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Guide to Financial Issues relating to FP7 Indirect Actions

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Disclaimer

This guide is aimed at assisting beneficiaries. It is provided for information purposes only and its contents are not intended to replace consultation of any applicable legal sources or the necessary advice of a legal expert, where appropriate. Neither the Commission nor any person acting on its behalf can be held responsible for the use made of these guidance notes.



Foreword

The general Model Grant Agreement was adopted by the European Commission on 10 April 2007 to be used in research projects funded under the 7th Framework Programmes (EU and Euratom Treaties). This model grant agreement is applicable to indirect actions under the 'Cooperation', 'Capacities' and 'Nuclear Research' (fission) Specific Programmes of FP7 (EU and Euratom Treaties). It consists of a core text and several annexes. There is also a list of special clauses to be introduced in the grant agreement where necessary.

Separate model grant agreements have been adopted for the 'People' (Marie Curie) and for the 'Ideas' (European Research Council) Specific Programmes.

The purpose of this guide is to help participants to understand and interpret the financial provisions of the Model Grant Agreement (ECGA) that they are signing. To this end, the enclosed text tries to avoid (to the best possible extent) the use of legal references, technical vocabulary and legal jargon, and seeks to provide the reader with practical advice.

The structure of this guide mirrors the financial provisions of the ECGA, by following the same index and structure of that document. Accordingly, it should be used as a tool to clarify the provisions of the ECGA, and should be read in connection with it. Each article in the ECGA with financial implications is explained in this Guide, and examples included where appropriate. The intention is not only to explain, but also, by following the same structure, to help the reader to locate where he/she may find the answer to his/her question.

This is the second update of the "Guide to Financial issues related to FP7 Indirect Actions" published in August 2007, and updated for the first time in April 2009. Further to the entry into force of the Lisbon Treaty the terminology of the Guide has been adapted to be in line with it. The European Community has been replaced by the European Union, while the European Atomic Energy Community "*Euratom*" continues to exist. For the same reasons, the FP7 Model Grant Agreement was modified recently.

Furthermore, on 29 April 2010 the Commission has adopted a Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on "Simplifying the implementation of the research framework programmes" (COM (2010) 187) ("Communication on Simplification"). Further adaptations which may result from this Communication will be taken into account in a future update of this Guide.

Apart from the above, the main following clarifications and additional information, product of experience, new developments and feedback from users, have been introduced:

1. Art. II.4.4:

- a. Consequences of the acceptance and use of the Certificate on the Methodology for both personnel and indirect costs and of the Certificate on the Methodology for average personnel costs.
- b. Acceptability criteria for average personnel cost methodologies.

2. Art. II.6.4: Additional explanations on conversion rates.

3. Art.II.7.1: Additional explanations on subcontracting.

4. Art.II.14:

- a. Compatibility of FP7 funded projects with other sources of EU/Euratom funding.
- b. **Art.II.14.1:** Explanations on adjustments to costs incurred in previous periods.

- c. Art.II.14.1:** Additional explanations on the specific case of personnel average costs.
- d. Art.II.14.1.:** Additional explanations on the concept "incurred during the duration of the project".
- e. Art.II.14.2.:** Additional explanations on costs incurred by third parties and the use of Special Clause 10.

5. Art.II.15:

Art.II.15.1:

- a.** Additional explanations on the use of timesheets and time-recording requirements in the context of the Certification on Methodology.
- b.** Additional explanations on particular cases, with new information on the assessment of personnel costs methodologies submitted by physical persons and SME owners who do not receive a salary.
- c.** New information on direct taxes and social charges related to personnel costs.
- d.** New development: flat rates on subsistence costs and accommodation.
- e.** Clarification on depreciation costs related to the Programme "Research Potential", part of the FP7 Specific Programme "Capacities".
- f.** Information on internally invoiced costs.

Art.II.15.2:

- a.** information on items covered by the flat rates of 20% and 60%.
- b.** New development: extension of duration of the transitional 60% flat rate.
- c.** New development: Modification of the ECGA in December 2009 in order to allow non-profit public bodies, secondary and higher education establishments and research organisations and SMEs to keep the 60% overheads flat rate even if they lose their status during the life of the project.

Art.II.15.3: Additional information on the changes of indirect costs method (ICM)

6. Art.II.16:

New development: Modification of the ECGA in December 2009 in order to allow non-profit public bodies, secondary and higher education establishments and research organisations and SMEs to keep the 75% reimbursement rate for RTD activities even if they lose their status during the life of the project.

7. Art.II.19:

New information on the interest yielded by the pre-financing paid by the Commission: possible exonerations and conditions.

8. Art.II.22:

New developments on extrapolation following an audit and simplification of the recovery process including the use of flat rate corrections.

9. Art. II.40:

Explanations on the concept and consequences of "force majeure" in the frame of the ECGA.

10. Annex III: Specific provisions related to "research for the benefit of specific groups"

Research for the benefit of CSOs (Civil Society Organisations): definitions and funding limits.

It is important to remember that the only scope of the Guide is to provide interpretation on the legal texts (and in particular the ECGA), and that it cannot derogate from them. These guidelines reflect the interpretation of the Commission of the provisions of the ECGA; however, only the provisions of the signed grant agreement are binding.

Finally, this guide should be considered as one more of the guides available to any future beneficiary of the 7th Framework Programme, and which can be found at the following web address: http://cordis.europa.eu/fp7/find-doc_en.html.

We would also like to remind participants that a FP7 Helpdesk web service has been set-up to answer all questions related to FP7-related issues. This helpdesk is available at the following address: <http://ec.europa.eu/research/enquiries>

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PART 1: FP7 EC GRANT AGREEMENT - CORE

Article 5 of ECGA – Maximum financial contribution of [the Union] [Euratom]

Article 5.1 of ECGA – The Financial Contribution of the Union/Euratom

The maximum EU/Euratom contribution which appears in this article cannot be exceeded. Even if the eligible costs of the project happen to be higher than planned, no additional funding is possible. The EU/Euratom contribution includes:

- a) **A single pre-financing payment** paid at the start of the project (Article 6 of ECGA)
- b) Interim payments following each reporting period
- c) The final payment at the end of the project for the last reporting period plus any adjustment needed.

For the calculation of the final EU/Euratom contribution, any interest generated by the pre-financing in the account of the coordinator as well as any receipt received by the beneficiary has to be taken into account¹. The information on maximum rates of contribution according to the activities and the type of beneficiary concerned can be found in Article II.16 of ECGA.

Example:

Project A:

Maximum EU contribution: EUR 3,000,000

Duration: 3 years

<i>Pre-financing (for calculation of pre-financing, see Article 6 of ECGA):</i>	<i>EUR 1,600,000</i>
<i>Amount of EU contribution accepted in the 1st reporting period:</i>	<i>EUR 900,000</i>
<i>1st Interim payment:</i>	<i>EUR 900,000</i>
<i>Amount of EU contribution accepted in the 2nd reporting period:</i>	<i>EUR 900,000</i>
<i>2nd Interim payment (due to 10% retention):</i>	<i>EUR 200,000</i>
<i>Amount of EU contribution accepted in the last reporting period</i>	<i>1,200,000</i>
<i>Final payment: EUR (3,000,000 - (1,600,000 + 900,000 + 200,000))</i>	<i>EUR 300,000</i>

For further explanations concerning this article and the payment modalities, please refer to Article II.6 of ECGA. For explanations on the calculation of the pre-financing and the 10 % retention, see Article 6 of ECGA.

Article 5.2 of ECGA – Financial content of Annex I to ECGA

As the breakdown table included in Annex I (Description of Work) to the ECGA is an estimate, the transfer of budget between activities and beneficiaries is allowed without the need for an amendment of the ECGA. However, a condition for this is that the work be carried out as foreseen in Annex I to ECGA. The coordinator should verify this on a case-by-case basis, but in practical terms, coordinators (and beneficiaries via the coordinator) are encouraged, where a transfer with a

¹ For information on interest yielded by pre-financing, see Article II.19. For receipts, see Article II.17 of the GA

potential impact on the "Description of Work" arises (most cases), **to check this** (i.e. by e-mail) with the Project Officer in the Commission. This e-mail (or other written) communication would avoid disagreement on the interpretation of this condition later.

An amendment to the GA will be necessary in all cases if the budget transfer arises from a significant change in Annex I. Significant change refers to a change that affects the technical work as foreseen in Annex I to ECGA, including the subcontracting of a task that was initially meant to be carried out by a beneficiary. In case of doubt, it is recommended to consult the responsible project officer within the Commission.

Furthermore, if a transfer is made, the reimbursement rates of the new activities and beneficiaries concerned as described in Article II.16 of ECGA will apply, as well as any other limits set in the ECGA (i.e. transfer between beneficiaries or activities with different funding rates).

Examples:

- *"A" transfers within its own budget EUR 100,000 from Management activities (funded at 100%) to RTD activities (funded at 50%). If the costs remain the same (EUR 100,000), the funding will be adjusted to EUR 50,000 (as the funding rate for RTD activities is 50% and not 100%).*
- *"B" (a SME – Small/Medium-sized company) transfers EUR 100,000 from RTD activities to "A" (a big company). As the reimbursement rates for an SME in RTD activities may go up to 75% of the total costs, B was entitled to a funding of EUR 75,000. However, if the costs remain the same (EUR 100,000), "A" will be able to claim only EUR 50,000 as EC funding, as 50% is the funding rate for "A" (a non-SME) company in RTD activities.*
- *"B" (SME) transfers EUR 100,000 from RTD activities to the management activities of "A" (average company); Whereas "B" was entitled to EUR 75,000 as EU funding, "A" will be entitled to the same amount of eligible costs (EUR 100,000) to EUR 100,000 as EU funding. This is because management activities are reimbursed at 100%.*

However, irrespective of the different transfer combinations, the maximum EC financial contribution as mentioned in Article 5 cannot be increased.

Specific cases where part or all of the grant is reimbursed as a lump sum (for explanation on the concept of lump sum see Article II.18 of ECGA)

If the ECGA foresees the use of lump sums for one or more beneficiaries the second indent of Article 2.2 should appear in the core GA. In that case, the individual table for the beneficiary (Form A.3.1 of the Grant Preparation Forms) using the lump sum must include the details of the calculation of the lump-sum amount.

Transfer of funds to the part reimbursed as a lump sum is not allowed. Lump sums by definition do not require the submission of financial justifications (statements), as they are "fixed". Therefore, transfers of budget from the part of the grant reimbursed on the basis of costs to the part reimbursed as a lump-sum, or between lump-sums for different activities, are not allowed. Any changes in those amounts could only be considered in the context of a potential re-orientation of the project via a formal amendment to the ECGA in close contact and discussion with the Commission. For transfers of funds from a lump sum-funded activity/partner to a cost-reimbursed one, the particular circumstances should also be discussed with the Commission.

For beneficiaries from international cooperation partner countries² (ICPC) it is foreseen that they may opt for an EU/Euratom contribution in the form of lump sums or for an EU/Euratom contribution based on reimbursement of eligible costs. **As an exception**, in GA with ICPC participants, Consortia can **transfer budget** from the part of the grant reimbursed on the basis of costs to the part reimbursed as a lump sum (and *vice versa*). In other words, the Consortium can transfer funds from beneficiaries reimbursed on the basis of eligible costs to those reimbursed on the basis of lump-sums and *vice versa*.

The reason is that in these cases the number of researchers per year used by these ICPC has to be justified. In these cases also, transfers between beneficiaries using lump sums is possible too, with the same conditions as those mentioned above for transfers of funds. In any of the cases, the maximum total EU/Euratom contribution granted for the project applies.

Participants from international cooperation partner countries may also opt for lump sums when they participate in an ECGA not specifically aimed at fostering this international cooperation.

Explanations on EC contributions in the form of lump sums are provided in this Guide under Article II.18 of the ECGA.

Article 5.3 of ECGA – Bank account

It is recommended that the bank account included in the ECGA (i.e. the bank account of the Coordinator³) be used exclusively for handling the project funds; the reason being that, in order to fulfil its obligations, the coordinator must at any moment be able to identify dates and figures related to any payment received or made under the ECGA (Article II.2.3). This requirement is necessary for the identification of the interest that has to be recovered (or offset). Beyond that, the requirement is also important for audit and control purposes (i.e. to enable a reconciliation of accounting records with the actual use of funds). In conformity with this, the coordinator should receive the EU/Euratom funding in an interest-yielding account. For more information, please refer to Article II.19

In any case, if an existing account/sub-account is used, the accounting methods of the coordinator must make it possible to comply with the above mentioned requirements. In specific cases, especially in the field of security related research, a special clause can be put in the ECGA in order to make the use of a specific bank account / sub-bank account an obligation to the coordinator (special clause No 27).

Article 6 –Pre-financing

Concept and calculation of the pre-financing (+ Article II.6 of ECGA)

There is **only one** pre-financing payment (advance payment) during the life of the project. It will be received by the coordinator at the beginning of the project and in any case within 45 days of

² Article 2.12 of Regulation (EC) N° 1906/2006 defines these as "a third country which the Commission classifies as low-income, lower-middle-income or upper-middle-income country and which is identified as such in the work programmes".

³ Except when the introduction of Special clause 38 in the ECGA allows for the Coordinator to request that the payment of the EU/Euratom contribution is made on a third party's account. For a list of all special clauses see: ftp://ftp.cordis.europa.eu/pub/fp7/docs/fp7-ga-clauses_en.pdf

the entry into force of the grant agreement (unless a special clause stipulates otherwise). The coordinator will distribute it to the other beneficiaries:

- Once the minimum number of beneficiaries as required by the call for proposals have signed and returned Form A (accession form), **and**
- Only to those beneficiaries who have signed and returned Form A.

Like any other payment, the coordinator will distribute the pre-financing to the other beneficiaries in conformity with the ECGA and the decisions taken by the Consortium, and has to be able to determine at any time the amount paid to each beneficiary (and inform the Commission of this when required). **The pre-financing will remain the property of the EU/Euratom until the final payment.**

The purpose of this pre-financing is to make it possible for the beneficiaries to have a positive cash-flow during (most of) the project. It will be defined during the negotiations, but as an indicative general rule, for projects with duration of more than two reporting periods, it should be equivalent to **160% of the average EU funding per period**. However the amount of the pre-financing may change in cases where the specific circumstances of the individual project require it.

Examples:

- *A project with a heavy initial investment by the Consortium (reason to increase)*
- *A project with few activities or financial expenditure for the first period (reason to decrease the pre-financing).*

For projects with one or two reporting periods, the amount of the pre-financing could be between 60-80% **of the total E EU/Euratom contribution**, unless the specific circumstances of the project require otherwise (e.g. very heavy initial capital investment, etc.). Whatever the amount, the limits mentioned in the next paragraph also apply here.

In any case, the single pre-financing has the following two limits:

- the contribution to the Guarantee Fund (5% of the total EC contribution for the project) will be part of the pre-financing (and its calculation); however, it will not be paid into the account of the Coordinator, it will be transferred directly from the Commission to the Fund at the time of the payment of the pre-financing.
- a 10% retention of the total EU/Euratom contribution will always be kept by the Commission until the date of the last payment.

Contribution to the Guarantee Fund (+ [Article II.20 of ECGA](#))

As mentioned above, the amount of the beneficiaries' contribution to the Guarantee Fund (Article II.21 of ECGA) is part of the pre-financing but will be **immediately subtracted** from the pre-financing, before it is paid by the Commission to the Coordinator, and transferred directly by the Commission to the Guarantee Fund. Therefore, the net amount received by the Coordinator in its bank account will be less than the figure mentioned in Article 6.1 of ECGA.

The 5% EC contribution transferred to the Guarantee Fund will be returned to the beneficiaries via the coordinator at the moment of the final payment, at the end of the project; however, a maximum deduction of 1% of the EC contribution may be applied to some beneficiaries in the circumstances detailed in Article II.20 of ECGA.

Examples:

- *Project "A" running over 3 reporting periods with **EUR 3,000,000** EU contribution*
 - ✓ *Average EU contribution per reporting period: **EUR 3,000,000 / 3 = EUR 1,000,000***
 - ✓ *Pre-financing (usually 160% of **EUR 1,000,000**) mentioned in Article 6= **EUR 1,600,000***
 - ✓ *Contribution to Guarantee Fund: 5% of total EU funding: **3,000,000 x 5% = EUR 150,000***
 - ✓ *Net amount transferred to Coordinator⁴: **EUR 1,600,000 – EUR 150,000 = EUR 1,450,000***

- *Project "B" running over 5 reporting periods with **EUR 6,000,000** EU contribution*
 - ✓ *average EC contribution per reporting period : **EUR 6,000,000 / 5 = EUR 1,200,000***
 - ✓ *Pre-financing (usually 160% of **EUR 1,200,000**) mentioned in Article 6= **EUR 1,920,000***
 - ✓ *Contribution to Guarantee Fund: 5% of total EC funding: **6,000,000 x 5% = EUR 300,000***
 - ✓ *Net amount transferred to Coordinator⁵: **EUR 1,920,000 – EUR 300,000 = EUR 1,620,000***

- *Project "C" running for 18 months with one reporting period with **EUR 900,000** Euro of EU contribution*
 - ✓ *Pre-financing (as an indication 75% total **EU funding**) mentioned in Article 6=**EUR 675,000***
 - ✓ *Contribution to Guarantee Fund: 5% of total EU funding: **EUR 900,000 x 5% = EUR 45,000***
 - ✓ *Net amount transferred to Coordinator⁶: **EUR 675,000 – EUR 45,000 = EUR 630,00***

It is important to remember that the basis for the calculation of the single pre-financing for projects of more than two reporting periods is the average EU funding per reporting period; this is the result of dividing the total EU contribution for the project by the number of reporting periods (which may or may not coincide with the number of years of the project).

Article 7 of ECGA – Special clauses

Special clause 10 please refer to Article II.14 of ECGA.

For the other clauses please refer to the following link:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/fp7-ga-clauses_en.pdf

⁴ Unless the Joint Research Centre is a beneficiary in the Consortium, in which case their funding will also be subtracted and paid directly to them.

⁵ Unless the JRC is a beneficiary in the Consortium, in which case its funding will also be subtracted and paid directly to it.

⁶ Unless the JRC is a beneficiary in the ECGA in which case its funding will also be subtracted and paid directly to it.

PART 2: FP7 EC GRANT AGREEMENT – ANNEX II – GENERAL CONDITIONS

Article II.1 of ECGA – Definitions – No financial issues

Explanation on the definition of research organisation, SMEs and public bodies under Article II.16.

PART "A": IMPLEMENTATION OF THE PROJECT

SECTION 1: GENERAL PRINCIPLES

Article II.2 of ECGA – Organisation of the consortium and role of coordinator

There is always only one project coordinator who is responsible for the tasks defined in Article II.2.3 of ECGA and who represents the Consortium vis-à-vis the Commission.

Can these coordination tasks be performed by other beneficiaries/third parties?

The tasks attributed by the ECGA to the coordinator in the above-mentioned Article **cannot be subcontracted or outsourced to a third party**⁷. The role of coordinator of the ECGA is defined by these tasks defined in Article II.2.3 of ECGA. Furthermore, these tasks may not be carried out by other beneficiaries.

Can part of the management tasks be performed by other beneficiaries?

Coordination tasks are part of the "management tasks"; however, "management tasks" include tasks beyond those of coordination of the project, and those tasks can be performed by beneficiaries other than the coordinator. In this sense, some management tasks will be performed by other beneficiaries and they will be reimbursed at 100% provided they comply with the other eligibility criteria as stipulated in Article II.14 of ECGA (e.g. participation to project management meetings, obtaining of the certificates on financial statements). In certain cases (i.e. big projects) there could be in a project a beneficiary carrying out only management activities. For more information on "management tasks" see Article II.16.5 of ECGA.

Can there be a scientific coordinator other than the Coordinator?

The coordinator in the GA is defined **only** by the tasks mentioned in Article II.2.3. Tasks related to the coordination of the project that are not listed in the above Article (e.g. scientific coordination of the project) could be carried out by another beneficiary. It is possible that this

⁷ Except when the introduction of Special clause 38 in the GA allows for the Coordinator to delegate some of the tasks on a third party created, controlled or affiliated to the Coordinator

beneficiary in charge of the task of scientific coordination, may be internally (i.e. within the Consortium) identified as a "scientific coordinator". However, in the relationship with the Commission the "scientific coordinator" is only another beneficiary of the ECGA. It will not be considered as the project coordinator. The tasks of scientific coordination performed by this beneficiary can be reimbursed, if they comply with the criteria for eligibility established in Article II.14, but only as "research and technological development activities" (i.e. 50% /75% reimbursement rate). By their nature (scientific work) they cannot be reimbursed as "management costs" (i.e. reimbursement up to 100%).

Example:

Beneficiary "B" is leader of Work Package I in Project X, and in charge of the publication of a competitive call related to the selection of a new beneficiary within Work Package I, He is also in charge of the technical coordination of the other 5 Work Packages of the project. He also has to provide a certificate on the financial statements.

Reimbursement rates:

- *For its RTD work: 50% (75% if falling under the cases detailed in Article II.16.1.2 of ECGA)*
- *For its management work related to the competitive call within Work Package I: 100%*
- *For its scientific coordination of the project: 50/75% (as this is part of the RTD activities)*
- *For its management costs related to the certificate on financial statements: 100%*

Can a financially weak legal entity be coordinator of a project?

The Commission will systematically analyse the financial viability of coordinators which are not public bodies, higher and secondary education establishments or whose participation is not specifically guaranteed for the project by a Member State or Associated country. The Commission will also analyse the financial viability of any proposed beneficiary receiving an estimated EU/Euratom contribution of more than EUR 500,000.

If as a result of this analysis an entity (whether coordinator or other beneficiary) is considered to have an "insufficient" financial capacity it will usually not be allowed to participate in the project.

In the case of the coordinators, if the results of this analysis show a "weak" financial viability, this entity **will in principle not be allowed to be coordinator of the project**. The Commission will not request additional guarantees or securities from it, and therefore an entity with a weak financial viability must be replaced as coordinator of the Consortium (though it could still be a participant/beneficiary in the project, unlike those with "insufficient" financial viability). **However, this legal entity could still be coordinator if, on a voluntary basis, it provides the Commission with a guarantee which can be considered equivalent to a guarantee by a Member State or an Associated Country.** This financial guarantee must be provided by a bank or insurance company; guarantees from other sources (like affiliated or mother companies) will not be accepted. The financial viability of the coordinator can be re assessed during the project and depending on the results the guarantee may be released.

This guarantee could also exceptionally take the form of a trust account established by the coordinator. In this case the following conditions would apply:

- The account shall not be included in the assets of the coordinator in case of bankruptcy;

- The use of the trust account shall be limited to the implementation of the project concerned;
- The coordinator will be the "trustee", the other partners the "beneficiaries" and the Commission the "trustor";
- Payments from the trust account shall be limited to the beneficiaries entitled to receive EU/Euratom funding;
- After the final payment, any remaining funds shall be returned to the Commission upon its request without need for approval from any third party.

For information on the rules on the legal and financial viability of beneficiaries, check the "Rules to ensure consistent verification of the existence and legal status of participants, as well as their operational and financial capacities":

ftp://ftp.cordis.europa.eu/pub/fp7/docs/rules-verif_en.pdf

Article II.3 of ECGA – Specific performance obligations of each beneficiary – No financial issues

SECTION 2: REPORTING AND PAYMENTS

Article II.4 of ECGA – Reports and deliverables

Articles II.4.1, II.4.2 II.4.3 and II.4.5 → II.4.8 of ECGA

Please refer to the dedicated "Guidance notes on project reporting", available at:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/project_reporting_en.pdf

The guidance notes on project reporting define the content of these reports and propose templates.

Article II.4.4 of ECGA – Certificate on the financial statements and certificate on the methodology

These certificates must be submitted following the templates provided in Annexes D & E of the GA. Those models are compulsory. If the auditor feels however, that one or several of the questions do not correspond to the reality of the accounting system that he is describing, he should explain this divergence in detail in the form and record this as an exception. In this case, the Commission will consider the explanation based upon the facts provided by the auditor, and decide on the consequences.

The ECGA specifies that these certificates must be prepared and certified by an auditor qualified in accordance with national legislation implementing Directive 2006/43 on statutory audits of annual accounts and consolidated accounts or any Community legislation replacing this Directive. Beneficiaries established in third countries shall comply with national regulations in the same field.

Auditors qualified in the EU could provide certificates for beneficiaries established in third countries, but in that case the auditor must be familiar with the relevant national regulations

(national accounting rules) of the beneficiaries' country and comply with them when preparing the certificate.

The case of public officers providing the certification

The ECGA foresees the possibility for public bodies, secondary and higher education establishments and research organisations to opt for a competent public officer to provide these certificates, provided the relevant national authority has established the legal capacity of that competent public officer to audit that entity, and that the independence of the officer can be ensured. This does not mean that the above mentioned beneficiaries have to submit automatically and systematically to the Commission proof that a national authority has established the legal capacity of a given competent public officer. Neither the Commission will systematically ask for such proof unless there are reasonable doubts that the capacity of the competent public officer has not been established correctly.

The Commission's approval or accreditation is not required and a beneficiary who does not comply with the obligation would be in breach of contract.

Where a public body opts for a competent public officer, the auditor's independence is usually defined as independence from the beneficiary "in fact and/or in appearance". A preliminary requirement is that the competent public officer is not involved in any way in drawing up the financial statements (Form C) and that she/he is not hierarchically dependent from the officer responsible for the financial statements.

1. Submission of certificate on the financial statements

Certificates on the Financial Statements (CFS) are not required for indirect actions entirely reimbursed by means of lump sums or flat rates. CFS should be provided only once the threshold mentioned in the ECGA (EUR 375,000) has been reached.

They are not required either for beneficiaries with costs incurred in relation to the project but without EU/Euratom contribution (in this case this circumstance will be mentioned in special clause 9 to be included in Article 7).

A CFS is mandatory for every claim (interim or final) in the form of reimbursement of costs whenever the amount of the EU/Euratom contribution is equal or superior to EUR 375,000 when cumulated with all previous interim payments (not including the pre-financing) for which a CFS has not been submitted. Once a CFS is submitted, the threshold of EUR 375,000 applies again for subsequent EU/Euratom contributions but the count starts from 0.

Bear in mind that although the threshold is established on the basis of the EU/Euratom contribution, the CFS must certify all eligible costs.

Example 1: A beneficiary in a project with a duration of 5 years:

<i>Claim No.</i>	<i>Eligible Costs</i>	<i>EC contribution @50%</i>	<i>Cumulative amount for which a CFS has not been submitted</i>	<i>CFS required</i>	
<i>1</i>	<i>EUR 380,000</i>	<i>EUR 190,000</i>	<i>EUR 190,000</i>	<i>NO</i>	
<i>2</i>	<i>EUR 410,000</i>	<i>EUR 205,000</i>	<i>EUR 395,000</i>	<i>YES</i>	<i>(1)</i>
<i>3</i>	<i>EUR 500,000</i>	<i>EUR 250,000</i>	<i>EUR 250,000</i>	<i>NO</i>	
<i>4</i>	<i>EUR 350,000</i>	<i>EUR 175,000</i>	<i>EUR 425,000</i>	<i>YES</i>	<i>(2)</i>

5	EUR 700,000	EUR 350,000	EUR 350,000	NO	(3)
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(1) Cumulative EU/Euratom contribution = EUR 190,000 + EUR 205,000 = EUR 395,000. A CFS has to be provided because cumulative amount \geq 375,000. After the submission of CFS, the calculation of the cumulative amount re-starts from 0 for period 3.

It is important to remember that the CFS has to cover the eligible costs for the two periods (EUR 380,000 + EUR 410,000 = EUR 790,000), and not just the EC contribution

(2) Cumulative EU/Euratom contribution = EUR 250,000 + EUR 175,000 = EUR 425,000. A CFS has to be provided because the cumulative amount \geq EUR 375,000. After the submission of the CFS, the calculation of the cumulative amount re-starts from 0 for period 5.

