

# Programme Manual

for the period 2014 to 2020

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Programme Manual of Interreg Baltic Sea Region, a Transnational European Territorial Cooperation Programme, for the period 2014 to 2020, part-financed by the European Regional Development Fund (ERDF).



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## Contents

<b>A</b>	<b>Summary .....</b>	<b>6</b>
	<b>List of abbreviations.....</b>	<b>8</b>
	<b>Glossary.....</b>	<b>9</b>
<b>B</b>	<b>General information about the Interreg Baltic Sea Region .....</b>	<b>12</b>
B.1	General objectives.....	12
B.1.1	Programme priorities .....	12
B.2	Types of projects .....	16
B.3	Legal framework.....	16
B.4	Programme area.....	18
B.5	Programme budget and co-financing .....	19
B.6	Horizontal principles .....	20
B.7	Integrated territorial approach .....	22
B.7.1	Projects' contribution to the EUSBSR and partner countries' strategies.....	23
B.7.2	Projects' contribution to cross-cutting issues .....	23
B.8	Programme implementation structure.....	24
B.9	Programme language .....	24
<b>C</b>	<b>Formal expectations towards project partners .....</b>	<b>26</b>
C.1	Eligible project partners .....	26
C.1.1	Geographical location.....	26
C.1.2	Legal entities eligible as project partners.....	26
C.1.3	Legal entities eligible as lead partners .....	28
C.1.4	Project partners outside the Programme area .....	29
C.2	Lead partner principle .....	32
C.2.1	Main responsibilities of the lead partner .....	32
C.2.2	Main responsibilities of the project partners.....	34
C.3	Financial capacity of project partners.....	35
C.4	Project and financial management .....	35
C.4.1	Sustainability of projects on operational level.....	36

<b>D</b>	<b>Project types and application procedures.....</b>	<b>39</b>
D.1	Regular projects .....	39
D.1.1	Objectives, results and main activities of regular projects .....	39
D.1.2	Work plan .....	46
D.1.3	Outputs of regular projects .....	47
D.1.4	Output indicators .....	51
D.1.5	Communication in projects .....	52
D.1.6	Composition of regular project partnerships.....	54
D.1.7	Duration of regular projects .....	58
D.1.8	Application of regular projects.....	58
D.1.9	Assessment of applications .....	67
D.1.10	Approval of applications.....	70
D.2	Extension stage projects .....	71
D.2.1	Objectives and main activities of extension stage projects .....	71
D.2.2	Outputs of extension stage projects .....	72
D.2.3	Composition of extension stage project partnership.....	73
D.2.4	Duration of extension stage projects .....	74
D.2.5	Budget and eligibility of costs.....	74
D.2.6	Application, assessment and approval of extension stage projects .....	74
D.3	Cluster projects .....	75
D.3.1	Objectives and main activities of project clusters.....	75
D.3.2	Outputs of cluster projects.....	77
D.3.3	Composition of cluster project partnership .....	77
D.3.4	Duration of cluster projects.....	78
D.3.5	Budget and eligibility of costs.....	79
D.3.6	Application, assessment and approval of cluster projects.....	80
<b>E</b>	<b>Contracting of approved applications.....</b>	<b>82</b>
E.1	Clarification procedure.....	82
E.2	Subsidy contract.....	83
<b>F</b>	<b>Project budget and eligibility rules .....</b>	<b>84</b>
F.1	Horizontal rules applicable to all budget lines and types of instruments .....	84
F.1.1	Legal background and hierarchy of rules .....	84
F.1.2	General principles of eligibility .....	84

F.1.3	Procurement procedures .....	86
F.1.4	State aid rules .....	93
F.1.5	Use of Euro and exchange rate .....	96
F.1.6	Value added tax and other financial charges .....	97
F.1.7	Cash inflows.....	97
<b>F.1.8</b>	Interest and equivalent benefits <b>(Will be elaborated at a later stage)</b> .....	100
F.1.9	Visibility rules.....	100
F.2	Overview on project phases and related costs .....	102
F.3	Budget lines.....	105
F.3.1	Budget line 1 – Staff costs .....	105
F.3.2	Budget line 2 – Office and administration costs .....	116
F.3.3	Budget line 3 – Travel and accommodation costs .....	117
F.3.4	Budget line 4 – External expertise and services costs.....	118
F.3.5	Budget line 5 – Equipment costs .....	120
F.3.6	Budget line 6 - Infrastructure and works .....	122
F.3.7	Budget line 7 – Expenditure for specific project activities (E.g. expenditure for large research activities at sea etc.) .....	124
F.4	Activities financed by ERDF implemented outside the Union part of the Programme area.....	125
F.4.1	Definition and identification of activities outside the Union part of the Programme area .....	125
F.4.2	Financial threshold and monitoring .....	126
F.5	Cost sharing.....	127
F.6	Financial planning and de-commitment .....	127
F.6.1	De-commitment: What projects might be affected? .....	128
F.6.2	Calculation of the de-commitment .....	128
<b>G</b>	<b>Project implementation and progress reports .....</b>	<b>130</b>
G.1	Programme support to project implementation .....	130
G.2	Getting started .....	132
G.2.1	Partnership Agreement .....	132
G.2.2	Communication plan .....	133
G.2.3	Accounting system of the projects.....	134
G.3	Reporting.....	134

G.3.1	Reporting on activities and outputs .....	135
G.3.2	Reporting on finances.....	136
G.3.3	Management toolkit.....	137
G.4	Changes in the project set-up .....	137
G.4.1	Minor changes and budget flexibility .....	138
G.4.2	Major changes .....	141
G.5	Responsibilities after the project closure .....	148
G.5.1	Durability and ownership of the project outputs.....	148
G.5.2	Availability of documents and accounting records .....	149
<b>H</b>	<b>Payment of subsidies .....</b>	<b>150</b>
H.1	Reimbursement principle.....	150
H.2	Payment rules for ERDF, ENI & Norwegian co-financing .....	150
<b>I</b>	<b>Audit and control.....</b>	<b>152</b>
I.1	Terminology .....	152
I.2	The FLC system.....	152
I.2.1	Centralised FLC system.....	152
I.2.2	Decentralised FLC system.....	153
I.3	Important aspects of the FLC .....	154
I.3.1	FLC system description .....	154
I.3.2	FLC independence .....	154
I.3.3	FLC quality .....	155
I.3.4	FLC competence .....	156
I.3.5	FLC capacity .....	156
I.3.6	FLC harmonisation and cooperation .....	156
I.4	Approbation of the controller .....	157
I.5	Validation by the controllers.....	160
I.5.1	Scope of and standard tools for validation .....	160
I.5.2	Validation at partner level.....	160
I.5.3	Validation at project level .....	162
I.6	Audit Authority and Group of Auditors.....	163
I.6.1	Second level audit .....	163
I.6.2	Other controls .....	165

<b>J</b>	<b>Seed Money (under development and will be included at a later stage) .....</b>	<b>165</b>
<b>K</b>	<b>Arrangements in case partners are facing difficulties during implementation .....</b>	<b>166</b>
K.1	Definition of the terms and general procedures .....	166
K.2	Judicial and other proceedings (incl. bankruptcy) .....	166
K.3	Irregularities and follow-up measures .....	168
K.3.1	Scope and definitions .....	168
K.3.2	Detection and assessment of irregularities.....	169
K.3.3	Decision making and implementation of the decision on project level .....	169
K.3.4	Corrections on the Programme level .....	174
<b>L</b>	<b>Resolution of complaints (under development and will be included at a later stage) .....</b>	<b>174</b>
	<b>Annex I - Quality assessment criteria for Step 1 .....</b>	<b>175</b>
	<b>Annex II - Quality assessment criteria for Step 2 .....</b>	<b>177</b>
	<b>I. Relevance of the proposal .....</b>	<b>177</b>

## A Summary

This Manual aims to describe and explain the rules of the Interreg Baltic Sea Region, further on referred to as the Programme and give guidance on all phases of the project life cycle. It is the main document for projects under Priorities 1-3 and Priority 4.1.

Additional guidance and specific requirements of Priority 4.1 Seed Money will be published at a later stage. Until the opening of the first call for proposals under the Interreg Baltic Sea Region Priority 4.1 interested organisations are invited to use the support of the EUSBSR Seed Money Facility. For further details, please consult the EUSBSR Seed Money Facility web-site under <http://seed.eusbsr.eu/>. The requirements of Priority 4.2 are presented in a separate manual.

The rules laid down in this Manual are mandatory and are the primary rules of the Programme. They are based on the relevant European Regulations and have been harmonised with a number of transnational Interreg programmes. The Programme rules can only be overruled by national legislation in exceptional cases, if a particular topic is not tackled and regulated by the Manual. In all other cases it is the Manual that applies first.

The Manual is addressed to a number of stakeholders involved at different phases of a project. Lead and project partners are the main target group of the document together with their first level controllers. However, the information presented in the various chapters might not be equally relevant for all.

**Lead partners** are expected to be familiar with the overall content of the Manual, they being responsible for all project phases from the development until the closure phases. Furthermore, lead partners should use the Manual for information purposes and distribute the information to the project partners to ensure smooth and correct implementation at all levels.

Chapters which are highly relevant for **project partners** are chapter B, chapter C, chapter F, chapter G, chapter H, chapter I and chapter K. The information addressed in these chapters should be understood by the whole partnership.

**First level controllers (FLCs)** are another important target group of the document. The successful implementation of projects does not only depend on well informed project partners but their FLCs have an equally important role in the interpretation and understanding of the Programme rules too. To achieve this, FLCs should at least be familiar with chapter F, chapter G and chapter I.

The above recommendation seeks to help users of the Manual with structured



use and reading. However, the recommendations on the selected chapters can be extended according to the reader needs.



## List of abbreviations

AA – Audit Authority

CP – Cooperation Programme

ENI - European Neighbourhood Instrument

ERDF - European Regional Development Fund

FLC – first level control(ler)

IB.SH – Investitionsbank Schleswig-Holstein

JS – Joint Secretariat

MA – Managing Authority

MS - Member State

MC – Monitoring Committee

NCP – National Contact Point

PAC/HAL – Priority Area Coordinator/Horizontal Action Leader

Programme – Interreg Baltic Sea Region Programme

SLA – second level audit(or)

WP – work package

## Glossary

**Activity** - a work package component which may or may not result in an output.

**Amount declared** - expenditure incurred and paid (or calculated based on simplified cost options) by a project partner in relation to the project implementation and presented to the Programme for reimbursement.

**Amount verified** - Expenditure checked by the FLC and included in the FLC certificate.

**Application package** - all documents needed when applying for funding.

**Audit trail** - An adequate audit trail ensures that the accounting records maintained and the supporting documents held at the level of the Certifying Authority, Managing Authority, intermediate bodies and project partners are adequate to trace expenditures. Detailed minimum requirements for the audit trail are outlined in draft FICHE 29, Section II, Article 26.

**Co-financing** - The programme's financial support provided to the project.

**Co-financing rate** - The percentage applied to the eligible expenditure of the project and each individual partner resulting in the amount of co-financing to be received.

**Contribution** – The equivalent part to programme co-financing secured by the partners. Depending on the legal status of the partners, the contribution can be either public or private.

**Control** - any measure taken to provide reasonable assurance regarding the effectiveness, efficiency and economy of projects. Furthermore, it should contribute to the reliability of reporting, the safeguarding of assets and information, the prevention and detection and correction of fraud and irregularities and their follow-up. Control should ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multi-annual character of programmes as well as the nature of the payments concerned. Controls may involve various checks.

**Costs incurred** - Costs accumulated in relation to implementation of the project activities that are recorded as liabilities on a balance sheet of the partner organisation until they are discharged or paid. Incurred costs may include both direct and indirect costs.

**Depreciation** - A non-cash expenditure that reduces the value of an asset over time. The full purchase price of equipment is only eligible if the item is solely

used for the project during its total economic and depreciable lifetime. Otherwise, depreciation may be eligible, provided it is calculated taking into account the degree of use of the item for the project and the project duration.

**Durability** - durability of project outputs and results refers to the long-lasting effect of a project's achievements beyond project duration.

**Equivalent probative value** - Invoices and other documents equivalent to invoices used as supporting evidence for expenditure incurred (e.g. by project partners). Accounting documents of equivalent probative value must be provided by project partners in case of expenditure for which there is no invoice available. For standard scales of unit costs, lump sums, flat rates (see CPR Article 67(1) and 68) and contributions in-kind (CPR Article 69(1)) no proof of expenditure needs to be provided.

**Implementation period** - A timeframe during which project expenditure should be incurred in order to qualify for reimbursement from the programme funds.

**Multi-level governance** – is a cooperation and collaboration, both vertically among units of government and horizontally among governmental and non-governmental actors.

**Natural person** - a person, human being, distinguished from a corporation and opposed to a legally generated juridical person which may be a private (i.e., business entity) or public (i.e., government) organization.

**Project specific objective** - a concrete statement describing what the project is intending to achieve. It can be evaluated at the conclusion of a project to see whether it was achieved or not.

**Real costs** - Expenditure actually incurred and paid, and supported by invoices or other documents of equivalent probative value.

**Reporting period** - A designated period of time during the project lifetime; activities carried out and expenditure incurred and paid (unless simplified cost options apply) during a reporting period are presented in a progress report and are subject to programme co-financing.

**Simplified cost options** - Simplified cost options involve approximations of costs and are defined based on fair, equitable and verifiable calculation methods, or they are established by the Fund specific regulations. The application of simplified cost options signifies a departure from the approach of tracing every euro of co-financed expenditure to individual supporting documents.

**Standard scale of unit costs** – Is one type of simplified cost option. A standard

scale of unit costs composed of priori defined standard price that applies to a certain type of expenditure. The eligible expenditure is calculated by multiplying the standard cost by the units achieved. Standard scales of unit costs involve approximations of costs and are established based on fair, equitable and verifiable calculation methods.

**Subsidy contract** – Is a grant agreement between the contracting authority (managing authority) and the lead partner.

**Total budget** - The total budget of a project is established based on the costs planned by all project partners in the application form.

**Total eligible budget** - total eligible budget indicates the total budget of a project subject to programme co-financing. In the application form, it is calculated based on the total budget, excluding the potential net revenue of the project.

**Total expenditure** - All expenditure incurred and paid (or calculated based on simplified cost options) by project partners in relation to implementation of the project activities.

**Total eligible expenditure** – Is the sum of the total expenditure compliant with EU, programme and national rules and thus is eligible for co-financing from the programme. In the progress report, the total eligible expenditure is calculated based on the total expenditure, excluding net revenue generated by the project.

**Union part of the programme area** - Part of the geographical area covered by the programme, which includes an EU territory. In some programmes, the programme area may also cover territories of third countries (e.g. Norway, Switzerland, etc.) and thus be outside the EU part of the programme area.

**Value for money** - Term referring to a judgment on whether sufficient impact is being achieved for the money spent.

**Verification** - Measures undertaken by the MA and/or the FLCs to ensure that co-financed products and services have been delivered and that expenditures declared have been paid, comply with applicable law, the Operational Programme and the conditions for support of the project (CPR 125 (4)(a) and ETC 23 (4)).

**Work package** - A group of related project activities aimed at producing project main outputs.

## **B General information about the Interreg Baltic Sea Region**

### **B.1 General objectives**

The **overall objective** of the Programme is to strengthen the integrated territorial development and cooperation for a more innovative, better accessible and sustainable Baltic Sea Region. The Programme promotes **transnational cooperation and integration** by projects addressing common key challenges and opportunities of the region. Its added value is the transnational dimension of the supported actions and investments. The Programme exploits opportunities and addresses issues which cannot (sufficiently) be dealt with by single countries but require a joint response by partners from several countries from the Baltic Sea Region.

The Programme develops a leverage effect on regional development by investing in the institutional capacities of the Programme's target groups. Improved institutional capacity in the Programme context is understood as:

- Enhanced institutionalised knowledge and competence;
- Improved governance structures and organisational set-up;
- More efficient use of human and technical resources (databases, technical solutions, infrastructure etc.);
- Better ability to attract new financial resources; and
- Increased capability to work in transnational environment.

Projects are expected to contribute to institutional capacity building. Their contributions to capacity building will be followed up by a system of indicators to measure achievements of the Programme.

#### **B.1.1 Programme priorities**

The Programme is divided into four priority axes addressing the transnational key challenges and opportunities of the Baltic Sea Region:

1. Capacity for innovation
2. Efficient management of natural resources
3. Sustainable transport
4. Institutional capacity for macro-regional cooperation

All four priorities are briefly introduced in the following. A detailed description of the indicative actions to be financed can be found in the Cooperation Programme.

#### **B.1.1.1 Priority 1 ‘Capacity for innovation’**

Priority 1 ‘Capacity for innovation’ is dedicated to actions strengthening the ability of the Baltic Sea Region to create and commercialise innovation. Thus the Programme encourages experimentation with new approaches and solutions to be practically tested through pilot actions. Furthermore, the priority aims at increasing the capacity of the public sector as an innovation driver and enhancing innovation uptake by SMEs. Thematically, one of the focus of this priority lies on utilisation of the potentials of existing and planned research and innovation infrastructures. Additionally, the priority supports capacity-building for smart specialisation strategies and their implementation, e.g. through test and pilot activities. Finally, the priority provides support for non-technological innovation.

##### **Specific objectives related to priority 1:**

- **Specific objective 1.1 ‘Research and innovation infrastructures’:**

To enhance market uptake of innovation based on improved capacity of research and innovation infrastructures and their users

- **Specific objective 1.2 ‘Smart specialisation’:**

To enhance growth opportunities based on increased capacity of innovation actors to apply smart specialisation approach

- **Specific objective 1.3 ‘Non-technological innovation’:**

To advance the Baltic Sea Region performance in non-technological innovation based on increased capacity of innovation actors

#### **B.1.1.2 Priority 2 ‘Efficient management of natural resources’**

Priority 2 ‘Efficient management of natural resources’ supports transnational cooperation enhancing capacity of public authorities and practitioners to ensure better environmental status of the Baltic Sea Region waters and to strengthen the resource-efficient growth. It will help in developing integrated approaches to reducing nutrient loads and decreasing discharges of hazardous substances to the Baltic Sea and the regional inland waters. Moreover, the

Priority supports development and testing of governance and funding models as well as technological solutions for production and distribution of renewable energy and for improved energy efficiency. Lastly, it aims at strengthening the sustainable and resource-efficient blue growth in the Baltic Sea Region.

**Specific objectives related to priority 2:**

- **Specific objective 2.1 'Clear waters':**

To increase efficiency of water management for reduced nutrient inflows and decreased discharges of hazardous substances to the Baltic Sea and the regional waters based on enhanced capacity of public and private actors dealing with water quality issues

- **Specific objective 2.2 'Renewable energy':**

To increase production and use of sustainable renewable energy based on enhanced capacity of public and private actors involved in energy planning and supply

- **Specific objective 2.3 'Energy Efficiency'**

To increase energy efficiency based on enhanced capacity of public and private actors involved in energy planning

- **Specific objective 2.4 'Resource-efficient blue growth':**

To advance sustainable and resource-efficient blue growth based on increased capacity of public authorities and practitioners within the blue economy sectors

### **B.1.1.3 Priority 3 'Sustainable transport'**

Priority 3 'Sustainable transport' covers capacity building measures ensuring more sustainable transport solutions in the region. In particular, it aims at better connecting the secondary and tertiary transport networks and nodes in the Baltic Sea Region to core transport networks. Furthermore, the priority is targeted at improved accessibility of distant areas that have accessibility deficits as well as areas affected by demographic changes to urban, administrative and economic centres. Due to the significance of maritime transport for the region the priority also focuses on the improvement of maritime safety and environmental-friendly shipping. Lastly, the priority specifically focuses on urban areas of the Baltic Sea Region with the aim of increasing environmentally friendly mobility.



**Specific objectives related to priority 3:**

- **Specific objective 3.1 'Interoperability of transport modes':**

To increase interoperability in transporting goods and persons in north-south and east-west connections based on increased capacity of transport actors

- **Specific objective 3.2 'Accessibility of remote areas and areas affected by demographic change'**

To improve the accessibility of the most remote areas and regions whose accessibility is affected by demographic change based on increased capacity of transport actors

- **Specific objective 3.3 'Maritime safety'**

To increase maritime safety and security based on advanced capacity of maritime actors

- **Specific objective 3.4 'Environmentally friendly shipping'**

To enhance clean shipping based on increased capacity of maritime actors

- **Specific objective 3.5 'Environmentally friendly urban mobility'**

To enhance environmentally friendly transport systems in urban areas based on increased capacity of urban transport actors

#### **B.1.1.4 Priority 4 'Institutional capacity for macro-regional cooperation'**

Priority 4 'Institutional capacity for macro-regional cooperation' is dedicated to actions strengthening the implementation of the EU Strategy for the Baltic Sea Region (EUSBSR) as well as the implementation of common priorities of the EUSBSR and regional strategies of the partner countries. Firstly, seed money will be provided for preparation of projects of strategic importance to the EUSBSR to be funded by different funding sources available in the region. Secondly, Priority Area Coordinators (PAC), Horizontal Action Leaders (HAL) and National Contact Points (NCP) will receive support for coordinating the transnational activities and in achieving the EUSBSR goals and targets. Furthermore, the Programme provides co-financing to general support and communication activities related to implementation of the EUSBSR.

**Specific objectives related to priority 4:**

- **Specific objective 4.1 'Seed Money'**

To increase capacity for transnational cooperation implementing the EU Strategy for the Baltic

Sea Region and working on common priorities with the partner countries

- **Specific objective 4.2 ‘Coordination of macro-regional cooperation’**

To increase capacity of public institutions and pan-Baltic organisations for transnational coordination in implementing the EU Strategy for the Baltic Sea Region and facilitating the implementation of common priorities with the partner countries

## B.2 Types of projects

The main project type in the Programme is a **regular project**. The majority of the Programme co-financing is devoted to these projects. Regular projects go through a two-step application procedure. In the first step lead applicants are asked to submit a concept note which briefly outlines the project. In the second step only the partnerships of the concept notes that were pre-selected in the first step are invited to submit a complete project application. Chapter D.1 details the two step application procedure as well as the Programme requirements for regular projects.

In order to strengthen project results, the Programme offers **its projects** two other instruments – **extension stage** and **project clustering**. Chapters D.2 and D.3 detail the requirements for extension stage projects and project clustering.

The extension stage is designed to verify results of the **finalised projects** in practical application and/or to realise investments.

The project clustering instrument supports further use of the outcomes of the **ongoing projects** and increasing their visibility. Therefore, the project clusters are formed as groupings of projects cooperating with other organisations in the BSR in specific thematic fields.

In addition, the Programme provides support for the **preparation of projects of strategic importance to the EU Strategy for the Baltic Sea Region** to be funded by different funding sources available in the region. For more information, please see Chapter J of this Manual.

## B.3 Legal framework

The Programme has been designed under the territorial cooperation goal of the European Union. In practice, the Programme combines financing from the EU structural funds/European Regional Development Fund (ERDF) and Norwegian

National Funding as well as the EU external funds/European Neighbourhood Instrument (ENI)<sup>1</sup>. The Programme will be administered according to the ERDF structural funds rules.

In general, projects are guided by several layers of rules and requirements:

1. EU legislation, as referred to below,
2. Cooperation Programme, as referred to below,
3. Programme Manual, application form and other guidance documents to projects,
4. National legislation,
5. Local and/or regional legislation, and
6. Institutional rules and regulations.

The hierarchy of rules sets out a priority of the EU legislation. Where no or no detailed provisions are stipulated in EU rules Programme rules can be set up accordingly. National, regional or local legislation and institutional rules only apply where specific issues are not regulated either by the EU legislation or the Programme rules.

The legal framework consists of:

- REGULATION (EU) No 1303/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 on common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and on general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006,
- REGULATION (EU) No 1301/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the

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<sup>1</sup> ENI financing for Belarus and Russia is subject to the conclusion of the Financing Agreements with the governments of these countries.

Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006,

- REGULATION (EU) No 1299/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal,
- REGULATION (EU, Euratom) No 966/2012 of the EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002,
- Implementing acts and delegated acts adopted in accordance with the aforementioned Regulations,
- Directives of the European Parliament and of the Council public procurement,
- Cooperation Programme 'Interreg Baltic Sea Region Programme 2014-2020' (CCI No ...) – hereinafter referred to as 'Programme',
- Decision of the European Commission according to Article 29(4) CP Regulation approving the Programme (Decision No C(20..) of [date to be added later]).

The above lists names of the most relevant legislation but it is not an exhaustive one.

#### **B.4 Programme area**

The Programme area covers eleven countries. It comprises the EU Member States:

- Denmark: the whole country
- Estonia: the whole country
- Finland: the whole country
- Germany: the States (Länder) of Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg–Vorpommern, Schleswig–Holstein and Niedersachsen (only NUTS II area Lüneburg region)
- Latvia: the whole country

- Lithuania: the whole country
- Poland: the whole country
- Sweden: the whole country

In addition, three partner countries outside the EU will take part in the Programme:

- Belarus: the whole country
- Norway: the whole country
- Russia: St Petersburg, Arkhangelsk Oblast, Vologda Oblast, Kaliningrad Oblast, Republic of Karelia, Komi Republic, Leningrad Oblast, Murmansk Oblast, Nenetsky Autonomous Okrug, Novgorod Oblast, Pskov Oblast.

**Norway** will participate in the Programme with own funding. The participation of **Belarus and Russia** is planned based on funding allocated from the European Neighbourhood Instrument (ENI), but specific implementing provisions are still under discussion.

## B.5 Programme budget and co-financing

The total Programme co-financing from the **European Regional Development Fund (ERDF)**, including Priority axis 5 Technical Assistance, amounts to **263.8 million euros**. **Norway** allocates **6 million euros** national funding to the Programme for Norwegian project partners and for Priority axis 5 Technical Assistance. The amount of co-financing transferred to the Programme from the European Neighbourhood Instrument (ENI) for the participation of partners from Belarus and Russia is to be decided.

Table 1: Allocation of ERDF and NOR Programme funds for priorities 1 - 4

Priority	ERDF (in MEUR)	Norwegian funds* (in MEUR)
1. Capacity for innovation	84.4	5.5
2. Efficient management of natural resources	84.4	
3. Sustainable transport	66.0	
4. Institutional capacity for macro-regional cooperation	13.2	

*\*For Norwegian funds there is no binding allocation between priorities*

Project partners have to provide their own contribution to receive Programme co-financing. The level of these contributions varies between the countries and the funds used.

Partners from Denmark, Finland, Germany and Sweden are entitled to receive up to 75% ERDF co-financing, partners from Estonia, Latvia, Lithuania and Poland up to 85% ERDF co-financing. Norwegian partners will receive up to 50% co-financing from Norwegian national funding. Funding modalities for partners from Belarus and Russia will be defined later.

Project partners from all Programme countries under priority 4 are entitled to receive up to 85% co-financing from both ERDF and Norwegian national funding.

Furthermore, project partners from countries outside the Union part of the Programme area are entitled to receive up to 75% ERDF co-financing. Further details regarding the conditions of participation of such partners is provided in Chapter C.1.4.

Lower co-financing rates than specified above might have to be applied in case of state aid relevant activities. Details on the Programme's state aid rules and related co-financing rates can be found in Chapter F.1.4.

## **B.6 Horizontal principles**

Sustainable development, equal opportunities and non-discrimination, as well as equality between men and women, are three major horizontal principles that constitute an integral part of EU policy and the Programme. The supported projects have to promote these principles whenever possible.

In practical terms, projects should reflect the horizontal principles of sustainable development, equal opportunities and non-discrimination, and equality between men and women in their activities, outputs and results. Projects should consider what their overall influence as regards these principles is. Projects should highlight in the application form how these horizontal principles are integrated in project activities and outputs. In addition, projects should mention the specific measures they plan to take at the operational level (i.e. project management) to follow these principles. The promotion of the horizontal principles will be considered as a positive factor in the project selection for funding.

### **Sustainable development**

Sustainable Development stands for meeting the needs of present generations without jeopardising the ability of future generations to meet their own needs

– in other words, a better quality of life for everyone, now and for generations to come<sup>2</sup>. Sustainable development requires everyone to make decisions in a way that the economic, ecological and social effects of each decision are taken into account.

Often transnational projects prepare or affect important decisions in regional development. Sustainable development of the region is thus an integral part of the Programme, covered by all Programme priorities. For example, priority 1 *‘Capacity for innovation’*, among others, aims at supporting solutions to societal challenges, such as climate change, energy and resource efficiency, food supply, welfare, health and demographic change. Priority 2 *‘Efficient management of natural resources’* focusses, inter alia, on challenges related to sustainable use of natural resources, resource and energy efficiency and water protection, these also being core topics of sustainable development. Lastly, priority 3 *‘Sustainable transport’*, supporting sustainable transport, also takes into account the sustainable development of the Baltic Sea Region, for instance the specific objective on environmentally friendly shipping.

When applying for the funding under the Programme, applicants should consider the impacts of the project on economical, ecological and social aspects within the region targeted. As a general principle, applicants should strive to promote the sustainable development as far as possible both via the approach they take and the solutions and outputs they develop. Among other things this means that projects should consider environmental impacts when making decisions on investments and their location. Projects have to comply with the respective rules and regulations on the environment and sustainable development as well as make sure the selected investment does not cause any environmentally negative effects.

There are several examples about how projects can implement sustainability on the operational level. These are described in chapter C.4.1.

### **Equal opportunities and non-discrimination**

In line with EU policies the Programme promotes equal opportunities and non-discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Applicants have to consider their project impacts along these principles and follow them through in project implementation.

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<sup>2</sup> DG Environment: Sustainable development, <http://ec.europa.eu/environment/eussd/#> (viewed: 5 August 2014)

Some projects may deliver solutions that help promote equal opportunities and non-discrimination, e.g. designing transport solutions for areas that are geographically remote or have limited accessibility, providing inclusive business support addressed to groups that are at risk or are under-represented, developing innovative social services or products for elderly. In addition, projects should also apply the principle on the operational level. Namely, projects should ensure that no discriminative action is carried out within projects and vis-à-vis any third parties (e.g. contractors, suppliers, external speakers). Furthermore, when selecting service providers, suppliers or contractors projects have to ensure equal opportunities for all interested parties and avoid limiting or discriminating with requirements or selection criteria.

### Equality between men and women

In line with EU policies the Programme promotes equality between men and women. Applicants have to consider their project impacts along this principle and follow the principle through in project implementation.

Projects are expected to address the gender equality principle on the operational level. For instance, when building management and steering structures, projects should strive to ensure the equal representation of men and women, as well as equal involvement in decision making. The project should also ensure equal pay.

## B.7 Integrated territorial approach

Projects financed by the Programme should support integrated territorial development<sup>3</sup>. This means that projects should address territorial challenges, make use of territorial assets and consider relevant territorial development policies as far as possible. The Programme expects projects to seek for ways on how to exploit the specific opportunities of the regions (e.g. through smart specialisation, blue growth, energy solutions). In addition, the Programme strongly encourages projects to **apply a cross-sectorial and multi-level approach** whenever possible. In practical terms, projects should involve relevant organisations from different sectors and various administrative levels directly or in a consultative way.

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<sup>3</sup> See Article 8(3) of Regulation (EU) No 1299/2013



### B.7.1 Projects' contribution to the EUSBSR and partner countries' strategies

Common awareness about territorial challenges has been mobilised on the macro-regional level through the **EU Strategy for the Baltic Sea Region (EUSBSR)**. The Programme objectives are very much in line with the objectives of the EUSBSR. The aim is to maximise the synergies and leverage effects of the Programme on other financing sources for implementation of the EUSBSR. Therefore, applicants are encouraged to get acquainted with the action plan to the EUSBSR and consider the possible contribution of the project to a priority area or a horizontal action of the strategy. Detailed information regarding the EUSBSR can be found under <http://www.balticsea-region-strategy.eu/>.

Alongside the EUSBSR there are development strategies of the partner countries, Norway, Russia and Belarus, which address similar priorities. Applicants are also encouraged to link their projects to these strategies.

In particular, the Programme is interested in supporting **flagship projects** of the EUSBSR action plan. The coordinators of the priority areas and horizontal actions of the strategy, together with their steering groups, are responsible for the selection of flagship projects. The Programme expects applicants with a EUSBSR flagship status to submit a **letter of commitment** from the relevant **priority area coordinator** or **horizontal action leader** together with the project application. More information will be provided in the announcement notes of each call. The list of responsible PACs/HALs can be found under <http://www.balticsea-region-strategy.eu/>.

### B.7.2 Projects' contribution to cross-cutting issues

In line with the integrated approach the Programme encourages applicants to also integrate one or more of what are known as cross-cutting issues in the approach of the project. These cross cutting issues derive mainly from the horizontal actions of the EUSBSR. The issues are listed below:

- cooperation with the partner countries Belarus and Russia,
- multi-level governance,
- BSR common identity,
- spatial planning/maritime spatial planning,
- climate change adaptation and mitigation,
- adaptation to demographic change.

Note that the contribution to the cross-cutting issues is not obligatory. However, the contribution to one or several of the issues is assessed on the

basis of additional quality features of applications, which may be considered as an advantage by the Monitoring Committee when approving applications.

