



EUROPEAN  
COMMISSION

Community Research



## 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 (EC and Euratom Treaties). This model grant agreement is applicable to indirect actions under the 'Cooperation', 'Capacities' and 'Nuclear Research' (fission) Specific Programmes of FP7 (EC 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 (GA) 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 GA, by following the same index and structure of that document. Accordingly, it should be used as a tool to clarify the provisions of the GA, and should be read in connection with it. Each article in the GA 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.

Whenever new rules are drafted and a new structure is put into place, new problems arise. In many aspects, the Rules of Participation and the GA of the 7<sup>th</sup> Framework Programmes build on previous Research Framework Programmes. However, it seems clear that both the use of this Guide and the implementation of the new Framework Programmes will expose and highlight new situations or difficulties which will require particular mention and further explanation. For this reason, this Guide has been conceived as an evolving document which, it is intended, will be updated regularly (in principle every 6 months) to reflect new questions and feedback from its users (both from outside and inside the Commission) and the knowledge gained through practice. On this point however it is important to remember that the only scope of the Guide is to provide interpretation on the legal texts (and in particular the GA), and that it cannot derogate from them. These guidelines do not reflect an official position of the Commission; 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 7<sup>th</sup> Framework Programme, and which can be found at the following web address: [http://cordis.europa.eu/fp7/find-doc\\_en.html](http://cordis.europa.eu/fp7/find-doc_en.html)

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# PART 1: FP7 GRANT AGREEMENT - CORE

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## Article 5 of GA – Maximum Community financial contribution

### Article 5.1 of GA – The Community Financial Contribution

The maximum EC 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 EC contribution includes:

- a) **A single pre-financing payment** paid at the start of the project (Article 6 of GA)
- 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 Community 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 account<sup>1</sup>. 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 GA.

*Example:*

#### **Project A:**

**Maximum EC contribution: EUR 3,000,000**

**Duration: 3 years**

<i>Pre-financing (for calculation of pre-financing, see Article 6 of GA):</i>	<i>EUR 1,600,000</i>
<i>Amount of EC contribution accepted in the 1<sup>st</sup> reporting period:</i>	<i>EUR 900,000</i>
<i>1<sup>st</sup> Interim payment:</i>	<i>EUR 900,000</i>
<i>Amount of EC contribution accepted in the 2<sup>nd</sup> reporting period:</i>	<i>EUR 900,000</i>
<i>2<sup>nd</sup> Interim payment (due to 10% retention):</i>	<i>EUR 200,000</i>
<i>Amount of EC 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 GA. For explanations on the calculation of the pre-financing and the 10 % retention, see Article 6 of GA.

### Article 5.2 of GA – Financial content of Annex I to GA

As the breakdown table included in Annex I (Description of Work) to the GA is an estimate, the transfer of budget between activities and beneficiaries is allowed without the need for an amendment of the GA. However, a condition for this is that the work be carried out as foreseen in Annex I to GA. 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 potential impact on the "Description of Work" arises (most cases), **to check this** (i.e. by e-mail)

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

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 GA, 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 GA will apply, as well as any other limits set in the GA (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 GA)***

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 GA 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 countries<sup>2</sup> (ICPC) it is foreseen that they may opt for an EC contribution in the form of lump sums or for an EC 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

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<sup>2</sup> 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".

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 EC contribution granted for the project applies.

Participants from international cooperation partner countries may also opt for lump sums when they participate in a GA 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 GA.*

### **Article 5.3 of GA – Bank account**

It is recommended that the bank account included in the GA (i.e. the bank account of the Coordinator) 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 GA (Article II.2.3). This requirement is necessary for the identification of the interest that has to be recovered (or offset), or indeed for proving that there has in fact been no interest. 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 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 GA 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 GA)**

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 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 GA 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 Communities 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 EC contribution**, unless the specific circumstances of the project require otherwise (e.g. very heavy initial capital investment, etc.). Whatever the amount is, 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 EC contribution will always be kept by the Commission until the date of the last payment.

### **Contribution to the Guarantee Fund (+ Article II.20 of GA)**

As mentioned above, the amount of the beneficiaries' contribution to the Guarantee Fund (Article II.21 of GA) 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 GA.

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 GA.

*Examples:*

- *Project "A" running over 3 reporting periods with **EUR 3,000,000** EC contribution*
  - ✓ *Average EC 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 Coordinator<sup>3</sup>: **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***

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<sup>3</sup> 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.

- ✓ 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 Coordinator<sup>4</sup>: **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 EC contribution
    - ✓ Pre-financing (as an indication 75% total **EC 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 Coordinator<sup>5</sup>: **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 EC funding per reporting period; this is the result of dividing the total EC 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 GA – Special clauses

**Special clause 10 please refer to Article II.14 of GA.**

For the other clauses please refer to the dedicated guidelines at the following link: **(LINK)**

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<sup>4</sup> Unless the JRC is a beneficiary in the Consortium, in which case its funding will also be subtracted and paid directly to it.

<sup>5</sup> Unless the JRC is a beneficiary in the GA in which case its funding will also be subtracted and paid directly to it.

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

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### Article II.1 of GA – 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 GA – 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 GA 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 GA to the coordinator in the above-mentioned Article **cannot be subcontracted or outsourced to a third party**. The role of coordinator of the GA is defined by these tasks defined in Article II.2.3 of GA. 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 GA (e.g. participation to project management meetings, obtaining of the certificates on financial statements). For more information on "management tasks" see Article II.16.5 of GA.

#### 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. On the other hand, 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 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 GA. 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 GA)*
- *For its management work related to the competitive call within Work Package I: 100%*
- *For its scientific coordination of the project: 50% (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 beneficiary receiving an estimated EC contribution of more than EUR 500,000.

In the case of the coordinators, if the results of this analysis are negative, this entity will not be allowed in principle to be coordinator of the project. The Commission will not request additional guarantees or securities from them, and therefore an entity with a weak or insufficient financial viability should be replaced as coordinator of the Consortium (though it could still be a participant/beneficiary in the project).

**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.**

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

### **Article II.3 of GA – Specific performance obligations of each beneficiary – No financial issues**

## SECTION 2: REPORTING AND PAYMENTS

### Article II.4 of GA – Reports and deliverables

#### Articles II.4.1, II.3.3, and II.4.5 → II.4.8 of GA

Please refer to the dedicated Reporting guidelines, available at: ([http://cordis.europa.eu/fp7/find-doc\\_en.html](http://cordis.europa.eu/fp7/find-doc_en.html)).