The CFS has to cover the eligible costs for the periods 3 and 4 (EUR 500,000 + EUR 350,000 = EUR 850,000)

(3) EU/Euratom contribution for period 5 = EUR 350,000 < EUR 375,000 therefore no need for CFS for the last reporting period

Example 2: Projects of a duration of more than two years:

Claim No.	Eligible Costs	EEU/Euratom contribution	Cumulative amount for which a CFS has not been submitted	CFS required	
1	EUR 350,000	EUR 175,000	EUR 175,000	NO	
2	EUR 350,000	EUR 200,000	EUR 375,000	YES	(1)
3	EUR 300,000	EUR 150,000	EUR 150,000	NO	(2)

Therefore:

(1) A certificate has to be submitted (since EUR 175,000 + EUR 200,000 = EUR 375,000). The certificate must include all eligible costs not yet certified: EUR 700,000

(2) No need for a certificate for the EUR 300,000 because EU/Euratom contribution = EUR 150,000 < EUR 375,000

Example 3: Projects of a duration of more than two years with EU/Euratom contribution < EUR 375,000

Claim No.	Eligible Costs	EC contribution	Cumulative amount for which a CFS has not been submitted	CFS required
1	EUR 200000	EUR 100000	EUR 100000	NO
2	EUR 250000	EUR 125000	EUR 225000	NO
3	EUR 200000	EUR 100000	EUR 325000	NO (1)

(1) No need for a certificate for the EUR 650,000 because EU/Euratom contribution = EUR 325,000 < EUR 375,000.

Specific case of projects with a duration of 2 years or less:

For these cases when the amount of the EU/Euratom contribution claimed by a beneficiary is equal or superior to EUR 375,000 (cumulated with all previous payments) **only one CFS is required at the time of the final payment. This CFS has to cover all eligible costs:**

Example 1: Projects for a beneficiary in a project with duration of two years:

Claim No.	Eligible Costs	EU/Euratom contribution @50%	Cumulative amount for which a CFS has not been submitted	Need of CFS	
1 (12 months)	EUR 800,000	EUR 400,000	EUR 400,000	NO	(1)
2 (final)	EUR 410,000	EUR 205,000	EUR 605,000	YES	(2)

(1) The cumulative amount is above the EUR 375,000 threshold. However, as project duration ≤ 2 years, certificate to be provided only at the end of the project.

(2) This CFS has to cover all eligible costs (EUR 1,210,000)

Example 2: Project with a duration a of 3 years (more than 2 years) but with only 2 reporting periods

Claim No.	Eligible Costs	EU/Euratom contribution	Cumulative amount for which a CFS has not been submitted	CFS required	
1	EUR 750,000	EUR 375,000	EUR 375,000	YES	(1)
2	EUR 350,000	EUR 200,000	EUR 200,000	NO	

(1) Because it reaches the ceiling of EUR 375,000 and the duration of the project is more than 2 years, even if there are only two reporting periods of 18 months each

More information about the procedures to submit the certificate on financial statements can be found in the guidance notes for beneficiaries and auditors at the following address:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf

In addition, a FAQ-document can also be found on the dedicated site on audit ex-post and certification available on CORDIS at the following address:

http://cordis.europa.eu/audit-certification/home_en.html

2. Submission of a certificate on the Methodology

The CFS is a certificate that is submitted after the costs are incurred and claimed.

As an additional option, under FP7, the ECGA allows that some beneficiaries submit, a certificate on the methodology (CoM) that they will use **for the identification of personnel and indirect costs (not for the other costs)**.

Once submitted, this certificate on the methodology will be analysed by the Commission.

If approved, this certificate on the methodology allows the Commission services to have reasonable assurance on the reliability of the beneficiaries' costing methodology for the preparation of future cost claims with regard to both personnel (either actual or average) and indirect costs (other than flat rates), and the related control systems.

As a consequence, those beneficiaries are granted certain derogations in the periodicity of submission of CFS (detailed below).

The procedures to introduce a request and to submit the certificate on the methodology are described in the document entitled "certificates issued by external auditors: guidance notes for beneficiaries and auditors at the following address:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf

In addition, a FAQ-document can also be found on the dedicated site on audit ex-post and certification available on CORDIS at the following address:

http://cordis.europa.eu/audit-certification/home_en.html

The following stages can be identified:

1. Request to use this certificate by the beneficiary

The submission of a certificate on the methodology is subject to the following conditions:

- The submission of this type of certificate is entirely optional (i.e. not mandatory) for those beneficiaries falling within the criteria set by the Commission.
- The certificate is foreseen for beneficiaries with multiple participations (the threshold is determined at the sole discretion of the Commission).

During the first stages of the implementation of the 7th Framework Programme, transitional eligibility criteria based on historical data (FP6) were applied⁸ in order to open as soon as possible this option to those eligible beneficiaries.

It was agreed that these transitional eligibility criteria should be revised to introduce additional criteria based on the participation in FP7 grant agreements of the beneficiaries. These new criteria permit the FP7 recurrent beneficiaries who are not eligible under the current FP6-based eligibility criteria, such as certain beneficiaries from the new Member States, to be eligible for submission of the Certificate on the Methodology for both personnel and indirect costs.

Accordingly, the Commission has agreed:

- to keep the FP6 eligibility criteria : at least 8 participations in FP6 contracts with an EU/Euratom contribution for each contract equal or above EUR 375 000, and
- to add criteria for the beneficiaries who did not meet the above FP6 criteria but would meet :
 - Either at least 4 participations in FP7 Grant Agreements signed before the 1st January 2010⁹ with an EU/Euratom contribution for each grant agreement equal or above EUR 375 000,

⁸ Beneficiaries who have participated in at least 8 contracts under FP6 with an EC financial contribution for each of them equal or above 375,000 EUR can submit a request for certification of their methodologies for both personnel and indirect costs, as from their first participations under FP7.

- Or, at least 8 participations in FP7 Grant Agreements with an EU/Euratom contribution for each grant agreement equal or above EUR 375 000 at anytime during the implementation of the FP7.

A beneficiary that has been found guilty of making false declarations or has seriously failed to meet its obligations under this grant agreement or found to have overstated any amount can be excluded from the certification on the methodology. It could also be the case for beneficiaries whose methodology has been subject to repetitive changes.

Beneficiaries who intend to opt for the certification on the methodology and consider they meet the criteria, may introduce a "request" to the Commission. This request can be introduced **only** by electronic mail to the following functional mailbox:

RTD-FP7-Cost-Methodology-Certification@ec.europa.eu

2. Acceptance or rejection of the request by the Commission services according to established criteria

The Commission has 30 calendar days to accept or reject the request. In case, the request cannot be accepted, a motivated decision will be communicated to the beneficiary concerned. The absence of a response within 30 days of receipt of the request cannot be considered as an acceptance. This time limit may be extended in particular if some clarification or additional information is needed.

3. Submission of the certificate on the methodology:

Once the request has been accepted, the certificate must be submitted in the form of a report of factual findings prepared and certified by an external auditor (or competent public officer for public bodies and secondary and higher education establishments and research organisations¹⁰) in the form foreseen in the ECGA (Annex VII to ECGA, Form E).

The certificate can be submitted at any time during the implementation of FP7 and at the earliest on the start date of the first ECGA signed by this beneficiary under FP7. This certificate can be introduced **only** by electronic mail to the following functional mailbox: RTD-FP7-Cost-Methodology-Certification@ec.europa.eu

4. Acceptance or rejection of the certificate on the methodology by the Commission services
 - The Commission will endeavour to accept or reject the certificate within 60 calendar days. The absence of a response within the 60 days of receipt of the request cannot be considered as an acceptance. This period can be longer if some clarification or additional information is needed. The consequences of the acceptance and use of the certificate on the methodology are as follows:
 - The requirement to provide an intermediate CFS for claims of interim payments (even if cumulatively the EU/Euratom contribution is equal or superior to EUR

⁹ The application of the 60% flat rate has been extended until the end of the 7FP

¹⁰ Cf. Article II.4 of ECGA.

375,000) shall be waived from the date of the notification of the acceptance of the certificate by the Commission.

- Beneficiaries, if cumulatively their EU/Euratom contribution is equal or superior to EUR 375,000, will only have to submit a CFS for the final payment. This CFS will cover the eligible costs for the total EU/Euratom contribution.

This CFS has to cover all the eligible costs including personnel and indirect costs. However, for personnel and indirect costs, the auditors will only have to focus on checking compliance with the certified methodology and systems, omitting individual calculations. A detailed description of the audit procedures to be carried out by the auditors is provided in the guidance notes for audit certifications.

- Once the certificate is accepted, the approved CoM will be valid for all FP7 grant agreements signed by the beneficiary after the date of approval. The approved methodology may also be used retroactively for all ongoing FP7 grant agreements signed by the beneficiary before the date of approval of the CoM. This retroactive effect will be applicable only to projects for which the period of submission of the final reports is not elapsed at the time of the notification of the CoM approval (i.e. time-limit for retroactive effect: end date of the project + 60 days)
- The certificate is valid for the entire period of FP7 unless the beneficiary's methodology changes fundamentally¹¹ or if an audit or other control performed by the Commission services or on its behalf demonstrates a lack of compliance with the certified approved methodology and/or any significant abuse. The beneficiary has to declare to the Commission any fundamental change¹² in its methodology, including the date of the change. In these cases, the beneficiary has to submit another certificate on the methodology. Until the acceptance of this new certificate, the requirement to provide intermediate CFS would not be waived. A beneficiary that has been making false declarations or has seriously failed to meet its obligations under this grant agreement shall be liable to financial penalties according Article II. 25 of ECGA.
- The Commission has the right to recover funds unduly paid, as well as to apply liquidated damages, when an inappropriate use of the approved methodology or any event which invalidate the basis on which the approval was granted is identified, for example during an on-the-spot-audit.

Consequences of the rejection by the Commission:

- In case the certificate cannot (yet) be accepted, a motivated decision will be communicated to the beneficiary. The beneficiary will be invited to submit another certificate on the methodology which is compliant with the requirements of the Commission. Until the acceptance of the certificate on the methodology, the requirement to provide intermediate certificates on the financial statements is not waived.

¹¹ The yearly updates to the most recent financial data are not considered as fundamental changes.

¹² The yearly updates to the most recent financial data are not considered as fundamental changes.

Example:

A beneficiary which has obtained a Certificate on the Methodology and which is participating in a project with three reporting periods

<i>Claim No.</i>	<i>Eligible Costs</i>	<i>EC contribution @50%</i>	<i>Cumulative EC contribution</i>	<i>Need of CFS</i>	
<i>1</i>	<i>EUR 380,000</i>	<i>EUR 190,000</i>	<i>EUR 190,000</i>	<i>NO</i>	
<i>2</i>	<i>EUR 410,000</i>	<i>EUR 205,000</i>	<i>EUR 395,000</i>	<i>NO</i>	<i>(1)</i>
<i>3</i>	<i>EUR 500,000</i>	<i>EUR 250,000</i>	<i>EUR 645,000</i>	<i>YES</i>	<i>(2)</i>
<i>Total</i>	<i>EUR 1,290,000</i>	<i>EUR 645,000</i> <i>Contribution to personnel & overheads: EUR 500,000</i> <i>Contribution to other costs: EUR 145,000</i>	<i>EUR 645,000</i>		

(1) Cumulative amount equal or above EUR 375,000 threshold. However, as a certificate on the methodology approved by the EC services exists, there is no need to provide a CFS on interim payments

(2) A 'simplified' CFS as described above needs to be provided

3. Certificate on average personnel costs (CoMAv) (see Article II. 14 of ECGA)

A beneficiary may opt to declare average personnel costs. For this purpose, **a certificate on the methodology used to calculate the average personnel costs**, "certificate on average personnel costs" **must be submitted** to the services of the Commission for approval. This methodology must be consistent with the beneficiary's management principles and usual accounting practices. Averages calculated according to the certified and accepted methodology are deemed not to differ significantly from actual personnel costs.

When a beneficiary opts to declare average personnel costs, this certificate **is mandatory** unless a certificate on the methodology for average personnel and indirect costs (cfr n°2) has already been awarded. In this case, the certificate on the methodology for average personnel and indirect costs covers the average personnel costs methodology. For these reasons, beneficiaries who use average personnel costs and consider that they fulfil the eligibility conditions to submit a certificate on the methodology should consider the possibility of submitting a request for the latter instead of a request for a certificate on average personnel costs. In any case beneficiaries intending to declare average personnel costs should apply for the prior approval of their calculation method either by means of the submission of a CoM or by applying for a CoMAv.

Acceptability criteria for average personnel cost methodologies

The Commission has adopted on 23 June 2009 the acceptability criteria for average personnel cost methodologies which are applicable for the assessment of the methodologies submitted by the beneficiaries for approval (as per Form E of Annex VII of the ECGA).

The criteria adopted are the following:

- Methodologies in which, for each personnel category, the difference between the average rate and the extreme values (upper and lower rates) is equal to or below 5%:

- the methodology is acceptable. Methodologies in which, for any personnel category, the difference between the average rate and the extreme values (upper and lower rates) is above 25%:
the methodology is not acceptable.
- Methodologies not fulfilling the first criterion and in which, for each personnel category, the difference between the average rate and the extreme values (upper and lower rates) is equal to or below 25%:
Only methodologies applied by beneficiaries having participated in at least 4 FP6 projects with an EU/Euratom contribution in each of them equal to or above 375.000 € **or** in at least 4 FP7 projects with an EU/Euratom contribution in each of them equal to or above 375.000 € are acceptable.

These criteria are applicable provided that all other aspects of the methodology are compliant with the provisions of the ECGA, the Financial Regulation and its Implementing Rules.

Beneficiaries are reminded that their certificate on the methodology for average personnel costs, in order to be properly analysed by the Commission, must include the minimum data requested in the Form E (number of categories, pay range in each category from lowest to highest, average and median, upper and lower percentage variation within each category from the average, etc).

Further information on the acceptability criteria is available at the following address:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/fp7-average-personnel-costs_en.pdf

Practical examples and more information about the procedures to submit the certificate on average personnel costs are described in the guidance notes for beneficiaries and auditors at the following address:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf

For the submission and approval of the CoMAv the the following stages can be identified:

1. Submission of the certificate on average personnel costs

The certificate must be submitted in the form of a report of factual findings prepared and certified by an independent external auditor (or by a competent public officer for public bodies, secondary and higher education establishments and research organisations¹³) in accordance with the part relating to personnel costs of Form E in Annex VII to ECGA.

The certificate can be submitted at any time during the implementation of FP7 but at the earliest on the start date of the first grant agreement signed by this beneficiary under FP7. This certificate can be introduced only by electronic mail to the following functional mailbox:

RTD-FP7-Average-Personnel-Rate-Certification@ec.europa.eu

2. Acceptance or rejection of the certificate by the Commission services

¹³ Cf. Article II.4 of ECGA.

- The Commission will endeavour to accept or reject the certificate within 60 calendar days. The absence of a response within the 60 days of receipt of the request cannot be considered as an acceptance. This period can be longer in particular if some clarification or additional information is needed.

Consequences of the acceptance and use of the certificate on the average personnel costs:

- Once the certificate is accepted, the approved CoMav will be valid for all FP7 grant agreements signed by the beneficiary after the date of approval. The approved methodology may also be used retroactively for all ongoing FP7 grant agreements signed by the beneficiary before the date of approval of the CoMav. This retroactive effect will be applicable only to projects for which the period of submission of the final reports is not elapsed at the time of the notification of the CoM approval (i.e. time-limit for retroactive effect: end date of the project + 60 days)

The validity of the certificate approved by the Commission **for physical persons and SME owners who do not receive a salary** is retroactive as of the first day of FP7, provided that the said methodology was in use since the beginning of the project or that the costs already reported are adjusted according to the approved methodology.

- . The certificate is valid for the entire period of FP7 unless the beneficiary's methodology changes fundamentally or if an audit or other control performed by the Commission services or on its behalf demonstrates a lack of compliance with the certified methodology and/or any significant abuse. In these cases, the beneficiary has to submit another certificate on the average personnel costs. Until the acceptance of this new certificate, the beneficiary cannot charge average personnel costs. The beneficiary has to declare any change in its methodology. A beneficiary that has been found guilty of making false declarations or has seriously failed to meet its obligations under this grant agreement shall be liable to financial penalties according Article II. 25 of the ECGA.
- The Commission has the right to recover funds unduly paid, as well as to apply liquidated damages, when an inappropriate use or lack of compliance with the approved methodology and/or any significant abuse is identified, for example during an on-the-spot-audit.
- It does not waive the obligation to provide an intermediate CFS (whenever the EUR 375,000 threshold is reached) unless this is part of the certificate on the methodology.
- Average personnel costs charged by this beneficiary according to the certified and accepted methodology are deemed not to significantly differ from actual personnel costs.

The auditors will therefore only have to focus on checking compliance with the certified methodology and systems, omitting individual calculations; such calculations may be however carried out in order to verify that the methodology has correctly been applied and that no abuse has taken place.

Consequences of the rejection by the Commission:

- In case the certificate is not (yet) accepted, a motivated decision will be communicated to the beneficiary. The beneficiary will be invited to submit another certificate on the average personnel costs which is compliant with the requirements of the Commission. Until the

acceptance of the certificate on average personnel costs, the beneficiary cannot charge average personnel costs.

Comparison between certificates:

	Certificate on Financial Statements (CFS)	Certificate on the Methodology	Certificate on average personnel costs
Basis	Article II.4	Article II.4	Article II.14
Who	Mandatory for all beneficiaries based on conditions set up in the GA	Optional and foreseen for beneficiaries with multiple participations based on criteria <u>defined by</u> the Commission (see above).	Mandatory for beneficiaries which will use average personnel costs unless a certificate on the Methodology is provided. In this case, the certificate on the Methodology replaces the certificate on average personnel costs
Condition	<p>If total contribution < € 375.000 no CFS required</p> <p>For projects > 2 years: Interim and/or final payment Each time that the cumulated EC contribution not covered by a CFS is \geq €375.000: CFS is required</p> <p>Exceptions: When Certificate on the Methodology is accepted by the Commission, CFS not required for interim payment Each time that the cumulated EC contribution not yet certified is \geq €375.000</p> <p>For projects \leq 2 years: If total contribution \geq €375.000 Only one CFS at the final payment.</p>	For beneficiaries with multiple participations	<p>The method has to be consistent with the management principles and usual accounting practices of the beneficiary</p> <p>The average costs cannot differ significantly from actual personnel costs. The Commission defines acceptance criteria (see above in point 3).</p>
Scope	The project and reporting periods concerned. It covers all eligible costs not yet certified	By default, all the beneficiary's projects throughout FP7	By default, all the beneficiary's projects throughout FP7
Timing	<p>For projects \leq 2 years: at the final payment</p> <p>For projects > 2 years: When criteria are met</p>	At any time of the implementation of FP7 but at the earliest on the start date of the first GA signed by the beneficiary under FP7	At any time of the implementation of FP7 but at the earliest on the start date of the first GA signed by the beneficiary under FP7
Form	<p>Detailed description verified as factual by external auditor or competent public officer</p> <p>Independent report on factual findings (Annex VII Form D)</p>	Independent report on factual findings (Annex VII Form E) by external auditor or competent public officer	Independent report on factual findings (Annex VII, relevant part of Form E) by external auditor or competent public officer
Advantages	Applying the CFS will increase the certainty on the	When a Certificate on the Methodology is accepted by	If the Methodology is accepted, the average costs are deemed not

	eligibility of costs for the beneficiary	the Commission, no CFS required for interim payments If the Methodology is accepted, no risk of rectification after audit if the method is applied correctly	to differ significantly from actual costs. If the Methodology is accepted, no risk of rectification after audit if the method is correctly applied.
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Article II.5 of ECGA – Approval of reports and deliverables, time-limit for payments

Article II.5.1 – Approval of reports and deliverables at the end of each reporting period

At the end of each reporting period, the Commission shall evaluate and approve project reports and deliverables and disburse the corresponding payments within **105** days of their receipt.

Article II.6 of ECGA – Payment modalities

The following types of payments are foreseen:

Article II.6.1.a) – Pre-financing at the start of the project

For more details concerning pre-financing, please refer to Article 6. It is important to remember that the interest generated by the pre-financing will be deducted from the EC contribution (see Article II.19 of ECGA). The interest generated on the amount of pre-financing will be offset against the subsequent payment. It also should be borne in mind that the amount of the contribution transferred to the Guarantee Fund is considered to be part of the pre-financing received by the Consortium. It also should be borne in mind that the amount of the contribution transferred to the Guarantee Fund is considered to be part of the pre-financing received by the Consortium.

Example:

*Maximum EU/Euratom contribution to the project: **EUR 3,000,000***

*Pre-financing: **EUR 1,600,000***

*Funding accepted for the 1st reporting period: **EUR 1,000,000***

*Interest generated (by the pre-financing of **EUR 1,600,000**) = **EUR 20,000***

*Interim payment following the 1st reporting period: **EUR 1,000,000 – EUR 20,000 = EUR 980,000***

Article II.6.1.b) – Interim payments following the approval of periodic reports

After approval of the periodic reports interim payments will follow and will be calculated on the basis of the accepted eligible costs and the corresponding reimbursement rates as indicated in Article II.16 of ECGA. The amounts paid for interim payments will correspond to the accepted EU/Euratom contribution. However, the total amount of interim payments + pre-financing will be limited to 90% of the maximum EU/Euratom contribution. This may imply, as mentioned in the examples below that in some cases payment for the interim periods may be reduced in order to respect this limit.

Article II.6.1.c) – Final payment following the approval of final report

The final payment will be transferred after the approval of the final reports and consists of the difference between the calculated EU/Euratom contribution (on the basis of the eligible costs) minus the amounts already paid.

The total payment is however limited to the maximum EU/Euratom contribution as defined in Article 5 of ECGA. If the total amount already paid would prove to be higher than the EC contribution accepted, the Commission will recover the difference.

Also at this stage, the Commission will order the Fund to release the amount of the beneficiaries' contribution to the Guarantee Fund according to the provisions of Article II.21 of ECGA.

Example 1:

Project duration: 3 years			
Maximum EU/Euratom contribution:		EUR 3,000,000	
Ceiling: EUR 2,700,000 (10% retention)			
			Cumulative payments
<i>Period 0</i>	<i>Pre-financing</i>	EUR 1,600,000	EUR 1,600,000
<i>Period1 Accepted Funding: EUR 1,000,000</i>	<i>Interim payment P1</i>	EUR 1,000,000	EUR 2,600,000
<i>Period2 Accepted Funding: EUR 800,000</i>	<i>Interim payment P2</i>	EUR 100,000	EUR 2,700,000
			<i>to respect ceiling</i>
<i>Period3 Accepted Funding: EUR 1,200,000</i>	<i>Final Payment</i>	EUR 300,000	EUR 3,000,000
			<i>maximum</i>

Example 2

Project duration: 3 years			
Maximum EU/Euratom contribution: EUR 3,000,000			
Ceiling: EUR 2,700,000			
			Cumulative payments
<i>P0</i>	<i>Pre-financing:</i>	EUR 1,600,000	EUR 1,600,000
	<i>Interest generated</i>	EUR 20,000	
<i>P1 Funding: € 1,0 M</i>	<i>Interim payment P1</i>	EUR 980,000	EUR 2,600,000
<i>P2 Funding: € 0,8 M</i>	<i>Interim payment P2</i>	EUR 100,000	EUR 2,700,000
			<i>to respect ceiling</i>
<i>P3 Funding: € 1,2 M</i>	<i>Final Payment</i>	EUR 300,000	EUR 3,000,000
			<i>maximum</i>

Article II.6.4 – Conversion rates

1. Recording in the beneficiary's accounting books of costs incurred in a currency other than the one of the accounting books of the contractor (applicable to all beneficiaries)

When recording in their accounting books costs incurred in a currency different than the currency of these books, the beneficiaries shall convert these costs in accordance with the applicable national law and their usual accounting and management principles and practices. For example, a UK beneficiary buying some equipment in the USA.

2. Reporting costs in EUR in the Forms C submitted to the European Commission (applicable only to beneficiaries whose accounting books are not in EUR).

Costs shall always be reported in EUR in the financial statements submitted to the European Commission. Beneficiaries with accounts in currencies other than EUR shall report in EUR on the basis of the exchange rate that would have applied either:

- on the date that the actual costs were incurred or
- on the basis of the rate applicable on the first day of the month following the end of the reporting period.

For both options, the daily exchange rates are fixed by the European Central Bank (ECB) and may be obtained at the following internet address: <http://www.ecb.int/stats/eurofxref/> or, for the rate of the first day of the month following the reporting period, in the relevant OJ of the European Union. The choice must be the same for all reporting periods in a given GA. For the days where no daily exchange rates have been published, (for instance Saturday, Sunday and New Year's Day) you must take the rate on the next day of publication. The use of other sources for exchange rates (other than the ECB) is admissible only where no other solution is possible (i.e. when ECB does not include the daily exchange rates for a particular currency).

Beneficiaries with accounts in EUR shall convert costs incurred in other currencies according to their usual accounting practice.

SECTION 3: IMPLEMENTATION

Article II.7 of ECGA – Subcontracting

Article II.7.1 – Definitions

The general rule is that beneficiaries shall implement the indirect action and shall have the necessary resources to that end. However, it is accepted that, when the GA provides for it accordingly, and as an exception certain parts of the work may be subcontracted.

A subcontractor is a type of third party, i.e. a legal entity which is not a beneficiary of the ECGA, and is not a signatory to it. It appears in the project because one of the beneficiaries appeals to its services to carry out part of the work, usually for specialised jobs that it cannot carry out itself or because it is more efficient to use the services of a specialised organisation (e.g. setting up a website for the project).

The subcontractor is defined by certain characteristics:

- The agreement is based on "business conditions"; this means that the subcontractor charges a price, which usually includes a profit for the subcontractor. This makes it different from other third parties' contributions where the third party charges only for the costs of the activity.
- The subcontractor works without the direct supervision of the beneficiary and is not hierarchically subordinate to the beneficiary (unlike an employee).

- The subcontractor carries out parts of the work itself, whereas other third parties (with some exceptions) only make available their resources to a beneficiary usually on the basis of a previous agreement and in order to support a beneficiary by providing resources.
- The subcontractor's motivation is pecuniary, not the research work itself. It is a third party whose interest in the project is only the profit that the commercial transaction will bring. A subcontractor is paid in full for its contribution made to a project by the beneficiary with whom it has a subcontract. As a consequence subcontractors do not have any IPR rights on the foreground of the project.
- The responsibility vis-à-vis the EU/Euratom for the work subcontracted lies fully with the beneficiary. The work that a subcontractor carries out under the project belongs to the beneficiary in the ECGA. A subcontractor has no rights or obligations vis-à-vis the Commission or the other beneficiaries, as it is a third party. However, the beneficiary must ensure that the subcontractor can be audited by the Commission or the Court of Auditors.

In principle, the beneficiary should not subcontract part of the work to its affiliates. These should be identified as third parties linked to a beneficiary and included in the ECGA via special clause 10.

Accordingly, subcontracting between beneficiaries in the same ECGA is not to be accepted.

All participants by definition contribute to and are interested in the project, and where one participant needs the services of another in order to perform its part of the work, it is the second participant who should declare and charge the costs for that work. In the Consortium Agreement they may define provisions to cover those costs not reimbursed by the EU/Euratom.

Subcontracting costs are direct costs. They have to be identified by beneficiaries in the financial statement form (Form C, Annex VI to ECGA).

Article II.7.2 – Tasks which can be subcontracted and conditions

Subcontracting may concern only certain parts of the project, as the implementation of the project lies with the participants. Therefore, the subcontracted parts should in principle not be "core" parts of the project work. In cases where it is proposed to subcontract substantial/core parts of the work, this question must be carefully discussed with and approved by the Commission and those tasks identified in Annex I to ECGA. Usually in such cases, the intended subcontractor could instead become a beneficiary, or the consortium should find another beneficiary able to perform that part of the work.

What is a "core" part of the work?

