



EEA FINANCIAL MECHANISM 2014–2021 AND
NORWEGIAN FINANCIAL MECHANISM 2014–2021

GUIDE FOR BENEFICIARIES

Part 4: ELIGIBILITY OF EXPENDITURES

PROGRAMME *CLIMATE CHANGE MITIGATION AND ADAPTATION*
PROGRAMME *EDUCATION, SCHOLARSHIPS, APPRENTICESHIP AND YOUTH*
ENTREPRENEURSHIP

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List of abbreviations and acronyms

EEA	European Economic Area
GODC	Government Office for Development and European Cohesion Policy
Programme Agreements	Programme Agreement between the Financial Mechanism Committee and the Norwegian Ministry of Foreign Affairs and the Government Office for Development and European Cohesion Policy – Slovenia for the financing of the Programme <i>Climate Change Mitigation and Adaptation</i> and Programme Agreement between the Financial Mechanism Committee and the Norwegian Ministry of Foreign Affairs and the Government Office for Development and European Cohesion Policy – Slovenia for the financing of the Programme <i>Education, Scholarships, Apprenticeship and Youth Entrepreneurship</i>
Donor States regulations	Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021 and Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2014-2021

1 PURPOSE OF THIS DOCUMENT

This document provides information on general principles on eligibility of expenditures incurred within the projects implemented under the programme *Climate Change Mitigation and Adaptation* and the programme *Education, Scholarships, Apprenticeship and Youth Entrepreneurship* (hereinafter document). The document identifies the groups and types of costs incurred, i.e. eligible versus ineligible costs and direct versus indirect costs, and the different eligible categories of costs and provides guidance on supporting documents to be provided by the beneficiaries to justify the costs incurred. As such, the document helps the beneficiaries navigate through the different situations they may face when dealing with cost allocation.

The document is issued by the Government Office of the Republic of Slovenia for Development and European Cohesion Policy (hereinafter GODC) acting as the Programme Operator of the programme *Climate Change Mitigation and Adaptation* and the programme *Education, Scholarships, Apprenticeship and Youth Entrepreneurship* (hereinafter Programme Operator).

The document is binding for all Project Promoters and project partners (hereinafter beneficiaries) reporting on expenditures incurred in relation to the projects that were selected through the call for proposals or on expenditures incurred within pre-defined projects under the abovementioned programmes.

If necessary, the document shall be subject to revision during project implementation; for this reason, the beneficiaries must always use the last valid version of the document published on the website dedicated to the implementation of the EEA Financial Mechanism and Norwegian Financial Mechanism (hereinafter EEA Grants and Norway Grants) in the Republic of Slovenia, namely www.norwaygrants.si and www.eeagrants.si, accessible at www.norwaygrants.si/en/calls/education and www.norwaygrants.si/en/calls/environment.

Wherever used in this document, a pronoun in the masculine gender shall be considered as including the feminine gender in line with the principles of gender-inclusive language.

2 ELIGIBILITY OF EXPENDITURES

2.1 Project grant rate

A maximum co-financing rate of up to 100% of total eligible expenditures of the project shall be applied to each project selected under the call for proposals or pre-defined project. The co-financing shall be provided by the Norway Grants or the EEA Grants together with matching national contribution (provided by GODC as the Programme Operator).

The amount of the co-financing shall be reduced in the case of revenue-generating projects or in case of application of State aid rules. The beneficiaries shall contribute the remaining share of the project budget in the form of own resources (hereinafter own co-financing).

2.2 Period of eligibility

The first date of eligibility of expenditures in the projects shall be as follows:

- the date on which the Programme Operator decides to award the project grant, or a later date in case of projects selected through the call for proposals, and
- no earlier than the date on which the National Focal Point notifies the Donor States of the positive appraisal by the Programme Operator of the pre-defined project proposed to be implemented within the programme and submitted for approval, or a later date in case of projects identified as pre-defined projects.

The final date of eligibility of expenditures in projects shall be no later than one year after the scheduled completion of the project or 30 April 2024, whichever is earlier.

2.3 Eligible area

As a rule, eligible area for the implementation of project activities shall be the territory of the Republic of Slovenia and also the Donor states as specified in Part 2 of the Guide for Beneficiaries.

The expenditures incurred in relation to any project activity implemented outside the abovementioned eligible area shall be deemed ineligible. In exceptional and duly justified cases, a project activity may be implemented outside the eligible area, but only upon prior approval from the Programme Operator.

Regardless of where the project activities are implemented, their outcomes and outputs must always manifest in the Republic of Slovenia.

2.4 General principles on the eligibility of expenditures

In accordance with Article 8.2 of the Donor States regulations eligible expenditures of projects are those actually incurred within the project which meet the following criteria:

- they are incurred between the first and final dates of eligibility of a project as specified in the project contract,
- they are connected with the subject of the project contract and they are indicated in the detailed budget of the project,
- they are proportionate and necessary for the implementation of the project,
- they are used for the sole purpose of achieving the objective(s) of the project and its expected outcome(s), in a manner consistent with the principles of economy, efficiency and effectiveness,
- they are identifiable and verifiable, in particular through being recorded in the accounting records of the Project Promoter and/or project partner (with the exception of the costs calculated on a flat rate basis) and determined according to the applicable accounting standards of the country where the Project Promoter and/or project partner is established and according to generally accepted accounting principles, and
- they comply with the requirements of applicable tax and social legislation.

Expenditures are considered to have been incurred when the cost has been invoiced, paid and the subject matter delivered (in case of goods) or performed (in case of services and works). Exceptionally, costs in respect of which an invoice has been issued in the final month of the project's duration are also deemed to be incurred within the dates of eligibility if the costs are paid within 30 days of the project's end date.

An adequate audit trail must be ensured for all expenditures incurred.