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

### Article II.4.4 of GA – Certificate on the financial statements, 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 claim that this as an exception. In this case, the Commission will consider the explanation based upon the facts provided by the auditor, and decide on its validity.

#### 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.

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

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

Bear in mind that although the threshold is established on the basis of the EC 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>
<i>5</i>	<i>EUR 700,000</i>	<i>EUR 350,000</i>	<i>EUR 350,000</i>	<i>NO</i>	<i>(3)</i>

(1) Cumulative EC contribution = EUR 190,000 + EUR 205,000 = EUR 395,000. A CFS has to be provided because cumulative amount > 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 EC contribution = EUR 250,000 + EUR 175,000 = EUR 425,000. A CFS has to be provided because the cumulative amount > 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) EC 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	EC 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 should include all eligible costs not yet certified: EUR 700,000

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

*Example 3: Projects of a duration of more than two years with EC 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 EC 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 EC contribution claimed by a beneficiary is equal or superior to EUR 375,000 (cumulated with all previous payments) **only one CFS shall be submitted at the time of the final payment. This CFS has to cover all eligible costs:**

Example 3: Projects for a beneficiary in a project with duration of two years:

Claim No.	Eligible Costs	EC contribution @50%	Cumulative CFC	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  $\leq 2$  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 4: Project with a duration a of 3 years (more than 2 years) but with only 2 reporting periods

Claim No.	Eligible Costs	EC 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

## 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 GA allows that some beneficiaries submit, prior to the costs being claimed, a certificate on the methodology 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 have to be approved by the Commission.**

**Once 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 "[ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf)".

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). In a first stage<sup>6</sup>, this option will be open only to beneficiaries who have participated in at least 8 contracts under FP6 with an EC contribution for each of them equal to or above EUR 375,000.00.
- 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 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 organisations<sup>7</sup>) in the form foreseen in the GA (Annex VII to GA, 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 GA 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 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:

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<sup>6</sup> These criteria will be adapted by the Commission on the basis of the analysis of the results of the first stage and completed with the thresholds related to FP7

<sup>7</sup> Cf. Article II.4 of GA.



- The requirement to provide an intermediate CFS for claims of interim payments (even if cumulatively the EC contribution is equal or superior to EUR 375,000) shall be waived from the date of the notification of the acceptance of the certificate by the Commission.
- Beneficiaries, if cumulatively their EC 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 EC 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, it will be valid for all subsequent financial statements submitted by the same beneficiary under the Seventh Framework Programme unless the beneficiary's methodology changes or if an audit or other control performed by the Commission services or on its behalf demonstrates that the methodology certified can no longer be maintained in its present form. 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. 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 GA.
- 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.

*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>CFC @50%</i>	<i>Cumulative CFC</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>Total</i>	<i>EUR 1,290,000</i>	<i>EUR 645,000</i> <i>Contribution to personnel &amp; overheads: EUR 500,000</i> <i>Contribution to other costs: EUR 145,000</i>	<i>EUR 645,000</i>		

*(1) Cumulative amount 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*

### 3. Certificate on average personnel costs (see Article II. 14 of GA)

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 EC services 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.

Such certificate on average personnel costs will have the following particularities:

- When a beneficiary opts to declare average personnel costs, this certificate **is mandatory** unless such certificate or a certificate on the methodology (cf n°2) has already been provided. In this case, the certificate on the methodology replaces the certificate on average personnel costs.

For these reasons, beneficiaries which 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.

- More information about the procedures to submit the certificate on average personnel costs are described at:  
["ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification\\_en.pdf"](ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf).

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 organisations<sup>8</sup>) in accordance with the part relating to personnel costs of Form E in Annex VII to GA.

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

- 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.

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<sup>8</sup> Cf. Article II.4 of GA.

- Consequences of the acceptance and use of the certificate on the average personnel costs:
  - The beneficiary is allowed to declare average personnel costs.
  - Once the certificate is accepted, it will be valid for all subsequent financial statements from the same beneficiary submitted under FP7 unless the beneficiary's methodology changes or if an audit or other control performed by the Commission services or on its behalf demonstrates that the certification can no longer be maintained in its present form. 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 GA.
  - 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.
- 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 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:**

	<b>Certificate on Financial Statements (CFS)</b>	<b>Certificate on the Methodology</b>	<b>Certificate on average personnel costs</b>
<b>Basis</b>	<b>Article II.4</b>	<b>Article II.4</b>	<b>Article II.14</b>
<b>Who</b>	Mandatory for all beneficiaries based on conditions set up in the GA	Optional and foreseen for multiple beneficiaries based on criteria <u>to be 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
	If total contribution < €375,000 no certificate	For beneficiaries with multiple participations	The method has to be consistent with the management principles and usual accounting practices of

<b>Condition</b>	<p><b>For projects &gt; 2 years:</b> Interim and/or final payment Each time that the cumulated EC contribution is not yet certified &gt; €375.000</p> <p><b>For projects ≤ 2 years:</b> If total contribution &gt; €375,000 Only one CFS at the final payment. <b>Exception:</b> When Certificate on the Methodology is accepted by the Commission, CFS not required for interim payment.</p>		<p>the beneficiary</p> <p>The average costs cannot differ significantly from actual personnel costs.</p>
<b>Scope</b>	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
<b>Timing</b>	<p><b>For projects ≤ 2 years:</b> at the final payment</p> <p><b>For projects &gt; 2 years:</b> 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
<b>Form</b>	<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)	Independent report on factual findings (relevant part of Form E)
<b>Advantages</b>	<b>Applying the CFS will increase the certainty on the eligibility of costs for the beneficiary</b>	<p>When a Certificate on the Methodology is accepted by the Commission, no CFS required for interim payments</p> <p>If the Methodology is accepted, no risk of rectification after audit if the method is applied correctly</p>	<p>If the Methodology is accepted, the average costs are deemed not to differ significantly from actual costs.</p> <p>If the Methodology is accepted, no risk of rectification after audit if the method is correctly applied.</p>

## Article II.5 of GA – 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 GA – 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 GA). 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.