During implementation projects will be asked to report on how they have practically contributed to the selected cross-cutting issue(s). Projects will have to provide more details on the methods of addressing the selected issue(s), as well as name the possible outputs through which the issue(s) is (are) addressed.

## B.8 Programme implementation structure

The **Monitoring Committee (MC)** is the main decision making body of the Programme. It is composed of representatives of all eleven countries that participate in the Programme. The MC is responsible for ensuring the effectiveness and quality of the Programme as well as for selection of projects. The work of the MC is supported by the national sub-committees. The national sub-committees safeguard the information flow to regional and local authorities, economic and social partners and non-governmental organisations during the implementation of the Programme.

The **Managing Authority (MA)** is responsible for managing and implementing the Programme on behalf of the participating states in accordance with the relevant Community and national legislation. The participating countries have designated Investitionsbank Schleswig-Holstein (IB.SH) located in Kiel, Germany to fulfil this task. IB.SH, as MA, will also be responsible for carrying out the functions of the Certifying Authority.

Germany, as the Member State hosting the Managing Authority, has appointed the Ministry of Justice, Cultural and European Affairs of the state Schleswig-Holstein to act as **Audit Authority (AA)** of the Programme. The Audit Authority is responsible for verifying the effective functioning of the management and control system of the Programme. The AA is assisted by the Group of Auditors comprising one representative of each EU Member State and Norway as well as representatives of Belarus and Russia as observers.

The **Joint Secretariat (JS)** is responsible for providing all necessary information and management services to the project partners. Furthermore, the Joint Secretariat informs the wider public about the Programme. The JS also supports the MC, MA, and AA in meeting their tasks. The main office of the Joint Secretariat is located in Rostock, Germany, with a branch office located in Riga, Latvia.

## B.9 Programme language

The official language of the Programme is English. Therefore, all communication

between applicants, lead partners, project partners and the JS is carried out in English. Information in concept notes, application forms, progress reports as well as official correspondence should be treated accordingly. Although guidance on the Programme might be available in national languages, this can only be used as support when interpreting the Programme rules.

## **C Formal expectations towards project partners**

### **C.1 Eligible project partners**

The Programme sets specific requirements for project partners, project lead partners and the partnership of projects as a whole. Every organisation that takes part in a project as a lead partner or a project partner has to fulfil the requirements explained in the following chapters.

#### **C.1.1 Geographical location**

The Programme covers 11 countries, eight of them EU Member States and Norway, Belarus and Russia. The geographical coverage of the Programme is defined in Chapter B.4.

As a general rule, ERDF co-financing is only provided to project partners located in one of the Member States. However, in exceptional cases project partners located outside the Union part of the Programme area can request ERDF co-financing and join the BSR partnerships. The detailed requirements concerning this are provided under chapter C.1.4. Norwegian partners receiving Norwegian national funding, as well as partners from Belarus and Russia receiving ENI co-financing, are not affected by this exception.

#### **C.1.2 Legal entities eligible as project partners**

The following legal entities can qualify for the Programme co-financing as project partners:

- a) National (governmental), regional and local public authorities.
- b) 'Bodies governed by public law' as defined in Article 2(1) of DIRECTIVE 2014/24/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 February 2014 on public procurement and repealing DIRECTIVE 2004/18/EC (OJ L 94, 28.3.2014).

All legal entities applying for funding in category b) must fulfil criteria i) ii) and iii).

This means:

- i. Any organisation established under public or private law for the specific

- purpose of meeting needs in the general interest, not having an industrial or commercial character; and
- ii. having legal personality; and
  - iii. financed, for the most part, by the State, regional or local authorities, or by other bodies governed by public law; or subject to management supervision by those authorities or bodies; or having an administrative, managerial or supervisory board, more than half of whose members are appointed by the State, regional or local authorities, or by other bodies governed by public law.
- c) Associations formed by one or several regional or local authorities.
  - d) Associations formed by one or several bodies governed by public law as defined under b).
  - e) European Grouping of Territorial Cooperation (EGTC) as defined in the REGULATION (EU) No 1302/2013<sup>4</sup>.
  - f) Bodies established under private law, having legal personality, but not fulfilling criteria i and/or iii under category b).
  - g) European Economic Interest Grouping (EEIG) as defined in the REGULATION (EEC) No 2137/1985<sup>5</sup>.
  - h) International organisations acting under the national law of any country in the Programme area.

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<sup>4</sup> The European Grouping of Territorial Cooperation (EGTC) is a cooperation instrument at the Community level established for the creation of cooperative groups in Community territory, invested with legal personality, in order to overcome the obstacles hindering territorial cooperation. Recourse to an EGTC is optional. For more information, refer to REGULATION (EU) No 1302/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 amending Regulation (EC) No 1082/2006 on a European Grouping of territorial cooperation (EGTC) as regards the clarification, simplification and improvement of the establishment and functioning of such groupings.

<sup>5</sup> An EEIG can be formed by companies, firms or other legal entities governed by public or private law, which have their registered office in the European Union. It can also be formed by individuals carrying on an industrial, commercial, craft or agricultural activity or providing professional or other services in the EU. An EEIG must have at least two members from different Member States. For more information, refer to Council Regulation (EEC) No 2137/85 of 25 July 1985 on the European Economic Interest Grouping (EEIG).

Expenditure of legal entities belonging to the categories a) to e) is regarded as public expenditure, whereas expenditure of legal entities belonging to category f) is regarded as private expenditure. Expenditure of legal entities belonging to category g) and h) can be either public or private, depending on the law that governs the respective organisation.

**Please note**, that public and private entities, whose main scope of activities within their business profile, as well as their project role, consists of project coordination, management, communication or knowledge management, cannot be involved as eligible project partner. Compliance with this requirement will be checked during the quality assessment phase of the project.

Legal entities applying for ERDF funding, Norwegian funding or ENI funding from the Programme, are obliged to declare that they fulfil the criteria as defined in the respective category by signing a partner declaration. A model partner declaration will be prepared by the MA /JS and will be a part of the application package. The responsible authorities of the EU Member States participating in the Programme as well as Norway, Belarus and Russia will verify the accuracy of the statements before a decision of approval by the Monitoring Committee of an application is taken. In case of uncertainty about their eligibility, potential lead partners and project partners should make enquiries to Monitoring Committee members of their respective country.

“Umbrella” types of partnership structures, where one partner acts on behalf of and represents other organisations collecting funding for them are not permitted. The Managing Authority has to know which organisations receive Programme co-financing and whether they are eligible according to the Programme rules in order to ensure a functioning audit trail.

### **C.1.3 Legal entities eligible as lead partners**

Within the Programme only legal entities applying for co-financing in categories a) to e) as specified in chapter C.1.2 may act as lead partners. Other legal entities applying for funding in category f) to h) may act as project partners only.

Furthermore, lead partners must be located in the territory of a Member State in the Programme area or in Norway. Norwegian lead partners should note that they are not entitled to receive ERDF or ENI funding for their own expenditure.

## Exceptions

Legal entities located in Germany (in the sense of legal registration) but outside the Programme area, which:

- are competent in their scope of action for certain parts of the eligible area, e.g. federal ministries, federal agencies, national research bodies which are registered outside the Programme area etc.,
- fulfil the basic requirements specified in Chapters C.1.2, C.1.4, and
- carry out activities which are for the benefit of the regions in the Programme area

can become lead partners in Programme funded projects.

Legal entities located in Germany (in the sense of legal registration) but outside the Programme area can also become regular project partners in the Programme.

The exception is provided within the 20% rule (ERDF co-financing) Article 20 REGULATION (EU) No 1299/2013.

### C.1.4 Project partners outside the Programme area

Activities financed by **ERDF funds** under a given programme should, as a general rule, be located in the area covered by the European Union part of that programme. However, it may in exceptional cases be useful to implement an activity outside this area in order to ensure the maximum benefit for the programme area. In an Interreg context it might be further useful to implement a group of activities or parts thereof which are financed by ERDF outside the European Union part of the programme area, including on the territory of third countries, in order to be able to implement a joint operation and thus maximise the positive effects on the programme area.

Article 20 of REGULATION (EU) No 1299/2013 has been introduced to create the legal background for such exceptional situations. Thus, the Managing Authority can accept that all or part of a project is implemented outside the Union part of the Programme area and be co-financed by ERDF. The provisions of Article 20 are applicable on two levels:

- a) On the one hand, the Managing Authority can accept that a project partner receiving ERDF co-financing located on the Union territory of the Programme area spends part of its ERDF budget in a third country or

Member State not part of the Programme.

- b) On the other hand, the Managing Authority can accept that a group of activities are implemented by an organisation located in a third country or Member State not part of the Programme area and provide ERDF co-financing for the respective organisation.

The chapter below explains the requirements for option b). The rules regarding option a) are addressed in detail under Chapter F.4.

Besides the specific rules provided below, organisations interested in becoming project partners in the Programme also need to comply with the legal requirements set under chapter C.1.2.

The maximum ERDF co-financing rate that organisations from third countries or Member states outside the Programme area can receive is 75%.

Norwegian, Russian and Belarussian organisations are not subject to this rule as they are receiving Norwegian national and ENI funding respectively.

#### **How can an organisation from outside the Union part of the Programme area become a project partner?**

Organisations outside the Union part of the Programme area can become project partners only in duly justified cases. This means that their participation needs to bring added value and expertise to the implementation of a project, and has to be to the benefit of the Baltic Sea Region.

***Example:** a Belgian institution located in Brussels has a specific expertise in a topic highly relevant for a BSR project. As the use of this expertise would be beneficial for the Baltic Sea Region the lead partner of the respective project could invite the institution to take part in the project and to cooperate and exchange on the topic. Equally, it could become relevant to include a partner located in a third country to share experience and cooperate on a relevant issue. In such situations Article 20 offers a possibility for the involved organisations to receive ERDF co-financing provided that some specific conditions are met.*

If the above explained general requirements are fulfilled, potential project partners have to apply the following procedures in coordination with the lead partners of their project as well as the MA/JS.



### Application phase

At the application phase organisations located in third countries or in Member States outside the Union part of the Programme area are requested to present a partner declaration. This has to state the legal status, ERDF co-financing and the own contribution to the partner budget as well as responsibilities of the project partner. At the stage of application this document will provide sufficient proof of the legal status of a project partner. However, after the submission of the application by the lead partner organisations located in third countries or in Member States outside the Union part of the Programme area have to contact their responsible national authorities and obtain the official confirmation of the eligibility of their legal status. This should be done as soon as possible since the document has to be presented before the MC decision of the respective call. This procedure will be carried out by the potential project partner with the support of the MA/JS.

**Condition:** The confirmation of the eligibility of the legal status of the respective organisation has to be submitted, at the latest, the day before the decision making (MC meeting) of the respective call for applications. The time period between the submission of an application and the MC decision making is approximately 4-5 months.

If the eligibility confirmation by the responsible country is not provided to the MA/JS by the fixed deadline, the partner concerned will be excluded from the project and the subsidy contract will be signed without its participation.

### Implementation phase

After receipt of the confirmation of technical eligibility and the approval of the project by the MC, the MA/JS will contact the country where the project partner is located to receive a signed agreement on the management, control and audit responsibilities. This agreement will be similar to the one signed by all the other participating countries in the Programme. It will outline the FLC system, SLA responsibilities as well as the liability in case of any irregularities. The signed agreement has to be obtained, at the latest, by the submission deadline of the first progress report. The time period between approval and the submission of the first progress report is approximately 12 months.

**Condition:** In case the responsible national institution does not provide the signed agreement and requested information by the set deadline, the partner organisation concerned will automatically be excluded from the project. Should such a situation occur, the lead partner has to initiate a change procedure for the exclusion of the said partner organisation. The procedure for such project

changes is described in detail in Chapter G.4.

In order to facilitate and support the implementation of the procedure, the project partner should remain in regular contact with the MA/JS as the latter can offer assistance throughout the whole process.

**Please note,** organisations located in Germany (in the sense of legal registration) but outside the Programme area will be treated as having the second condition (regarding the signed agreement on the management, control and audit system) automatically fulfilled due to Germany being a Programme country.

## C.2 Lead partner principle

The Programme is based on the lead partner principle<sup>6</sup>. This means that each project should appoint one organisation as a lead partner. This organisation will be responsible for a number of tasks as detailed below. The lead partner organisation will follow the legal requirements set out in Chapter C.1.

### C.2.1 Main responsibilities of the lead partner

The lead partner, in cooperation with the project partners, is responsible for the drafting of the project application. Furthermore, it is the lead partner's responsibility to submit the application to the MA/JS.

After approval of a project the lead partner will sign a subsidy contract with the MA and launch the project implementation. During the implementation phase, the main task of the lead partner is the coordination of the project with sound financial and project management. In addition, the lead partner should maintain a dynamic communication process among the partnership and make sure that there is enough exchange of information that enables the successful delivery of the outputs. Besides these, there are a number of other responsibilities and tasks that a lead partner should carry out. These are regulated in the subsidy contract and detailed below.

The main responsibilities of the lead partner include:

1. Laying down the arrangements with all other partners in a written agreement (i.e. partnership agreement) including provisions that, inter alia,

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<sup>6</sup> See REGULATION (EC) No 1299/2013 Art. 13

guarantee the sound financial management<sup>7</sup> of the funds allocated to the project, and the arrangements for recovering amounts unduly paid<sup>8</sup>.

2. Assuming responsibility for and ensuring the implementation of the entire project<sup>9</sup>. This includes:

- signing and submitting the application form to the Joint Secretariat;
- signing the subsidy contract with the Managing Authority;
- developing and maintaining an efficient and reliable project implementation system (strategic, operational and financial management), e.g. securing efficient use of the project's resources;
- co-ordination of activities (division of budget and tasks) among the involved partners and ensuring that these tasks are subsequently fulfilled;
- delivering the programme related information to the project partners (e.g. information received during lead partner or financial seminars etc.);
- representing the project – the lead partner serves as a contact point to the Joint Secretariat – and ensuring continuous communication between the Programme authorities and the project partnership;
- Making sure that the planned progress on the project is achieved, in particular the delivery of outputs described in the approved application form;
- Making sure that the expenditure stated by all project partners has been incurred by implementing the project and corresponds to the activities agreed between all the project partners.

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<sup>7</sup> The principle of sound financial management is defined in chapter 7 of REGULATION (EU, Euratom) No 966/2012. This regulation states that the budget shall be spent “in accordance with the principles of economy, efficiency and effectiveness. The principle of economy requires that the resources used by the institution for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency is concerned with the best relationship between resources employed and results achieved. The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.”

<sup>8</sup> REGULATION (EU) No 1299/2013 Art 13.2 (a)

<sup>9</sup> REGULATION (EU) No 1299/2013 Art 13.2 (b)

3. The lead partner ensuring that the expenditure which was presented by the partners and submitted to the MA/JS is in accordance with the requirements<sup>10</sup>. This includes:
  - following the visibility rules about the assistance received from the European Union;
  - reporting on the activity and the financial related progress to the Joint Secretariat;
  - monitoring the project spending plan against the total project budget and each partner's budget;
  - ensuring that the expenditure presented by other project partners has been verified and certified by a controller or controllers;<sup>11</sup>
  - Making available all documentary evidence required for first level control and payments and ensuring efficient cooperation between the first level controllers and the lead partner/project partners.
4. After receiving the payment from the Programme the lead partner being responsible for internal allocation and further disbursement of grants to project partners. This should be done without delay and as quickly as possible. No amount will be deducted or withheld and no specific charge or other charge with equivalent effect will be levied.
5. Keeping available all documents related to the project (e.g. progress reports etc.) for a period of three years from 31 December following the submission of the payment request of the MA to the European Commission including the final expenditure of the completed project. The MA will inform each lead partner individually about the exact starting date.

### **C.2.2 Main responsibilities of the project partners**

Project partners have the following obligations and tasks to fulfil:

- delivering project outputs planned in the application form and agreed in the partnership agreement;

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<sup>10</sup> REGULATION (EU) No 1299/2013 Art 13.2 (c)

<sup>11</sup> REGULATION (EU) No 1299/2013 Art 13.2 (d)

- ensuring durability of main outputs;
- assuming responsibility of any irregularity in the expenditure which it has declared;
- repaying the lead partner any amounts unduly paid in accordance with the partnership agreement signed between the lead partner and the respective project partner;
- carrying out information and communication measures for the public about the project activities according to the visibility rules laid down by the Programme and the relevant regulations; and
- Keeping available all documents related to the project for a period of three years from 31 December following the submission of the payment request of the MA to the European Commission including the final expenditure of the completed project. The MA will inform each lead partner individually about the exact starting date.

### **C.3 Financial capacity of project partners**

The Programme works with the reimbursement principle. This means that project partners have to pre-finance their project activities and will get reimbursement for the generated expenditure after submission and evaluation of regular progress reports. Progress reports are submitted twice a year. The progress report covers a six month period. Since the time frame between the occurrence and reimbursement of costs can last up to 9-10 months, project partners have to be ready to financially support the project implementation. Furthermore, taking into account that the co-financing rate of the participating countries varies between 50% and 85%, project partners have to have sufficient financial resources to provide their own financial contribution.

### **C.4 Project and financial management**

The project management includes both the coordination of activity implementation and administrative and financial management of the project and its accounts. The management of a transnational project is a challenging and time-consuming task. Therefore, project staff should have experience in the management of (international) projects, be able to handle the challenges of different languages and cultures, and should enable the partnership to work

together as a team.

Each project should appoint a person (a project coordinator) responsible for establishing and maintaining the project implementation scheme. The tasks assigned to the project coordinator include (but are not limited to):

- co-ordination of activities (division of tasks) among the involved partners and ensuring that these tasks are subsequently fulfilled;
- monitoring the progress of the project and ensuring the delivery of planned outputs;
- securing an efficient use of the project's resources;
- being a contact point for the project;
- ensuring proper information flow – continuous communication between the Programme (MA/JS) and the project partnership as well as between the project partners; and
- preparation and submission of the progress report (including financial and activity report) to the Joint Secretariat.

The project coordinator should have a sound knowledge of the issues addressed by the project and be able to work as a driving force for the partnership and the people around it in order to achieve the project objectives set out in the application form.

#### **C.4.1 Sustainability of projects on operational level**

A more sustainable Europe is an overarching goal of the European Union and of the Programme<sup>12</sup>. By now, many services are available in more environmentally friendly ways, under more socially acceptable conditions, and very often at the same price as conventional services. Today, all European citizens have a choice – both in private and professional life.

For the operational level of projects, the Programme encourages all project partners to carefully make their choices in everyday work life – be it in buying office equipment or supplies, planning of meetings and business trips,

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<sup>12</sup> Review of the EU Sustainable Development Strategy (EU SDS) Renewed Strategy (Council of the European Union, 10917/06)

preparing of printed publications and marketing material, contracting external service providers at fair conditions or other activities.

### How to meet with a small CO<sub>2</sub> footprint

Meeting people, talking to each other, and seeing how others work in their surroundings is at the heart of cooperation across borders. Yet travelling, in particular flying, has an evident environmental impact: a substantial carbon footprint. Therefore, it is important to consider the following options when arranging a meeting:

1. **Avoid:** Is it necessary to meet face-to-face or will an online meeting suffice?
2. **Reduce the carbon footprint:** Can different meetings be combined in one place? Is the location well-accessible for participants without using a plane and/or car? Is travel without plane/car possible and realistic?
3. **Carbon offsetting:** Can the project partners compensate their CO<sub>2</sub> emissions from travelling by saving CO<sub>2</sub> emissions elsewhere?

Many projects already use online tools for smaller meetings to replace face-to-face meetings. Several services are free of charge or not very costly, e.g. by supporting climate change mitigation projects.

Moreover, many institutions have business arrangements for compensation of CO<sub>2</sub> emissions.

**Please note** costs for compensation of CO<sub>2</sub> emissions are not eligible for co-financing from the Programme. However, project partners should verify if CO<sub>2</sub> emissions caused by their project activities can be compensated by the institution or company instead.

Rethinking meeting habits could not only help to minimise environmental impacts, but, at the same time, it could lower the travel burden of employees and thus save money.

### How to buy green

Numerous information sources are available to help people make the right choices in everyday office life. The following links cover a small spectrum of ideas of how to buy and publically tender more green:

- **Green public procurement website** (*European Commission*): useful links, publications and reliable sources

[http://ec.europa.eu/environment/gpp/faq\\_en.htm#general1](http://ec.europa.eu/environment/gpp/faq_en.htm#general1)

- **Green Procurement Guide** (*Baltic GPP project*): a web training  
<http://www.balticgpp.eu/the-green-procurement-guide/EN/index.html>
- **Handbook on green public procurement** (*European Commission*)  
<http://ec.europa.eu/environment/gpp/pdf/handbook.pdf>
- **Public procurement for a better environment** (*Communication of the European Commission*):  
<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008DC0400&from=EN>
- **Green IT** (*German Federal Environment Agency*): Recommendations for environmentally friendly procurement of notebooks  
(<http://www.umweltbundesamt.de/publikationen/recommendations-for-the-environmentally-friendly-0>)
- **Green conferencing** (*German Federal Environment Agency*): Guidelines for sustainable organisation of events  
(<http://www.umweltbundesamt.de/publikationen/guidelines-for-sustainable-organisation-of-events>)

**Please note:** be aware that whenever you analyse an option for green procurement this must be in line with the procurement procedures applicable in the Programme and cannot overrule them.

### Every choice counts

Europe still has a long way to go in order to become truly sustainable. Yet with every choice we make – be it a part of a project activity or elsewhere – we can demonstrate to others that we care. Choosing the sustainable way means taking responsibility – and this responsibility is a shared one.

The MA/JS will gladly hear about your experience. In order to share good practice, additional guidelines or other information sources, project partners should mention this in their progress reports - on a voluntary basis.



## **D Project types and application procedures**

### **D.1 Regular projects**

#### **D.1.1 Objectives, results and main activities of regular projects**

##### **D.1.1.1 Programme objectives and results**

Projects are ought to contribute to the achievement of the Programme objectives and results. In the following paragraphs the structure of the Programme objectives and expected results, as well as the expected contribution of projects to these objectives is explained.

Programme specific objectives are detailed in the Cooperation Programme and chapter B.1.1 of the Programme Manual.

Chapter D applies to Priorities 1-3.

The Programme reaches its objectives and results through project achievements. Hence, projects should define their objectives and results in relation to those of the Programme.

For each specific objective the Programme has set out an expected result which the Programme seeks to achieve. The Programme aims at making an impact in the region mainly by contributing to institutional capacity building of its target groups in different thematic fields. Therefore, the Programme results are expressed as enhanced institutional capacities of the Programme's target groups.

The Programme specific objectives and results are detailed in the table below:

*Table 2: Programme specific objectives and results for priorities 1, 2 and 3*

<b>No. and title of Programme specific objective</b>	<b>Programme specific objective</b>	<b>Programme result</b>
<b>1.1 Research and innovation infrastructures</b>	To enhance market uptake of innovation based on improved capacity of research and innovation infrastructures and their users	Improved capacity of research and innovation infrastructures and their users allowing for better support market uptake of innovation

No. and title of Programme specific objective	Programme specific objective	Programme result
<b>1.2 Smart specialisation</b>	To enhance growth opportunities based on increased capacity of innovation actors to apply smart specialisation approach	Increased capacity of innovation actors (innovation intermediaries, authorities, research institutions, enterprises) to apply smart specialisation approach
<b>1.3 Non-technological innovation</b>	To advance the Baltic Sea Region performance in non-technological innovation based on increased capacity of innovation actors	Increased capacity of innovation actors (innovation intermediaries, authorities, research institutions, enterprises) to improve conditions for non-technological innovation
<b>2.1 Clear waters</b>	To increase efficiency of water management for reduced nutrient inflows and decreased discharges of hazardous substances to the Baltic Sea and the regional waters based on enhanced capacity of public and private actors dealing with water quality issues	Enhanced capacity of public authorities, public and private practitioners (from water management, agricultural, forestry, fisheries etc. sectors) for improved water management

No. and title of Programme specific objective	Programme specific objective	Programme result
<b>2.2 Renewable energy</b>	To increase production and use of sustainable renewable energy based on enhanced capacity of public and private actors involved in energy planning and supply	Enhanced capacity of public and private actors involved in energy planning and supply (public authorities, energy agencies, waste management, forestry, agricultural advisories, enterprises, NGOs) allowing for increased production and use of sustainable renewable energy
<b>2.3 Energy efficiency</b>	To increase energy efficiency based on enhanced capacity of public and private actors involved in energy planning	Enhanced capacity of public and private actors involved in energy planning (public authorities, energy agencies, enterprises, NGOs) allowing for increased energy efficiency
<b>2.4 Resource-efficient blue growth</b>	To advance sustainable and resource-efficient blue growth based on increased capacity of public authorities and practitioners within the blue economy sectors	Enhanced capacity of public authorities, enterprises and NGOs within the blue economy sectors to advance resource-efficient and sustainable blue growth

No. and title of Programme specific objective	Programme specific objective	Programme result
<b>3.1 Interoperability of transport modes</b>	To increase interoperability in transporting goods and persons in north-south and east-west connections based on increased capacity of transport actors	Increased capacity of authorities, public and private logistic and transport operators, ports, intergovernmental and research institutions for higher interoperability between transport modes and systems by sea, rail, road, inland waterways and air
<b>3.2 Accessibility of remote areas and areas affected by demographic change</b>	To improve the accessibility of the most remote areas and regions whose accessibility is affected by demographic change based on increased capacity of transport actors	Increased capacity of authorities, public and private logistic and transport operators to apply economically efficient solutions maintaining and improving accessibility of remote areas and areas where accessibility is affected by demographic changes
<b>3.3 Maritime safety</b>	To increase maritime safety and security based on advanced capacity of maritime actors	Increased capacity of maritime actors (maritime administrations, rescue services, authorities, shipping operators, ports, research and intergovernmental organisations) to work with maritime safety and security

No. and title of Programme specific objective	Programme specific objective	Programme result
<b>3.4 Environmentally friendly shipping</b>	To enhance clean shipping based on increased capacity of maritime actors	Increased capacity of maritime actors (maritime administrations, rescue services, authorities, shipping operators, ports, research and intergovernmental organisations) to reduce negative effects of shipping on the marine environment
<b>3.5 Environmentally friendly urban mobility</b>	To enhance environmentally friendly transport systems in urban areas based on increased capacity of urban transport actors	Increased capacity of authorities, ports, infrastructure providers and operators, transport users to enhance the use of environmentally friendly transport solutions in urban areas

The Programme has distinguished five dimensions of institutional capacity that projects may address. Ultimately, projects will result in increased capacity of their target groups in one or several aspects that are listed below:

1. institutionalised knowledge and competence;
2. governance structures and organisational set-up;
3. efficient use of human and technical resources (databases, technical solutions, small infrastructure etc.);
4. ability to attract new financial resources; and
5. capability to work in transnational environment.

### How to set project objectives and results

Applicants have to think in terms of a positive change that they will bring to their target groups. Therefore, the very first step is to answer a question:

The answer to this question should indicate the overall direction of a project. Once the direction of the project is known, its design can be further developed by setting objectives and identifying expected results. As the project objectives and results should be defined in relation to the Programme specific objectives and results, applicants should choose one Programme specific objective and its respective result to which their project can contribute the best.

This means, firstly, that the projects have to select one of the specific objectives of the Programme. Secondly, the projects have to identify the relevant target groups within the thematic field of the objective. Thirdly, the projects have to consider how they can contribute to one of the aspects of institutional capacity building within the identified target groups.

A graph below gives an example of how projects should define their objectives and results in relation to the Programme:

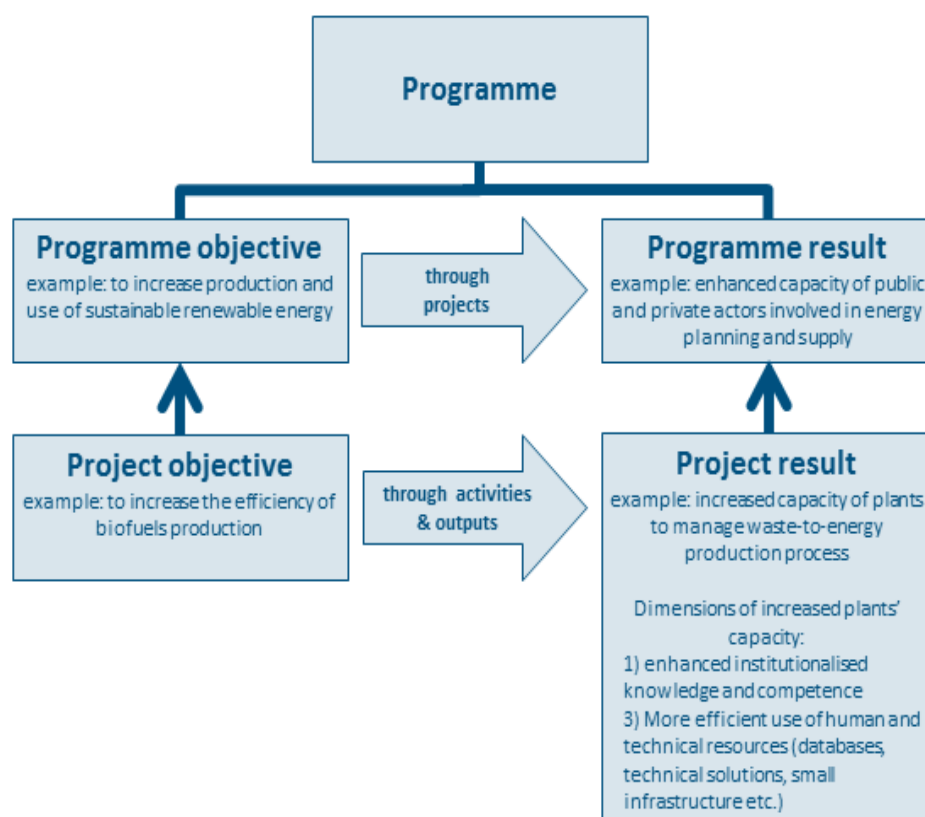


Figure 1: Relation between Programme and project results and objectives with example

The Programme objectives depict improvement of a situation, whereas the Programme results are expressed as increased institutional capacities. Consequently, on the project level an objective describes a positive change of a **situation** that the project aims to achieve, e.g. *to increase the efficiency of biofuels production*. A result indicates a change that a project brought about in terms of **increased institutional capacities**, e.g. *increased capacity of plants to manage waste-to-energy production process*. In the application form applicants should select dimensions of the project target groups' institutional capacity where there will be an improvement once the project has finished, e.g. *improved governance structures and organisational set-up*.

### Transnational cooperation and main activities

The transnational cooperation projects of the Programme are expected to be built to address challenges that cannot (sufficiently) be dealt with by single countries but require **joint action** by partners from several countries from the Baltic Sea Region. Therefore, the main project activities have to be implemented together by partners from several countries.

The following levels of cooperation help illustrate a degree of cooperation in such a project:

- 1) Meeting: Getting to know each other, learning about motivation, interests, needs, skills, and expectations, cultural and structural aspects;
- 2) Information: Delivering (targeted) exchange of information, building basic cooperation structures and trust, shaping common ideas;
- 3) Coordination/Representation: Creating a joint partnership structure, first allocation of functions and roles;
- 4) Strategy/Planning: Defining joint objectives and developing concrete actions;
- 5) Decision: Binding commitments of partners, partnership agreement; and
- 6) Implementation: Joint implementation of actions, efficient joint management, fulfilment of requirements by each partner.

The Programme expects that the majority of projects will achieve high degrees of cooperation (4-6). Lower levels of cooperation can be justified in case where no transnational cooperation has taken place around the project topic earlier on or when new partners that have not yet been involved in cooperation were

to be integrated.

Strategically, the main project activities should aim at the increase of institutional capacities of the relevant target groups. Therefore, the Programme places particular attention to the **practical implementation** of solutions to challenges in the Baltic Sea Region. This includes carrying out activities that deal with improvement, adaptation and implementation of already developed solutions. Equally, the Programme welcomes experimentation with a view to introducing new solutions. Hence the Programme provides a **test ground** on a transnational level to carry out joint pilot, test and demonstration activities.

Examples of the various types of activities that can be implemented follow below:

- joint development and implementation of strategies or action plans,
- developing and establishing cooperation models and platforms for knowledge transfer and joint management,
- mapping resources in a selected topic and developing proposals for their efficient use,
- developing and piloting training programmes,
- developing funding schemes,
- pilot investments, feasibility studies and pre-investment planning,
- testing new solutions (e.g. technologies) and promoting their application.

### D.1.2 Work plan

In the application form a project work plan is to be organised in up to five work packages. Each work package is composed of groups of activities. The groups of activities lead to outputs, and depict the main processes that need to be implemented in order to achieve the outputs.