Usually subcontracts **do not concern the research work itself**, but tasks or activities needed in order to carry out the research, auxiliary to the main object of the project. Subcontracts may involve large amounts of money, even though they have nothing to do with the core parts of the project. Their purpose might be just to facilitate/make possible the research work. In projects where research is not the main purpose (like in coordination and support actions - CSA) the core part should be understood as referring to the main activity of the project. In any case, it is recommended that the particular case be discussed with the Commission.

Examples:

- *Company "A" needs to dig a 300-metre deep trench in order to make some experiments. A subcontract to find an organisation with the adequate equipment is required. This may consume 50% of the total project cost - however it is justified.*

- *Company "B" needs to collect data and interrogate databases in different countries in order to decide on the best place to install a pilot plant. A company specialised in electronic data collection is subcontracted for that task.*

Coordination tasks of the coordinator such as the distribution of funds, the review of reports and others tasks mentioned under Article II.2.3 to ECGA cannot be subcontracted. Other project management activities could be subcontracted under the conditions established for subcontracting.

As mentioned above, the beneficiary remains responsible for all its rights and obligations under the ECGA, including the tasks carried out by a subcontractor. The beneficiary must ensure that the intellectual property that may be generated by a subcontractor reverts to the beneficiary so that it can meet its obligations towards the other beneficiaries in the ECGA. Any bilateral agreement between subcontractor and beneficiary should include this, as well as the respect of the obligations mentioned in Articles II.10, II.11, II.12, II.13 and II.22 of the ECGA which concern, among others, obligations related to information and communication of data, and financial audits and controls.

Details to be included in Annex I and selection of subcontractors

The need for a subcontract must be detailed and justified in Annex I to ECGA, following the principles mentioned above and taking into account the specific characteristics of the project. It is **the work (the tasks)** to be performed by a subcontractor that has to be identified in Annex I to the ECGA. The identity of the subcontractors does not need to be indicated in Annex I to ECGA. However, if the identity of the subcontractor is indicated, the beneficiaries are nevertheless bound to demonstrate that the selection of the subcontractor complied with the principles described below.

The description of the tasks to be subcontracted should include a financial estimation of the costs. It is also important to have regard to the procedure to be used for the selection of the subcontractor, which should be proportionate to the size of the subcontract.

Article II.7.2 of ECGA requires beneficiaries to ensure that transparent bidding procedures are used before selecting a subcontractor.

"Any subcontract, the costs of which are to be claimed as an eligible cost, must be awarded to the bid offering best value for money (best price-quality ratio), under conditions of transparency and equal treatment."

The procedure to be applied for the award of subcontracts depends on the status of the beneficiary, i.e. if the beneficiary is a public or a private entity:

- Public entities must follow the procurement principles established by their national authorities. For subcontracts exceeding certain amounts, the directive on public procurement of services applies and the publication of a call for tenders is mandatory. **However, they must in any case comply with the terms of the GA.**

Example:

In an FP7 project, a beneficiary (university) subcontracts task X for an amount of EUR 50,000. If this amount is below the threshold set by its national public rules (i.e. EUR 100,000), then the subcontract must comply at least with the conditions set out in the GA, even if the national rules do not set out any specific requirement.

- Private legal entities must follow the rules that they usually apply for the selection of procurement contracts, respecting in any case the terms of the ECGA. The publication of a call for tenders is normally not necessary for private legal entities, but they must at least require submission of several quotes (usually a minimum of three), unless it has an established framework contract for the provision of those services. There must be a proportional relationship between the size in work and cost of the tasks to be subcontracted on the one hand and the degree of publicity and formality of the selection process on the other.

The **procedure must ensure conditions of transparency and equal treatment**. At the request of the Commission and especially in the event of an audit, beneficiaries must be able to demonstrate that they have respected the conditions of transparency and equal treatment. Beneficiaries must be able to prove that:

- the criteria and conditions of submission and selection are clear and identical for any legal entity offering a bid;
- there is no conflict of interest in the selection of the offers;
- the selection must be based on the best value for money given the quality of the service proposed (best price-quality ratio). It is not necessary to select the lowest price, though price is an essential aspect.
- the criteria defining "quality" must be clear and coherent according to the purpose of the task to subcontract, in order to provide a good analysis of the ratio price/quality.

Framework Contracts

Many companies have framework contracts with a third party to carry out routine or repetitive tasks (e.g.: an external auditor who periodically audits the accounts of a beneficiary). They have been established before the beginning of the project, and are the usual practice of the beneficiaries for a given type of task. These framework contracts can be used to carry out tasks necessary for implementing the EC project provided they have been established on the basis of the principles of best value for money and transparency mentioned above.

Article II.7.3 – Minor tasks

Minor tasks correspond to minor services, which are not project tasks identified as such in the Annex I but are needed for implementation of the project (quite different from, for instance, analysing samples or building a pilot plant). They do not have to be specifically identified in Annex I to ECGA, as by definition their importance is minor (the amounts involved are also normally small). However, the selection procedure mentioned above also applies to these subcontracts.

The criteria to decide whether a subcontract concerns minor tasks are qualitative and not quantitative:

Examples:

- *Organisation of the rooms and catering for a meeting*
- *Printing of material, leaflets, etc.*

Article II.7 of ECGA in combination with special clause 25

In the field of space research under the topic "Space" special clause No 25 can be used under specific circumstances, in this case derogating Article II.7 of ECGA. This special clause is used due to the fact that in the space research field it may become necessary to place a subcontract covering a very large amount of money (e.g. the building and launching of satellites or space infrastructure for research purposes) and representing major project tasks. For this specific purpose – and limited to this field of application – special clause No 25 can be used by the Commission services, where appropriate. Due to the high importance of such subcontracts and the high technical complexity of such an action, *argumentum a contrario*, any subcontract following this special clause needs to be concluded with one or several subcontractors on the basis of very strong direct supervision by the beneficiary concerned. Further details on the use of this special clause can be found in the Guide for Special Clauses [link].

Article II.8 of ECGA – Suspension of the project

Under the conditions mentioned in Article II.8 of ECGA, the Commission may suspend the whole project or parts of the project. Suspending a project has the effect of interrupting the execution of a project in order to fix specific problems or to re-establish an operational status. Once the reasons for the suspensions are no longer present, the project can – upon the receipt of written confirmation by the Commission service in charge – continue at the stage reached before the suspension.

During the period of suspension, no costs can be charged to the project for carrying out any part of the project that has been suspended. If the Commission services in charge end the suspension and allow the project to continue, the remaining project budget can be used under the given rules. If the suspension leads to a termination of the ECGA, no further costs can be charged to the project except for costs described in Article II.39 of ECGA.

Article II.8 → II.13 of ECGA – No financial issues

PART "B": FINANCIAL PROVISIONS

SECTION 1: GENERAL FINANCIAL PROVISIONS

Article II.14 of ECGA – Eligible costs of the project

Principle

Maximum EU/Euratom grant is based on an estimation of eligible costs prepared by the partners and negotiated with the Commission (see Article 5 of ECGA), to which the reimbursement rate is applied according to the activity and type of organisation.

Estimation of eligible costs of the project must be shown in detail in the provisional budget included in the Grant Preparation Forms (GPF) and subsequently in the Description of Work (Annex I to ECGA).

In order to be considered for reimbursement, costs incurred by the beneficiaries in the course of the project, must satisfy the eligibility criteria laid down by the ECGA. It must be stressed that subject to these criteria, it is always the Commission which takes the final decision on the nature and amount of the costs to be considered eligible, either when analysing proposals for the establishment of the estimated budget to be annexed to the ECGA or when examining financial statements for the purposes of determining the EU/Euratom contribution.

Compatibility of FP7 funded projects with other sources of EU/Euratom funding

The general rule is that the beneficiary has to co-finance the costs of the project. The question arises whether an applicant, faced with the need to provide a contribution to a project under FP7, could use funds it has received from **other** EU instruments (Structural Funds, CIP projects) to cover the cost.

According to Article 111 of the Financial Regulation of the European Communities¹⁴, each action may give rise to the award of only one grant from the budget to any one beneficiary. Therefore, the same action may not be financed by other EU programmes.

In the case of the applicant's contribution to a project financed with the Structural Funds, the answer is a definite no. Structural Funds must be co-financed by national and regional public and private funds. This means that funds received from another Community programme, like FP7 or CIP, cannot be used to provide the required national contribution to a Structural Funds programme and such action would indeed be illegal. The same prohibition applies in the other direction to the use of Structural Funds to cover the applicant's contribution to a project funded by FP7 or the CIP.

While co-financing the same project by different EU funds is either prohibited or not practically possible, it is possible to combine the resources of the Structural Funds, FP7 and CIP in a **complementary way**. This means using different funds for different actions (with separate cost statements/bills), which are carried out in a related or consecutive manner

Finally, if the beneficiary of an FP7 project receives an operating grant from the European Commission, all costs covered by this operating grant (such as indirect costs for instance) cannot be charged under EU/Euratom project costs.

For more information please go to the **PRACTICAL GUIDE TO EU FUNDING OPPORTUNITIES FOR RESEARCH AND INNOVATION** at the following address:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/practical-guide-rev2_en.pdf

Article II.14.1 – Eligibility criteria

To be considered eligible costs must be:

- ***actual (Article II.14.1.a) of ECGA***

Costs must be actually incurred (actual costs). That means that they must be real and not estimated, budgeted or imputed.

¹⁴ Now European Union and Euratom

Where actual costs are not available at the time of establishment of the certificate on the financial statements, the closest possible estimate can be declared as actual if this is in conformity with the accounting principles of the beneficiary. This must be mentioned in the financial statement. Any necessary adjustments to these claims must be reported in the financial statement for the subsequent reporting period. In FP7 Form C does not contain a row for adjustments like in FP6. Any adjustment requires the submission of a supplementary Form C for the period, where the details of that adjustment will appear. Together with the new Form C, the justification and details for the adjustment must be presented by the beneficiary in the Periodic Management Report .

Therefore, the procedure to follow in order to correct a previous Form C is this:

1. One Form C for the current period;
2. One separate Form C for every previous period where adjustments are needed, which will include ONLY those adjusted (negative/positive) costs of that specific previous period.

If these costs need to be covered by a Certificate on Financial Statements (CFS), they could be supported within the CFS for the current period but with a specific indication by the auditor certifying both the supplementary costs incurred in previous periods and those claimed in the current one.

*e.g. 2009: One form C with 100,000 for personnel costs incurred in 2009
2010: One form C with 120,000 personnel costs incurred in 2010 and another form C correcting the personnel costs of 2009 with a figure of -1,500 and related reduction in EU contribution (e.g.-750).*

For the last period the costs should be submitted based on the information available at the moment of preparing the financial statement but the beneficiary should always provide the closest possible estimate.

Specific case of average personnel costs

Only actual costs are in principle eligible for cost reimbursement.

Beneficiaries may opt to declare average personnel costs if consistent with the management principles and usual accounting practices and if based on a certified methodology approved by the Commission as described in Section 2 of Part A (Article II.4 of ECGA). These costs are deemed not to significantly differ from actual personnel costs.

Such a certificate needs to be issued in accordance with the provisions laid down in Article II.4 of ECGA and the relevant part of Form E in Annex VII to the ECGA.

What happens if average personnel costs are submitted without the approval of the methodology by the Commission?

Only average personnel costs submitted on the basis of methodologies approved by the Commission via the corresponding certificate on the methodology are eligible.

A possibility exists, as indicated previously, that when actual costs can not be determined at the time of the preparation of the financial statements, the beneficiary may use the best possible estimation available at the moment of establishing the Form C, provided this is

done in conformity with the usual accounting principles of the beneficiary. The beneficiary must mention this choice when submitting the financial statement and must confirm that the personnel costs will be re-calculated on the basis of the actual individual costs, and any resulting adjustment declared, in the subsequent reporting period or at the latest in the last reporting period of the project.

If however, in the meantime, the beneficiary obtains the certification for its average personnel costs, the beneficiary will be exempted from reporting adjustments to actual costs for ongoing FP7 projects, provided that the methodology used to calculate the personnel costs was the same as the methodology eventually approved.

A beneficiary could opt to declare real costs for non-permanent staff and provide a certificate of average costs for permanent personnel. This should be explained in the methodology submitted to the Commission. For more information on average costs please refer to Article II.4.4.

- *incurred by the beneficiary (Article II.14.1.b) of the ECGA)*

Supporting documents proving **occurrence**, the bookkeeping and the payment of the costs by the beneficiaries must be kept for all costs and for up to five years after the end of the project.

- *incurred during the duration of the project, with the exception of costs relating to final reports and certificates on the financial statements (Article II.14.1.c) of the ECGA)*

Only costs generated during the lifetime of the project can be eligible; as a result the period during which the project starts determines the beginning of the period of eligibility of the corresponding costs (Article 3 of the ECGA – Duration and start date of the project). However, for beneficiaries working on accrual accountancy basis, the date when the costs are incurred is the date when they are entered into the books according to applicable national accounting rules. Therefore, for these beneficiaries' costs relating to e.g. travels, may be potentially eligible if the invoices documenting them were entered into the books after the start date of the project. In this sense, costs must be incurred during the duration of the project, which does not necessarily mean that the cost has in fact to be paid during that period.

E.g. Salaries of staff for the last month of the project which are paid following the end of the project.

For beneficiaries working on **cash based accounting**, the date when the costs are incurred is the date when the payment is executed.

For beneficiaries working on accrual based accounting, the payment is not the event that determines whether the cost was incurred during the project duration. The date when the costs are incurred is the earlier of the 2 following dates:

- the date when an accrual should be recorded in accordance with the national accounting law and the usual accounting and management principles and practices of the beneficiary or
- the date when the invoice is entered into the books.

Therefore, costs relating to e.g. travels, may be potentially eligible for these beneficiaries if the accrual or invoice relating to these costs is entered into the books after the start date of the project

The ECGA foresees an exception for costs incurred in relation to final reports and reports corresponding to the last period as well as certificates on the financial statements when requested at the last period and final reviews if applicable. These costs may be incurred during the period of up to 60 days after the end of the project or the date of termination, whichever is earlier.

It may be that despite that the ownership of the good has actually been transferred **or the service provided** some costs have not yet been paid when the request for the final payment is sent. This situation is acceptable if it is certain that a debt exists (invoice or equivalent) for services or goods actually supplied during the lifetime of the project and the final cost is known; the Commission is entitled to check whether payment was actually made by asking for supporting documents to be produced when the payment has been made or during an *ex post* audit carried out later.

Where actual costs are not available at the time of establishment of the certificate on the financial statements, the closest possible estimate can be declared as actual if this is in conformity with the accounting principles of the beneficiary. This must be mentioned in the financial statement. Any necessary adjustments to these claims must be reported in the subsequent reporting period.

For the last period the costs should be submitted based on the information available at the moment of preparing the financial statement.

Costs related to the **drafting of the Consortium Agreement** are not eligible insofar the Consortium Agreement is deemed to have been concluded by the time of the signature of the GA, in other words, it must be finalised before (Article 1 of the ECGA). Costs related to **updating the Consortium Agreement**, however, are eligible.

Can depreciation costs for equipment used for the project but bought before the start of the project be eligible?

If the equipment has not yet been fully depreciated according to the usual accounting practices of principles of the beneficiary, then the remaining depreciation (according to the amount of use, in percentage and time) can be eligible under the project.

Example:

Equipment bought in January 2005, with a depreciation period of 48 months according to the beneficiary accounting practices. If a GA is signed in January 2007 (when 24 months of depreciation have already passed), and the equipment is used for this ECGA, the beneficiary can declare the depreciation costs incurred under the project for the remaining 24 months in proportion of the allocation of the equipment to the research project.

Costs related to preparing, submitting and negotiating the proposal can never be charged to the project.

- ***Determined according to the usual accounting and management principles and practices of the beneficiary identifiable and verifiable (Article II.14.1.d) of the ECGA***

Costs must be determined according to the applicable accounting rules of the country where the beneficiary is established and "*according to the usual accounting and management principles and practices of the beneficiary*". However, this principle is not

absolute; it must be considered together with the other eligibility criteria, and therefore could not be invoked in order to deviate from other provisions of the ECGA.

Example: VAT could be considered as a cost by the accounting of a beneficiary, but this cannot be used to claim it as an eligible cost with an FP7 project, as VAT is not an eligible cost (article II.14.3.a)

This also means that they do not have the possibility to create specific accounting principles for FP7 projects (e.g. a bonus payment for researchers only for the time spent on EC projects). If in their usual accounting principles a particular cost is always considered as an indirect cost they have to consider it also as an indirect cost in an FP7 indirect action. An exception to this is when a beneficiary needs to introduce changes in order to bring its "usual accounting principles and practices" in line with other provisions of the Grant Agreement. It is clear than in that case those changes are not only possible but compulsory.

Example: time recording practices, indirect cost calculations, productive hour's approaches...

Costs which cannot be justified are, as a matter of principle, to be considered not eligible. The grant agreement states that "*the beneficiary's internal accounting and auditing procedures must permit direct reconciliation of the costs and revenue declared in respect of the action with the corresponding accounting statements and supporting documents*".

The purpose of this provision is to give some assurance about the source of the costs and receipts declared, which must come directly from the beneficiary's accounts and be backed up by appropriate supporting documents. However, when the beneficiary opts to charge indirect costs using a flat rate, by definition these indirect costs do not need to be backed up by supporting evidence (see Article II.15.b and c of ECGA).

More explanations on the justification and recording of costs are given in Article II.15 of ECGA.

- *used for the sole purpose of achieving the objectives of the project and its expected results, in a manner consistent with the principles of economy, efficiency and effectiveness (Article II.14.1.e) of ECGA)*

These costs must be essential for the performance of the project and would not be incurred if the project did not take place. The beneficiary must be able to justify the resources used to attain the objectives set. The EU/Euratom grant must not be diverted to finance other projects or other activities.

The principles of economy, efficiency and effectiveness: refers to the standard of "good housekeeping" in spending public money effectively. Economy can be understood as minimising the costs of resources used for an activity (input), having regard to the appropriate quality and can be linked to efficiency, which is the relationship between the outputs and the resources used to produce them. Effectiveness is concerned with measuring the extent to which the objectives have been achieved and the relationship between the intended impact and the actual impact of an activity. Cost effectiveness means the relationship between project costs and outcomes, expressed as costs per unit of outcome achieved.

Costs must be reasonable and comply with the principles of sound financial management, with the objectives of the project and with the formal aspects of the reporting of this expenditure, including the follow-up of the budget in terms of budget allocation and schedule of the cost.

- *recorded in the accounts of the beneficiary and, in the case of any contribution from third parties, recorded in the accounts of the third parties (Article II.14.1.f) of the ECGA)*
- *have been indicated in the estimated overall budget annexed to the ECGA – Annex I (Article II.14.1.g) of the ECGA)*

When the maximum EU/Euratom financial contribution is determined, the eligible costs will appear in the estimated budget. It is possible, without a supplementary agreement, to authorise certain transfers of costs between eligible cost items in the estimated budget within the overall amount of eligible costs, in the conditions mentioned in Article 5.2 of the ECGA.

Costs like personnel, durable equipment, travel and subsistence, subcontracting, consumables, etc. may be considered as eligible costs, provided they meet the definition of eligible costs in the ECGA and are incurred in the context of the activities permitted by the instrument (see examples in Article II.15 of the ECGA).

Article II.14.2 of the ECGA – Costs of third parties – Costs of resources made available and costs of third parties carrying out part of the work

What is a third party?

A third party is, by definition, any legal entity which does not sign the ECGA. A subcontractor is a type of third party, but not the only one. As the implementation of the project is the responsibility of the beneficiaries (who **do sign** the ECGA), beneficiaries should have the capacity to carry out the work themselves. Therefore the rule is that the costs eligible in a project must be incurred by the beneficiaries, (the signatories to the ECGA).

However, in some circumstances the GA accepts some third parties whose costs may be eligible. Should a beneficiary wish to recur to the assistance of a third party in an ongoing project, this has to be discussed with the Project Officer, and if approved and in conformity with the rules, the third party contribution and resources have to be detailed in Annex I. A third party may contribute to the project in two possible ways:

- **making available its resources to a beneficiary (in order for the beneficiary to be able to carry out part of the work)**
- **by carrying out part of the work itself.**

Costs incurred by third parties may be eligible under certain conditions:

- The third party, the tasks to be performed, an estimation of the costs and the resources allocated to the project by a third party must be identified during the negotiations and mentioned in Annex I to ECGA (and in some cases in a special clause in the ECGA).
- In the case of **third parties carrying out part of the work** which are not subcontractors, the beneficiaries will be entitled to charge their costs only in the cases covered by the

special clause below. It is essential therefore to discuss these cases during the negotiations, and if they are accepted, to include the relevant special clause in the grant agreement.

In all cases, **the beneficiary retains sole responsibility for the work** of the third party and has to make sure that the third party complies with the provisions of the ECGA.

Also in these cases (third party contributions) it is important to verify whether this contribution falls under the category of receipts (see Article II.17 of the ECGA). These contributions should also comply with the eligibility conditions of Article II.14 of the ECGA.

A. THIRD PARTIES MAKING THEIR RESOURCES AVAILABLE TO A BENEFICIARY

This refers to the case when one or some of the resources used by the beneficiary belong to a third party; in other words, the third party does not carry out any part of the work, it just makes resources available to the beneficiary. These resources are directly used by the beneficiary, and usually work is performed in its premises. The resources made available are under the full and direct control, instructions and management of the beneficiary, who is the one carrying out the research. The third party making available the resources is not involved in the work of the project. Accordingly, when the third party makes available personnel to a beneficiary, the part of the project work carried out by this personnel is attributed to the beneficiary and not to the third party.

The costs of the resources of a third party charged to the project by a beneficiary must always be the actual costs incurred by the third party. In this case the use of flat rates or average rates by the third party is not allowed, even if that third party, when acting as a beneficiary in another GA, has opted for a flat rate or for average costing of personnel.

In all cases the contributions made available to a beneficiary must be charged in the form C of the beneficiary, under its direct costs.

- **Free of charge (there is no reimbursement by the beneficiary to the third party)**

This is the case where a third party makes available some of its resources to a beneficiary, which does not reimburse the cost to the third party, but which charges the costs of the third party as an eligible cost of the project. Its costs will be declared by the beneficiary in its Form C, included in the CFS of the beneficiary when required (as a cost and, if that is the case, as a receipt¹⁵) **but must be recorded in the accounts of the third party** (which can be audited if required). The need for the costs to be accurately recorded in the accounts of the third party comes from the fact that such costs are not present in the accounts of the beneficiary (because they are free of charge). For the costs incurred by the third party only the real overheads of the third party can be charged, if justified. The beneficiary cannot charge a flat rate for the indirect costs incurred by the third party.

It is important to remember that this covers only the case of a third party making some of its resources available to a beneficiary. It does not concern those third parties carrying out part of the work themselves, which is discussed below under point B.

¹⁵ See example of receipts under II.17

Example: Researcher from one organisation seconded to work in another Research organisation or in a university. In the exceptional case where the seconded personnel does not work in the premises of the beneficiary, no overheads can be charged on the corresponding cost of personnel by the beneficiary.

- **Beneficiary reimburses the third party**

This is not considered a third party contribution as in this case the reimbursement of the third party for these costs will be a cost for the beneficiary, who in turn will be able to claim it as an eligible cost. By definition then, these costs will appear in the accounts of the beneficiary, and therefore they will be considered as costs incurred by the beneficiary and not as costs incurred by a third party. In these cases, there is a prior agreement that defines the frame in which these resources are made available and the reimbursement to the third party covers only costs, and there will not be a profit for the third party. In any case, the details and the reasons for it must be indicated in Annex I to the ECGA.

It is important to recall that the Commission has the right to audit the (underlying) costs originating from the third parties, also in this case.

Here it is also important to remember that this covers only the case of a third party making some of its resources available to a beneficiary, not the case where the third party carries out part of the work.

Like any other cost, these costs must comply with the conditions of Article II.14 of the ECGA.

Example:

A legal entity makes available to a beneficiary the use of an installation or specialized piece of infrastructure which the beneficiary needs in order to perform a project task. There are two possibilities here:

- *The third party charges the costs and is reimbursed by the beneficiary. This is a cost for the beneficiary and not considered as a reimbursement of a third party cost. Details and the reason for the use of the third party must appear in Annex I to ECGA*
- *The third party does not charge the beneficiary for this activity; it is not reimbursed by it. If the beneficiary wants to include the cost of the third party as an eligible cost of the project, then the conditions mentioned above for "free of charge" contributions apply. Therefore, the third party, the work, an estimation of the costs and the resources used must appear in Annex I to the ECGA.*

- **Special cases:**

1) *Foundations, spin-off companies, etc., created in order to manage the administrative tasks of the beneficiary*

This is typically the case of a legal entity created or controlled by a beneficiary which is in charge of the financial administration of the beneficiary, but which does not perform scientific/technical work in the project (differently from the entities covered by special clause 10); this beneficiary (usually public bodies like Universities/Ministries) have a prior agreement with a spin-off company or a separate company/non-profit foundation, by means of which the latter handles the financial and administrative aspects of the beneficiaries' involvement in research projects, including all issues relating to the employment and payment of additional personnel, purchase of equipment and consumables, etc. In most of these cases, the aim to improve and

rationalise administrative and financial management has led the Universities/Ministries to establish such contracts, which are usually agreements lasting over long periods and established well before the EC project exists. Consequently, this third party often has no resources of its own. The personnel hired for the project by the spin-off/foundation works on the premises of the University (beneficiary) and under its responsibility. In this case it is the university which should be the beneficiary, and not the foundation, as the foundation does not have the resources to carry out the work¹⁶.

As in the other cases of third parties' contributions, the third party and the tasks have to be identified in Annex I to ECGA.

The agreement is not specific to the project, but it is a general agreement for the management of the ECGA with the Commission (and/or other entities), and the costs are reimbursed either directly by the beneficiary or by the coordinator on behalf of the beneficiary. The costs will therefore not be considered as receipts.

In some cases the agreement between the beneficiary and the third party also foresees the handling of Community financial payments by the third party. Therefore, the coordinator pays the EU/Euratom contribution directly to the third party and not to the beneficiary. As a consequence, in the accounts of the beneficiary there is no trace of any reimbursement from the beneficiary to the third party. In these cases, the important issue is that even though there is no transfer between the beneficiary and the third party, the work of the third party is not carried out without reimbursement, and there is a reimbursement of costs but directly from the coordinator. Thus, the costs will not be considered as receipts. Here the costs of the third party will be charged by the beneficiary in its Form C, but they are recorded in the accounts of the third party (otherwise they would not be eligible). As these resources are used in the premises of the beneficiary, if the beneficiary is using a flat rate for the calculation of the indirect costs, then the flat rate can be applied to these costs. All reports, financial statements, etc., must be presented in the name of the beneficiary. If a CFS is required, it must certify and cover both the contributions of the beneficiary and those of the third party. For the costs incurred by the third party and used in its premises, only the real overheads of the third party must be charged. The flat rate of the University DOES NOT apply to these costs since they are not used in the premises of the beneficiary.