*Example:*

*Maximum EC contribution to the project: EUR 3,000,000*

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

*Funding accepted for the 1<sup>st</sup> reporting period: EUR 1,000,000*

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

*Interim payment following the 1<sup>st</sup> 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 GA. The amounts paid for interim payments will correspond to the accepted EC contribution. However, the total amount of interim payments + pre-financing will be limited to 90% of the maximum EC 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 EC contribution (on the basis of the eligible costs) minus the amounts already paid.

The total payment is however limited to the maximum EC contribution as defined in Article 5 of GA. 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 GA.

Example 1:

**Project duration: 3 years**  
**Maximum EC contribution: EUR 3,000,000**  
**Ceiling: EUR 2,700,000 (10% retention)**

			<b>Cumulative payments</b>
Period 0	Pre-financing	EUR 1,600,000	EUR 1,600,000
Period1 Accepted Funding: EUR 1,000,000	Interim payment P1	EUR 1,000,000	EUR 2,600,000
Period2 Accepted Funding: EUR 800,000	Interim payment P2	EUR 100,000	EUR 2,700,000
Period3 Accepted Funding: EUR 1,200,000	Final Payment	EUR 300,000	EUR 3,000,000
			to respect ceiling maximum

Example 2

**Project duration: 3 years**  
**Maximum EC contribution: EUR 3,000,000**  
**Ceiling: EUR 2,700,000**

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

## Article II.6.4 – Conversion rates

Costs shall be reported in EUR. 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. For the days where no daily exchange rates have been published, (for instance Saturday, Sunday and New Year's Day) you should 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 GA – 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 GA, 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 working place of the subcontractor, its accounting rules and internal organisation are also different.
- 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 EC 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 GA. 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.

**Accordingly, subcontracting between beneficiaries in the same GA 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 EC.

## 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 should be carefully discussed with and approved by the Commission and those tasks identified in Annex I to GA. 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 GA 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 GA, 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 GA. 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 GA 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 GA, 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 GA. The identity of the subcontractors does not need to be indicated in Annex I to GA. 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 GA 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 should 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 should 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 should follow the rules that they usually apply for the selection of procurement contracts, respecting in any case the terms of the GA. 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 should 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. 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 GA, 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.*

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

### **Article II.7 of GA 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 GA. 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 [ftp://ftp.cordis.lu/pub/fp7/docs/fp7-ga-clauses\\_en.pdf](ftp://ftp.cordis.lu/pub/fp7/docs/fp7-ga-clauses_en.pdf).

### **Article II.8 of GA – Suspension of the project**

Under the conditions mentioned in Article II.8 of GA, 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 GA, no further costs can be charged to the project except for costs described in Article II.39 of GA.

**Article II.8 → II.13 of GA – No financial issues**

## PART "B": FINANCIAL PROVISIONS

### SECTION 1: GENERAL FINANCIAL PROVISIONS

#### Article II.14 of GA – Eligible costs of the project

##### **Principle**

Maximum grant is based on an estimation of eligible costs prepared by the partners and negotiated with the Commission (see Article 5 of GA), 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 technical Annex (Annex I to GA).

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 GA. 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 GA or when examining financial statements for the purposes of determining the EC contribution.

##### **Article II.14.1 – Eligibility criteria**

To be considered eligible costs must be:

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

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

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.

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

##### **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 GA). 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 GA and the relevant part of Form E in Annex VII to the GA.

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 GA)***

Supporting documents proving 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 audit certificates (Article II.14.1.c) of the GA)***

Only costs generated during the lifetime of the project can be eligible; as a result the period during which the project starts determines the period of eligibility of the corresponding costs (Article 2 of the GA – Duration and start date of the project).

The GA 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 some costs have not been paid when the request for the final payment is sent, in particular because the beneficiary is waiting for the final payment of the grant in order to be able to pay this expenditure. 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.

*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 GA, the beneficiary can declare the depreciation costs incurred under the project for the remaining 24 months.*

Costs related to preparing and submitting 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 GA***

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*".

This also means that they do not have the possibility to create specific accounting principles for FP7 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.

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 accounting documents (see Article II.15.b and c of GA).

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

- ***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 GA***

These costs must be essential for the performance of the project and would not be incurred if the project did not take place. The concept of correctly matching estimated costs and expected achievements is a fundamental criterion: the beneficiary must be able to justify the resources used to attain the objectives set. The Community grant must not be diverted to finance other projects.

**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, in terms of 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 GA***

- *have been indicated in the estimated overall budget annexed to the GA – Annex I (Article II.14.1.g) of the GA)*

When the maximum EC 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 GA.

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 GA and are incurred in the context of the activities permitted by the instrument (see examples in Article II.15 of the GA).

### **Article II.14.2 of the GA – 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 GA. 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 GA), 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 GA).

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 **must be identified during the negotiations and mentioned in Annex I to GA** by a third party (and in some cases in a special clause in the GA).
- 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 GA.

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 GA). These contributions should also comply with the eligibility conditions of Article II.14 of the GA.

#### **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 lends resources to the beneficiary. These resources are directly used by the beneficiary, and usually work is performed in its premises.

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 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.

- **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 receipt) **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).

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.

*Example: Researcher from one organisation seconded to work in another Research organisation or in a university.*

- **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 should be indicated in Annex I to the GA.

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 GA.



*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 should appear in Annex I to GA*
- *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. Equally, the third party, the work, an estimation of the costs and the resources used should appear in Annex I to the GA.*

- **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; 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 work.

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

The agreement is not specific to the project, but it is a general agreement for the management of the GA 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 EC 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., should 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 should 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)*

*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 EC funding received by the University = 75% of EUR 322,500=EUR 230,625*

2) *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 should be identified in Annex I to GA. Their cost will be declared by the beneficiary in its own Form C, and they should 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 should then follow the related rules.

- 3) 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 GA. 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).

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 GA. **The specific conditions of subcontracting are explained in Article II.7 of GA, 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 GA 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 GA) **only third parties covered by the clause are entitled to carry out work in the project and to charge costs for it.**

*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 GA?*

The GA (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 GA, or specifically created for the work in the GA.**
- Accordingly, its duration goes beyond the duration of the project and usually pre-dates and outlasts the GA.
- 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:**

- **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.
- **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, but also the case of affiliates between themselves
- **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 GA are not considered groupings and their costs are not covered under the terms of this special clause.

**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.
- Their costs have to comply with the rules and the principles mentioned in Article II.14 → II.17 of GA, 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 GA.