The graph below illustrates the interconnection between the group of activities and outputs:



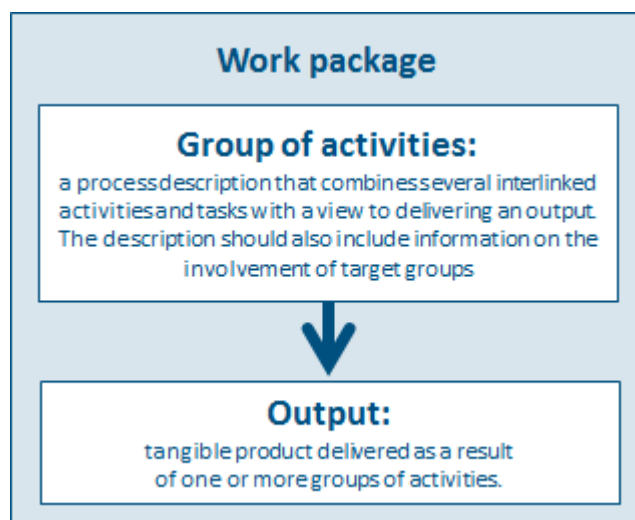


Figure 2: Content of a work package: interconnection between group of activities and outputs

It is recommended to carefully select the content and the number of work packages. Applicants should keep each work package focused and devote it to groups of activities that are related in nature (e.g., research, piloting) or theme (e.g., optimising value-chains, improvement of quality assurance processes).

Project objectives, results and outputs have to be logically linked to the project work plan (work packages, activities, time plan). Namely, the work plan has to clearly show both how the set objectives will be reached and results achieved.

### D.1.3 Outputs of regular projects

Project results will be achieved through **main outputs**. The main outputs are understood as **tangible** ultimate products of projects that are further used by relevant target groups in the region. Therefore, good quality, relevant and properly applied and used outputs are of pivotal importance for a project to achieve its set results and to bring a **positive change** in the Baltic Sea Region (BSR). The main outputs have to incorporate transnational value either due to:

- 1) their practical use by project target groups across the countries,
- 2) or being used as a model solution that can be transferable to other locations.

Projects have to clearly define the tangible main outputs needed to reach their intended result. An output alone is not enough. Each output will contribute to the intended change only if **used properly by the relevant target groups** and in the relevant parts of the BSR. Thus, defining a main output also means defining its mode of use. Ultimately, the **durability** of the main outputs will depend on

their successful use.

The scheme below illustrates the causal sequence of steps leading to a project result:

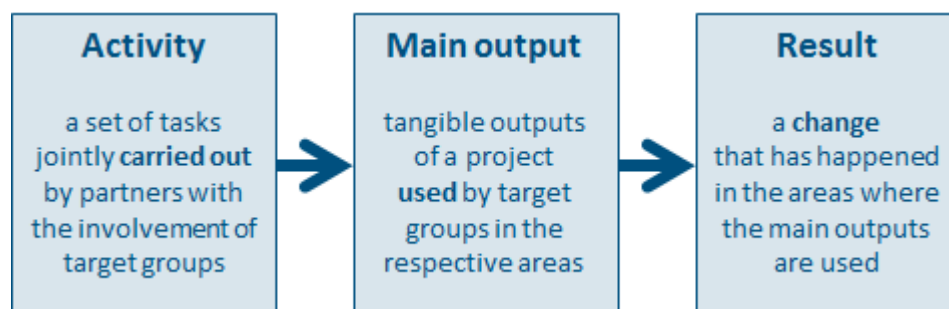


Figure 3: Work package description: causal chain from project activity to result

The main outputs may be different types of tools, methods, products or model solutions developed by a project and used as a means to achieve expected results. Some examples are detailed below:

- territorial development strategies and concepts (e.g. smart specialisation strategies, strategies for green transport corridor);
- transnational action programmes and plans;
- business/investment plans and market access strategies;
- documents for a specific investment (e.g. feasibility studies, technical concepts, environmental impact assessments, territorial impact assessments, building plans, construction design);
- investments;
- thematic expertise (e.g. economic analysis, market analysis);
- resource maps and process management plans (e.g. waste-to-energy management plans, cradle-to-cradle models, resource/energy efficiency management plans, service offers);
- management plans (e.g. crisis management, management plans for the marine environment and resources, logistics);
- ICT tools (e.g. databases, information exchange, monitoring and

- assessment systems, smartphone applications);
- branding and marketing concepts and strategies; and
- educational products (e.g. training programmes or methods, curricula).

The projects approved by the MC will have to set **quality criteria** of the main outputs within the first six months of the project implementation. These are criteria that define the content and technical specifications of the main outputs that a partnership expects to fulfil. For more information please refer to Chapter G.3.1 “Reporting on activities and outputs”.

### Intermediary outputs

Normally a project also produces outputs other than the main outputs. These outputs are of an intermediary nature, namely, they are understood as “in-between steps” that eventually will feed into a main output. To give an example, an intermediary output may be a stakeholder analysis of biomass potentials that is collected from partner countries, which eventually constitutes a basis for a main output—a roadmap of biomass use in the region.

In the application form these intermediary outputs are referred to as outputs.

### Investments

In the context of the Programme investments are possible if they help **address challenges** identified by the project. Investments should be an integral part of the project rationale and complement the rest of the activities and outputs, and ultimately lead to the achievement of the set project results. Thus, the transnational value of an investment is justified by its contribution to the achievement of project objectives and results.

An investment may either be of a **pilot** nature or be an **already existing solution** that has previously been tested outside the project. In the first case the investment most commonly would be used as a test case of new solutions and might not be intended for permanent use. Nonetheless, in both cases the development and evaluation of the investment has to be carried out through joint transnational work.

There are various types of challenges that can be addressed by investments. Some examples of investments are as follows:

- ICT solutions (hardware and software) to improve performance of a

transnational network of SMEs, and research and innovation infrastructures;

- infrastructure and technical investments in ports, railway routes and road junctions improving the operability and interoperability of a transnational transport corridor;
- technical equipment enhancing effectiveness of actions in case of marine accidents in the Baltic Sea;
- technical infrastructure to improve urban energy efficiency;
- new and broadly applicable technologies for SMEs to boost their innovation capacity;
- ICT solutions unlocking accessibility of peripheral areas;
- technical equipment of ships to reduce exhaust gases;
- water treatment facilities reducing land-based marine pollution;
- technical solutions for efficient production and use of bio-mass;
- technical solutions for energy saving in buildings; and
- technical solutions increasing the share of environmentally friendly public transportation.

In the application form investments are considered as main outputs. Therefore, in the work plan applicants have to list the activities leading to investments. Their intended use by the target groups has to be described as it is done for any other main output.

From the financial point of view expenditure related to an investment might belong to budget lines 4, 5 and 6. This means that the relevant costs need to be planned within one of the specified budget lines and be highlighted accordingly. During the reporting the same principle should be followed and investment related expenditure should be highlighted in the progress reports. When it comes to specific rules on eligibility, these are explained in Chapter F.3 of the Manual. Project partners planning to deliver investment outputs should consult the relevant information in the Manual and with the JS, if necessary, to avoid planning and paying for ineligible expenditure.

#### D.1.4 Output indicators

The Programme achievements will be measured by result indicators in terms of increased institutional capacities of the Programme's target groups, as well as by output indicators quantifying products of the projects and relevant target groups. The information about the output indicators will be collected directly from the projects.

The Programme output indicators are listed below. Projects are asked to consider their contribution to all indicators. Nevertheless, the Programme requires that all applicants select the output indicator "No. of documented learning experiences".

Table 3: Output indicators and their respective priorities

Output indicator
No. of documented learning experiences
No. of documented newly developed market products and services
No. of enterprises cooperating with research institutions
Amount of private investments matching public support in innovation or R&D projects
No. of SMEs receiving support (from ERDF)
No. of enterprises receiving non-financial support
Amount of documented planned investments to be realised with other than the Programme funding
No. of local/regional public authorities/institutions involved
No. of national public authorities/institutions involved

#### What is a 'documented learning experience'?

The Programme's expected result of increased institutional capacities of target groups means that there has been a process of generating new knowledge. The way in which the indicator is formulated, the '**learning experience**' stands for a process of acquiring institutional knowledge in the transnational context through joint testing, piloting or any other type of demonstration activities related to newly developed, transferred or adapted services, products,

structures, processes or strategic documents. Whereas **‘documented’** means that documental proofs that such a learning process has occurred have to be in place and available to any interested party. These documents may be strategy documents, products, reports, etc.

In the application form applicants have to describe their planned learning experiences in a similar way to the example below. A maximum of three learning experiences can be defined by the project.

**Example:**

*The project partnership will involve municipal residents (end-users), hospitals and non-profit organisations in the planning of home-based assistance services for elderly. This will be done by jointly combining experiences from countries which the partnership represents with a view to renewing public services and exploiting possibilities for public-private partnerships. In the course of the project implementation partners will test the viability of developed services.*

*The process represents the ‘learning experience’ aspect, while the services and their evaluation constitute documented proofs.*

### D.1.5 Communication in projects

Targeted communication will help projects to achieve aims and ensure transparency of the use of the EU funds. Communication activities are an important and integral part of the project implementation, and thus require thorough planning as well as adequate resources.

#### D.1.5.1 Communication as an integral part of the project

Already at the project application stage, projects are expected to demonstrate how communication will help to implement the project successfully. In work package 1 (project management and administration) project communication measures have to be described, whereas for the thematic work packages the applicants have to describe how the communication will contribute to achieving the work package aims.

The **communication elements** to be defined in the application form are as follows:

- the communication aims: what do you want to achieve with the communication?
- the main target groups: whom do you have to target with

communication activities in order to achieve the aims?

- the approach: how will you interact with the target groups in order to achieve the aims?

The applicants have to reflect the strategic approach to communication in relation to the activities, outputs and division of partner responsibilities for each thematic work package.

#### **D.1.5.2 Responsibilities and resources**

Each project partner has to plan enough staff and resources for the implementation of the communication activities. It is recommended that each project partner appoints one person responsible for communication. The lead partner should appoint a communication manager responsible for planning and coordination of communication measures for the whole project.

The **responsibilities of the communication manager** may cover:

- setting communication aims for the work packages and ensuring consistency of the aims, target groups and approach;
- drafting a communication plan (voluntary output);
- support in planning and implementation of the communication between project partners;
- coordination and support of persons responsible for communication in partner organisations;
- cooperation with MA/JS on communication issues.

#### **D.1.5.3 Project and Programme communication**

Project communication contributes to the Programme Communication Strategy<sup>13</sup>. In particular, project communication has to aim at making thematic experts, decision makers and other target groups in the region aware of the project results and achievements. The success of project communication depends on establishing and developing continuous relations with the key target groups throughout and even beyond the project lifetime.

The success of Programme communication depends on good project results and good cooperation between the projects and the Managing Authority/Joint Secretariat (MA/JS). JS will be in contact with the appointed communication

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<sup>13</sup> Programme Communication Strategy, link to page will be added later

manager regularly. The JS will provide communication training, templates and technical tools to projects as support for project communication. In return, the JS expects the projects to deliver content for communication activities at the Programme level, e.g. content for the Programme website, recommendations for interview partners, high quality photos with public copyright licence, information about upcoming key events or contributions to events, or online and print publications.

Content-wise, projects have to concentrate on communicating thematic issues and solutions developed by project partners. Branding of the project is of a lower importance, as experience shows that project brands are of a short duration. Projects may develop brands for their products or solutions, when it is absolutely necessary to achieve the project aim.

#### **D.1.6 Composition of regular project partnerships**

Each project has to involve at least three project partners from three different countries of the programme area: a lead partner and at least two project partners. Lead partners must be located in the territory of a Member State in the Programme area or in Norway. At least one of the partners has to be located in the territory of an EU member state in the Programme area. An organisation can only be considered as a project partner if it has a clearly defined role in the partnership and a budget (co-financing from Programme funds and own financial contribution). The same minimum requirements for the composition of the partnership have to be followed in both step 1 and step 2.

Depending on the character of the project, the number of partners may vary considerably. The project consortium should be set up in a strategic manner and well adapted to its purpose. Too small of a partnership may be lacking necessary organisations needed for project implementation. On the other hand, too large a partnership might cause significant organisational, communication and coordination problems and thus be cost inefficient. Keeping this in mind, applicants should always reflect on the optimal number and the role of partners to be involved. Note that all partners need to have a clear role in the project, and that no partner having only a single project management task should be included. In addition, partner organisations should possess sufficient financial, technical and human resources to implement project activities. The maximum number of project partners is 35. However, in order to keep the projects and partnerships manageable it is strongly recommended to limit the number of organisations involved in the project



consortia.

So as to apply an integrated territorial approach the project partnership should not consist only of organisations from one sector, but include relevant organisations from other sectors necessary for the project. In addition, when building the partnership a **multi-level governance** principle should be followed in a manner commensurate with the project aims. To this end, the partnership should comprise various relevant administrative levels that possess the right mandate to address the challenges in question, as well as ensure the right level of collaboration between governmental and non-governmental actors. Note that apart from being involved in a project as a partner, organisations can also join the project as associated organisations, or be addressed as a target group.

Projects have to identify the right decision makers – public authorities or other political decision makers representing a certain sector or level. The involvement of the decision makers in project activities as early as possible helps strengthen the political commitment and thus make project results durable (e.g. developed strategies recognised or planned investments implemented).

Furthermore, the Programme encourages involvement of the **private-for-profit sector** (e.g. SMEs). It helps ensure that the solutions developed by the projects can also be tested in real life conditions within the project. For example, involvement of the commercial sector is of high importance when dealing with innovation, blue growth and energy topics.

Project partners should be already involved in the project drafting phase in order to incorporate ideas from all partners and to ensure high level commitment to the project. In addition, during the preparatory phase partners can test how the cooperation works before implementation of the project activities starts.

The involvement of permanent staff of the participating organisations helps the network to stay operational after closure of project activities. It also ensures that knowledge gained during the project implementation remains within the organisations.

#### D.1.6.1 Associated organisations

Associated organisations are organisations that support the project implementation but are not participating as project partners. They do not receive Programme co-financing but have to finance their activities from their own resources. The associated organisations do not take up responsibility for any major tasks of the projects, but play more instead more of a supportive

role. For example, these could be national ministries providing strategic advice or being a target group of the project.

The associated organisations may also be subcontracted by project partners to carry out parts of their activities in a project; in this case the applicable public procurement rules have to be observed. In case of subcontracting, the responsibility for implementation of the respective activity will remain with the contracting project partner.

It is recommended that associated organisations submit a letter of support together with the application form to demonstrate their commitment. There is no formal model for such letters. The letter should be in English and include a description of the organisation's role/contribution to the project and explain its particular interest/benefit. The letter of support is perceived as formal proof of involvement of an associated organisation.

#### D.1.6.2 Reserved partners

The Programme offers a possibility for project partnerships to include some organisations in the projects **later** than at the stage of application. This approach is to be used only when there is a specific task for which a specialised implementing partner is needed which could not be identified at the stage, or they cannot stay in the partnership for the entire project implementation period. Private-for-profit organisations, (notably SMEs) can particularly benefit from this approach. In most cases these tasks should be related to test or pilot activities where specific expertise, knowledge or capacity is required. The **activities** assigned to such organisations, however, have to be clearly described in the application form.

The costs assigned to the reserved partners for the implementation of their activities have to be included in the total budget of the project. These costs must be indicated **per budget line**, in the same way that it is done for other regular activities and partners. Consequently, the projects having reserved partners are approved with a reserved budget. Nevertheless, the budget of the reserved partners should only constitute a small fraction of the total project budget, and this should be consulted on beforehand with the JS.

**Please note** that reserved partners cannot allocate any funds to Budget line 7 "Other costs (simplified cost options for specific project activities)" at the stage of application. Should the use of the budget line become necessary, a budget re-allocation can be carried out during the implementation phase when the reserved partners are included in the project.

### How to proceed?

In the application form the project partnership has to provide the following information:

- 1) the **specific activities** for which implementation the reserved partners are needed;
- 2) the implementation **time** of the activities;
- 3) the estimated **budget** to carry out the activities;
- 4) the **type** of reserved partners and the specific **capacities** they should possess in order to implement the activities;
- 5) a description of the organisations if already known, or a description of the reserved partner **search strategy**.

### Example:

*A project plans to carry out tests on innovative green solutions for renewable energy production. However, the relevant organisations (e.g. SMEs) that will implement these tests are not involved in the partnership at the stage of application. During the project implementation the partnership looks for suitable organisations and includes them to implement the defined activities.*

NOTE: These organisations participate as **regular project partners** with **own financial contribution** to the project, not as external service providers.

### Including the reserved partners and unlocking the budget

As soon as the relevant organisations are identified by the lead partner, the lead partner has to consult with the MA/JS about the new partners and submit an amended application form where the information on the new partners is provided. The reserved budget will be released upon approval by the MA/JS. In parallel, the MC will carry out an eligibility verification of the new partners.

If a project does not include the reserved partners by the time the reserved activities have to be carried out as indicated in the application form, the funds will be returned to the Programme budget.

Lead partners are expected to keep in close contact with the MA/JS regarding developments in the project implementation and keep the MA/JS informed on whether the activities assigned to the reserved partners will be implemented on time. In case of delays or non-delivery the lead partner has to mitigate any

negative impacts on the project.

### D.1.7 Duration of regular projects

The project duration consists of three phases: a contracting phase, an implementation phase and a project closure phase. The contracting phase lasts at least two months and starts on the day after the MC decision. The duration of the implementation phase may vary for each project and can last from 18 up to 36 months. The closure phases last three months (for more information on project phases consult Chapter F2).

At the end of the programming period, all projects have to be finalised in due time in order to enable the Programme closure. Therefore, the implementation of regular projects must end no later than June 2021.

### D.1.8 Application of regular projects

#### D.1.8.1 Two-step approach

The Programme allocates its funding to projects through calls for applications. The projects are selected for funding in a two-step application procedure. In the first step all lead applicants are asked to submit a concept note – outlining the project. In the second step only the lead applicants of the project proposals pre-selected in the first step are invited to submit complete project applications.

The timing and specific conditions of the calls (e.g. amount of funding dedicated to the call, thematic focus of the call) are set by the MC and announced on the Programme website in an announcement note. The website also contains basic documents needed by applicants e.g. forms, templates and guidance documents. The documents are updated for each call for applications.

The text below gives an overview of all stages of the **two-step call for applications**. Further details on these steps can be found in further chapters of the PM to which references are provided throughout the chapter.

#### Step 1: Concept note

1. **Opening of the call for applications:** The MA/JS publishes the announcement note and the concept note form on the Programme website defining specific conditions of the call for applications.
2. **Development of the concept note:** The applicants have approximately two months (from the opening of the call) to prepare their concept note. The MA/JS supports the development of the concept notes by providing

guidance and consultations.

3. **Submission of the concept note:** The applicants are asked to deliver the finalised digital and paper concept note within the deadline given in the announcement note. Together with the concept note no other supporting document can be submitted. The only exceptions are projects applying as a flagship of the Action Plan to the EUSBSR. These projects are requested to submit a letter of support that confirms their status.
4. **Admissibility check and assessment:** The MA/JS verifies the completeness of the submitted documents and performs content-wise assessment of the concept notes. The main focus of the assessment by the MA/JS is on the thematic relevance as well as on the potential of the partnership, while less attention is given to the operational aspects of the project. (see Chapter 1.8.4 and Annex I)
5. **Decision on concept notes:** The MC takes the final decision on the concept notes to be further developed into complete project proposals. The decision of the MC may contain requirements which have to be fulfilled by the applicants approved for participation in the second step. (see Chapter D.1.8.5)
6. **Information about the outcomes:** Applicants will receive approval or rejection letters informing about the MC decision. Selected applicants are invited to take part in the second step of the call for applications. The list of successful concept notes will be published on the Programme website (please check chapter D.1.10 for further details).

## Step 2: Complete project application

1. **Development of the project applications:** The selected applicants have approximately three months (from receiving information about the approval of the concept note) to prepare complete project applications. The JS provides guidance and consultations where required.
2. **Submission of the project applications:** The applicants deliver the finalised digital and paper project applications within the deadline given in the approval letter for the concept notes. At this stage the digital submission of applications is undertaken via an online system. The MA/JS administering the system provides logins and passwords after the first stage. The complete project applications consists of the application form and required attachments (partner declarations for each participating organisation) as well as non-obligatory enclosures (e.g. letters of support

from associated organisations if relevant).

3. **Admissibility check and assessment:** The MA/JS verifies the completeness of the submitted documents. This procedure is followed by content-wise assessment of the applications. At this stage the assessment also includes detailed assessment of the operational feasibility of the project. (Chapter D.1.9 and Annex II)
4. **Decision on project proposals:** The MC takes the final decision on projects selected for funding. The decision of the MC may contain requirements which have to be fulfilled during the contracting phase. (Chapter D.1.10)
5. **Information about the outcomes:** Applicants will receive approval or rejection letters informing about the MC decision. The list of successful project proposals will be published on the Programme website a day after the Monitoring Committee decision.

The following table summarises how and which documents have to be submitted in each step of the call for applications:

Table 4: Documents necessary for the relevant steps

Step 1 Concept note		
	Digital version	
Which documents?	Concept note form in a pdf format Signed and scanned Lead partner confirmation (section 7 of the concept note form) Optional: Scanned letters of commitment from relevant Priority Area Coordinator/Horizontal Action Leader	
When?	By the deadline indicated in the announcement note	
How?	application@interreg-baltic.eu	
Step 2 Complete project proposal		
	Digital version	Paper version
Which documents?	Online application form  Scanned partner declarations for all project partners (including lead applicant)  Optional: Scanned letters of	Signed application form  Other attachments are NOT to be submitted in paper form

	support from associated organisations	
When?	By the deadline indicated in the approval letter received after step 1	By the deadline indicated in the approval letter received after step 1  !!! The date on the post stamp must be that date or earlier!!!
How?	Via online submission system	Joint Secretariat IB.SH Grubenstrasse 20 18055 Rostock, Germany

#### D.1.8.2 Step 1: Concept Note

The concept note details **a concept** of a project. It is the first of two steps in a regular project application. The MA/JS and the MC use the information in the concept note to pre-assess the relevance of the project within the Programme. Thus, a high quality concept note is a prerequisite to an invitation to develop a full application.

In the concept note the applicant should present the strategic direction of the project and the intended results in relation to the selected Programme specific objective. This information should be supported by an outline of the approach and activities the project intends to take as well as a description of main outputs it intends to deliver.

Furthermore, the concept note should include information on the core partnership that has already consented to the participation in the project. Further partners can be included in the partnership at the stage of preparation of the full application. The concept note should also be used to explain what type of partners will be included in the partnership at step 2. In order to demonstrate the potential of the partnership and thus of the entire project, applicants should clearly outline the potential competences and know-how of the entire partnership including the already consented partners and the partners that are still to be included.

#### D.1.8.3 Programme's support to generation and development of the concept note

The Programme provides tools and organises events to facilitate the generation of project concept notes and to support the applicants in the project development process.

### **Feedback on project ideas and consultations**

The Joint Secretariat provides written feedback on project ideas as well as arranges consultations during events, in its offices (Rostock/Riga) and via telephone and online meetings when the call for concept notes is open. Project ideas and the state of its development should be described in a project idea form (PIF), which is the basis for discussion between the project developers and the JS. PIF is a template in pdf format that can be downloaded from the Programme website, completed and submitted to the JS before the consultation or in order to get written feedback.

### **Project idea and partner database**

The Programme employs an online platform to facilitate generation of project ideas and partner search. It provides a place for potential applicants to submit or search for project ideas and profiles of potential partners. Project ideas must be submitted to the database through a web-based tool, similar to the project idea form (PIF).

### **Project idea café**

Project idea cafés are organised in connection with Programme conferences or other Pan-Baltic events in different locations of the Baltic Sea Region. Project idea cafés offer potential applicants a possibility to discuss and share ideas with other project idea owners working on similar topics, to further develop ideas and to find partners. The cafés also provide brief information about Programme priorities and requirements for developing concept notes. The cafés may cover all priorities of the Programme or be more focused on some priorities or topics.

### **Lead applicant seminar**

The aim of the lead applicant seminar is to inform potential applicants about the Programme priorities or selected themes, requirements on developing a concept note as well as the two-step application procedure and the timeline. This event offers the possibility for potential applicants to discuss with the JS and participants what kind of project ideas can get funding. Back-to-back with the lead applicant seminar, individual consultations may be arranged with potential applicants, based on a completed project idea form.

The target group of this seminar are those who are preparing a concept note for the project in response to an open call.

Usually, one to two of such events are organised in relation to each application round. The events take place approximately two months before the deadline



for submission of concept notes for the open call. The seminar may cover all the Programme priorities or may be organised on selected topics highlighted by the Programme.

### Programme information on the website

All the Programme documents necessary for submitting a concept note are available on the Programme website upon the opening of the call.

## D.1.8.4 Assessment of concept notes

### Admissibility check

The purpose of the admissibility check is to verify that the concept note fulfils the minimum technical requirements of the Programme. The admissibility criteria are applicable to all submitted concept notes. The criteria are detailed in Table no 4.

Table 5: Admissibility criteria for step 1

No	Admissibility criteria - Step 1
1	Digital concept note (CN) sent before the deadline
2	Paper CN sent before the deadline
3	Paper CN signed by the lead applicant
4	Digital and paper CN submitted in English
5	Digital CN submitted in the Adobe Reader format
6	Digital and paper CN identical
7	CN complete
8	Minimum requirements regarding transnational approach fulfilled <sup>14</sup>
9	Legal status of the lead applicant in line with the Programme requirements <sup>15</sup>
10	Geographical eligibility of the lead applicant in line with the Programme requirements

<sup>14</sup> The partnership consists of three financially contributing project partners from three different countries, see chapter D.1.6.

<sup>15</sup> In case the legal status of the lead applicant organisation does not comply with the requirements of the Programme, the concept note would still be assessed. The MC can approve such concept notes with sufficient quality under the condition that the lead applicant will be replaced by the submission of the application form in step 2.

11	CN fits with the focus of the call ( <i>The criterion is relevant only for the thematically focused calls.</i> )
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The JS carries out the admissibility check upon submission and registration of the concept notes. As part of the admissibility check, the MC checks the compliance of the legal status of the lead applicant institutions with the Programme eligibility rules. If necessary, the MC members may request additional documents from the lead applicants.

Only the concept notes that have passed the admissibility check are subject to a further quality assessment. The concept notes that did not pass the admissibility check are informed about their inadmissibility as soon as possible. However, formal confirmation of the inadmissibility of concept notes is done by the MC at the time of the selection of the concept notes.

### Quality assessment

The purpose of the quality assessment is to provide the MC members with sufficient information on how each of the concept notes complies with the quality assessment criteria. The JS carries out the quality assessment of the concept notes according to the quality assessment criteria presented in Annex I. The quality assessment of concept notes is limited to assessing the proposal's thematic relevance to the Programme and the potential of the partnership. The analysis of the operational aspects is not carried out at this stage.

In order to ensure equal treatment of all the concept notes, the quality assessment is carried out on the basis of the information provided in the concept note. No additional clarification will be requested during the quality assessment process.

The assessment outcomes are presented to the MC in assessment sheets. A score is given for each assessment category depending on how well the concept note fulfils the criterion: 1 - insufficient; 2 - sufficient; 3 - good. The explanation of the scores is given below:

- **3 (good)** - the concept note fulfils the given criterion well and the provided information is sufficient, clear and coherent for assessing the criterion;
- **2 (sufficient)** - the concept note fulfils the given criterion, yet the provided information contains certain shortcomings (e.g. the proposed constellation of the partnership is lacking certain expertise to address the identified challenge; a minor part of the provided information is

unclear);

- **1 (insufficient)** - the concept note does not fulfil the given criterion and/or the provided information is of low quality not allowing a proper assessment of the criterion (e.g. the concept note addresses issues that are not of the Programme's relevance as set out in the Cooperation Programme (CP); the proposed activities/outputs are out of the Programme's scope such as, for example, pure research activities or pure training activities; the information in the concept note is incomplete or unclear).

Based on the assessment, the MC takes decisions on the concept notes to be invited to step 2, to submit the full application.

#### D.1.8.5 Approval of concept note

The MC takes the final decision on the concept notes to be further developed into complete project applications. The decision of the MC may contain requirements which have to be fulfilled by the applicants approved for participation in the second step. The MC may:

1. approve a concept note;
2. approve a concept note with certain requirements, or
3. reject a concept note.

#### D.1.8.6 Step 2: Full application

Step 2 in the application procedure for regular projects is the preparation of the application form. The partnerships established at the stage of the concept note are expected to jointly develop the application form and add the missing partners. The content of the application form has to be based on the approved concept note. As a continuation of the concept note the information requested in the application form is more detailed.

In the application form applicants have to describe the **thematic relevance of the project** in detail. In practical terms, the applicants have to explain a project's contribution to the Programme results, demonstrate a project's transnational value and give information about the contribution of the projects to policies and strategies that are relevant to the Baltic Sea Region. Furthermore, applicants should provide a detailed presentation of the planned **activities** for the entire project duration, plan the **timetable** and set out the **responsibilities** of the partnership. In addition, applicants have to define

**outputs** and describe who will **use** them, how and where.

Nevertheless, in step 2 changes in the partnership, as well as in the focus of the project, might occur. These changes have to be well explained in the application form and will only be accepted if well justified. Please note, however, **no major changes** in step 2 are expected.

Once approved by the MC, the information provided in the application will be **binding**. The projects will be accountable to the Programme on delivering the outputs and reaching the results exactly specified in the application.

Info regarding online form/signature/attachments (PP declarations) is pending.

#### **D.1.8.7 Programme's support to development of applications**

The Programme organises events and provides support to applicants in preparing a project application.

##### **Project development workshop**

The aim of the project development workshop is to help applicants understand the Programme requirements and rules as well as the application procedure to prepare a complete and well-structured project application.

The target group of the project development workshop are the applicants whose concept notes were approved by the Monitoring Committee of the Programme and who are invited to submit a full application.

The workshop takes place approximately two months before the deadline for submitting the application form. Project rationale, communication, budget and finances are on the agenda. During individual project consultations at the workshop, applicants receive feedback from the JS on the concept note or the questions on developing a full application.

##### **Individual project consultations**

Apart from consultations offered during events, the JS will arrange consultations in the JS offices in Rostock or Riga and via telephone and online meetings.

##### **Programme information on the website**

All the Programme documents necessary for submitting a project application are available on the Programme website [www.interreg-baltic.eu](http://www.interreg-baltic.eu).

### **D.1.8.8 Reimbursement of preparation costs**

Regular projects approved by the MC under priorities 1-3 are entitled to receive reimbursement of their preparation costs. The reimbursement of these costs will follow the principles detailed below:

- preparation costs will be lump sum based;
- the lump sum will amount to EUR 20,000 of total eligible expenditure per project;
- the co-financing rate of the preparation costs will be 75% for all project partners regardless of their country of origin (i.e. the lump sum for total amount of preparation costs of EUR 20,000 \* 75% = EUR 15,000 of programme co-financing payable per project); and
- projects having received seed money funds (EUSBSR Seed Money Facility/Baltic Sea Region Programme (priority 4)) or any other EU funds for the preparation of the same project will not be eligible to receive reimbursement of preparation costs.

In order to apply for the reimbursement of preparation costs, the lead partner has to complete an indicative table in the application form. By doing this the project is officially notifying the JS of its request for the reimbursement of the preparation costs. The indicative table has to show the division of the lump sum on a partner level.

After the signature of the subsidy contract the lump-sum will be automatically transferred to the bank account indicated in the relevant section of the application form. It is then the lead partner responsibility to pay the agreed division to the project partners in case of approval. Any difference to the real costs is neither checked nor further monitored. Furthermore, over or under-compensation of project partners resulting from the lump sum are accepted and do not have to be balanced with real costs.

### **D.1.9 Assessment of applications**

#### **D.1.9.1 Admissibility check**

The purpose of the admissibility check is to verify that the application fulfils the minimum technical requirements of the Programme. The admissibility criteria are applicable to all submitted applications. Table 5 details the admissibility criteria for the applications submitted in step 2.

Table 6: Admissibility criteria for the step 2

No	Admissibility criteria - Step 2
1	Digital and paper application sent before the deadline
2	Paper application signed by the lead applicant
3	Digital and paper application submitted in English
4	Digital application submitted in Excel format/via online system
5	Digital and paper application identical
6	The application is complete
7	Minimum requirements regarding transnational approach met <sup>16</sup>
8	Legal status of the project partners incl. the lead applicant in line with Programme requirements
9	Geographical eligibility of lead applicant in line with the Programme requirements
10	The application fits with the focus of the call. <i>(The criterion relevant only for the thematically focused calls.)</i>
11	All partner declarations submitted and correct:
11.1	Checksum correct
11.2	Declarations duly signed

Only the applications that have passed the admissibility check are subject to a further quality assessment. The lead applicants that did not pass the admissibility check are informed about the inadmissibility as soon as possible. However, formal confirmation of the inadmissibility of the applications is done by the MC at the time of selection of the applications.

The JS carries out the admissibility check upon submission and registration of the applications. As part of the admissibility check the MC members check the compliance of the legal status of the lead applicant institutions with the Programme eligibility rules. The MC members check only those lead applicants, who were changed during the concept note stage. If necessary, the MC members may request additional documents from the lead applicants. The eligibility of the applicants from outside the Programme area (e.g. UK, NL, BE) has to be confirmed by the responsible national authority (see Chapter C.1.4).

