



Cross-border Cooperation Programme Poland – Belarus – Ukraine 2007-2013

What you may want to know about eligibility of costs? Best practice

This document needs to be treated as a general guide for eligibility, which does not rid the beneficiary from the obligation to verify the eligibility of expenditure each time under the project in the light of its purpose and effectiveness. Both the Joint Managing Authority (JMA) responsible for the Programme and individual Beneficiaries (Lead Partners) and Partners responsible for the implementation of projects ensure effective and reliable expenditure of allocated funds.

Eligibility of expenditure must be assessed each time at the level of the project. This document is of general nature and presents possible solutions for some of the cases. However, each project has a specific character, which influences the eligibility of expenditure.

What are the general eligibility requirements?

Only **eligible costs** can be taken into account and presented in the budget. To be considered eligible, the project costs must comply with all the criteria set in Section 2.1.4 *Eligibility of costs: cost which may be taken into consideration for the grant of the Cross-Border Co-operation Programme Poland-Belarus-Ukraine 2007-2013, Commission Regulation (EC) No 951/2007 of 9 August 2007 and Article 14 of Annex II. General Conditions applicable to European Union – financed grant contracts for external actions.*

In the project proposal, the applicant should plan **real and actual expenditure necessary for the project implementation.**

Costs to be recognized as eligible for financing shall:

- be essential for the project and directly related to the project objectives and/or delivery of the project activities;

- be reasonable (cost effective) in the context of the country of the partner incurring the expenditure;
- not double-financed from any other financial instrument (e.g. EU, international, national or regional resources);
- be included in the budget and not reported under few different budget lines;
- be identifiable and verifiable, in particular being recorded in the accounting records of the Beneficiary or its partners and determined according to the applicable accounting standards of the country where the Beneficiary or its partners are established and according to the usual cost accounting practices of the Beneficiary or its partners;
- not be purchased from another Project Partner;
- respect the relevant public procurement rules and be in line with provisions of *Annex IV to the Grant Contract* (e.g. the rule of origin).

Only expenditure actually incurred during the project implementation period and documented may be considered as eligible.

Eligibility period

A project can start only when the Joint Managing Authority and project's Beneficiary (Lead Partner) have signed a Grant Contract. The costs incurred from the project will only be eligible on the day following the signature of the Grant Contract by the Joint Managing Authority and Beneficiary (Lead Partner). Project duration must be planned and recorded in the grant application as months without dates.

Project duration depends on the activities to be implemented in the project. A project financed out of the Programme may last no more than 24 months, whereas no minimum duration has been determined.

In order to determine the end date of a project it is important to take into a consideration that all payments have to be made before this date in order to be eligible (incl. all staff-related expenditure). In any case, costs related to the final report, expenditure verification and evaluation of the action shall be regarded as eligible whatever they were incurred.

All projects financed out of the Programme must be completed before 31 December 2015.

Budget Table and Description of the Budget Headings

The detailed breakdown of the budget of the action shall be provided in the *Annex B "Budget" of the Application Form*. This breakdown covers all eligible costs of the action, which consist of the Programme's grant and applicant and partners' contribution. All expenditures included into the budget breakdown shall follow the rules on eligibility of expenditure, which are given in the *Article 14 of the General Conditions to the Grant Contract*. The budget of the action is divided into 11 budget headings and further detailed into sub-headings and budget lines.

Recommendations to award a grant are always subject to the condition that the checking process which precedes the signing of the contract does not reveal problems requiring changes to the budget (for instance arithmetical errors, inaccuracies or unrealistic costs and other ineligible costs). The checks may give rise to requests for clarification and may lead the JMA to impose modifications or reductions to address such mistakes or inaccuracies. The amount of the grant and the percentage of co-financing as a result of these corrections may not be increased and co-financing percentage after the checks and modifications to the budget should remain the same as in primary budget of the action. It is therefore in the applicant's interest to provide a realistic and cost-effective budget.

The following costs might be included into the budget of the action as eligible:

Budget Heading 1 “Human Resources”

Subheading 1.1 Salaries (gross salaries including social security charges and other related costs, local staff)

This budget subheading includes costs of the staff of the beneficiary and partners assigned directly to the action (including salary, tax, employer’s contribution for national social security schemes, etc. – all calculated in accordance with the national legislation of Beneficiary’s/partner’s country and provided in the remuneration rules of a given institution).

Any additional voluntary health insurance, income support or pension contribution is ineligible.

Salaries and costs must not exceed those normally borne by the Beneficiary or its partners, as the case may be, unless it is justified by showing that it is essential to carry out the action. The cost of staff assigned to the action is not a contribution in kind and may be considered as co-financing in the budget of the action when paid by the Beneficiary or his partners.

