

Detailed eligibility provisions - expenditures

**The EEA Financial Mechanism
&
The Norwegian Financial Mechanism
2004-2009**

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A. RULES ON ELIGIBILITY OF EXPENDITURE

Article 3.1.5 of the Rules and Procedures for the implementation of the EEA Financial Mechanism and the same article of the Rules and Procedures for the implementation of the Norwegian Financial Mechanism lay down the general rules pertaining to expenditure and financing. All operations co-financed under the EEA Financial Mechanism and/or the Norwegian Financial Mechanism shall be subject these detailed eligibility provisions.

1. *Expenditure actually paid out*

1.1 Payments by promoters or intermediaries

1.1.1 Promoters and intermediaries are defined as the bodies and public or private firms in the Beneficiary States responsible for the implementation of projects. Promoters are the bodies responsible for the implementation of individual projects while intermediaries are those responsible for the implementation of block grants, seed money and programmes.

1.1.2 In the case of programmes, block grants and seed money facilities, ‘payments by intermediaries’ means grant assistance paid to end recipients. Payments of grant assistance by intermediaries must be justified by reference to the conditions and objectives of the grant.

1.1.3 The implementation of a project shall cover all stages from preliminary planning to the completion of the approved project, including the relevant publicity measures. All expenditures, incurred by the body responsible for implementation, must be supported by documentary evidence. Expenditure incurred shall be eligible for assistance as of the date on which the FMO¹ gives its commitment. The final date of eligibility shall be fixed by the FMC² and/or the Norwegian Ministry of Foreign Affairs decision awarding the grant and stated in the grant agreement.

1.1.4 Payments effected by promoters or intermediaries shall normally be in the form of cash. However, under the conditions set out in points 1.1.5 and 1.1.6, contributions in kind and overheads can also form part of the payments. The EEA Financial Mechanism's and/or the Norwegian Financial Mechanism's co-financing of an operation shall nevertheless not exceed the total eligible expenditure, excluding contributions in kind, at the end of the operation.

1.1.5 In-kind contributions are eligible expenditure provided that:

- (a) they consist of the provision of land or real estate, equipment or materials, research or professional activity, or unpaid voluntary work;

¹ FMO (Financial Mechanism Office)

² FMC (Financial Mechanism Committee)

- (b) their value can be independently assessed and audited;
- (c) in the case of the provision of land or real estate, the value is certified by an independent qualified evaluator or duly authorised official body;
- (d) in the case of unpaid voluntary work, the value of that work is determined taking into account the amount of time spent and the normal hourly and daily rate for the work carried out;
- (e) the provisions set out in 4, 5 and 6 are complied with where applicable.

1.1.6 Overheads may be eligible expenditure provided that they are based on real costs which relate to the implementation of the operation co-financed by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism and are allocated pro rata to the operation, according to a duly justified fair and equitable method.

1.1.7 The provisions of points 1.1.4 to 1.1.6 are applicable to individual recipients referred to in point 1.1.2 in the case of programmes, block grants and seed money facilities.

1.2 Proof of expenditure

As a rule, payments by promoters or intermediaries shall be supported by receipted invoices. Where this cannot be done, payments shall be supported by accounting documents of equivalent probative value. In addition, where the execution of operations is not subject to a competitive tendering procedure, payments by promoters or intermediaries shall be justified by expenditure actually paid (including expenditure referred to in point 1.1.4) by the bodies or public or private firms concerned in implementing the operation.

1.3 Subcontracting

1.3.1 Without prejudice to the application of stricter national rules, expenditure relating to the following subcontracts is ineligible for co-financing by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism:

- (a) subcontracting which adds to the cost of execution of the operation, without adding proportionate value to it;
- (b) subcontracts with third parties or consultants in which the payment is defined as a percentage of the total cost of the operation unless such payment is justified by the promoter or intermediary by reference to the actual value of the work or services provided.

1.3.2 For all subcontracts, subcontractors shall undertake to provide the audit and control bodies with all necessary information relating to the subcontracted activities.

2. *Accounting and treatment of revenue*

2.1 'Revenue' for the purposes of this rule covers revenue received by an operation during the period of its co-financing or during such longer period up to the closure of the assistance as may be fixed by the Beneficiary State, from sales, rentals, services, enrolment/fees or other equivalent receipts with the exception of:

(a) revenue generated throughout the economic lifetime of the co-financed investments after closure of the assistance;

(b) contributions from the private sector to the co-financing of operations, which appear alongside public contributions in the financing tables of the relevant assistance.

2.2 Revenue under point 2.1 represents income which reduces the amount of co-financing under the EEA Financial Mechanism and/or the Norwegian Financial Mechanism that is required for the operation in question. Before the EEA Financial Mechanism's and/or Norwegian Financial Mechanism's participation is calculated and no later than at the time of the closure of the assistance, this is deducted from the operation's eligible expenditure in its entirety or pro rata, depending on whether it was generated entirely or only in part by the co-financed operation.

