

Interreg



Co-funded by
the European Union

IPA Croatia – Bosnia and
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PROGRAMME MANUAL ON ELIGIBILITY

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LIST OF ABBREVIATIONS

AA	Audit Authority
CPR	Regulation (EU) No 2021/1060
DNSH principle	„do no significant harm” principle
ERDF	European Regional Development Fund
EC	European Commission
ERDF Regulation	Regulation (EU) No 2021/1058
EU	European Union
Jems ¹	Joint Electronic Monitoring System
FLC/CB	First Level Control/Control Body
Interreg Regulation	Regulation (EU) No 2021/1059
IPA	Instrument for Pre-accession Assistance
IPA III Regulation	Regulation (EU) No 2021/1529
MC	Monitoring Committee
JS	Joint Secretariat
LP	Lead Partner
MA	Managing Authority
NA	National Authority
OSI	Operations of Strategic Importance
PC	Participating Country
PIM	Project Implementation Manual
PME	Programme Manual on Eligibility
PP	Project Partner
SCO	Simplified Cost Options
SEA	Strategic environmental assessment
SPF	Small Project Fund
VAT	Value Added Tax
TFEU	Treaty on the Functioning of the European Union

1. INTRODUCTION

This document sets Programme rules on eligibility and provides guidance for the beneficiaries requesting IPA III co-funding, as well as for Programme bodies including FLC, as regards the funding conditions and certification of expenditures in the Interreg VI-A IPA Programme Croatia-Bosnia and Herzegovina-Montenegro for the financial period 2021-2027.

The rules shall apply to all operations² approved under this Programme and shall apply to all expenditures declared within Progress Reports.

¹ Jems (Joint Electronic Monitoring System) is the new Interact Monitoring System for the 2021-2027 period. Built on HIT 2021-2027, Jems provides a purpose-built monitoring system on a free-license basis. The software offers programmes confidence in compliance with new regulations and in working from established best practice templates.

² Operation = project, in accordance with Article 2 of CPR.

The document is approved by the MC and shall be revised and updated as appropriate. The update of the document may be proposed by all relevant Programme bodies (NAs, FLCs, JS, AA etc.) to the MA, which is in charge of initiating the procedure for the amendment of the document.

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

2. LIST OF DEFINITIONS

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

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

Beneficiary: As defined in art. 2 of CPR and Programme rules, a beneficiary means a public or private body, an entity with legal personality, responsible for initiating and implementing operations and benefitting from Programme funds. In the context of this Programme, this includes LPs and PPs participating in an operation.

Cost category: Represents the main category of costs according to Interreg Regulation (e.g. staff costs, travel and accommodation costs, etc.). One cost category may consist of one or more budget lines (e.g. general and thematic equipment within cost category equipment).

Direct costs: Direct costs are costs that can be attributed directly to the project. They are directly related to an individual activity of the partner organisation, where the link with this individual activity can be demonstrated (for instance, through direct time registration). Please be aware that the Programme considers direct costs the sum of the costs budgeted under the following cost categories (if they are not reimbursed as SCOs): staff, external expertise and services costs, equipment costs, costs for infrastructure and works.

Durability: Durability of project outputs and results refers to the long-lasting effect of a project achievement beyond project duration.

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

Financial correction: Deduction of reported expenditures due to financial error or irregularity that takes place after payment to operation has been made.

FLC: Body in charge of performing verification of expenditure as described in the Description of national control system of each PC and within Control Guidelines for Interreg VI-A IPA Programmes.

Flat rate: One of the SCO. Specific categories of eligible costs which are clearly identified in advance are calculated by applying a percentage fixed ex-ante to one or several other categories of eligible costs. Flat rates involve approximations of costs and are defined based on fair, equitable and verifiable calculation methods, or they are established by the Fund-specific regulations.

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

Irregularity: Any breach of applicable law, resulting from an act or omission by an economic operator which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified expenditure to the budget of the Union (Article 2(31) of CPR).

LP: Where there are two or more partners, one of them shall be designated by all the partners as the LP. According to art. 26 of Interreg Regulation, The LP shall:

- (a) lay down the arrangements with the other partners in an agreement comprising provisions that, inter alia, guarantee the sound financial management of the respective Union funds allocated to the Interreg operation, including the arrangements for recovering amounts unduly paid;
- (b) assume responsibility for ensuring implementation of the entire Interreg operation; and
- (c) ensure that expenditure presented by all partners has been paid in implementing the Interreg operation and corresponds to the activities agreed between all the partners and is in accordance with the document provided by the MA pursuant to Article 22(6).

Lump sum: One of the SCO. A lump sum is a total allocation of the grant (calculated ex-ante), paid to the project upon completion of pre-defined terms of agreement on activities and/or outputs. Lump sums involve approximations of costs established based on fair, equitable and verifiable calculation methods.

OSI: Operation of strategic importance means an operation which provides a significant contribution to the achievement of the objectives of a Programme and which is subject to particular monitoring and communication measures.

Partnership: Operations selected under Interreg A (cross-border cooperation) shall involve partners from at least two PCs, at least one of which shall be a beneficiary from a Member State. Beneficiaries receiving support from Interreg funds and partners participating in operation constitute an Interreg operation partnership.

Public infrastructure: Infrastructure that is owned by the public and/or is for public use, including public buildings.

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

SCO: The Common Provisions regulation (CPR — Regulation 2021/1060) includes options for the ESI funds to be reimbursed on a real cost basis (reimbursement of real costs actually incurred and paid by beneficiaries in implementing the project) but also in the form of unit costs, lump-sums, flat-rate financing (SCOs) and of financing not linked to costs (FNLC) based on the fulfilment of conditions or achievement of results. The amounts for the forms of grants referred to unit costs, lump-sums, flat-rate financing shall be established ex-ante through a fair, equitable and verifiable calculation method or in other possible ways as determined by the Regulation (article 53). Amounts and rates need to be a reliable proxy to real costs. SCOs are intended to significantly reduce the administrative burden of reporting and possible source of errors. The aim is to shift the focus more on outputs rather than on inputs of the project.

SPF: According to Article 2 (10) of CPR a SPF is an operation in an Interreg programme aimed at selection and implementation of projects of limited financial volume (small projects).

Standard projects: More complex cooperation projects typically originating from the acknowledgement of a need or a potential and consequently testing a potential cross-border solution. They involve for example actions such as the implementation of new solutions, the testing of new services, the development of strategies, joint action plans and pilots, the sharing of expertise, joint training actions, etc. They should be developed based on an innovative project concept, although the capitalisation of previous programming periods' projects and results is also encouraged.

3. LEGISLATIVE BACKGROUND

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

Hierarchy of eligibility rules applicable to operations funded under the Programme is as follows:

1. EU rules on eligibility of expenditure are given in:
 - Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, laying down common provisions on the ERDF, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (Common Provisions Regulation – CPR);
 - Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the ERDF and on the Cohesion Fund and Corrigendum to Regulation (EU)

2021/1058 of the European Parliament and of the Council of 24 June 2021 on the ERDF and on the Cohesion Fund (Official Journal of the EU L 231 of 30 June 2021) (ERDF Regulation);

- Regulation (EU) 2021/1059 of the European Parliament and of the Council of 24 June 2021 on specific provisions for the European territorial cooperation goal (Interreg) supported by the ERDF and external financing instruments (Interreg Regulation);
- Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the IPA (IPA III);
- Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012;
- Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC;
- Implementing acts and delegated acts adopted in accordance with the aforementioned regulations;
- Financing Agreement between the EC and Bosnia and Herzegovina;
- Financing Agreement between the EC and Montenegro.