- 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).

*Example:*

*University "X" has created a joint research unit with university "Y". University "X" is a beneficiary in the GA, 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 GA 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;      funding for "X": (75% as university) of EUR 180 = EUR 130  
Eligible costs for "Y": EUR 160;      funding for "Y": (75% as university) of EUR 160 = EUR 120*

*TOTAL COSTS declared by "X": EUR 340  
TOTAL EC contribution claimed by "X": EUR 255*

## **Article II.14.3 of GA – 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 should 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.

*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,
- costs declared or incurred, or reimbursed in respect of another *Community project*, (avoiding double funding ),
- debt and debt service charges, excessive or reckless expenditure: Excessive should 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 GA – 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 worked, excluding holidays, personal time, sick leave, or other allowances.

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 any reasonable means (e.g. timesheets). Employees have to record their time on a daily, weekly, or monthly basis using a paper or a computer-based system. 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 costs (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 (please note that they are not compulsory – **any other reliable way of measuring of working time may be applied**) then they should meet at least the basic requirements indicated below:

- full name of beneficiary as indicated in the GA;
- full name of the employee directly contributing to RTD project;
- title of RTD project as indicated in the GA;
- project account number should be indicated;
- time period concerned (for instance on daily, weekly, monthly basis) according to the beneficiary's normal practice;
- 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 complete time recording system should enable reconciliation of total hours in cases where personnel work on several projects during the same period. 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.

Also, there must be some system allowing the beneficiary to indicate the activity to which the hours have been attributed. 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.

Example of a time-sheet template which may be of use:

	Name	WEEK :						JANUARY 2007
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	
R&D Activities	01	02	03	04	05	06	07	
<b>Research</b>								
Project xxxx								
Project yyyy								
Project zzzz								
<b>Management</b>								
Project xxxx								
Project yyyy								
Project zzzz								
Total R&D								
<b>Other Activities</b>								
A								
B								
C								
Total Other								
<b>Absences</b>								
Annual Leave								
Special Leave								
Illness								
Total Absences:								
Total Time :								
Signed:								
Approved:								

A simple estimation of hours worked is not sufficient. Productive hours must be calculated according to the beneficiary's normal practices. 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 should all be taken into account.

Productive hours have to be clearly justified and should 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, unless overtime is paid.

Particular cases:

- "Teleworking": may be accepted if there is a system that allows the identification of the productive hours worked for the project.
- Overtime: may be accepted if there is a system that allows the identification of the productive hours worked for the project and is in conformity with the usual practices of the beneficiary.
- 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 should fulfil the conditions of Article II.14.1 of GA.
- Redundancy costs are not eligible.
- PhD costs: eligible if they fulfil the conditions of Article II.14.1 of the GA.
- 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 GA 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 GA.

- 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 GA):

- 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 EC 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 the case of teleworking agreed between both parties),
  - The result of the work belongs to the beneficiary (Article II.26 of GA),
  - 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.
  - 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 GA 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.
- 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: 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 GA). Their costs are eligible if they fulfil the conditions of Article II.14 of GA and they are calculated on the basis of a certified methodology approved by the Commission, based on their income (e.g. tax declarations) as recognised national law (usually fiscal law). Accordingly, the physical person should 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). 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.

*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 GA. 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*
- Eligibility of costs relating to personnel costs of owners of SME: Two possible cases may arise here: either the owner receives a salary from the SME, in which case the salary is an eligible cost, 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**. 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 should 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 GA in which the SME participates.

*(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 GA*
- *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 GA*
- 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.
- 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.

*(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.
- 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 GA 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.

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.)

- **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 a 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 (of 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 GA.

*(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".

## **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 should 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 GA, 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 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 which 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. 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 hours, either as a percentage of personnel costs or a fixed hourly rate). No subjective or arbitrary keys can be accepted. This method is the same as that of the previous FC model.

### **Simplified method**

The simplified method 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.

### **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.**
- 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 GA 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 GA – 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:*

	<i>EUR</i>
<i>Project 1: 600 worked hours</i>	<i>=&gt; 600 x 5 = 3,000 indirect costs</i>
<i>Project 2: 400 worked hours</i>	<i>=&gt; 400 x 5 = 2,000 indirect costs</i>
<i>Project 3: 1.000 worked hours</i>	<i>=&gt; 1.000 x 5 = 5,000 indirect costs</i>

*[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:*

	<i>EUR</i>
<i>Project 1: personnel cost = 30,000</i>	<i>=&gt; 30,000 x 0,1 = 3,000 indirect costs</i>
<i>Project 2: personnel cost = 20,000</i>	<i>=&gt; 20,000 x 0,1 = 2,000 indirect costs</i>
<i>Project 3: personnel cost = 50,000</i>	<i>=&gt; 50,000 x 0,1 = 5,000 indirect costs</i>

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>
<b><i>Total of direct costs</i></b>	<b><i>1,190,000</i></b>

*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 % 0,2 = 214,000*

- 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 is called a "transitional flat rate" because it will apply to grants awarded under calls for proposals closing before 1<sup>st</sup> January 2010. This means that the 60% flat rate will apply for the whole duration of any GA signed under any call closed before 1<sup>st</sup> January 2010 (**even if that GA lasts beyond 2010**). The objective is 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.

After that date, this 60% flat rate will be revised, the Commission shall establish an appropriate level of flat rate which should be an approximation of the real indirect costs concerned but not lower than 40%. At that moment, a special clause will be adopted and inserted in subsequent GA.

- 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 GA.

If these beneficiaries change their status during the life of the project, "*this flat rate shall be applicable up to the moment they lose their status*". Therefore, from that moment on, they will not be able to use the 60% flat rate in subsequent financial statements. From then on, the indirect costs will have to be declared either on the basis of actual costs or using the 20% flat rate choice for indirect costs.

*Example:*

*A company which qualifies as SME, signs a GA 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: The Company cannot use the 60% flat rate from the moment it stops qualifying as an SME (30th June 2008). For the reporting period 1/1/2008-31/12/2008, this entity will claim indirect costs under different methods (e.g.60% until 30th June 2008 and 20% from 1st July).*

## 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, knowing that it will be revised at the end of 2009, 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.

***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 GA 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 a temporary use of this transitional 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.

When a beneficiary opts 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 GA. After this change, this organisation cannot opt again for a flat rate system (either 60% or 20% flat rate).