3. *Financial and other charges and legal expenses*

3.1 Financial charges

Debit interest charges for financial transactions, foreign exchange commissions and losses, and other purely financial expenses are not eligible for co-financing by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism.

3.2 Bank charges on accounts

Where co-financing by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism requires the opening of a separate account or accounts for implementing an operation, the bank charges for opening and administering the accounts, are eligible.

3.3 Legal fees for advice, notary fees, the costs of technical and financial expertise, and accountancy or audit costs

These costs are eligible if they are directly linked to the operation and are necessary for its preparation or implementation or, in the case of accounting or audit costs, if they relate to requirements by the Beneficiary State.

3.4 Costs of guarantees provided by a bank or other financial institution

These costs are eligible where any such guarantees are deemed necessary by the FMC and/or the Norwegian Ministry of Foreign Affairs in the case of advance payments by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism.

3.5 Fines, financial penalties and expenses of litigation

These expenses are not eligible.

4. *Purchase of second-hand equipment*

The purchase costs of second-hand equipment are eligible for co-financing by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism under the following three conditions without prejudice to the application of stricter national rules:

- (a) the seller of the equipment shall provide a declaration stating its origin, and confirm that at no point has it been purchased with the aid of national or EEA Financial Mechanism and/or Norwegian Financial Mechanism grants;
- (b) the price of the equipment shall not exceed its market value, taking into consideration its reduced technical and economic lifetime and shall be less than the cost of similar new equipment; and
- (c) the equipment shall have the technical characteristics necessary for the operation and comply with applicable norms and standards.

5. *Purchase of land*

5.1 General rule

The cost of purchase of land not built on shall be eligible for co-financing by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism under the following three conditions without prejudice to the application of stricter national rules:

- (a) there shall be a direct link between the land purchase and the objectives of the operation co-financed;
- (b) except in the cases described in point 5.2, the land purchase may not represent more than 10 % of the total eligible expenditure of the operation, unless a higher percentage is fixed in the assistance approved by the FMC and/or the Norwegian Ministry of Foreign Affairs,
- (c) a certificate shall be obtained from an independent qualified evaluator or duly authorised official body confirming that the purchase price does not exceed the

market value and that it is free of all obligations in terms of mortgage and other liabilities, particularly in respect of pollution.

(d) neither the cost of land already owned by the body responsible for implementation nor the purchase of land owned by a public administration shall be eligible.

(e) Under no circumstances shall land be purchased for speculative purposes.

(f) the purchase of land shall be approved by the FMC and/or the Norwegian Ministry of Foreign Affairs decision

5.2 Environmental conservation operations

For environmental conservation operations, all the conditions indicated below shall be met for the expenditure to be eligible:

- the purchase is the subject of a positive decision by the Beneficiary State,
- the land is devoted to the intended use for a period determined in that decision,
- the land is not for agricultural purposes save in duly justified cases accepted by the Beneficiary State,
- the purchase is made by or on behalf of a public institution or a body governed by public law.

6. *Purchase of real estate*

6.1 General rule

The cost of purchase of real estate, meaning buildings constructed or under development and the land on which they are built, may be eligible for co-financing by the EEA Financial Mechanism and/or the Norwegian Financial Mechanism if there is a direct link between the purchase and the objectives of the operation concerned under the conditions set out in point 6.2 without prejudice to the application of stricter national rules. The purchase of real estate must be suited to the specific operation needs of the project.

6.2 Terms of eligibility

6.2.1 A certificate shall be obtained from an independent qualified evaluator or duly authorised official body confirming that the price does not exceed the market value, that it is free of all obligations in terms of mortgage and other liabilities, particularly in respect of damage related to pollution and either attesting that the building is in conformity with national regulations or specifying the points which are not in conformity where their rectification by the promoters or intermediaries is foreseen under the operation.

6.2.2 The real estate shall not have received a national or donor grant which would give rise to a duplication of aid in the event of co-financing of the purchase by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism in the last 10 years.

6.2.3 The real estate shall be used for the purpose and for the period specified in the FMC and/or Norwegian Ministry of Foreign Affairs decision. The ownership must be transferred to the final beneficiary at the end of the operation and not sold within five years after that date.

6.2.4 The real estate may only be used in conformity with the objectives of the operation. In particular, buildings may be used to accommodate public administration services only where such use is in conformity with eligible activities of the EEA Financial Mechanism and/or of the Norwegian Financial Mechanism.

6.2.5 The cost of real estate already owned by the body responsible for implementing the project and the purchase of real estate owned by a public administration shall not be eligible.

6.2.6 Expenditure on site preparation and construction which are essential for the implementation of the project may be eligible.

6.2.7 Under no circumstances shall real estate be purchased for speculative purposes.

6.2.8 The purchase of real estate and new buildings and constructions shall be approved by the FMC and/or the Norwegian Ministry of Foreign Affairs decision

7. *VAT and other taxes and charges*

The expenditures related to VAT and other taxes, levies or charges of whatever nature, which by law are not recoupable from the Beneficiary State, are eligible for financing.