General eligibility rules are laid down in, or on the basis of Articles 63-67 of CPR and specific rules are provided in Chapter V of Interreg Regulation.

2. Without prejudice to the eligibility rules laid down in EU regulations, the PCs may establish additional rules on eligibility for the Programme as a whole.

These rules are given in:

- Interreg Programme;
- PME (this document);
- Call specific documents (e.g. Application Package, PIM, etc.).

3. In line with Article 37 of Interreg Regulation, for matters not covered by eligibility rules laid down in, or on the basis of EU or Programme rules, the national rules of the PC in which the expenditure is incurred shall apply.

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

In case of amendment of the above-mentioned legal documents, the latest version shall apply.

4. ELIGIBILITY OF EXPENDITURES

4.1. Basic conditions of the eligibility of expenditure

Eligible expenditures shall be all costs that fulfill general requirements as listed below:

- a. they are incurred by the LP/PPs of a grant and paid solely by LP/PPs, with the exception of costs calculated as flat rates or lump sums;
- b. they incurred during the implementation period of the operation, with the exception of preparatory and contracting costs and closure costs;
- c. they are indicated in the estimated overall budget of the operation³;
- d. they are necessary for the implementation of the operation which is the subject of the grant;
- e. they are identifiable, verifiable and documented (e.g. contract, invoice, order form⁴), in particular being recorded in the accounting records of the beneficiary and determined according to the applicable accounting standards of the country where the beneficiary is located and according to the usual cost accounting practices of the beneficiary;
- f. they comply with the requirements of applicable tax and social security legislation;
- g. they are reasonable, justified, and comply with the principle of sound financial management, in particular regarding economy and efficiency;
- h. they are incurred in accordance with the relevant EU legislation, Programme rules, and when applicable national legislation;
- i. they are not listed as an ineligible expenditure;
- j. they are not double funded (i.e. they are not financed from other sources under the Union Funds or other (national) Funds);
- k. one expenditure item (e.g., one cost) cannot be declared twice;
- l. in case when one expenditure/invoice/procurement contains more items, they can be reported under different cost categories/budget lines, depending on the type of item;
- m. amounts declared in Partner Progress Report do not exceed amounts in the latest approved Application (in line with the provisions of the Subsidy Contract/Addendum/accepted modifications);
- n. co-financing rate (as stipulated in the Subsidy Contract/Application) is applied to each eligible expenditure under all cost categories (including preparatory and contracting and closure costs).

Please note that, in the negotiation phase, before contracting, the expenditures included in the Application shall be verified by JS/MA. However, final eligible costs will be calculated on the basis of reported eligible expenditures after adequate controls by the relevant Programme bodies have been performed.

³ i.e., they are connected with activities as identified in the latest version of the Application.

⁴ Order form = narudžbenica

4.2. Geographical eligibility

Operations have to be located in the Programme area comprising the part of the territory of the PCs as defined in the Interreg Programme. The Programme area includes 12 counties on the Croatian side, Brčko District and 109 municipalities on the side of Bosnia and Herzegovina and 12 municipalities on the Montenegrin side.

According to Article 37(1) of Interreg Regulation, the MA may accept that all or part of an operation is implemented outside the Programme area when the following conditions are satisfied:

- a) the operation contributes to the Programme objectives;
- b) justification is provided within the Application.

4.3. Eligibility period

In line with Article 63 of CPR, expenditures under the Programme are eligible for funding between the date of submission of the Programme to the Commission or from 1 January 2021, whichever date is earlier, and 31 December 2029.

In case of this Programme expenditures are eligible from 1 January 2021 until 31 December 2029.

Expenditure is eligible according to the following periods:

- a) Operation preparatory and contracting period

According to Article 38(2) of Interreg Regulation, eligible expenditure shall relate to the costs of initiating or initiating and implementing an operation or part of an operation, hereinafter referred to as preparatory and contracting costs.

Approved operations are entitled to receive reimbursement of their preparatory and contracting costs in the form of a lump sum in the total amount of 8,000.00 EUR. The actual lump sum paid to the LP will depend on EU co-financing rate applicable to the specific LP claiming the lump sum. An estimation of the actual lump sum paid can be calculated according to EU co-financing rate applied by the Programme (85%). The estimated lump sum paid to LP that successfully signed the Subsidy Contract is 6,800.00 EUR (85% of 8,000.00 EUR).

Preparatory and contracting costs include costs related to the preparation of the operation and contracting activities carried out before the signing of the Subsidy Contract.

The lump sum shall cover the following costs:

- Staff costs of the LP/PPs involved in developing the project proposal including the drafting of the Application;
- Administration costs (e.g. office costs such as internet, electricity, paper, etc.);
- External services costs such as translation and consultation (external expert contracted for supporting the drafting of project proposal);

- Travel costs for meetings and other events such as: internal preparatory meeting/s, workshop for applicants, contracting event.

The following eligibility rules apply to preparatory and contracting costs:

- the lump sum of 8,000.00 EUR per operation is acceptable;
- preparatory and contracting costs need to be planned in the Application within the budget of the LP;
- the LP is responsible to use the granted lump sum only for the preparatory and contracting activities of the respective operation;
- reallocations of preparatory and contracting costs are not acceptable;
- in the occurrence that the operation is not implemented following the signature of the Subsidy Contract, the LP will have to recover in full the amount granted as preparatory and contracting costs.

Certain conditions must be fulfilled in order for the Programme to pay a lump sum for preparatory and contracting costs:

- The project proposal is selected for funding by the MC;
- The LP signs the Subsidy Contract with the MA.

When such conditions are met, the lump sum will be transferred to the bank account of the LP who, in turn, will transfer the respective share of lump sum to other PPs, if applicable.

b) Operation implementation period

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

First and all subsequent reporting periods, except the Final Partner Progress Report:

Please note that you can only claim and FLC can only verify expenditure incurred and paid within the relevant reporting period⁵. If an expenditure is incurred in one reporting period but paid in one of the subsequent reporting periods you can claim it in that/any other subsequent period, or in the Final Partner Progress Report at the latest.

Final Partner Progress Report:

Payment of costs incurred in the last reporting period must take place within 1 month after the operation implementation end date.

In exceptional cases⁶, cost incurred in any of previous reporting periods can also be paid within 1 month after the operation implementation end date.

⁵ Or incurred and paid within any of the previous reporting periods.

⁶ Such as (but not limited to) money flow issues or long procedures of budget rebalance approvals.

However, when prolongation of the deadline for the submission of the Progress Report, alongside with prolongation of the deadline for payment, is approved to the LP/PP, payment of costs must take place at the latest prior to the extended deadline for submission of the Final Partner Progress Report to the FLC. Costs paid after this deadline shall be considered ineligible even if incurred during the operation implementation period.

c) Operation closure period

Approved operations are entitled to receive reimbursement of their closure costs in the form of a lump sum in the total amount of 4,000.00 EUR. The actual lump sum paid to the LP will depend on EU co-financing rate applicable to the specific LP claiming the lump sum. An estimation of the actual lump sum paid can be calculated according to EU co-financing rate applied by the Programme (85%). The estimated lump sum paid to LP that successfully submitted the final project progress report is 3,400.00 EUR (85% of 4,000.00 EUR).

The closure costs refer to activities related to the preparation and submission of the Final Project Progress Report.