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

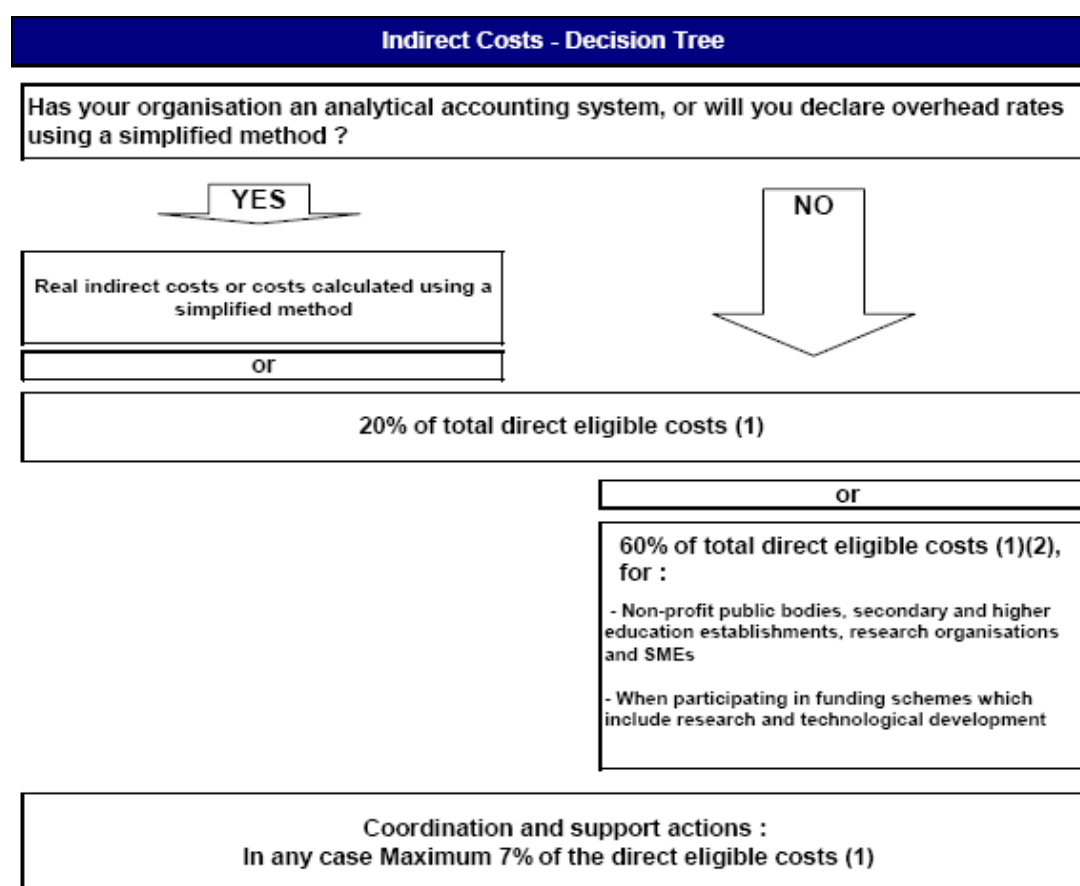
In the case of Coordination and Support Actions (CSA), the reimbursement of indirect eligible costs for every beneficiary may reach a maximum of 7% of the direct eligible

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 Community financial contribution may reach a maximum of 100% of the total 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 indirect costs, and their auditor will have to certify them in the Certificate of Financial Statements in the cases foreseen in the GA. However, they will be reimbursed a maximum of 7%. Those using the flat rates (either 60% or 20%) will also be reimbursed a maximum of 7%, but indirect costs will not need certification due to the use of the flat rate.

Example under Article II.16 of GA



(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

(2): This flat rate can be used for any proposal submitted under calls for proposals closing before 1 January 2010. The Commission shall establish for grants awarded under calls closing after 31 December 2009, an appropriate level of flat rate which should

## Article II.16 of GA – 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 Community financial contribution indicated in Article 5 of the GA.

*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*
- *TOTAL accepted management costs of the project: EUR 15,000*
- *TOTAL accepted costs of the project: EUR 265,000*
- *Maximum EC Financial contribution indicated in Article 5 of GA: EUR 120,000*
- *Upper funding rate for the project (RTD activities) 50%, therefore EUR 125,000*
- *Upper funding rate for the project (Management activities) 100%, therefore EUR 15,000*
- *However the EC funding for the project is limited to EUR 120,000 to respect the maximum Community contribution fixed in Article 5 of GA.*

It is also possible for a beneficiary to request a lower reimbursement rate (for instance, to allow another beneficiary to claim the upper funding limit while respecting the maximum Community financial contribution). However, it is not possible for a beneficiary to request a smaller rate to allow another beneficiary to claim reimbursement beyond the funding limit, even if the maximum EC contribution is respected.

*Example 2:*

<i>Project X:</i>	<i>EC funding:</i>	<i>EUR 100.000</i>
<i>Beneficiary "A":</i>	<i>Total RTD costs:</i>	<i>EUR 100.000</i>
<i>Upper funding limit for RTD: 50% however, "A" only claims 25%, therefore,</i>		
<i>EC contribution claimed by "A"</i>		<i>EUR 25.000</i>
<i>Beneficiary "B":</i>	<i>Total RTD costs: EUR 150,000 (maximum funding rate: 50%)</i>	
<i>EC contribution claimed by "B"</i>		<i>EUR 75.000</i>

The *different upper funding limits*, 50%, 75% or 100%, will depend on the type of activity and on the type of beneficiary. Concerning the type of activity (RTD, demonstration, other) the definitions provided here are general, and should be read in connection with the text of the "Call" under which the proposal is submitted and the related "Guide for Applicants".