Example: Eligible Costs of a University which can opt for the 60% flat rate for indirect costs and is a beneficiary in a FP7 project (only in research activities):

- *Costs of personnel (usually permanent) paid by the university: EUR 100,000*
- *Costs of personnel paid by the foundation and working in the premises of the university: EUR 80,000*
- *Equipment bought by the foundation used on the premises of the beneficiary: EUR 20,000*
- *Costs of administrative personnel of the foundation working in the premises of the foundation: EUR 2,500 (actual costs, including EUR 2,000 for direct and EUR 500 for indirect costs)*

¹⁶ If the third party fulfils the conditions set below in point B for the introduction of special clause 10, it may happen also that it carries out itself part of the activities attributed to the beneficiary. In this case, there should be a clear distinction between the contributions made available to the beneficiary, which should be charged under the costs and in the form C of the beneficiary, and be detailed as such in Annex I, and the work carried out directly by the third party according to clause 10, which the third party should charge as its own costs under its own form C;

Total costs declared by the university =

total direct costs (including those of the foundation) = (EUR 100,000 + EUR 80,000 + EUR 20,000 + EUR 2,000)=EUR 202,000 **Indirect costs**= calculated on the basis of the direct costs used in the premises of the university+ real indirect costs of the foundation:

- flat rate of 60% of EUR 200,000=EUR 120,000
- +500

Total eligible costs: EUR 202,000+EUR 120,000+500=EUR 322,500

Total EU/Euratom funding received by the University = 75% of EUR 322,500=EUR 230,625

- 2) *Special clause 38 to be used when secondary and higher education establishments and public bodies are the Coordinator of the project and there is an "authorisation to administer" given to a third party created controlled or affiliated to the Coordinator. In this case the costs of this third party are eligible.*

This special clause to be requested and discussed with the Commission prior to the signature of the ECGA refers to cases where:

- secondary and higher education establishments and public bodies (**therefore not other type of legal entities like companies, etc..**) are coordinators of a project *and*
- a third party controlled or affiliated to the Coordinator has got a "mandate" from the coordinator to handle the financial administration of the beneficiary on its behalf. Accordingly, this clause allows the coordinator to request that the bank account mentioned in Article 5 of the ECGA is not its own (as established by the GA), but the bank account of the third party created, controlled or affiliated to the Coordinator. The introduction of this special clause in the ECGA allows also the Coordinator to delegate on the third party tasks which otherwise are exclusively attributed in the GA to the Coordinator (i.e. the tasks mentioned in Article II.2.3 a), b) and c) of the GA)

The use of this clause is limited for coordinators which are public body or secondary and higher education establishment which find themselves in one of the situations described above. However, even after the introduction of this clause in the GA, **the coordinator will retain sole responsibility** for the Community financial contribution and for the compliance with the provisions of the ECGA.

- 3) *The case of resources (professors/equipment) working for, or used by a university but whose salaries/costs are paid by the Government.*

In this case the resources made available by the third party (the Government) to the beneficiary can be assimilated to the "own resources" of the beneficiary, and can therefore be charged to the project without being considered a receipt. The reason is that the beneficiary is free to use these resources at will. Like other contributions from third parties, these resources must be identified in Annex I to ECGA. Their cost will be declared by the beneficiary in its own Form C, and they must be recorded in the accounts of the third party and available for auditing if required.

This does not apply to cases where these resources/staff have been specifically seconded to the beneficiary in order to work in a specific project. In this case the costs are eligible but the rules for receipts apply.

Specific "ad-hoc" agreement between a beneficiary and a third party to cooperate in a project. (example: the use of an installation or the secondment to a beneficiary of a professor from another entity which is not a beneficiary. In this case, if the third party is not working on the project and only lending resources, the general rules for third parties making available resources may apply. **If on the other hand the third party not only makes resources available but also carries out work**, then the third party should sign the GA and become a beneficiary; under certain conditions this kind of agreement might be treated in FP7 as a subcontract, and must then follow the related rules.

- 4) The case of an "interim" or temporary work agency that makes available staff to a beneficiary: this is not a third party contribution because the beneficiary pays the agency for the use of those resources. That use has a price charged to the beneficiary, who will declare it according to its usual accounting practices.

B. THIRD PARTIES CARRYING OUT PART OF THE WORK

Exceptionally here the third party performs itself certain tasks of the project, even if it does not sign the ECGA. The third party **carries out part of the work directly** and is responsible for this vis-à-vis the beneficiary, (although the beneficiary remains responsible vis-à-vis the Commission for the work). The work is in this case attributed to the third party and is usually carried out in the premises of the third party. The resources made available are under the full and direct control, instructions and management of the third party, who carries out this part of the research.

Two different cases may appear:

- **The case of subcontractors:** the costs of the subcontract are part of the direct costs of the beneficiary and are registered in the accounts of the beneficiaries. The price of the subcontract is an eligible cost for the beneficiary, which like other costs must comply with the general eligibility criteria mentioned in Article II.14 of ECGA. **The specific conditions of subcontracting are explained in Article II.7 of ECGA, which describes this case extensively.**
- The case of entities covered by special clause 10: Only in the cases mentioned in the clause, may other third parties **carry out** (under certain conditions) part of the work for a beneficiary. For this to be possible, they have to be identified in the ECGA via a special clause. **It is essential** to identify these cases during the negotiations in order to add the special clause to allow for the reimbursement of the third parties' costs. Apart from subcontractors, (which follow their own rules as explained in Article II.7 of ECGA) **only third parties covered by the clause are entitled to carry out work in the project and to charge costs for it.** When special clause 10 is used the beneficiary usually is leading and/or coordinating the research work.

Who are the third parties (other than subcontractors) who can carry out work under the project if covered by the relevant special clause in the ECGA?

The ECGA (via Special Clause no 10 to be included in Article 7) refers to third parties linked to a beneficiary. **The term "linked" refers to an established formal relationship between a third party and the beneficiary, defined by the following characteristics:**

- This relationship by nature is broad and **is not limited to the ECGA, or specifically created for the work in the ECGA.**
- Accordingly, its duration goes beyond the duration of the project and usually pre-dates and outlasts the ECGA.
- It has a formal external recognition, sometimes in the framework of a legal structure (for example, the relationship between an association and its members), sometimes in the absence of legal personality, through the sharing of common infrastructures and resources (joint laboratory), separate from those of the legal entities composing them, or common ownership (affiliates, holding companies).

"Ad hoc" collaboration agreements between legal entities to carry out work in the project are therefore not covered by this clause; in these cases both legal entities should be beneficiaries (with the limited exception of subcontracting in the cases where the rules allow it, as mentioned above).

Cases specifically covered by the Special clause 10:

- **Joint Research Units (JRU):** these are research laboratories/infrastructures created and owned by two or more different legal entities in order to carry out research. They do not have a legal personality different from that of its members, but form a single research unit where staff and resources from the different members are put together to the benefit of all. Though lacking legal personality, they exist physically, with premises, equipment, and resources individual to them and distinct from "owner" entities. A member of the JRU is the beneficiary and any other member of the JRU contributing to the project and who is not a beneficiary of the GA has to be identified in the clause. The JRU has to meet the following conditions:
 - ✓ scientific and economic unity
 - ✓ last a certain length of time
 - ✓ recognised by a public authority
- **European Economic Interest Grouping (EEIG):** an EEIG is a legal entity created under the rules of **Council Regulation (EEC) No 2137/85 of 25 July 1985**, composed of at least two legal entities from different Member States. In this case the EEIG is the beneficiary and its composing legal entities may be members included in the Special clause 10. The contrary (i.e. composing legal entity as beneficiary and EEIG as member in the clause) is not possible.
- **Affiliates:** an affiliated entity means any legal entity that is under the direct or indirect control of the beneficiary, or under the same direct or indirect control as the beneficiary. Therefore it covers not only the case of parent companies or holdings and their affiliates and vice-versa, but also the case of affiliates between themselves. However, the entity performing most of the work should be the one appearing as beneficiary, and the others as the members detailed in the clause.
- **Groupings:** The clause is used here either for associations, federations, or other legal entities composed of members (in this case, the Grouping is the beneficiary and the members contributing to the project should be listed). In the case of groupings without legal personality they will be treated as JRU if they meet the conditions mentioned

above for Joint Research Units. Therefore structures, agreements or units without legal personality created specifically by different legal entities for their participation in the ECGA are not considered groupings and their costs are not covered under the terms of this special clause. As for EEIGs, it is the association, federation, etc which should appear as the beneficiary in the GA.

Which conditions have to be fulfilled by these third parties in order to carry out work and charge costs under the project?

- They have to be identified in special clause No 10 and their name, tasks and resources have to be described in Annex I at the same level of detail as beneficiaries, since these third parties submit their own Form C.
- Their costs have to comply with the rules and the principles mentioned in Article II.14 → II.17 of ECGA, in the same way as the beneficiaries, and must be recorded in their accounts. In other words, the rules relating to eligibility of costs, identification of direct and indirect costs and upper funding limits apply. Equally those concerning controls and audits of Article II.22 and Article II.23 of ECGA.
- Each third party fills in its costs in an individual Form C and, where necessary, shall provide its individual certificate on financial statements and/ or on the methodology independently from those of the beneficiary. The beneficiary will submit both forms and a summary report integrating both the costs of the beneficiary and those of the third party(ies).
- The threshold of EUR 375,000 for the submission of a certificate on the financial statements applies to the cumulative funding of the beneficiary and its linked third parties

Example:

University "X" has created a joint research unit with university "Y". University "X" is a beneficiary in the ECGA, and performs the work via the joint research unit co-owned with "Y". Therefore, "Y" is here the third party linked to "X".

- *"X" has an analytical accounting system allowing it to declare its actual costs (both direct and indirect). It fills in Form C with its own costs only: EUR 100 as direct costs and EUR 80 as indirect costs.*
- *"Y", as a third party linked to "X", carries out part of the work attributed by the ECGA to "X". However, as it is unable to identify with certainty its actual indirect costs, it uses the flat rate of 60% for indirect costs. It fills in Form C with its own costs only: EUR 100 as direct costs and EUR 60 as a flat rate*

The financial report presented by "X" (the beneficiary) will include both Forms C, and a summary financial report adding up costs from "X" + "Y"; the costs and funding claimed will be calculated as follows (for the sake of simplicity, only RTD costs are included here)

*Eligible costs for "X": EUR 180;
Eligible costs for "Y": EUR 160;*

*funding for "X": (75% as university) of EUR 180 = EUR 135
funding for "Y": (75% as university) of EUR 160 = EUR 120*

TOTAL COSTS declared by "X": EUR 340

TOTAL EU/Euratom contribution claimed by "X": EUR 255

Finally, if the third party identified in clause 10 makes also resources available to the beneficiary, the costs incurred by the third party lending resources might be charged by the beneficiary's CFS. These costs will be considered receipts if the conditions of Article II.17 are fulfilled.

Article II.14.3 of ECGA – Non-eligible costs

Certain costs are, specifically excluded from the eligible costs. The list of these costs mentioned in the grant agreement must be regarded as a minimum reference list and must be fully complied with.

The standard model provides that the following costs are not eligible:

- identifiable indirect taxes including value added tax

In general, the beneficiary is entitled to charge to the project only the net value of the invoice, provided that all eligibility criteria are met. Identifiable VAT is not eligible. As mentioned above, indirect taxes' will be allowed when not identifiable. This may be for example the case with foreign invoices where the price indicated is gross without identifying the tax. In any case, the beneficiary must be able to justify this in the event of an audit.

The particular case of airport taxes

In general, airport taxes are not real taxes in the sense of tax law but a fee for a service delivered by a public or semi-public body in charge of a (public) service, such as airports (independent of the fact that that some airports might have a private legal form). In this case the airport taxes imposed by these authorities may be considered a fee and therefore eligible because they are neither a duty nor an indirect tax. Usually the invoice makes reference to "service charge", "charge" etc...If the invoice, however, only mentions "airport taxes", the beneficiary should use other means to prove that the so called "airport tax" is not a tax. As a conclusion, it can be said that when airport taxes are not identifiable, they are eligible, but when airport taxes are identifiable, the nature of the tax has to be examined according to the point above.

*Examples: Fuel surcharge, insurance surcharge, etc. are eligible costs;
Air passenger duty is not an eligible cost (see below)*

- duties : mean the amount assessed on an imported or (less often) exported item, nearly equivalent to taxes, embracing all taxation or charges levied on persons or things [or the tax imposed on the importation, exportation, or consumption of goods],
- interest owed,
- provisions for possible future losses or charges,
- exchange losses, cost related to return on capital,

Example: Cost related to return on capital e.g. if there are dividends paid as remuneration for the work in the project.

- costs declared or incurred, or reimbursed in respect of another EU/Euratom *project*, (avoiding double funding)
- debt and debt service charges, excessive or reckless expenditure: Excessive must be understood as paying significantly more for products, services or personnel than the prevailing market rates, resulting in an avoidable financial loss to the project. Reckless means failing to exercise care in the selection of products, services or personnel resulting in an avoidable financial loss to the project'

Article II.15 of ECGA – Identification of direct and indirect costs

Distinction between direct and indirect costs

The reimbursement of beneficiaries shall be based on their eligible direct and indirect costs.

Depending on the characteristics of the operation in question, it is possible that some costs can be considered either direct costs or indirect costs, but no cost can be taken into account twice as a direct cost and an indirect cost.

1. Direct costs

Direct costs are all those eligible costs which can be attributed directly to the project and are identified by the beneficiary as such, in accordance with its accounting principles and its usual internal rules.

The following direct costs may be considered eligible (this list is not exhaustive):

(a) The cost of personnel assigned to the project

- The personnel must be directly hired by the beneficiary in accordance with its national legislation.
- The personnel must work under the sole technical supervision and responsibility of the beneficiary.
- As there is no distinction between cost models, any beneficiary may include in its personnel costs "permanent employees", who have permanent working contracts with the beneficiary or "temporary employees", who have temporary working contracts with the beneficiary.
- Personnel costs should reflect the total remuneration: salaries plus social security charges (holiday pay, pension contribution, health insurance, etc.) and other statutory costs included in the remuneration.
- Personnel must be remunerated in accordance with the normal practices of the beneficiary.

Only the costs of the actual hours worked by the persons directly carrying out work under the project may be charged. Working time is the total number of hours, excluding holidays, personal time, sick leave, or other allowances.

(a.1) Time recording system: general conditions

Only the hours worked on the project can be charged. Working time to be charged must be recorded throughout the duration of the project by timesheets, adequately supported by evidence of their reality and reliability. In the absence of timesheets, the beneficiary must substantiate the cost claimed by reasonable means (alternative evidence) giving an equivalent level of assurance, to be assessed by the auditor. Employees have to record their time on a daily, weekly, or monthly basis using a paper or a computer-based system. In any case, the daily working hours must be indicated separately. The time-records have to be authorised by the project manager or other superior.

Where it is the usual practice of the beneficiary to consider certain types of personnel (such as administrative or support personnel) as indirect costs, the costs of this personnel cannot be charged as direct eligible costs, but only as indirect costs.

If you decide to use timesheets to record working hours then they must meet at least the basic requirements indicated below:

- full name of beneficiary as indicated in the ECGA;
- full name and signature of the employee directly contributing to RTD project;
- title of RTD project as indicated in the ECGA;
- project account number must be indicated;
- periodicity of filling in (for instance on daily, weekly, monthly basis) according to the beneficiary's normal practice;
- the working hours must be indicated for each day;
- amount of hours claimed on the RTD project. All hours claimed must be able to be verified in a reliable manner;
- full name and a signature of a supervisor (person in charge of the project).
- the timesheets must be reconcilable with the absences for holidays, illness, travels or others.

It is also highly advisable that the time recording system meet the following additional criteria:

- a reference to the tasks or WP included in the Description of Work, allowing an easy reconciliation of the work done with the work assigned;
- a reference to the type of activity (RTD, management, other...) to which the work has been attributed;
- a description of the actions carried out by the staff, allowing to understand the work done and substantiate it, in particular in the case of a technical audit.

In cases where personnel work on several projects during the same period the time recording system must enable complete reconciliation of total hours per person, listing all activities (EU projects, non EU projects, internally funded research, administration, absences etc.). It is important to remember that an effective time-recording system (a system which certifies the reality of the hours worked) is a requisite for the eligibility of the costs. A contract, as a document signed before the work is actually performed, would not be sufficient.

It is worth mentioning that the above elements are the basic ones, thus there are no obstacles to running the timesheets in a more detailed way.

(a.2) Time recording system: specificities in the case of a Certificate on the Methodology

- In the context of the Certification on the Methodology covering both personnel and indirect costs (CoM), *optional* for beneficiaries of multiple grants, the minimum requirement is a **full time-recording per person** listing all activities (research, administrative, absence, EC-projects, non EC-projects, etc) for all personnel involved in FP7 projects. A model of such a timesheet is available in Annex V of the present

- by calculating an actual individual number of productive hours for each employee.

The first option, the use of the standard number of productive hours, is the most efficient one. The use of actual productive hours per employee to compute the hourly personnel rate is the most precise. In general, the actual productive hours should be close to the standard productive hours. In addition, the time recording system of the beneficiary must allow keeping track of this number of actual individual number of productive hours.

Productive hours per year should exclude annual leave, public holidays, training and sick leave. A figure of 210 working days- year could be considered representative in most cases

For example:

Total days in a year	365
Weekends	-104
Annual holidays	-21
Statutory holidays	-15
Illness/Others	-15
Workable days in a year	210

The above will vary depending on the personnel category, industry sector, unions, contracts and national legislation which must all be taken into account.

Some beneficiaries use the (much lower) number of "billable" hours instead of the number of productive hours, with a higher hourly rate as a result. This is not acceptable. Productive hours are not the same concept as "billable" hours.

Productive hours include all working activities of the personnel of the beneficiary; they include also activities such as:

- Sales and Marketing
- Preparation of proposals
- Administrative time
- "Unsold time"/ "non billable" hours
- Non-project related, general research activities
- In the case of universities or similar bodies: teaching, training or similar hours.

This time is considered productive and usually would not be recovered via the indirect costs. If an employee of a beneficiary is working directly in a project and the beneficiary is charging the employee's time as a direct cost, it could only charge also part of the employee's time as indirect costs if the beneficiary can prove that these indirect costs are linked to the project and are eligible. In this case:

- the beneficiary's accounting system must be able to exclude from the overheads charged any ineligible costs according to the ECGA (art. II.14)
- the overheads charged must exclude costs already charged to the project as direct costs.

Some activities may be considered not to be part of the productive hours of personnel:

- General training (not project related¹⁷)
- General internal meetings (not project related¹⁸)

These activities together with the sickness days should not exceed 15 days a year (unless duly justified). The beneficiary must substantiate these hours/days. In addition, this calculation must be consistent with the internal regulations and/or practice of the organisation (e.g. minimum number of training days specified in the organisation's HR policy) and/or the time recording system of the beneficiary. (e.g. if internal meetings hours are deducted from the productive hours, the time recording system must keep track of the hours spent on meetings).

Productive hours have to be clearly justified and must match the underlying time records. If hours actually spent in productive tasks (as supported by time records) exceed the standard productive hours, the first shall be used for the calculation of the personnel costs,

The beneficiary can not claim more hours than the ones he used for the computation of the personnel hourly rates. Otherwise, it would charge more than its actual personnel costs. If the beneficiary uses the standard productive hours, it can not claim more hours than the standard productive hours, even if the actual time spent exceeds them.

If the beneficiary uses the actual productive hours, it can not claim more hours than the individual actual productive hours.

Example:

Total productive hours= 210 X 7,5 hours= 1570 hours

Total Salary (statutory costs, including holiday pay, etc...): 30.000 Euro/year

Hourly rate= 30.000/1570= 19,1 Euro hour

Total hours worked for the project= 650

Total costs charged to the project= 650 x 19,1= 12.415 Euro

The productive hours have to be clearly justified and must match the underlying time recording system.

(a.4) Particular cases

:

- "Teleworking": may be accepted provided teleworking is a usual practice of the beneficiary (such an opportunity should be offered to the personnel of the organisation as a whole regardless the employment status -employees and in-house consultants- and clear rules should be available for the purpose of an audit). Further, there must be a system that allows both to identify and to record the productive hours worked for the project.
- Overtime: may be accepted provided that:

¹⁷ Time spent on general training activities and/or general internal meetings can be deducted to arrive at the number of productive hours. Specific training activities and internal meetings which can be directly allocated to the project are part of the productive hours.

¹⁸ Time spent on general training activities and/or general internal meetings can be deducted to arrive at the number of productive hours. Specific training activities and internal meetings which can be directly allocated to the project are part of the productive hours.

- the overtime is actually paid,
 - the overtime is necessary to the project and in conformity with the beneficiary's national legislation,
 - it is the policy of the beneficiary to pay overtime. Only the hours worked on the project can be charged. The hourly rate applicable to these "overtime" hours has to be taken into account separately from the standard working hours and there must be a system that allows the identification of the productive hours worked for the project.
- Sick leave: cannot be included in the working time.
 - Parental leave of personnel assigned to the action: the amount of this allowance may be an eligible cost, in proportion to the time dedicated to the project, provided that parental leave is mandatory under national law (*e.g. statutory maternity pay*). Costs for the advertising to recruit a new person are not eligible but, if it is necessary for the project to replace the person, the costs of the new person will be eligible under the normal requirements.
 - Benefits in kind (company car, vouchers, etc.): may be accepted only if they are justified and in conformity with the usual practices of the beneficiary. Like all costs, they must fulfil the conditions of Article II.14.1 of ECGA.
 - Recruitment costs: In general, these costs are not eligible as direct personnel costs since the beneficiary is required to have the human resources necessary for the action at the start of the project. If a beneficiary needs to recruit additional personnel during the course of the project the relevant costs could be considered as part of the normal indirect costs of the organisation if they fulfil the conditions of article II.14 of the GA and if it is the usual practice of the beneficiary to pay for those costs.

Redundancy payments are in principle not considered as eligible costs. However, if the obligation to pay redundancy provisions arises from a statutory obligation under the applicable national labour law, the payments might be considered as eligible costs of the project.

- Forgone (lost) academic fees for post graduate students: Academic fees may be due by post-graduate students. Sometimes, in cases of work performed by the student for the university, the student may be exempt to pay (part of) the fee. This forgone income for the university is eligible as personnel cost when there is a labour contract with the student in which the amount is indicated. The other conditions of Article II.14.1 of the ECGA have to be fulfilled as well.
- PhD costs: eligible if they fulfil the conditions of Article II.14.1 of the ECGA.
- For public bodies, the costs of public officials paid directly from central government or local government budgets may also be considered as eligible costs if the other provisions of Article II.14 of ECGA are fulfilled. For more explanations concerning the case of personnel (resources) made available by third parties to a beneficiary, please see "special cases" under Article II.14.2 of the ECGA.
- The particular case of consultants:
Consultants are natural (physical) persons, working for one or more beneficiaries in an FP7 project. They may be either self-employed or working for a third party.

There are three possible ways of classifying the costs of consultants (in any event costs will ONLY be eligible if they fulfil the conditions listed in Article II.14 of ECGA):

- 1) They can be considered as personnel costs; regardless of whether the intra-muros consultants are self-employed or employed by a third party, if the following cumulative criteria are fulfilled:
 - The beneficiary has a contract to engage a physical person to work for it and some of that work involves tasks to be carried out under the EU/Euratom project,
 - The physical person must work under the instructions of the beneficiary (i.e. the work is decided, designed and supervised by the beneficiary),
 - The physical person must work in the premises of the beneficiary (except in specific cases where teleworking has been agreed between both parties and provided such a practice is in full compliance with the provisions regarding teleworking and instructions given by the beneficiary as described here above),
 - The result of the work belongs to the beneficiary (Article II.26 of ECGA),
 - The costs of employing the consultant are not significantly different from the personnel costs of employees of the same category working under labour law contract for the beneficiary,
 - The remuneration is based on working hours rather than on the delivering of specific outputs/products,
 - Travel and subsistence costs related to such consultants' participation in project meetings or other travel relating to the project would have to be paid directly by the beneficiary in order to be eligible.
- 2) Costs related to consultants can be considered as subcontracting costs if the beneficiary has to enter into a subcontract to hire these consultants to perform part of the work to be carried out under the project and the conditions set out in the FP7 Grant Agreement, in particular if the provisions of Article II.7 of ECGA relating to subcontracting are fulfilled. In these cases, the beneficiary's control over the work to be performed by the subcontractor is determined by the nature of the subcontract. The subcontractor does not usually work on the premises of the beneficiary and the terms of the work are not so closely carried out under the direct instruction of the beneficiary.

The remuneration of the subcontractor is based on the delivering of specific outputs/products rather than on working hours (even if an estimate of the working hours necessary should be taken into account for the pricing).

- 3) The last possibility is that the consultant participates in the project as a beneficiary (either as a physical person or possibly as an SME, if it meets the definition).
 - The particular case of physical persons who do not receive a salary (self-employed, one-man companies, companies where the partners do not withdraw salaries); There must be a clear distinction depending on whether or not a salary is paid and accounted for as such in the books of the beneficiary. When no salaries are paid, there is a problem on how to measure the value of the contribution of these persons to the project. In this case the physical person must opt to declare average personnel costs, on the basis of a certified methodology approved by the Commission (see explanation on the certification on average costs under point II.4.4.3 of this guide). Its costs are eligible if they fulfil the conditions of Article II.14 of ECGA and they are calculated

on the basis of this certified methodology, based on their income (e.g. tax declarations) as recognised by national law (usually fiscal law). In this sense, it is important to remember that rates, costs, etc must correspond to the usual practices of the beneficiary and that evidence of the income and of the hours worked for the project must be recorded.

Any income or calculation considered to value this contribution is not an actual cost. This is the reason why there is a need for the beneficiary to request the approval of the way of calculating his costs from the Commission, through the certification of the methodology for average personnel costs. The hourly rate and the way to calculate it must be approved by the Commission before the costs are incurred.

In any case, their legal status could be assimilated to that of an SME, if they comply with the requirements set by Commission Recommendation 2003/361/EC in the version of 6 May 2003 (see Article II.16 of ECGA).

Example: Self-employed person submits for certification a methodology for average personnel costs based on a total annual income of EUR 48,000 and on a total of 1600 productive hours in the year previous to the participation in the ECGA. This is approved by the Commission.

Consequently, the costs charged to Project will be:

- *Rate per hour: $48000/1600 = \text{EUR } 30$*
- *Hours worked in project= 100*
- *Costs charged: EUR 3,000*

On the other hand the case of a one-man company who pays himself a salary does not need to be certified, in the same way as any other company/legal entity which claims costs on the basis of actual costs.

- Eligibility of costs relating to personnel costs of owners of SME: The same logic as above applies here: either the owner receives a salary from the SME, in which case the salary is an eligible cost following normal rules, or the owner does not receive a salary for its work for the SME, and therefore no record of its personnel costs can be found in the accounts of the company.

In the second case, the SME owner should opt to declare average personnel costs, on the basis of a certified methodology approved by the Commission like in the case of a physical person. The procedure to follow is described in this guide under Article II.4.4.3; when submitting a proposal, the SME owner will calculate its costs using estimates; during the negotiation the Commission must be informed about its choice to declare average personnel costs on the basis of a certified methodology. However, in order to be an eligible cost, the certified methodology should be submitted after the signature of the first ECGA in which the SME participates.

The validity of the certificate approved by the Commission for physical persons and SME owners who do not receive a salary is retroactive as of the first day of FP7, provided that the said methodology was in use since the beginning of the project or that the costs already reported are adjusted according to the approved methodology.

Assessment of personnel costs methodologies submitted by physical persons and SME owners who do not receive a salary. This assessment will be carried out by the Commission services. For more information on this, beneficiaries are advised to check the guidance notes for beneficiaries and auditors (Point 5.3.3) at the following address:

ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf

- Bonus payments: As a general rule, payment of additional payments and bonuses that are not an employer's obligation arising from the national regulation relating to labour law or even from the employment contract and that are within its discretion may not be considered as part of normal remuneration, even though identified as a payment on the payroll, and their eligibility may be questioned (in particular with respect to the criterion of necessity for carrying out the project).

However, if such payments are part of the normal salary and benefit package of an employee they could be considered as part of the normal personnel costs. However these costs have to be compliant with the eligibility criteria of Article II.14 of the GA, in this case the most important of which will be the criterion of economy and coherence with the beneficiary's usual accounting practices. The costs must be in conformity with the usual behaviour of the participant.–

The following criteria must be applied to the “bonus payments” to be considered eligible. Failing to meet one of these criteria means, in principle, rejection of the “bonus payments”:

- 1) The bonus scheme must be provided for in the internal regulations and/or practices of the organisation (calculation method, category of employees falling under this scheme, maximum amount, etc);
- 2) The bonus scheme must apply to all projects (EU and non-EU projects, national and international);
- 3) The bonus payments must not result in a level of remuneration inconsistent with the current market conditions for a worker of the same category/grade/experience;
- 4) The bonus payments must be recorded in the accounts of the contractor as personnel costs and must be subject to taxes and social security charges applicable to salaries or specifically exempt from such taxes and/or charges.
- 5) These bonuses can only be paid as part of the employee's gross remuneration.