<sup>16</sup> The partnership consists of three financially contributing project partners from three different countries, see chapter D.1.6.

In case the legal status of the lead applicant organisation does not comply with the requirements of the Programme, the application is regarded as inadmissible and will not be further assessed. In case the legal status of a project partner organisation does not comply with the formal requirements of the Programme, the respective partner will be excluded at the time of the decision making.

#### **D.1.9.2 Quality assessment**

The purpose of the quality assessment is to provide the Monitoring Committee members with sufficient information on the quality of each application. The quality assessment of applications is carried out by the Joint Secretariat according to the quality assessment criteria. The assessment criteria are presented in Annex II.

In order to ensure equal treatment of all applications, the quality assessment is carried out on the basis of the information provided in the application. No additional clarification will be requested during the assessment process.

The assessment outcomes will be submitted to the MC in the form of assessment sheets. A score is given for each category depending on how well the application fulfils the criterion: 1 - insufficient; 2 weak; 3 - sufficient; 4 - good; 5 - very good. The explanation of the scores is given below:

- **5 (very good)** - the application fulfils the given criterion to an excellent level and the provided information is sufficient, clear and coherent for assessing the criterion;
- **4 (good)** - the application fulfils well the given criterion however the provided information includes minor shortcomings (e.g. the timeline provides little space for unexpected delays, details are missing in the given information in minor parts of the application);
- **3 (sufficient)** - the application fulfils the given criterion to a sufficient level; however some aspects of the given criterion have not been met fully or not explained in full clarity or detail (e.g. the proposed constellation of partnership lacks certain expertise to address the identified challenge; the implementation steps are not fully clear based on the description in the work plan);
- **2 (weak)** - the application has serious shortcomings in fulfilling the given criterion and/or the provided information is of low quality; (e.g. the transnational relevance of the project is not clearly justified; the main outputs are not clearly described; the target groups of main outputs are not described); and

- **1 (insufficient)** - the application does not fulfil the given criterion/or information required is missing (e.g. the application addresses issues that are not of relevance to the Programme as set out in the CP; the information in the application form is not complete or is unclear).

### Additional quality criteria for the step 2

Besides the quality assessment criteria detailed above and in Annex II, additional quality criteria will be assessed. Additional quality criteria will provide further information to the MC on how the projects contribute to a number of cross-cutting issues as part of the integrated approach of the Programme. Fulfilment of these criteria is not obligatory for the projects. It may, however, positively influence the approval decision for the project.

Table 7: Additional quality features

No	Does the project clearly contribute to any of the following cross cutting issues?
1	Cooperation with the partner countries (Belarus, Russia)
2	Multi-level governance
3	Baltic Sea Region common identity
4	Spatial planning/maritime spatial planning
5	Climate change adaptation and mitigation
6	Adaptation to demographic change

#### D.1.10 Approval of applications

Members of the Monitoring Committee carry out the strategic assessment of submitted applications which is followed by the funding decisions. The strategic assessment is based on the results of the quality assessment. In addition, the analysis of the existing portfolio of approved projects, the availability of funds under each priority and the fulfilment of Programme indicators are also taken into account. Furthermore, the MC will take into consideration the project's compliance with national and pan-Baltic policy priorities.

At the time of approval the MC may include in its decision certain requirements which should be addressed by the applicant during the contracting phase or together with the first project progress report.



The MC has three options in decision-making:

1. to approve the project application;
2. to approve the project application with certain requirements, or
3. to reject the project application.

## D.2 Extension stage projects

### D.2.1 Objectives and main activities of extension stage projects

#### Objectives of extension stage projects

The **extension stage** is an instrument of the Programme to flexibly support successful regular projects in the capitalisation of their earlier results and partnerships. It is open to all regular projects. Via the extension stage regular projects may reach higher maturity and a better use of their outcomes. This in turn should ensure a higher impact of the Programme on the Baltic Sea Region.

This extension stage should be used to verify regular project results in practical application and/or to realise investments resulting from the preceding regular project. Extension stage should help to increase the quality and durability of the preceding regular projects. Moreover, it should also encourage a stronger involvement of the private-for-profit sector.

#### Main activities of extension stage projects

Extension stage projects should realise specific follow-up activities from the regular projects. These follow-up activities should be implementation focused.

NOTE: Extension stage projects **cannot be a simple prolongation** of regular project activities. An extension stage project needs to implement a solution developed during the regular project in the form of a practical application or a physical investment.

#### Examples of possible extension stage activities:

- *A regular stage project identifies shortcomings in the cooperation of national maritime safety actors of the Baltic Sea Region in case of major maritime accidents. The extension stage project uses the findings of e.g. missing standard procedures, inadequate training and unclear legislative provisions etc. and improves them or implements them together with relevant target groups e.g. rescue workers.*
- *A regular project evaluates innovative aquaculture technologies within the Baltic Sea Region and identifies administrative obstacles to large*

*scale nutrient neutral aquaculture production. The extension stage project continues to overcome the administrative obstacles and implements a pilot aquaculture production facility. It involves the public and private sector and uses the earlier identified latest technology.*

## D.2.2 Outputs of extension stage projects

### Programme expectations on practical application of developed solutions

Regular project outputs might reach higher maturity when a practical application is being implemented in the extension stage. Such a **practical application of a solution developed in the regular project** would justify an extension stage project. Its implementation for target groups and the evaluation of its success could be at the core of an extension stage project.

**Please note:** A prerequisite for a successful extension stage project is the **unique character of the piloted solution**. This means the solution cannot be based on the mere replication of existing solutions.

### Examples of possible practical applications in extension stage projects:

- *The regular project analysed deficits of the national labour markets in the Baltic Sea Region and found that in many countries older workers are not sufficiently appreciated by their employers and existing human resource management schemes. The regular project developed human resource management schemes that better addressed the older workforce. During the extension stage project the new human resource management scheme is piloted in several selected enterprises throughout the Baltic Sea Region. Results of the implementation are jointly monitored and evaluated.*
- *The regular project analysed the quality and quantity of logistic services in the Baltic Sea Region. It concluded that the logistic market is not transparent enough for small scale and last minute transportation of goods. Therefore, it suggested new and more open transport offers and required coordination. The extension stage project introduced a pilot application of the solution to open up existing transport broker systems to small transport operators as well as to individual actors who might request transport services or offer them.*

### Programme expectations on investments

A successful extension stage project would base its investment on joint evaluation and planning activities from the regular project. Extension stage projects may be centred on an investment as its main output.

The preparatory activities for an investment during the extension stage should have a transnational character. The physical investment should either demonstrate a transnational dimension or should otherwise be of transnational added value.

The Programme does not formulate any limits on the minimum or maximum financial volume of an investment. However, expensive investments such as the building of transport infrastructure cannot be financed by the Programme due to its limited resources.

#### Examples of possible investments in extension stage projects:

- *The regular project analysed deficiencies in the treatment of waste water and found polluting substances from waste water facilities in various countries of the same sea basin. The extension stage project built on the earlier identified shortcomings and invested in waste water quality monitoring equipment in selected treatment facilities with the aim of further promoting their installation from private and public funds in other facilities of the concerned countries.*
- *During the regular project a novel traffic monitoring prototype was developed and first test runs were have been completed successfully aboard a vessel. During the extension stage project multiple ships from various Baltic countries were equipped with the system to broadly demonstrate the added value of the innovation.*

### D.2.3 Composition of extension stage project partnership

It is expected that extension stage activities are a practical implementation of regular project outputs and results. For this reason, the partnership composition of an extension stage project should be based on the core partnership of the main stage project. This means, at least three financially contributing partner organisations from the regular project coming from three different countries in the Programme area. Of these, at least two need to represent an EU Member State. New partners, relevant for the implementation of the planned extension stage activities, may join the new project partnership.

An expectation of the partnership of extension stage projects is their specific **involvement of private partners in the pilot activities and investments**.

#### D.2.4 Duration of extension stage projects

The duration of extension stage projects is divided into similar phases as those of regular projects. It consists of a contracting phase, implementation phase and closure phase. The contracting phase lasts two months, while the closure phase would normally be expected to last three months. In combining these three phases an extension stage project may **last up to 24 months**.

#### D.2.5 Budget and eligibility of costs

Extension stage budgets and eligibility of costs must follow the same rules as regular projects. However, any costs of the extension stage projects are **not eligible** as long as the main stage project is still in its implementation phase. Further, extension stage projects **cannot claim reimbursement** costs for project preparation.

#### D.2.6 Application, assessment and approval of extension stage projects

A **call for extension** stage projects would usually be announced when the regular projects are about to finalise their implementation phase.

Extension stage applicants will be asked to submit their **application** in a one-step procedure (corresponding to the second step of an application for regular projects) to the Joint Secretariat. This application will be considered as a follow up of the regular project. Consequently, there is no need to repeat information about, for example, the thematic relevance and policy background.

The JS will actively promote the possibility of applying for extension stage projects after the regular projects had sufficient time to establish their working structures and deliver their first results. The JS would support the development of the extension stage projects by providing written feedback to extension stage ideas as well as arranging individual consultations in Rostock and Riga via telephone and online meetings. The JS might offer further support during dedicated information events.

The **assessment criteria** and the assessment procedure of extension stage applications is the same as for regular projects (See Chapter D.1.9 and Annex II).

During the assessment **particular attention** will be paid to the links between the regular project and the extension stage project.

1. The extension stage project should be based on a **successful regular**

project.

2. The extension stage project should be a **practical implementation** of regular project outputs and results.
3. The partnership of the extension stage project should be **based on the regular project's partnership**.

The **approval process** for extension stage projects is the same as during the second step application for regular projects (see Chapter D.1.10). The JS and the MC will try to be timely in **announcing** the approval of extension stage projects. Ideally, this would be still **before the end of the regular project implementation** phase of the majority of projects in a given call. This would help to maintain the regular project's partnerships, staff competences and the overall momentum of the projects' implementation.

As most regular projects are assumed to have an implementation time of 36 months the timeline of the extension stage calls and approvals will be accordingly adapted. In consequence, there would be a **gap between the implementation periods of regular projects shorter than 36 months** and their extension stages.

### D.3 Cluster projects

#### D.3.1 Objectives and main activities of project clusters

The clustering instrument is an instrument of the Programme supporting further use of regular project outcomes and increasing their visibility. It is mainly addressed to ongoing regular projects of the Programme. That is why the following chapter of the Programme Manual is largely dedicated to partners of these projects. The chapter explains how to establish a cluster project.

In this context **the cluster project (or cluster)** is understood as a grouping of different Programme projects cooperating with other actors in the Baltic Sea Region in one thematic field and by so doing it jointly capitalises knowledge and communicates the results of that process.

The clustering instrument enables joint activities of project partners representing different projects working in closely related thematic areas within the Programme. The instrument reflects the Programme's ambition to contribute to capacity building in the region and therefore the cluster projects are expected to:

1. Deepen the knowledge basis and help avoid duplication of efforts

- among regular projects;
- 2. Support strategic communication of the regular projects and the Programme in its major thematic fields; and
- 3. Ensure better usage, durability and transferability of the individual project outcomes.

The cluster partnerships are free to choose their own working methods and include in their work plans any activities contributing to the above specified aims of the clustering instrument.

The list below gives examples of possible cluster activities:

1. Systematic planning and realisation of information flows among the partners of different projects (e.g. through regular workshops, working groups, virtual platforms etc.) and, whenever relevant, feeding the results of that process into implementation of single projects;
2. Continuous mapping of the situation/resources in the field addressed by the cluster (special attention will be paid to the outcomes of other cross-border and relevant transnational projects as well as activities of the stakeholders of the EUSBSR);
3. Establishing task-oriented networks of stakeholders to solve particular challenges defined in the cluster field;
4. Synthesising of the project outcomes and their further promotion towards end-users and decision-makers;
5. Complementing the Programme's effort of collecting information about the project achievements and their best practice (e.g. concerning innovative approaches applied by the projects; supporting private partner involvement);
6. Exchanging of approaches in communication/stakeholder involvement among clustered projects;
7. Piloting of the alignment of funding principle (e.g. joint development of applications and bankable concepts for further implementation of the project outcomes);
8. Providing inputs to the Programme events and other communication as well as organising own events targeted at the external audience (e.g. thematic conferences/workshops presenting the Programme achievements).

### D.3.2 Outputs of cluster projects

Clusters are expected to be more process-oriented than the regular projects. However, they should also bring tangible outcomes, especially in terms of perception change, improved communication tools and standardisation of approaches and tools based on best practices. In order to achieve this, the cluster projects should deliver outputs such as:

1. Policy papers or studies on the state of play and needs in the specific thematic field of the cluster;
2. Agreements on joint standards in the specific thematic field;
3. Collection of best approaches to reaching end users of the project outcomes and their pilot implementation;
4. Joint analysis of further potential financing sources that could be used for the implementation of clustered project outcomes;
5. Political statements endorsed as a result of strategic processes with participation of high level officials;
6. Models demonstrating practical approaches to the alignment of funding; and
7. Task-oriented networks established to address particular challenges.

### D.3.3 Composition of cluster project partnership

#### Minimum requirements

Each cluster project has to follow the same principles for composition of the partnership as the regular projects (see Chapter D.1.6). An additional requirement is that the partners have to represent at least three different projects financed by the Programme.

#### Composition of the partnership

The cluster is led by a cluster leader. The number of partners may vary considerably between the clusters depending on the character of the cluster project. The consortia should be set up strategically. With this in mind, efforts should be made during the cluster development phase to involve partners who demonstrate good knowledge of all activities and outputs of their regular projects (e.g. lead partners, WP leaders). The clusters are encouraged to combine expertise, if suitable thematically, from different priorities e.g. transport with innovation or environment. Nevertheless, the cluster partnerships have to include such a number of partners that allows efficient daily cooperation. At the same time they should be representative of the

Programme area and different regular projects involved in the cluster.

The thematic areas capitalised by the clusters can be enriched through experiences of other programmes in the region. Partners representing projects from other relevant programmes such as the South Baltic, Central Baltic, North Sea Region, Central Europe as well as Bonus Programme are invited to join the clusters. However, the cluster leadership and core partnership should be based on Interreg Baltic Sea Region projects. External organisations should clearly demonstrate the benefits of their participation for Interreg Baltic Sea Region.

Another group of stakeholders important for the success of clustering is the stakeholders involved in the governance of the EUSBSR. Furthermore, the clusters should strive to involve stakeholders from the partner countries. When establishing the cluster partnership it is important to decide which groups of stakeholders are crucial for the cluster consortium and which should be involved in the cluster activities in other ways e.g. as guests at the cluster meetings.

#### **Inclusion of new cluster partners**

The different timing of the regular calls for applications in the Programme leads to the necessity of adding further cluster partners during the implementation of cluster projects. The inclusion of new partners follows the regular procedure for project changes in the Programme. The MA/JS will initiate the procedure after each call for project applications if relevant new partners for the cluster are identified. The new partners join the cluster based on the request for a change in the cluster set-up (including a request for additional co-financing) prepared by the cluster leader. The request is evaluated by the MA/JS and approved or rejected by the MC. Where approved the new organisations officially become part of the cluster project.

#### **Role of the MA/JS**

It is envisaged that the MA/JS will act as a cluster facilitator providing support to the cluster consortia e.g. in establishing links with key stakeholders in the area. The MA/JS will also aim at keeping track of the day to day developments in the cluster projects.

### **D.3.4 Duration of cluster projects**

The cluster duration consists of three phases: a contracting phase, an implementation phase and a closure phase. The contracting phase lasts two months, while the closure phase would normally be expected to last three



months. The duration of the implementation phase may vary for each cluster and can last up to 48 months, but end no later than June 2021.

### D.3.5 Budget and eligibility of costs

There are no limits set for the minimum and maximum budget for a cluster project. The cluster projects are characterised by a stronger process-orientation. Their focus is on "soft" activities taking place in parallel to the regular projects. Therefore, the majority of the cluster funding would be required to cover the personnel costs, travel and accommodation as well as organisation of the dedicated cluster events and other communication activities.

In principle, the same eligibility rules apply to the clusters as to the regular projects. Please consult Chapter F for the detailed overview.

**Please note** however, that the costs of cluster preparation and the costs of equipment are not eligible for the cluster projects.

The table below shows an example budget for a cluster project that can be used for guidance purposes. It has been calculated for a cluster project including 10 partners planning to cooperate for a 48 month period.

Table 8: Budget example for a cluster project

Cost category	Amount in EUR	Basis for the calculation
Cluster leader (1/4 post)	80,000	1 post = EUR 80,000/year, 1/4 post x 4 years
Cluster partners (1/5 post)	576,000	1 post = EUR 80,000/year, 1/5 post x 4 years x 9 cluster partners
Travel, accommodation and daily allowances of cluster partnership	80,000	1 trip = EUR 800 2 cluster meetings x 4 years + 2 possible external meetings x 10 partners
Travel, accommodation and daily allowances of invited guests	6,400	1 trip = EUR 800 8 cluster meetings x 1 external guest
Cluster meetings	80,000	1 meeting = EUR 10,000 (incl. facilities, catering, equipment) 2 cluster meetings x 4 years
Website	20,000	Basic website and maintenance costs

		for 4 years
Printed publications	15,000	1 publication = EUR 5,000, 3 publications (initial, mid-term, final)
Other promotional materials	20,000	EUR 5,000 x 4 years
FLC	60,000	1 certificate = EUR 1,500, it is assumed in the calculation that half of the cluster partners need to cover FLC costs, depending on the chosen clustering model the FLC costs could be reduced to 0 2 progress reports x 4 years x 5 partners
Additional external services	30,000	For instance translations, external speakers, event fees, distribution of publications
SUM	967,400	

### D.3.6 Application, assessment and approval of cluster projects

The Programme allocates its funding to clusters through **calls for applications**. The clusters are selected for funding in a one-step procedure where applicants are asked to submit an application in response to the call.

The JS will actively promote the possibility to apply for clusters after the regular projects had sufficient time to establish their working structures and have delivered their first results.

The JS will take an active role in the development of the cluster projects by providing written feedback to cluster ideas as well as arranging consultations on its premises in Rostock and Riga as well as via telephone and online meetings. The JS will offer further support during information events.

The **assessment criteria** and the assessment procedure of cluster projects applications is the same as for step two of the regular projects (see Chapter 1.9 and Annex II). However, during the assessment particular attention is paid to the ability of the cluster projects to capitalise knowledge and to organise strategic communication on behalf of the regular projects. These aspects will be reviewed when evaluating the cluster project relevance, work plan and composition of the partnership. Please note that as the funding for cluster projects will be committed within priorities 1-3 of the Programme each cluster project has to clearly contribute to the Programme results in the selected

priority.

The **approval process** for cluster projects follows the same principles as the approval process of the second step in regular projects (see Chapter D.1.10).

## **E Contracting of approved applications**

The contracting phase lasts at least two months and starts at the day after the Monitoring Committee (MC) decision. In general, the length of the contracting phase is the same for all projects. Within this phase the subsidy contract is expected to be concluded. The end of the contracting phase is directly followed by the start of the implementation phase even if a subsidy contract could not be signed by this time. Projects can start their activities even before the end of the contracting phase and before receiving the signed subsidy contract as costs occurred and related to project implementation during the contracting phase are eligible. However, in such cases the open questions regarding the applications should be carefully analysed and taken into account. The implementation of project activates before the subsidy contract is signed happens on the projects own risk.

Regarding ERDF and Norwegian funds, costs are eligible the day after the project has been approved by the Monitoring Committee.

### **E.1 Clarification procedure**

After the project has been approved by the MC the contracting phase starts. During this phase clarifications to the application form are carried out. Successful completion of the clarification process is a precondition for the award of a subsidy contract.

The clarifications may be of four major types:

1. submission of missing documentation (e.g. originals of partner declarations);
2. technical clarifications to the information provided in the application form (e.g. unclear description of a particular activity, minor budget adjustments/corrections);
3. recommendations (e.g. on inclusion of a particular target group, widening the coverage of outputs);
4. conditions set by the MC (e.g. removal of a particular activity, removal of a partner, decrease of budget).

The difference between recommendations and conditions is that the latter are compulsory and must be undertaken before the signing of the subsidy contract. Recommendations are normally carried out by projects during the implementation phase. However, at the stage of the contracting, projects have to provide information to the JS as to how and to what extent the

recommendations will be addressed during the project implementation.

Please note that, as a result of clarifications, no substantial alteration of the approved projects is possible.

## **E.2 Subsidy contract**

The subsidy contract is signed between Investitionsbank Schleswig-Holstein (Managing Authority of the Programme) and the lead partner of the approved project. The contract sets out the obligations and rights of the contracting parties and constitutes the main agreement between the project and the Programme. The subsidy contract confirms the final commitment of the ERDF, Norwegian and ENI co-financing to each project and forms a legal and financial framework for the implementation of project activities.

A template of the subsidy contract for projects can be downloaded from the Programme's website.

## **F Project budget and eligibility rules**

### **F.1 Horizontal rules applicable to all budget lines and types of instruments**

The eligibility of project expenditure depends on the project phase. As a general principle costs for implementation become eligible in the contracting phase, i.e. the day following the approval decision of the MC for the particular call. After this date expenditure under all budget lines is considered eligible and can be reported accordingly. Specific rules of eligibility for particular project phases (e.g. preparation and closure) are explained under chapter D.1.8.8 and F.2.

#### **F.1.1 Legal background and hierarchy of rules**

The budget lines and related eligibility rules of the Programme are structured according to the requirements of the applicable EU regulations, in particular the Regulation (EU) No 1299/2013 and the Commission Delegated Regulation (EU) No 481/2014. This Delegated Act sets a common basis for all territorial cooperation programmes and aims to introduce simplification in the set-up and running of these programmes.

The eligibility rules presented below are applicable to all project partners under the priorities 1 -3. The specific eligibility rules of priority 4, specific objective 4.1 are explained under chapter J Seed money. The eligibility rules of Priority 4, specific objective 4.2 constitute a separate document.

The eligibility rules laid down in the Programme Manual cannot be overruled by the national or institutional legislation. Together with the Regulation (EU) No 1303/2013, Regulation (EU) No 1301/2013 and Regulation (EU), No 1299/2013 they are the primary rules of eligibility and should be applied accordingly. Only for matters of eligibility not covered by the Programme Manual and the applicable EU regulations, the relevant national rules of the Programme country in which the expenditure is incurred shall apply.<sup>17</sup>

#### **F.1.2 General principles of eligibility**

The main preconditions for eligibility of all expenditure incurred by the projects are the following:

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<sup>17</sup> See Regulation (EU) No 1299/2013, Art 18.3

- all expenditure is essential for the project's implementation and would not have been incurred if the project had not been carried out (value added);
- all expenditure must comply with the principles of efficiency, economy and effectiveness;
- expenditure must comply with the principle of real costs except specific cases such as in-kind contribution, simplified cost options and depreciation costs explained under the respective budget lines;
- all expenditure is generated and paid by the respective project partner during the eligible project phase, i.e. contracting, implementing and closure phase<sup>18</sup>;
- project partners are not allowed to contract each other to carry out project activities or any related services;
- all expenditure is supported by invoices or other equivalent accounting documents directly attributable to the project or project staff or by other documents specified under the relevant budget lines. In specific cases such as in-kind contribution or simplified cost options no proof of payment has to be provided.
- For goods, services and works, public procurement procedures set by the relevant legislation and the 'bid-at-three' rule are observed.

#### **F.1.2.1 Principles of economy, efficiency and effectiveness**

The project budget has to be used in accordance with the principles of economy, efficiency and effectiveness.<sup>19</sup>

The principle of economy concerns minimising the costs of resources. The resources used by the institution for the pursuit of its activities should be made

<sup>18</sup> Specific rules regarding the reimbursement of preparation costs are explained in Chapter D. 1.8.8

<sup>19</sup> REGULATION (EU, EURATOM) No 966/2012, Art 30

available in due time, in appropriate quantity and quality and at the best price.<sup>20</sup>

The principle of efficiency concerns getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.<sup>21</sup>

The principle of effectiveness concerns meeting the objectives and achieving the intended results.<sup>22</sup>

### F.1.2.2 Principle of real costs

The principle of real costs means that only those costs are eligible, which are **incurred** and **paid** by the project partners, accounted for and proved by delivery of works, services or supplies.

#### Ineligible costs<sup>23</sup>

The following costs are not eligible for reimbursement by the Programme under all budget lines:

- fines, financial penalties, and expenditure on legal disputes and litigation;
- costs of gifts, except those not exceeding EUR 50 per gift and when related to the project promotion, communication, publicity or information; and
- costs related to the fluctuation of foreign exchange rates.

### F.1.3 Procurement procedures

#### F.1.3.1 General provisions

Public procurement is a process used by organisations and companies receiving public funds for choosing and contracting providers of goods, services and works by ensuring transparency and equal treatment of the potential providers. Independent from their legal status, all project partners implementing projects in the framework of the Programme must **comply with the relevant public procurement** legislation. The public procurement procedures aim at a more efficient and transparent use of public funds as well as at increasing

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> Ibid

<sup>23</sup> Regulation (EU) No 481/2014 Art 2



competitiveness. The main principles to be followed when procuring goods, services or works are the principles of **transparency**, **non-discrimination** and **equal treatment**. Compliance with the procurement requirements is vital for the projects, as it ensures the eligibility of the reported costs of the particular goods, services and works.

Besides the rules detailed in the Manual, project partners are advised to become familiar with the requirements for procurement set in Directives 2014/24/EU<sup>24</sup> and 2014/25/EU<sup>25</sup> and the relevant national legislation.

### F.1.3.2 Applying the appropriate procurement rules

Choosing the appropriate procurement applicable for each individual case is based on the planned estimate of the **contract value** and the general **needs of the contractor**. The estimated value of the contract also determines the **range of the publicity required** for the respective procurement – an **EU wide tender**, a **national level tender** and/or a **smaller national/regional level tender**.

There are specific **value thresholds** set by the European Commission in DIRECTIVE 2014/24/EU Art 4 and DIRECTIVE 2014/25/EU Art 15. For the contracts where the estimated value is below the thresholds indicated in the EC regulations a corresponding procedure set in national legislation and at the Programme level (e.g. “Bid-at-three” rule) should be used.

In order to ensure an appropriate **audit trail** as well as **transparency** of the **procurement process** and **decision making** the procurement procedure has to be **thoroughly documented**. Furthermore, records of the procurement procedures carried out have to be kept at least until the deadline set by the Programme in Chapter G.5.2.

Please note: no less stringent procedure than is required by the Programme rules, EU directives or the national legislation can be applied.

Project **partners** are **not allowed to contract each other** to carry out project activities.

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

<sup>25</sup> Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC

### Conflict of interest

As a general definition a conflict of interest exists where the impartial and objective exercise of the functions of a financial actor or other person, is compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with a recipient. Each project partner is responsible to ensure that the appropriate measures are taken to minimise any risk of conflict of interest during the procurement process. Although the character of the conflict of interest is diverse depending on the parties, types of the relationships and interests involved the common matter to be ensured is transparency of the decision making process and fair treatment for all tenderers. Special attention should be paid in cases where project staff is also involved in external companies participating in the tenders organised by the respective project partner. However, in all cases measures need to be carefully analysed to minimise any possible risks of conflict of interest. For specific requirements the national legislation should be consulted.

In case a conflict of interest is detected in the procurement procedure financial implications might be set.

The flowchart shows the main questions that need to be answered in order to choose the applicable procurement rule:

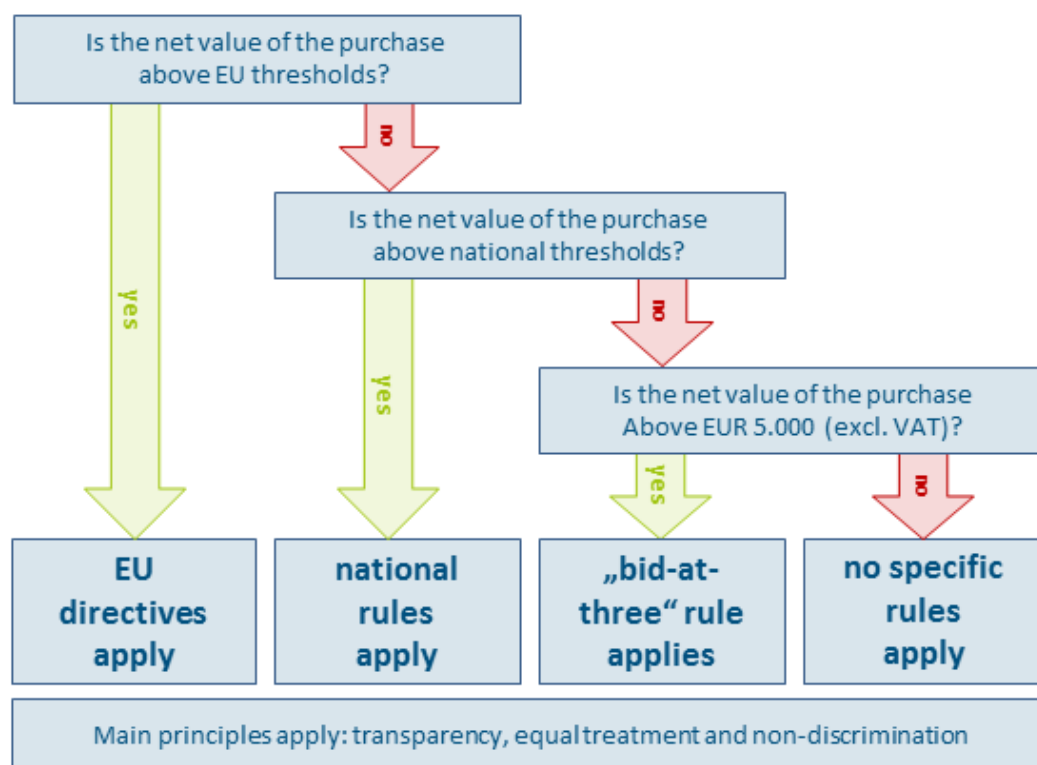


Figure 4: Decision scheme regarding public procurement rules

### F.1.3.3 Steps and documentation of the procurement process

Depending on the estimated contract value and the applicable procurement procedure required by the relevant legislations, the following parts of the process are vital for successful contracting:

- 1) **Terms of reference** – All the information about the subject and the tendering process are included in this document. The terms of reference, based on the required procurement procedure, should include at least the following sections:
  - a) **General provisions** – contains a brief description of the general framework;
  - b) **Subject of the procurement** – consists of a detailed description of works, services and goods required and stating the complete list of the requirements for the subject. Based on the needs, a separate part – technical specification – can be included or attached as an annex to the

Terms of Reference;

- c) **Timeframe** – sets out specific conditions on the timeline for delivery of the goods and/or providing the services and works;
  - d) **Price and/or other limitations** – describes all the specific limitations related to the contracting procedure (e.g. price, time limitations);
  - e) **Eligibility criteria** – sets out the specific requirements that companies have to fulfil in order to be eligible to submit an offer. The criteria have to be **objective, non-discriminating** and **relevant** to the particular subject of the procurement procedure;
  - f) **Assessment criteria** – in this part the criteria for assessment of the submitted offers are set out. The criteria have to be **objective, non-discriminating** and **relevant** to the particular subject of the procurement procedure;
  - g) **Contracting and payment** – contains details on the contracting procedures as well as payment details in the context of the contract to be signed;
  - h) **Information/formal requirements** – describes proceedings within the procurement procedure (e.g. details of the submission of the offers, formal requirements as regards the compilation of the offers).
- 2) **Publication of the notice** – depending on the procurement procedure, its size and location, as well as the level of publicity to be reached, specific requirements for the publication of a tender might apply. The specific requirements for the publication of the procurement notice have to be observed.
- 3) **Registrations of the offers – the offers received have** to be carefully documented to ensure the transparency and equal treatment of all the tenderers.
- 4) **Assessment and decision making** – the submitted offers have to be

assessed according to the same criteria which were set out in the terms of reference, with no additional criteria being added to the assessment process. Furthermore, the assessment of the offers has to be well documented.

5) **Contracting** – at this stage a contract with the successful tenderer is signed.

The above described requirements represent the minimum necessary for a correct procurement procedure. However, they should be applied without prejudice to any other requirements specified in the EU or national legislations.

#### **F.1.3.4 Principle of sustainability**

The Programme encourages a green and sustainable approach of tendering, whenever legally possible. Further details regarding sustainability are provided under Chapter C.4.1.

#### **F.1.3.5 “Bid-at-three” rule**

When purchasing goods or services with a value below the EU and national thresholds the Programme requires the implementation of a “bid-at-three” procedure. This procedure was introduced to ensure transparent selection procedures, equal treatment and cost efficiency for goods and services.

To comply with the rule, project partners must obtain at least three offers for all contracting amounts above **EUR 5,000 (excl. VAT)** and below the national and EU thresholds. In all cases, the selection and contracting procedure, as well as offers received from the tenderers, have to be well documented to ensure transparency of the process.

If it is not possible to obtain three offers, the activities undertaken to acquire the offers have to be documented. By doing so, it will thus be ensured that prices for similar goods, services or works have been compared and the selection procedure is transparent, as well as the appropriate audit trail being followed.