1. ***Research and technological development activities (RTD):*** RTD activities means activities directly aimed at creating new knowledge, new technology, and products, including scientific coordination. For RTD activities there will be two different upper funding limits (50% or 75%) depending on the status of the beneficiary and – in the case of security related research – on the specific conditions explained under 1.b. below.

a. The general reimbursement rate will be 50% of the total eligible costs. **However, the rate may reach a maximum of 75% for the following beneficiaries:**

✓ *non-profit public bodies:* "public body" can be :

1. either any legal entity established as such by national law,
2. or an international organisation, which is an intergovernmental organisation (for instance, the UN), other than the Community, which has legal personality under international public law, as well as any specialised agency set up by such an international organisation <sup>9</sup>

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<sup>9</sup> For these and the following definitions please see Article 2 of the 7<sup>th</sup> Framework Programme "Rules for the participation of undertakings, research centres and universities ...(..)", Regulation (EC) N° 1906/2006 of the European Parliament and the Council of 18<sup>th</sup> December 2006

- ✓ secondary and higher education establishments (for example, universities)
- ✓ *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
- ✓ 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. 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. For further information check the full text of Recommendation 2003/361/EC in the version of 6 May 2003.

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.*

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 7<sup>th</sup> Framework Programme.

If one of these entities entitle to claim a 75% EC funding changes its legal status during the life of a project, this reimbursement rate shall be applicable only up to the moment it loses its status.

*Example:*

*A company which qualifies as a SME, signs a GA in 2007, with a maximum 75% EC funding rate for RTD activities. In 2008, this company (due to internal growth, acquisitions, etc) becomes bigger and no longer qualifies as SME. For any financial statement submitted after its change of status, the funding rate for RTD activities will be reduced to 50%.*

If a legal entity changes its legal status during the life of a project and qualifies to claim 75% EC funding, this reimbursement rate may be applicable to costs incurred after the moment they change their status (within the maximum EC contribution of the project).

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](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 met<sup>10</sup>:
- 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.
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 GA, may be reimbursed up to 100% of the eligible costs. A non-exhaustive list is included in Article II.16 of GA. They should be discussed carefully during the negotiations, and be included in Annex I to GA.

*Examples:*

- **dissemination** (for example the establishment of a website, the presentation of the project during conferences or workshops, the drafting of a scientific publication including, if applicable, the payment of a fee for its publication)
- **networking** (for example the organisation of a seminar for networking)
- **coordination** (for example the organisation of a meeting or travel for coordination purposes)
- **intellectual property** (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)

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<sup>10</sup> See Article 33 (1) 2<sup>nd</sup> subparagraph of the Rules for Participation FP7

- ***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 GA) (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 GA. 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 Community 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 GA (economy, efficiency, etc.).

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

5. **Training activities are also part of "other activities"** – they may cover the salary costs of those providing the training (if in conformity with Article II.14 of GA) but not the salary costs of those being trained.

**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 GA).**

**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 activities, the Community 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 GA)

*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 GA – Receipts of the project**

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

**If Total EC contribution + receipts ≤ total eligible costs = No reduction of EC contribution.**

**Profit must be assessed at the level of the beneficiary.**

As a consequence, since the Community 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 GA :
- 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 GA, 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 a Community financial contribution, and therefore considering it a receipt could penalise it.

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

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

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

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

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

*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*  
*EC 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 GA 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 EC contribution may take place.

## Article II.18 of GA – Community financial contribution

### 1. Community financial contribution in the form of reimbursement of eligible costs

Principles of calculation of the EC contribution:

- The EC 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 EC contribution cannot give rise to any profit for any beneficiary.
- For each beneficiary, the EC contribution cannot exceed the eligible costs minus the receipts for the project.
- The total amount of payments by the Community shall not exceed in any circumstances the maximum amount of the EC 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 EC.

*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>
<b><i>Total</i></b>	<b><i>250,000</i></b>	<b><i>175,000</i></b>
<b><i>Receipts</i></b>		<b><i>25,000</i></b>
<b><i>EC contribution</i></b>		<b><i>175,000</i></b>

*The EC contribution does not change as the addition of the EC 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. EC contribution in the form of lump sums

### 2.1 Lump sums for International Cooperation Partner Countries (ICPC)

These lump sums have been adopted by Commission Decision and can be found in the following web address: [LINK]

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 GA 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 EC 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	<b>8,000</b>
lower middle income	<b>9,800</b>
upper middle income	<b>20,700</b>

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.

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 EC 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*

## **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 GA 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 EC 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: EC funding=(8,000 x 20 = EUR 160,000 x 75%) = EUR 120,000 of EC 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 EC funding of EUR 270,000

Total EC 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. Community 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 EC 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 GA.

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

Pre-financing remains the property of the Community until the final payment. This Article makes reference to the Financial Regulation of the European Communities (FR) and its Implementing Rules (IR) since any significant amount of interest earned from that pre-financing by the entity receiving pre-financing direct from the Commission (the coordinator) must be taken into account in determining the final EC contribution.

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 amount of the pre-financing is less than this amount, there is no need to declare the interest generated by that pre-financing.

This means that as long as the pre-financing remains in the coordinator's bank account any interest generated by it remains the property of the Community.

On the other hand:

- **The pre-financing will remain the property of the Communities until the last payment but the interest generated by the part of the pre-financing transferred from the Coordinator to the other beneficiaries (if any) will not need to be reported.**
- **There is only one single pre-financing per project, paid usually within 45 days following the entry into force of the GA. Therefore, the rules concerning interest apply only to that single pre-financing, and not to interim payments.**

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 the subsequent payment.

*Example:*

*3-year project:*

*The consortium receives a single pre-financing of EUR 1,600,000 for the whole duration of the project and transfers to each of the beneficiaries the amount agreed between the consortium; the coordinator retains for itself the agreed amount corresponding to its pre-financing: EUR 400,000. At the end of the first reporting period the amount held by the coordinator has earned interest of:*

- *EUR 2,000 generated by the EUR 1,200,000 transferred to the other beneficiaries during the period between the reception of funds from the Commission and its transfer to the other beneficiaries,*
- *EUR 2,800 for the EUR 400,000 kept by the coordinator in the account mentioned in the GA.*

*Total interest: EUR 4,800*

*At the end of the reporting period the coordinator has to declare this amount of EUR 4,800 as interest yielded by the pre-financing in its financial statement (Form C). It will be deducted from the subsequent interim payment.*

The requirements concerning the bank account for the project can be found in the section dedicated to Article 5.3 in this Guide.

## **SECTION 2: GUARANTEE FUND AND RECOVERIES**

### **Article II.20 of GA – 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 6<sup>th</sup> Framework programme.

It aims primarily at covering the financial risks incurred by the Community 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 EC 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.

