If no appropriate State aid instruments can be applied, the applicant has to remove the ineligible actions or costs from the application.

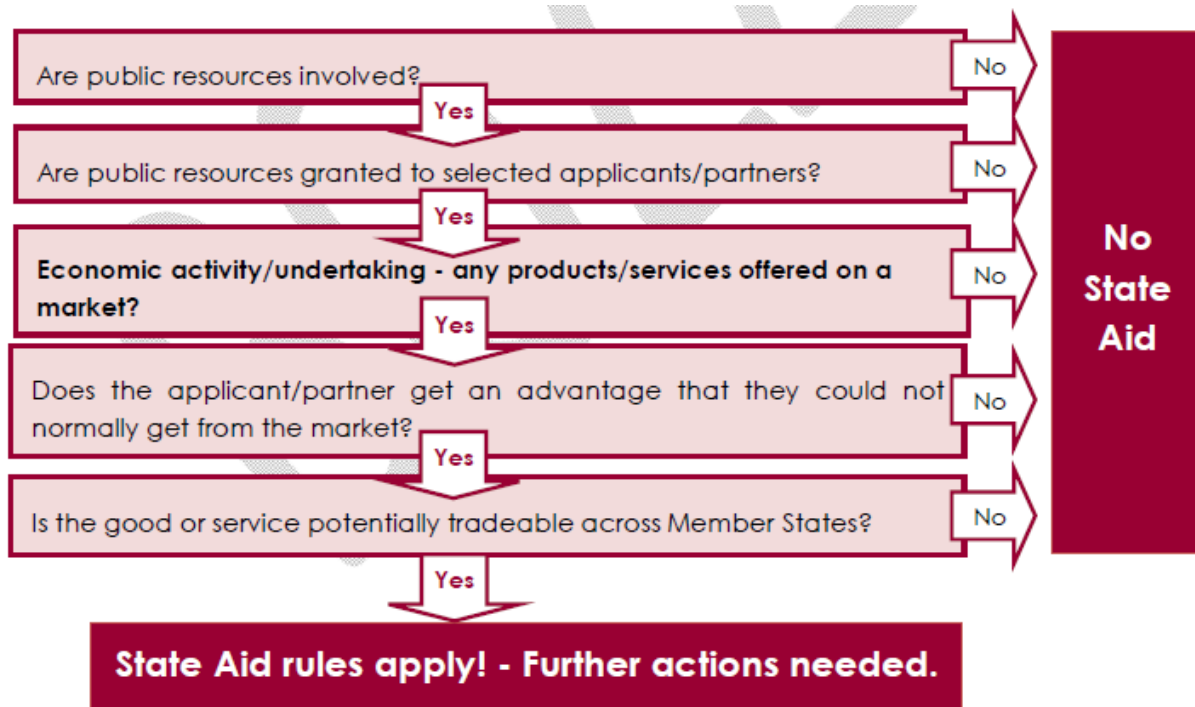
The definition of State aid includes several criteria. These criteria are cumulative, meaning that all five elements must be met for the measure to be considered aid:

- 1) the existence of an undertaking,
- 2) financing of the measure through State resources,
- 3) the granting of an advantage,
- 4) the selectivity of the measure, and
- 5) its potential effect on competition and trade within the Union.

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<sup>12</sup> European Commission (2014) Draft Commission Notice on the notion of State aid pursuant to Article 107(1)TFEU, see [http://ec.europa.eu/competition/consultations/2014\\_state\\_aid\\_notion/index\\_en.html](http://ec.europa.eu/competition/consultations/2014_state_aid_notion/index_en.html)

<sup>13</sup> Commission Implementing Regulation (EU) No 897/2014 of 18 August 2014 laying down specific provisions for the implementation of cross-border cooperation programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighbourhood Instrument, <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1456583580038&uri=CELEX:32014R0897>



Source: TESIM 2016. The State aid discipline in ENI CBC programmes

## 8. Financial correction and recovery

The MA, JTS and First Level Control (FLC)/auditors have discretionary power to recover the amounts unduly paid together with any interest on late payments from the LB. In general ineligible costs that are detected during verification of project reports are deducted (from the project payment) in the relevant reporting period without making financial correction decision and reducing the project budget. The circumstances and reasoning for deduction or financial correction are described in the eMS in the FLC Certificate.

A financial correction decision with reducing the project budget shall be made for expenditure that is considered as a financial irregularity and are the breach of Programme rules. The decision can include ineligible costs from previous reports and refer to deductions in the future reports. In such cases (of financial correction) FLC/auditors makes deduction of ineligible costs from the relevant project report (and if necessary, also from next partner reports) and MA makes the financial correction decision and reduces the project budget. If the project beneficiary does not agree with the proposed correction, the financial correction decision can be appealed according to the [General rules of procedure for complaints](#).

Ineligible Programme financing will be offset with the next payment to the project.

In case if the project beneficiary has not used the pre-financing that has been transferred to cover project activities and it is not possible to deduct it from the balance payment to the LB, the MA recovers these costs. The MA makes the financial correction decision that is not related to the ineligibility of activities of the project beneficiary, but is intended to reduce the project budget and make the sums available for the programme.

The concerned beneficiaries shall repay the LB the amounts unduly paid in accordance with the partnership agreement signed between them. If the LB does not succeed in securing repayment from the concerned beneficiary, the MA shall formally notify the latter to repay to the LB.