2.5 Ineligible expenditures

In accordance with Article 8.7 of the Donor States regulations the following costs shall not be considered eligible:

- interest on debt, debt service charges and late payment charges,
- charges for financial transactions and other purely financial costs, except costs related to accounts required by the Donor States, the National Focal Point or the applicable law and costs of financial services imposed by the project contract,
- provisions for losses or potential future liabilities,
- exchange losses,
- recoverable VAT,
- costs that are covered by other sources,
- fines, penalties and costs of litigation, except where litigation is an integral and necessary component for achieving the outcomes of the project,
- costs incurred with respect to contract on provision of external service/expertise concluded between the Project Promoter and the project partner as external service provider,
- costs of real estate and/or land already owned, directly or indirectly, by the Project Promoter, or purchase of real estate and/or land owned, directly or indirectly, by the project partner or a public administration,
- excessive or reckless expenditure.

This is not an exhaustive list but rather a selection of important and relevant ineligible costs. The costs not listed are therefore not automatically to be considered as eligible.

Inclusion of an expenditure item in a project budget approved by the Programme Operator cannot be considered as confirmation of eligibility of that expenditure item.

2.6 Eligible expenditures and cost categories

In accordance with Article 8.3 and Article 8.5 of the Donor States regulations, the following expenditures are considered eligible:

- the costs of staff assigned to the project,
- travel and subsistence allowances for staff taking part in the project in a form of a lump sum,
- cost of new or second hand equipment,

- purchase of land and real estate (including construction),
- costs of consumables and supplies,
- costs entailed by other contracts awarded by a Project Promoter or project partners for the purposes of carrying out the project, provided that the awarding complies with the applicable rules on public procurement and the Donor States regulations and costs arising from requirements imposed by the project contract for each project,
- indirect costs in projects (overheads).

Due to technical requirements of the electronic monitoring system eMS in which the project application is submitted, the above listed eligible expenditures have been divided in following cost categories:

- staff costs,
- office and administrative costs,
- travel and accommodation costs (in the form of the lump sum),
- external expertise and services costs,
- equipment costs (new or second hand),
- infrastructure and construction costs.

Project eligible expenditures as listed in Articles 8.3 and 8.5 of the Donor States regulations have been adapted in cost categories due to technical requirements of the electronic monitoring system eMS. Appropriate distribution is presented in a table below.

Expenditure	Cost category in eMS
The costs of staff assigned to the project	Staff costs
Travel and subsistence allowances for staff taking part in the project in a form of a lump sum	Travel and accommodation costs (in the form of the lump sum)
Cost of new or second hand equipment	Equipment costs (new or second hand)
Purchase of land and real estate (including construction)	Infrastructure and construction costs
Costs of consumables and supplies	External expertise and services costs
Costs entailed by other contracts awarded by a Project Promoter or project partners for the purposes of carrying out the project, provided that the awarding complies with the applicable rules on public procurement and the Donor States regulations and costs arising from requirements imposed by the project contract for each project	External expertise and services costs
Indirect costs in project (overheads)	Office and administrative costs

Each expenditure must be classified under the right cost category in line with its characteristics¹.

2.6.1 Staff costs

Expenditure falling in the category of staff costs shall include salary payments and all other costs directly linked to salary payments incurred and paid by the beneficiary for the employees employed and working in the beneficiary organisation.

Reimbursement shall only be made for the staff costs that were actually incurred and paid out by the beneficiary within the reporting period, i.e. between the start date and the end date of the reporting period. The exception shall be the final reporting period with the salaries paid out only after the final date of eligibility of project or after the scheduled completion of the project, if the costs are paid within 30 days of the final date for eligibility in which case staff costs shall be considered eligible.

a) SALARY

The costs of the members of staff employed by the beneficiary institution and working, either full time or part time, on the project in line with their respective employment contracts, either permanent or temporary in accordance with the relevant national legislation shall be eligible for reimbursement. Staff costs incurred with respect to the implementation of core everyday activities of the beneficiary organisation and not relating to the implementation of project activities shall not be considered eligible.

Eligible are the costs of staff assigned to the project, comprising actual salaries, plus social security charges and other statutory costs included in the remuneration, provided that this corresponds to the project promoter's and project partner's usual policy of remuneration. Sick leave or any other type of absence from work shall be eligible for reimbursement if borne by the beneficiary organisation, i.e. the employer.

The hourly rate of staff costs shall be calculated on the basis of the following items figuring on the payslip:

- gross salary which may include regular work, sick leave (only if not paid by the Health Insurance Institute of Slovenia), paid annual leave, holiday allowance, seniority bonus, performance-related bonus for additional work, paid overtime. Other additional fringe benefits, Christmas bonus and thirteenth salary are not considered eligible and cannot be included in gross salary. Gross salary may include other expenditures provided that they are explicitly stated in the employment contract,
- employer's contributions, including employment taxes and social security contributions;
- reimbursement of expenses for in-work meals,
- reimbursement of expenses for transport to and from work,

¹ The expenditures substantiated by invoices or accounting documents listed in chapter 2.6 of this document shall apply for the Project Promoters and Slovenian Project Partners only. The proof of expenditure eligibility for Donor Project Partners is listed in chapter 3.5 of this document.

- other: paid annual leave (calculated proportionately in accordance with the applicable act) and mandatory collective supplementary pension insurance for public employees.

The amount of costs incurred for in-work meals, transport to and from work and annual leave pay paid out by individual beneficiaries under the same project may differ, but only up to the ceiling set out in the Decree on tax treatment of reimbursement of costs and other income from employment.