The nature of the criteria (qualitative or financial targets, research activities carried out, contractor's profitability, etc) used to calculate the amount of the bonus are not relevant but these criteria must be of general application within the beneficiary's organisation and must be objective.

- Certificates on the Financial Statements: The costs incurred for the CFS are eligible under "Management Costs"; however a distinction has to be made between certificates issued by external auditors and certificates established by Competent Public Officers:
 - Certificates issued by external auditors have to be treated as "subcontracting" costs under the management activity and therefore they will not be included in the overheads calculation
 - Certificates issued by Competent Public officers can be treated as "other direct costs" under the management activity.

The particular case of direct taxes and social charges related to personnel costs

Social charges are normally considered eligible costs when specifically attributable to the project. Direct taxes and certain other charges related to personnel, however, are in general not considered to be eligible when deemed not to be incurred specifically for the implementation of a project, unless they are calculated on the basis of the individual salaries of the persons working on the project. However, beneficiaries tend to consider that all direct taxes and social charges linked to the remuneration of personnel are eligible, independently of the way they are calculated, as they are part of the full cost of employment related to research.

In order to address this issue, the Commission¹⁹ will recognise as being eligible direct taxes and social charges to the extent they fulfil all of the following criteria:

- the charges are mandatory under the applicable legislation or sector agreements, or resulting from measures based on such legislation or agreements.
- they can be directly or indirectly²⁰ linked to the remuneration of personnel.
- they are recorded according to the usual accounting principles of the beneficiary concerned.
- they are effectively incurred during the duration of the project and have been paid or will be paid obligatorily at a later date and reflected in the accounts of the beneficiary.

These principles will not be applied in cases of fraudulent claims for such costs.

(b) Travel and subsistence allowances for staff taking part in the project

- As a general rule, actual travel and related subsistence costs relating to the project may be considered as direct eligible costs, providing they comply with the beneficiary's usual practices and are adequately recorded, like any other cost.

Example:

Beneficiary A declares the flight costs of a project meeting for a member of its staff travelling in business class:

- *If the usual practice of the beneficiary is to pay for business class tickets for staff of the same category, then the cost of the business class ticket will be eligible under the ECGA*
- *If the usual practice of the beneficiary is to pay for economy class tickets for staff of the same category, then the cost of the business class ticket will not be eligible under the ECGA*
- There is no particular distinction regarding the eligibility of costs incurred for travelling outside or in Europe. Depending on the financial impact of the travel it might be convenient to discuss it with the Project Officer.
- Travel costs must be needed for the work in the project, or for activities related to it (e.g. presentation of a paper explaining the results of the project in a conference). Travel costs related to a conference where no specific project-related work will be performed or presented by the beneficiary would not be eligible. Travel costs should be limited to the necessity for the project; any extension of the travel for other professional or private reasons is not an eligible cost.
- Travel expenses of experts participating on a punctual basis in the project (i.e. attendance to specific meetings) are not travel costs; however, they may be considered direct eligible costs, provided the participation of those experts is duly foreseen in

¹⁹ Based on the Communication adopted in December 2009, regarding simplification of the recovery process in the framework of the implementation of the audit strategy under the Framework Programmes

²⁰ This means that in order to satisfy this criterion the charges are not necessarily incurred for the specific individuals working on the projects funded under the contracts/grant agreements nor do they necessarily explicitly appear on the related payslip. Indeed, the related charges can be computed on the basis of specific accounting procedures, such as a pro rata charge on the overall employment costs of a legal entity and are fairly apportioned to the project. Taxes and charges for which the beneficiary is indebted for as a business entity, and having the nature of a business tax, are calculated on the "masse salariale" of the beneficiary, are not considered linked to the remuneration of personnel, in the sense of this paragraph.

Annex I. These costs may be reimbursed to the experts by the beneficiary or the beneficiary may directly deal with the travel arrangements (and therefore be directly invoiced).

- If such costs are reimbursed on the basis of a lump sum/or *per diem* payment, it is the lump sum/or per diem and not the actual costs that are considered to be eligible costs.

• **NOVELTY: FLAT RATES FOR SUBSISTENCE COSTS and ACCOMMODATION**

Following a Commission decision of 23 March 2009²¹, participants may claim daily subsistence costs and accommodation (e.g. hotel costs) related to travel in a project on the basis of flat rates per country, provided the possibility to do so is indicated in the text of the call where they participate.

The amounts of the flat rates depend on the country of travel and length of the trip.

Travel costs are not covered by the flat rate and will need to be justified by real costs.

Procedure: The use of these flat rates is optional for the beneficiaries, who may opt for using real cost or the flat rate during the negotiations leading to the signature of the ECGA. The option chosen by a participant has to be used for any travel of this participant in a the same grant, though it is possible to apply real costs or the usual practice of the beneficiary for its own personnel and, at the same time, use the flat rates for external experts/advisors needed for the project.

Reimbursement: The subsistence and accommodation expenses are reimbursed according to the upper funding limits described in art. II.16 of the ECGA. The reimbursement rates apply also to flat rates.

*Example 1: Trip for an RTD activity with duration of 10 Hours in a country with 90 euro of daily allowance and 110 euro of hotel allowance
10 hours=1/2 allowances= 45 + 55=100 Euro
Applicable funding rate: 75%
EU contribution: 75% of 100= 75 Euro*

*Example 2: Trip for an RTD activity with duration of 56 Hours in a country with 90 euro of daily allowance and 110 euro of hotel allowance
56 hours=2 allowances= 180 + 220=400 Euro
Applicable funding rate: 50%
EU contribution: 50% of 400= 200 Euro*

Audit: The potential difference between the real costs and the flat rate is not considered as a receipt, does not have to be declared and will not be claimed back by the Commission in case of audit.

The auditor will check the occurrence of the generating event, and, for example that the travel took place, its duration, that the travel was done outside the place of employment and that it was related to the project. There is no need to keep other paperwork such as restaurant bills, hotel invoices, taxi receipts...etc

More information on these flat rates as well as the amounts per country can be found at the following Cordis address:

²¹ C(2009)1942 (not published)

Where it is the usual practice of the beneficiary to consider these costs as indirect costs, they cannot be charged as direct eligible costs, but only as indirect costs. On the other hand, if the contractor considers this category of costs on a direct basis, the same category (other travel and subsistence costs not attributed directly to projects) cannot be charged as indirect costs.

(c) The purchase cost of durable equipment

- ✓ Only equipment purchased for the purposes of carrying out the action can be charged as direct costs. To be considered as eligible, a cost must be determined according to the beneficiary's usual accounting practice and each beneficiary must apply its usual depreciation system for durable equipment. Depreciation is charged in each relevant periodic report. Depreciated costs of equipment can never exceed the purchase price of the equipment.

It is expected that the beneficiary calculates depreciation on the durable equipment that it purchases. Depreciation cannot be spread over a period exceeding the useful life of the equipment. Beneficiaries should be aware that not doing so and charging the full price of an asset in one single year **might be considered an "excessive" cost**, as referred to in Art. II.14.3 (g) of the ECGA, and therefore be considered **ineligible**.

- ✓ Depreciation costs for equipment used for the project but bought before the start of the project are eligible under the conditions mentioned in Article II.14.1 of ECGA above.
- ✓ Only the portion of the equipment used on the project may be charged. The amount of use (percentage used and time) must be auditable.

In some cases (e.g. Infrastructure) cost for equipment can include all those costs necessary for the asset to be in working condition for its intended use (site preparation, delivery and handling, installation, etc.).

A particular regime applies to all projects financed under the Programme "**Research Potential**", which is part of the FP7 Specific Programme "Capacities". The acquisition of research equipment is one of the core activities of the Research Potential Programme. Consequently, the EU will bear up to the total cost of the research equipment (except VAT), regardless of the depreciation used by the beneficiary²². In this specific context, the beneficiary could therefore charge up to the full price of equipment identified in Annex I. In any event the equipment cannot be charged to any other EU project. This exception, having been established from the outset in the Specific Programme "Capacities", shall apply to all projects of the Research Potential Programme financed as of the beginning of FP7. An explicit reference to this specificity shall be introduced in all future Work Programmes of the "Capacities" Programme as of 2011.

Cash-based accounting: If the purchase cost of the equipment is recorded as an expense in the beneficiary's accounting system in the period concerned (cash based

²² Certain limits to the amount of project budget devoted to equipment costs may have been set by the relevant call. For more information please refer to the Work Programme related to the call to which the proposal was submitted.

accounting) and if this is its usual accounting practice and is in line with the national accounting regulation/law, it is acceptable to charge the entire purchase cost to the project in the period concerned under the following conditions:

- a) The cost must be economic and necessary.
- b) Only the portion of the equipment used on the project may be charged. The amount of use (percentage used and time) must be auditable. Thus, if the equipment is used for other projects, and/or for other activities, part of the equipment cost will be charged to these projects/activities. .

Subcontracting vs. durable equipment/consumables: sometimes the purchase of equipment or consumables is associated with the provision of a service. Depending on the nature of the services provided, they may be considered subcontracts or part of the equipment purchase. If the service is part of the "package" of equipment purchase then it will be considered to be part of the equipment purchase. It may also depend on the consideration of these costs in the accounts of the beneficiary.

- ✓ Financial leasing with the option to buy durable equipment shall be charged, in accordance with the beneficiaries' own accounting practices. However, in order to comply with the principle of sound financial management, the cost claimed for durable equipment which is leased with an option to buy cannot exceed the costs that would have been incurred if the equipment had been purchased and depreciated under normal practices.

Operational leasing (renting): in this case, there is no possibility to buy the equipment. There is no depreciation involved (as the item is still the property of the leasing firm) but the costs are eligible if this follows the beneficiary's normal practices and does not exceed the costs of purchase of the equipment

In both cases, if the beneficiary does not use the equipment solely for the purposes of the project, only an auditable proportionate part of the "working time" (i.e. that part used for the project) may be charged.

- ✓ Where it is the usual practice of the beneficiary to consider durable equipment costs (or some of them) as indirect costs, those costs cannot be charged as direct costs, but as indirect costs.

(d) The costs of consumables and supplies provided they are identifiable and assigned to the project:

- Any consumables necessary for the implementation of the project may be considered as direct eligible costs.
- Where it is the usual practice of the beneficiary to consider consumable costs (or some of them) as indirect costs, those costs cannot be charged as direct costs, but as indirect costs.
- Consumables are only eligible costs under the project if bought after the start date of the project.

(e) Subcontracting

The costs of subcontracting are a direct eligible cost. The definition of subcontracting is given in Article II.7 of ECGA.

(f) Certificate on the methodology and certificate on the financial statements

Costs incurred for the certificates on the financial statements and certificates on the methodology constitute eligible direct costs and are charged under management costs which are part of "Other activities". The cost of the CFS is an eligible cost in the Grant Agreement for which the certificate is submitted (Art. II.16). Nevertheless, if the beneficiary decides to submit a CFS voluntarily or if the CFS is not required by the Grant Agreement (i.e. when the EU/Euratom contribution is less than EUR 375,000), the costs of the CFS will not be eligible, since these costs are not considered as necessary.

(g) Conference fees:

The same conditions for eligibility mentioned in Article II.14.1 apply; in particular, the necessity for the project to pay a participant to assist to a conference should be carefully checked. It could however, be acceptable for example if the participant were to present a paper related to the research in the project. In any case, this participation should have been mentioned in Annex I (Description of work) to the GA; if it is not, it is recommended to contact the Project Officer in the Commission before participating in the conference so that the question can be examined.

(h) Internally invoiced costs:

Sometimes the use of certain equipment or facilities is shared between the different units of the same legal entity, and the costs of their use are charged through internal invoices. This type of costs maybe eligible if their use for the project and the usage is properly recorded. In such case, the costs claimed must represent a fair apportionment and be based on objective, measurable and auditable criteria's.

Internally invoiced personnel costs for project specific activities may be eligible if the time worked on the project is substantiated by records covering all the workable time of the relevant personnel. The eligible hourly rate must be calculated based on the actual cost for salaries and social charges incurred by the beneficiary.

Internal invoicing may apply also to items like animal maintenance, computer runs, laboratory tests and other similar services where it is difficult to substantiate the actual time and the actual cost of each individual involved in each individual operation, and where an average personnel cost per type of animal, type of computer run, type of test etc. has been calculated based on the actual costs incurred for the personnel involved. For these costs to be eligible the calculation of costs must be auditable.

The same logic applies to equipment, consumable or any other specific direct costs: where it is difficult to substantiate the actual cost of each individual test or use, an average cost may be calculated per type of test based on the actual cost of the equipment and consumables used and other specific direct costs such as maintenance of equipment provided. However, the calculation of costs must be auditable.

Internally invoiced overheads are normally not eligible as direct project costs. For beneficiaries charging overheads in accordance with Article II.15.2.b) and c) all overheads are covered by the applicable flat-rate contribution.

2. Indirect costs

Indirect costs are all those eligible costs which cannot be identified by the beneficiary as being directly attributed to the project, but which can be identified and justified by its accounting system as being incurred in direct relationship with the eligible direct costs attributed to the project.

Indirect costs, also called overheads, are all the structural and support costs of an administrative, technical and logistical nature which are cross-cutting for the operation of the beneficiary body's various activities and cannot therefore be attributed in full to the project. The nature of an indirect cost is such that it is not possible, or at least not feasible, to measure directly how much of the cost is attributable to a single cost objective.

Example:

Overheads comprise costs connected with infrastructures and the general operation of the organisation such as hiring or depreciation of buildings and plant, water/gas/electricity, maintenance, insurance, supplies and petty office equipment, communication and connection costs, postage, etc. and costs connected with horizontal services such as administrative and financial management, human resources, training, legal advice, documentation, etc.

Indirect costs must be in accordance with normal accounting practices of the beneficiary and must be extracted from or reconciled with the official accounts.

When the accounting system of the beneficiary includes overhead costs which are not eligible under the ECGA, these costs must be removed when submitting financial reports.

Methods of calculation of indirect costs:

- Under FP6, direct and indirect eligible costs charged by a participant had to be declared according to a cost reporting model. There were three cost models available.
 - Full cost model (FC), where all the eligible actual costs (direct and indirect) were charged by the contractor.
 - Full cost with flat rate model (FCF), where actual direct cost and a flat rate (20% of direct cost minus subcontracting) for indirect cost were charged by the contractor.
 - Additional costs (AC) basis, where the direct additional eligible costs and a flat rate (20% of additional direct costs minus subcontracting) were charged by the contractor.
- Under FP7, there are no cost reporting models. The beneficiaries must declare their actual costs (with the possibility for a beneficiary to use average personnel costs if this is approved by the Commission).

Optionally, beneficiaries may opt to declare their actual direct costs plus a flat rate for indirect costs of 20% of the direct costs (minus subcontracting and third party costs not incurred on the premises of the beneficiary).

Also, a specific flat rate is foreseen for certain types of organisations/activities in order to assure the transition between the old AC model to a real indirect cost method.

In FP7 all departments, faculties or institutes which are part of the same legal entity must use the same system of cost calculation (unless a special clause foreseeing a derogation for a particular department/institute is included in the GA).

2.a) Actual indirect cost

Beneficiaries who have an analytical accounting system that can identify and group their indirect costs (pool of costs) in accordance with the eligibility criteria (e.g. exclude non-eligible costs) must report their real indirect costs or choose the 20% flat rate option.

The organisations need a fair "key" or "driver" to distribute these costs from the "pool" of indirect costs into the different projects and activities. Different allocation methodologies are acceptable as long as they are in line with the general accounting policy of the beneficiary (i.e. allocation of indirect costs to the project via personnel, either as a percentage of personnel costs or a fixed hourly rate) and they are fair and reliable and not an unsubstantiated estimation. No subjective or arbitrary keys can be accepted. This method is the same as that of the previous FC model.

Where another cost driver not based on personnel is used, the result of the application of this cost driver must not exceed the total amount of indirect costs to be allocated.

Simplified method

The simplified method is a modality of the actual indirect costs calculation, and is a way of declaring indirect costs which applies to organisations which do not aggregate their indirect costs at a detailed level (centre, department), but can aggregate their indirect costs **at the level of the legal entity**. It is a system that can be used if the organisation does not have an accounting system with a detailed cost allocation.

This simplified method has to be in accordance with their usual accounting and management principles and practices; it does not involve necessarily the introduction of a new method just for FP7 purposes.

Beneficiaries are allowed to use it, provided this simplified approach is based on actual costs derived from the financial accounts of the last closed accounting year. Therefore, beneficiaries using the simplified method shall not submit an adjustment covering the difference between the indirect costs derived from the accounts of the last closed financial year and the indirect costs derived from the financial accounts of the project period.

Beneficiaries should be in a position to justify and reconcile the results with the accounting records and be able to demonstrate in case of an audit that the indirect costs are fairly allocated to the research activity/projects.

Minimal requirements of a simplified method:

Although each legal entity will use its own system, the minimum requirements for it to be considered a simplified method for FP7 purposes are the following;

- Firstly, the system must allow the beneficiary to identify and remove its direct ineligible costs (VAT, etc...)
- Secondly, it must at least allow for the allocation of the overheads at the level of the legal entity to the individual projects by using a fair "driver" (e.g. total productive hours). In this case, it is clear that if the overheads taken into account are all those of the beneficiary (not distinguished by activities), the driver used for the calculation of the relevant rate (e.g. total productive hours) will include all the activities of the beneficiary (i.e. total hours including not only hours specifically for research,

demonstration, etc.). In this case, also the beneficiary should be able to justify both the total amount of the overheads and the total amount of productive hours.

Example: building where both research and teaching activities are performed. Both the overheads generated by the research and the teaching activities are aggregated into a common pool by the accounting system of the beneficiary, obtaining (after applying the cost driver), a single overheads rate.

- The system applied and the costs declared according to it should follow the normal accounting principles and practices of the beneficiary. Therefore, if the system used by a beneficiary is more "refined" than the "minimum" requirements mentioned above, it is that system which should be used when declaring costs:

Example: if a beneficiary's accounting system distinguishes between different overheads rates according to the type of activity (research, teaching...), then the overheads declared in an FP7 ECGA should follow this practice and refer only to the concerned activities (research, demonstration...)

Does the simplified method need to be certified by the Commission?

The simplified method does not require previous registration or certification by the Commission. Consequently, there is no specific certification of the simplified method used by a beneficiary. The beneficiary has the responsibility to ensure that the simplified method used is compliant with the requirements. However, the certification on the methodology - described in Article II.4 of ECGA – may cover the methodology of calculation of indirect costs (including the simplified method) for those beneficiaries who are allowed to use the certification on the methodology.

When a Certificate on the Financial Statement is submitted the auditor will describe the (simplified) accounting system certifying these points. It is important to remember that this option refers to the possibility for a beneficiary to use a simplified method of declaring indirect costs. There is therefore no "standard model" - only different simplified methods used by beneficiaries complying with the requirements mentioned above.

Examples of the simplified method:

An organisation is working on three projects and has identified EUR 100,000 as eligible overall overheads of the organisation (electricity, administrative tasks, supply, equipment, etc.)

For the division of the overheads between the three projects, the organisation uses a simplified method based on the key driver personnel: overheads are distributed according to a fixed hourly rate.

[Example 1: allocation via hourly rate]:

*Overheads of the organisation: 10,000
Worked hours at the level of the legal entity: 2,000
Hourly rate: $10,000/2,000 = 5$*

Allocation between projects:

				EUR	
Project 1:	600 worked hours	=>	600	x 5 = 3,000	indirect costs
Project 2:	400 worked hours	=>	400	x 5 = 2,000	indirect costs
Project 3:	1.000 worked hours	=>	1.000	x 5 = 5,000	indirect costs

[Example 2: allocation via percentage of personnel cost]

Overheads of the organisation: EUR 10,000
 Personnel cost at the level of the legal entity: EUR 100,000
 Rate: $10,000/100,000 = 0,1$ (10%)

Allocation between projects:

EUR

Project 1: personnel cost = 30,000 => $30,000 \times 0,1 = 3,000$ indirect costs
 Project 2: personnel cost = 20,000 => $20,000 \times 0,1 = 2,000$ indirect costs
 Project 3: personnel cost = 50,000 => $50,000 \times 0,1 = 5,000$ indirect costs

If an organisation has only one centre or department, by definition, the aggregations of their indirect costs at the level of the centre and at the level of the legal entity coincide. In this case, the way to find out if the organisation can use a simplified method is to check whether the organisation has an analytical accounting system with detailed cost allocation beyond the calculation at the level of legal entity.

2.b Flat Rates

- **Flat rate of 20%**

- This flat rate is open to any beneficiary whatever the accounting system it uses. Accordingly, when this option is chosen, there is no need for certification of the indirect costs, only of the direct ones.
- The base of calculation is the total direct eligible costs of the beneficiary, excluding the costs for subcontracting and the costs of resources made available by third parties that are not used on the premises of the beneficiary. In both cases, the overheads (electricity, supply, etc.) are not incurred by the beneficiary but by the subcontractor or the third party.

Example: calculation of indirect costs when the option of the 20% flat rate is chosen:

<i>Personnel</i>	<i>1,000,000</i>
<i>Subcontracting</i>	<i>100,000</i>
<i>Researcher from a third university who works in his university</i>	<i>20,000</i>
<i>Researcher from a third university who works in the premises of the beneficiary</i>	<i>15,000</i>
<i>Travel cost</i>	<i>5,000</i>
<i>Equipment</i>	<i>50,000</i>
<i>Total of direct costs</i>	<i>1,190,000</i>

Calculation of indirect costs:

$1,190,000 - 100,000$ (subcontracting) $- 20,000$ (researcher who does not work in the premises of the beneficiary) $= 1,070,000 \times 0,2 = 214,000$

- Subject to the accounting principles of the beneficiaries, the following items may be considered as indirect eligible costs:
 - costs related to general administration and management;
 - costs of office or laboratory space, including rent or depreciation of buildings and equipment, and related expenditure such as water, heating, electricity, maintenance, insurance and safety costs;
 - communication expenses, network connection charges, postal charges and office supplies;

- common office equipment such as PC's, laptops, office software;
- miscellaneous recurring consumables; etc.

provided they can be identified and justified by the accounting system of the participant as being incurred in direct relationship with the eligible direct costs attributed to the project.

Such costs are normally deemed to be covered by the flat rate (20% or 60%) and cannot be charged as direct costs unless it is established that the accounting principles of beneficiaries consider them as direct costs.

- A beneficiary which opts for the flat rate of 20% for its first participation under FP7 can subsequently opt for the analytical actual indirect cost system or the simplified method in future participations, provided its accounting system allowing for the identification of its real costs has been updated. This change will not affect the previous grant agreements. After this change, this organisation cannot opt again for the flat rate

- **Transitional flat rate of 60%**

Concept:

This flat rate was approved as a "transitional flat rate" to be applied to grants awarded under calls for proposals closing before 1st January 2010. The objective was to help the organisations during the transition from a flat rate calculation of their overheads (organisations using the AC cost basis in previous Framework Programmes) to an actual cost calculation.

On 15 June 2009, The Commission, decided to maintain the FP7 transitional flat rate for indirect costs at 60% for the remaining of the Framework Programme.

- The use of this flat rate is subject to three cumulative conditions :

- 1) Status of the organisation

The flat rate is reserved to:

- non-profit public bodies
- secondary and higher education establishments
- research organisations
- SMEs

For the relevant definitions of these organisations see Article II.16 of ECGA.

Changes of legal status of beneficiaries

The ECGA foresees (under Article II.15.2.c and Article II.16.1) that non-profit public bodies, secondary and higher education establishments and research organisations and SMEs, may, under certain conditions and funding schemes (for RTD activities), opt for a flat rate of 60% for indirect costs and to a reimbursement rate of 75% of eligible costs. Until December 2009, the ECGA stated that a change

of the legal status of these beneficiaries implied the loss of these rates in ongoing GA.

A new Commission decision has been adopted in December 2009 in order to allow non-profit public bodies, secondary and higher education establishments and research organisations and SMEs to keep the 60% overheads flat rate and the 75% reimbursement rate for RTD activities even if they lose their status during the life of the project. This decision and the corresponding modification to Articles II.15.2 c) and II.16.1 of Annex II of the model GA have retroactive effects and shall apply to grant agreements in force **without the need for formal amendments**. Even if these beneficiaries change their status during the life of the project, this flat rate of 60% will be applied until the end of the project.

Example:

A company which qualifies as SME and is entitled to the 60% flat rate, signs a ECGA in 2007, with a 60% flat rate. In 2008, this company (due to internal growth, acquisitions, etc) becomes bigger and no longer qualifies as SME.

Result: Even if no longer an SME, the Company will continue using the 60% flat rate for all ECGs signed before it stopped qualifying as an SME. For ECGAs signed afterwards the 60% flat rate will no longer be applicable.

What if a legal entity acquires this status during the life of a project?

Acquiring the condition of non-profit public body, SME, research organisation and secondary and higher education establishments during the life of a project **will not** entitle the beneficiary to claim the 60% rate for that project. However, it may apply for the 60% rate in future projects.

2) Accounting system of the organisation

The flat rate is foreseen for the organisations which are unable to identify with certainty their real indirect costs for the project.

How will it be proved that an organisation is unable to identify with certainty their real indirect costs for the project?

The beneficiary (for example, an SME) does not have to change its accounting system or its usual accounting principles.

If its accounting system can identify overall overheads but does not allocate them to project costs, then the beneficiary can use this flat rate if the other conditions are fulfilled.

Example:

A University, which in FP6 has used the AC cost basis because its accounting system did not allow for the share of their direct and indirect costs to the project to be distinguished may under FP7:

- *either opt for the 60% flat rate, or*

- *introduce a cost accounting system "simplified method" by which a basic allocation per project of the overhead costs of the legal entity will be established, or*
- *introduce a full analytical accounting system.*

Following this, **an organisation which used the Full cost model (FC) under FP6 is presumed to be in a situation to be able to identify the real indirect costs and allocate them to the projects.** Accordingly, this organisation would not in principle be able to opt for the 60% flat rate for FP7. If a particular reason (merger, takeover, etc.) could explain the change in their accounting system, this should be raised and discussed during the negotiations of the FP7 project. In any case, this beneficiary could be audited for projects under FP6. According to the results of the audit, all projects under FP6 or FP7 could be reviewed in order to check the compliance of the beneficiary with the applicable Framework Programmes' rules at the time of the signature of the projects.

An organisation which can identify the real indirect costs but does not use a key driver or a system to allocate these indirect costs can opt for this 60% flat rate.

The choice of this transitional flat rate lies within the responsibility of the beneficiary. If a subsequent audit shows that the above-mentioned cumulative conditions are not fulfilled, all projects where this beneficiary is involved might be reviewed.

If during the implementation of a project, a legal entity which was qualified to use the 60% flat rate, changes its accounting system (i.e. following a company reorganisation), and is able to identify its real indirect costs, it should change its ICM for future GAs only.

What about legal entities (non-profit public bodies, SMEs, research organisations and secondary and higher education establishments) which currently use a simplified method of allocating indirect costs?

The ECGA indicates that costs must be determined in accordance with the usual accounting and management principles and practices of the beneficiary (in this case, its "simplified" method). However, and according to their particular circumstances and ability to allocate their indirect eligible costs for the project with certainty, they may decide to opt for the use of this 60% flat rate.

3) Type of funding scheme

The flat rate is reserved to funding schemes which include research and technological development and demonstration activities: Network of Excellence and Collaborative projects (including research for the benefit of specific groups – in particular SMEs).

The basis for the calculation of the flat rate excludes the costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the beneficiary because in these two cases, the indirect costs are not incurred by the beneficiary but by the subcontractor or the third party.

Changes on the indirect cost method (ICM)

In general the ECGA indicates that the beneficiary shall apply the indirect cost option chosen in all grant agreements under FP7.

1. In ongoing Grant agreements:

Following the above mentioned Commission Decision of December 2009 allowing non-profit public bodies, secondary and higher education establishments and research organisations and SMEs to keep the 60% overheads flat rate for RTD activities even if they lose their status during the life of the project, changes of ICM in ongoing Grant Agreements are not possible. As mentioned above, acquiring the condition of non-profit public body, SME, research organisation or secondary and higher education establishments during the life of a project **will not** entitle the beneficiary to claim the 60% rate in that project.