This amount aims to compensate the work related to the operation closure after the end date of the operation implementation period and shall cover the following cost items:

- Staff costs of the LP involved in preparing the Final Project Progress Report and project closure and staff costs of other PPs who will be directly involved in the project closure;
- Administration costs (e.g. office costs such as internet, electricity, paper, etc.);
- Travel and accommodation costs for the travel to the workshop for the preparation of the Final Project Progress Report.

The following eligibility rules apply to closure costs:

- the lump sum of 4,000.00 EUR per operation is acceptable;
- closure costs need to be planned in the Application within the budget of the LP;
- the LP is responsible to use the granted lump sum only for the closure activities of the respective operation;
- reallocations of closure costs are not acceptable;

Certain conditions have to be fulfilled in order for the Programme to pay a lump sum for closure costs:

- The LP has submitted the Final Project Progress Report;
- The report has been approved by the JS/MA.

When such conditions are met, the lump sum will be transferred to the bank account of the LP who, in turn, will transfer the respective share of lump sum to other PPs, if applicable. The lump sum will be paid together with the final project payment.

4.4. Simplified cost options

The Programme decided to use different SCOs to ensure easy reporting process, swift money flow and validation of expenditures by the FLC. Please find the possible SCOs options in the table below:

Option 1		Option 2	
Cost category	Form of reimbursement	Cost category	Form of reimbursement
Staff costs	up to 20 % flat rate of direct costs (real costs)	Staff costs	Real costs
Office and administrative costs	up to 15 % flat rate of staff costs	Other costs	up to 40 % flat rate of staff costs for all other costs
Travel and accommodation costs	up to 15% flat rate of staff costs		
External expertise and services costs	Real costs		
Equipment costs	Real costs		
Costs of infrastructure and works	Real costs		

Options stated above apply for each partner depending on their needs (each partner within one operation may choose between these two options). However, option chosen shall be applied for the whole project implementation.

Please note that Option 2 is calculated as up to 40% of the eligible direct staff costs and covers all remaining project activities of the LP/PP other than staff.

Therefore, if Option 2 is used the budget of the LP/PP consists of only two cost categories:

- a) staff costs and
- b) other costs as a flat rate (office and administrative costs, travel and accommodation costs, external expertise and services costs, equipment costs, costs for infrastructure and works, if applicable).

In reporting phase only staff costs are reported to the FLC. Activities and achievements of project results and outputs are reported in the activity part/Project Progress Report. The flat rate is directly linked to the staff costs and is always calculated from the final eligible staff costs. If staff costs are not validated in full by FLC, the other cost shall be proportionally reduced.

Partners do not need to document that the expenditure has been incurred and paid or that the flat rate corresponds to the reality. Accordingly, no documentation on other costs is required to be provided to the FLC or kept for further controls. However, in the negotiating phase before

contracting the applicant may be asked to provide detailed information on the remaining costs other than staff.

4.5. Eligible cost categories

The following cost categories are eligible under the Programme:

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

Specific provisions on eligibility, forms of reimbursement, reporting and audit trail are given for each cost category in this document.

4.5.1. Staff costs

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

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

- full time, and/or
- part-time with a fixed percentage of time worked per month.

Please note that the above categories refer to the relation of the employee towards the project and not the employer.

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

4.5.1.1. General principles

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

- a. Employment document is:
 - i. an employment/work contract, signed both by the legal representative of the employer and the employee, or
 - ii. an appointment decision issued by the legal representative of the employer's institution, or

- iii. service contract⁷.
- b. Staff costs are limited to salary payments related to the activities which the entity would not carry out if the operation concerned was not undertaken, fixed in the employment document or by law, relating to responsibilities specified in the job description of the staff member concerned.
- c. Staff costs include any other costs directly linked to salary payments incurred and paid by the employer, such as employment taxes and social security provided that they are:
 - i. fixed in an employment document or by law;
 - ii. in accordance with the legislation referred to in the employment document and with standard practices in the country and/or organisation where the individual staff member is actually working, or both;
 - iii. not recoverable by the employer.
- d. Additional benefits (e.g. monthly transport costs) must be directly linked to the salary payments and incurred and paid by the beneficiary in accordance with the employment contract or relevant national legislation.
- e. Overheads and any other office and administrative expenditure cannot be included under this cost category.
- f. Daily allowances and any other travel and accommodation costs cannot be included under this cost category.
- g. Payments to natural persons working for the LP/PP under a contract other than an employment or work contract may be assimilated to salary payments and such contract shall be considered to be an employment document.
- h. Overtime is eligible only in justified cases and when it is directly related to the Operation and if it is in conformity with the national legislation and the standard practice of the PP organisation. Overtime of an employee working part-time in the project can only be eligible if transparently and proportionally allocated to the project.

4.5.1.2. Forms of reimbursement

Staff costs may be reimbursed in two ways:

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

⁷ Service contract (ugovor o djelu/delu) is acceptable only for beneficiaries from Bosnia and Herzegovina and Montenegro in accordance with relevant national law. However, please note that the recruitment process must be carried out in a transparent manner and that newly hired person/s must work full time (100%) on the project. Service contract is not allowed for internal staff of beneficiary institution and may be used only for new employment.

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

4.5.1.2.1 Real costs

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

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

4.5.1.2.1.1 Calculation of real costs for staff working full-time on the operation

For individuals employed by the PP to work full-time on the operation, the total gross employment costs incurred by the employer are to be considered eligible as far as they are in line with the general provisions on eligibility and the additional eligibility requirements provided for staff costs determined on a real-cost basis (4.5.1.1. and 4.5.1.2.1 above). The fact that the individual works full-time on the operation has to be clearly stated in the employment document itself or in a task assignment document.

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

For individuals employed by the PP to work part of their time on the operation according to a fixed percentage of time per month, the reimbursement of staff costs shall be calculated by applying the percentage, stipulated in the employment document or an official assignment of the employee to the project, to the monthly gross employment cost. The percentage of the assignment has to reflect the employee's related tasks, responsibilities and functions to be performed in the operation and shall be individually fixed for each employee.

Gross employment costs incurred by the employer shall be considered as eligible as far as they are in line with the general provisions on eligibility and the additional eligibility requirements applicable to staff costs determined on a real-cost basis (4.5.1.1. and 4.5.1.2.1 above). The fact that the individual works part-time on the project must be clearly stated in the employment document itself or in a task assignment document.

In principle, the fixed percentage should cover the whole operation duration, but this percentage may change in duly justified cases (e.g. changes in tasks or responsibilities of the employee resulting from the departure of other employee/s on the project or force majeure). In case of changes in the assignment, the employment document (or related annex) must be revised, and the related calculation of costs must be adapted to the revised assignment. The percentage of the employee's working time on the operation may be changed only once in reporting period and must be justified and notified to JS without delay.

4.5.1.2.1.3 Task Assignment Document

The task assignment document is to be used for staff working part-time and for staff working full-time on the operation if the information/conditions listed from points 1 to 6 are not available in the employment document (or its annexes/supplements). It might either be part of the employment document or a separate document. In both cases, the task assignment document shall at least⁸:

1. Be issued individually for each employee and each project;
2. Contain basic information on the project (project name, project acronym, partner name, name of the employee);
3. Indicate from when the assignment document is applicable and what period is covered by it;
4. Contain a self-declaration of absence of double financing of staff costs (where an employee is involved in other EU or publicly funded projects);
5. Provide a description of tasks of the employee in the project, with a proportionate level of detail reflecting the indicated percentage;
6. Provide the percentage of working time of the employee on the project per month;
7. Be signed by the employer (supervisor etc.) and the employee.