Full-time assignment to the project (employee works full time on the project, i.e. 100% of the working time is allocated to the project): total gross employment costs per employee (including holiday allowances, paid annual leave and sick pay, if these costs are not reimbursed to the employer by the Health Insurance Institute of Slovenia) incurred and paid out by the beneficiary in accordance with the relevant national legislation and employment contract shall be considered eligible.

Part-time assignment to the project (employee works only fixed percentage of time per month on the project): total gross employment costs multiplied by the fixed percentage of time worked on the project shall be considered eligible. The percentage shall remain the same for the entire project implementation. It shall only be changed in duly justified cases and upon prior approval from the Programme Operator. The percentage of time worked on the project shall be stipulated in the employment contract, addendum to the employment contract or decision of the head of the beneficiary organisation.

Ad hoc salary increases, bonuses, rewards or severance pay shall not be considered eligible expenditures of the project, even if incurred and paid out for the implementation of project activities.

The control unit may verify if the hourly rate applied to calculate staff costs charged to the project is reasonable by checking the scope of work of employees working on the project, their work experience and educational attainment, reviewing the relevant collective agreements (in the economy, non-economy) and doing a thorough survey to collect data about the average market hourly rates for comparable work.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the employment costs claimed for reimbursement:

1. employment contract, marked with the relevant sequence number n (i.e. 1) – the document must be supplied only the first time employment costs for an individual employee working on the project are claimed for reimbursement or when potential amendments to employment contracts for individual employees working on the project are made – the document must clearly demonstrate the employment relationship between the employee and the beneficiary institution. For each employee whose employment costs are incurred, paid out and claimed by the beneficiary, the beneficiary shall submit the relevant legal basis (official document) clearly demonstrating the following:
 - role and responsibilities of the employee with information on the main tasks to be performed and involvement in project activities,
 - whether the employee works full time or part-time on the project, in the latter case the fixed percentage of the time assigned to the project,

- duration for which the employee is assigned to the project,
 - statement that the employment costs are co-financed under the project,
 - source of funding, and
 - programme logo,
2. monthly payslip, marked with the relevant sequence number n/A (i.e. 1/A),
 3. proof of payment of the relevant taxes and contributions by the beneficiary and form *REK-1* (Withholding tax return for the income from employment) showing total taxes and contributions payable, marked with the relevant sequence number n/B (i.e. 1/B),
 4. proof of payment of salary issued by bank (net salary, reimbursement of expenses for in-work meals, reimbursement of expenses for transport to and from work and statutory contributions), marked with the relevant sequence number n/C (i.e. 1/C).

b) PAY FOR ANNUAL LEAVE (applies only to Slovenian beneficiaries)

Annual leave or paid time off work shall be paid out according to the employment contract. The beneficiary shall collect the data on the amounts of pay for annual leave paid to employees in the form *Zbirnik regresa* (Aggregate form on payments for annual leave) (Annex 1).

This form shall be used when, for example, the report for the previous reporting period did not include pay for annual leave because the relevant amounts had only been paid out after the submission of the report; the amounts paid out at a later stage are retroactively claimed in the current report on the basis of the abovementioned form.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the annual leave costs claimed for reimbursement:

1. form *Zbirnik regresa* (Aggregate form on payments for annual leave), marked with the relevant sequence number n (i.e. 2),
2. document showing the calculation of payment for annual leave, marked with the relevant sequence number n/B (i.e. 2/B),
3. form *REK-1* (Withholding tax return for the income from employment), marked with the relevant sequence number n/C (i.e. 2/C),
4. proof of payment of the relevant pay for annual leave and the corresponding tax by the beneficiary (the amounts paid should be highlighted), marked with the relevant sequence number n/D (i.e. 2/D).

c) OVERTIME

Overtime is the amount of time worked beyond normal working hours on the basis of a written agreement/order issued by the employer. Apart from working beyond normal working hours, overtime may also be done during weekends on Saturdays and Sundays and on national holidays. Overtime work is subject to provisions of Article 144 of the national Employment Relationships Act.

The hourly rate for extra hours worked shall be determined by dividing the monthly gross salary by the total working time figuring on the payslip of an employee (regular working hours and overtime). The standard hourly rate basis shall be determined by dividing the monthly gross salary by the monthly working time fixed in the employment contract (expressed in hours).

The following supporting document accompanying the report shall be provided to ensure an adequate audit trail or justify the overtime costs claimed for reimbursement:

- decision on overtime issued by the employer. Paid overtime shall be eligible only in case it is directly related to the project and is necessary. The beneficiary shall supply evidence of overtime worked (time-sheets demonstrating that the employee worked beyond normal working hours; a report detailing the tasks carried out during overtime, if overtime concerns participation in an event, agenda is supplied or any other documentary proof).

d) PERFORMANCE-RELATED BONUS FOR ADDITIONAL WORK

Staff employed on the project is eligible for performance-related bonus for additional work.

The beneficiary may, in accordance with a written document, determine and pay out performance-related bonus for additional work as a percentage of the salary to reward the employee for a number of reasons, but always in connection with the project. Thus, performance-related bonus for additional work or increased workload shall be paid out to an employee whose work results and performance significantly surpass the level of performance expected in an individual month, particularly if this facilitates and helps rationalise implementation of project tasks by the beneficiary. The amount paid out to the employee in the form of performance-related bonus for additional work shall be considered eligible provided that additional work is clearly linked to the project activities. A written document on additional work and the corresponding payment of performance-related bonus shall be signed by the head of the beneficiary organisation for a period of one month or for a longer period.

The following supporting document accompanying the report shall be provided to ensure an adequate audit trail or justify the costs of performance-related bonus for additional work claimed for reimbursement:

- agreement on additional work and decision on additional work clearly indicating the duration of the decision, reasons for issuing the decision with clear reference to the project.

The decision on the payment of overtime or the decision on the percentage of the salary paid out as performance-related bonus for additional work shall both clearly display the programme logo.