**Please note:** should stricter national or institutional rules exist these should be observed in order to avoid contradictions and possible rejection of costs on a national/institutional level.

### F.1.3.6 Consequences in case of shortcomings

**Failure to comply with the procurement requirements** and the use of an appropriate procurement procedure set on a national or Community level, as well as the “bid-at-three” rule set for the Programme, can have **financial consequences**. Based on the type and significance of the non-compliance, a financial correction can be applied according to the guidelines developed by European Commission with the Decision No C (2013) 9527<sup>26</sup>.

### F.1.3.7 Exceptions

The Programme provides a list with minimum possible exceptions to the above rules. Nevertheless, each partner has to consult with the applicable national/EU regulations on whether they permit such exceptions. This section highlights the minimum requirements and recommendations relating to some of these exceptions. If a partner intends to use any of the exceptions listed below, the Programme highly recommends consulting the national and the EU regulations applicable in each particular case, and, if necessary, with the FLC.

**“In-house” contracting** refers to the situations when a public authority contracts another organisation, which is fully owned and/or controlled by the contractor (e.g. inter-departmental arrangements) to provide certain goods, services or works. In such cases, the contractor might not decide to follow public procurement procedures provided that:

- a) there is no private ownership involved;
- b) the subsidiary company carries out 90% or more of its activities for the contracting authority; and
- c) the parent company exercises control over the subsidiary company in a similar manner as to its own departments.

To ensure transparency and efficiency, the sub-contractors will follow the public procurement rules when procuring goods, services and works from the third parties.

#### Framework contracts

Framework contracts are umbrella agreements which set out all or some of the terms for which the parties of the agreement will enter into contracts ("call-offs") in the future. Where a project partner organisation has **already procured**

<sup>26</sup> Commission’s Decision No. C(2013) 9527 of 19.12.2013

a provider of goods and services **according to the relevant public procurement rules** outside the project, the goods and services provided within the framework contracts for the project's purposes can be eligible for Programme co-financing.

#### F.1.4 State aid rules

##### Introduction

In the current funding period, the Programme will be open for private for-profit partners (e.g. SMEs) in order to involve relevant partners from all sectors and to better meet the objectives of the Programme. Increasing private sector involvement may also increase the likelihood of State aid. That said, the status of the recipient is not relevant to State aid considerations since public, charitable, not-for-profit organisations and universities, etc. may all be recipients of State aid, depending on the activity supported. Therefore, it has been decided to allow State aid relevant activities under certain conditions. However, the general expectation is that, as in the past, due to their cooperation character, few projects in the Interreg Baltic Sea Region will be State aid relevant.

The Programme is bound to comply with the State aid rules which apply in the European Union (EU) and the European Economic Area (EEA). The EU/EEA rules generally prohibit State aid, but they allow for State aid to be compatible with the EU Treaty in closely-defined circumstances where it can contribute to certain policy objectives.

##### When to identify State aid relevant activities

The State aid rules of the Programme are outlined briefly below. Detailed rules, including templates for self-declarations and related guidance will be provided at a later stage, together with the main application form. Applicants will be asked to check their activities for State aid relevance only when preparing a full application, i.e. after having been selected by the Monitoring Committee to proceed to the second application stage. Targeted guidance will be provided by the MA/JS at this stage.

##### How to identify State aid relevant activities

Where State aid is present, and in contrast with the previous programming period, this will not exclude the activity from eligibility under the Programme. However, applicants should be aware that, if support for a project **does** constitute State aid, this may affect the co-financing rate for the project, or parts of it.

Projects shortlisted from the ‘concept note’ stage will be required to provide a State aid self-declaration along with the main application form. The aim of the State aid self-declaration is to establish whether funding for the project will involve State aid and, therefore, what compliance steps are required. As a general principle, all project activities will have to be assessed at partner level to determine whether they are State aid relevant or not. This will be done by each applicant based on a self-assessment and check-list as part of the State aid self-declaration, with the following steps:

### **Identification of “undertaking” and “economic activity”**

In order for State aid to be present, the recipient must be an undertaking. Undertakings are entities engaged in an economic activity, regardless of their legal status (they can be public bodies, non-governmental organisations or universities, as well as private firms) and regardless of whether they aim to make a profit or not. Accordingly, a first step concerns information about the nature of the activity to be undertaken within the project, and, specifically, whether this involves an ‘economic activity’. If the activity is not economic, the applicant is not an undertaking for State aid purposes and it can be concluded that there is no State aid.

**Economic activity** is broadly defined as ‘offering goods or services on a given market’. The key question is whether, in principle, the activity could be carried out by a private body in order to make a profit. If so, the activity will most likely be considered “economic” and thus, the partner will be considered an “undertaking”.

### **Identification of State aid relevant activities**

As a second step, the project activities which are identified as being “economic” (the non-economic activities of a given partner in the project are not considered further in this context), have to be assessed for their State aid relevance. The most crucial question is whether there is a selective advantage involved in supporting a certain activity, i.e. whether there is a benefit that the undertaking (partner) would not gain under ‘normal market conditions’ or whether it is relieved of costs that it would normally have to meet. If there is no selective advantage or benefit to the applicant, then there is no State aid. More detailed guidance on how to answer this question in a European Territorial Cooperation context will be provided by the MA/JS later on together with the State aid self-declaration templates and related guidance documents.

### **Elimination of State aid**

Where the activity is economic and support is regarded as constituting an



advantage, support from the Programme is likely to be State aid relevant. Consideration should then be given to whether any State aid element can readily be eliminated. In cases of doubt about the presence of State aid, applicants may consult with their national or regional State aid unit<sup>27</sup>. Where applicants consider that their project is not State aid relevant, they will still sign the State aid self-declaration accompanying the main application form. It is assumed by the MA/JS that by meeting certain conditions, project partners can conclude that the planned activities are most likely considered not to be State aid relevant as no advantage would be given by the awarded funding. These conditions could include inter alia the observation of public procurement rules, the transferability of outputs to the whole market, the respect of open-source principle, and the availability of training and project results on a non-discriminatory and transparent basis (same conditions for all). Partners would have to check compliance with these conditions before concluding that there is no State aid involved in the project.

### Application of State aid instruments

Where support to a project is identified as being State aid relevant, there are two options for compliance provided for in the Interreg Baltic Sea Region: **de minimis** support and State aid compatible with the **General Block Exemption Regulation (GBER)**<sup>28</sup>.

Where possible State aid relevant projects will be supported on the basis of the **de minimis Regulation**<sup>29</sup>. This allows support of up to EUR 200,000 in any three-year period to fall outside the scope of State aid. The EUR 200,000 ceiling applies to all types of support whether from national or EU-sources. Besides grants, all other forms of support, such as loans and guarantees, are also taken into consideration. The three-year period refers to the fiscal year concerned plus the previous two fiscal years. There are lower limits for road freight transport (EUR 100,000) and the fisheries and aquaculture sector (EUR 30,000), which is subject to a different de minimis Regulation. Specific monitoring and reporting procedures for each recipient of de minimis support will have to be

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<sup>27</sup> The MA/JS will provide a contact list of national/regional State aid experts in the 2nd application stage.

<sup>28</sup> Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJEU L 187/1 of 26 June 2014

<sup>29</sup> Commission Regulation 1407/2013 on de minimis aid, OJEU L 352/1 of 24 December 2013

followed, for which details will be provided by the MA/JS in the second application stage.

Applicants must submit a State aid self-declaration along with the main application form concerning the amount of de minimis support which they have already received in the preceding three years. Once the respective project is approved and before the subsidy contract is signed between the lead partner and the Managing Authority the submission of a de minimis self-declaration will be required.

Where an applicant has already used the de minimis 'quota', consideration will be given to framing support within the **General Block Exemption Regulation**, notably the provisions on State aid for SME cooperation in ETC projects (Art 20 of GBER). Under the GBER, a lower co-financing rate (e.g. 50% co-financing rate for SME cooperation in ETC projects) applies. Only selected provisions under GBER will be proposed in the Programme and details will be provided to the applicants concerned.

The decision on whether to apply the de minimis Regulation or the GBER will be made by the applicants themselves. Again, specific guidance and check-lists to reach a decision will be provided by the MA/JS in the State aid self-declaration template at a later stage. As outlined above, both instruments specify certain limits on the maximum amount of aid and/or the aid rate (percentage) applicable. Project partners should consider carefully the implications before opting for one of the two instruments.

#### F.1.5 Use of Euro and exchange rate

All expenditure reported in the progress reports must be denominated in Euro.

All project partners whose national currency is not Euro must convert the expenditure, which was incurred and paid in the national currency, into Euro. The conversion will be done by the project partner using the monthly exchange rate of the Commission **in the month during which the partner report will be submitted to the first level controller**. The conversion will be verified by the controller of the participating country in which the project partner is located. Thus, the same exchange rate will be applied for a complete reporting period to all expenditure regardless of their payment or invoice dates.

##### **Example**

*A reporting period runs during January – June 2016. The partner submits the report to the FLC in July 2016. As a consequence the exchange rate of July 2016 will be used to convert the costs of the progress report from national currency*

*into Euro.*

The European Commission publishes the monthly exchange rates on the first day of the month under:

[http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/infoeuro/infoeuro\\_en.rcfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/infoeuro/infoeuro_en.rcfm).

Any exchange risk and loss has to be borne by the project partners.

### F.1.6 Value added tax and other financial charges

Value added tax (VAT) which is recoverable, by whatever means, is not eligible.

Only non-recoverable VAT borne by the project partners that may not be refunded or offset by the tax authorities, or by any other means, may be included in the progress reports.<sup>30</sup>

Furthermore, debit interests are ineligible and have to be borne by the project partners.

### F.1.7 Cash inflows

#### F.1.7.1 Revenues and other cash inflows

The Programme differentiates between two types of cash inflows:

- **Revenues** are cash inflows directly paid by users for the goods or services provided by a project, such as charges borne directly by users for the use of infrastructure, sale or rent of buildings, or payments for services.
- **Net revenues are understood as revenues above** minus any operating costs and replacement costs of short-life equipment incurred during the corresponding period. Operating cost-savings generated by the project shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies;<sup>31</sup>
- **Other cash inflows** are private and public contributions and/or financial gains that do not stem from tariffs, tolls, fees, rents or any other form of charge directly borne by the users.

<sup>30</sup> Art. 69.3 Regulation (EU) No. 1303/2013

<sup>31</sup> Regulation (EU) No 1303/2013 Art 61

*Examples:*

**Revenues:**

- *Sales price or rent, e.g. prices or rents paid for using rooms of a technology park, which was established by a project, rents for holding exhibitions in a cultural building that was renovated within a project.*
- *Service fees, e.g. fees paid by users of training curricula and material, which were developed within a project, attendance fees for project workshops, sales revenue of project brochures.*

**Other cash inflows:**

- *Government contributions towards construction and/or operating costs, etc.*
- *Contribution of public bodies or private donors, e.g. to the construction and/or operating costs of a building.*
- *Contribution of private equity to the development and/or implementation of training courses.*

#### **F.1.7.2 Treatment of revenues**

If a project is identified as revenue generating the revenues have to be deducted from its total eligible expenditure fully or on a pro-rata basis and shall consequently reduce the ERDF contribution to it.<sup>32</sup>

Revenues generated by the project are monitored and treated by the Programme as follows:

##### **Project application stage**

Projects which expect their activities to generate revenues have to plan their budgets accordingly and the revenues must be offset with the planned expenditure.

##### **Project implementation phase**

Project partners are responsible for keeping account of all the revenues and to have the required documentation available (e.g. for control purposes).

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<sup>32</sup> Regulation (EU) No 1303/2013 Art 61

The revenues, if not deducted at the application stage, must be stated in the progress report and must be deducted from the eligible expenditure (i.e. the reported amounts cannot include any revenues). Project partners have to provide their first level controller with information on the revenues generated in the reporting period and to support this with the accounting or equivalent documents.

When compiling the project progress reports, the lead partners have to indicate the expenditure and revenues as confirmed by the partners' FLC. The Joint Secretariat carries out a plausibility check of these indications during the clarification of the progress reports.

### **After the project closure**

If a project expects to have any revenues after the project closure and within three years after the closure of the Programme the respective net revenues have to be reported to the MA/JS and have to be deducted from the final payment request of the Programme submitted to the EU Commission.

Consequently, the total expenditure declared to the Commission by the closure of the Programme has to have all revenues offset.

## **F.1.7.3 Treatment of other cash inflows**

### **Treatment of public cash inflows**

Costs which were already co-financed from other EU funds, or were fully covered by other international, national, regional and/or local funds are not eligible for co-financing from the Programme.

Co-financing received from international (e.g. UNESCO), national, regional and/or local funds are only eligible provided that

- the international, national, regional or and/or local subsidy does not exceed the partner's own financial contribution (15%-50%, depending on the location of the project partner and the Programme funding source), **and**
- National, regional and/or local funds come from the project partner's country.

### **Treatment of private cash inflows**

Private cash inflows are regarded as donations and sponsoring, and thus are not-eligible for co-financing from the Programme

*Example: a business partner pays a contribution (donation/sponsoring) for an event which was organised by the project.*

## **F.1.8 Interest and equivalent benefits (Will be elaborated at a later stage)**

### **F.1.9 Visibility rules**

#### **F.1.9.1 General provisions**

Projects usually arrange various information and communication measures, such as events (e.g. conferences, seminars, press conferences, briefings, training), websites, documents (presentations, invitations), publications (e.g. brochures, flyers), promotional materials (e.g. T-shirts, bags, cups, umbrellas), press releases, newsletters, billboards, posters, commemorative plaques, vehicle panels, and others.

When arranging the information and communication measures, the projects have to display the support from the Programme and the EU funds as follows:

- a) the European Union emblem in accordance with the technical characteristics specified in the Commission Implementation Regulation<sup>33</sup>, together with a reference to the European Union;
- b) a reference to the EU funding source(s). The reference shall read as follows: European Union (European Regional Development Fund) in English or respective national language;
- c) the Programme logo (in accordance with the technical characteristics in the Visual Identity manual for the Baltic Sea Region Programme).

In order to comply with the technical requirements of the information and communication measures, regarding instructions for creating the union emblem and a definition of the standard colours project partners should consult Art (3), (4), (5) of Regulation (EU) No 821/2014. Furthermore, it is strongly recommended that project partners become familiar with the

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<sup>33</sup> COMMISSION IMPLEMENTING REGULATION (EU) 821/2014 of 28 July 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards detailed arrangements for the transfer and management of programme contributions, the reporting on financial instruments, technical characteristics of information and communication measures for operations and the system to record and store data. Available online at [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.223.01.0007.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.223.01.0007.01.ENG).

requirements of Art (115), (116), (117) of Regulation (EU) No 1303/2013 as well Annex XII of the same document. The above mentioned legal documents provide vital details for the implementation of communication and promotional activities.

### Special provisions and exceptions

When a project partner (i.e. institution, organisation) or a project maintains a website, this website should include a short description of the project, proportionate to the level of support, including its aims and results, and highlighting the financial support from the Programme/European Union.<sup>34</sup> The same rule applies for printed and digital publications.

For small promotional objects (e.g. pens) the obligation to make reference to the fund does not apply.

### Visibility rules for equipment

Every equipment item, which is **part of a project's investment(s)** and which is partially or fully financed by the Programme has to be marked with a label containing the following elements:

- the European Union emblem,
- a reference to the EU funding source(s);
- the Programme logo.

The label must not be removed even after the finalisation of the project.

### Visibility rules for infrastructure and construction

At each investment location, in case the total public support to **the infrastructure or construction** within the project exceeds EUR 500,000, project partners have to put up a temporary billboard, which has to be visible to the public.

Regardless of the total public support to the project, no later than three months after the completion of the infrastructure or construction, partners have to put up a permanent plaque or a billboard, which is visible to the public.

The plaque/billboard must contain the following visibility elements:

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<sup>34</sup> Regulation (EU) No 1303/2013 Annex XII

- the name and the main objective of the project;
- the European Union emblem;
- a reference to the EU funding source(s);
- the Programme logo.

### **Seed money projects only!!!**

In addition to the requirements detailed above seed money projects have to apply/include the logo of the EUSBSR too.

#### **F.1.9.2 Compliance and financial corrections**

All projects have to ensure compliance with the visibility rules. Projects should keep samples of promotional items (e.g. USB sticks, pens). These should be sent on request to the FLC and the MA/JS. In cases of posters, exhibition stands, and in particular when the event is organised by third parties, and where only a few items of each kind are produced, a digital picture is considered sufficient proof.

Failure to comply with the visibility requirements set out in this Programme Manual can have financial consequences, such as cutting of costs. However, such financial cuts would be balanced by taking the successful achievements of the project objectives into account.

#### **F.2 Overview on project phases and related costs**

The project duration is divided into several phases depending on the project type (i.e. regular project, extension stage project, cluster project or project under priority 4). During these phases, project partners and the lead partner have a number of obligations. Moreover, the eligibility of costs depends on the project phase. Below you will find a summary of what has to be done and observed before, during and after the project implementation phase.

Expenditure related to the project preparation before the MC approval can be reimbursed as a lump sum under the conditions described in chapter D.1.8.8. "Reimbursement of preparation costs".

The contracting phase starts on the day following the date of the project approval by the MC and lasts at least 2 full months.

The project implementation phase will always start on the first day of a calendar month and finishes on the last day of a calendar month.

In addition, projects have three months reserved under what is known as the closure period for the preparation and certification of the final report.



Project related expenditure generated and paid during the contracting, implementation and closure phases are eligible for co-financing. However, projects have to finalise the implementation of activities and outputs before the end of the implementation period.

The closure phase is reserved for compiling and certifying the final progress report only and no content implementation can take place during this period. Experience shows that the final administrative duties related to reporting and certification take up the full three months of closure. Therefore, projects should plan carefully to make sure that there is sufficient time for the compilation of the final progress reports. The last day of the closure period is the submission dead-line of the final report.

Project costs generated or paid after the end of the closure period are not eligible for Programme co-financing.

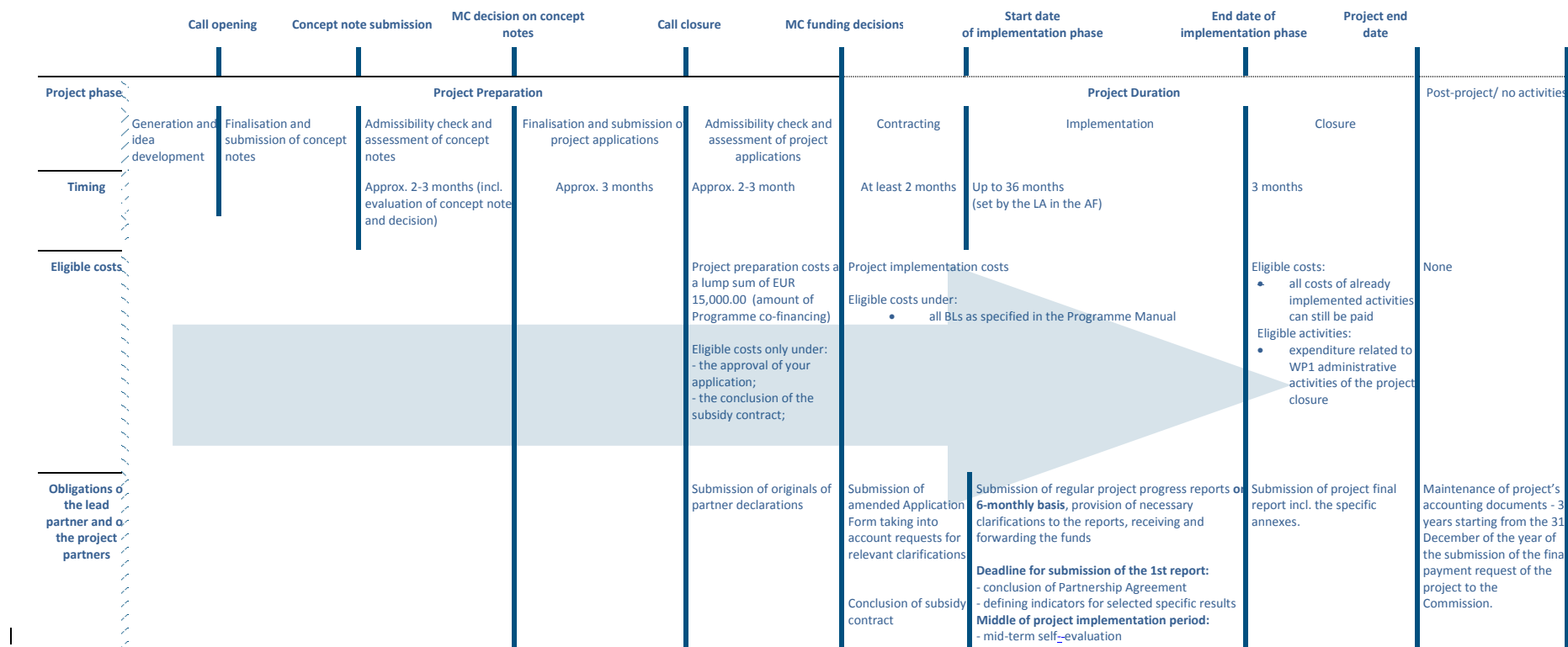


Figure 5: Overview on project phases

### F.3 Budget lines

The Programme has set up the following budget lines for expenditure generated by projects:

- Budget line 1 - Staff costs,
- Budget line 2 - Office and administrative expenditure,
- Budget line 3 - Travel and accommodation costs,
- Budget line 4 - External expertise and service costs and
- Budget line 5 - Equipment expenditure.

The five budget lines above and the related rules are based on the requirements of the Commission Delegated Regulation (EU) No 481/2014. In addition, and concerning specific types of project activities the expenditure of which cannot be incorporated under any of the pre-defined budget lines and other eligibility rules set by the EU regulations, the Member States can develop supplementary eligibility rules.

In this respect the Member States of the Programme have set up Programme specific rules and separate budget lines for:

- Budget line 6 - Infrastructure and works;
- Budget line 7 - Expenditure for specific project activities (e.g. expenditure for large research activities at sea etc.).

These additional Programme rules have the same primary character as the provisions of the Delegated Act and are to be applied in full.

#### F.3.1 Budget line 1 – Staff costs

Under this budget line the eligible costs are the gross employment costs of staff, who are employed by the project partner organisations and are formally engaged in the project activities.

Project staff can be hired by the project partners in one of the following ways:

- Full time – an individual dedicates 100% of his/her working time to the project.<sup>35</sup>

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<sup>35</sup> The understanding of the Programme of a full time employee is one who dedicates all his/her contracted hours to the project activities. In this sense, the number of hours contracted can be less than the maximum legal monthly threshold of the respective country. As long as all worked hours are allocated to the project, the employee is considered to be a full time worker.

- Part time – only a part of the contractual hours is spent on the project activities:
  - with a fixed percentage of time worked per month;
  - with a flexible number of hours worked per month;
  - on an hourly basis.

Below you will find a description of the general principles of eligibility for this budget line, the eligible staff cost components as well as the calculation methods.

#### **F.3.1.1 General principles of eligibility**

Expenditure on staff costs is eligible under the following conditions:

- salary payments are related to the project activities which the entity would not carry out if the operation concerned was not undertaken;
- salaries are fixed in an employment/work contract, an appointment decision (both hereinafter referred to as 'employment document') or by law, relating to responsibilities specified in the job description of the staff member concerned.

Payments to natural persons working for the project partner under a contract other than an employment/work contract but which is equivalent to such a contract may be reported as salary payments. The conditions under which a natural person can work under such a contract should be clarified by the project partners and communicated to the first level controllers. Taking into account that the national regulation regarding this issue might be different from country to country the Programme does not provide a generally applicable definition of the term. Instead, project partners are required to clarify this on the level of national law and their institutional regulations as well as with their first level controllers.

**Please note** that all contracts not being equivalent to the employment contract must follow the rules of public procurement and should be included under the relevant budget line.

#### **F.3.1.2 Eligible staff cost components**

The following gross employment costs of project staff are eligible:

- salary payments fixed in the employment/work contract, an appointment decision,<sup>36</sup> or by law, relating to responsibilities specified in the job description of the staff member concerned;
- any other costs directly linked to salary payments incurred and paid by the employer, such as employment taxes and social security including pensions as covered by the Regulation (EC) No 883/2004 of the European Parliament and of the Council provided that they are:
  - fixed in an employment document or by law;
  - in accordance with the legislation referred to in the employment document and with standard practices in the country and/or organisation where a staff member is employed; and
  - Not recoverable by the employer.

#### **F.3.1.3 Calculation of staff costs**

Full time employees will allocate 100% of their gross employment costs to the project. No additional calculation is necessary.

Staff costs of the part-time employees, who are dedicating only a part of their total working time to the project, have to be calculated according to either of the following methods:

- (1) a fixed percentage of the gross employment cost, in line with a fixed percentage of time worked on the project, with no obligation to establish a separate working time registration system; or
- (2) a flexible share of the gross employment cost, in line with the number of hours, which can vary from one month to the other, on the project, based on a time registration system covering 100% of the total working time of the employee.

For part-time assignments under point (1) the employer has to issue a document for each employee setting out the percentage of time to be worked for the project.

For part-time assignments under point (2) the reimbursement of staff costs has to be calculated on an hourly rate basis determined either by:

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<sup>36</sup> With regard to natural persons working for the partner organisation under a contract other than an employment/work contract, their payment may be assimilated to salary payments with such a contract being considered as an employment document.

- a) dividing the monthly gross employment costs by the monthly working time fixed in the employment document expressed in hours; or
- b) Dividing the latest documented annual gross employment costs by 1,720 hours<sup>37</sup>.

The hourly rates calculated under points a) and b) shall be multiplied by the number of hours actually worked for the project.

Staff costs relating to individuals who, according to the employment document, work on an hourly rate basis, will be eligible by applying the number of hours actually worked for the project and based on a working time registration system to the hourly rate agreed in the employment document.

#### **F.3.1.4 Registration of working time**

Employees working on a part-time basis, using any of the flexible shares of the gross employment schemes referred to under point (2) have to register the working hours spent on the project.

Full time working staff and staff with a fixed percentage of hours spent on projects do not need to register their working time spent on the project.

Where required, the hours worked by employees on various project activities should be well documented and available for the first level control and desk checks carried out by the MA/JS or the second level audit.

To support the project partners in this administrative task the MA/JS will develop a model time sheet which can be adopted and used by any project partner. If project partners have their own system for registering the working hours of employees, this system may be used for project purposes, as long as the following minimum requirements are fulfilled:

Time sheets or equivalent documents:

- are completed for each employee individually;
- contain the amount of hours worked for the project on a daily basis; and
- are signed by the employee and his/her supervisor.

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<sup>37</sup> In accordance with Article 68(2) of Regulation (EU) No 1303/2013.

Additionally, part time project employees obliged to use a time sheet need to prepare a brief monthly summary describing the activities performed within the project.

### F.3.1.5 Overview: Calculation and documentation of staff costs

Table 9 Calculation and documentation of staff costs

Type	Calculation	Registration of working hours	Documentation of staff costs
<b>(A) Full Time employment</b>			
	100% of the gross employment costs are allocated to the project (for details see above chapter 2.1.2).	No obligation regarding the use of time sheets.	<ol style="list-style-type: none"> <li>1. Employment/work contract or other equivalent document for each employee (see 2.1.1);</li> <li>2. Job description specifying the project tasks;</li> <li>3. Proof of payment of the gross employment costs on a monthly basis.</li> </ol>
<b>(B) Part time employment</b>			
<b>(B.1) With a fixed percentage of time worked per month</b>			



	The percentage fixed in the employment/work contract or other equivalent document is multiplied by the monthly gross employment costs of the employee.	No obligation regarding the use of time sheets.	<ol style="list-style-type: none"> <li>1. Employment/work contract or other equivalent document (see 2.1.1) for each employee. The <b>employment document</b> has to <b>specify</b> the <b>tasks</b> and <b>the percentage</b> of the time worked per month for <b>the project</b>. Alternatively, a specific document can be issued by the employer for each employee setting out the percentage of time to be worked on the project (e.g. Job description);</li> <li>2. Document stating the gross employment costs in the respective working month;</li> <li>3. Overview on the monthly calculations for each reporting period;</li> <li>4. Proof of payment of the gross employment costs.</li> </ol>
<b>(B.2) With a flexible number of hours worked per month, such as:</b>			
<b>(B.2.1.) On a contracted hourly rate basis</b>	Number of hours actually worked for the project multiplied by the hourly rate set in the employment contract.	Time sheets signed by the employee and his/her supervisor indicating the hours worked for the project and the related tasks on a daily basis. The time registration system must cover 100% of the working time of the employee.	<ol style="list-style-type: none"> <li>1. Employment/work contract or other equivalent document (see 2.1.1) indicating the involvement of the employee in the project as well as the hourly rate;</li> <li>2. Job description specifying the project tasks (can be included in the employment/work contract);</li> <li>3. Calculation of the monthly salary based on the hours registered in the time sheet and the contracted hourly rate;</li> <li>4. Proof of payment of the gross employment costs.</li> </ol>

<p><b>(B.2.2) Calculated with a monthly hourly rate</b></p>	<p>Number of <i>hours actually worked for the project</i> multiplied by the <i>pre-calculated monthly hourly rate</i>.</p> <p>The monthly hourly rate is calculated by dividing the monthly gross employment cost by the monthly working time fixed in the employment/work document expressed in hours.</p>	<p>Time sheets signed by the employee and his/her supervisor indicating the hours worked for the project and the related tasks on a daily basis. The time registration system must cover 100% of the working time of the employee.</p>	<ol style="list-style-type: none"> <li>1. Employment/work contract or other equivalent document (see 2.1.1) indicating the involvement of the employee in the project;</li> <li>2. Job description specifying the project tasks (can be included in the employment/work contract);</li> <li>3. Calculation of the monthly gross employment costs of the project based on the hours registered in the time sheet and the pre-calculated hourly rate;</li> <li>4. Accounting document stating the gross total salary in the respective working month.</li> </ol>
<p><i>Example calculation:</i></p> <ul style="list-style-type: none"> <li>- total monthly working hours according to the contract: 168h,</li> <li>- gross total salary of January: EUR 5,000; divided by 168 hours → monthly hourly rate EUR 29.76 (=5000/168)</li> <li>- total monthly hours worked for the project: 100h</li> <li>- total project costs → 100h * EUR 29.76 = EUR 2,976</li> </ul>			

<b>(B.2.3) Calculated with a yearly hourly rate</b>	Number of hours actually worked for the project multiplied by the pre-calculated yearly hourly rate. This hourly rate is calculated by dividing the latest documented annual gross employment costs by 1,720 hours in accordance with Article 68(2) of Regulation (EU) No 1303/2013.	Time sheets signed by the employee and his/her supervisor indicating the hours worked for the project and the related tasks on a daily basis. The time registration system must cover 100 % of the working time of the employee.	<ol style="list-style-type: none"> <li>1. Employment/work contract or other equivalent document (see 2.1.1) indicating the involvement of the employee in the project;</li> <li>2. Job description specifying the project tasks (can be included in the employment/work contract);</li> <li>3. Calculation of the monthly gross employment costs of the project based on the hours registered in the time sheet and the pre-calculated hourly rate;</li> <li>4. Accounting document stating the latest total annual gross employment costs of the previous year.</li> </ol>
	<p><i>Example calculation:</i></p> <ul style="list-style-type: none"> <li>- gross annual employment costs of the previous year EUR 45,000; divided by 1,720 hours → hourly rate EUR 26.16 (= 45,000 / 1,720)</li> <li>- total monthly hours worked for the project: 100h</li> <li>- total project costs → 100h * EUR 26.16 = EUR 2,616</li> </ul>		

Project organisations should decide upon the calculation of staff costs for each employee before the project implementation starts. If considered necessary, employees within the same organisation can follow different calculation methods. As soon as the project partners have decided upon one or the other calculation method, it is recommended that this approach be followed throughout the whole project implementation. A single calculation method for each employee makes the audit trail, as well as the documentation and monitoring of the relevant costs, more transparent and easier to follow.

### **Reimbursement of staff costs**

Staff costs are only reimbursed according to one of the above listed calculation methods.

#### **F.3.1.6 Contribution in kind: unpaid voluntary work**

Unpaid voluntary work is the only type of in-kind<sup>38</sup> contribution accepted within the Programme.

Unpaid voluntary work is defined as work which is carried out for the benefit of the project, carried out on the basis of the volunteer's own will and without receiving any financial compensation for it. Voluntary work cannot be part of the paid assignments of the volunteers and should not be assigned to employees receiving remuneration from a project partner or any other organisation. Additionally, unpaid work cannot be assigned for statutory tasks of institutions and neither for project nor financial management. Instead, unpaid work should have a specific purpose, contribute to the content of the project and should be limited to a certain time period. The results of the unpaid work should be of added value to the project and contribute to the successful delivery of the project outputs.

#### **Examples:**

- A student carrying out research activities for a study to be published by the project.