Other taxes and charges (in particular direct taxes and social security contributions on wages and salaries) which arise from co-financing from the EEA Financial Mechanism and/or the Norwegian Financial Mechanism do not constitute eligible expenditure except where they are genuinely and definitely borne by the final beneficiary or individual recipient.

8. Costs incurred in managing and implementing assistance under the EEA Financial Mechanism and/or the Norwegian Financial Mechanism

8.1 General rule

Costs incurred by Beneficiary States in the management, implementation, monitoring and control of the EEA Financial Mechanism and/or the Norwegian Financial Mechanism funds are ineligible for co-financing except as provided for in point 8.2 and falling within the categories set out in point 8.2.1.

8.2 Categories of management, implementation, monitoring and control expenditure eligible for co-financing

8.2.1 The following categories of expenditure are eligible for co-financing under the conditions set out in points 8.2.2 to 8.2.3:

— in the case of additional management systems specifically established for the EEA Financial Mechanism and/or the Norwegian Financial Mechanism, expenditure relating to the preparation, appraisal and monitoring of the assistance and of operations (but excluding expenditure on the acquisition and installation of computerised systems for management, monitoring and evaluation),

— expenditure on participation in annual meetings with the EFTA States and other committees relating to the implementation of assistance held outside the Beneficiary State. This expenditure may also include the costs of experts and other participants in these committees, including third-country participants, where the chairperson of such committees considers their presence essential to the effective implementation of the assistance,

— Expenditure relating to audits and on-the-spot checks of operations, where this relates to activities above and beyond the normal obligations of the Beneficiary State.

The EEA Financial Mechanism's and/or the Norwegian Financial Mechanism contribution to the expenditure under point 8.2.1 shall be limited to a maximum amount which will be fixed in the individual grant agreements approved by the FMC and/or the Norwegian Ministry of Foreign Affairs.

8.2.2 Expenditure in the Beneficiary State on salaries including social security contributions is eligible only in the following cases:

- (a) civil servants or other public officials temporarily assigned, by duly documented decision of the competent authority, to carry out tasks referred to in point 8.2.1 on an exclusive and additional basis;
- (b) other staff employed to carry out tasks referred to in point 8.2.1.

The period of temporary or permanent employment may not exceed the final date for the eligibility of expenditure laid down in the individual grant agreements approved by the FMC and/or the Norwegian Ministry of Foreign Affairs.

8.3 OTHER EXPENDITURE UNDER SEED MONEY

Actions other than those set out in point 8.2 (such as studies, seminars and information actions), may be co-financed by the EEA Financial Mechanism and/or by the Norwegian Financial Mechanism under seed money.

B. INFORMATION REQUIREMENTS FOR A SUFFICIENT AUDIT TRAIL

A sufficient audit trail is present when, for a given assistance:

1. Accounting records kept at the appropriate management level provide detailed information about expenditure actually incurred in each co-financed operation by promoters or intermediaries including, where the latter are not the final recipients of funding, the bodies and firms carrying out the operations. The accounting records show the date they were created, the amount of each item of expenditure, the nature of the supporting documents and the date and method of payment. The necessary documentary evidence (e.g. invoices) is attached.
2. For items of expenditure relating only partly to the co-financed operation, the accuracy of the allocation of the expenditure between the operations co-financed and other operations is demonstrated. The same applies to types of expenditure that are considered eligible only within certain limits or in proportion to other costs.
3. The technical specifications and financial plan of the operation, progress reports, the documents concerning the grant approval and tendering and contracting procedures, and reports on inspections of the products and services co-financed in the operation are also kept at the appropriate management level.
4. For declaring expenditure actually incurred in co-financed operations to a disbursement agent lying between the promoter or intermediary or the body carrying out the operation and Beneficiary State, the information referred to in paragraph 1 is aggregated into a detailed statement of expenditure for each operation covering all individual items of expenditure for the purpose of calculating the total certified amount. The detailed statements of expenditure constitute supporting documents for the accounting records of the disbursement agent.
5. The FMO/disbursement agents keep accounting records for each operation and for the total amounts of expenditure certified by promoters or intermediaries. Disbursement agents reporting to the Beneficiary State present it with a list of the operations approved under each assistance, identifying each operation in detail and indicating the promoter or intermediary, the date of approval of the grant, the amounts committed and paid and the period of the expenditure, and the total expenditure with regard to the Beneficiary State's programming framework. This information constitutes supporting documentation for the accounting records of the Beneficiary State and is the basis for the preparation of the declarations of expenditure to be presented to the EEA Financial Mechanism and/or to the Norwegian Financial Mechanism.
6. In the case of computerised transfer of accounting data, all the authorities and bodies concerned obtain sufficient information from the lower level to justify their

accounting records and the sums reported upwards, so as to ensure a sufficient audit trail from the total summary amounts certified to the EEA Financial Mechanism and/or to the Norwegian Financial Mechanism down to the individual expenditure items and the supporting documents at the level of the promoters or intermediaries and the bodies carrying out the operations.