2.6.2 Office and administrative costs

This category of eligible costs shall notably include the following costs:

- office supplies and consumables,
- photocopies,
- postal services,
- communication services,
- utilities (i.e. heating, water and electricity),
- office rent (from third natural or legal persons),
- bank charges for opening and administering a separate account or accounts where implementation of a specific projects requires a separate account to be opened,

- other administrative costs necessary for the implementation of the project and at least partially a result of the project implementation.

Office and administrative costs shall further be divided into:

- real costs which have been incurred and are directly, and in full, linked to the implementation of the project and can therefore be attributed directly to it, and
- indirect costs which cannot be directly attributed to the project and are not identifiable as specific costs directly linked to the performance of the project which can be recorded in the project's accounts, but which have nevertheless been incurred in connection with the eligible direct costs for the project.

Either real or indirect office and administrative costs shall be claimed under the project. Both types of office and administrative costs cannot be claimed at the same time.

For projects applying for the Open Call for Proposals only indirect office and administrative costs shall be claimed in accordance with the point a) or point c) of the first paragraph of the Article 8.5 of the Donor States regulations.

a) REAL COSTS

Real costs shall be eligible for reimbursement if they meet the following conditions:

- they are declared on the basis of verifiable and actual expenditures incurred,
- they are directly linked to the project implementation,
- they are not declared under any other cost category.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the real costs claimed for reimbursement in this cost category:

1. invoice, marked with the relevant sequence number n (i.e. 3),
2. contract or purchase order, marked with the relevant sequence number n/A; may be submitted only with the first interim report or claim statement in case of a one-year contract or purchase order,
3. proof of payment (the amount indicated on the proof should be highlighted), marked with the relevant sequence number n/B (i.e. 3/B),
4. proof of activity carried out or purchase made, delivery note, marked with the relevant sequence number n/C (i.e. 3/C),
5. documents relating to the procurement procedure or to the market pricing survey, marked with the relevant sequence number n/D (i.e. 3/D).

b) INDIRECT COSTS

In accordance with the first paragraph of Article 8.5 of the Donor States regulations indirect costs are all eligible costs that cannot be identified by the beneficiary as being directly attributed to the project but which can be identified and justified by its accounting system as being incurred in direct relationship with the eligible direct costs attributed to the project. They may not include any eligible direct costs. Indirect costs of the project represent a fair apportionment of the overall office and administrative costs of the beneficiary.

Indirect costs shall be incurred when entered and recorded in the accounting records of the beneficiary.

In accordance with Article 8.5 of the Donor States regulations indirect office and administrative costs may be identified according to one of the following methods:

- referred to in point a) of the first paragraph of Article 8.5, based on actual indirect costs for those beneficiaries that have an analytical accounting system to identify their indirect costs (cost-sharing formula shall be defined by the beneficiary²), or
- calculated by applying a flat rate method, with the maximum flat rate amount set out in the Programme Agreements. Thus, eligible indirect costs shall be all costs referred to in point c) of the first paragraph of Article 8.5 calculated and declared on a flat rate basis of up to 15% of the direct eligible staff costs of the project. The method of calculating the indirect costs and their maximum amount per individual beneficiary shall be determined in the partnership agreement between the Project Promoter and the project partners, whereas the maximum total amount of indirect costs of a project shall be stipulated in the project contract.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the indirect office and administrative costs based on the actual indirect costs claimed for reimbursement in this cost category:

1. invoice, marked with the relevant sequence number n (i.e. 4),
2. contract or purchase order, marked with the relevant sequence number n/A; may be submitted only with the first interim report or claim statement in case of a one-year contract or purchase order,
3. proof of payment (the amount indicated on the proof should be highlighted), marked with the relevant sequence number n/B (i.e. 4/B),
4. proof of activity carried out or purchase made, delivery note, marked with the relevant sequence number n/C (i.e. 4/C),
5. documents relating to the procurement procedure or to the market pricing survey, marked with the relevant sequence number n/D (i.e. 4/D).

Since no proofs of payment shall be required to be provided by the beneficiary to claim indirect office and administrative costs on a flat rate basis, this method is more recommended for identification of indirect office and administrative costs.

² The beneficiary shall decide on the one that best reflects the actual situation on the project (for ex. ratio between the number of employees in the beneficiary institution working on the project and the total number of employees in the institution; or ratio between the number of the total working hours (monthly sum of working hours) worked on the project and the number of total working hours worked in the beneficiary institution; or ratio between the area of business premises (m²) occupied by the employees working on the project and the total area of business premises (m²) of the beneficiary institution). The cost-sharing formula (chosen method) shall remain the same throughout project implementation. The beneficiary shall define the cost-sharing formula in partner report in the first reporting period in which office and administrative costs are claimed for reimbursement.

2.6.3 Travel and accommodation costs

The category of travel and accommodation costs shall cover travel and accommodation costs *incurred by employees of the beneficiary organisation* for missions necessary for the project activities. When planning travels for the purpose of the project, the beneficiaries shall always take into account the eligible area specified in section 2.3 of this document.

In accordance with the point b) of the first paragraph of Article 8.3 of the Donor States regulations, the reimbursement of the travel and accommodation costs of staff is **in a form of a lump sum per activity on a partner (beneficiary) level**.

The reimbursement of travel and accommodation costs in the form of the lump sum follows the principles detailed below:

- activities including travel and accommodation costs shall clearly be linked to the project and essential for its efficient implementation (i.e. participation in project meetings, on-site visits, meetings with the Programme Operator or other bodies, seminars, conferences etc.),
- lump sum amounts shall be calculated on the basis of defined rules approved by the Programme Operator. Lump sum amounts are:
 - EUR 7,000 for all travels including study visits for Slovenian beneficiaries to Donor States or for Donor Project Partners to Slovenia or other Donor States and
 - EUR 2,000 for all travels without study visits for Slovenian beneficiaries to Donor States or for Donor Project Partners to Slovenia or other Donor States.