*In this case it only needs to be clarified whether the student receives remuneration (e.g. in the form of a scholarship from the university or other organisations). If yes, his/her contribution to the project cannot be accounted for as unpaid work.*

<sup>38</sup> Art. 69 of the EC Regulation (EU) No. 1303/2013

*- Activities of volunteers of an NGO carried out for the benefit of the project without receiving any remuneration for it.*

### **Documentation of unpaid voluntary work**

Unpaid workers must have the following documentation available:

- a signed agreement between the volunteer and the organisation specifying the duration and conditions of the unpaid work;
- signed time sheets indicating the hours undertaken by the volunteer to the project.

### **Calculation and reporting of unpaid voluntary work**

When it comes to the calculation of unpaid voluntary work, project partners have to make sure that these have been objectively valued and that the hourly rates are similar but under no circumstances higher than the remuneration for equivalent work carried out in the region/country.

Furthermore, unpaid voluntary work can only be reported up to the amount of the individual partner contribution of each project partner, and is monitored with every progress report.

Additional costs of the host organisation that are essential and are incurred during the implementation of the activities and are carried out by unpaid workers can be assigned to the project (e.g. travel costs, insurances, material costs).

#### **F.3.1.7 Ineligible costs under budget line 1**

The following costs are not eligible:

- voluntary payments which were not agreed in the employment or equivalent documents (e.g. unspecified bonuses);
- overheads and any other office and administration costs cannot be included under this budget line;
- per diems and any other travel and accommodation costs cannot be included under this budget line.

### F.3.2 Budget line 2 – Office and administration costs

Office and administration costs related to the project implementation will be calculated on a flat rate basis of 15% of the eligible direct staff costs.<sup>39</sup> Being covered by the flat rate, the expenditure categories listed below should not be included under any other budget line. Furthermore, and to avoid any double-financing, partners cannot report any cost item listed below in any other form than the flat rate set by the Programme (e.g. direct costs).

The following expenditure categories can be budgeted under this budget line:

- office rent;
- insurance and taxes related to the buildings where the staff are located and to the equipment of the office (e.g. fire, theft insurances);
- utilities (e.g. electricity, heating, water);
- office supplies;
- general accounting provided in the beneficiary organisation;
- archives;
- maintenance, cleaning and repairs;
- security;
- IT systems;
- communication (e.g. telephone, fax, internet, postal services, business cards);
- bank charges for opening and administering the account or accounts where the implementation of a project requires a separate account to be opened; and
- transnational financial transaction charges.

**Please note** that any IT system support purchased or leased by the partner organisation to support the delivery of general project activities is eligible under the budget line 2 – Office and administration costs.

In situations where an external expert is contracted to carry out specific content related tasks concerning the development, modifications or updates of a specific project IT system or a website, such costs will be accepted under the

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<sup>39</sup> Regulation (EU) No. 1303/2013 Art 68 (b)

budget line External expertise and services. The cost of IT software/hardware is eligible under the budget line Equipment.

### Calculation and documentation

The calculations based on the flat rate for office and administrative costs will be done automatically in every progress report taking into account the amount of direct staff costs that have been reported. The expenditure covered under budget line 2 will not require any documentation from the project partners (i.e. invoices, payment proofs), and the expenditure items should not be included in the cost itemisation lists of the progress reports. Any difference to the real costs is neither checked nor monitored. Furthermore, over or under-compensation of project partners resulting from the calculations are accepted and do not have to be balanced with real costs.

### F.3.3 Budget line 3 – Travel and accommodation costs

Under this budget line only the travel and accommodation costs of project staff should be included. The travel and accommodation expenses of external experts, guests and service providers must be budgeted under the budget line 4 – External expertise and services costs.

As a general rule, travel must be relevant for the project activities, have a valuable contribution to the implementation of the project activities and the delivery of the project outputs.

List of eligible expenditure:

- travel costs (e.g. tickets, travel and car insurance, fuel, car mileage, toll and parking fees);
- costs of meals (other than catering);
- accommodation costs;
- visa costs; and
- daily allowances.

Where travel, meals, accommodation and visa costs are covered by the daily allowance, they will not be reimbursed as an addition but should be covered by the daily allowance.

When travel costs are directly paid by an employee of the project partner, the expenditure will be supported by proof of reimbursement to that employee.

As a **general principle**, the **most economical way of transport** will be used (e.g.

using economy class instead of business class). Furthermore, and when possible, eco-friendliness of the method of transport should also be considered (e.g. if feasible, train travel could be chosen over flights).

Travel costs outside the Union part of the Programme area are eligible according to Delegated Regulation (EU) no 481/2014 Art 5. Detailed information regarding the requirements of such costs is presented in Chapter F.4.

**Documentation:**

- invoices or equivalent accounting documents of travel costs;
- payment proof; and
- proof of reimbursement of costs to the employees where the employees made a direct payment for travel.

#### **F.3.4 Budget line 4 – External expertise and services costs**

Under this budget line, the costs of an external service provider, an expert or a consultant have to be budgeted.

Costs of works (see definition under BL6) related to investments and infrastructure must be budgeted under BL6.

The expenditure of external expertise and service will be limited to the services and expertise provided by bodies governed by public or private law other than project partner organisations, or to natural persons other than employees of the project partner organisation.

The following external expenditure is eligible under this budget line:

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



- expertise, other consultancy and accountancy services;
- intellectual property rights;
- verifications (e.g. first level control costs)<sup>40</sup>;
- certification and audit costs on programme level<sup>41</sup> ;
- the provision of guarantees by a bank or other financial institution where required by Union or national law or in a programming document adopted by the monitoring committee;
- travel and accommodation for external experts, external speakers, external chairpersons of meetings and service providers; and
- other specific expertise and services needed for the projects.

To be accepted for reimbursement by the Programme, the expenditure listed above has to fulfil the following conditions:

- the task is essential for the project;
- the price of the external service or expertise has been calculated reasonably and according to the standard rates of the country where the project partner concluding the contract is located;
- the Programme, relevant national legislation or community rules regarding public procurement have been applied; and
- the basic principles of transparency, non-discrimination and equal treatment laid down in the EC Treaty have been respected for all contracts.

#### **Documentation:**

- procurement documentation;
- invoices;
- proof of delivery of services or goods;
- payment proof.

#### **Ineligible costs:**

- basic courses (e.g. language, accounting, use of MS Office);
- external expertise or services of staff employed by the project partner (e.g. freelancers in parallel to employment); and

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<sup>40</sup> Regulation (EU) No 1303/2013 Art 125(4)(a), and Regulation (EU) No 1299/2013 Art 23(4)

<sup>41</sup> Regulation (EU) No 1303/2013 Art (126), (127)

- external expertise or services provided by other project partners.

### F.3.5 Budget line 5 – Equipment costs

Equipment under budget line 5 can fall under two categories. The Programme differentiates between **equipment needed and used for carrying out project activities** and **equipment as an integral part of an investment** hence **project output**. The difference between the two categories is as follows:

- **Project equipment** are tools and devices purchased or already in the possession of a project partner which are necessary for the daily work of the project staff and/or needed for carrying out certain specific project activities (e.g. IT hard and software items, office furniture).
- **Equipment which is part of an investment** (e.g. technical equipment or solution etc.) is defined in Chapter D.1.3. Equipment which is part of an investment is defined as goods in the understanding of the Programme and should not be confused with other cost items, such as works related to investments which belong to BL6.

The purchase, rent or lease of the following items is eligible under this budget line:

- office equipment,
- IT hardware and software,
- furniture and fittings,
- laboratory equipment,
- machines and instruments,
- tools or devices,
- vehicles,
- other specific equipment needed for the projects.

Purchase costs of second-hand equipment can be eligible provided that:

- no other assistance has been received for it from ESI Funds;
- its price does not exceed the generally accepted price on the market;
- it has the technical characteristics necessary for the project and complies with applicable norms and standards.

### General principles of eligibility:

- not financed from any other financial instrument (e.g. EU, national, international);
- the related equipment was not fully depreciated;
- is not included under any other budget line;
- the related equipment was not purchased from another project partner;
- was incurred during the eligible project duration (e.g. for equipment that was purchased before the project start, not fully depreciated before and used for the project purposes, only the depreciation for the relevant project period is eligible);
- purchased respecting the relevant public procurement procedures; and
- are essential for the project and their features and functions are in line with the project needs.

#### F.3.5.1 Eligible costs of project equipment

As a general principle, for all project equipment (purchased before or during the project lifetime) only depreciation costs should be allocated to the project. For equipment rented or leased for certain period during the project lifetime rental or leasing costs for the respective period are eligible.

The calculation of depreciation or equivalent division of shares of equipment should be done according to a justified and equitable method and be in line with the national or institutional regulations. Depreciation costs of equipment should be allocated to the time period when the equipment was used for the project purposes.

#### **Example:**

*An equipment item was used from mid-January to mid-May. This would mean that the equipment was used throughout 5 calendar months for a period adding up to 4 months. The price was EUR 3,600, with annual depreciation of EUR 1,200. By dividing this annual depreciation further by 12 months, the monthly depreciation would equal 100 EUR. Although the project has effectively used the equipment for 4 months the depreciation costs should cover the full calendar months regardless of when the equipment was put in use in the respective month. In our example the project could report EUR 500 (=5 calendar months x EUR 100).*

If according to the national legislation the equipment is not depreciable (e.g.

low-value asset), the full costs of purchase, lease or rent could be allocated to the project.

Equipment under this category does not have to be used for project purposes after the end of the project. Moreover, after use the equipment does not have to remain in the ownership of the project partner that had reported the related costs.

### **F.3.5.2 Eligible costs of equipment which is part of investment**

If equipment is part of or fully represents an investment item which was planned and approved by the Programme, the full cost of this equipment is eligible, i.e. full depreciation.

If equipment belongs to this category, the following rules have to be observed:

- the equipment must be a part of an investment output as specified in the application form;
- The equipment should be solely used for the project purposes during the project life the purpose and ownership of the equipment cannot be changed for at least 5 years after the project end date.

Equipment co-financed by the Programme must comply with the visibility rules set by the Regulation (EU) No 1303/2013 Art 115 and the Commission Implementing Regulation (EU) 821/2014. Detailed guidance regarding the requirements is provided under Chapter F.1.9.

#### **Documentation:**

- procurement documents;
- invoices;
- where relevant, depreciation costs calculation(s);
- proof of delivery and installation of the equipment/investment; and
- payment proof.

### **F.3.6 Budget line 6 - Infrastructure and works**

This budget line covers costs related to investments having the nature of infrastructure or works that are not included in other budget lines.

In line with the definition provided in Directive 2014/24/EU Art 2, the Programme defines “work” as the outcome of building or civil engineering works taken as a whole which is sufficient in itself to fulfil an economic or

technical function.

Therefore, the execution, or both design and execution of works as well as costs for site preparation, delivery, handling, installation, renovation should be included under this budget line.

### General principles of eligibility

Costs of infrastructure and works are eligible provided that the following general requirements are fulfilled:

- they have been approved by the Programme;
- no other EU funds have contributed towards financing of the same expenditure item (i.e. no double funding is permissible)<sup>42</sup>
- they are subject to applicable public procurement rules and each partner organisation is responsible for ensuring that these rules have been respected; and
- they comply with the applicable EU and Programme visibility rules.

The purpose and ownership of the infrastructure cannot be changed for at least 5 years after the project end date.

#### F.3.6.1 Specific rules applicable to this budget line

Expenditure under this budget line is eligible according to the following principles:

- Full costs of infrastructure and construction works that are implemented within the project are eligible, i.e. no depreciation is necessary.
- Documents specifying the ownership of land and/or buildings where the works will be carried out must be provided. (i.e. land or buildings must be in the ownership of a project partner).
- All compulsory requirements set by the EU and national legislation related to the respective investment in infrastructure must be fulfilled (e.g. feasibility studies, environmental impact assessments, building permission).

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<sup>42</sup> Regulation (EU) No 1303/2013 Art 65.11

#### Documentation:

- procurement documents;
- contracts (with a clear reference to the project and the Programme. For contracts based on a daily fee, such fee, together with the number of days contracted and the total amount of the contract, must be provided);
- invoices; and
- payment proof.

#### **F.3.7 Budget line 7 – Expenditure for specific project activities (E.g. expenditure for large research activities at sea etc.)**

The majority of the project costs can be allocated to the previously described six budget lines. However, in exceptional cases there might be project relevant costs, which cannot be included in any of the main budget lines (e.g. they cannot be reported on the direct cost basis or they are not covered by the flat rate for office and administration costs). For these exceptional cases projects could request reporting of specific costs on the basis of simplified cost options i.e. standard scales of unit costs<sup>43</sup>.

Application of standard scales of unit costs would mean to define cost unit(s) for certain specific project activity/activities. The value of such a unit would be established e.g. based on verified historical data of the relevant project partner. The maximum amount of units needed would have to be defined and justified. The amount per unit would have to be calculated and justified. Relevant calculations and documentation have to be submitted together with the application.

In general, it is important to document that costs covered by budget line 7 will not be reported in any other budget line.

If a project assumes that some costs have to be budgeted in budget line 7, a formal request has to be submitted to the JS. The JS will assess the request and, if the costs qualify for this category, the respective section will be unlocked for the lead applicant. The lead applicant is obliged to follow the guidance by the JS when planning costs in this budget line.

#### **Example:**

*A project partner owns a research ship, which will be needed for a couple of*

<sup>43</sup> Art. 67.1b Regulation (EU) No. 1303/2013

*days for a specific project activity. The partner organisation has documentation of the historical costs related to the ship (e.g. costs of the previous year related to fuel, maintenance). By dividing the annual costs by the number of operation days in the previous year, an amount of average daily costs in the previous year can be calculated. In this case the specification of the unit in the application could be “research day on a ship”, the number of units would be the maximum expected days of use and the amount per unit would be the average daily costs in the previous year.*

#### **Ineligible costs under budget line 7:**

- costs eligible as direct costs under any of the other budget lines (e.g. costs exclusively outsourced etc.); and
- costs covered by budget line 2 flat rate;

### **F.4 Activities financed by ERDF implemented outside the Union part of the Programme area**

#### **F.4.1 Definition and identification of activities outside the Union part of the Programme area**

As a general principle, project activities co- financed by the ERDF must be implemented on the part of the Programme area comprising European Union territory. However, in the case of transnational programmes the scope of a project might require cooperation and joint actions with organisations from countries on the European Union territory but outside the programme area, as well as in third countries.

To facilitate the implementation of such actions the Managing Authority can accept that all or part of a project and its ERDF-financed activities are implemented outside the Union part of the Programme area.<sup>44</sup> This means that project partners located in Member States in the Programme area receiving ERDF co-financing can, in justified cases, implement activities in third countries or in Member States not taking part in the Programme. If activities (including travel) or events fall under this category the following basic requirements need to be fulfilled:

- the activity and/or event are for the benefit of the programme area;

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<sup>44</sup> Regulation (EU) No 1299/2013 Art 20(2)

- the activity and/or event are essential for the project implementation;
- the implementation and/or the relevance of the activity or the event have been approved by the Managing Authority ex-ante.

Activities (including travel) or events implemented outside the Union part of the Programme area but in Programme countries (Norway, Russia, and Belarus) do not require prior approval by the MA/JS.

Further exceptions to the rule are activities and events with promotional and/or capacity building character implemented outside the Union part of the programme area as these do not need to be formally categorised as operations outside the programme area and do not need a prior approval from the MA/JS.<sup>45</sup> However, these events and activities should still present a clear benefit for the programme area and be essential for the project implementation.

**Please note** that this chapter does not include information on organisations outside the Union part of the Programme area that might become official partners of a project. Specific requirements concerning this topic are provided in Chapter C.1.4.

#### **Determining whether an activity falls in or outside the Union part of the Programme area:**

The location of the activity is the decisive factor when determining whether the implementation of an activity is outside the Union part of the Programme area. Establishing the location of an activity is relatively simple. For example, for investments or infrastructure the determining factor is the location of the infrastructure. Whereas for accommodation and catering the determining factor is whether the accommodation is located/the catering is delivered inside or outside the Union part of the Programme area. For other activities, which are of non-material nature, the determining factor is the location of the project partner that incurred the costs.

#### **F.4.2 Financial threshold and monitoring**

No more than 20% of the ERDF allocated to the Programme can be spent on the activities and events outside the Union part of the Programme area. This threshold also includes the ERDF funds allocated to project partners located

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<sup>45</sup> Regulation (EU) No 1299/2013 Art 20(3)



outside the Programme area. (For further details see Chapter C.1.4) Activities having a promotional and/or capacity building character will not be calculated into this threshold.

In order to be able to monitor the threshold the MA/JS will follow up the generation of expenditure outside the Union part of the Programme area on the project level in the regular progress report. In this respect, a section will be made available where the respective data can be introduced by the project partners.

## F.5 Cost sharing

Every partner is expected to contribute with individual activities to the joint work plan of a project. The costs of the activities are budgeted and after certification reported as expenditure of each partner. Therefore, a well-planned division of tasks and budget among the partnership is essential when setting up the project.

Under these circumstances, **cost sharing**, which is by definition a pro rata allocation of certain project expenditure incurred by a partner and allocated to various other project partners, **is not allowed** in the Programme period 2014-2020. As this is a significant difference compared to the previous Programme period, project partners should pay special attention to the new rule and make their project and budget planning accordingly.

## F.6 Financial planning and de-commitment

Projects have to plan their budgets and spending plans carefully since underspending may result in de-commitment. If ERDF funds are not spent according to the defined schedule (known as the “N+3 rule”) the European Commission will de-commit the unspent funds from the Programme<sup>46</sup>. In such a situation, and if the de-commitment cannot be secured by other means, the commitments granted to projects will have to be reduced.

In order to avoid or to reduce the underspending of projects the MA/JA recommends the following:

- The spending rate of a project is usually lower at the beginning of the implementation phase. Therefore, projects are not recommended to plan too ambitious spending rates for the beginning of the project, unless they can assure a swift start; and

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<sup>46</sup> Art. 86-88 of the EC Regulation (EU)

- The spending target of the overall project should derive from the targets on the partner level. Therefore, it is essential that every partner has its own realistic spending plan.

#### F.6.1 De-commitment: What projects might be affected?

The decision on which projects are affected by the de-commitment will be based on an assessment of the project's spending plan as fixed in the subsidy contract and the actual spending rate of the projects.

Experience shows that project spending is delayed in the first months and that an underspending of 10% can be tolerated. Taking this into account, de-commitment will – in the first instance - only concern **projects whose implementation phase is half finished and their underspending equals or exceeds 10%** compared to the spending plan in the subsidy contract. In case the Programme's de-commitment amount in question cannot be compensated by the project budget cuts as outlined in the procedure above, the 10% threshold will be lowered and additional projects will be included in the de-commitment procedure.

#### F.6.2 Calculation of the de-commitment

The reference period for the calculation of the project funds to be de-committed starts with the project's first reporting period and ends with the most recent reporting period of the year, which is affected by the de-commitment.

For the reference period, the difference between the project's target (sum of planned payment requests (ERDF only)) and actual requests for payments (sum of eligible payment requests and payments (ERDF only)) - both cumulated until the end of the latest reporting period - is calculated in % and EUR.

The amount in excess of the 10% threshold is the maximum amount to be de-committed from the project's ERDF funding.

After official information is provided from the Commission about the amount to be de-committed from Programme funds of year N, the MA/JS calculates the amount to be de-committed from the project funds.

The assessment and calculation by the MA/JS is approved by the Monitoring Committee. As a result, the affected projects must lower the ERDF co-financing of the planned payment requests of the past reporting periods, starting with the first one. After reduction, the budget allocated to each reporting period must not be lower than the amount of the ERDF actually paid in that reporting

period. The respective procedures will be communicated to the partners by the MA/JS, should such a situation occur.

## **G Project implementation and progress reports**

### **G.1 Programme support to project implementation**

The Programme provides various tools and organises events to support project implementation. The Joint Secretariat (JS) in the Rostock and Riga offices provides services to the lead partners<sup>47</sup>. Project officers, finance officers and communication officers help you with questions related to the implementation of the project as well as in reporting on project activities and expenditure. The Programme recommends that projects make use of the support offered by the JS for successful implementation.

#### **Lead partner seminars**

Approximately three months after project approval, the JS invites projects to a lead partner seminar. Here, project coordinators and financial managers can familiarise themselves with practical information about the implementation and management of the projects. The seminars cover rules on eligibility of expenditure, monitoring and reporting procedures, first level control and payments. In addition, the JS outlines the Programme's expectations towards project communication. These seminars provide a platform to discuss topical issues with the JS as well as among project representatives.

#### **Financial seminars**

Towards the end of the first reporting period, the JS invites projects to a financial seminar. During the seminar the financial managers of the lead partners and the first level controllers receive further and more specific information on eligibility rules, reporting procedures, control and audit. The financial seminars also provide an opportunity to discuss topical issues with the JS and with other project representatives.

#### **Communication seminars**

Communication seminars are organised to support the information managers in communicating better with the target audiences of their projects. The participants receive training in key fields of communication such as communication planning, storytelling and use of social media.

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<sup>47</sup> The lead partner principle is explained in Chapter C.2 of the Programme Manual.

### Quality workshops

The JS organises quality workshops devoted to relevant topical issues: e.g. a content related theme or a certain phase in the project implementation. An important aim of the workshops is to create a platform for exchange of experiences between the project lead partners and the JS on implementation issues and reporting procedures and requirements.

### Advice to projects and consultations

The lead partners of the projects are encouraged to contact the JS for advice regarding project implementation by e-mail or telephone. Relevant contact information is available on the Programme website. In addition, the JS can arrange individual consultations upon request during events (e.g. lead partner seminars), in the JS offices in Rostock or Riga or on-line (e.g. via Skype).

### Project visits

The JS may visit selected events of the projects (e.g. kick-off, media trip, mid-term or final conference) or project meetings when necessary. The JS has, however, limited resources for project visits. Participation of the JS in online-meetings of the projects may also be considered.

### Information on the website

All the Programme documents necessary for project implementation are available on the Programme website. ([www.interreg-baltic.eu](http://www.interreg-baltic.eu))

- **Project management toolbox**

The project and financial managers can find templates in the toolbox for project implementation e.g. for partner reports, staff costs documentation/timesheets and other relevant documents. In addition, the toolbox includes an information toolkit containing templates for press releases, Programme messages and logo as well as basic information about the Programme such as fact sheets, presentations, and flyers.

- **Frequently asked questions (FAQ)**

A section on frequently asked questions (FAQ) provides answers and examples about the rules and requirements for the project implementation.

- **Country-specific information**

The website also contains country-specific sections with information in national languages or specific only for one country (e.g. national authorities, information

on the first level control systems).

- **Programme and project events**

In addition, all the Programme events and many project events are announced in the Programme calendar on the website.

## **G.2 Getting started**

### **G.2.1 Partnership Agreement**

The project partners should give full support to the lead partner to ensure the successful implementation of the project. In order to ensure the high quality and fulfilment of objectives, **a contract between the lead partner and project partners has to be concluded**. The partnership agreement formalises the division of mutual responsibilities and rights of partners. It must contain, inter alia, provisions guaranteeing a sound financial management of the funds allocated to the project, including the arrangements for recovering amounts unduly paid<sup>48</sup>.

The partnership agreements should be concluded among all project partners before the first payment request is submitted. The first level controller of the lead partner has to verify that a partnership agreement has been signed by all project partners and that this agreement contains clauses which regulate the minimum requirements stipulated below. When requested the partnership agreement has to be sent to the JS together with the progress report.

Project partners will only receive the Programme co-financing of their costs after they have signed the partnership agreement. In case a partner has not signed the partnership agreement by the time the second progress report is due, it will be removed from the project partnership. In such case the lead partner has to follow the project change procedure in circumstances where there is a partner drop out. For further details see Chapter G.4.

An example of a partnership agreement is available on [www.interreg-baltic.eu](http://www.interreg-baltic.eu). It is not compulsory for the lead partner and its project partners to adopt the example clauses. Issues that are to be stipulated in the partnership agreement depend on the specific needs of each project. Therefore, the lead partner can negotiate the example of the partnership agreement with its project partners. However, the partnership agreement should fulfil the following minimum requirements:

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<sup>48</sup> Regulation (EU) No 1299 2013\_ETC, Art. 13.2 (a)

- definition of the joint objectives of the project;
- definition of roles and responsibilities of the project partners (including the lead partner) and their mutual obligations, especially regarding:
  - implementation of the project activities and delivery of project outputs,
  - establishment of a sound financial management structure,
  - reporting obligations and related deadlines to be met,
  - retention of documents,
  - observance of information and publicity measures (see Chapter F.1.9);
- detailed work plan, including the operational structure and responsibility for the different work packages and their administration, as well as the duration of the individual partner activities (in line with the MC decision and subsidy contract) and handling of potential changes in the project set-up;
- detailed project budget, including the co-financing for and contribution of each project partner (including the lead partner) and handling of potential changes in the project budget;
- detailed spending plan for all project partners (including the lead partner);
- provisions regulating partner liability and the consequences of non-fulfilment of obligations;
- arrangements for recovering funds unduly paid to the project partners;
- procedures for solving disputes and imposing penalties;
- handling of potential changes in the project partnership; and
- physical or intellectual ownership of the outputs.

If a project change as described in Chapter G.4 affects the content of the partnership agreement this should be amended accordingly. An addendum to the partnership agreement has to be signed by the LP and relevant project partners by the end date of the closure phase of the project, at the latest. With the final progress report the first level controller of the LP has to verify that the addendum has been signed by the LP and all project partners.

### **G.2.2 Communication plan**

Projects are recommended to prepare a project communication plan. The purpose of the communication plan should be to:

- agree and coordinate communication aims, target groups and approaches between the work packages; and
- plan targeted communication activities.

The communication plan may include:

- communication aims, target groups and approaches;
- main messages of the project and/or work package;
- responsibilities; and
- indicative budget.

### **G.2.3 Accounting system of the projects**

The lead partner and all project partners must maintain:

- a separate accounting system for the project expenditure, or
- an adequate accounting code.

All partners are obliged to maintain a cost itemisation list including all project expenditure and transactions in English (incl. invoice number, payment day, VAT specification and a brief description of the cost item) without prejudice to the national accounting rules. For easier identification, the MA/JS also recommends using a special stamp with the project name or other adequate method for marking the invoices related to the project. In this way all project related expenditure and receipts should be clearly identified.

It is strongly recommended that the lead partner and all project partners maintain a separate bank account or a sub-account for receiving the ERDF, ENI and/or Norwegian national co-financing. Belarusian partners receiving the ENI co-financing funds are strongly recommended to keep a (sub-) account in EUR.

## **G.3 Reporting**

This chapter describes the main principles of the reporting.<sup>49</sup> The information detailed below is complemented by guidance in the reporting forms.

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<sup>49</sup> Preparation costs are exempt from the reporting rules. The specific rules are described in Chapter D.1.8.8. Reimbursement of preparation costs.



According to the subsidy contract concluded between the LP and the Managing Authority (MA) one of the LP's obligations is to regularly report on the progress of the project to the Joint Secretariat (JS).

Reporting to the JS is done through progress reports. The progress report is to be completed in the electronic Monitoring System. The submission of the progress report as well as the signature by the lead partner and the first level controller<sup>50</sup> will be done electronically via the Monitoring System only.

The JS monitors the progress and achievements of the project described in the progress report based on the subsidy contract and the information provided in the application form.

The progress report consists of:

- an activity report that provides information on the achievement of activities and outputs (see also chapter G.3.3), and
- a financial report which provides information on the project's expenditure (see also chapter G.3.4).

The progress reports must be submitted twice a year, usually in six-months reporting periods. The first report covers the contracting phase and the first six months of the implementation period. The last report covers the last months of the implementation period and the closure period.

All progress reports except the final progress report have to be submitted three months after the end of the respective reporting period, at the latest. The final progress report has to be submitted by the end of the closure phase of the respective project.

Data provided in a progress report is based on individual partner reports. The Programme will provide obligatory partner report forms.

### G.3.1 Reporting on activities and outputs

In the progress reports the project has to describe the progress made with regard to the implementation of **activities** and the development of **outputs** within the respective reporting period. The tasks carried out by different partners have to be clearly detailed. In addition, the project has to emphasise the involvement of **target groups** and other stakeholders and their contribution to the project.

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<sup>50</sup> For details regarding the first level control please see Chapter I. Audit and control.

During the first six months of the project implementation, the partnership has to set **quality criteria for the main outputs**. The quality criteria are the content and technical specifications of the main outputs that the partnership expects to fulfil. The JS will provide a template with guiding questions as well as consultations on how to define the quality criteria. The JS will check the quality of delivered main outputs against these criteria.

When the main **outputs** are finalised, the project has to describe the target groups and the way these will be further used. In addition, the partnership will have to describe the **changes** that the main outputs will bring to those who will take them over and use them (e.g. the established service offer will increase the capacity of an innovation infrastructure to collaborate with SMEs).

In case minor **deviations** or delays in the timeline or work plan occur, the project has to explain them to the JS via progress reports and amend the future timeline in the electronic Monitoring System, if necessary. For more information on how to deal with changes in the project, please consult Chapter G.4.

The partnership also has to report on the achievement of **output indicators**. The progress made towards their achievement has to be provided in every report.

In the final report the partnership is expected to provide an overall description of the achievement of the project **results** in relation to the increased institutional capacities.

In order to ensure effective and efficient management of the project, the LP should set up a proper system for the monitoring of project progress towards achieving the project results and ensure quality of outputs. In this respect, it is expected that the LP, together with the partners, establishes a monitoring and **quality assurance** system as a part of project management, and reports on the system in the progress reports.

### G.3.2 Reporting on finances

The expenditures of all project partners are compiled in the joint financial report. All costs included in the financial report must be allocated under the correct budget line.

When filling in the data, the forms will alert the lead partner if any budget or budget flexibility limits were exceeded<sup>51</sup>.

The compilation of the reported expenditure is done by the lead partner based on partner reports. The obligatory templates for the partner reports will, among others, contain a full list of all partner expenditure and a certificate of the partner first level controller<sup>52</sup>.

The financial report will be checked by the JS. Apart from the obligatory checks done for every report the JS will also carry out what is known as desk checks. During these desk checks projects might be asked to deliver samples of documents, which were previously checked by the first level control.

As soon as the progress report is accepted by the JS the co-financing funds can be reimbursed.

### **G.3.3 Management toolkit**

Besides the obligatory on-line forms for applications and progress reports the JS provides further off-line tools for project management. Some of these templates e.g. the partner report, are obligatory and must be used by all project partners, including the lead partner. Others are voluntary and the projects may use their own templates instead. The templates, as well as the related requirements, are provided on the Programme website- in the section “Management toolkit” of the Programme website ([www.interreg-baltic.eu](http://www.interreg-baltic.eu)).

### **G.4 Changes in the project set-up**

The partnership may introduce changes to the approved project set-up. This chapter describes categories of project changes and procedures on how to introduce them in the project set-up.

#### **Types of changes**

Depending on the impact on the project set-up, changes are divided into minor and major types. Furthermore, depending on their focus changes are categorised as follows:

- changes in the project partnership;
- changes in the budget;

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<sup>51</sup> Regarding budget flexibility rules please see Chapter G.4.1. Minor changes

<sup>52</sup> For details regarding first level control please see Chapter I. Audit and Control

- changes in the work-plan; and
- changes in the duration.

#### G.4.1 Minor changes and budget flexibility

Minor changes are adjustments of the project set-up which do not have a significant impact on the project implementation. As they are more of a technical character, they do not require prior approval by the MA/JS. Therefore, projects should inform the JS about the minor changes via progress reports.

A list of all the changes that can be introduced within the project without consultation with the MA/JS is detailed below:

Table 10: Minor changes in the project

Description of the change	To do list	Restrictions
<b>1. Contact data change of the lead partner or of the project partners</b>		
E.g. a name or contact details of a contact person has changed.	Update a contact list of the project application form; Update the progress report with the new contact data.	None.
<b>2. Change of the bank account of the LP</b>		
E.g. the lead partner changes a bank account.	Update the progress report with the new bank account information.	None.
<b>3. Change of the VAT status</b>		
During the project implementation the VAT status of one or more partners changes.	Update the relevant sections of the project application form.	None.
<b>4. Work plan adjustments</b>		
Projects may introduce minor adjustments in the work plan. They may be related either to a change of format of a single activity, or to an implementation timeline of a single activity	The projects have to communicate the adjustments to the JS via progress reports. The adjustments can be submitted to the JS either before or after they have taken place. Nevertheless, the projects are encouraged to report in advance on any upcoming adjustments and their impacts.	<ul style="list-style-type: none"> <li>• Project aim cannot be changed</li> <li>• Projects cannot modify the strategic approach of delivering the</li> </ul>

Description of the change	To do list	Restrictions
<b>1. Contact data change of the lead partner or of the project partners</b>		
E.g. a name or contact details of a contact person has changed.	Update a contact list of the project application form; Update the progress report with the new contact data.	None.
<b>2. Change of the bank account of the LP</b>		
E.g. the lead partner changes a bank account.	Update the progress report with the new bank account information.	None.
<b>3. Change of the VAT status</b>		
During the project implementation the VAT status of one or more partners changes.	Update the relevant sections of the project application form.	None.
and/or output delivery.		outputs. <ul style="list-style-type: none"> <li>• Projects cannot alter the planned nature and use of the main outputs, or to decrease their quality.</li> </ul>
<p><i>Example 1: Instead of carrying out a stakeholder workshop in the project implementation month 8, a partnership sees it more relevant to organise a back-to-back event during a large scale international forum (e.g. fair) in month 10. As a result, an output that includes stakeholder conclusions will be delivered by the end of month 10.</i></p> <p><i>Example 2: Instead of collecting stakeholder opinions via questionnaires it was decided to hold two stakeholder workshops instead. The implementation timeline is unaffected.</i></p>		

## 5. Budget flexibility

Budget flexibility allows projects to exceed their total planned budget lines by 20% or EUR 40,000, whichever is higher, without prior notification to the JS.