The staff, including the employees recruited specifically for the action, works on the basis of labour contracts. Staff already working in the organisation on the basis of labour contracts could be assigned to action by written orders of head of organization to carry out new tasks related to the project.

Work of civil servants in the action assessed in monetary terms, may also be attributed to the action as the Beneficiary’s and/or partners own contribution (co-financing of the action).

No names of staff members shall be included in the budget, just the positions.

Supporting documents for personnel costs.

Each person working for the action (both full-time and part-time employment) must fill in timesheets, indicating the hours worked and tasks implemented, signed by the person and his/her supervising officer.

Staff costs must be supported by working contract, a clear assignment including information on the extent of involvement with the project, pay-slips, proofs of payment (e.g. bank statements, cash receipt or payment order).

Subheading 1.2 Salaries (gross salaries including social security charges and other related costs, expat/int. staff)

If applicable, this budget subheading should include costs of external experts (individuals) and/or international staff assigned to the action, corresponding to actual gross salaries including social security charges and other remuneration-related costs.

Costs of external experts/international staff are eligible under the following conditions:

- the work of the external expert is essential to the project;
- rates charged by the external expert are reasonable and are in relation to level of experience and expertise;
- the selection of the external experts obey the relevant public procurement rules;
- project partners cannot be contracted as an external expert or a subcontractor;
- the partner's organization does not have the adequate professionals to perform the tasks related to the project or for shared activities as specified;
- costs are properly justified on the basis of contracts/agreements and invoices.

Supporting documents for personnel costs. The basis to consider the employment cost as eligible is a work contract or description of the position, which establishes responsibilities and time scope of the worker as regards the project implementation. Staff costs must be supported by documents that permit identification of the employment relationship with the partner organisation (working contract), a clear assignment including information on the extent of involvement with the project, pay-slips, proofs of payment (e.g. bank statements, cash receipt or payment order), and calculation evidence for the determination of the monthly rates of the staff of the project, timesheets which prove the overall working time and the time spent on carrying out activities for the project (name of the employee, date, time and detailed description of the activity); the timesheet must be signed by the project's assigned employee and by the employer.

Subheading 1.3 Per diems for missions

Under this budget subheading per diems for the missions must be included. Per diems are paid for the missions abroad and within the home country of beneficiary/partner requiring an overnight stay. Per diems are allowed only for the staff members of the action indicated in the budget heading 1 "Human Resources" and for event participants. Per diems cover costs of accommodation, daily allowance (meals and sundry expenses) and local transport.

The calculation of per diems and the applicable rates must be based on those normally borne by the organisation based on the national legislation, and must not exceed the scales published by the EC at the time of contract signature (http://ec.europa.eu/europeaid/work/procedures/index_en.htm).

Supporting documents:

Per diem costs of participants must be supported by documents, i.e. participants list with signatures for each day, invitations, agenda of the event, etc.

Note: No external subcontractors can be listed under budget heading “Human Resources”. All consultants and experts (legal entities) working on service contracts should be listed under budget heading 5 “Other costs, services”. Subsistence costs of external subcontractors must be also included in their respective service.

Budget Heading 2 “Travel”

Expenses for **travel** to action-related activities and events are budgeted here. They cover the costs of the transportation including such costs as flight, train, bus and rent or fuel costs of the car and related to travelling costs (insurance, visas etc). Only travel costs for the action’s staff and participants of the events are eligible. The most economical mode of travel should be chosen (**economy class**). Use of car should be justified and economically efficient.

The cost of travel may include, for example:

- costs of public means of transport: airplane tickets and charges for airports, railway tickets, bus tickets, etc.;
- travel insurance;
- visa costs;
- other necessary costs related to travel.

Note: costs of travel shall cover only costs of travel to the place of mission. The costs of travel within the place of the mission are covered by per diems.

Costs for participants at the events that are not staff of the partners can be covered only in case it can be proved that their participation is necessary for objectives of the action and they actively contribute to the activities of the action, i.e. act as presenters, workgroup members, particular target group, selection of which must be clearly identified and documented

Travel costs of external subcontractors must be included in their respective service contracts which are indicated in the budget heading 5.

Documental evidence for travel costs. Travel costs must be supported by documents, i.e. participants list with signatures for each day, invitations, registration list, agenda of the event, transport tickets, boarding passes, invoices, appropriate calculation of car expenses, proofs of payment (cash receipt or payment order) etc.