Activities including travel and accommodation costs for staff in the form of the lump sum shall be clearly defined in the application. The reimbursement of travel and accommodation costs in the form of the lump sum shall be claimed in the last reporting period when the project activity which includes travel and accommodation lump sum has been fully implemented.

It must be taken in consideration:

- activities including travel and accommodation, evidenced by supporting documents (e.g. minutes drawn up, reports prepared, attendance list, etc.), shall be implemented as planned otherwise the reimbursement of the lump sum shall not be eligible;
- the reimbursement of the lump sum should be provided in the last reporting period when the activity has been fully implemented;
- travel and accommodation costs of external experts and service providers cannot be claimed under cost category travel and accommodation costs, but shall be stipulated in the contract or agreement signed with the beneficiary and declared under the external expertise and services costs.

2.6.4 External expertise and services costs

External expertise and services shall be provided by a public or private body or a natural person not employed by the beneficiary organisation. External expertise and services costs shall cover the costs paid on the basis of invoices or claims for reimbursement to external experts or external service providers subcontracted to carry out certain tasks or activities linked to the implementation of the project in accordance with the contracts or written agreements signed. The costs of external expertise and services shall be clearly linked to the project and essential for its effective implementation.

This category of expenditures shall include the costs incurred by beneficiaries for services or expertise performed or goods delivered, for services or work performed in accordance with a contract for services/work or a copyright contract and student work. External service providers or experts shall be contracted only on condition that the employees working regularly on the project cannot carry out certain project tasks themselves and therefore outsource them to external service providers/experts. All taxes and contributions payable by the beneficiary shall be considered eligible in accordance with the legislation governing the particular type of service or expertise delivered. The only exception is the recovery of VAT (partial or full) if VAT is not recoverable by the state (see section 3.1).

The procedures relating to subcontracting (not applicable to student work, copyright contracts or contracts for services/work³) shall always be carried out in accordance with the rules and provisions of the applicable national Public Procurement Act (see section 3.2). If the beneficiary fails to carry out the appropriate selection procedure, the costs claimed shall be considered ineligible.

The beneficiary cannot subcontract staff member of its own organisation or staff member of other beneficiary, or other beneficiary (legal body) as service provider (i.e. subcontractor paid by the beneficiary in exchange for their work or service), i.e. as external service provider/expert carrying out project activities. Any remuneration whatsoever received in exchange for services/expertise delivered in the abovementioned way shall be considered ineligible. Persons not employed by the beneficiary but affiliated to the beneficiary (i.e. family member, partner; chairman etc.) shall not be subcontracted as external service providers/experts. The same shall apply to affiliated entities, such as organisations or companies⁴, entities under private or public law and their staff members.

The control unit shall check whether the price offered for the services, expertise or goods to be delivered is reasonable, which can usually be inferred from the supporting documents provided by the tenderers in the selection procedure stage.

³ National legislation for student work is the Employment and Insurance Against Unemployment Act (it can be chosen directly, does not comply with public procurement rules). The national legislation for copyright contracts and contracts for services/work are the Copyright and Related Rights Act and Obligations Code. The service provider in this type of work can be selected through a public invitation.

⁴ In accordance with the Companies Act.

The beneficiary should be able to prove that the principles of public procurement have been respected when awarding the contract to external service provider/expert, namely competition, transparency, equal treatment, non-discrimination and best value for money.

The deliverables produced by external service providers/experts shall be subject to applicable requirements on information and communication referred to in section 6 of this *Guide for Beneficiaries*.

a) SERVICES AND EXPERTISE PERFORMED AND GOODS DELIVERED

Expenditures on external services, expertise and goods delivered in connection with the implementation of the project shall be incurred by third persons and charged to the beneficiary. Such expenditures may include costs for services related to the organisation and implementation of different kind of events or meetings, costs for studies, surveys and research, costs for information and communication activities, translation costs, training costs etc. The beneficiary shall always follow the principle of economy, and cost-efficiency when procuring external services/expertise and awarding contracts to external service providers/experts selected.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the external expertise and services costs claimed for reimbursement:

1. invoice with specification and clear reference to the project, marked with the relevant sequence number n (i.e. 6),
2. contract or purchase order with clear reference to the project specifying the service, goods or expertise to be delivered, marked with the relevant sequence number n/A (i.e. 6/A),
3. proof of payment by the beneficiary, marked with the relevant sequence number n/B (i.e. 6/B),
4. proof of outputs, services delivered, delivery or service acceptance act, marked with the relevant sequence number n/C (i.e. 6/C),
5. documents relating to procurement procedure or evidence of adequate market pricing survey by the beneficiary, marked with the relevant sequence number n/D (i.e. 6/D),
6. outputs of the work of external experts or service deliverables (i.e. studies, research, photo material, attendance list in case of an event, agenda etc.), marked with the relevant sequence number n/E, F, etc. (i.e. 6/E – study, 6/F – photo material, etc.).

b) SERVICES, EXPERTISE OR GOODS DELIVERED ON THE BASIS OF A COPYRIGHT CONTRACT OR A CONTRACT FOR SERVICES/WORK

The beneficiary may sign a copyright contract or a contract for services/work with a natural person that is not in employment relationship with the beneficiary in accordance with the employment contract or any other document of equivalent probative value nor is it in any way whatsoever affiliated to the beneficiary. Copyright work shall be subject to provisions of the Copyright and Related Rights Act, whereas the rights and obligations stemming from the contracts for services/work shall be governed by the Obligations Code.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the costs under a copyright contract or a contract for services/work claimed for reimbursement:

1. detailed report stating the services, expertise or goods delivered, or detailed records specifying the scope of services, expertise carried out, duly signed by the beneficiary and the subcontractor, marked with the relevant sequence number n (i.e. 8),
2. proof of withholding tax return by the beneficiary, marked with the relevant sequence number n/A, B... (i.e. 8/A – form *REK-2* (Withholding tax return for the income that is not an income from employment) etc.),
3. copyright contract or contract for services/work, marked with the relevant sequence number n/C (i.e. 8/C),
4. proof of payment of the contract price by the beneficiary, including the statutory taxes, charges and contributions, marked with the relevant sequence number n/D (i.e. 8/D),
5. documentation relating to the selection procedure (enclosed CVs, references, reviews etc.), marked with the relevant sequence number n/E, (i.e. 8/E),
6. outputs of the work of external experts or service deliverables (studies, research, photo material etc.) marked with the relevant sequence number n/F, G ... (i.e. 8/F – study, 8/G – photo material).

c) STUDENT WORK

The hourly rate applied to account for student work shall be comparable to the hourly rates specified by the student work service for a particular service in question (the financial adjustment shall comply with the applicable national legislation).

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the student work costs claimed for reimbursement:

1. invoice, marked with the relevant sequence number n (i.e. 10),
2. student work cost calculation, marked with the relevant sequence number n/A (i.e. 10/A),
3. detailed report stating the activities carried out by a student, including financial adjustment of hourly rates, duly signed by the beneficiary and the student, marked with the relevant sequence number n/B (i.e. 10/B),
4. student employment referral, marked with the relevant sequence number n/C (i.e. 10/C),
5. proof of payment by the beneficiary, marked with the relevant sequence number n/D (i.e. 10/D),
6. outputs of the work of students or service deliverables (surveys, photo material), marked with the relevant sequence number n/E, F etc. (i.e. 10/E – survey, 10/F – photo material).

2.6.5 Equipment costs

This category pertains to expenditure on equipment purchased by the beneficiary and representing an integral and necessary component for achieving the outcomes of the project.

The category is divided into the following items:

- costs of purchasing new or second-hand equipment,
- equipment depreciation costs.

Equipment costs shall be claimed for reimbursement on one of these two ways (costs of purchasing new or second-hand equipment or equipment depreciation costs).

a) PURCHASE OF NEW OR SECOND-HAND EQUIPMENT

The purchase of new or second-hand equipment is an integral and necessary component for the implementation of the project as well as essential for achieving the objectives of the project. In purchasing new or second-hand equipment compliance with the relevant information and communication requirements shall be observed. The equipment shall be entered in the fixed assets register.

Where the entire purchase price of equipment is eligible, the beneficiary shall meet the following specific criteria:

- keep the equipment in its ownership during project implementation and for a period of at least five years following the approval of the final project report,
- ensure that the equipment is used in accordance with the purpose and objectives of the project both during project implementation as well as for a period of at least five years following the approval of the final project report,
- keep the equipment properly insured against losses such as fire, theft or other normally insurable incidents both during project implementation and for at least five years following the approval of the final project report,
- set aside appropriate resources for the maintenance of the equipment for at least five years following the approval of the final project report.

We recommend purchasing the equipment in the initial project implementation stage, as it is otherwise more difficult to adequately justify eligibility of the total cost of purchasing the equipment.

If the purchase of equipment for which reimbursement of the entire purchase price is claimed is not listed in the application form, the beneficiary shall submit to the Programme Operator a request for approving the purchase of equipment, which shall include a detailed description of the equipment and an explanation of why the equipment represents an integral and necessary component for achieving the objectives of the project. The beneficiary shall submit the request *before* purchasing new equipment, otherwise the costs of purchase shall be deemed ineligible regardless of Programme Operator's decision.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the equipment purchase costs claimed for reimbursement:

1. invoice, marked with the relevant sequence number n (i.e. 13),
2. contract or purchase order, marked with the relevant sequence number n/A (i.e. 13/A),
3. proof of payment, marked with the relevant sequence number n/B (i.e. 13/B),
4. documentation on the implementation of the public procurement, marked with the relevant sequence number n/C (i.e. 13/C),
5. proof of receipt (delivery note) and/or installation of equipment, marked with the relevant sequence number n/D (i.e. 13/D),

6. extract from the fixed assets register, marked with the relevant sequence number n/E (i.e. 13/E).

b) DEPRECIATION OF EQUIPMENT

The beneficiary may depreciate new or second-hand equipment. Depreciation is an eligible cost only if the purchase of equipment itself has not been co-financed from other sources. The eligible depreciation cost corresponds to the duration of the project and the rate of actual use of the equipment for the purposes of the project. Depreciation of equipment occurs by way of entry in the beneficiary's records. If the equipment is not used solely for the purposes of the project, only a proportional share of depreciation is eligible for co-financing (the share shall be calculated according to a fair, substantiated and impartial method).

The beneficiary shall claim depreciation costs on the basis of a depreciation plan that complies with applicable accounting standards. The plan shall provide information on the purchase price, the date of purchase, the date of commencement of use and the depreciation rate.

The beneficiary shall claim depreciation during the particular reporting period. The amount of depreciation shall be verifiable.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the equipment depreciation costs claimed for reimbursement:

1. invoice, marked with the relevant sequence number n (i.e. 15),
2. depreciation account for the current reporting period, marked with the relevant sequence number n/A (i.e. 15/A),
3. depreciation plan, marked with the relevant sequence number n/B (i.e. 15/B),
4. documents relating to the procurement procedure, marked with the relevant sequence number n/C (i.e. 13/C),
5. proof of payment, marked with the relevant sequence number n/D (i.e. 15/D); the amount indicated on the proof should be highlighted and attached only the first time the depreciation is claimed for reimbursement.