It is important to keep in mind that according to Commission Recommendation 2003/361/EC, an SME only loses the SME status if the headcount and financial ceilings referred to in that recommendation are exceeded for two consecutive years. Therefore, beneficiaries which are SMEs will stop qualifying for the 60% rate only after exceeding those limits for two years.

Example: if a company has in:

*Year 1: SME criteria fulfilled Year 2: SME criteria NOT fulfilled: SME status kept and signature of the GA with 60% rate (with the other GA criteria fulfilled)
Year 3: SME criteria NOT fulfilled: SME status kept and 60% rate applied until end of ECGA
Year 4: SME criteria NOT fulfilled: NO SME status, 60% rate applied until end of ECGA signed in years 1, 2, and 3, but not for ECGA signed in year 4)*

2. In future FP7 Grant agreements:

In general, the beneficiary shall apply the indirect cost option chosen for its first GA in all grant agreements under FP7.

An exception may occur when the first project where the beneficiary participates in FP7 is a Cooperation and Support Action (CSA). In CSA the use of the 60% flat rate is not allowed, because CSAs do not include RTD activities, which are those for which the 60% flat rate can be used. In the CSAs case the only flat rate available to the beneficiary is the 20%. If subsequently the beneficiary participates in another ECGA with RTD activities, and it is entitled to use the 60% rate, it may do so.

Furthermore, the ECGA also specifies that when a beneficiary opts for the 20% flat rate or for the transition flat rate of 60 % for its first participation under FP7 it can opt afterwards for the actual indirect costs system for subsequent participations. This change does not affect previous ECGA. After this change, this organisation cannot opt again for a flat rate system (either 60% or 20% flat rate).

Finally, if a beneficiary acquires the status of non-profit public body, SME, research organisation or secondary and higher education establishments after its first participation in FP7, it may use the 60% rate for future GAs if it fulfils the other conditions set in the model GA for the use of this transitional rate.

Mistake in the choice of ICM

Exceptionally, it is possible that a change is required due to a mistake during the negotiation of the first project where the legal entity participates. If this is the case, the beneficiary has to inform the Commission as soon as possible about this error with a list of projects where the entity participates, and explain in detail the circumstances of the error. This should be accompanied by an statement from a qualified auditor certifying the error in the following cases; 1) in all cases if a certificate of financial statements (CFS) from an auditor has already been submitted by the beneficiary for the project, and 2) in case of doubt at the discretion of the AOSD, particularly if the request for change arrives after the submission of the first financial reports .

The Commission will take a decision on the basis of those documents. If the change of ICM due to a mistake is accepted, an amendment to all on-going projects should be made.

Reimbursement of indirect costs for CSAs: Maximum of 7% of direct costs

In the case of Coordination and Support Actions (CSA), the reimbursement of indirect eligible costs for every beneficiary may reach a maximum of 7% of the direct eligible costs, excluding the direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the beneficiary.

For this funding scheme, the EU/Euratom financial contribution may reach a maximum of 100% of the total direct eligible costs but the reimbursement of indirect costs cannot exceed a maximum of 7% of the direct eligible costs.

This 7% is not a flat rate; it is a maximum reimbursement rate. Beneficiaries which identify actual indirect costs will still have to declare their actual indirect costs, and their auditor will have to certify them in the Certificate of Financial Statements in the cases foreseen in the ECGA. However, they will be reimbursed a maximum of 7%. Those using the flat rate of 60% in projects with RTD activities cannot use it here, because there are not RTD activities funded under a CSA. They will have to use the 20% flat rate. Equally, they will also be reimbursed a maximum of 7%, but indirect costs will not need certification due to the use of the flat rate.

In CSAs, the following applies:

- if the method for determining indirect **costs** in funding schemes with RTD activities is **actual costs or the 20% standard flat rate** then the indirect **costs** for the participation in the CSA are determined according to the same method.
- if the method for determining indirect **costs** in funding schemes with RTD activities is **the 60% transitional flat rate**, then the indirect **costs** for the participation in the CSA are determined according to the standard flat rate method (i.e. 20% of direct costs minus subcontracting, not 60%)

Examples of cost calculations in CSAs:

*1) method for determining indirect costs : **actual costs***

Direct costs: 100 (no subcontracting)

Indirect costs: 83 (determined according to the usual accounting principles of the entity)

Total costs of the CSA: 183

EU contribution: 107

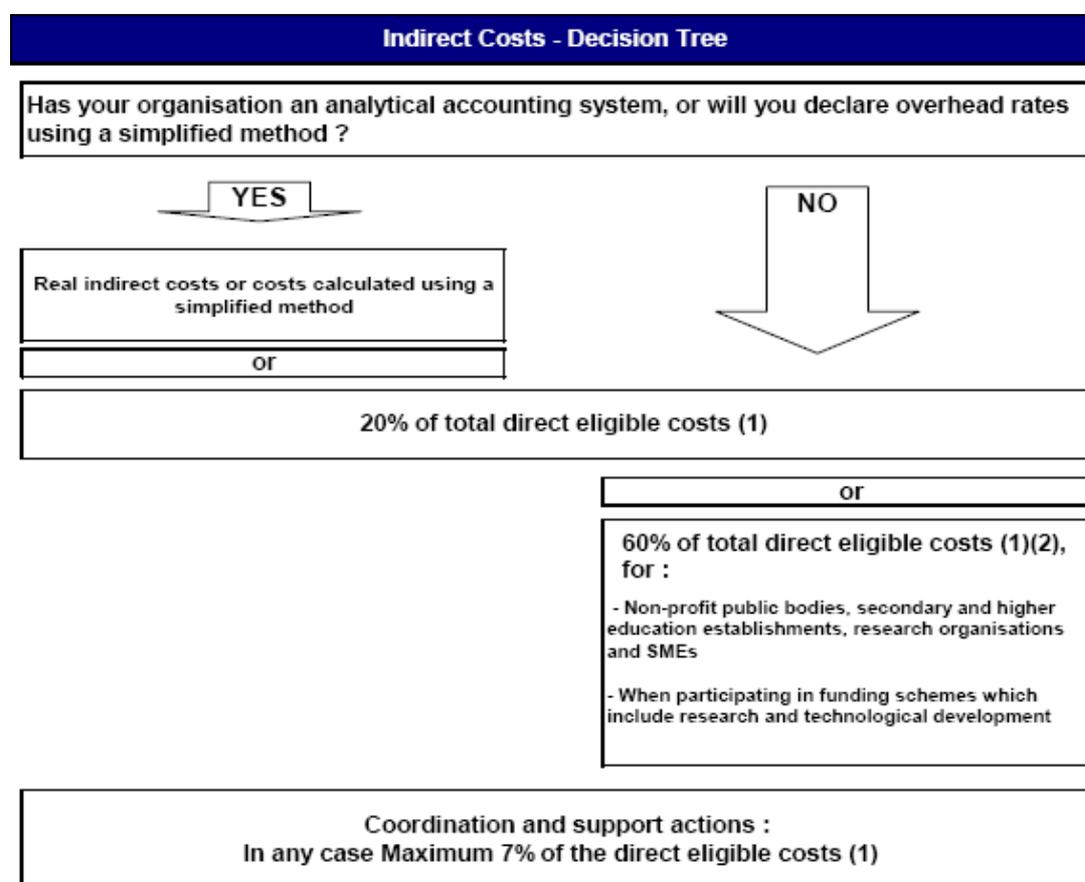
*2) method for determining indirect costs: **20% flat rate***

Direct costs: 100 (no subcontracting)
 Indirect costs: 20 (flat rate of 20% applied)
 Total costs of the CSA: 120
 EU contribution: 107

3) method for determining indirect costs : 60% flat rate

Direct costs: 100 (no subcontracting)
 Indirect costs: 20 (flat rate of 20% applied)
 Total costs of the CSA: 120
 EU contribution: 107

The maximum EU/Euratom contribution to CSAs in all cases is direct costs plus 7% of direct costs minus subcontracting. The choice of ICM has **no influence on the EC contribution in CSAs**. It is only relevant for determining the **costs** of CSAs.



(1) excluding direct eligible costs for subcontracting and the costs of reimbursement of resources made available by third parties which are not used on the premises of the beneficiary

Article II.16 of ECGA – Upper funding limits

The reimbursement of eligible costs must be established following the principles of *co-financing* and *non profit*. The upper funding limit fixes the maximum rate of reimbursement per activity and per beneficiary. However, the resulting total EC funding for the project cannot go beyond the maximum financial contribution of the Union/Euratom indicated in Article 5 of the ECGA.

Example 1: Collaborative Project with RTD & Management activities only

- TOTAL accepted RTD Costs of the project (at the end of the project): EUR 250,000

- ✓ *secondary and higher education establishments* (for example, universities whether or not public/or for profit)
- ✓ *research organisations*: this means a legal entity which:
 - is established as a non-profit organisation; a legal entity is qualified as "*non-profit*" when considered as such by national or international law. Associations or explicit non-profit making legal entities would fit here (see below); and
 - carries out research or technological development as one of its main objectives

In most cases the type of legal entity will be determined by the participants' national law. It will be up to the legal entity to prove it. In certain cases, a legal entity may find it difficult to determine its status. In these cases other indicative facts or evidence should be established.

Example:

A beneficiary could indicate its status under national tax law to support its claim to be a non-profit research organisation.

- ✓ SMEs: means small and medium size enterprises within the meaning of Commission Recommendation 2003/361/EC in the version of 6 May 2003. According to Article 2 of the Annex, an SME (Micro, Small or Medium-sized Enterprise) is an enterprise which:
 - has fewer than 250 employees,
 - has an annual turnover not exceeding 50 million EUR, and/or
 - has an annual balance-sheet total not exceeding 43 million EUR.

According to the new SME definition, possible relationships with other enterprises must be taken into account when calculating the data of the enterprise. For further information check the full text of Recommendation 2003/361/EC in the version of 6 May 2003.

Research centres, research institutes, contract research organisations or consultancy firms will not be considered eligible SMEs for the purposes of the Co-operative and Collective research schemes.

The Commission will assist in providing some indicators for assessment, support and registration of the legal entities in a unique Commission database. This database will recognise the particular legal status of each beneficiary, which will be used for all its participations in projects under the 7th Framework Programme.

Changes of legal status of beneficiaries

The ECGA foresees (under Article II.15.2.c and Article II.16.1) that non-profit public bodies, secondary and higher education establishments and research organisations and SMEs, may, under certain conditions and funding schemes (for RTD activities), opt for a flat rate of 60% for indirect costs and to a reimbursement rate of 75% of eligible

costs. Until December 2009, the ECGA stated that a change of the legal status of these beneficiaries implied the loss of these rates in ongoing GA.

A new Commission decision has been adopted in December 2009 in order to allow non-profit public bodies, secondary and higher education establishments and research organisations and SMEs to keep the 60% overheads flat rate and the 75% reimbursement rate for RTD activities even if they lose their status during the life of the project. This decision and the corresponding modification to Articles II.15.2 c) and II.16.1 of Annex II of the model GA have retroactive effects and shall apply to grant agreements in force **without the need for formal amendments**.

Acquiring the status of non-profit public body, SME, research organisation and secondary or higher education establishments during the life of a project **will not** entitle the beneficiary to claim the 75% rate for that project. It may however use the 75% funding rate for future GAs with RTD activities.

Regarding SMEs, they will stop qualifying for the 75% reimbursement rate only after exceeding the thresholds fixed in Recommendation 2003/361/EC for two consecutive years.

Example: *If a company has for:*

Year 1 SME criteria fulfilled status of SME--GA signed with 75% reimbursement rate
Year 2 SME criteria NOT fulfilled- status of SME--75% reimbursement rate for GA signed this year and for those signed when they fulfilled the criteria
Year 3 SME criteria NOT fulfilled- status of SME-- 75% reimbursement rate for GA signed this year and for those signed when they fulfilled the criteria
Year 4 SME criteria NOT fulfilled- NO status of SME – 50% reimbursement for those GA signed from the moment they lose their status, 75% reimbursement rate for GA signed in year 1

For information on the legal status of beneficiaries please go to the "Rules on the verification of existence, legal status and operational and financial capacity" in:

http://cordis.europa.eu/fp7/find-doc_en.html

- b. The reimbursement rate for RTD-activities may reach 75 % for security-related RTD-activities, provided that the following conditions are met²⁵:
- The project partners are developing capabilities in a domain with very limited market size.
 - Due to the specific situation in this very domain, there is a risk of market failure.
 - The project partners are developing accelerated equipment in response to new threats
2. **Demonstration activities** means activities designed to prove the viability of new technologies that offer a potential economic advantage, but which cannot be commercialised directly (e.g. testing of products such as prototypes). The EC contribution may reach a maximum of 50% of the total eligible costs.

²⁵ See Article 33 (1) 2nd subparagraph of the Rules for Participation FP7

3. **Other activities:** Other activities, which are not covered by the activities mentioned above and are not part of the non-exhaustive list included in Article II.16 of ECGA, may be reimbursed up to 100% of the eligible costs. A non-exhaustive list is included in Article II.16 of ECGA. They should be discussed carefully during the negotiations, and be included in Annex I to ECGA.

Scientific coordination of the project and project meetings (kick-off, periodic, final) cannot be charged under "other activities." Examples of scientific coordination could be:

- The scientific coordination and monitoring of subprojects and work-packages;
- The supervision of project progress milestones and project global critical path;
- The scientific review of the work performed by the partners including scientific deliverables;
- Research risk management;
- The preparation of the scientific part of the reports to be submitted to the EC.

Examples:

- **Dissemination activities** (for example the establishment of a website, the presentation of the project during conferences or workshops, travel costs related to the presentations, the drafting of a scientific publication including, if applicable, the payment of a fee for its publication)
In principle the cost of drafting the first plan for the use and dissemination of the foreground would not be eligible since it is a part of the proposal. Only the cost of updating the plan for use and dissemination of foreground will be eligible. According to the ECGA (Article II.4.2.b), this updated plan will be required at the time of the submission of the final report
- **Networking activities** (for example the organisation of a specific seminar/meeting in order to network with other projects in the same field); activities aiming at communicating and exchanging information among individuals, groups, etc.. outside the project; project meetings cannot be charged under this activity
- **coordination** activities (for example the organisation of a meeting or travel for coordination purposes with other projects in the same field; scientific coordination of the project cannot be charged under this activity; meetings related to coordination of the project could be charged under "other costs" in principle by the coordinator of the project and only if described in the proposal and technical annex as such; this coordination activity would be typical in a CSA or even in a Network of excellence but more rare in a collaborative project.)
- **intellectual property activities** (for example the filing and prosecution of patent (and other IPR) applications, including patent searches and legal advice or the payment of royalties to a third party for intellectual property rights which are needed to implement the project)
- **studies** on the socio-economic impact (for example the assessment of the expected socio-economic impact of the foreground or analysis of the factors that would influence their use)
- **promotion** of the exploitation of the project's foreground* (for example feasibility studies for the creation of spin-offs or "take up" activities regarding the assessment, trial and validation of promising, but not yet established technologies and solutions)
 - * Remark: Actual commercial exploitation and any concrete preparation thereof (as opposed to the above mentioned feasibility studies or "take up" activities), as well as related activities (e.g. marketing) cannot receive funding.

If complying with all the other requirements for eligibility (Article II.14 of ECGA) (actual, economic, for the sole purpose of achieving the objectives of the project, etc.)

4. **Management activities are part of "other activities":** they **include** the activities mentioned under Article II.2 of ECGA. They may include others, like for example the costs to organise a call or a tender to choose a beneficiary or subcontractor.

The reimbursement to a participant which has only management costs may reach a maximum of 100% of the total eligible costs whatever its legal status.

As opposed to FP6 where Management costs could not exceed 7% of the EU/Euratom contribution, under FP7 there is no defined ceiling of costs or percentage of EC funding which can be used for management activities. However, like all costs, in order to be eligible, they must comply with the conditions set out in Article II.14 of ECGA (economy, efficiency, etc.).

As mentioned in the ECGA, they can never include what is commonly known as "scientific coordination", which may be reimbursed at 50% (or 75%) as an RTD activity.

Examples of Management activities:

1. *Designing and maintaining partner specific templates for collecting input to the required EC documents,*
2. *Implementing and maintaining of a project-specific database for reporting and controlling, including the adaptation of the structure after changes in the workplan and the consortium,*
3. *Drafting and maintaining the dissemination and exploitation plan following the EC's requirements,*
4. *Preparing and post-processing of EC reviews from the consortium-side including support in the implementation of recommendations from the EC and reviewers,*
5. *Preparing, executing and post-processing of major project meetings such as Steering Committee meetings, General Assemblies and meetings with the advisory board (tasks: agendas, invitations, location of meeting places, organization of rooms and equipment, preparation and distribution of materials, minutes and action lists),*
6. *Implementing and maintaining the project infrastructure, e.g., the internal platform for information exchange and email lists,*
7. *Handling of legal issues, IPR issues and maintenance of the consortium agreement, if obligatory*
8. *Handling of the project correspondence and the day-to-day requests from partners and external bodies.*

5. **Training activities are also part of "other activities"** – Training activities should contribute to professional development through advanced training of researchers and other key staff, research managers, industrial executives, and potential users of the knowledge generated by the project.²⁶

They may cover the salary costs of those providing the training (if in conformity with Article II.14 of ECGA) but not the salary costs of those being trained.

²⁶ Even if usually training is envisaged as that given by and for personnel working in the project, it might be possible (if agreed by the Commission) to train other people not directly linked to the project, like e.g. researchers or potential users of the knowledge generated by the project (foreground). However, this should be clearly specified in the Description of Work as a task of the project.

It is important to mention that the funding limits depend not only on the activities but also on the funding scheme concerned (as shown in the table in Article II.16 of ECGA).

For Collaborative projects and Networks of Excellence, the upper funding limits as described above apply.

General example:

EC funding of a beneficiary (university) in a project which has RTD, demonstration and management activities with the following direct costs;

RTD costs: EUR 100,000

Demonstration costs: EUR 100,000

Management costs: EUR 100,000

Calculation of the Indirect costs:

RTD costs: EUR 100,000 x 60% = EUR 60,000

Demonstration costs: EUR 100,000 x 60% = EUR 60,000

Management costs: EUR 100,000 x 60% = EUR 60,000

Reimbursement as follows using reimbursement rates against total eligible costs

RTD costs: 75% of (EUR 100,000 + EUR 60,000) = EUR 120,000

Demonstration costs: 50% of (EUR 100,000 + EUR 60,000) = EUR 80,000

Management costs: 100% of (EUR 100,000 + EUR 60,000) = EUR 160,000

Total to be reimbursed = EUR 360,000

Coordination and support actions (CSA) are activities which aim at coordinating or supporting research activities and policies. The actions will cover a broader spectrum of activities from coordinating and networking programmes and policies to more specific or shorter-term support activities. **They will not cover research, development or demonstration activities.** For coordination and support actions, the EU/Euratom financial contribution may reach a maximum of 100% of the total eligible costs.

The EC contribution may reach a maximum of 100% of the total direct eligible costs. For indirect costs, it may reach a maximum of 7% of the direct eligible costs, excluding subcontracting and the costs of resources made available by third parties which are not used on the premises of the beneficiary. It is important to note that this 7% is not a flat rate (see explanations on Article II.15 of the ECGA)

Example of funding in a CSA:

Direct Costs: EUR 200,000

EC funding for Direct Costs (100%) = EUR 200,000 (including EUR 20,000 for subcontracting)

Indirect costs: EUR 100,000

EC funding for indirect costs = 7% of (EUR 200,000 – EUR 20,000 = EUR 180,000) = EUR 12,600

Total eligible costs (at the end of project) of EUR 300,000

TOTAL EC funding = EUR 212,600

Article II.17 of ECGA – Receipts of the project

The financial contribution of the Union/Euratom may not have the purpose or effect of producing a profit for the beneficiaries. For this reason, the total requested EU/Euratom funding plus receipts cannot exceed the total eligible costs.

If Total EU contribution + receipts ≤ total eligible costs = No reduction of EU/Euratom contribution

Profit must be assessed at the level of the beneficiary.

As a consequence, since the **EU/Euratom** financial contribution is calculated, among other criteria, on the basis of a provisional budget and according to maximum reimbursement rates of eligible costs, this provisional budget must be composed of estimated eligible costs as well as of **estimated receipts**, (if they can be estimated in advance).

Three kinds of receipts must be taken into consideration:

- Financial transfers or their equivalent to the beneficiary from third parties;
- Contributions in kind from third parties
- Income generated by the project.

a) In the first two cases (financial transfers or contributions in kind), there are two cumulative conditions to be fulfilled in order to consider these endowments as receipts of the project, as foreseen in Article II.17 of Annex II (General Conditions) to ECGA :

- If the contribution made by a third party is **allocated to the beneficiary specifically for use on the project**, the resources must be declared as receipts of the project in the beneficiary's Financial Statement (Form C). However, if the use of these contributions is at the discretion of the beneficiary they may be considered as eligible costs of the project but are not to be considered as receipts.
- If there is **no full reimbursement** by the beneficiary to the third party, the part of the costs that has not been reimbursed has to be considered as a receipt and must be declared by the beneficiary as such. The part which has been reimbursed is not a receipt or a contribution by a third party, but a cost to the beneficiary, and should be declared as such.

Example:

A university professor whose costs are charged by the university in the ECGA, but whose salary is paid by the Ministry. This contribution in kind from a third party (the Ministry) is not to be considered a receipt, unless the professor has been specifically detached by the Ministry to the university to work for the project in question. In other words, if the University is free to decide the allocation of the professor's work, then his/her contribution is assimilated to an "own resource" of the university, and it is not a receipt.

In any case where contributions from third parties are used by the beneficiary for the project, the latter is required to inform the third party of this use, in accordance with the national legislation or practice in force.

b) Any income generated by the project itself, including the sale of assets bought for the project (limited to the initial cost of purchase) is considered as a receipt of the project (e.g. admission fee to a conference carried out by the consortium, sale of the proceedings of such a conference, sale of equipment bought for the project, etc.)

By derogation to the above-mentioned principle, income generated in using the foreground resulting from the project is not considered as a receipt. The use of the foreground resulting

from the project is often the main objective of any project supported by the **EU/Euratom** financial contribution, and therefore considering it a receipt could penalise it.

In most cases, therefore, the receipts would not have an impact on the **EU/Euratom** contribution, as long as their amount does not exceed the difference between the eligible costs of the project and the EU contribution provided:

Eligible costs: 100, EU contribution: 50, receipts: 50 → no impact

Eligible costs: 100, EU contribution: 50, receipts: 20 → no impact

Eligible costs: 100, EU contribution: 50, receipts: 60 → the EU contribution will be reduced to 40

When to take receipts into consideration?

Receipts are to be taken into account at the moment of the final payment (see Article II.18.3 of ECGA).

Beneficiaries must take into account and declare receipts which are **established** (revenue that has been collected and entered in the accounts), **generated or confirmed** (revenue that has not yet been collected but which has been generated or for which the beneficiary has a commitment or written confirmation) at the time of the submission of the last financial statement.

Example:

Beneficiary X with total eligible costs in a project of: 100

EC contribution: 50

Receipts:

- *National grant to the beneficiary for the work in the project: 20*
- *Support from industrial sponsor for the work in the project: 20*
- *Fees charged to participants in a seminar at the end of the project: 5*

Total costs= 100

Total receipts= 45

EU contribution = 50 + total receipts (45)= 95 which is below the total costs of the beneficiary, therefore no change to the EC contribution

Contributions from one beneficiary to another within the same project are not considered as receipts. A receipt is a contribution from a third party to the project. Therefore, if one beneficiary funds another beneficiary in the same ECGA to help it carry out work, this will not be considered a receipt, as it is received from a beneficiary, and not from a third party.

Beneficiaries are required to include the receipts received in the financial statements (Form C) corresponding to the reporting period. They will be taken into account when calculating the final payment (i.e. after the end of the project) and then the potential reduction of the **EU/Euratom** contribution may take place.

Article II.18 of ECGA – The financial contribution of [the Union][Euratom]

1. The EU/Euratom financial contribution in the form of reimbursement of eligible costs.

Principles of calculation of the EU/Euratom contribution:

- The EU/Euratom contribution shall be calculated by reference to the costs of the project as a whole and its reimbursement shall be based on the accepted costs of each beneficiary.
- The contribution shall be determined by applying the upper funding limits indicated in Article II.16 per activity and per beneficiary to the actual eligible costs.
- The EU/Euratom contribution cannot give rise to any profit for any beneficiary.
- For each beneficiary, the EU/Euratom contribution cannot exceed the eligible costs minus the receipts for the project.
- The total amount of payments by EU/Euratom shall not exceed in any circumstances the maximum amount of the EU/Euratom contribution referred to in Article 5, even if the consortium decides to increase the work on the project or to add new beneficiaries with the approval of the EU/Euratom.

Example:

Beneficiary n° 1 (SME)

<i>Activities</i>	<i>Cost accepted (Direct + indirect) (EUR)</i>	<i>Cost reimbursed (EUR)</i>
<i>RTD</i>	<i>100,000</i>	<i>100,000 x 75% = 75,000</i>
<i>Demonstration</i>	<i>100,000</i>	<i>100,000 x 50% = 50,000</i>
<i>Management</i>	<i>40,000</i>	<i>40,000 x 100% = 40,000</i>
<i>Other</i>	<i>10,000</i>	<i>10,000 x 100% = 10,000</i>
<i>Total</i>	<i>250,000</i>	<i>175,000</i>
<i>Receipts</i>		<i>25,000</i>
<i>EU contribution</i>		<i>175,000</i>

The EU contribution does not change as the addition of the EU contribution (EUR 175,000) + the receipts of the project (EUR 25,000) is less than the total cost of the project for the beneficiary (EUR 250,000).

2. EU/Euratom contribution in the form of lump sums.

2.1 Lump sums for International Cooperation Partner Countries (ICPC): these lump sums have been adopted by the Commission.

ICPC beneficiaries when participating in an FP7 GA have got the option between being reimbursed on the basis of eligible costs or on the basis of lump-sums. This option can be made (and changed) up to the moment of the signature of the GA. Once made, it will apply during the whole duration of the ECGA without the possibility of changing it. ICPC beneficiaries may opt for a lump sum in a given project(s) and for reimbursement of costs in another(s). Whatever the final option chosen, the maximum EU/Euratom contribution for the project will remain.

Depending on the country, the lump sum contribution for participants from ICPC is defined like this:

Table 1: Lump sum contribution per country income group

Economy of the ICPC	Contribution (EUR/researcher/year)
low-income	8,000
lower middle income	9,800
upper middle income	20,700

Table 2: Upper funding limits per funding scheme and type of legal entity

The upper funding limits to be applied for the different funding schemes are as follows:

Funding Scheme	Non-profit public bodies, secondary and higher education establishments, research organisations and SMEs	All other organisations
Collaborative project	75%	50% (1)
Network of Excellence	75%	50% (1)
Coordination and support action	100%	100%
Support for "frontier" research (ERC)	100%	100%
Research for the benefit of specific groups	75%	50% (1)
Support for training and career development of researchers (Marie Curie)	Not applicable	Not applicable

- (1) For security-related research and technological development activities, it may reach a maximum of 75% in the case of the development of capabilities in domains with very limited market size and a risk of 'market failure' and for accelerated equipment development in response to new threats.

Article 33 (6) of the Rules for participation provides for the application of upper funding limits to the lump-sums amounts. For simplification purposes, for funding schemes with research and technological development activities, participants opting for the use of lump-sums are deemed to be undertaking only research and technological activities in the project.

For a legal entity established in an ICPC, if the lump sum option is chosen, the contribution in a project is based on the amounts in Table 1. These amounts must be multiplied by the total number of person-years for the project requested by the ICPC legal entity. When the person is not working full-time on the project, these amounts must be reduced to take into account the portion of his/her working time devoted to the project.

The maximum EU/Euratom contribution is calculated by applying the upper funding limits in Table 2 to the resulting amount. This amount is all inclusive, covering support towards both the direct and the indirect costs. In other words, the lump sum is deemed to cover all costs of a participant from an ICPC country, including not only the costs of personnel and travel, but also, among others, equipment, consumables, subcontracts and indirect costs.