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 GA and will never exceed 1% of the EC 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 Community 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 EC 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 community financial contribution: 100,000*

*Contribution to the fund: 5,000*

*If Final Community contribution at the end of the project: 90,000*

- *For 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 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 Community financial contribution: 90,000 x 0.01 = 900*

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

## **Article II.21 of GA – 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 Community 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 Community 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 EC 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 Community 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 Community 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 GA – 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 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 EC contribution, on the same terms and conditions.

#### **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.

### **Article II.23 of GA – 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 GA 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 GA;
  - ✓ 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 GA – Liquidated damages**

The Community shall claim liquidated damages<sup>11</sup> from a beneficiary who is found to have overstated expenditure and who has consequently received an unjustified financial contribution from the Community. 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 GA. Overstatement is a factual finding and the intention to overstate is irrelevant.

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<sup>11</sup> In exceptional cases, the Commission may refrain from claiming liquidated damages.

## 1. Calculation of liquidated damages

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

**Liquidated damages = unjustified Community financial contribution x (overstated amount / total Community financial contribution claimed)**

In addition, the calculation of any liquidated damages only takes into consideration the beneficiary's claim for the EC contribution for that reporting period. It is not calculated in relation to the entire EC 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 EC 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 Community of EUR 227,015.*

*The amount of liquidated damages the Community 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*

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.

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.

## Article II.25 of GA – Financial penalties

**In addition** to liquidated damages, any beneficiary found to have seriously failed to meet its obligations under the GA shall be liable to financial penalties of:

- between 2% and 10% of the value of the EC contribution received by that beneficiary;
- between 4% and 20% of the value of the EC 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 GA. According to the report(s) to the Commission on the distribution of the Community financial contribution between beneficiaries, this beneficiary has received a Community 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 Community for a maximum period of two years from the date the infringement is established.

## ANNEX III – SPECIFIC PROVISIONS FOR TRANSNATIONAL ACCESS ACTIVITIES

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### Point III.9 of GA – Community financial support for access costs

In Annex I to GA there will be an estimated unit cost that is based on estimations for the lifetime of the project.

Estimated unit cost = costs corresponding to the estimated total quantity of access to be provided to the installation / estimated total quantity of access to be provided to the installation.

Costs may not include the capital investment cost.

The total quantity of access to be considered includes access to be financed under the specific GA 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:

Costs corresponding to the estimated total quantity of access to be provided to the installation = EUR 4,000,000

Estimated total quantity of access to be provided to the installation = 1,000

*Estimated unit cost = EUR 4,000*

Annex I to GA shall also determine the minimum quantity of access to be provided under the conditions set up in the grant agreement (*for example 200*).

This 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:*

*1<sup>st</sup> 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:  $50 \times 4,000 = \text{EUR } 200,000$*

*2<sup>nd</sup> 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 3<sup>rd</sup> 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.*

*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 Community 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:*

*1<sup>st</sup> 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  $\text{EUR } 200.000$ .*

*2<sup>nd</sup> 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 GA.*

*Costs actually incurred to provide access (include both access financed and not financed by the Community under this grant agreement) =  $\text{EUR } 5.000.000$ .*

*Total quantity of units of access actually provided = 1.000*

*Real unit cost =  $5.000.000 / 1.000 = \text{EUR } 5.000$ .*

*If the access provider declares that it has given 90 units of access: Amount to be claimed =  $90 \times 5.000 = \text{EUR } 450.000$ . The access provider shall also adjust the costs claimed for previous periods. For:*

*1<sup>st</sup> 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  $50 \times 5.000 = \text{EUR } 250.000$  instead of  $\text{EUR } 200.000$ .*

*2<sup>nd</sup> 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  $60 \times 5.000 = \text{EUR } 300.000$  instead of  $\text{EUR } 240.000$ .*

*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 GA. 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 that the amount foreseen, the access provider declares that it has given 50 units of access for the 3<sup>rd</sup> period, the amount to be claimed will be calculated on the basis of the estimated unit cost =  $50 \times 4.000$  (not 5,000) =  $\text{EUR } 200.000$ . 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 Community financial contribution where necessary.*

*In the example the certificate presented when requested by the grant agreement shall include the costs for the transnational access for the three periods as adjusted at the end. Also in this example, as the EC contribution to access costs claimed for the 1<sup>st</sup> and the 2<sup>nd</sup> Reporting period is based on an estimation of costs, any Certificate on Financial Statements (CFS) submitted by the beneficiary following these periods will not take into account these access costs. 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 establish the need for a CFS and the amounts covered by it. The reason for this is that at the end of the last (3<sup>rd</sup>) period, all estimated costs will be adjusted in order to reflect actual costs.*

### **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 GA 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**

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### **Point III.2 of GA – 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 GA – 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 GA – Community financial contribution**

The basis for calculating the total Community financial contribution is the total joint call budget.

Within this maximum Community 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 Community funding).
- Topping up of the joint call budget (vast majority of the Community 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 GA – Specific payment modalities**

Two pre-financing payments are foreseen:

- The first is only for the management of the joint call.
- 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.

## ANNEX III – SPECIFIC PROVISIONS RELATED TO "RESEARCH FOR SMES" OR "RESEARCH FOR SME ASSOCIATIONS"

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**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 measures<sup>12</sup> 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.

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<sup>12</sup> [http://cordis.europa.eu/fp7/dc/index.cfm?fuseaction=UserSite.CapacitiesCallsPage&id\\_activity=14](http://cordis.europa.eu/fp7/dc/index.cfm?fuseaction=UserSite.CapacitiesCallsPage&id_activity=14)



<b>Budget for the SMEs</b>	<b>SME 1</b>	<b>SME 2</b>	<b>SME 3</b>
<b>Activities and costs</b>			
<b>RTD</b>	<b>260.000</b>	<b>395.000</b>	<b>125.000</b>
Own RTD	45.000	55.000	20.000
Invoice RTD performers for subcontracted RTD	215.000	340.000	105.000
<b>DEMO</b>	<b>10.000</b>	<b>25.000</b>	<b>0</b>
Own DEMO	10.000	20.000	0
Invoice RTD performers for subcontracted DEMO	0	5.000	0
<b>OTHER</b>	<b>10.000</b>	<b>5.000</b>	<b>10.000</b>
<b>MANAGEMENT</b>	<b>60.000</b>	<b>5.000</b>	<b>5.000</b>
<b>TOTAL</b>	<b>340.000</b>	<b>430.000</b>	<b>140.000</b>