2.6.6 Infrastructure (purchase of real estate and land) and construction costs

The category is divided into the following items:

- infrastructure costs (purchase of real estate and land),
- construction costs.

a) INFRASTRUCTURE (PURCHASE OF REAL ESTATE AND LAND)

The cost of purchase of real estate and land not built on may be eligible under the following conditions in accordance with Article 8.6 of the Donor States regulations lists the following eligibility conditions:

- there shall be a direct link between the purchase of the real estate and/or land and the objectives of the project,
- purchase of real estate and/or land may not represent more than 10% of the total eligible expenditure of the project,

- a certificate shall be obtained prior to the purchase from an independent qualified evaluator or duly authorised official entity 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 damage related to pollution. In case of purchase of real estate, the certificate must either confirm 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 beneficiary under the project,
- the real estate and/or the land shall be used for the purpose and for the period specified in the decision to award the project grant,
- the ownership must be transferred to the beneficiary, or those explicitly designated by the beneficiary in the project application as recipients of the real estate and/or the land, prior to the completion of the project,
- the real estate and/or the land cannot be sold, rented, or mortgaged within five years of the completion of the project, or longer if stipulated in the project contract,
- the real estate and/or land 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 the objectives of the project,
- the real estate and/or the land shall not have received a national or external donor grant in the last 10 years which would give rise to a duplication of funding,
- the purchase of real estate and/or land shall be explicitly approved by the Programme Operator prior to the purchase, either in the project contract or by a later decision.

The cost of real estate and/or land already owned, directly or indirectly, by the Project Promoter, or purchase of real estate and/or land owned, directly or indirectly, by the project partner or a public administration, shall not be eligible. Under no circumstances shall real estate and/or land be purchased for speculative purposes.

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

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the costs for the purchase or real estate or land claimed for reimbursement:

1. invoice, marked with the relevant sequence number n (i.e. 16),
2. purchase contract, marked with the relevant sequence number n/A (i.e. 16/A),
3. proof of payment, marked with the relevant sequence number n/B (i.e. 16/B), the amount indicated on the proof should be highlighted and attached only when claiming the expenditures for the first time,
4. a certificate from an independent qualified evaluator or duly authorised official entity, marked with the relevant sequence number n/C (i.e. 16/C),
5. extract from the land register, marked with the relevant sequence number n/D (i.e. 16/D),
6. documents relating to the public procurement, marked with the relevant sequence number n/E (i.e. 16/C).

For projects involving investments in real estate (including renovation) and/or land the beneficiary shall ensure that the project is operational, which means that the real estate and/or land is used in accordance with the purpose and objectives of the project for a period of at least five years following the approval of the final project report.

b) CONSTRUCTION

Construction costs are eligible if they are directly related to the objectives of the project and incur in the project duration period. Construction costs may cover payment of any activity related to the preparation and implementation of construction works.

The cost of construction may be eligible under the following specific criteria:

- the building constructed or renovated shall be used for the purpose and for the period specified in the project contract,
- the ownership of the building shall be transferred to the beneficiary, or those explicitly designated in the project contract as recipients of the building, prior to the completion of the project,
- the building cannot be sold, rented, or mortgaged within five years of approval of the final project report, or longer if stipulated in the project contract.

The following supporting documents accompanying the report shall be provided to ensure an adequate audit trail or justify the construction costs claimed for reimbursement:

1. invoice with specification, marked with the relevant sequence number N (i.e. 17),
2. construction contract (only when claiming the expenditures for the first time), marked with the relevant sequence number n/A (i.e. 17/A),
3. proof of payment (the amounts on the proof should be highlighted), marked with the relevant sequence number n/B (i.e. 17/B),
4. documents relating to the procurement procedure, including all the annexes, marked with the relevant sequence number n/C (i.e. 17/C).

For investments in construction the beneficiary shall ensure that the building is used in accordance with the purpose and objectives of the project for a period of at least five years following the approval of the final project report.

3 SPECIFIC CASES

3.1 Valued-added tax (VAT)

The cost of VAT may represent eligible project expenditure if it is not reimbursable by the state. The beneficiary's VAT may thus be eligible:

- in full, where the beneficiary is not identified for VAT purposes or is identified as a VAT-registered person but performs a non-taxable activity in the project,
- partially, where VAT is only partially reimbursed by the state. In this case, the beneficiary is entitled to a non-deductible VAT rate.

In order to claim (partial or total) VAT as eligible project expenditure, the beneficiary shall enclose a certificate of non-inclusion in the VAT system issued by the Financial Administration of the Republic of Slovenia to the first report or at the latest to the report under which the beneficiary claims VAT for the first time. In the event of any changes, the beneficiary shall enclose a new certificate.

3.2 Public procurement

Applicable national and European Union law on public procurement as well as principles set out in Article 8.15 of the Donor States regulations shall be complied with in the implementation of projects.

Public procurement procedures shall be implemented by the beneficiary in compliance with the applicable Public Procurement Act. As the funding awarded is public funding the national legislation on public procurement shall also be observed by the beneficiaries governed by private law.

Donor Project Partners shall observe public procurement rules applicable in their country, as well as European Union law on public procurement and principles set out in Article 8.15 of the Donor States regulations.

In cases where contracts concluded as part of the implementation of the project fall below the national or European Union thresholds set for public procurement or outside the scope of the applicable public procurement laws, the awarding of such contracts (including the procedures prior to the awarding) shall comply with best economic practices, including accountability, allow a full and fair competition between potential providers, for example by way of effective price comparison, and ensure the optimal use of resources.