Budget Heading 3 “Equipment and Supplies”

Only equipment purchased or rented and necessary for the purposes of carrying out the action can be charged as eligible costs. Because of the principle that grants may not be awarded retrospectively, i.e. items purchased prior to the action, even if they are used for the purposes

of the action, cannot be considered eligible direct costs of the action. (The maintenance of existing equipment and the beneficiary's installations can be partly covered via the administrative cost.)

The amount for equipment has to reflect the actual use of these items in the context of the project. If it is not exclusively used for the project purposes, only a share of the actual costs can be allocated to the project. This share has to be calculated according to a justified and equitable method.

Total cost of purchase of the equipment can be declared as an eligible expenditure only if the period of economic usefulness of these assets is in line with the eligibility period for this project. If the period of economic usefulness of these assets reaches beyond the eligibility period for this project, only the cost of depreciation of these assets for the time of the project running should be declared as an eligible expenditure.

These purchases have to respect public procurement rules. The most economic type of equipment should be chosen and the equipment features/functions should be in line with the actual context of use. If e.g. renting of the equipment is more cost-effective, the appropriate way of possessing this asset should be chosen.

Supporting documents for purchased equipment:

- tender documentation (public procurement notes, terms of references, offers/quotas, order forms, contracts);
- invoices, payment documents (cash receipt or payment order);
- confirmation that the supply has been done properly (e.g. according to the agreement),
- **Certificate of Origin**, proving the goods comply with the rule of origin.

Budget Heading 4 “Local office”

This budget heading includes costs for an office specially rented for the action or the direct administrative (office running) costs which are invoiced directly to the action (e.g. offices supplies (consumables), office premises maintenance, utilities, telephone, fax and Internet, fuel and maintenance of a car etc)

Please note that the rent of a separate office is rather exceptional and its need has to be clearly justified. If no separate office is rented, a proportion of the office rent can be budgeted in the *budget heading 11 “Administrative costs”*, if the beneficiary and/or partners are already renting an office for its on-going activities.

Budget Heading 5 “Other costs, services”

Only the costs which are fully or partly subcontracted (i.e. contracted by the beneficiary/partners to a third organisation/ external service providers, respecting the applicable procurement procedures) can be included into this budget heading. Examples of such costs can be consultants,

research, publications, audit, translation, organisational costs of the event (e.g. rent of premises, catering, interpretation, printing of materials), etc.

Costs of press releases, publications in newspapers; brochures and leaflets; newsletters and other publication costs related to the project can be included into the **budget subheading 5.1 “Publications”** but may not be published as part of events or seminars.

Costs of professional expertise, documentation, researches and studies, conducting investigation works, geological works, obtaining conservation opinions, tender costs, architects and conservators' works, related to project implementation should be include in the **budget subheading 5.2 “Studies, research”**

Per diems/travel costs of external service providers should be included into their contracts. No names of consultants can be indicated in the budget, only the tasks, as selection of consultants/experts is subject to competitive procedures described in *Annex IV to the Grant Contract*.

For each action costs for the expenditure verification must be allocated in the budget subheading **5.3 “Expenditure verification”**.

Costs of external expertise on evaluation of the project should be included in the budget subheading **5.4 “Evaluation costs”**.

Costs of translation, interpreters should be included in the budget subheading **5.5. “Translation, interpreters”**

The costs of the bank charges for the project account, bank transfers and bank guarantees, among others, can be included into the budget subheading **5.6 “Financial Services”**, if necessary.

Expenses for organisation of conferences, seminars, meetings, workshops, events directly related to the project, such as printing of materials, catering, accommodation costs for participants, rent of premises and equipment for events etc. should be related to the subheading **5.7 “Costs of conferences/seminar”**

Note: do not double-budget the costs, e.g. do not include a part of per diem costs in *Per diems for conference participants* if catering for conference participants has been budgeted.

Communication and visibility activities should be properly planned and budgeted at each stage of the project implementation. These activities should not only focus on publicising the EU support for the action but also on its outcome and impact. Costs of promotional items (e.g. posters, calendars, stickers, pens), web site designs, conducting of information campaigns should be included in subheading **5.8 “Visibility Actions”**.

Please note, the visibility actions shall be in line with the relevant EU information and publicity requirements, as set in *Communication and Visibility Manual for EU External Actions* available at http://ec.europa.eu/europeaid/work/visibility/index_en.htm

Supporting documents for other costs and services (if applicable):

- tender documentation means all tender documents issued in accordance with national legislation and where applicable with PRAG (e.g. requests for offers, tender dossiers, tender/offer evaluation reports, purchase/service orders and contract signed between the beneficiary/partners and contractors etc.). Tender documentation must be drafted in accordance with the best international practice.
- invoices, payment documents (cash receipt or payment order);
- confirmation that the supply/work/service has been done/provided properly (e.g. according to the contract),
- the result of the contract (e.g. one leaflet, publication, website address).