Example: SME from ICPC country (low-income) having chosen a lump-sum, in a 3-year collaborative project GA with 6 researchers working on the project full-time and 3 working part-time at 50%

Total researcher-years for the project: 3 years x 7.5 researchers/year = 22.5

Funding for the SME: 22.5 researcher/year x EUR 8,000 /year = EUR 180,000 x 0,75 (75% reimbursement rate for an SME in a collaborative project) = EUR 135,000

Article 33 (6) of the Rules for participation provides for the application of upper funding limits to the lump-sums amounts. For simplification purposes, for funding schemes with research and technological development activities, participant's option for the use of lump-sums are deemed to be undertaking only research and technological activities in the project.

2.2 Payment of lump-sums for ICPC beneficiaries

The payment of the pre-financing for the lump-sums follows the same rules as the standard pre-financing (usually 160% of the average EC funding per reporting period). The interim payments following a reporting period will also follow the general rules and will be made on the basis of Form C (financial statement) and the actual time worked by the ICPC beneficiary during the period in question. For the final payment, the same rules apply (including the approval of the final report by the Commission)

The contribution for the ICPC participants is agreed as part of the budget during the negotiations, based on the lump sums approved by the Commission. Their work is defined in Annex 1 together with the work of the other participants. Payments will be made based on actual effort involved. Payments are released based on periodic reporting (as for the other beneficiaries) but ICPC beneficiaries only have to report on the time devoted to the project and not on the costs incurred.

2.3 Reporting and auditing of lump-sums for ICPC beneficiaries:

As the lump-sums are calculated on the basis of researchers/year, the reports submitted by the ICPC beneficiary will include the financial Form C and the number of actual hours worked by the researchers on the project. Consequently, the beneficiary will keep a record of the time (e.g. timesheets) worked by the researchers on the project. The Commission services and the other entities authorised by the ECGA may carry out audits on the premises of the beneficiary to verify its compliance with this requirement

As the beneficiaries are paid on the basis of lump-sums, there is no requirement to submit certificates on financial statements, even if the EU/Euratom contribution is above the threshold of EUR 375,000.

Example of calculation of EC funding in a project

Cooperative project with 6 partners:

1 ICPC university participant (from a low-income country) reimbursed on the basis of lump-sums with 20 researcher-years: EU funding = (8,000 x 20 = EUR 160,000 x 75%) = EUR 120,000 of EU funding

1 ICPC university participant reimbursed on the basis of EUR 200,000 total eligible costs x 75% = EUR 150,000 of EC funding

4 European participants reimbursed also on the basis of EUR 600,000 of total eligible costs and EU funding of EUR 270,000

Total EU/Euratom funding: 120,000 + 150,000 + 270,000=EUR 540,000

List of ICPC economies

Economy	Code	Region	Income group
Afghanistan	AFG	South Asia	Low income
Albania	ALB	Europe & Central Asia	Lower middle income
Algeria	DZA	Middle East & North Africa	Lower middle income
American Samoa	ASM	East Asia & Pacific	Upper middle income
Angola	AGO	Sub-Saharan Africa	Lower middle income
Argentina	ARG	Latin America & Caribbean	Upper middle income
Armenia	ARM	Europe & Central Asia	Lower middle income
Azerbaijan	AZE	Europe & Central Asia	Lower middle income
Bangladesh	BGD	South Asia	Low income
Barbados	BRB	Latin America & Caribbean	Upper middle income
Belarus	BLR	Europe & Central Asia	Lower middle income
Belize	BLZ	Latin America & Caribbean	Upper middle income
Benin	BEN	Sub-Saharan Africa	Low income
Bhutan	BTN	South Asia	Low income
Bolivia	BOL	Latin America & Caribbean	Lower middle income
Bosnia and Herzegovina	BIH	Europe & Central Asia	Lower middle income
Botswana	BWA	Sub-Saharan Africa	Upper middle income
Brazil	BRA	Latin America & Caribbean	Lower middle income
Burkina Faso	BFA	Sub-Saharan Africa	Low income
Burundi	BDI	Sub-Saharan Africa	Low income
Cambodia	KHM	East Asia & Pacific	Low income
Cameroon	CMR	Sub-Saharan Africa	Lower middle income
Cape Verde	CPV	Sub-Saharan Africa	Lower middle income
Central African Republic	CAF	Sub-Saharan Africa	Low income
Chad	TCD	Sub-Saharan Africa	Low income
Chile	CHL	Latin America & Caribbean	Upper middle income
China	CHN	East Asia & Pacific	Lower middle income
Colombia	COL	Latin America & Caribbean	Lower middle income
Comoros	COM	Sub-Saharan Africa	Low income
Congo, Dem. Rep.	ZAR	Sub-Saharan Africa	Low income
Congo, Rep.	COG	Sub-Saharan Africa	Lower middle income
Cook Islands*	COK	East Asia & Pacific	Upper middle income
Costa Rica	CRI	Latin America & Caribbean	Upper middle income

Côte d'Ivoire	CIV	Sub-Saharan Africa	Low income
Cuba	CUB	Latin America & Caribbean	Lower middle income
Djibouti	DJI	Middle East & North Africa	Lower middle income
Dominica	DMA	Latin America & Caribbean	Upper middle income
Dominican Republic	DOM	Latin America & Caribbean	Lower middle income
Ecuador	ECU	Latin America & Caribbean	Lower middle income
Egypt, Arab Rep.	EGY	Middle East & North Africa	Lower middle income
El Salvador	SLV	Latin America & Caribbean	Lower middle income
Equatorial Guinea	GNQ	Sub-Saharan Africa	Upper middle income
Eritrea	ERI	Sub-Saharan Africa	Low income
Ethiopia	ETH	Sub-Saharan Africa	Low income
Fiji	FJI	East Asia & Pacific	Lower middle income
Gabon	GAB	Sub-Saharan Africa	Upper middle income
Gambia, The	GMB	Sub-Saharan Africa	Low income
Georgia	GEO	Europe & Central Asia	Lower middle income
Ghana	GHA	Sub-Saharan Africa	Low income
Grenada	GRD	Latin America & Caribbean	Upper middle income
Guatemala	GTM	Latin America & Caribbean	Lower middle income
Guinea	GIN	Sub-Saharan Africa	Low income
Guinea-Bissau	GNB	Sub-Saharan Africa	Low income
Guyana	GUY	Latin America & Caribbean	Lower middle income
Haiti	HTI	Latin America & Caribbean	Low income
Honduras	HND	Latin America & Caribbean	Lower middle income
India	IND	South Asia	Low income
Indonesia	IDN	East Asia & Pacific	Lower middle income
Iran, Islamic Rep.	IRN	Middle East & North Africa	Lower middle income
Iraq	IRQ	Middle East & North Africa	Lower middle income
Jamaica	JAM	Latin America & Caribbean	Lower middle income
Jordan	JOR	Middle East & North Africa	Lower middle income
Kazakhstan	KAZ	Europe & Central Asia	Lower middle income
Kenya	KEN	Sub-Saharan Africa	Low income
Kiribati	KIR	East Asia & Pacific	Lower middle income
Korea, Dem. Rep.	PRK	East Asia & Pacific	Low income
Kyrgyz Republic	KGZ	Europe & Central Asia	Low income
Lao PDR	LAO	East Asia & Pacific	Low income
Lebanon	LBN	Middle East & North Africa	Upper middle income
Lesotho	LSO	Sub-Saharan Africa	Lower middle income
Liberia	LBR	Sub-Saharan Africa	Low income

Libya	LBY	Middle East & North Africa	Upper middle income
Macedonia, FYR	MKD	Europe & Central Asia	Lower middle income
Madagascar	MDG	Sub-Saharan Africa	Low income
Malawi	MWI	Sub-Saharan Africa	Low income
Malaysia	MYS	East Asia & Pacific	Upper middle income
Maldives	MDV	South Asia	Lower middle income
Mali	MLI	Sub-Saharan Africa	Low income
Marshall Islands	MHL	East Asia & Pacific	Lower middle income
Mauritania	MRT	Sub-Saharan Africa	Low income
Mauritius	MUS	Sub-Saharan Africa	Upper middle income
Mexico	MEX	Latin America & Caribbean	Upper middle income
Micronesia, Fed. Sts.	FSM	East Asia & Pacific	Lower middle income
Niue*	NIU	East Asia & Pacific	Upper middle income
Moldova	MDA	Europe & Central Asia	Lower middle income
Mongolia	MNG	East Asia & Pacific	Low income
Morocco	MAR	Middle East & North Africa	Lower middle income
Mozambique	MOZ	Sub-Saharan Africa	Low income
Myanmar	MMR	East Asia & Pacific	Low income
Namibia	NAM	Sub-Saharan Africa	Lower middle income
Nauru*	NRU	East Asia & Pacific	Upper middle income
Nepal	NPL	South Asia	Low income
Nicaragua	NIC	Latin America & Caribbean	Lower middle income
Niger	NER	Sub-Saharan Africa	Low income
Nigeria	NGA	Sub-Saharan Africa	Low income
Northern Mariana Islands	MNP	East Asia & Pacific	Upper middle income
Oman	OMN	Middle East & North Africa	Upper middle income
Pakistan	PAK	South Asia	Low income
Palau	PLW	East Asia & Pacific	Upper middle income
Panama	PAN	Latin America & Caribbean	Upper middle income
Papua New Guinea	PNG	East Asia & Pacific	Low income
Paraguay	PRY	Latin America & Caribbean	Lower middle income
Peru	PER	Latin America & Caribbean	Lower middle income
Philippines	PHL	East Asia & Pacific	Lower middle income
Russian Federation	RUS	Europe & Central Asia	Upper middle income
Rwanda	RWA	Sub-Saharan Africa	Low income
Samoa	WSM	East Asia & Pacific	Lower middle income
São Tomé and Príncipe	STP	Sub-Saharan Africa	Low income
Senegal	SEN	Sub-Saharan Africa	Low income

Serbia and Montenegro	YUG	Europe & Central Asia	Lower middle income
Seychelles	SYC	Sub-Saharan Africa	Upper middle income
Sierra Leone	SLE	Sub-Saharan Africa	Low income
Solomon Islands	SLB	East Asia & Pacific	Low income
Somalia	SOM	Sub-Saharan Africa	Low income
South Africa	ZAF	Sub-Saharan Africa	Upper middle income
Sri Lanka	LKA	South Asia	Lower middle income
St. Kitts and Nevis	KNA	Latin America & Caribbean	Upper middle income
St. Lucia	LCA	Latin America & Caribbean	Upper middle income
St. Vincent and the Grenadines	VCT	Latin America & Caribbean	Upper middle income
Sudan	SDN	Sub-Saharan Africa	Low income
Suriname	SUR	Latin America & Caribbean	Lower middle income
Swaziland	SWZ	Sub-Saharan Africa	Lower middle income
Syrian Arab Republic	SYR	Middle East & North Africa	Lower middle income
Tajikistan	TJK	Europe & Central Asia	Low income
Tanzania	TZA	Sub-Saharan Africa	Low income
Thailand	THA	East Asia & Pacific	Lower middle income
Timor-Leste	TMP	East Asia & Pacific	Low income
Togo	TGO	Sub-Saharan Africa	Low income
Tonga	TON	East Asia & Pacific	Lower middle income
Trinidad and Tobago	TTO	Latin America & Caribbean	Upper middle income
Tunisia	TUN	Middle East & North Africa	Lower middle income
Turkmenistan	TKM	Europe & Central Asia	Lower middle income
Tuvalu*	TUV	East Asia & Pacific	Lower middle income
Uganda	UGA	Sub-Saharan Africa	Low income
Ukraine	UKR	Europe & Central Asia	Lower middle income
Uruguay	URY	Latin America & Caribbean	Upper middle income
Uzbekistan	UZB	Europe & Central Asia	Low income
Vanuatu	VUT	East Asia & Pacific	Lower middle income
Venezuela, RB	VEN	Latin America & Caribbean	Upper middle income
Vietnam	VNM	East Asia & Pacific	Low income
West Bank and Gaza	WBG	Middle East & North Africa	Lower middle income
Yemen, Rep.	YEM	Middle East & North Africa	Low income
Zambia	ZMB	Sub-Saharan Africa	Low income
Zimbabwe	ZWE	Sub-Saharan Africa	Low income

3. EU/Euratom financial contribution in the form of lump sums (other than for ICPC).

The case of the Networks of Excellence (NoE)

In FP7 the forms of grants (funding) are provided by the work programme and the call where the NoE is published. The form of funding can be:

- either on the basis of eligible costs , like other funding schemes
- or, where the work programme and the individual call indicates this, the EU/Euratom contribution will take the form of a lump sum of EUR 23,500 per researcher/year (as defined by the Rules for Participation). This lump sum modality has not been retained for the first calls for proposals. Details on the implementation modalities will be given at a later stage.

In their proposal form NoE, proposers must forecast their costs in the same way as for other funding schemes. They will therefore use the three categories *R&D*, *Management* and *Other Activities* explained under Article II.16 of ECGA.

Article II.19 of ECGA – Interest yielded by the pre-financing provided by the Commission

This Article in the GA makes reference to the Financial Regulation of the European Communities (Art. 5a FR) and its Implementing Rules (Art. 3, 4, 4a IR); They refer to the obligation to deposit pre-financing on an interest-yielding bank account, and to deduct the interests generated by the pre-financing from the payment of the balance of the amounts due to the beneficiary when:

- such pre-financing represents a significant amount and
- only for the entity receiving pre-financing directly from the Commission (the coordinator in a multi-partner project or the beneficiary in mono-partner project). Therefore, in multi-partner projects such obligation does not exist for other beneficiaries which are not coordinators.

The coordinator must receive and manage the EU/Euratom funding in an interest-yielding bank account. The interest rate declared by the coordinator/mono-beneficiary must be the actual interest rate of the bank account²⁷.

Significant amount of pre-financing

In the current version of the IR a significant amount has been fixed when the amount of pre-financing exceeds EUR 50,000. Therefore, when the global amount of the pre-financing is equal or less than this amount, the interest is not due and there is no need to declare the interest generated by that pre-financing.

We have to distinguish two situations:

1. For **multi-partner actions** according to the IR, the obligation to declare this interest "shall apply solely to the entity receiving pre-financing directly from the Commission". In order to

²⁷ *Pre-financing is paid to bank accounts or sub-accounts which allow the funds and related interest to be identified. If the beneficiary is using another method of generating interest on the pre-financing, the accounting methods of the beneficiary or intermediaries must make it possible to identify the funds paid by the Commission and the interest yielded by these funds and attribute them to a particular project.*

avoid discrimination between beneficiaries, the provision of the ECGA shall apply only to the share of pre-financing not distributed by the coordinator to the other beneficiaries of the consortium. This means that the coordinator does not have to declare interest in its own part of pre-financing, only has to declare interest on the part of pre-financing not yet distributed to the other beneficiaries. In other words, the pre-financing will remain the property of the EU/Euratom until the final payment and the interest generated by the part of the pre-financing not transferred from the Coordinator to the other beneficiaries will need to be reported. The coordinator has to open an interest-yielding bank account and declare any interest received since the reception of the pre-financing until its distribution to the other beneficiaries, even if this is a very short term.

2. For **mono-partner actions** the whole amount paid by the Commission to the beneficiary will be subject of declaration of interest from the moment it is received by the beneficiary.

In both situations it is important to remember that:

- The pre-financing will remain the property of the EU/Euratom until the final payment.
- There is only one single pre-financing per project, paid usually within 45 days following the entry into force of the ECGA. Therefore, the rules concerning interest apply only to that single pre-financing, and not to interim payments. In other words, once the pre-financing received after the signature of the ECGA is spent or entirely distributed to the other beneficiaries the obligation expires, even if further (interim) payments are received from the Commission. These following payments will not be considered pre-financing and will not re-create the obligation to declare interests.

Exonerations

Under certain circumstances entities may ask for exoneration from this obligation to declare interest. They could be exonerated if:

1. They are in the legal impossibility to open an interest yielding bank account under their national law.
In the case of international organisations, this legal impossibility arises from an international treaty or their own statutes
2. Or they have to undertake heavy administrative procedures to do so²⁸

If a beneficiary in an FP7 GA intends to apply for this exoneration, it will have to submit a "Declaration of Honour on the impossibility or difficulty of a beneficiary of FP7 to deposit pre-financing in an interest-bearing bank account". This declaration will identify the law, decree, etc which prevents the beneficiary from opening this account, as well as the fact that this obligation affects the beneficiary. The template for this declaration will be provided during the negotiation upon request.

This request for exoneration together with the filled in declaration and any supporting documents should be sent to the following mailbox, managed by the Research Executive Agency (REA) of the European Commission, in charge of the validation of entities participating in the 7th Framework Programme:

²⁸ Usually, this refers to public entities which, in order to open interest-yielding accounts, must obtain a derogation from the State or are obliged to launch a public tender in order to identify the bank where this account will be held.

If the request is accepted by the Commission it will exonerate the beneficiary from the obligation to deposit pre-financing in an interest-yielding bank account for all projects under FP7. If the declared situation changes, the entity has to notify the Research Executive Agency about that.

If the Commission services discover in the context of an "ad-hoc" verification or an audit that the declaration is false, the sanctions foreseen in the Financial Regulation and in the grant agreement will be applied.

When to declare interest

The coordinator (and only the coordinator) shall inform the Commission of the amount of any interest yielded by the pre-financing it has received from the Commission at each reporting period (when the pre-financing received for the project exceeds EUR 50,000).

The amount of interest declared by the coordinator should be mentioned in its financial statements (Form C point 3) and will be offset against subsequent payments.

Interests are declared throughout the whole duration of the project on the initial amount paid as pre-financing not distributed to the beneficiaries (or not spent by the single beneficiary in the case of mono-partner actions).

Example: 3-year project with 3 million EU funding and 3 reporting periods:

The coordinator receives a pre-financing of EUR 1,600,000 for the whole duration of the project and retains for itself the agreed amount corresponding to its share to the pre-financing: EUR 400,000. in conformity with the stipulations of the Consortium agreement signed by all beneficiaries:

In this case, the coordinator will declare the interest generated by EUR 1,200,000 of pre-financing until the moment of its transfer to the other beneficiaries. (e.g. 10,000 EUR). At the end of the reporting period the coordinator has to declare these 10,000 EUR as interest yielded by the pre-financing in its financial statement (Form C). Following the reception and approval of the reports, it will be deducted from the subsequent interim payment: this will consist of the 900,000 EUR corresponding to the EU funding accepted for the period covered by the report, minus the interest yielded by the pre-financing (900,000-10,000 = 890,000).

This interim payment of 890,000 EUR will not recreate the obligation to generate interest.

More information on this point can be found in the section dedicated to Article 5.3 in this Guide.

SECTION 2: GUARANTEE FUND AND RECOVERIES

Article II.20 of ECGA – Guarantee Fund

1. Presentation

The Guarantee Fund is a mutual benefit instrument establishing solidarity among participants in indirect actions. It replaces the financial collective responsibility between participants in the 6th Framework programme.

It aims primarily at covering the financial risks incurred by the EU/Euratom and the participants during the implementation of the indirect actions of FP7. It is a kind of insurance contract by the beneficiaries to guarantee the financial losses of the projects.

The Fund is the property of the beneficiaries. Each beneficiary will contribute to the Guarantee Fund (with the exception of beneficiaries with costs incurred in relation to the project but no EC contribution). This contribution corresponding to 5% of the maximum EU/Euratom contribution in the project will be subtracted from the pre-financing and transferred by the Commission, in the name of the beneficiaries, into the Guarantee Fund. However, legally speaking, beneficiaries have received the full pre-financing.

Example: Project duration 3 years, 3 reporting periods, EC funding 3,000,000 €

Pre-financing = 1,600,000 € of which 150,000 € to the Fund

1st Interim payment 1,000,000 € accepted, payment 1,000,000 €

2nd Interim payment 1,000,000 € accepted, payment 100,000 € (retention 10%.)

Final payment 300,000 € = (retention 10%)+150,000 € of the Fund

The beneficiaries' contributions to the Fund will be paid by the Commission on their behalf into a Bank Account. The interest generated by the contributions will cover the risks incurred by the non reimbursement of amounts due by the beneficiaries.

At the end of a project, beneficiaries will recover their contribution. However, if at the time of payment, the fund is in a situation where the interest has been insufficient to cover the losses, a deduction will be made from the amount to be returned. The calculation method applicable to obtain the deduction is foreseen in Article II.21 of ECGA and will never exceed 1% of the EU/Euratom contribution. This potential deduction does not concern public bodies or legal entities whose participation is guaranteed by a Member State or an Associated Country and higher and secondary education establishments.

At the end of a project, the contribution to be returned to the beneficiary, could be assigned, to the payment of any debt due to the EU/Euratom by the said beneficiary under any obligation irrespective of its origin.

2. How is the amount to be reimbursed calculated?

At the moment of the final payment, the amount contributed to the Fund will be returned to the beneficiaries. A "fund index" will be established at the end of each month by the Bank to be applied during the following month.

When this "funding index" is equal or superior to 1, the contribution will be returned without deduction.

When this "funding index" is less than 1, the contribution will be returned with a deduction which shall not exceed 1% of the final EU/Euratom contribution due to the beneficiary. This deduction shall not apply to amounts due to public bodies, or to legal entities, whose participation in the grant agreement is guaranteed by a Member State or an Associated Country, or to higher and secondary education establishments.

Example of calculation of the index fund:

$$\text{Fund index} = (C + I + B) / C$$

C= contributions to the guarantee fund of all on-going projects when establishing the index

I = cumulated interest generated by the Fund

B = Balance of the operations (recoveries to the profit of the fund - transfers from the fund & recoveries on the fund)

Calculation of the fund index on 31 January 2009.

Total contributions: EUR 1 000,000,000

Cumulated interest: EUR 50,000,000

Recoveries to the profit of the fund: 50,000,000

Transfers from the fund: 300,000,000

Balance of the operations: 50,000,000 – 300,000,000 = - 250,000,000

Then Fund index = (1,000,000,000 + 50,000,000 – 250,000,000) / 1,000,000,000 = 0.80

The fund index = 0.80 and will be applied during the final payment made in February 2009

Example of calculation of the amount to be reimbursed at the final payment:

Maximum EU/Euratom financial contribution: 100,000

Contribution to the fund: 5,000

If Final EU/Euratom contribution at the end of the project: 90,000

- *For a consortium composed only by public bodies or legal entities whose participation is guaranteed by a Member State or an Associated Country or higher and secondary education establishments*

Contribution to be reimbursed = initial contribution to the fund = 5,000

- *For a consortium composed only by other legal entities not mentioned above*
Contribution to be returned = initial contribution to the fund x 0.80 = 4000

In any case, the deduction shall not exceed 1% of the final EU/Euratom financial contribution: 90,000 x 0.01 = 900

Then: Contribution to be returned = 5,000 – 900 = 4,100.

- *For a mixed consortium as follows:*

1 public body or legal entity whose participation is guaranteed by a Member State or an Associated Country or higher and secondary education establishments with 18.000 as Final EU/Euratom contribution -

4 private legal entities with 18.000 as Final EU/Euratom contribution each

For the public body:

Contribution to be reimbursed = initial contribution to the fund = 1,000

For each of the private entities

Contribution to be returned = initial contribution to the fund x 0.80 = 1,000 x 0.80 = 800

In any case, the deduction shall not exceed 1% of the final EU/Euratom financial contribution: 18000 x 0.01 = 180

Then: Contribution to be returned = 1000 – 180 = 820

Article II.21 of ECGA – Reimbursement and recoveries

1. During the duration of the project

If, following a request from the Commission, a beneficiary does not reimburse any requested amount within 30 days after receipt of the request and the consortium accepts to continue the project without this beneficiary:

- An equivalent amount to the one not reimbursed by the beneficiary will be transferred from the Fund to the coordinator in order to allow for the continuation of the project.
- The Commission shall issue against this beneficiary a recovery order **to the benefit of the Fund**

Example:

- *The Commission terminates the participation of a beneficiary because it is declared bankrupt.*
- *Termination shall be notified to the beneficiary, with a copy to the coordinator and shall take effect on the date indicated in the notification and at least 30 days after its receipt by the beneficiary.*
- *The beneficiary whose participation is terminated has to submit all required reports. In the absence of receipt of such documents within the above time-limits, the Commission may, after providing 30 days notice in writing of the non-receipt of such documents, decide not to take into account any further cost claims and, where appropriate, require the reimbursement of any pre-financing due by the beneficiary.*
- *The Commission shall establish the debt owed by the beneficiary whose participation is terminated.*
- *If the consortium accepts to continue the project, this beneficiary shall transfer the amount due to the coordinator as requested by the Commission within 30 days. The Commission shall send a copy of such a request to the coordinator. The coordinator shall inform the Commission within 10 days after the end of this time-limit whether the amount has been transferred to it.*
- *If the beneficiary fails to transfer to the coordinator the amount due, the Commission shall order the Fund to transfer an equivalent amount to the coordinator.*
- *The beneficiary has to reimburse the Fund. For this purpose, the Commission shall issue a recovery order to the beneficiary to the benefit of the Fund.*
- *Any pending payment due by the EU/Euratom to the beneficiary is assigned to the payment of that beneficiary's debt towards the Fund.*

2. After termination or completion of any grant agreement

If an amount due to the EU/Euratom has to be recovered, after the end of the project (at the final payment or as a result of an audit), the Commission shall issue against this beneficiary a recovery order to its benefit. If payment has not been made by the due date:

- The amount may be recovered by offsetting against any sums (excluding pre-financing) due by the Commission to the beneficiary.
- Where offsetting is not possible, the fund will transfer an equivalent amount to the Commission.
- The Commission shall issue against that beneficiary a recovery order **to the benefit of the Fund**.

Example:

- *At the end of a project, the Commission makes a final payment corresponding to the amount accepted for the last period plus any adjustment needed.*
- *Where the amount of the EU contribution is less than any amount already paid to the consortium, the Commission shall recover the difference. The Commission shall request this difference by means of a recovery order issued against each beneficiary concerned and a debit note will be sent to the beneficiary.*
- *If the payment has not been made by the due date indicated on the debit note, the Commission, after informing the beneficiary, may offset the sums owed to the EU/Euratom against any sums it owes to the beneficiary.*
- *Where offsetting is not possible, the Commission shall recover effectively from the Fund the amounts due (transfer from the Fund to the Commission).*
- *The beneficiary has to reimburse the Fund. For this purpose, the Commission shall issue a recovery order to the beneficiary to the benefit of the Fund.*
- *Any pending payment due by the EU/Euratom to the beneficiary is assigned to the payment of that beneficiary's debt towards the Fund.*

SECTION 3: CONTROLS AND SANCTIONS

Article II.22 of ECGA – Financial audits and controls

1. Purpose of the audit

The Commission may, at any time during the implementation of the project, and up to five years after the end of the project, arrange for financial audits to be carried out.

The audits may cover:

- financial aspects
- systemic aspects
- other aspects such as accounting and management principles.

2. Beneficiaries' rights and obligations

In order to permit a complete, true and fair verification that the project and the grant are (have been) properly managed and performed, beneficiaries are required to:

- keep the originals, or in exceptional cases, where the national legislation accepts or contemplates this possibility, duly authenticated copies – including electronic copies – of all documents relating to the grant agreement for up to five years from the end of the project.
- ensure that the Commission's services, and/or any external body(ies) authorised by it, have on-the-spot access at all reasonable times, notably to the beneficiary's offices where the

project is being or has been carried out, to its computer data, to its accounting data and to all the information needed to carry out those audits, including information on individual salaries of persons involved in the project. They shall ensure that the information is readily available on the spot at the moment of the audit and, if so requested, that data be handed over in an appropriate form.

- make available directly to the Commission all the detailed data that it may request,
- ensure that the rights of the Commission and the European Court of Auditors to carry out audits are extended to the right to carry out any such audit or control on any third party whose costs are reimbursed in full or in part by the EU/Euratom contribution, on the same terms and conditions.
- Ensure the right of the Commission to interview people working or having worked on the FP7 project.