The highest ethical standards shall be observed during the procurement and execution of contracts. No offer, gifts, payments or benefit of any kind, which would or could, either directly or indirectly, be construed as an illegal or corrupt practice, i.e. as an inducement or reward for the award or execution of procurement contracts, shall be accepted.

Under the programme *Climate Change Mitigation and Adaptation* and the programme *Education, Scholarships, Apprenticeship and Youth Entrepreneurship* there shall be no conclusion of procurement contracts for external providers between beneficiaries or employees of beneficiary organisations to implement project activities. The same shall also apply to persons who are not employed, but are in any other way related to the organisation (i.e. chairmen of associations, partners, family members, etc.), and to related organisations or related companies, both public and private entities and their employees (section 2.6.4).

3.2.1 Conflict of interest

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 beneficiary shall ensure that 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, transparency of the decision-making process and fair treatment for all tenderers shall be ensured. Project staff shall not be involved in companies participating as external providers in public procurement procedures prepared by the beneficiary concerned.

Measures need to be carefully analysed to minimise any possible risks of conflict of interest. In the event that a conflict of interest nevertheless arises, the beneficiary shall immediately inform the Programme Operator.

3.2.2 Anti-corruption clause

Pursuant to paragraph 2 of Article 1.3 of the Donor States regulations there shall be zero-tolerance towards corruption for all programmes and activities.

In accordance with the Integrity and Prevention of Corruption Act, public sector bodies and organisations shall include an anti-corruption clause, specified under paragraph 1 of Article 14 of the abovementioned Act, in the contract concluded with providers, suppliers of goods, services or contractors that are worth more than EUR 10,000.00 excluding VAT.

3.3 Duplication of funding

Duplication of funding of invoices or the work performed shall not be allowed. If the expenditure has already been reimbursed from other public or private funds, such expenditure shall not be eligible for reimbursement from any other funds, including the Financial Mechanisms grants.

To prevent duplication of funding, the beneficiary shall instruct the entity issuing the supporting document (invoice or other accounting document) to include information for which project the goods or services are intended or to indicate a separate cost centre (i.e. The goods are used to implement the project “*project name*” co-financed under the “*programme name*”).

In case of suspicion of duplication of funding, the control unit and/or potential ex-post audits may request the beneficiary to provide additional information and documentation (also in relation to other projects implemented by the beneficiary or in relation to regular work of the employees).

If duplication of funding is established, unduly paid amounts shall be recovered. If duplication of funding is intentional, it is considered fraud and the Program Operator may unilaterally withdraw from the project contract.

3.4 Revenue

Net revenue is cash in-flow directly paid by the user for the goods or services provided by the project, such as charges borne directly by users for the use of infrastructure, sale or rent of land or buildings, or payments for services, minus any operating costs and replacement costs of short-life equipment incurred during the corresponding period.

As a general rule, eligible expenditure of a project (and consequently the payments under the Financial Mechanisms and the matching national contribution) shall be reduced according to the net revenue generated by the project

- during project implementation.
- assuming the total eligible expenditure of the project before the reduction by the net revenue reaches EUR 500,000.00, until three years after its completion or by the deadline for the submission of documents for programme closure, whichever is earlier.

a) REVENUE FORESEEN AT PROJECT APPLICATION STAGE

For project with net revenue already foreseen at project application stage the relevant amount shall be included in the application form:

- revenue generated during the implementation of the project (i.e. entrance fees, benefits related to books, media, etc.) → included in the cost plan → the co-financing basis is reduced and the amount is deducted from the amount of all eligible project expenditure,
- revenue generated after the implementation of the project → if the total amount of eligible expenditure exceeds EUR 500,000.00 → for projects generating net revenue after project completion, the applicant shall calculate the estimated net revenue for the period of three years after the final date of the project implementation using sensibly the method of calculating the discounted net revenue set out in point (b) of paragraph 3 of Article 61 of the Regulation laying down common provisions (EU) No 1303/2013 and detailed in Articles 15 through 19 of the Commission Delegated Regulation (EU) No 480/2014.

b) REVENUE NOT FORESEEN/DEDUCTED AT PROJECT APPLICATION STAGE

Project with revenue not foreseen at project application stage:

- revenue generated during the implementation of the project → the beneficiary is responsible for monitoring and documenting all revenue generated by the project activities for control purposes → net revenue is stated in the partner's report with attached accounting or equivalent documents → control unit deducts it from eligible expenditure and the basis for co-financing is reduced regardless of whether the revenue was planned or not. If the last claim has already been reimbursed, the Project Promoter is obliged to return the funds to the Programme Operator.

If revenue is not reported, marketing project activities, outcomes and equipment co-financed by the Financial Mechanisms and the matching national contribution under the programme *Climate Change Mitigation* and the programme *Adaptation and Education, Scholarships, Apprenticeship and Youth Entrepreneurship* shall not be allowed.

The rules governing revenue shall not apply to projects that are subject to state aid and *de minimis* aid.

3.5 Eligibility of expenditures of Donor Project Partners

The categories of eligible costs shall also apply *mutatis mutandis* to project partners registered in Donor States.

The expenditures of Donor Project Partners shall not be substantiated by invoices or accounting documents. The following shall suffice as proof of expenditure eligibility:

- a report by an independent Donor State auditor qualified to perform statutory audits of accounting documents, certifying that the expenditure declared has been incurred in accordance with the Donor States regulations, the applicable national legislation and relevant national practices, or
- a report issued by a competent and independent Donor State civil servant authorised by the relevant authorities to perform budgetary and financial control over the entity with which the expenditure was incurred and did not participate in the preparation of the accounting statements, certifying that the expenditure is in accordance with the Donor States regulations, the applicable national legislation and relevant national practices.

Costs related to the preparation and delivery of the abovementioned report may constitute part of the eligible expenditure of Donor Project Partners.