⁸ Template of Task Assignment Document is Annex to Project Implementation Manual.

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

1. Employment document (see 4.5.1.1. a. above);
2. Task Assignment Document (4.5.1.2.1.3 above);
3. Payslips and other documents of equivalent probative value which allow proof of payment of gross employment costs (e.g. confirmation of tax authority, bank statement);
4. Extract from accounting system of the PP.

No working time registration system (timesheet) is required for staff working full-time in the operation nor for the staff working part-time in the operation with a fixed percentage of time per month!

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

Applicants may choose Option 1 and calculate their staff costs on a flat rate basis. Staff costs may be calculated as a flat rate of up to 20% of the direct costs other than the staff costs of partner budget. In that respect, the flat rate applicable for the PP is up to 20% of the direct costs incurred in the relevant reporting period excluding indirect costs (e.g. staff costs, office and administrative costs and travel costs)⁹.

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

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

Flat rate will be verified by the respective JS/MA prior to contracting.

The following documents must be available for verification purposes as an audit trail (at the beginning of the implementation and if a change within personnel occurs):

- List of personnel who will work on the operation (free form) should be enclosed in the Jems. At least one employee has to be involved in the implementation of an operation (a free form list or a declaration issued by the beneficiary's legal representative or delegated person should be delivered for audit trail purposes).

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

⁹ The preparatory and contracting costs as well as closure costs are not included in the basis for the calculation of the staff costs.

4.5.2. Office and administrative costs

Office and administrative costs cover operating and administrative costs of the beneficiary organization necessary for the implementation of the operation.

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

- office rent;
- insurance and taxes related to the buildings where the staff is located and to the equipment of the office (e.g. fire, theft insurances);
- utilities (e.g. electricity, heating, water);
- office supplies;
- accounting;
- archives;
- maintenance, cleaning and repairs;
- security;
- IT systems (IT system support of an administrative nature, linked to the implementation of the operation);
- communication (e.g. telephone, fax, internet, postal services, business cards);
- bank charges for opening and administering the account or accounts where the implementation of an operation requires a separate account to be opened;
- charges for transnational financial transactions.

This list is exhaustive.

4.5.2.1. General principles

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

4.5.2.2. Forms of reimbursement

Office and administrative costs are reimbursed by the Programme on a flat rate basis of up to 15% of eligible staff costs. Office and administrative costs are calculated as flat rate regardless of the form of reimbursement applied under the staff costs category.

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

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

In case the beneficiary is using the Option 2 (40 % flat rate of the eligible staff costs for the calculation of all other costs), it is not possible to plan/report office and administrative costs as flat rate since those costs are already included in cost category “other costs”).

4.5.2.3. Audit trail

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

4.5.3. Travel and accommodation costs

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

Travel and accommodation costs, regardless of whether such costs are incurred and paid inside or outside the programme area, is limited to the following elements:

- travel costs (e.g. tickets, travel and car insurance, fuel, car mileage, toll, parking fees, taxi when no public transport is available, cost of registration in the ETIAS system; cost of medical certificates obligatory for border crossing);
- the costs of meals;
- accommodation costs;
- visa costs;
- daily allowances.

This list is exhaustive.

4.5.3.1. General principles

- a. All listed items shall be considered as covered by the flat rate. Accordingly, cost items declared under the travel and accommodation cost category shall not be claimed and reimbursed under any other cost category;
- b. Travel and accommodation costs must be clearly linked to the operation and be essential for effective delivery, promotion and/or sustainability of the operation activities;
- c. Travel and accommodation costs of external experts and service providers (including speakers, chairpersons, teachers, stakeholders, etc.) contributing to the operation cannot be included under this cost category; they must be reported as external expertise and services costs;
- d. The principle of sound financial management should apply to the choice of transport and accommodation.

4.5.3.2. Forms of reimbursement

Travel and accommodation costs are calculated as a flat rate regardless of the form of reimbursement applied under the staff costs category. Travel and accommodation costs of the staff of the beneficiary institution shall be calculated as a flat rate of up to 15 % of the direct staff cost of that beneficiary institution.

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

In case the beneficiary is using the Option 2 (40 % flat rate of the eligible staff costs for the calculation of all other costs), it is not possible to plan/report travel and accommodation costs as flat rate since those costs are already included in cost category “other costs”).

4.5.3.3. Audit trail

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

4.5.4. External expertise and services costs

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

The costs under this cost category shall be limited to the following services and expertise:

- studies or surveys (e.g. evaluations, strategies, concept notes, design plans, handbooks);
- trainings;
- translations;
- IT systems and website development, modifications and updates;
- promotion, communication, publicity, promotional items and activities or information linked to an operation or to the Programme;
- financial management;
- services related to the organisation and implementation of events or meetings (including rent, catering or interpretation);
- participation in events (e.g. registration or participation fees);
- legal consultancy and notarial services, technical and financial expertise, other consultancy and accountancy services;

- intellectual property rights;
- the provision of guarantees by a bank or other financial institution where required by Union or national law or in a programming document adopted by the MC;
- travel and accommodation for external experts, speakers, chairpersons of meetings, service providers and stakeholders;
- other specific expertise and services needed for operations (e.g. external researches, external speakers, IT consultants, production and distribution of publications, publication of promotional articles, supervision of works, other external expertise and services needed for the investments in infrastructure¹⁰ if not a part of an infrastructure contract such as feasibility studies, environmental impact assessments, climate-proofing, project design (preliminary works design OR detailed works design including indicative bill of quantities), other legal permits and all necessary legal authorizations (e.g. location permit, building permit, etc.), etc.).

This list is exhaustive.

4.5.4.1. General principles

- a. The work by external experts and service providers must be relevant for implementation of the operation;
- b. All external expertise and services have to be clearly foreseen in the Application or in approved modifications;
- c. The services planned under this cost category relate to the services which cannot be carried out within scope of regular tasks performed by the PPs themselves and are therefore outsourced to external service providers;
- d. No sub-contracting between PPs is allowed;
- e. Each partner organisation is responsible for ensuring that applicable procurement rules are respected, especially public procurement principles (transparency, non-discrimination, equal treatment, fair competition, mutual recognition, proportionality);
- f. Costs claimed under the external expertise and services cost category cannot be reimbursed under any other cost category;
- g. Travel and accommodation costs of stakeholders can be covered from this cost category only in duly justified cases. Applicable procurement rules and relevant principles have to be respected;
- h. The price of the external service or expertise has to be calculated in line with the principle of sound financial management (e.g. according to the standard rates of the country where the PP concluding the contract is located);
- i. Advance payments to external service providers may be acceptable when it is in line with the applicable public procurement rules and when it is agreed in the external service contract. Advance payments paid to external service provider in full amount of the service contract cannot be claimed without evidence of delivery of the service.

¹⁰ Please note that expenditures related to the external expertise and services needed for the investment in infrastructure may be planned and financed by one partner only when at the same time execution of those works is not planned and performed. If execution of works is planned to be financed, all compulsory requirements must be fulfilled before contracting.

4.5.4.2. Forms of reimbursement

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

In case the beneficiary is using the Option 2 (40 % flat rate of the eligible staff costs for the calculation of all other costs), it is not possible to plan/report external expertise and services costs on a real cost basis since those costs are already included in cost category “other costs”).