3. Audits may be carried out by:

- The Commission (its own departments – including OLAF – or by any of its duly authorised representatives (including external auditors appointed by the Commission)).
- The European Court of Auditors (by its own departments or by any of its duly authorised representatives).

4. Reports

- A provisional report shall be drawn up on the basis of the findings made during the financial audit and sent to the beneficiary audited.
- The beneficiary may make observations within one month of receiving the report. The Commission may decide not to take into account observations or documents sent after that.
- The final report shall be sent within two months of expiry of this deadline.

On the basis of the conclusions of the audit, the Commission may issue recovery orders and apply sanctions including liquidated damages.

5. Extrapolation

Following an audit, the Commission services will indicate in the final report whether the possible errors detected during the audit are of a systematic nature, i.e. if they are such that it is reasonable to assume that they affect not only the Grant Agreement actually audited, but also other GA where the audited entity participates.

If there are errors of systematic nature, the letter of conclusion accompanying the final audit report will require the beneficiaries to apply the findings of the audit and to correct the errors in all FP7 projects by re-submitting within a given deadline the financial statements of all projects where the audited entity participates. These revised financial statements should take into account the conclusions of the audit. The beneficiary will have the possibility of explaining why the audit findings should not be extrapolated to other GA. Should the beneficiary not react, the Commission may suspend all FP7 payments owed to this beneficiary until the revised cost

statements are submitted, and follow-up audits of the beneficiaries' GA may be carried out by the Commission.

The Commission has adopted in December 2009 a Communication regarding simplification of the recovery process in the framework of the implementation of the audit strategy under the Framework Programmes.

The Communication permits the use of flat rate corrections based on the average error rates observed in the audited projects to establish the amounts to be recovered; in that way, the extrapolation exercise can be now performed without examining each non-audited periods of projects or even without re-calculating the sums claimed.

The calculation of the actual debt can be made on the basis of one of the following methods:

- Method 1: where the audit has identified the existence of a systematic error, the beneficiary shall **precisely recalculate the costs affected by the systematic error** in each of the non-audited projects/periods and report the corresponding adjustments to the Commission in due form.
- Method 2: however, with the aim to simplify extrapolation the beneficiary may choose to adjust **the individual cost category** (personnel, subcontracting, other costs, indirect costs,.) affected by the systematic error by the **application of a flat-rate correction**. The flat-rate corresponds to the average of the individual systematic error in a given cost category identified in the audited projects/periods.
- Method 3: the beneficiary may also opt to apply an **overall flat rate** correction to the total project costs of each of the non-audited projects/periods. In these cases, the flat rate corresponds to the average rate of the individual systematic errors identified in the audited projects in relation to the total project costs.

The flat-rate(s) under method 2 and 3 will be indicated by the Commission in the letter of Conclusion of the audit. The beneficiary may carry out – at its own expense - further audits on non-audited periods/contracts. These further audits must be performed by an external, independent auditor and must be in accordance with the Commission's own approach as set out in the audit report. Should the audit provide reasonable assurance on the method used, the Commission may accept different flat-rates resulting from such audits. In any event, the Commission reserves the right to verify that extrapolation has been carried out in compliance with one of the methods described above, and to carry out further targeted audits to corroborate the average error rate.

Article II.23 of ECGA – Technical audits and reviews

1. Purpose of the audit

The Commission may, at any time during the implementation of the project, and up to five years after the end of the project, arrange for technical and ethical audits to be carried out.

- The technical audit may cover:
 - ✓ Scientific aspects;
 - ✓ Technological aspects;
 - ✓ Other aspects relating to the proper execution of the project and the grant agreement.
- The technical audit or review shall assess:

- ✓ the degree of fulfilment of the project work plan for the relevant period and of the related deliverables,
 - ✓ the continued relevance of the objectives and breakthrough potential with respect to the scientific and industrial state of the art,
 - ✓ the resources planned and utilised in relation to the achieved progress, in a manner consistent with the principles of economy, efficiency and effectiveness,
 - ✓ the management procedures and methods of the project,
 - ✓ the beneficiaries' contributions and integration within the project,
 - ✓ the expected potential impact in economic, competition and social terms, and the beneficiaries' plan for the use and dissemination of foreground.
- The ethics audit shall assess if the project has been carried out in accordance with fundamental ethical principles.

2. Auditors

Audits may be carried out by the Commission assisted by external scientific or technological experts.

3. Beneficiaries' rights and obligations

- The Commission shall – prior to the evaluation task – communicate the identity of the appointed experts. The beneficiary shall have the right to refuse the participation of a particular external scientific or technological expert on grounds of commercial confidentiality.
- Audit and reviews may be carried out remotely at the expert's home or place of work or involve sessions with project representatives either at the Commission premises or at the premises of beneficiaries.
- The Commission or the expert may have access to the locations and premises where the work is being carried out, and to any document concerning the work.
- The beneficiary shall make available directly to the Commission all detailed information and data that may be requested by it or the external scientific or technological expert with a view to verifying that the project is being/has been properly implemented and performed in accordance with the grant agreement.

4. Reports

- A report shall be drawn up on the outcome of the audits and reviews and sent to the beneficiary.
- The beneficiary may make observations within one month of receiving the report. The Commission may decide not to take into account observations or documents sent after that deadline.
- On the basis of the experts' formal recommendations the Commission will inform the coordinator of its decision:
 - ✓ to accept or reject the deliverables;
 - ✓ to allow the project to continue without modification of Annex I to ECGA or with minor modifications;

- ✓ to consider that the project can only continue with major modifications;
- ✓ to initiate the termination of the grant agreement or of the participation of any beneficiary according to Article II.38 of ECGA,
- ✓ to issue a recovery order regarding all or part of the payments made by the Commission and to apply any applicable sanction.

Article II.24 of ECGA – Liquidated damages

The EU/Euratom shall claim liquidated damages²⁹ from a beneficiary who is found to have overstated expenditure and who has consequently received an unjustified financial contribution from the EU/Euratom. In FP7 liquidated damages will be applied systematically by the Commission in case of overstatement. Overstatement may result from errors, misunderstanding or misinterpretation of the provisions of the ECGA. Overstatement is a factual finding and the intention to overstate is irrelevant.

1. Calculation of liquidated damages

The amount of liquidated damages is calculated according to the following formula:

Liquidated damages = unjustified EU/Euratom financial contribution x (overstated amount / total EU/Euratom financial contribution claimed)

In addition, the calculation of any liquidated damages only takes into consideration the beneficiary's claim for the EU/Euratom contribution for that reporting period(s). It is not calculated in relation to the entire EU/Euratom contribution.

Example:

The eligible costs declared by a beneficiary amount to EUR 1,254,030 (for an RTD project funded at a 50% ratio) and the EU/Euratom contribution claimed for that period was EUR 627,015. During an audit, it was found to have overstated costs for an amount of EUR 454,030 and to consequently have received an unjustified financial contribution from the EU/Euratom of EUR 227,015.

*The amount of liquidated damages the EU/Euratom shall claim is:
EUR 227,015 x (EUR 454,030 / EUR 627,015) = EUR 164,384.6*

2. Modalities

Liquidated damages are due in addition to the recovery of the unjustified financial contribution from the beneficiary.

Example:

If liquidated damages are applied to the beneficiary mentioned in point 1, that beneficiary will have to reimburse to the Commission the total amount of:

- *Unjustified financial contribution (a): EUR 227,015*
- *Liquidated damages (b): EUR 164,386.6*
- *Total amount (a) + (b): EUR 391,401.6*

²⁹ In exceptional cases, the Commission may refrain from claiming liquidated damages..

In order to respect the contradictory principle, the beneficiary shall be given a written notice period of 30 calendar days to provide the Commission with its observations (Article II.24.3).

The procedure for payment of liquidated damages is the same as the one concerning the reimbursement of unjustified financial contribution including the provisions relating to default interest in case of late payment.

Cases where liquidated damages may not be applied

In exceptional cases, the Commission may refrain from claiming liquidated damages. The Commission may decide in duly justified cases and if appropriate under the principle of proportionality not to request liquidated damages. The following cases could be considered:

- a) When the consortium submits financial statements at the end of a period and the Commission corrects an overstatement of expenditure before the payment. In this case there would be no grounds for liquidated damages, as the subsequent EU/Euratom payment would not have taken into account any overstated amount (in this case also the beneficiary would have corrected its form C following the Commission comments). Here in fact the beneficiary would not receive any unjustified financial contribution.
- b) When the Commission makes an interim payment following a financial statement submitted at the end of a period, but the financial statement is later corrected by the beneficiary at its own initiative. When the beneficiary modifies "*motu proprio*" a previous financial statement, liquidated damages should not usually be applied. If however it is the Commission who finds the overstatement following the payment, liquidated damages will be applied. A correction made by the beneficiary after the announcement of an audit may not be considered as "*motu proprio*".
- c) When, following an audit in a particular project, a beneficiary at its own initiative corrects costs declared within the framework of other projects (extrapolation). In this case, the Commission could decide not to apply liquidated damages.

Article II.25 of ECGA – Financial penalties

In addition to liquidated damages, any beneficiary found to have seriously failed to meet its obligations under the ECGA shall be liable to financial penalties of:

- between 2% and 10% of the value of the EU/Euratom contribution received by that beneficiary;
- between 4% and 20% of the value of the EU/Euratom contribution received by that beneficiary in the event of a repeated offence in the five years following the first infringement.

Example:

It is determined that a beneficiary has seriously failed to meet its obligations under the ECGA. According to the report(s) to the Commission on the distribution of the EU/Euratom financial contribution between beneficiaries, this beneficiary has received a EU/Euratom financial contribution of EUR 700,000.

According to the audit's findings, it is the first serious failure of this beneficiary's in actions supported by the Commission in the last five years.

This beneficiary may be subject to additional financial penalties of between EUR 14,000 and EUR 70,000= (2%-10%) of EUR 700,000.

This is in addition to the recovery of the amount overpaid (unjustified financial contribution) and the liquidated damages for overcharging.

The provision also applies to beneficiaries who have been guilty of making false declarations. In both cases, the beneficiary will also be excluded from all grants financed by the EU/Euratom for a maximum period of two years from the date the infringement is established.

FINAL PROVISIONS

Article II.40 of ECGA Force majeure

The GA explicitly states in Article II.40 that "...Where beneficiaries cannot fulfil their obligations to execute the project due to force majeure, remuneration for accepted eligible costs incurred may be made only for tasks which have actually been executed..."

If a meeting has not taken place because of bad weather conditions, (e.g. ashes from volcanoes), the cost of the flight tickets (which are normally reimbursed by air companies), hotel reservations and meeting rooms for non-accomplished tasks would not be eligible.

If the meeting took place but the members cannot go back and have to spend more money on accommodation etc, then in that case the extra costs incurred could be eligible, if they fulfil the conditions of Article II.14 (they were incurred for the sole purpose of the project, etc.).

ANNEX III – SPECIFIC PROVISIONS FOR TRANSNATIONAL ACCESS ACTIVITIES

Point III.9 of ECGA – EU/Euratom financial support for access costs

In Annex I to ECGA there will be an estimated unit cost that is based on estimations for the life-time of the project.

Estimated unit cost = estimated costs of providing access to the installation during the project life time / estimated total quantity of access to be provided to the installation during the project life time.

Costs shall not include the capital investment cost.

The total quantity of access to be considered includes access to be financed under the specific ECGA under the conditions thereby specified as well as any other access to be provided by the access provider.

We take the example of a three period grant agreement with the following data:

Estimated costs of providing access to the installation during the project life time = EUR 4,000,000

Estimated total quantity of access to be provided to the installation during the project life time =1,000

Estimated unit cost = EUR 4,000

Annex I to ECGA shall define:

- the minimum quantity of access to be financed under the specific ECGA - therefore to be provided under the conditions set up in the grant agreement (*for example 200*)
- the total estimated costs of providing access to the installation during the project life. The *EU/Euratom financial contribution* to access costs shall not exceed 20% of the costs of providing the total quantity of access to the *installation* over the duration of the *project*.

The estimated unit cost is to be used by the access provider when declaring the access costs in the financial statements. The access provider may declare the amount which results from multiplying a unit cost by the quantity of access provided under the grant agreement during the reporting period.

Using the example for a grant agreement with three periods:

1st period: the access provider declares that it has given 50 units of access under the conditions established in the grant agreement. The amount to be claimed for this period is equal to the estimated unit cost multiplied by the amount of access for this period: $50 \times 4,000 = \text{EUR } 200,000$

2nd period: the access provider declares that it has given 60 units of access. Amount to be claimed = $60 \times 4,000 = \text{EUR } 240,000$.

*For the 3rd and last period **the real unit cost** must be calculated on the basis of the total quantity of access actually provided and the costs actually incurred to give this access.*

However, adjustments may be made at the end of any reporting period resulting from the application of a real unit cost.

The following three scenarios are to be considered:

Scenario 1: real unit cost is lower than the estimated unit cost

Costs actually incurred to provide access (including both access financed and not financed by the EU/Euratom under this grant agreement) = EUR 3.000.000.

Total quantity of access actually provided = 1.000

Real unit cost = $\text{EUR } 3.000.000 / 1.000 = \text{EUR } 3.000$

The access provider shall use this unit cost to calculate the cost to be declared for the last period. If the access provider declares that it has given 90 units of access under the conditions established in the grant agreement:

Amount to be claimed = $90 \times 3.000 = \text{EUR } 270.000$. The access provider shall also adjust the costs claimed for previous periods. For:

1st period: the access provider declared that it has given 50 units of access under the conditions established in the grant agreement. The amount to be claimed for this period is $50 \times 3.000 = \text{EUR } 150.000$ instead of $\text{EUR } 200.000$.

2nd period: the access provider declared that it has given 60 units of access. Amount to be claimed is $60 \times 3.000 = \text{EUR } 180.000$ instead of $\text{EUR } 240.000$.

The adjustment to the previous periods will be included in the calculation of the last period.

Scenario 2: real unit cost is higher than the estimated unit cost and the amount of access actually provided under the conditions of the grant agreement is equal or higher than the minimum amount foreseen in Annex I to ECGA.

Costs actually incurred to provide access (include both access financed and not financed by the EU/Euratom under this grant agreement) = EUR 5.000.000.

Total quantity of units of access actually provided = 1.000

Real unit cost = 5.000.000 / 1.000 = EUR 5.000.

If the access provider declares that it has given 90 units of access: Amount to be claimed = 90 x 5.000 = EUR 450.000. The access provider shall also adjust the costs claimed for previous periods. For:

1st period: the access provider declared that it has given 50 units of access under the conditions established in the grant agreement. The amount to be claimed for this period is 50 x 5.000 = EUR 250.000 instead of EUR 200.000.

2nd period: the access provider declared that it had given 60 units of access under the conditions established in the grant agreement. Amount to be claimed is 60 x 5.000 = EUR 300.000 instead of EUR 240.000.

The adjustment to the previous periods will be included in the calculation of the last period.

Scenario 3: real unit cost is higher than the estimated unit cost and the amount of access actually provided under the conditions of the grant agreement is less than the minimum amount of access foreseen in Annex I to ECGA. In this case, the increase in relation to the estimated unit cost may not be reimbursed at all.

If the real unit cost is 5,000 and the minimum amount of access provide is less than the amount foreseen, the access provider declares that it has given 50 units of access for the 3rd period, the amount to be claimed will be calculated on the basis of the estimated unit cost = 50 x 4.000 (not 5,000) = EUR 200.000. Equally, the access provider shall not adjust the costs claimed for previous periods.

Travel and subsistence costs related to visits by users and meetings of the selection panel, are not included in the calculation of the unit cost; however, these costs may be declared by the beneficiaries and may be covered by the EU/Euratom financial contribution where necessary.

Where a certificate on the financial statements is requested, it shall not certify costs declared on the basis of estimated unit costs; however, it shall certify the actual access costs - which have not been certified before – calculated at the real unit cost.

In the example as the EU/Euratom contribution to access costs claimed for the 1st and the 2nd Reporting period is based on an estimation of costs, any Certificate on Financial Statements (CFS) submitted by the beneficiary following these periods will not certify these access costs (even though the financial statements shall comprise the total eligible access costs for the respective periods).

However, for the last period, all access costs for the project (including all three periods) will have to be taken into account in order to a) establish the need for a CFS and b) the amounts to be certified by it. The reason for this is that at the end of the last (3rd) period, all estimated costs will be adjusted in order to reflect actual costs. A Form C to cover the adjustments should be submitted.

At the last reporting period, if the EU/Euratom financial contribution claimed by a beneficiary for the whole project is less than EUR 375 000 a CFS is not necessary and therefore its cost is not eligible.

Specific provisions for projects implemented through a combination of Collaborative Project and a Coordination and Support Action

Finally, for activities under "**Integrating activities/infrastructures and preparatory phase**" which are implemented through a combination of a Collaborative Project and a Coordination and Support Action, the ECGA will include a special clause under Article 7 (special clause No. 19).

This clause indicates that "*Reimbursement of indirect costs related to the coordination and support activities, except those related to the management of these activities, is limited to a maximum of 7% of the direct eligible costs relating to these activities, excluding the direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the beneficiary*".

It is important to underline that, (unlike a standard coordination and support activity, CSA), **this limit of the 7% does not apply to management activities**; for management activities the participant's applicable indirect costs calculation basis applies for projects covered by this special clause No.19.

ANNEX III – ERA-NET PLUS ACTIONS

Point III.2 of ECGA – Duration of the project

Due to the complex coordination of financial commitments and payments between Commission and national programmes, the respective coordination actions are limited to 5 years. This will allow easily for project durations of 2-3 years financed out of the joint call.

Point III.3 of ECGA – Specific performance obligations of each beneficiary

A special deliverable is requested to make sure that the formal commitment to finance the selected trans-national project is assured.

Point III.4 of ECGA – EU/Euratom financial contribution

The basis for calculating the total EU/Euratom financial contribution is the total joint call budget.

Within this maximum EU/Euratom financial contribution, an ERA-NET Plus action will support two types of activities as being eligible for funding:

- The launching and managing of the joint call (small and limited share of the EU/Euratom funding).
- Topping up of the joint call budget (vast majority of the EU/Euratom funding).

ERA-NET Plus activities should be strictly related to the launching and managing of the joint call and the final selection and funding decisions of the trans-national projects.

The total funding of any project which might be a combined funding national/EU must comply with competition rules.

Point III.5 of ECGA – Specific payment modalities

Two pre-financing payments are foreseen:

- The first is only for the management of the joint call (for the purposes of the ECGA negotiation this amount is to appear under the 1st reporting period in the A5 form of the GPFs - therefore under Article *III.5.a*) of the ECGA)
- The second pre-financing payment is planned after the selection of the trans-national projects and should serve as pre-financing for the first year of the trans-national projects. The volume of the pre-financing payment will depend on the list of the selected projects and their forecasted funding (for the purposes of the ECGA negotiation this amount is to appear under the 2nd reporting period in the A5 form of the GPFs - therefore under Article *III.5.b*) of the ECGA).

ANNEX III – SPECIFIC PROVISIONS RELATED TO "RESEARCH FOR SMES" OR "RESEARCH FOR SME ASSOCIATIONS"

Research for SMEs supports small groups of innovative SMEs in solving technological problems and acquiring technological know-how, whereas **Research for SME associations** aims at developing technical solutions to problems common to a large number of SMEs in specific industrial sectors or segments of the value chain through research that could not be addressed under **Research for SMEs**.

In both cases SMEs and SME associations are given the opportunity to subcontract research to RTD performers in order to acquire the necessary technological knowledge. The relationship between the SMEs or SME associations and the RTD-performers under this programme is therefore a “customer-seller” relationship. Consequently a specific funding scheme is used for the two activities. The following hypothetical example for **Research for SMEs** illustrates the specific features of the funding scheme and the related financial issues.

For further explanations and a similar model calculation for **Research for SME associations** please refer to the following two brochures which are available for download on the respective call pages of the SME specific measures³⁰ and on the SME TechWeb (<http://sme.cordis.lu>):

- **"Research for SMEs at a glance"**
- **"Research for SME associations at a glance"**

Calculation of the project budget

Proposals will include a detailed work plan with the different activities necessary to achieve the project's objectives. Based on the resources which are needed to implement the work plan the consortium has to set up a project budget.

Step 1: The budget for the SMEs

SME participants charge eligible costs under the various activities to the project. The payment of RTD performers' invoices (excl. VAT) by SMEs will be considered as eligible costs for the SMEs. VAT is not an eligible cost.

The following hypothetical example shows a possible distribution of costs for the different activities.

³⁰ http://cordis.europa.eu/fp7/dc/index.cfm?fuseaction=UserSite.CapacitiesCallsPage&id_activity=14

Budget for the SMEs	SME 1	SME 2	SME 3
Activities and costs			
RTD	260.000	395.000	125.000
Own RTD	45.000	55.000	20.000
Invoice RTD performers for subcontracted RTD	215.000	340.000	105.000
DEMO	10.000	25.000	0
Own DEMO	10.000	20.000	0
Invoice RTD performers for subcontracted DEMO	0	5.000	0
OTHER	10.000	5.000	10.000
MANAGEMENT	60.000	5.000	5.000
TOTAL	340.000	430.000	140.000

Step 2: The budget for the RTD Performers

RTD performers will charge eligible costs only under Management activities and Other activities (including training and dissemination). Resources they use for RTD and Demonstration will be invoiced directly to the SME participants at an agreed price and appear therefore in the budget of the SME participants.

Budget for the RTD performers	RTD 1	RTD 2
Activities and costs		
OTHER	0	30.000
MANAGEMENT	5.000	5.000
TOTAL	5.000	35.000

Step 3: The budget for the Other enterprises and end-users

In certain cases, the SME participants request the participation of Other enterprises and end-users (OTH) to make a particular contribution to the project. They may also charge eligible costs under the various activities to the project.

Budget for Other enterprises and end users	OTH 1
Activities and costs	
RTD	10.000
DEMO	40.000
OTHER	0
MANAGEMENT	0
TOTAL	50.000

Step 4: The total budget of the project

The individual budgets form together the total budget of the proposed project:

Partners & costs	RTD	DEMO	MANAG	OTHER	TOTAL
SME 1	260.000	10.000	60.000	10.000	340.000
Own activities	45.000	10.000			
Subcontracting	215.000				
SME 2	395.000	25.000	5.000	5.000	430.000
Own activities	55.000	20.000			
Subcontracting	340.000	5.000			
SME 3	125.000	0	5.000	10.000	140.000
Own activities	20.000				
Subcontracting	105.000				
RTD 1			5.000	0	5.000
RTD 2			5.000	30.000	35.000
OTH 1	10.000	40.000	0	0	50.000
TOTAL	790.000	75.000	80.000	55.000	1.000.000

Calculation of the EU contribution

The European EU will provide financial support to the project which covers only part of the total costs. The SME participants will therefore have to contribute with own resources, in cash or in kind, to the project. The EU contribution is based on upper funding limits for individual activities:

- Research and technological development activities: a maximum of 50 % of the eligible costs. However, for SMEs, non-profit public bodies, secondary and higher education establishments, and research organisations: a maximum of 75 %.
- Demonstration activities: a maximum of 50%
- Management and other activities: a maximum of 100%

One important rule for the calculation of the EU contribution applies: **In order to achieve the aim of promoting the outsourcing of research and demonstration activities, the financial support to the project will be limited to 110% of the total amount of the subcontracting to the RTD performers (price to be invoiced by RTD performers to SMEs).**

Partners & costs	RTD [50%/75%]	DEMO [50%]	MANAG [100%]	OTHER [100%]	TOTAL	Maximum EU contribution
SME 1	260.000	10.000	60.000	10.000	340.000	270.000
Own activities	45.000	10.000				
Subcontracting	215.000					
SME 2	395.000	25.000	5.000	5.000	430.000	318.750
Own activities	55.000	20.000				
Subcontracting	340.000	5.000				
SME 3	125.000	0	5.000	10.000	140.000	108.750
Own activities	20.000					
Subcontracting	105.000					
RTD 1			5.000	0	5.000	5.000
RTD 2			5.000	30.000	35.000	35.000
OTH 1	10.000	40.000	0	0	50.000	25.000
TOTAL	790.000	75.000	80.000	55.000	1.000.000	762.500
TOTAL amount of subcontracting, excl. VAT						665.000
Maximum EU contribution = 110% of subcontracting to RTD performers excl. VAT						731.500
Requested EC contribution is the minimum of the two:						731.500

Therefore, this fictional project would receive a financial support of up to € 731.500.

Distribution of the EU contribution

In a next step the partners in the consortium have to decide how to allocate the total EC contribution among them.

It is important to distinguish between the distribution of costs between partners and the allocation of the EU contribution among partners. It is up to the consortium to decide upon the allocation of the EU contribution. This allows the consortium to find the right balance between the individual contributions to the project (costs for in-kind and financial resources) and the expected benefits from the project results.

For our project example we show two possible scenarios – but bear in mind that each consortium should find a tailor-made solution according to its individual situation

It is important to bear in mind that the SMEs always have to take into account the payment of the invoices of the RTD performers. Each participant also has to make sure that it carries out the transaction and remuneration in accordance with the applicable national law.

Scenario 1: RTD performers receive a contribution to cover their management and other costs, SME 2 and 3 receive a contribution which allows them to cover the RTD performers' invoices and the remaining EU contribution goes to SME 1. Participants OTH 1 does not receive any EU contribution.

Partners & costs	Total costs	EU contribution for each participant	Own contribution (in kind)	Own contribution (in cash)
SME 1	340.000	241.500	98.500	0
Subcontracting	215.000			
SME 2	430.000	345.000	85.000	0
Subcontracting	345.000			
SME 3	140.000	105.000	35.000	0
Subcontracting	105.000			
RTD 1	5.000	5.000	0	0
RTD 2	35.000	35.000	0	0
OTH 1	50.000	0	50.000	0
TOTAL	1.000.000	731.500		

Scenario 2: All partners receive an EU contribution according to their share of costs in the project with the exception of participants OTH 1, which does not receive any EU contribution.

Partners & costs	Total costs	EU contribution for each participant	Own contribution (in kind)	Own contribution (in cash)
SME 1	340.000	261.800	78.200	0
Subcontracting	215.000			
SME 2	430.000	331.100	98.900	13.900
Subcontracting	345.000			
SME 3	140.000	107.800	32.200	0
Subcontracting	105.000			
RTD 1	5.000	3.850	1.150	0
RTD 2	35.000	26.950	8.050	0
OTH 1	50.000	0	50.000	0
TOTAL	1.000.000	731.500		

ANNEX III – SPECIFIC PROVISIONS RELATED TO "RESEARCH FOR THE BENEFIT OF SPECIFIC GROUPS [Research for civil society organisations - BSG- CSO]

Research for the benefit of CSOs (Civil Society Organisations) aims to develop scientific knowledge related to CSO activities in order to contribute to public debate.

Definition of this funding scheme:

Projects including BSG-CSO are specific in terms of:

partnership	at least one CSO as partner in the project
objectives	Combination of scientific production of

	knowledge technology with a societal/policy concern defined by the participating CSOs
ownership	participating CSOs should be given full rights to access and use the foreground. It should be jointly owned by the CSOs, unless otherwise agreed by them.

There are 3 types of participants:

Civil Society Organisation (CSO): Civil society organisations are considered to be any legal entity that is non governmental, not-profit, not representing commercial interests and pursuing a common purpose in the public interest.

RTD Performer: is a beneficiary, who is considered to be a legal entity carrying out research or technological development activities in funding schemes for the benefit of CSOs.

Other beneficiary: are beneficiaries other than a **CSO** or a **RTD performer**.

Upper funding limit: The maximum reimbursement rates for the costs of a project depend on the legal status of the participants and the type of activity. For all detailed reimbursement issues refer to Collaborative projects on previous pages.

Research for the benefit of specific groups (BSG-CSO)	Non profit public bodies, secondary and higher education establishments, research organisation	All other organisations
RTD activities	75%	50%
Demonstration activities	50%	50%
Other activities	100%	100%
Management activities	100%	100%