Financial correction procedures will follow the provisions set in Article 74 and 75 of Implementing Rules and Financing Agreement. The LB will forward the debit note to the respective beneficiary, which has to repay the requested amount to the LB within 45 days of the issuing of the debit note. LB has to repay the MA within 45 days after receiving the payment from the respective beneficiary.

The default interest shall be incurred over the time which elapses between the date of the payment deadline set by the MA, and the date on which payment is actually made. The MA may offset amounts to be repaid against amounts of any kind due to the LB or beneficiary, but it shall not affect the LB's or the beneficiary's or the MA's rights to agree on payment in instalments. Bank charges incurred by the repayment of amounts due to the MA shall be borne entirely by the LB.

Where the financial correction decision relates to a claim against a LB or a beneficiary established in the Republic of Estonia, it is an execution document. When it is not possible to recover the debt within nine months of issuing the recovery order, the Republic of Estonia shall pay the amount owing to the MA and claim it back from the beneficiary.

Where the financial correction relates to a claim against a LB or beneficiary established in the Russian Federation the recovery procedure is regulated by the provisions of the Financing Agreement.

Any project including an infrastructure component shall repay the Programme contribution if, within five years of the project closure or within the period of time set out in State aid rules, where applicable, it is subject to a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives. Sums unduly paid in respect of the project shall be recovered by the MA in proportion to the period for which the requirement has not been fulfilled.

Irregularity or ineligible expenditure are related to following cases, the list is not exhaustive:

- 1) Support has been paid for reimbursement of ineligible costs;
- 2) Beneficiary has not ensured that self-financing is provided to the prescribed extent;
- 3) As regards procurement procedure and respective contract implementation, national and programme-level public procurement rules are not followed or are violated;
- 4) Beneficiary has failed to comply, partially or wholly, with the obligation or requirement to ensure the implementation of the project under the prescribed conditions and this has had an impact on the eligibility of the costs or on the achievement of the results planned;
- 5) Missing evidence on carried out activities and outputs;
- 6) Project publicity requirements are not respected;
- 7) Beneficiary has not ensured the requirement of durability. LB or beneficiary wholly or partly sells, leases or lets the project output to a third party without prior consent of the MA;
- 8) Revenue that is generated, but not indicated in the interim/final report and not deducted from the eligible expenditure;
- 9) In case of unlawful state aid or *de minimis* aid;
- 10) MA/JTS has evidence that the principles of economy, efficiency and effectiveness are not observed during project implementation;
- 11) The case when the beneficiary has committed an act with criminal elements due to becoming insolvent, and the trustee or the court shall give notification thereof to the prosecutor or the police for deciding on the commencement of criminal proceedings, and the beneficiary has not ensured the implementation of the project under the prescribed conditions and the planned results are not achieved within the prescribed term. The financial correction decision shall enter into force upon the entry into force of the judgment of conviction.

- 12) When beneficiaries from the Russian Federation have not ensured that services, works and goods that are not originating from the Russian Federation receive the same treatment as compared to its own services, works and goods in accordance with rules of nationality and origin.

For the calculation of the amount of irregularity related to carrying out procurement procedures and subsequent contract implementation, the European Commission "Guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement"<sup>14</sup> will be applied for the EU beneficiaries. The irregularities in procurement by the Russian beneficiaries are governed by the relevant legal acts of the Russian Federation on public procurement.

Where publicity requirements are not respected, financial corrections are made as follows:

Type of mistake	Amount of correction
Publicity requirements have not been fulfilled, but the publicity elements can be added	0-10% or warning
Technical mistakes related to publicity requirements (mistakes with colours, size or similar)	10%
Elements of the publicity requirement missing	25%
No publicity requirements have been fulfilled, and no corrective measures are possible	100%

When the irregularity is only of a formal nature without any actual or potential financial impact, no financial correction is made. Where a number of irregularities are detected in the same tender procedure, the rates of correction are not cumulated, but the most serious irregularity is taken as an indication to decide on the rate of correction.

## 9. Closing the project

All projects should close their activities within the time frame (implementation period) stated in the grant contract. Costs relating to final report, examination of expenditure and evaluation of the project can be incurred not later than the date of submission of the final report and have to be included in the final report.

All the project related documents are to be kept for at **least five years** after the receipt of the balance payment for the programme or according to time stipulated in the State aid / de minimis aid regulations. As the date of the payment of the balance is at the moment not known, it is advised, taking into account the previous experience of the Programme, to keep by now both Programme and project level records and supporting documents until at least the end of 2030.

Regards to the project closure, it is important to be aware of the following:

- 1) the lead beneficiary must appoint a contact person to enable a smooth closure of the project and communication with the Programme management bodies;
- 2) the lead beneficiary or beneficiaries are at all times obliged to retain all files, documents and data about the project on standard data storage media in a safe and orderly manner for control and audit purposes;
- 3) the project may continue to be managed by the lead beneficiary or beneficiary after the programme co-financed phase of the project has been completed. In this case, six months after the phase of co-financing by the programme has finished, no programme symbol may be included in any communication tools of the project, with the exception of any commemorative plaques;

<sup>14</sup>[https://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/GL\\_corrections\\_pp\\_irregularities\\_annex\\_EN.pdf](https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/GL_corrections_pp_irregularities_annex_EN.pdf)

4) the programme rules on information and visibility must be respected for all products produced with the assistance from the Programme. After the closure of the project rules on information and publicity should be respected during the lifetime of the product (e.g., if the project purchases fire-engines for airports the informative signs „purchased with the assistance of the programme“ will have to be kept during their lifetime).