4.5.4.3. Audit trail

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

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

4.5.5. Equipment costs

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

The eligible expenditure of equipment is limited to the following:

- office equipment;
- IT hardware and software;
- furniture and fittings;
- laboratory equipment;
- machines and instruments;
- tools or devices;
- vehicles;
- other specific equipment needed for operations (e.g. measuring instruments, exhibition equipment, spare parts, consumables necessary for the implementation of activities etc.).

This list is exhaustive.

4.5.5.1. General principles

- a. Costs of equipment are eligible if they are relevant for the implementation of an operation, i.e. without this equipment it would not be possible to implement the operation successfully;
- b. Costs of equipment are eligible if they have been approved by the Programme (they are defined in the latest approved version of the Application);
- c. Full purchase cost of equipment shall be considered eligible;
- d. Costs of equipment are eligible if no other EU or national funds have contributed towards financing of the same expenditure item, i.e. no double funding is permissible;
- e. All costs of equipment are subject to applicable public procurement rules and each partner organisation is responsible for ensuring that these rules have been respected and public procurement principles respected (transparency, non-discrimination, equal treatment, fair competition, mutual recognition and proportionality);
- f. Beneficiaries must ensure visibility for the equipment used for the implementation of the operation in line with the Programme visibility rules;
- g. Equipment for general (office) use necessary for smooth implementation of the operation should be purchased at the initial stage of the implementation period or later in duly justified cases;
- h. Advance payments may be acceptable when it is in line with the applicable public procurement rules and when it is agreed in the contract. However, advance payments paid to supplier in full amount of the contract cannot be claimed without evidence of delivery of the equipment;
- i. Ownership of the equipment, to be retained by the PP and/or relevant target group/stakeholders which will be in charge of the purchased equipment after operation closure should be described within the Application;
- j. Transfer of ownership (if applicable) has to be implemented in line with applicable national rules, i.e. the procedure related to transfer of ownership of the equipment must be clearly traced during operation implementation (e.g. evidenced in accounting records of involved partners/target groups as fixed assets or in inventory registers) as this may be subject of verification by Programme bodies. Please note that the purchased equipment has to be used for purposes of public interest (or specific purpose of meeting the needs of general interest) if transferred to a relevant target group.

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

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

Costs for the purchase of second-hand equipment may be eligible if the following conditions are respected:

- m. no other assistance has been received for it from the EU funds (i.e. no double funding is permissible);

- n. its price does not exceed the generally accepted price on the market in question;
- o. it has the technical characteristics necessary for the operation and complies with applicable norms and standards.

4.5.5.2. Forms of reimbursement

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

In case the beneficiary is using the Option 2 (40 % flat rate of the eligible staff costs for the calculation of all other costs), it is not possible to plan/report equipment costs on a real cost basis since those costs are already included in cost category “other costs”).

4.5.5.3. Audit trail

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

- a. evidence of the implemented procurement process (e.g. announcement, selection, award);
- b. contract/order form laying down the equipment to be purchased, with clear reference to the operation and Programme in line with Chapter 6.7. Description and retention of documents. Any changes to the contract must comply with the applicable procurement rules and must be documented;
- c. invoice providing all relevant information in line with the applicable accountancy rules, as well as reference to the Programme and the operation, in line with Chapter 6.7. Description and retention of documents;
- d. proof of payment (e.g. a receipt, bank account statement) and accounting record (e.g. extract from a reliable accounting system of the beneficiary);
- e. proof of existence for all items of equipment (e.g. deliverable note, photo that shows equipment in use);
- f. proof of respect of Programme visibility rules.

4.5.6. Costs of infrastructure and works

Infrastructure and works¹¹ cover costs related to investments in infrastructure that do not fall into the scope of other cost categories. These investments may either refer to an object (e.g. a building) that will be set up *ex-novo* or to the adaptation of an already existing infrastructure.

The following expenditure for infrastructure and works shall be limited to:

- a. purchase of land under the following conditions:

¹¹ Article 2(1) of the Directive 2014/24/EU of the European Parliament and of the Council of 26/02/2014 defines a “work” as “*the outcome of building or civil engineering works taken as a whole which is sufficient in itself to fulfill an economic or technical function*”. Works defined within Annex II of the abovementioned Directive are eligible as a combination of building material and labor.

- i. the purchase of land not built on and land built on in the amount up to 10 % of the total eligible expenditure for the operation concerned shall be eligible for funding under this Programme;
 - ii. for derelict sites, for sites formerly in industrial use which comprise buildings and for operations concerning environmental conservation, this limit is increased to 15%.
- b. building material;
 - c. labour; and
 - d. specialised interventions (such as soil remediation, mine-clearing, etc.).

This list is exhaustive.

4.5.6.1. General principles

- a. Costs of infrastructure and works are only eligible if they have been approved by the Programme (indicated in the approved Application or specifically approved during operation implementation by the relevant Programme body);
- b. Cost of infrastructure and works may be eligible only if all compulsory requirements according to national law are fulfilled before Subsidy Contract is signed. At the level of one PP, project documentation related to works and execution of those works cannot be planned and financed within same operation;
- c. Contingency reserve may be envisaged in case of unpredictable costs for planned infrastructure and works. The maximum percentage for the contingency reserve amounts to 5% of costs for infrastructure/works in question. Use of contingency in the implementation phase must be approved in advance by the JS/MA;
- d. Costs of infrastructure and works are eligible if no other EU or national funds have contributed towards financing of the same expenditure (no double funding is permissible);
- e. Beneficiaries must ensure compliance with visibility requirements for all investments in infrastructure within the operation, in line with the provisions set out in the Programme visibility rules;
- f. Beneficiaries must ensure compliance with applicable procurement rules when selecting the contractors for infrastructure and works investments, respecting the public procurement principles (transparency, non-discrimination, equal treatment, fair competition, mutual recognition and proportionality);
- g. The contractor cannot be a partner in the operation;
- h. The land and/or buildings where the works will be carried out must be in the ownership of the beneficiary or long-term legally binding arrangement has to exist (at least 5 years after the final payment to the beneficiary);
- i. Costs of infrastructure and works outside Programme area are not eligible;
- j. Investments in infrastructure must comply with the durability requirements described in Chapter 5.3. Durability of the operations;
- k. Depending on the nature of the intervention to be carried out, all compulsory requirements set by EU and national legislation on environmental policies, must be fulfilled;

- I. Advance payments may be acceptable when it is in line with the applicable public procurement rules and when it is agreed in the contract. However, advance payments cannot be claimed without evidence of delivery of the works.

For operation activities that include infrastructure and works, the following documents will be required prior to signature of the Subsidy Contract:

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

4.5.6.2. Forms of reimbursement

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

In case the beneficiary is using the Option 2 (40 % flat rate of the eligible staff costs for the calculation of all other costs), it is not possible to plan/report costs for infrastructure and works on a real cost basis since those costs are already included in cost category “other costs”).

4.5.6.3. Audit trail

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

- a. evidence of the implemented procurement procedure (e.g. announcement, selection, award);
- b. contract or written agreement laying down the infrastructure/works to be provided with a clear reference to the operation and the Programme. For contracts including also a daily/hourly fee, such fee together with the number of days/hours contracted and the total amount of the contract must be provided. Any changes to the contract must comply with the applicable procurement rules and must be documented;
- c. invoice or interim payment certificate providing all relevant information in line with the applicable accountancy rules as well as references to the operation and the Programme and a detailed description of the infrastructures/works carried out in line with the contents of the contract. For contracts including also a daily/hourly fee, the invoice must include a clear quantification of the days/hours charged, price per unit and total price;
- d. proof of payment (e.g. a receipt, bank account statement) and accounting record (e.g. extract from a reliable accounting system of the beneficiary);
- e. proof of respect of Programme visibility rules.