### 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.

<b>Budget for the RTD performers</b>	<b>RTD 1</b>	<b>RTD 2</b>
<b>Activities and costs</b>		
<b>OTHER</b>	<b>0</b>	<b>30.000</b>
<b>MANAGEMENT</b>	<b>5.000</b>	<b>5.000</b>
<b>TOTAL</b>	<b>5.000</b>	<b>35.000</b>

### 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.

<b>Budget for Other enterprises and end users</b>	<b>OTH 1</b>
<b>Activities and costs</b>	
<b>RTD</b>	<b>10.000</b>
<b>DEMO</b>	<b>40.000</b>
<b>OTHER</b>	<b>0</b>
<b>MANAGEMENT</b>	<b>0</b>
<b>TOTAL</b>	<b>50.000</b>

#### 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
<b>SME 1</b>	<b>260.000</b>	<b>10.000</b>	<b>60.000</b>	<b>10.000</b>	<b>340.000</b>
Own activities	45.000	10.000			
Subcontracting	215.000				
<b>SME 2</b>	<b>395.000</b>	<b>25.000</b>	<b>5.000</b>	<b>5.000</b>	<b>430.000</b>
Own activities	55.000	20.000			
Subcontracting	340.000	5.000			
<b>SME 3</b>	<b>125.000</b>	<b>0</b>	<b>5.000</b>	<b>10.000</b>	<b>140.000</b>
Own activities	20.000				
Subcontracting	105.000				
<b>RTD 1</b>			<b>5.000</b>	<b>0</b>	<b>5.000</b>
<b>RTD 2</b>			<b>5.000</b>	<b>30.000</b>	<b>35.000</b>
<b>OTH 1</b>	<b>10.000</b>	<b>40.000</b>	<b>0</b>	<b>0</b>	<b>50.000</b>
<b>TOTAL</b>	<b>790.000</b>	<b>75.000</b>	<b>80.000</b>	<b>55.000</b>	<b>1.000.000</b>

#### Calculation of the EC contribution

The European Community 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 EC 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 EC 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 EC contribution
<b>SME 1</b>	<b>260.000</b>	<b>10.000</b>	<b>60.000</b>	<b>10.000</b>	<b>340.000</b>	<b>270.000</b>
Own activities	45.000	10.000				
Subcontracting	215.000					
<b>SME 2</b>	<b>395.000</b>	<b>25.000</b>	<b>5.000</b>	<b>5.000</b>	<b>430.000</b>	<b>318.750</b>
Own activities	55.000	20.000				
Subcontracting	340.000	5.000				
<b>SME 3</b>	<b>125.000</b>	<b>0</b>	<b>5.000</b>	<b>10.000</b>	<b>140.000</b>	<b>108.750</b>
Own activities	20.000					
Subcontracting	105.000					
<b>RTD 1</b>			<b>5.000</b>	<b>0</b>	<b>5.000</b>	<b>5.000</b>
<b>RTD 2</b>			<b>5.000</b>	<b>30.000</b>	<b>35.000</b>	<b>35.000</b>
<b>OTH 1</b>	<b>10.000</b>	<b>40.000</b>	<b>0</b>	<b>0</b>	<b>50.000</b>	<b>25.000</b>
<b>TOTAL</b>	<b>790.000</b>	<b>75.000</b>	<b>80.000</b>	<b>55.000</b>	<b>1.000.000</b>	<b>762.500</b>
<b>TOTAL amount of subcontracting, excl. VAT</b>						<b>665.000</b>
<b>Maximum EC contribution = 110% of subcontracting to RTD performers excl. VAT</b>						<b>731.500</b>
<b>Requested EC contribution is the minimum of the two:</b>						<b>731.500</b>

Therefore, this fictional project would receive a financial support of up to € 731.500.

### Distribution of the EC 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 EC contribution among partners. It is up to the consortium to decide upon the allocation of the EC 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 EC contribution goes to SME 1. Participants OTH 1 does not receive any EC contribution.

Partners & costs	Total costs	EC contribution for each participant	Own contribution (in kind)	Own contribution (in cash)
<b>SME 1</b>	<b>340.000</b>	<b>241.500</b>	<b>98.500</b>	<b>0</b>
Subcontracting	215.000			
<b>SME 2</b>	<b>430.000</b>	<b>345.000</b>	<b>85.000</b>	<b>0</b>
Subcontracting	345.000			
<b>SME 3</b>	<b>140.000</b>	<b>105.000</b>	<b>35.000</b>	<b>0</b>
Subcontracting	105.000			
<b>RTD 1</b>	<b>5.000</b>	<b>5.000</b>	<b>0</b>	<b>0</b>
<b>RTD 2</b>	<b>35.000</b>	<b>35.000</b>	<b>0</b>	<b>0</b>
<b>OTH 1</b>	<b>50.000</b>	<b>0</b>	<b>50.000</b>	<b>0</b>
<b>TOTAL</b>	<b>1.000.000</b>	<b>731.500</b>		

**Scenario 2:** All partners receive an EC contribution according to their share of costs in the project with the exception of participants OTH 1, which does not receive any EC contribution.

Partners & costs	Total costs	EC contribution for each participant	Own contribution (in kind)	Own contribution (in cash)
<b>SME 1</b>	<b>340.000</b>	<b>261.800</b>	<b>78.200</b>	<b>0</b>
Subcontracting	215.000			
<b>SME 2</b>	<b>430.000</b>	<b>331.100</b>	<b>98.900</b>	<b>13.900</b>
Subcontracting	345.000			
<b>SME 3</b>	<b>140.000</b>	<b>107.800</b>	<b>32.200</b>	<b>0</b>
Subcontracting	105.000			
<b>RTD 1</b>	<b>5.000</b>	<b>3.850</b>	<b>1.150</b>	<b>0</b>
<b>RTD 2</b>	<b>35.000</b>	<b>26.950</b>	<b>8.050</b>	<b>0</b>
<b>OTH 1</b>	<b>50.000</b>	<b>0</b>	<b>50.000</b>	<b>0</b>
<b>TOTAL</b>	<b>1.000.000</b>	<b>731.500</b>		

## **ANNEX III – SPECIFIC PROVISIONS RELATED TO "RESEARCH FOR THE BENEFIT OF SPECIFIC GROUPS [Research for civil society organisations - BSG- CSO]**

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**No financial issues.**