The flexibility is applicable throughout the whole project duration.

The lead partner has to follow the flexibility on a project level in every progress report.

Expenditure will be reported under the budget lines with the possibility of over-reporting by 20% or EUR 40,000.

The calculation in the progress report form is automatic. Whenever the flexibility is used, this will be reflected by the remaining minus amounts under each budget line.

Exceeding the flexibility will result in an error notification. In such cases the report has to be corrected before submission to the JS.

- The total budgets of the project partners cannot be exceeded;
- The total budget of the project cannot be exceeded;
- The nature and use of the planned investment items and outputs cannot be changed.

*Example:*

<b>Budget line (planned value)</b>	<b>Budget line (reported value)</b>	<b>Difference</b>
BL1 – EUR 600,000	EUR 540,000	EUR -60,000
BL3 – EUR 300,000	EUR 360,000	EUR 60,000 (20%)
	<b>TOTAL budget difference compared to planned</b>	EUR 0

## G.4.2 Major changes

Depending on their type, major changes can be approved either by the MA/JS or by the MC. In the following two tables, changes are categorised according to the approval body. The tables provide descriptions of the requirements regarding the submission of the requests for change.

Table 11: Major changes

1. Changes in the partnership	
1.1 Partner drop-out without any replacement	
<p><b>Description of change:</b></p> <p>A project partner is dropping out and no other organisation is taking over the implementation of its activities or its budget.</p> <p><b>Restrictions:</b></p> <p>When such changes occur the lead partner has to make sure that the activities which have been eliminated from the work plan, as well as the role of the partner, are not crucial for the implementation and the project results can be still delivered as initially planned. Otherwise, the activities have to be taken over either by an existing partner or by inviting a new organisation to join the partnership.</p>	<p><b>To do list:</b></p> <ol style="list-style-type: none"> <li>1) Submit a request for change form via the e-monitoring system;</li> <li>2) Submit an updated project application form via the e-monitoring system.</li> </ol>
<b>Approval</b>	<b>MA/JS</b>
1.2 Partner drop-out with replacement	
<p><b>Description of change:</b></p> <p>A project partner is dropping out and another organisation is taking over the implementation of the activities and the budget.</p> <p>The drop-out can happen under the following</p>	<p><b>To do list:</b></p> <ol style="list-style-type: none"> <li>1) Submit a request for change form via the e-monitoring system;</li> <li>2) Submit an updated project application form via the e-monitoring system;</li> </ol>

<p>circumstances:</p> <p>The partner hasn't started the implementation of the respective activities therefore these, as well as the budget, will be fully taken over;</p> <p>The partner has carried out partial delivery, but cannot continue the project work. In this case only the remaining tasks and budget will be taken over.</p> <p><b>Restrictions:</b></p> <p>In both cases the pre-condition of the change is that the partner dropping out is not continuing its participation in the project.</p> <p>The replacement can be done either by:</p> <p>a) a new organisation, or</p> <p>an existing project partner.</p>	<p>3) Submit a partner declaration for:</p> <p>a) a new organization</p> <p>OR</p> <p>b) an existing partner, updated and reflecting the increased budget</p>
<p><b>Approval</b></p>	<p>a) MA/JS based on the confirmation of the respective MC members on the eligibility of the new partner</p> <p>b) MA/JS based on the confirmation of the higher partner budget from the respective MC members</p>
<p><b>2. Changes in the project partner organisations</b></p>	
<p><b>2.1 Name change, legal status change, designation of a legal successor etc.</b></p>	
<p><b>Description of change:</b></p> <p>Structural or legal changes, such as a name</p>	<p><b>To do list:</b></p> <p>1) Submit a request for</p>



change or legal status change, which might occur in the project partner organisations during the implementation phase.	<p>change form via the e-monitoring system</p> <ol style="list-style-type: none"> <li>2) Submit an updated project application form via the e-monitoring system</li> <li>3) Submit an updated partner declaration or a new partner declaration for the legal successor</li> <li>4) Submit a copy of the official document stating the structural, legal etc. change</li> <li>5) If needed, submit a copy of the document proving that the name/legal statues/old organisation ceases to exist</li> </ol>
Approval	<p>MA/JS</p> <p>Or</p> <p>MA/JS based on the confirmation of the respective MC members on the eligibility of the partner</p>
<b>3. Changes in the budget</b>	
<b>3.1 Reallocation between budget lines above the flexibility level</b>	
<p><b>Description of change:</b></p> <p>The change comprises a budget reallocation between the budget lines which goes above the level of the flexibility rule.</p> <p><b>Restrictions:</b></p> <p>Only one budget change allowed during the</p>	<p><b>To do list:</b></p> <ol style="list-style-type: none"> <li>1) Submit a request for change form via the e-monitoring system;</li> <li>2) Submit an updated project application form via the e-monitoring system.</li> </ol>

project implementation.	
<b>Approval</b>	<b>MA/JS</b>
<b>3.2 Reallocation between project partners (and budget lines)</b>	
<p><b>Description of change:</b></p> <p>The change comprises a budget reallocation between project partners. The budget reallocation between partners can also be combined with a budget reallocation between the budget lines.</p> <p><b>Restrictions:</b></p> <p>Only one budget change allowed during the project implementation.</p>	<p><b>To do list:</b></p> <ol style="list-style-type: none"> <li>1) Submit a request for change form via the e-monitoring system;</li> <li>2) Submit an updated project application form via the e-monitoring system;</li> <li>3) Submit the updated partner declarations of the partners with increased budgets.</li> </ol>
<b>Approval</b>	<b>MA/JS based on the confirmation of the higher partner budget from the respective MC members</b>
<b>4. Changes in the work plan</b>	
<b>4.1 Work plan change</b>	
<p><b>Description of change:</b></p> <p>A project is allowed to change its approach without altering the planned project main outputs and results or with minor influences on the major outputs and their use.</p> <p>The change may concern the following aspects:</p> <ul style="list-style-type: none"> <li>• A project needs to re-structure its approach of delivering the set outputs,</li> <li>• A project needs to change a format</li> </ul>	<p><b>To do list:</b></p> <ol style="list-style-type: none"> <li>1) Submit a request for change via the e-monitoring system;</li> <li>2) Submit an updated project application form via the e-monitoring system</li> </ol>

<p>and/or use of a main output.</p> <p><b>Restrictions:</b></p> <ol style="list-style-type: none"> <li>1. Projects cannot substantially alter the planned nature and use of the main outputs, or decrease their quality.</li> <li>2. The request for change has to be submitted a <b>minimum of one month</b> before it is scheduled to take place. If submitted later, the MA/JS reserves the right not to approve it.</li> </ol>	
<b>Approval</b>	<b>MA/JS</b>
<p><i><b>Example 1:</b> Initially the project planned to develop a match-making ICT platform focused on SMEs dealing with aquaculture. However, during the discussions with relevant stakeholders it transpired that a <b>more effective way</b> would be to join an already existing network of almost the same nature that covers a wider region than the Baltic Sea Region, and establish a Baltic Sea Region branch. Thus, not only would the reach of the output be widened, but it would also benefit from contacts and structures offered by an already existing network.</i></p> <p><i><b>Example 2:</b> Due to changes in national legislation in a partner country the initially planned investment is no longer possible. The investment is important for project results as it allowed the carrying out of large scale tests of exhaust gas control solutions in the transnational context. Consequently, the project decided to work with smaller scale laboratory tests instead. The change in the approach also triggers a change in outputs as tests would not be run in real-life conditions.</i></p>	
<b>4.2 Reallocation of responsibilities within the partnership</b>	
<p><b>Description of change:</b></p> <p>The change comprises a reallocation of tasks within the partnership when one or more partners can take over tasks from other partners. This change may also include a partial reallocation of costs.</p> <p><b>Restrictions:</b></p> <p>All partners must continue their participation</p>	<p><b>To do list:</b></p> <ol style="list-style-type: none"> <li>1) Submit a request for change via the e-monitoring system;</li> <li>2) Submit a revised application form via the e-monitoring system;</li> <li>3) Submit the updated partner declarations of the partners with increased budgets.</li> </ol>

in the project.	
<b>Approval</b>	<b>MA/JS based on the confirmation of the higher partner budget from the respective MC members</b>
<b>5. Prolongation of the project duration</b>	
<p><b>Description of change:</b></p> <p>In well justified cases partnerships can apply for a prolongation of the project duration.</p> <p><b>Restrictions:</b></p> <p>1) The maximum duration of the implementation phase (36 months) cannot be exceeded.</p> <p>2) The request for change has to be submitted a <b>minimum of three months</b> before the end of the <b>implementation phase</b> of the project. If submitted later, the MA/JS reserves the right not to approve it.</p>	<p><b>To do list:</b></p> <p>1) Submit a request for change via the e-monitoring system;</p> <p>2) Submit an updated project application form via the e-monitoring system.</p>
<b>Approval</b>	<b>MA/JS</b>

Approval procedure:

The MA/JS carries out an assessment of the impact of the requested change. The assessment may result in one of the following outcomes:

- a) A positive assessment and the approval of the change request;
- b) Insufficient/unclear information to carry out an assessment. In this case the MA/JS launches a clarification process with the lead partner. If the clarification process is concluded with a positive outcome, the change is approved;
- c) A negative assessment and the rejection of the change request.

After the approval and where required the MA/JS will issue an addendum to the subsidy contract.

The following chart gives a summary of the general steps required for the submission and approval of a change:

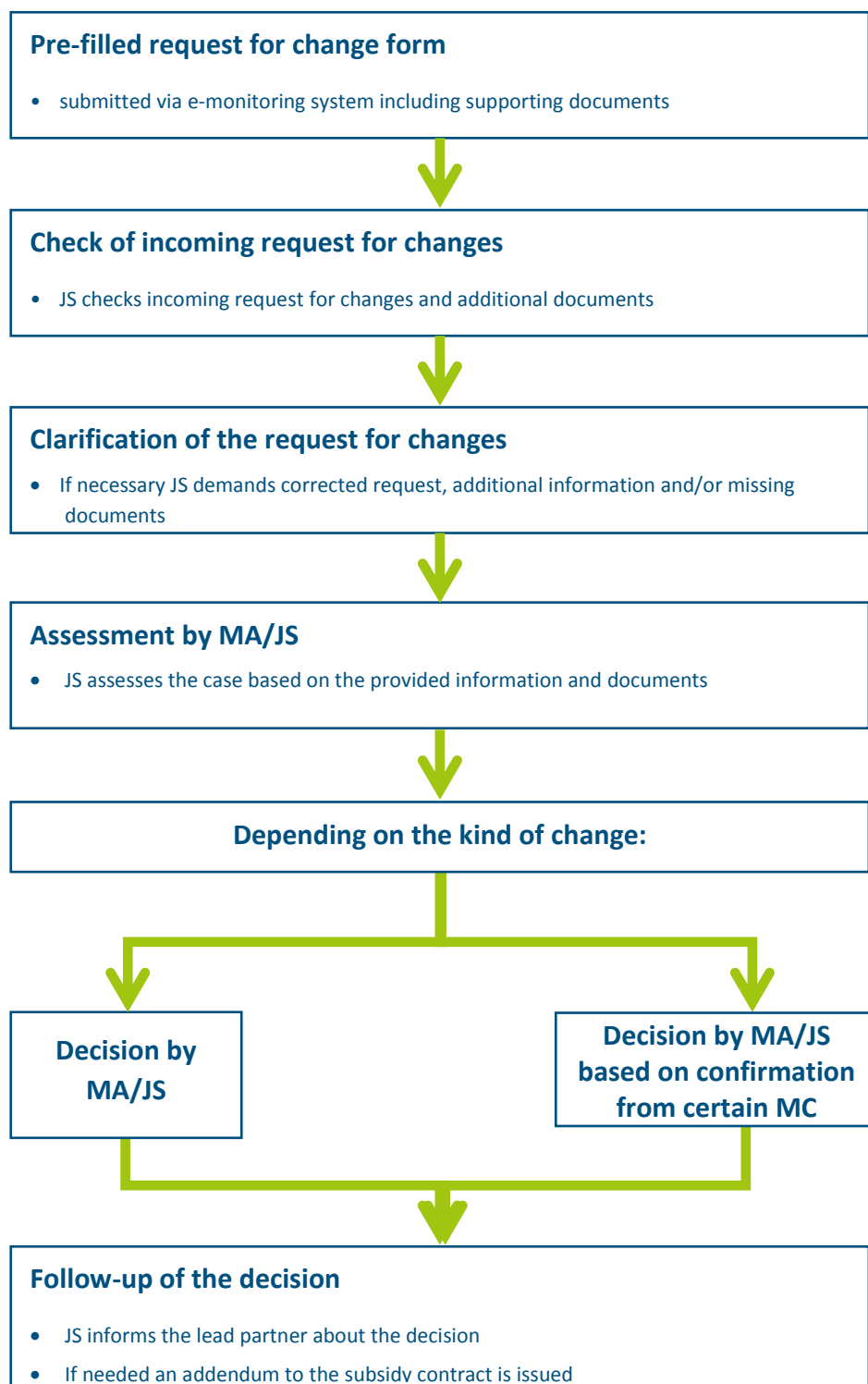


Figure 6: Project change procedure

## G.5 Responsibilities after the project closure

Certain responsibilities of the project partners do not stop with the finalisation of a project but they also continue after the project closure. In particular, project partners should be familiar with the specific requirements regarding ownership modifications, revenue generating and record keeping after completion of projects and the submission of the final progress report. This chapter provides guidance and sets out the Programme requirements regarding these specific issues.

### G.5.1 Durability and ownership of the project outputs

The ownership of the outputs having the character of investments in infrastructure and productive investments, produced during the project implementation must remain with the lead partner or project partners for at least **five years** after the project end date.

Any substantial modification of the project or of the outputs within five years after the project closure date must be avoided. In this regards, the projects must avoid:

- a cessation or relocation of a productive output outside the Programme area;
- a change in ownership of the investment or productive investment giving to a firm or a public body an undue advantage;
- a substantial change affecting the nature of the investment or productive investment which would result in the undermining of its original objective.

These conditions only apply to the outputs that have a character of investment or productive investments.

Outputs such as training material, etc. are not affected by the requirements of the retention of ownership. Projects producing such outputs should comply with the state aid requirements and make their outputs available under a public licence. (See Chapter F.1.4) This means that external organisations should be able to use, modify or disseminate the project outputs. However, it must be ensured that all modified and extended versions of the tools/training/etc. are free of charge (a copy-left principle).

Should any of the above conditions not be met by any of the project partners the MA/JS must be informed. This might well imply a recovery of the funds paid.

### **G.5.2 Availability of documents and accounting records**

All accounting and supporting documents (e.g. subsidy contract, project application form, service contracts, public procurement documentation, rental agreements/contracts, important communications with project partners/MA/JS etc.), documents related to the expenditure, controls and audits, and documents required to ensure an adequate audit trail must be accessible.

All related documents should be kept and be available for a period of three years from 31 December following the submission of the payment claim by the MA/JS to the European Commission including the expenditure of the completed project. The MA will inform each lead partner individually about the exact starting date.

These documents must be grouped together and archived. The accounting and supporting documents related to the project partners must be kept at the project partners' premises for an equal period of time. The documents can be kept either in the form of originals or in versions to be in conformity with the original on commonly accepted data carriers. The procedure for the certification of the conformity of these documents held on data carriers with the original documents must be in line with the provisions set by the national authorities and shall ensure that the versions held comply with the national legal requirements and can be relied on for audit and control purposes.

In case of retaining the documents electronically, internationally accepted security standards must be met.

Representatives of the Managing Authority/Joint Secretariat, Audit Authority, Group of Auditors, intermediate bodies, auditing bodies of the Member States, authorised officials of the European Community and their authorised representatives, European Commission and the European Court of Auditors are entitled to examine the project, all relevant documentation and accounts of the project even after its closure.

For revenues earned within five years after the project closure, please refer to Chapter F.1.7.

## H Payment of subsidies

### H.1 Reimbursement principle

The Programme's payment scheme is based on the principle of reimbursement. Each project partner needs to pre-finance their project expenditure and request reimbursement for project related costs from the lead partner by compiling a partner progress report. Prior to submission, the progress report has to undergo a specific certification procedure, what is known as a first level control (for details see *Chapter I Audit and control*). Based on the partner reports the lead partner compiles the project progress report. Once the project progress report has been checked and approved, the MA/JS will pay out the Programme co-financing to the lead partner. The lead partner will then reimburse the costs to the individual project partners.

**Please note:** The Programme does not pay any advance payment of ERDF and Norwegian national co-financing.

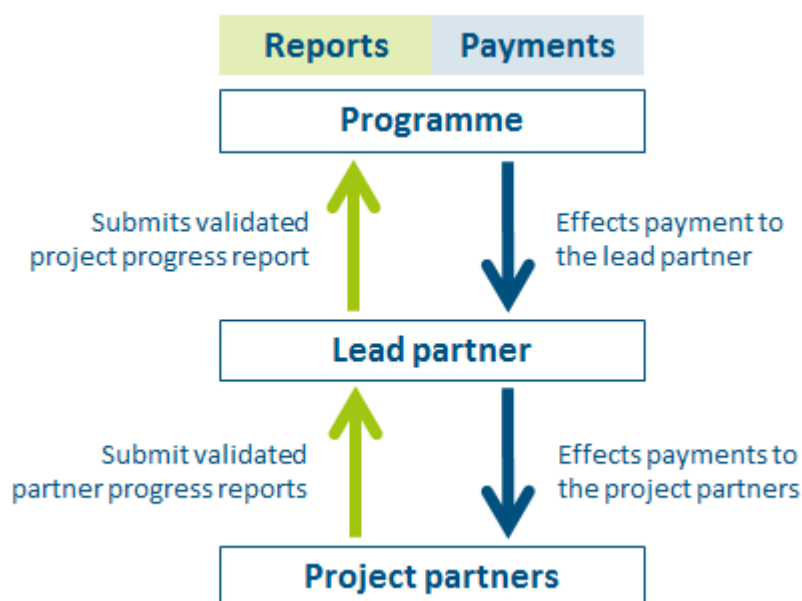


Figure 7: The reimbursement principle

### H.2 Payment rules for ERDF, ENI & Norwegian co-financing

#### Role and responsibility of the MA/JS in payment

The MA/JS is responsible for monitoring and transferring the payments of the progress reports within a reasonable time. In principle the MA/JS has to ensure



that a lead partner receives the total amount of expenditure requested no later than 90 days from the date of submission of the progress report by the lead partner to the MA/JS, provided that the Programme has sufficient funds available.

**Please note:** Project partners need to ensure efficient financial liquidity since several months can pass between the expenditure, the report submission and the actual receipt of funds

### Postponement of payment deadlines

The payment deadline may be postponed by the MA/JS in case the amounts indicated in the progress report are not correct and/or the appropriate supporting documents including the documents necessary for management verifications have not been provided (i.e. clarification procedure of a progress report).

An interruption can also occur if an investigation has been initiated by the relevant national or European institutions in relation to a possible irregularity. In such cases the lead partner will be informed in writing of the interruption and the reasons for it.<sup>53</sup>

### Payment transfer

After the approval of the progress report, the MA/JS informs the lead partner about the payment in a payment notification letter. In case there is any difference between the amounts requested in the progress report and the amounts paid, the payment notification letter informs the LP about the reasons for this.

The MA/JS transfers the requested co-financing directly to the account indicated by the lead partner in Euros. The payment arrives on the project account usually within in one to two weeks. The lead partner will receive payments from different accounts if he or she receives reimbursement from more than one fund (ERDF, Norwegian and ENI).

The lead partner is responsible for internal allocation and further disbursement of funds to the project partners after receiving the payment from the Programme. This should be done without delay and as quickly as possible. No

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<sup>53</sup> Regulation EU 1303/2013 Art 132

amount shall be deducted or withheld and no specific charge or other charge with equivalent effect shall be levied.

## **I Audit and control**

### **I.1 Terminology**

The terms 'audit' and 'control' (and thus auditor and controller) are not interchangeable since they have two different meanings.

The term "first level control" (FLC) refers to the checks performed by the controllers in compliance with REGULATION (EU) No 1299/2013, Art. 23(4-5) and REGULATION (EU) No 1303/2013, Art. 125 (4) and the Programme. The duty of the controllers is to validate the legality and regularity of expenditure declared by the project partners for Programme co-financing. The term "second level audit" (SLA) means the checks performed by the auditors in compliance with REGULATION (EU) No 1299/2013, Art. 25 and with REGULATION (EU) No 1303/2013, Art. 127. The duty of the second level auditors is to carry out the audits on projects/project partners selected in samples by the Audit Authority to verify the expenditure declared to the European Commission.

### **I.2 The FLC system**

Participating countries of the Programme have to set up their systems for the FLC. A detailed description of the national FLC systems, including the requirements upon the controllers, is available on the Programme website.

There are two different FLC systems applied by the countries in the framework of the Programme:

- Centralised FLC system
- Decentralised FLC system

#### **I.2.1 Centralised FLC system**

In centralised FLC systems a central body is appointed by the respective country to carry out the FLC. This body can be approbated at a federal, national, regional level or a combination of those levels.

The controllers are civil servants or employees working within the approbated organisation or might also be external controllers appointed for this specific mission by the given country.

The controllers possess the qualifications required by the respective country. In performance of their duties the controllers are obliged to fulfil the

requirements for the FLC laid down in the EU regulatory framework and in the national legal framework.

The countries with a centralised FLC system keep a list of the controllers that are entitled to validate the expenditure in the framework of the Programme. The list is available for the public and is regularly submitted to the MA/JS. Only controllers on the list can certify the expenditure and sign the FLC certificate and other FLC documentation required for each project and partner progress report. It is the participating country that monitors the performance of the first level controllers on its territory and thus checks that the first level controllers are acting in compliance with the EU regulatory framework and in accordance with the national legal framework for the validation of expenditure of the project partners.

The following countries participating in the Programme have decided to implement a centralised FLC system: **Estonia, Latvia, and Poland** (Marshal offices, Voivodes, ministries and central offices may also use internal independent controllers), **Sweden** and **Åland (Finland)**.

### 1.2.2 Decentralised FLC system

In decentralised FLC systems, the controlled project partner is free to appoint its controller. The controller must in all cases:

- be independent from the controlled project partner;
- hold the qualifications set by the respective country; and
- fulfil the requirements for the FLC laid down in the EU regulatory framework and in the national legal framework.

In this system it is the respective country that approbates the controllers in accordance with REGULATION (EU) No 1299/2013, Art. 23 (4). The approbation bodies in the countries with a decentralised FLC system keep a list of the controllers that are entitled to validate the expenditure in the framework of the Programme. The list is available for the public and is regularly submitted to the MA/JS. Only controllers on the list can certify the expenditure and sign the FLC certificate and other FLC documentation required for each project and partner progress report for which they were approbated. It is the participating country that monitors the performance of the first level controllers on its territory and thus checks that the first level controllers are acting in compliance with the EU regulatory framework and in accordance with the national legal framework for the validation of expenditure of the project partners.

The following countries participating in the Programme have decided to implement a decentralised control system: **Denmark, Germany, Finland, Lithuania and Norway.**

### **I.3 Important aspects of the FLC**

In the framework of the Programme the FLC plays a key role and consequently deserves special attention in the whole reporting system. This should be understood both from the FLC system's preparation and description point of view as well as via its implementation throughout the whole Programme period.

A well-functioning control system ensures lower risks for the projects, the project partners and the whole Programme. Such a reliable FLC system should cover the following important aspects:

- FLC system description
- FLC independence
- FLC quality
- FLC competence
- FLC capacity
- FLC harmonisation and cooperation

#### **I.3.1 FLC system description**

The FLC system description defines the institutional set-up with clear responsibilities, procedures, allocation of resources (human and financial) and on setting key and standard (minimum) requirements upon the system and controllers. This is a prerequisite for a secure and well-functioning first level control which, in turn, ensures quality and timely validation of project expenditure.

A specific role in the national FLC system, mainly in the decentralised control systems, is played by, what is known as the approbation body. This is an institution responsible for the FLC system on the territory of its country. The approbation body approbates independent and qualified controllers for the project partners in its country (see chapter I.4). Furthermore, it is responsible for guidance and quality assurance of the first level control on its territory throughout the whole implementation period of the Programme.

#### **I.3.2 FLC independence**

In every FLC system the controller must be independent from the controlled

project partner. This independence must be ensured both from the project's finances as well as the activities. For example:

- **internal controllers:** in the systems where it is applicable, the controller must be placed in a clearly independent position from the project within the organisational structure, e.g. under the responsibility of a different director.
- **external controllers:** in the systems where it is applicable, the controller should not be involved in providing other services to the respective project partner, e.g. as a tax advisor.

Although ISRS 4400 provides that independence is not a requirement for engagements, the Programme requires that the controller also complies with the independence requirements of the 'Code of Ethics for Professional Accountants'.

The controller must also be independent from other levels of controls as SLA and bodies of the Programme structure and decision making. Independency must be ensured in the terms of reference indicated by the European Commission<sup>54</sup>.

### **I.3.3 FLC quality**

On the one hand quality means the quality of validation of expenditure as such, i.e. checking of project partner's declared expenditure and the elimination of ineligible costs. On the other hand it also means the quality of documentation of the FLC work, e.g. in the FLC report and checklist. The documentation and description of the FLC carried out should be traceable and understandable including for third parties being involved in the system, for example lead partners, MA/JS, SLA, and European Commission.

The FLC is more than a regular audit of accounts. The quality of the controls has a direct impact on the Programme and the project implementation. It may also have an effect on other projects and project partners. A good quality validation implies, among other things, the verification of the delivery of products and services, soundness of expenditure and compliance with the rules (EC, national

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<sup>54</sup> European Commission recommendation on statutory auditors' independence in the EU: a set of fundamental principles according to 2002/590/EC; International standard on quality control N°1 (International Federation of Accountants); Code of ethics of the INTOSAI, Auditing standards Chapter II-2.2.Standards with Ethical significance.

and Programme rules) and contracts (e.g. subsidy contract incl. project data form and service contracts).

#### **I.3.4 FLC competence**

There are different control systems complying with specific national requirements in place. The competence of each particular controller must be ensured in each participating country.

The controllers have to meet distinct requirements. Controllers should have, among other things, knowledge of EU regulations, Programme rules and the national rules and accounting principles. The description of the national control system summarises the requirements to be met by controllers in terms of experience, knowledge of the above mentioned rules and certainly a good command of the English language. As the validation concerns public funds, the requirements also concentrate on knowledge of public procurement rules, the calculation of personnel costs and other Programme specific rules (e.g. bid-at-three rule).

The controller's competence is crucial for a sound FLC system. Therefore, the requirements set have to be met before controllers are appointed to validate expenditure. In addition, the competence should be ensured and updated via targeted training during the Programme implementation period (e.g. specific training on public procurement, seminars on Programme rules and reporting, exchange of experience with other controllers and the MA/JS).

#### **I.3.5 FLC capacity**

There are a high number of project partners submitting their expenditure to the MA/JS. From the reporting point of view project partners depend on each other. The lead partner collects all validated partner reports in order to submit the validated project progress report for the Programme's co-financing. Consequently, in order to ensure timely validation, the capacity of the FLC is very important. A reporting delay of one project partner delays the reporting of the whole project and consequently, the payment of funds to the project.

#### **I.3.6 FLC harmonisation and cooperation**

In the framework of transnational cooperation programmes the harmonisation and standardisation of the work of controllers within one country and between countries is highly relevant. In order to establish such a system controllers are obliged to use the standardised tools and criteria for verification of expenditure to ensure equal quality over the whole Programme area. Using standardised

tools (e.g. standardised FLC report template and checklist) ensures, besides coherence among controllers, transparency of the work performed for third parties involved in audit and control.

In addition, controllers are encouraged to cooperate and communicate with each other. In general, the MA/JS highly recommends that controllers attend seminars, workshops or other meetings organised for them on specific topics on:

- the Programme level (seminars/workshops mainly for lead partners and their controllers),
- national level (seminars for project partners and their controllers of the particular country),
- EU level (events organised for example by Interact or European Commission services).

#### **I.4      Approbation of the controller**

The progress report is only admissible if it has been validated by an approbated controller.

In the centralised FLC system the given participating country has already approbated the controllers in the description of their FLC system. Therefore, project partners do not need to obtain any further approbation of their controller before the submission of the progress reports.

In the decentralised FLC systems an individual approbation of a controller is needed. Therefore, project partners from such a country have to obtain an approbation of their controllers from the approbation body before the first expenditure is validated and the progress report submitted to the JS.

Any controller from the country with a decentralised FLC system who was accepted by the approbation body will receive an official approbation certificate. Only approved controllers are entitled to validate project partner expenditure.

In the decentralised FLC systems the approbation process of controllers is organised as follows:

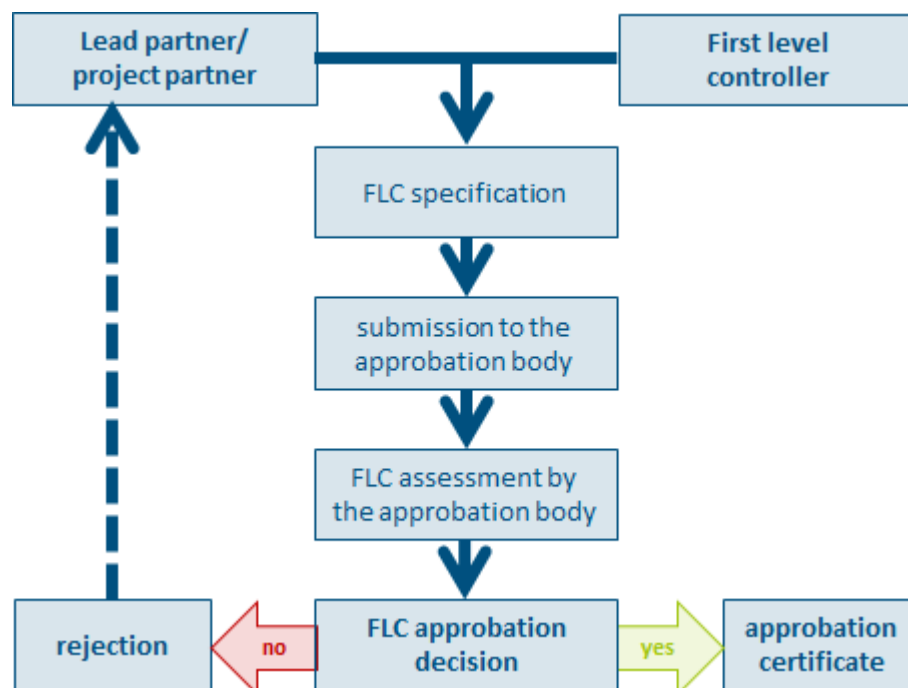


Figure 8: First Level Control (FLC) approbation process

Each project partner and its controller fill in and sign the first level controller(s) specification (the template is available from the approbation body).

Each project partner submits the first level controller's specification to the approbation body of the respective participating country. For the contact address of the approbation body please see the Programme website ([www.interreg-baltic.eu](http://www.interreg-baltic.eu)).

The relevant approbation body checks the information provided and evaluates whether the proposed controller is sufficiently independent and qualified to carry out the FLC of the project partner and the project. During the assessment process of the proposed controller the approbation body may ask for further clarification and documentation proving the required qualification.

The approbation body sends the decision (approval or rejection) on the FLC in the form of an approbation certificate to the respective project partner (see the Programme website for an example).

Upon approval, project partners submit copies of the approbation certificates to the lead partner of the project. If for any reason the approbation body rejects the proposed controller the respective project partner has to select a new controller and start the approbation procedure again from stage 1.



Should the controller change, the whole approbation procedure has to be followed from stage 1 for all controllers that are not certified by the approbation body.

The certificate issued by the approbation body for the controller and the specific project is valid for the whole duration of the given project. It has to remain with the controller, who has to present it to any interested institution. However, the approbation procedure cannot be initiated by a controller, but only by a project partner of an approved project of the Programme.

For more details and applicable templates please refer to the approbation body of the respective country.