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

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

4.6. Ineligible costs

The following expenditures shall not be eligible for funding under the Programme:

1. In line with Article 64 of CPR:
 - a. interest on debt;
 - b. VAT except when the total cost of operation is below EUR 5,000,000.00. More details regarding VAT are described in Chapter 5.1.;
 - c. the purchase of land¹² exceeding 10% of the total eligible expenditure for the operation concerned. For derelict sites and for sites formerly in industrial use which comprise buildings, this limit shall be increased to 15%.

2. In line with Article 38(3) of Interreg Regulation:
 - d. Fines, financial penalties and expenditure on legal disputes and litigation;
 - e. Costs of gifts¹³;
 - f. Costs related to fluctuation of foreign exchange rate.

3. Other ineligible expenditures as defined by the Programme:
 - g. consultant fees between partners for services and work carried out within the operation;
 - h. contracting of employees (staff) of the beneficiary and partner organisations as external experts (e.g. as freelancers, translators, IT experts, etc.);
 - i. unjustified ad-hoc salary bonuses that are not directly linked to operation activities;
 - j. alcohol, except in duly justified cases, when related to the operation theme/subject¹⁴;
 - k. the manufacturing, processing and marketing of tobacco and tobacco products;
 - l. purchases of equipment not indicated in the Application or specifically approved during operation implementation by the JS/MA;
 - m. equipment purchased from another PP;
 - n. cost for infrastructure and works outside the Programme area;
 - o. shared costs¹⁵;
 - p. charges for national financial transactions;
 - q. sub-granting (e.g. small grant initiatives under grant operation);
 - r. contributions in kind;
 - s. discounts not considered when claiming the costs (only the discounted amount is to be regarded as eligible);
 - t. tips;
 - u. costs of audits and evaluations at operation level.

This list is not exhaustive. Costs not listed are therefore not automatically to be considered as eligible.

¹² This shall not apply to operations concerning environmental conservation.

¹³ Promotional materials are not considered as gifts.

¹⁴ Please note that wine is considered a food product, in line with EU and national legislations.

¹⁵ Cost sharing is defined as a pro rata allocation of certain project expenditure incurred by one project partner and allocated to various other project partners.

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

5. OTHER FINANCIAL PROVISIONS

5.1. Value Added Tax (VAT)

In line with Article 64 of CPR, VAT shall not be supported by the Programme, except:

- a) For operations the total cost of which is below EUR 5,000,000.00 (including VAT);
- b) For operations the total cost of which is at least EUR 5,000,000.00 (including VAT) and VAT is non-recoverable under national legislation;
- c) For SPFs and investments made by final recipients in the context of SPFs.

In those cases, VAT is eligible, if:

- a) it is established that it is borne by the beneficiary;
- b) it is clearly identified in the invoice.

5.2. Modifications of the operations

During the operation implementation period some modifications may be necessary in relation to the specific details of the operation defined in the approved Application and Subsidy Contract, if applicable. In all such cases, the LP has to inform the JS Project Manager on the planned modification as soon as possible.

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

Depending on the impact of the changes on the project, there are minor and major project changes.

Minor modifications are adjustments of the project, which do not have a significant impact on the project objectives and / or its implementation require only the JS approval. The request for minor project modification should be submitted to the JS.

Major modifications are substantial deviations from the approved Application. They are considered as exceptional cases, which need the previous decision of the MA/MC, based on thorough justification. The Request for major modification must be initiated by the LP and submitted to the JS.

Modifications will be accepted only in duly justified cases. It is important to note that project modifications should not in any way put into question the basic purpose of a project and the MC decision on selection of the project.

Each request for modification should be submitted officially in writing through Jems by the LP. The procedure for the modifications is given in the PIM.

5.3. Durability of the operations

Investments made by an operation should remain in place after project closure, and they should continue to benefit the Programme area. After the closure of the operation, certain requirements regarding ownership and durability of investments must be fulfilled, and specific rules apply for PPs declaring costs related to productive investments and investments in infrastructure.

In line with Article 65(1) of CPR, an operation comprising investment in infrastructure or productive investment shall repay the EU contribution if, within **five years** of the final payment to the LP or within the period of time set out in State aid rules, where applicable, that operation is subject to any of the following:

- a. a cessation or transfer of a productive activity outside the NUTS 2/Programme area level which received support;
- b. a change in ownership of an item of infrastructure which gives to a firm or a public body an undue advantage;
- c. a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives.

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

Sums unduly paid in respect of the operation shall be recovered by the PC in proportion to the period of non-compliance.

With regard to durability of operations the MA may perform durability checks to ensure compliance with the rules listed above.

5.4. Exchange rate

All expenditure reported in the Progress Reports must be denominated in Euro. This means that the expenditure, which was incurred and paid in currency other than Euro, shall be converted into Euro using the monthly accounting exchange rate of the Commission in the month during which that expenditure was submitted for verification to the FLC.

Thus, the same exchange rate will be applied per reporting period to all expenditure regardless of their payment or invoice dates.

The application of correct exchange rate shall be verified by the FLC in the PC in which the beneficiary is located.

The LP will not make any deduction, retention or further specific charge from the amounts that must be transferred to the PP's bank accounts. The LP will transfer the Programme (EU) contribution to each PP within 15 working days from the date of payment.

Costs related to fluctuation of foreign exchange rate are not eligible.

6. COMPLIANCE WITH EU POLICIES, PROGRAMME AND OTHER RULES

6.1. Public procurement

The acquisition by means of a public contract of works, supplies or services from economic operators is subject to rules on public procurement. For the award of service, supply and work contracts by the beneficiaries, the procurement procedures shall follow the provisions of Article 58 of Interreg Regulation and/or Articles 178 and 179 (and points 36 to 41 of Chapter 3 of Annex I) of the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and Annex II Public procurement of Financing Agreement.

The detailed rules on public procurement procedures to be applied by the beneficiaries are described in PIM. The relevant version of PIM to be used by the beneficiaries is the one available at Programme website <https://www.interreg-hr-ba-me.eu/> at the time of launching the tender in question.

In case of non-compliance with the public procurement rules, all relevant Programme bodies may apply financial corrections in line with COCOF Guidelines¹⁶.

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

6.2. In house contracting

In house contracting is considered as contracting of the bodies governed by public law (in house provider)¹⁷, which are controlled by the contracting authority (beneficiary)¹⁸ for the purchase of supplies, services and works.

In house contracting represents an exemption from the public procurement procedure if the following conditions given by the EU regulations¹⁹ are fulfilled:

¹⁶ Guidelines for determining financial corrections to be made to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement.

¹⁷ Body governed by public law means that all of the following conditions are fulfilled:

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

¹⁸ Contracting authority means the State, regional or local authorities, bodies governed by public law or associations formed by one or more such authorities or one or more such bodies governed by public law.

¹⁹ Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC.

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

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

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

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

Two conditions stated above will be checked by JS during contracting phase or during implementation phase.

6.3. State Aid and de-minimis

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

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

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

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

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

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

The first two criteria (existence of state resources and selectivity) are always present in the context of EU funded operations. However, due to the nature of the activities carried out, projects typically implemented in the framework of a Interreg programme are rarely state aid relevant.