Budget Heading 6 “Works”

In this budget heading the costs of works related to construction, renovation, installation of infrastructure and supervision of construction works must be listed. The beneficiary has to provide the detailed description of works and costs in the budget. Before the signature of the Grant Contract, the detailed breakdown of works and costs has to be provided.

All such contracts have to strictly follow competitive procedures described in *Annex IV to the Grant Contract*.

The example of infrastructure costs are:

- construction or modernisation of buildings;
- construction or modernisation of other infrastructure objects (roads, water sewage plants, other public facilities etc.);
- preparation of the land for construction including surveying;
- ground works;
- construction and assembly works;
- reconstruction of technical infrastructure necessary for the project implementation, which is connected or interfering with the investment, including electricity and sewerage systems, gas, heating and water supply networks, appliances of water drainage;
- finishing works including installation works;
- demolition works;
- purchase of equipment and appliances inseparably connected with the investment functioning;
- control exercised on the behalf of the investor concerning the proper investment implementation and conservatory supervision;
- accommodation costs for construction workers;
- administrative charges connected directly with measures and works performed within the project (the necessity of paying administrative charge required in the project, e.g. administrative charge for removal of trees and bushes within deforestation preceding works (if it is a charge, not a fine).

Note: Infrastructure projects and infrastructure activities carried out in the adjacent Programme areas will be considered as ineligible.

Supporting documents:

- tender documentation means all tender documents issued in accordance with national legislation and where applicable with PRAG (e.g. requests for offers, tender dossiers, tender/offer evaluation reports, purchase/service orders and contract signed between the beneficiary/partners and contractors etc.). Tender documentation must be drafted in accordance with the best international practice.
- invoices, payment documents (cash receipt or payment order);
- confirmation that the works has been done properly (e.g. according to the agreement).

Budget Heading 7. Other

All other costs which are related to reaching of project objectives and are not included under other budget headings but are nevertheless necessary for project implementation may be included under the category of “Other” costs. The costs shall be properly specified and proved by the supporting documents.

Budget Heading 9 “Contingency Reserve”

A contingency reserve not exceeding 5% of the direct eligible costs may be included in the budget of the action. It can only be used with the **prior written authorisation** of the JMA.

Budget Heading 10 “Administrative Costs”

Indirect administrative costs (overheads) are related to office running for the purposes of the action. Indirect costs are the costs which are not directly related to activities of the action, but needed for the smooth administration of the action. The flat rate of the overhead costs is calculated as a ratio and expressed as a percentage and shall not exceed 7% of total eligible direct project costs. This means that in case the total accepted cost of your project is lower than the cost indicated in the budget, the amount accepted under this budget heading will be reduced accordingly.

Indirect administrative costs are eligible if they do not include costs assigned to another heading of the budget. If the applicant/ partner is in receipt of an operating grant financed from the Community budget, no indirect costs may be claimed within the proposed budget for the action.

Budget estimating of administrative costs must be calculated on the basis of actual costs and capable of verification, i.e. based on factual elements in the accounting system and provide applied methodology e.g.: list of expenditure, printouts from the bookkeeping system . They must show a direct link to the project’s activities.

In the case of indirect costs (overheads related to action) this means that the calculation is done pro-rata on the basis of the actual costs according to a duly justified, fair and equitable method that should remain the same during the whole implementation period. This means that the costs are charged to the project to the extent that they represent a fair apportionment of the organisation's actual administration costs and have been necessary for the successful completion of the project.

The allocation of the organisation's eligible administration costs to the project could be done on the basis of the following keys (depending on which key best reflects the type of cost):

- the ratio "number of people working for the project / number of people working in the organisation or department" or
- the ratio "number of hours worked on the project / number of hours worked in total in the organisation or department"
- the ratio "surface used by the personnel working for the project/surface of the organisation or department"

Ineligible costs

Pursuant to EU legislation and to the assumptions of the Cross-border Cooperation Programme, the following costs are ineligible:

- a) financial penalties and fines, as well as expenditure borne in relation to court proceedings and in relation to the implementation of potential court orders and resolutions;
- b) penalty interest, interest on debt (loans and credits), loan costs, interest on debits;
- c) administrative and local fees which are not directly connected with the implementation of the project;
- d) customs duties;
- e) preparatory costs, i.e. costs incurred before signing of the Grant Contract, costs of filling in the application for project co-financing;
- f) costs of conducting financial controls, if they are not required by the JMA or on the grounds of national or Community law;
- g) commissions collected under the currency exchange procedure, as well as negative exchange rate differences;
- h) expenditure borne for the purchase of a fixed asset, which was co-financed from national or Community funds within 7 years preceding the date of acquirement of a fixed asset by the beneficiary;
- i) expenditure borne for the purchase of a fixed asset, in part, which exceeds the value specified by an independent properly qualified expert for the appraisal or authorised entity;
- j) expenditure related to works and deliveries, which were implemented upon a violation of the Public procurement law or PRAG, and in consequence e.g. as regards the

achievement of project objectives do not constitute an added value - this refers e.g. to cases where materials were purchased or works have been paid for - where the same quality could be obtained for a lower price;

- k) expenditure related to sub-contracting (required by the specific nature of the project) if the commission raises the costs of project implementation while not increasing proportionally the value of the project (e.g. costs of subcontractors, who are only intermediaries in the purchase of goods or services, which the applicant could acquire under the same conditions directly from the producer or service provider, i.e. which do not constitute any added value)¹;
- l) sub-contracting agreements concluded with intermediaries or consultants, where the payment is expressed as the percentage value in the total cost of the project, unless the payment is justified by the beneficiary by making a reference to the actual value of the work done or service provided;
- m) VAT, unless the Beneficiary (or the Beneficiary's partners) cannot reclaim them and the applicable regulations do not forbid coverage of taxes;

VAT which is recoverable by whatever means cannot be considered as eligible even if it is not actually recovered by the beneficiary/partner.

In case of Polish Beneficiaries/Partners VAT is eligible only if:

- the beneficiary/partners or their activities fall outside taxation,
- there is a clear assignment of works/supplies/services where VAT is not recoverable.

Where the beneficiary can recover VAT from some activities and can not do that in case of other activities, but is not able to define these amounts (so called "struktura VAT"), the VAT is not eligible.

In case of Ukrainian Beneficiaries/Partners VAT is not eligible. According to Frame Agreement between Government of Ukraine and European Commission (art.3.3 and art. 3.4), all contracts, financed by European Union, are free of VAT. The order of VAT exemption is described in Directive of the Ministry of Economy of Ukraine and the State Tax Administration of Ukraine N 129/289 of 14.05.2007, registered by Ministry of Justice of Ukraine N 550/13817 of 29.05.2007. Above mentioned Directive is available on the web-site: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=z0550-07>.

In case of Belarusian Beneficiaries/Partners, VAT is not eligible. According to the Framework Agreement between Belarus and the European Commission (18/12/2008, art.3.1), "activity, which is fully or partially financed by the European Community is not subject to taxation." VAT exemption clause is further elaborated on in the President's Decree No.460 (art.1.3) dated

¹ This requirement does not apply to the purchase of goods or services of low value and/or beneficiaries, by whom the purchase of goods or services is justified by insufficient personnel and has been described in the project application.

22.10.2003, Decree No.24 (art.3) dated 28.11.2003. The abovementioned documents are available on the website of the TACIS Coordinating Unit at http://www.cu4eu.net/ru/relations/legisl_by/

- n) direct taxes, property tax, tax on inheritance and donation and other taxes and fees;
- o) expenditure, whose impact is outside of the field of support and expenditure relating to measures implemented outside of the field of support, which were not specified in the application for co-financing and approved by the Joint Monitoring Committee;
- p) representation expenditure;
- q) personnel costs of employees who are not involved in the project;
- r) personnel costs of employees engaged in the project, which do not reflect the scale of their work on the project;
- s) remuneration, which exceeds the remuneration which is usually paid in the institution of project beneficiary;
- t) other personnel costs, which are not obligatory under the applicable law for the employer to carry out such as voluntary occasion benefits, including jubilee benefits, or other additional payments not provided for in respective legislation, including overtime and costs of employing personnel which are not required by law (e.g. additional pension insurance, life insurance);
- u) costs relating to the liquidation of the beneficiary institution;
- v) compensation for the loss of a position, pension leaves, compensation for accidents at work, leave benefits²;
- w) gifts and awards in competitions;
- x) in-kind contributions;
- y) credits to third parties;
- z) items already financed from another sources;
- aa) debts and provisions for losses or debts;
- bb) interest owed.
- cc) *Please note:* If a project generates revenue for example through services, conference participation fees, sales of brochures or books, it must be deducted from eligible costs.

² Leave benefits shall mean the benefits for private vacations or other forms of financing vacations from the Guaranteed Social Benefits Fund, as well as other forms of payments under this fund (food coupons, canteen benefits etc.).