

Detailed eligibility provisions - expenditures

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

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A. RULES ON ELIGIBILITY OF EXPENDITURE

According to 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, all projects (individual projects, programmes, block grants, seed money facilities, and NGO funds) co-financed under the EEA Financial Mechanism and/or the Norwegian Financial Mechanism shall be subject to these detailed eligibility provisions.

1. *Eligible costs and periods of eligibility*

1.1 Eligible costs

1.1.1 Unless otherwise decided in these detailed eligibility provisions or the grant agreement, proportionate costs incurred by a project promoter or an intermediary which are necessary and directly related to the implementation of a project or a sub-project, and are incurred within the dates of eligibility, are considered as eligible costs.

1.1.2 A cash payment transferred directly as a payment within a project to a contractor or a major supplier by a national authority responsible under the Memorandum of Understanding referred to in Article 1.5 of the Rules and Procedures for transferring payments to project promoters or intermediaries can be considered as incurred by the project promoters or intermediaries.

1.1.3 Expenditures incurred by a project partner referred to in the Grant Agreement can be considered as being incurred by the project promoter or intermediary, provided that the partnership agreement between the project promoter (or intermediary) and the partners allows for such an arrangement.

1.1.4 The eligibility of payments made in accordance with Articles 1.1.2. and 1.1.3 is subject to the provision of these Detailed Eligibility Provisions – Expenditures, as if they were paid by the project promoter or intermediary.

1.2 Periods of eligibility

1.2.1 The implementation of a project shall cover all stages from preparation of implementation 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.

1.2.2 Unless a later date is provided in the grant agreement, expenditure incurred shall be eligible for assistance as of the date on which the Financial Mechanism Committee (FMC) and/or the Norwegian Ministry of Foreign Affairs decide to award the grant. The FMC and/or the Norwegian Ministry of Foreign Affairs shall, in accordance with Article 3.1.3 of the Rules and Procedures, fix the final date of eligibility in the same decision. The final date shall be stated in the grant agreement.

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1.2.3 Costs are deemed to be incurred within the dates of eligibility if the costs are paid, invoiced, and the subject matter (goods, services or works) of the cost is delivered, within the said dates.

1.3 Costs incurred by promoters or intermediaries

Promoters and intermediaries are defined as the public or private bodies 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 programmes, block grants, seed money facilities, and NGO funds. In the case of programmes, block grants, seed money facilities, and NGO funds, incurred costs means both grant assistance paid to end-recipients and management costs of the programme, the block grant, the seed money facility, or the NGO fund. Payments of grant assistance by intermediaries must be justified by reference to the conditions and objectives of the grant. In cases where the selection of the intermediary in the Beneficiary State is conducted through a competitive tendering procedure, the FMC and/or the Norwegian Ministry of Foreign Affairs can in the grant decision, decide that the contract value shall be accepted as the incurred management costs.

1.4 Costs incurred by end-recipients

The eligibility of costs incurred by end-recipients (responsible for the implementation of sub-projects under programmes, block grants, seed money facilities, or NGO funds) shall be described in the grant agreement. Such descriptions can contain a reference to the Detailed Eligibility Provisions – Expenditures, which would state any variations, if applicable, from the Detailed Eligibility Provisions - Expenditures or provide a separate list of eligible expenditure. This is without prejudice to Article 2.4.

1.5 Proof of expenditure

As a rule, costs incurred by promoters or intermediaries shall be supported by receipted invoices. In cases where this cannot be done, costs shall be supported by accounting documents of equivalent probative value. In addition, in cases where the implementation of a project 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 Articles 2.2 and 2.3) by the body/ies concerned in implementing the project, both public and private.

2. *Incurred costs*

2.1 Main principles

Payments effected by promoters or intermediaries shall normally be in the form of cash, such as bank transfers. However, under the conditions set out in Articles 2.2 and 2.3, 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

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a project shall nevertheless not exceed the total eligible expenditure, excluding contributions in kind, at the completion of the project.

2.2 In-kind contributions

2.2.1 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;
- (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 Articles 4, 5 and 6 are complied with where applicable.

2.2.2 The Beneficiary State may, after consultation with the Financial Mechanism Office, determine the maximum proportion of in-kind contributions in relation to the total co-financing provided and/or acquired by the promoter, intermediary, or the end-recipient. Such ceilings, which may vary between different types of project assistance, shall generally be in the range of 20-80% of such co-financing but never higher than 20% of the total eligible project cost. The establishment of any such ceiling shall be made prior to any call for applications where this applies, and be clearly indicated in the call for proposals itself. If no ceilings have been established, the maximum in-kind contribution shall be 80% of the co-financing provided and/or acquired by the promoter, the intermediary, or the end-recipient, unless otherwise decided in the grant agreement.

2.3 Overheads

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

2.4 End-recipients

The provisions on in-kind contributions and overheads are also applicable to end-recipients in the case of programmes, block grants, NGO funds and seed money facilities.