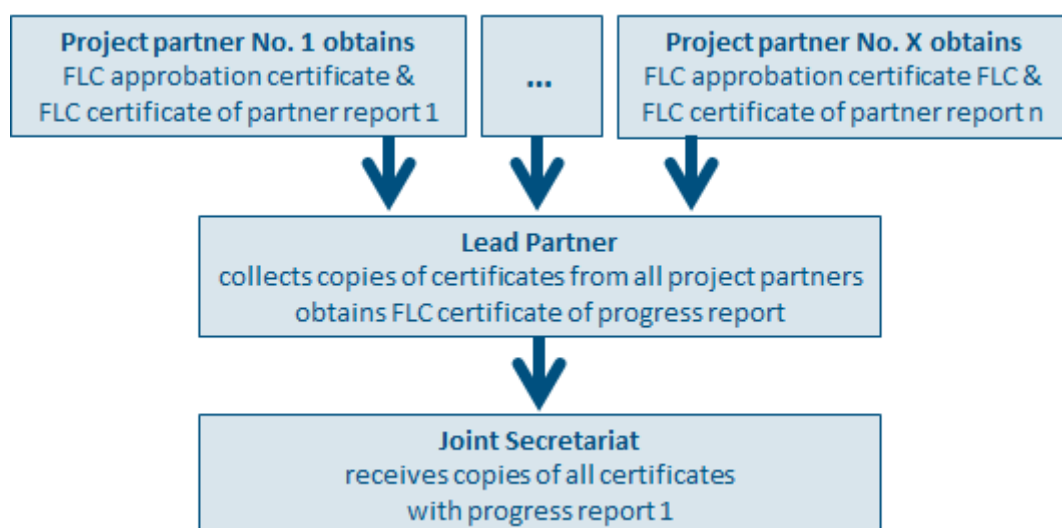


Figure 9: FLC certificates to be submitted with the first project progress report

### Responsibilities of the lead partner

For each progress report the lead partner has to check that the FLC confirmation (part of the project and partner progress reports) is submitted by each project partner reporting its expenditure. The progress report has to be signed by the project partner's controller who is officially authorised by the approbation certificate or by the respective approbated FLC institution (in the cases of centralised systems).

In addition the lead partner is requested to attach to the first project progress report that will be submitted to the JS:

- a copy of the FLC confirmation of each partner progress report
- a copy of the approbation certificate of all project partners from countries with a decentralised FLC system.

## I.5 Validation by the controllers

### I.5.1 Scope of and standard tools for validation

The validation by the controller follows a two-step approach:

- at **partner level**: validation of expenditure and of compliance of activities carried out in the framework of the project as declared by the project partner in individual partner reports;
- at **project level**: validation of the entire expenditure and activities declared by the project via the lead partner in the respective project's progress report.

The MA/JS in cooperation with other ETC Programmes and Interact have developed standardised **tools for the validation of expenditure**. The following tools shall be used for the validation of progress reports:

- FLC certificate; and
- FLC report and checklist.

Templates for these documents can be downloaded from the Programme website. The standard parts of these documents cannot be modified.

### I.5.2 Validation at partner level

The project partners must get all the expenditure and activities that are declared in their partner report validated by the approbated controller in their country.

The FLC validates the activities of the project partner in the sense of them being related to the project and, in general, compliance with the activities and aims of the project. For example, if the business trips to the events were related to the project. The FLC does not however, evaluate the quality of the project activities. In case of any doubts or questions the FLC can approach the JS.

The controllers validate the compliance of project partner expenditure in conjunction with:

- the eligibility and other Programme rules defined in this Programme Manual,
- the applicable EU and national regulations (for example on public procurement) and transparent selection procedures for external services (service contracts), and
- the approved application form/project data form and with the rationale of the project (see subsidy contract contract).

The controllers will also verify the expenditure in accordance with applicable standards and ethics of the International Federation of Accountants (IFAC), in particular:

- in accordance with the ISRS 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC; and
- in compliance with the 'Code of Ethics for Professional Accountants' issued by the IFAC.

All first level controllers at the project partner level are required to:

- validate the **expenditure incurred and paid** by the **controlled project partner**;
- validate the contents of both the activity and financial component of the partner progress report;
- draft an FLC report and checklist on the control performed;
- sign the first level control certificate of the partner progress report;
- **submit** an original of the **FLC certificate** together with the **FLC report and checklist** (at least as a copy) to the project partner together with the validated partner report.

Project partners should take into consideration possible costs of the FLC when planning their project partner budgets. Provided it is in line with the national rules the FLC costs resulting from the validation of the project partner's expenditure can be reported as eligible project expenditure. It depends on the FLC system of a country (e.g. centralised or decentralised) as to whether project partners have to pay for the FLC. The following table summarises this issue:

Table 12: Does the project partner have to pay for the FLC?

	DE	DK	EE	FI	LT	LV	NO	PL	SE
<b>Project partner has to pay FLC</b>	Yes	Yes	No	Yes	Yes	No	Yes	No <sup>55</sup>	No

However, project partners are asked to check with their responsible national authorities, if further requirements apply.

### I.5.3 Validation at project level

In addition to the validation of activities and expenditure on the partner level **the controller of the lead partner has to validate the progress report of the entire project**. For that purpose the lead partner collects from the other project partners as a minimum:

- the partner reports,
- FLC certificates of the partner reports,
- FLC reports and checklists of the project partners' controllers.

This does not include an additional control of the partner reports but is more a plausibility check. In case of inconsistencies and doubts reasonable additional checks and clarification can be carried out.

In addition, the controller of the lead partner has to check that the partnership agreement and, if applicable, an addendum to the partnership agreement has been signed and all minimum requirements were met.

Based on the above mentioned documents and, if applicable, other relevant supporting documents, the controllers of the lead partner validate the **project progress reports**. The FLC shall be documented in the FLC report and checklist. The validation of the project progress report is confirmed in the FLC certificate.

<sup>55</sup> In case the Polish partner uses the option of internal controller (which is allowed if the partner is marshal office, ministry or other central government office and the controller was approved by the Ministry of Infrastructure and Development in line with the national procedure) the costs of the FLC can be reported as eligible project costs.

## **I.6 Audit Authority and Group of Auditors**

The participating countries of the Programme have appointed a joint Audit Authority as well as institutions responsible for the SLA in each participating country.

The Ministry of Justice, Cultural and European Affairs of Land Schleswig-Holstein has been appointed as the AA of the Programme.

In compliance with REGULATION (EU) No 1303/2013, Art. 127, the AA is especially responsible for:

- ensuring the effective functioning of the management and control system in the Programme, by performing audits on the MA/JS and on the first level controllers;
- ensuring that audits are carried out on the operations on the basis of a sample, in order to verify the expenditure that has been declared.

In these tasks, the AA is supported by the Group of Auditors (see REGULATION (EU) No. 1299/2013, Art. 25). This group comprises a representative of each participating country and carries out the duties of the SLA. In order to harmonise the audit work of the Group of Auditors across the Programme, the AA is responsible for providing guidance (e.g. in an audit manual) to the Group of Auditors and unified templates of the SLA reports and checklist as well as the template for the summary/overall audit report of the project. The MA/JS supports the AA and the Group of Auditors in carrying out their tasks from the Programme level.

The auditors must be independent from the projects co-financed under the Programme as well as from other Programme bodies and the FLC system implemented in compliance with REGULATION (EU) No 1299/2013, Art. 23 (4-5) and Art. 25(3)).

### **I.6.1 Second level audit**

The provisions of REGULATION (EU) No 1299/2013, Art. 25 and of REGULATION (EU) No 1303/2013, Art. 127 imply that projects undergo a SLA in case they are selected in a sample.

The sample of projects will consist of both the lead partners and project partners to be checked by the national auditors appointed by the participating countries for that purpose.

The national auditor of the country, where the lead partner is located (lead

auditor), will be in charge of leading the audit. The schedule of the audits at lead partner and other project partner levels is agreed between the AA, lead auditor and auditors of the other project partners. Each national auditor will be responsible for audits of partners located on its territory, unless otherwise agreed by the Group of Auditors.

The audit starts when the lead auditor launches the audit and informs the lead partner about the aim and schedule of the checks. The national auditors involved will make contact with the other project partners and schedule audits accordingly. The audit implies both desk checks and on-the-spot checks.

It is the duty of the lead partner and of all the project partners involved in the sampled project to facilitate the audit activities and to provide requested documentation and access to locations and premises.

The auditors check:

- compliance with rules of the EU regulatory framework, the national legislation and the Programme rules;
- soundness of the management and control system implemented at project level; and
- soundness of the first level controls performed.

The SLA work is documented in the SLA reports and checklists and in the overall summary report.

After finalising the desk checks and on-the-spot checks each audited project partner will receive a report from its national auditor and will have a defined period of time to give comments and clarification to the auditor findings. This procedure is named “contradictory procedure”. Its length might vary in time according to the rules set by the AA for the Group of Auditors.

Comments from the audited project partners will be reported in the auditor reports. Once all the contradictory procedures have been closed, the AA will compile an overall audit report based on the national SLA reports. Thereupon, the AA will inform the lead auditor, the Group of Auditors and the MA/JS about the outcomes and suggest follow-up actions, if relevant.

The MA/JS will address the MC members of the country concerned for information and the approval of necessary follow-up actions in compliance with the follow-up procedure. If no written objection to the procedure or to the draft decision has been received by the specified time, the approval is deemed to be given by the respective national delegation (‘tacit consent’). The follow-

up actions approved by the MC will be implemented by the MA/JS.

The MA/JS will relate directly to the lead partner in the follow-up process. The lead partner remains, at all stages, the counterpart of the MA/JS, as well as in case of recovery of funds (see chapter K.3).

Project partner costs incurred and related to the SLA may be declared to the MA/JS and considered eligible for the Programme's co-financing. This is only possible if the project is not yet finalised and closed, within the thresholds set by the budget of the project and if complying with the eligibility rules set out in this Manual.

#### **I.6.2 Other controls**

Checks might also be performed on the project by other auditing bodies of the European Union or of the participating countries. The MA/JS and the AA are also entitled to perform checks at project level to ensure that a sound management and control system has been implemented or to check the eligibility of expenditure declared and the activities carried out.

**J Seed Money (under development and will be included at a later stage)**

## **K Arrangements in case partners are facing difficulties during implementation**

### **K.1 Definition of the terms and general procedures**

A project is understood to be facing difficulties in implementation when a lead partner or project partner fails to fulfil conditions or requirements stipulated in the subsidy contract. This is notably the case if the condition or requirement is intended to guarantee the successful implementation of the project and the achievement of its objectives.

In cases of such difficulties the participating country/countries on whose territory the project partner concerned is located will support the MA/JS to clarify the particular case(s). Thereby, they should help to prevent and remove any potential sanctions imposed by the Programme, on a lead partner or a project partner. It is therefore possible that such a project partner and/or its project lead partner might be approached by different programme bodies or third parties to clarify the case.

Different types of difficulties identified during the implementation require different arrangements to solve the matter. Nevertheless, the arrangements might imply follow-up measures such as:

- financial actions such as withdrawal/reduction of the reimbursement, interruption/suspension of payments, recovery of amounts unduly paid to the final beneficiaries,
- systemic changes/updates in accounting of the project expenditures (incl. retrospective changes),
- change of the project's subsidy contract,
- termination of the project's subsidy contract.

### **K.2 Judicial and other proceedings (incl. bankruptcy)**

Projects become subject to judicial and other proceedings if for example the lead partner or project partners:

- have been convicted of an offence concerning professional conduct by a judgement which has the force of res judicata or are guilty of grave professional misconduct proven by any justified means;
- are engaged in any act of fraud or corruption or are involved in a criminal organisation or any other illegal activity detrimental to the European Communities financial interests;
- have not fulfilled obligations relating to the payment of social security



- contributions or the payment of taxes in accordance with the legal provisions of the country in which they are established; and
- are the subject of proceedings concerning bankruptcy.

If subject to judicial or other proceedings the same procedure of notification to the MA/JS and MC apply as provided for irregularities and described in Chapter K.3 of the Manual.

The procedures for identifying and handling bankruptcy cases are similar to those of a partner drop out and must be treated accordingly. The procedure for partner drop-out is described in Chapter G.4 of the Manual.

In general, each partner is responsible for informing the lead partner of the project and the national authorities when facing any of the difficulties mentioned below. In turn, the lead partner has the obligation to inform the MA/JS accordingly.

It is necessary to gain information if lead partners or project partners:

- are bankrupt or being wound up,
- are having their affairs administered by the courts,
- have entered into an arrangement with creditors,
- have suspended their business activities,
- are the subject of proceedings concerning those matters,
- are in any analogous situation arising from a similar procedure provided for in national legislation or regulations.

In all cases it is necessary to distinguish between the type of difficulty and its impact on the project and on the Programme. This mostly depends on the type of activities carried out by the project partner in question. It will be evaluated case by case as to which co-financed EU activities or purchased equipment items may pose a financial risk to the EU-Funds. It will also be evaluated on which activities are of added value to the project and therefore should remain within the project partnership.

In addition to the recovery procedure a (partial) termination of the subsidy contract might be necessary. Before exercising this according to the provisions of the subsidy contract, the MA/JS will submit the case to the MC and ask for the Member States' consent. Such a termination may also result in further requests of re-payment of the amounts unduly paid. The relevant details will be stipulated in the subsidy contract.

The MC and national authorities will be informed about the specific cases accordingly. Cases preceding bankruptcy also have to be reported to the European Commission (cf. Art. 122 (2) of Regulation 1303/2013).

### K.3 Irregularities and follow-up measures

#### K.3.1 Scope and definitions

The **ineligible expenditure** detected by the first level controllers during their validation procedure, or by the MA/JS during the monitoring and clarification procedure, or by the MA/JS during the certification procedure, is not considered an irregularity, because the ineligible expenditure will be deducted from the payment of the respective progress report and will not be declared to the COM.

The EU regulations give detailed **definitions** of related terms such as **economic operator**<sup>56</sup>, **irregularity**<sup>57</sup>, **systemic irregularity**<sup>58</sup> and **fraud**<sup>59</sup> as well as others. Thereupon, it is the element of **intentional deceit**, which **distinguishes “fraud”** from the more general term of **“irregularity”**. The former is further divided into three specific types by the Association of Certified Fraud Examiners<sup>60</sup> (ACFE), intentional manipulation, misappropriation and corruption. This definition should be a starting-point for an organisation in identifying which areas are vulnerable to fraud.

**Responsibilities in dealing with irregularities** detected in the projects approved in the framework of the Programme are given by regulations and Programme implementation documents. In this sense, the MA/JS is the central point for assessing and following up irregularities.

The **irregularity procedure** is divided into several sections. The sections follow common practice of detection, follow-up on irregularities detected in projects and recovering unduly paid funds. The irregularity procedure also describes in detail the responsibilities and parties involved in the each step, namely:

- Detection and assessment of irregularities;
- Decision-making and implementation of the decision on project level; and

<sup>56</sup> Art. 2 (37) of Regulation (EU) No 1303/2013

<sup>57</sup> Art. 2 (36) of Regulation (EU) No 1303/2013

<sup>58</sup> Art. 2 (38) of Regulation (EU) No 1303/2013

<sup>59</sup> Convention drawn up on the basis of Article K.3 of the Treaty on European Union

<sup>60</sup> "Managing the Business Risk of Fraud – A Practical Guide", the Institute of Internal Auditors, the American Institute of Certified Public Accountants and the Association of Certified Fraud Examiners, 2008; more details on fraud in COCOF 09/0003/00-EN

- Corrections on the Programme level

The procedure complies with the legal requirements of the EU as well as the Programme rules. In the event of irregularities the procedures listed in Article 27(2-3) of Regulation (EU) No 1299/2013 and Articles 122 (2), 132 (2) and 143 (1-4) of the Regulation (EU) No 1303/2013 will be applied regarding the ERDF and Norwegian funds without prejudice to the participating countries' responsibility according to the provisions of Article 74 and 122 of the Regulation (EU) No 1303/2013.

Recovery of the ERDF and Norwegian funding will also be done in accordance with provisions laid down in Section 5.4 of the Cooperation Programme.

### **K.3.2 Detection and assessment of irregularities**

Irregularities can be detected during implementation of a project and at the end, during closure. Consequently the irregularities found by different authorities or bodies, e.g. the national second level auditors, have to be notified to the MA/JS as soon as possible. Such notifications have to be in written form and give details that allow the MA/JS or other bodies to carry out an assessment of the case reported. Furthermore, the information should provide sufficient detail to investigate whether the case is subject to irregularity or fraud with all its consequences.

According to the nature and details of irregularity, the MA/JS will decide if the information received is enough to proceed with an assessment, conclusions and a proposal for follow up measures. In case further information/expertise is needed the MA/JS can ask for support from:

- the IB.SH's (hosting the MA/JS) internal legal department,
- the respective national second level auditor or the Programme's Audit Authority,
- an external independent third body being an expert in that field,
- the participating country concerned,
- the first level controller.

A transparent assessment approach to all irregularities is ensured by a standardised assessment template. As part of the assessment the MA/JS makes a proposal for follow up measures.

### **K.3.3 Decision making and implementation of the decision on project level**

The assessment of the irregularity with the relevant conclusions and proposal

for follow up measures will be sent to the members of the MC of the country concerned. The MC rules of procedure stipulate three weeks for the decision in a standard written procedure.

After the MC decision the MA/JS informs the lead partner about the outcome and specifies the follow-up measures depending on the nature of the irregularity.

### Financial irregularities

In case of **financial irregularities** the Programme co-financing of the ineligible expenditure will be deducted or recovered as follows:

Table 13: Deduction/Recovery of financial irregularities

Deducted	Recovered
There is still a progress report that has not been paid out and the irregular amount can be covered from it.	There is no or not enough open project's payment claim (s) to recover the irregular amount.
The irregular amount will be deducted from the project's progress report through a correction report signed by the lead partner.	The lead partner will be asked to recover the irregular amount, i.e. to pay it back to the IB.SH's account.
MA/JS is responsible for the recovery of the amounts and sends out the pre-filled correction report to the lead partner.	MA/JS is responsible for the compilation of the documentation giving a basis for recovery. MA/JS is responsible for the recovery process including the order for recovery letter to the lead partner.

If a financial irregularity is based on a systemic error, measures might also have to be applied retrospectively (e.g. updates in accounting methods of the project).

The lead partner is obliged to transfer the repayment amount to the IB.SH's account, specified in the recovery letter, within one month (30 days) following the date of the letter of the MA/JS asserting the repayment claim. The order for the recovery letter must contain the exact recovery date. Any delay in effecting the repayment gives rise to interest on account of late payment, starting on the due date and ending on the value day of actual repayment. The rate of such interest will be one-and-a-half percentage points above the rate applied by the

European Central Bank in its main refinancing operations on the first working day of the month in which the due date falls<sup>61</sup>.

The lead partner is expected to recover the amount from the respective project partner according to an established system agreed in the partnership agreement.

In case **the lead partner does not pay back** the irregular amount by the deadline specified in the recovery letter, the MC members of the country concerned will be informed.

For amounts from ERDF<sup>62</sup>/Norwegian funds that could not be recovered, the respective country of the project partner is liable to recover the irregular amount to the IB.SH's account.

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<sup>61</sup> Subsidy contract and Regulation (EU) No 1303/2013 Art 147(2)

<sup>62</sup> Regulation (EU) No 1303/2013 Art 122(2)

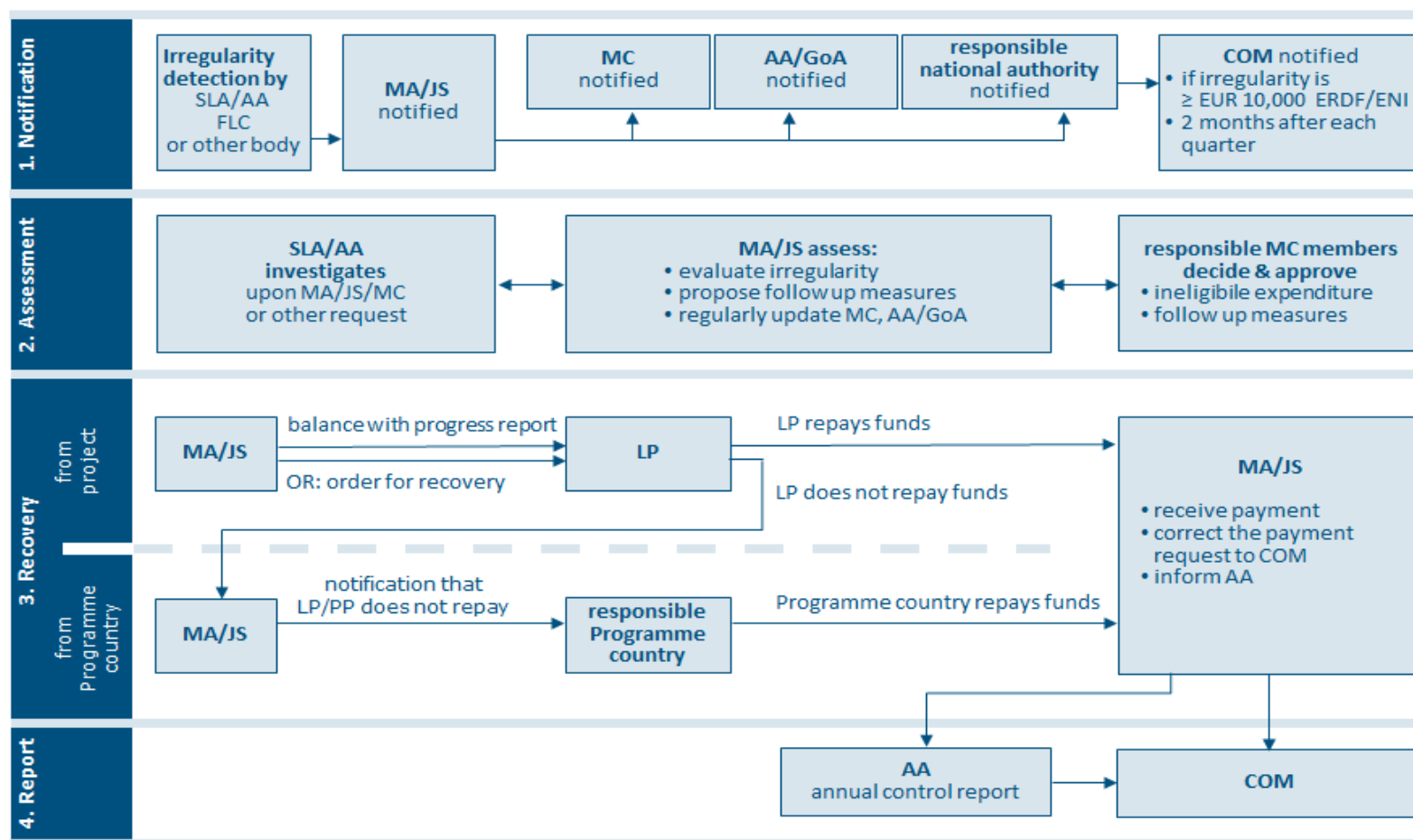


Figure 10: Irregularity procedure of the Programme.

## Non-financial findings

**Non-financial findings**<sup>63</sup> lead to other follow-up measures than those mentioned above. The lead partner will be asked for corrective measures, e.g. in management structures, in case of documentation or systemic errors. Depending on the finding such measures might have to be applied retrospectively.

Depending on the case, both **financial and non-financial findings** might lead to changes of the project's subsidy contract (content and amount of granted funds) as well as to (partial) termination. The termination may also result in re-payment requests of the funds unduly paid.

## Final adjustments of the project's budget

The MA/JS needs to ensure the compliance with Article 143 of Regulation (EU) No 1303/2013 dealing with irregularities, i.e. neither financial corrections based on an individual nor on a systemic irregularity may be reused for the project or projects being subject of the irregularity. Therefore the project's budget has to be adjusted accordingly.

**After the follow-up measures** are implemented and the irregular amount balanced/recovered, the MA/JS informs the following bodies about the closure of the case:

- AA / Group of Auditors,
- MC,
- if relevant, national authorities of the respective country,
- and in case of suspected fraud, the European Commission (cf. Art. 122 (2) of Regulation 1303/2013).

## Corrections in the Programme's payment claim

The MA/JS administers the Programme's debtor's ledger. Based on the assessment and case information the MA/JS implements the deductions, recoveries and other related corrections in the payment claim to the COM. Finally, the MA/JS submits to the COM a "Statement on Withdrawn and Recovered Amounts" by 15 February following the year of the recovery or withdrawal<sup>64</sup>.

<sup>63</sup> Any findings without negative financial consequences

<sup>64</sup> Art. 138 of Regulation (EU) No 1303/2013, linked to Art. 59(5) Regulation (EU, EURATOM) No 966/2012

#### **K.3.4 Corrections on the Programme level**

Systemic<sup>65</sup> and other types of errors might be detected on the Programme level too. Such errors can be detected during the implementation phase as well as at the end, during closure. These might lead to consequences such as financial corrections or interruption/suspension of payments on Programme level.

When errors detected on the Programme level result in financial corrections, these might lead to financial adjustments on project level or to adjustments in the available support to applicants and beneficiaries.

In case interruption/suspension of payments is imposed by the European Commission at Programme level, the overall liquidity of the Programme is affected. The MA/JS will do its utmost to clarify the issue with the European Commission and to lift the interruption/suspension of payment. Nevertheless, this might lead to interruption of payments on project level depending on the availability of funds on the Programme accounts.

Lead partners will be informed in all cases when an impact on project level is inevitable.

#### **L Resolution of complaints (under development and will be included at a later stage)**

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<sup>65</sup> E.g. if a participating country does not comply with its duties, the MA/JS is entitled to suspend payments to all project partners located on the territory of this participating country



## Annex I - Quality assessment criteria for Step 1

Criteria	Guiding questions
<b>I. Relevance of the proposal</b>	
The concept note is in line with the thematic focus of the Programme and the given call.	Do the challenges addressed in the concept note match the thematic focus of the selected specific objective as set out in the CP?  Is the concept note in line with the focus of the given call as specified in the announcement note of the call?
The concept note contributes to one of the expected results of the Programme.	Will institutional capacity of the project's target groups be enhanced? Are the selected target groups relevant in relation to the selected specific objective?
The concept note contributes to the implementation of the policies and strategies relevant to the Programme area.	Does the concept note contribute to any of the policies and strategies relevant to the Programme area? For example, Europe 2020, the European Union Strategy for the Baltic Sea Region (EUSBSR), Socio-economic Development Strategy of the Russian Federation (Russian North-West Strategy) or other policy document relevant to the Programme area, e.g. sectoral policies/strategies, (TEN-T, Water Framework Directive).
The concept note is of transnational value.	Does the concept note justify the need for transnational cooperation (does the proposed approach - activities, outputs and their use - and the partnership demonstrate the need for transnational cooperation)?
The concept note demonstrates additional value.	Were/are similar activities carried out or similar outputs produced already in the previous projects co-financed by the BSR transnational programmes (does the project plan outputs that will bring additional value to already existing outputs of the projects co-financed by the BSR transnational cooperation programmes)?
<b>II. Partnership</b>	

Criteria	Guiding questions
The planned partnership has sufficient potential to implement the main project proposal.	Is the composition of the partnership appropriate to carry out the proposed activities and reach the results (does the partnership possess the competences needed for the project implementation; does the partnership have sufficient geographical coverage)? What are the missing competences and which geographical areas are missing? Are the plans to include further partners sufficient?
<b>III. Coherence of the approach</b>	
There is coherence between the expected results and the proposed approach.	<p>Can the listed results described in the concept note be achieved through the proposed approach (do the planned outputs and activities lead to the described results; is the proposed approach realistic)?</p> <p>Does the concept note include demonstration actions and/or investments? If yes, do they support the achievement of the project's results?</p>
<b>IV. Budget</b>	
The planned budget of the main project is adequate in relation to the planned activities, outputs, results, and involvement of current and planned partners.	Is the planned budget realistic in relation to the planned activities, outputs, results and involved partners?

## Annex II - Quality assessment criteria for Step 2

Criteria	Guiding questions
<b>I. Relevance of the proposal</b>	
The project is in line with the thematic focus of the Programme and the given call.	<p>Do the challenges addressed in the project application match the thematic focus of the selected specific objective as set out in the CP?</p> <p>Is the project application in line with the focus of the given call as specified in the announcement note of the call?</p>
The project contributes to one of the expected results of the Programme.	Will institutional capacity of the project's target groups be enhanced (within which of the five dimensions of the capacity defined in the CP will the change happen)? Are the selected target groups relevant in relation to the selected specific objective?
The project contributes to the policies and strategies relevant to the Programme area.	Does the project contribute to any of the policies and strategies relevant to the Programme area? For example Europe 2020, the European Union Strategy for the BSR (EUSBSR), Socio-economic Development Strategy of the Russian Federation (Russian North-West Strategy) or other sectoral policies/strategies (TEN-T, Water Framework Directive).
The project is considered to be of transnational value.	Does the project justify the need for transnational cooperation (does the proposed approach - activities and outputs and their use - and the partnership demonstrate the need for transnational cooperation)?
The project demonstrates additional value.	Were/are similar activities carried out or similar outputs produced before in the previous projects co-financed by the BSR transnational programmes (does the project plan outputs that will bring additional value to already existing outputs of the projects co-financed by the BSR transnational cooperation programmes)?
The project contributes to the horizontal principles of the European Union according to the Article 8 (7) Regulation (EU) No 1299/2013.	<p>Does the project contribute to the following horizontal principles:</p> <ul style="list-style-type: none"> <li>- sustainable development;</li> <li>- equal opportunities and non-discrimination;</li> <li>- equality between men and women.</li> </ul> <p>Does the project demonstrate practical approaches to address the horizontal principles?</p>
<b>II. Partnership</b>	

Criteria	Guiding questions
The partnership has sufficient potential to realise the planned activities and to deliver the expected outputs and results.	<p>Does the partnership include sufficient competences and expertise to implement the planned activities and to achieve the planned results? Does the partnership have sufficient geographical coverage? (What are the missing competences and which geographical areas are missing)?</p> <p>Is a multi-level governance principle followed in a manner commensurate with the project aims? Are the relevant administrative levels, e.g. local, regional, and national institutions involved? Is the appropriate level of collaboration between governmental and non-governmental actors ensured? Are misbalances explained and are justified?</p> <p>Is the cross-sectorial approach taken into account (are organisations from relevant sectors involved; does the partnership allow a multidisciplinary approach)? To what extent does the project involve actors from the private sector (What are the specific tasks for the private sector; how do they add value to the project)?</p> <p>Are there any imbalances in the roles of the partners in the project (is the project implementation dominated by any partners)? Are these imbalances justified?</p> <p>Do all the project partners contribute to the content of the project (none of the partners has a managing task only)?</p> <p>If applicable: To what extent does the involvement of the associated organisations bring additional value to the project (what is the main purpose of their involvement; what are their main tasks in the project; do associated partners help reach the results)?</p> <p>If applicable: To what extent does the involvement of the reserved project partners and their activities bring additional value (is their contribution necessary to deliver certain outputs)? Are there any risks related to involvement of reserved partners? If the project does not succeed in involving them, will it put the project's achievements at risk?</p>

Criteria	Guiding questions
<b>III. Coherence of the proposal and quality of approach</b>	
There is coherence between the results and the proposed approach.	<p>Is the work plan clearly described and realistic? Can the result(s) be achieved through the proposed activities and outputs? Do the proposed activities lead to the proposed main outputs?</p> <p>Is there coherence and a logical interlink between the communication aims, target groups, and the approach within the work packages? Are the activities realistic and sufficient to reach the communication aims?</p> <p>Does the project application include demonstration actions and/or investments, which support the achievement of the project's results?</p>
The project contributes to obligatory output indicator – <i>No. of documented learning experiences</i> - and at least one other output indicator defined by the Programme.	Does the project contribute to the obligatory output indicator? Does the project contribute to at least one other output indicator defined by the Programme? Are the targets set by the project realistic?
The involvement of the partners is in line with the transnational approach required by the Programme.	Does the work plan ensure joint implementation of the activities? Have different partners been given a role in leading specific activities (are the tasks shared among different partners/countries)?
The requirements of the MC to the concept note are taken into account in the application.	Are the requirements set by the MC regarding the concept note followed in the application form? (the requirements will be listed in the MC decision on the selection of the concept note to the second step).
<b>IV. Durability</b>	
The planned activities of the project application are sufficient to ensure the durability of the outputs and results.	<p>Will the project produce outputs and/or results, which are tangible and will be used beyond the project implementation phase?</p> <p>Are the target groups of the project's main outputs defined clearly (who will use the main outputs)? Are the target groups sufficiently involved in the development of the main outputs in order to ensure their durability?</p>

Criteria	Guiding questions
<b>V. Budget and Management</b>	
The budget of the project application is adequate in relation to the planned activities, outputs, results and involvement of partners.	<p>Is the budget adequate in relation to planned activities, outputs, results and involvement of partners?</p> <p>Is the spending plan coherent/realistic (is the planned budget per reporting periods logical and in line with the work plan of the project's activities and outputs)?</p>
The planned activities and planned expenditure are eligible from the financial point of view.	<p>Are the budget line specifications (external services and equipment) precise, clear and justified? Are there any indications of ineligible costs in the work plan/activities? Is there any indication of ineligible project partner structures (e.g. umbrella partnership, hidden partner organisations)? Have the State Aid rules been followed?</p>
The management structure shows sufficient potential to secure sound content wise and financial management of the project application.	<p>Does the description of the content and financial management fulfil the requirements set by the Programme? Are sufficient resources planned for content and financial management?</p> <p>Are sufficient activities planned for internal communication and coordination?</p>