6.3.1. Operation state aid rules

The applicants will be obliged to declare the State aid relevance in LP/PP Statement which is Annex of the Application, in order to assess whether the operation activities are considered as State aid.

During negotiation phase, the operation may undergo a “state aid assessment” by MA/JS to identify state aid relevance of the project on the level of each PP. Should the assessment lead to the result that the project is state aid relevant, the Programme might ask the PPs to exclude certain activities from the project proposal or to take other measures instead, as this could easily remove state aid relevance (e.g., by asking the PPs to disseminate project results widely). Also, in case certain activities are State aid relevant, the EU contribution may be decreased.

The De Minimis Regulation defines a ceiling under which the aid has a negligible impact on trade and competition. The maximum amount of aid granted to a single recipient should not exceed 200,000.00²⁰ EUR over a period of three fiscal years. This ceiling takes into account all public

²⁰ According to the Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid. Please note that this Regulation will cease to be valid on 31 December 2023 and will be replaced with the new Regulation on de minimis aid which is currently under preparation. According to the new proposal, the limit will be increased to 275,000.00 EUR.

assistance given as de minimis funding for the current and previous two fiscal years which can take various forms (grants, loans, subsidised contracts, etc.). Therefore, de-minimis aid is acceptable under this Programme taking into account the set limits.

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

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

All beneficiaries must:

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

The JS and MA will support the applicants/beneficiaries in the assessment of the existence of state aid/de minimis during contracting/implementation period of the operation.

6.4. Visibility

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

Communication presents an important part of ensuring the success of operation co-financed under the Programme, therefore it must be ensured that continual communication efforts are undertaken throughout the whole operation's life cycle.

General Programme rules on communication, information and visibility are provided in the Interreg Programme, whereas the detailed practical instructions on information, communication, promotion, and visibility for beneficiaries are given in PIM such as instructions on the use of Programme logo.

Each beneficiary is responsible to ensure that all information material distributed by the operation are properly labelled and contain all the necessary information about the operation co-financed under the Programme according to the rules. Therefore, each beneficiary must devote adequate time and resources to operation's communication in all phases of the operation, which means it is mandatory to regularly inform about the course of the operation, results and outcomes.

The FLC and other relevant Programme bodies will check whether the operation activities (including outputs) are implemented in accordance with the Programme visibility rules.

The MA shall apply measures, taking into account the principle of proportionality, by cancelling up to 2% of the EU support to the beneficiary concerned who does not comply with its obligations falling under Article 47 of CPR or paragraphs 4 and 5 of Article 36 of Interreg Regulation.

6.5. Horizontal principles

Horizontal principles are cross-cutting issues in the implementation of each activity that are inseparably associated with each phase of the operation and the Programme life cycle. Therefore, all funded operations have to demonstrate and explain how they intend to address horizontal principles in the Application, which will be taken into account in the assessment phase. Furthermore, respecting all horizontal principles will be monitored during project implementation phase through reporting and monitoring visits.

The operations shall mainstream the horizontal priorities of climate change, environmental protection, human rights and gender equality, in order to promote integrated actions that create co-benefits and meet multiple objectives in a coherent way.

The Programme complies with the horizontal principles set forth in Article 9 of the CPR (2021/1060):

- respecting fundamental rights and complying with the EU Charter of Fundamental Rights²¹;
- ensuring the promotion of gender equality;
- preventing all kinds of discrimination and taking all appropriate steps to guarantee accessibility for people with disabilities;
- promoting sustainable development as set out by Article 11 TFEU, in line with UN Development Goals, the Paris Agreement and the “do no significant harm” principle (DNSH²²).

6.5.1. Sustainable development

Sustainable development is one of the key aspects for the Programme area as it is described in the Interreg Programme’s strategy.

The objectives of the Programme should be pursued in the framework of sustainable development and the Union’s promotion of the aim of preserving, protecting and improving the quality of the environment.

“Do no significant harm” principle

²¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012P%2FTXT>

²² Applicants are expected to consider, where relevant, how the project submitted for funding, complies with the ‘do no significant harm’ principle (DNSH) - activities envisaged should be designed in a manner which does not significantly harm any of the six environmental objectives of the EU Taxonomy Regulation (https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852_en).

Regulation (EU) 2020/852 known as Taxonomy regulation is a part of the Green Deal and it is designed to help the EU meet key 2030 and 2050 climate goals. It provides that no measure (reform or investment) should lead to significant harm to any of the six environmental objectives:

- (1) climate change mitigation,
- (2) climate change adaptation,
- (3) sustainable use and protection of water and marine resources,
- (4) circular economy,
- (5) pollution prevention and control and
- (6) protection and restoration of biodiversity and ecosystems).

Applicants are expected to consider, where relevant, how the project submitted for funding, complies with the DNSH principle.

Strategic Environmental Assessment considerations

SEA study proposed special attention on the development that will not harm the current maximum water flow rate, that no development is to be built on arable land or high biodiversity value land, that demolition waste generated within projects must be prepared for recycling and that infrastructure shall not relate to the traditional fossil fuel industry.

These requirements are especially relevant for those operations foreseeing infrastructure works and, in general, investments.

The Programme bodies have to ensure that the implementation of an operation does not have any negative impact on the environment. Particular attention should be paid to activities performed or having an impact on the territories with special status.

In that respect, the Programme has identified relevant sustainable development issues to be taken into account when preparing the Application.

Partnerships are strongly encouraged to identify and consider any potentially significant environmental issues during project design and consequently choose available options for implementing projects that do not adversely affect the quality of the environment. The Programme encourages project “greening” and the reduction of the carbon footprint when implementing project activities.

6.5.2. Equal opportunities and non-discrimination

The PPs should be in particular aware of the following:

- that staff recruitment processes carried out in the operation are coherent with the principles of equal opportunities,
- that equality is promoted in the operation’s committees and boards,
- that there is no discrimination based on sex, age, racial or ethnic origin, religion or belief, disability or sexual orientation in any phase of the lifetime of the operation,
- that the events organized by the operation do not represent any barrier to participation (e.g. location favouring accessibility),

- that there are no other barriers to participation in trainings, seminars, conferences or other events (unless the activities are aimed at a specific target group),
- that all national rules on equal opportunities have been respected,
- that each potential participant/sub-contractor, etc. has equal opportunities to participate in the operation.

Specifically, when preparing their applications, all operation applicants will be required to set out/explain how their operations will comply with, and possibly even strengthen, equal opportunities and non-discrimination. This will be particularly important for operations that do not address such issues directly.

6.5.3. Gender equality

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

Each operation supported under this Programme will be asked to assess and indicate how they intend to promote gender equality and prevent any discrimination based on gender at all stages of the implementation.