2.5 Subcontracting

2.5.1 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:

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- (a) subcontracting which adds to the cost of execution of the project, 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 project, unless such payment is justified by the promoter or intermediary by reference to the actual value of the work or services provided.

2.5.2 The subcontractors of all subcontracts shall undertake to provide the audit and control bodies with all necessary information relating to the subcontracted activities.

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 the grant agreement, the Focal Point, or national legislation requires the opening of a separate account or accounts for implementing a project, the bank charges for opening and administering the accounts, are eligible.

3.3 Professional services

Fees for legal advice, notary fees, costs of technical and financial expertise, costs related to preparation of procurement, insurance, and accountancy or audit costs are eligible if they are directly linked to the project and are necessary for its preparation or implementation. In the case of accounting or audit costs, these must also relate to requirements by the Beneficiary State, the FMC and/or the Norwegian Ministry of Foreign Affairs.

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*

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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, Community, 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 project 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 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 project co-financed;
- (b) except in the cases described in Article 5.2, the land purchase may not represent more than 10 % of the total eligible expenditure of the project, 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; and
- (f) the purchase of land shall be approved by the FMC and/or the Norwegian Ministry of Foreign Affairs, either in the grant agreement or by a later decision.

5.2 Environmental protection projects

For environmental protection projects, all the conditions indicated below shall also be met for the expenditure to be eligible:

- (a) the purchase is the subject of a positive decision by the Focal Point;
- (b) the land is devoted to the intended use for a period determined in that decision;
- (c) the land is not for agricultural purposes, save in duly justified cases accepted by the Focal Point;

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- (d) 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 appropriate rights to 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 project concerned, under the conditions set out in Article 6.2, and without prejudice to the application of stricter national rules. The purchase of real estate must be suited to the specific operational 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. Such certificates must either attest that the building in question is in conformity with national regulations, or specify what is not in conformity with national regulations but which is to be rectified by the promoters or intermediaries under the project.

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 of the project no later than at the end of its implementation. The real estate can not be sold, rented, or mortgaged within five years after the approval of the project completion report, or longer if stipulated in the grant agreement. The Financial Mechanism Committee and/or the Norwegian Ministry of Foreign Affairs may waive this restriction if it would result in an unforeseen and unreasonable burden on the final beneficiary.

6.2.4 The real estate may only be used in conformity with the objectives of the project. 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.

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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.

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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 when they are genuinely and definitely borne by the promoter, intermediary, or end-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 Article 8.2 and falling within the categories set out in Article 8.2.1.

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

8.2.1 The following categories of expenditure are eligible costs under the conditions set out in Articles 8.2.2 and 8.2.3 as technical assistance, provided that the expenditure is proportionate, appropriate and necessary:

- (a) 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, evaluation, financial flow, and monitoring of the assistance and of projects (but excluding expenditure on the acquisition and installation of computerised systems for management, monitoring and evaluation);
- (b) expenditure on meetings of steering committees (project selection committees), monitoring committees, participation in annual meetings with the EFTA States, and other meetings with the EFTA States relating to the implementation of the assistance. 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;
- (c) expenditure on meetings and conferences organised by a Focal Point or an Intermediate Body to share experience related to the implementation, monitoring, reporting and auditing of projects funded by the EEA Financial Mechanism and/or the Norwegian Financial Mechanism, including expenditure related to travel and accommodation of participants. The FMO

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shall agree to the agenda of such a meeting or conference in advance, and representatives of the donors shall be invited to participate in such meetings or conferences;

- (d) expenditure related to promotional and information activities; and
- (e) expenditure related to audits and on-the-spot checks of projects.

8.2.2 Contributions from the EEA Financial Mechanism and/or the Norwegian Financial Mechanism to the expenditure under Article 8.2, shall be limited to the sum of the following amounts:

- (a) 2,5% of that part of the total contribution to the Beneficiary State less than or equal to EUR 100 million;
- (b) 2% of that part of the total contribution to the Beneficiary State exceeding EUR 100 million, but which is less than or equal to EUR 500 million; and
- (c) 1% of that part of the total contribution to the Beneficiary State exceeding EUR 500 million.

The amount shall be fixed in the grant agreements between the FMC and/or the Norwegian Ministry of Foreign Affairs and the Focal Point.

8.2.3 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 Article 8.2.1 on an exclusive and additional basis;
- (b) other staff employed to carry out tasks referred to in Article 8.2.1.

The period of employment or temporary assignment may not exceed the final date for the eligibility of expenditure specified in the grant agreements approved by the FMC and/or the Norwegian Ministry of Foreign Affairs related to the technical assistance.

B. INFORMATION REQUIREMENTS FOR A SUFFICIENT AUDIT TRAIL

A sufficient audit trail is considered to be present when, for a given grant, the following applies:

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

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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 the Beneficiary State, the information referred to in paragraph 1 is aggregated into a detailed statement of expenditure for each operation that covers 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 Beneficiary State.

5. The FMO keeps accounting records for each operation and for the total amounts of expenditure certified by the Beneficiary State. The Beneficiary State presents lists of the operations approved under each project, 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.