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

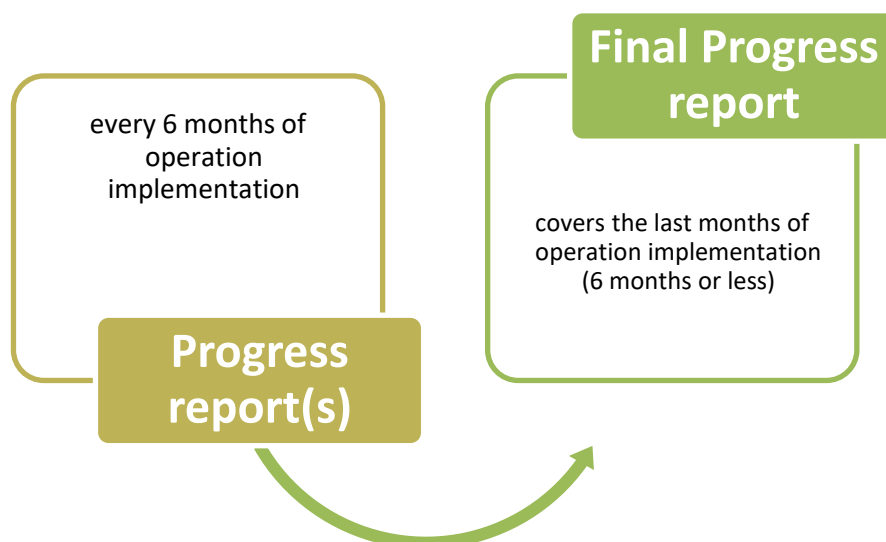
In order to be fully in line with the EC recommendations in these areas, operations supported under this Programme should be gender sensitive in choosing their stakeholders when organizing coordination and management and will respect gender perspective when organizing human resources.

6.6. Reporting process

Project reporting is an essential project management task. For the Programme, project reporting allows the necessary monitoring of the project with regard to its implementation in line with the Application and the Subsidy Contract. Both project reporting and project monitoring are the basis for the reimbursement of funds to the project.

Reporting and monitoring take place at partner and project level. Therefore, LP/PPs are obliged to report on their activities and expenditures (incurred and paid) for a given reporting period, according to the reporting schedule defined by the Subsidy Contract. Each PP (including the LP) reports on the progress made in the relevant reporting period compared to what was planned in the Application.

The certification of expenditure by the FLC is compulsory and it is carried out in Jems. For this purpose, each LP/PP prepares and submits the Partner Report through Jems within 15 calendar days from the end of each reporting period (or within 1 month in case of final reporting period), accompanied by relevant supporting documents (e.g. invoices, proof of payments, contracts, etc.).



In case the submitted Partner Report is not complete or any clarification is needed as a result of the verification of the Report, the LP/PP shall provide the FLC with the relevant documentation/clarifications up to 7 working days (depending on the scope and significance of the requested clarifications).

The FLC validates the expenditures by generating FLC Certificate in Jems.

Within 15 calendar days after all Partner Reports have been submitted to the FLC, the LP shall submit Project Progress Report through Jems to the JS/MA.

The Project Progress Report is prepared by the LP based on the information provided at partner level on the progress made in comparison with the Application.

Project Progress Report can be approved by the JS/MA only after FLC certificates are issued for all partners (Partner Reports).

After the Project Progress Report has been verified and approved by the JS/MA, the payment of the certified amount (EU contribution) will be made to the LP, who is obliged to transfer the appropriate amounts to PPs, according to the provisions set in the Subsidy Contract and Partnership Agreement.

Detailed instructions on reporting process are given in PIM.

6.7. Description and retention of documents

Documents shall be kept either in the form of the originals, or certified true copies of the originals, or on commonly accepted data carriers including electronic versions of original documents or documents existing in electronic version only. Contracts, invoices or documents of equivalent probative value for the operation should include at least the name of the Programme and acronym of the operation.

According to Article 82 of CPR, each LP/PP shall preserve all supporting documents related to specific expenditure for a 5-year period from 31 December of the year in which the last payment by the MA to the LP is made. These documents shall be available for any audit, control or verification after operation closure.

The time period referred to above shall be interrupted either in the case of legal proceedings or by a request of the Commission.

The MA shall notify the LP on the start date for retention of the operation documents.

7. TYPES OF OPERATIONS AND PARTNERSHIP REQUIREMENTS

7.1. Types of Operations

The Programme will support several types of operations: standard, OSI and SPF.

Standard operations will be selected through the Call for Proposals and approved by the MC.

OSIs may be selected through the strategic Call for Proposals or directly approved by the MC (without launching the Call for Proposals). Nevertheless, OSIs shall be approved by the MC before contracting.

OSIs are usually operations with larger financial volume, longer duration and with more partners than in standard operations. Specific requirements will be defined in the strategic Call for Proposals or in other specific document if OSIs will be approved by the MC without launching the strategic Call for Proposals.

OSIs are planned within PA 1 SO 1.1., PA 2 SO 2.4., PA 3 SO 4.5. and PA 4 SO 4.6. according to the Programme's Appendix 3

SPF is planned in PA 1 SO 1.3., however, it shall be approved by the MC prior to contracting.

7.2. Small Project Fund (SPF)

Within the PA1, SO 1.3. the Programme established a SPF in order to address the following two issues recognized during previous implementation periods and analysis of the area:

1. The Programme has so far been excluding private sector entities (SMEs) from being direct beneficiaries of the previous cross-border programmes. However, the role of SMEs in the socioeconomic growth of the region has been marked as extremely important, crucial for the long-term sustainability of the development. Therefore, the Programme is keen on recognising the value-added of business cooperation between SMEs operating on different sides of the border, while at the same time enhancing the competitiveness of micro and small sized enterprises (SMEs) in the border region.

2. Projects of smaller financial intensity, i.e., smaller budget and partnership tend to be more focused and can create more added-value and relevance with better cost - benefit relation.

To address the above-mentioned remarks, the Programme established a SPF especially targeting SMEs. In this way, the Programme will benefit from better visibility, it will attract new beneficiaries, and have an impact on better competitiveness of SMEs in the region, fostering their cooperation. The Programme will implement a best practice example of a cross-border programme in the region, that had great success in implementation of this model in the previous financial period. A special local SME development scheme will be organised, fostering development of local SMEs with strong focus on introducing product or process innovation, developing pilot actions and new business solutions, while simultaneously enhancing their cross-border business cooperation.

Support to small projects under SPF will be organised as defined in the Article 2(10) of the CPR and Article 25 of the Interreg Regulation. The final recipients within a SPF shall receive support from the Programme through the SPF beneficiary and implement the small projects within that SPF.

The SPF beneficiary will:

- (a) establish a non-discriminatory and transparent selection procedure;
- (b) apply objective criteria for the selection of small projects, which avoid conflicts of interest;
- (c) assess small projects applications for support;
- (d) select small projects and fix the amount of support for each small project;
- (e) make payments to the final recipients;
- (f) be accountable for the implementation of the operation and keep at its level all supporting documents required for the audit trail in accordance with Annex XIII to Regulation (EU) 2021/1060; and
- (g) make available to the public the list of the final recipients which benefit from the operation;
- (h) make sure that the final recipients comply with the transparency and communication requirements stipulated in Article 36 of the Interreg Regulation.

Responsibilities of a SPF beneficiary, together with the standard provisions stipulated in Article 22(6) of the Interreg Regulation, is a part of the contract between MA and the SPF beneficiary.

Detailed implementation rules for both SPF beneficiary and small projects shall be defined within contract between MA and the SPF beneficiary.

7.3. Partnership requirements

Partnership must consist of at least two (2) partners from different PCs out of which one must be from Member State (Croatia). The maximum number of partners in standard operation is six (6) including the LP.

However, the Programme will highly encourage the partnership consisting of partners from all three (3) PCs. In the assessment phase such partnership will be awarded with 2 additional points if all partners have proven their experience and competence in the thematic field concerned, as well as the necessary capacity to implement the operation. To be awarded with additional 2 points, experience, competence and capacity shall be scored with at least 3,5 points (average points).

In OSIs the partnership must consist of at least three (3) partners from different PCs, thus, at least one partner from each PC shall participate in OSI.