

## Important Messages - Grants

### SCOPE

Important messages contain:

**1) procedural rules (“procedure”)**

*e.g. interpretation of the PRAG or internal procedures etc.*

**2) recommendations**

*e.g. existing practices related to the issues not covered or only partially addressed in the applicable regulations, manuals etc.*

References are: reference to PRAG 2014 (version of PRAG 10.0 dated April 2014), template to be used, Guidelines for Applicants (GfA) of relevant Call for proposals, FAQ from EuropeAid (NB: web page is under revision and is to be consulted on regular basis), DEVCO companion document/users\_guide\_grants\_v. 5.0 (January 2015), relevant national legislation etc.

BUDGET CLEARING & CONTRACT PREPARATION			
1.	<b>Corrections in the budget</b>	The budget proposed for the action by the successful applicant at the call for proposals stage must be corrected to remove any obvious arithmetical errors or ineligible costs prior to signing the contract. The description of the action is corrected accordingly if required. The Contracting Authority may decide that other clarifications or minor corrections may be made to the description of the action or to the budget in so far as they do not call into question the grant award decision, do not conflict with equal treatment of applicants, and: - relate to matters clearly identified by the evaluation committee; or - aim at taking into consideration changes which have occurred since the date of receipt of the proposal.	PRAG, 6.5.10.2.
2.	<b>Budget lines</b>	Each budget line has to be numbered and justified in the Justification sheet to show its relevance to project activities.	PRAG, E3c Budget
3.	<b>Per diems</b>	The maximum EC per diem rate for Croatia (published on EuropeAid) can be applied, however this has to be in accordance with Croatian law and in line with the beneficiaries' book-keeping.	National tax regulations

		Other option is that per diems may be broken down into daily allowance and accommodation costs (with separate invoices) in order to comply with Croatian law/laws applicable in destination country (i.e. the same rule may apply in case where destination of travel is a country with the same regime of daily allowances, in which case the prescribed rate of daily allowance is to be applied). In this case cumulated costs for daily allowance and accommodation cannot exceed maximum per diem rates published on EuropeAid at the time of the signature of the Contract. However, please note that in course of implementation of the Action the Beneficiary is allowed to apply prescribed rate of daily allowances/maximum per diem rates published and relevant at the time of travel, provided there are enough funds available under respective budget line.	GC, Article 14.2.
4.	<b>Human resources – salaries/contracts</b>	The cost of staff assigned to the Action must correspond to actual gross salaries including social security charges and other remuneration-related costs. Please note that a salary of the project staff is related to the position/post of the person in the institution and is defined in the systematization of work positions/posts of the institutions.	GC, Article 14.2.
5.	<b>Employment Contracts under the Budget heading 1. Human resources</b>	When employing, beneficiary should use contracts (i.e. employment contracts) in line with national legislation.	National legislation
6.	<b>Travel</b>	When preparing budget, travel can be presented per km/per ticket/per month/per flight. During the implementation of the project, unit can be changed. Other means of transport (different from unit specified in signed contract) can be used during the implementation if it is economically acceptable and within the budget foreseen for the particular task or trip and they do not exceed those normally borne by the Beneficiary(ies). The CA should be informed about the change accordingly.	GC, Articles 9.4. and 14.2.
7.	<b>Local office</b>	Costs related to local office of the Beneficiary (Coordinator or other Beneficiaries) which are envisaged in the Application form can be budgeted as direct costs under heading 4. Local Office e.g. rent of venue. In case new office space is rented only for purpose of implementation of the Action, 100% of the same cost may be claimed from the Budget. If existing office space is to be used not only for organization's regular activities but also for the purpose of implementation of the Action, only proportion of the same cost may be charged from the budget. Please note that the same regime applies if cost of other services (tel/fax, electricity/heating, maintenance etc.) is budgeted under mentioned heading 4. Local office.	Annex III- Budget for the Action

8.	<b>Subcontracting of external experts</b>	<p>The staff of the Beneficiaries (Coordinator and other Beneficiaries) cannot be engaged as external experts. Any staff member of the Beneficiaries foreseen for providing input with respect to activities under a specific contract should be presented under heading 1 of the Budget (Human resources). Contractors are neither partners nor associates, and are subject to procurement rules set out in Annex IV to the standard grant contract.</p> <p>Only out-sourced services (to which procurement procedures of Annex IV apply) are to be presented under Heading 5 of the Budget.</p>	GfA 2.1.3.
9.	<b>Civil servants</b>	<p>Any staff member of the Beneficiaries foreseen for delivering any input should be presented in heading 1 of the Budget (Human resources) and his/her salary, if paid from public budget, will be considered as co-financing.</p> <p>In case public servants (from institutions not defined as Beneficiaries) are engaged as experts on daily or hourly fee, they should not work in their working time paid by their original employer and should have a written consent from their employer for engagement on the project as experts. It is to be observed, that their engagement does not infringe any national law.</p>	PRAG,2.4.1.2.; Financial regulation No 966/2012
10.	<b>Administrative costs (indirect costs)</b>	<p>Indirect eligible costs: these are not identifiable as specific costs directly linked to the performance of the Action. However, the Beneficiary(ies) should be able to justify them using its/their accounting system as having been incurred in connection with the eligible direct costs for the Action. <b>Indirect Costs may not include any eligible direct costs included in other headings of the budget.</b></p> <p><i>Example: costs connected with infrastructure and the general operation of the Beneficiary at headquarter level and costs such as administrative and financial management, human resources, training, legal advice, documentation, IT, maintenance of buildings, water, gas, electricity, insurance, office supplies, communications, Human Resources, accounting fees, depreciation, telephone bills, travel and other utilities costs, etc.</i></p> <p>These costs may be funded either on a flat rate basis or on a real costs basis. Note that <b>the two options are exclusive</b> and that the same indirect costs can never be covered by both real costs reimbursement and a flat rate, in order to prevent any double funding of the same costs. This means that when proposing the budget, the applicant may (unless otherwise stated in the Call for Proposal) <b>decide to include these costs in the direct costs or opt for a flat rate reimbursement.</b> The applicant may be asked to justify the percentage requested before the contract is signed. On the other hand, in cases where the Applicant has charged some overheads under the headings of eligible direct costs, but still requests additional flat rate funding, verification on the indirect costs that will be covered by the flat rate funding will be carried out during the contract preparation phase. The flat rate may not cover any expenditure already covered by the direct eligible costs (no double-financing of costs). Therefore it is expected, in this case, that the percentage will be lower than 7%.</p>	DEVCO companion document/users_guide_grants_v. 5.0 (January 2015)

11.	<b>Contract preparation - Can the percentage of EU co-financing vary as a result of corrections of the budget at the stage of contract preparation?</b>	<p>The obviously ineligible costs as well as overestimated costs are not eligible (since they do not comply with the principle of sound financial management, in particular value for money and cost-effectiveness) and must be eliminated from the budget before contract signature. The resulting decrease in the total eligible cost of the action must be reflected in the EU contribution. Therefore, both the absolute amount and the percentage of co-financing indicated in the award decision are to be taken as maxima which cannot be increased, only decreased at the stage of contract preparation. Any savings made can be used to finance additional grant(s) under the call for proposals.</p> <p>In addition, please note that PRAG, point 6.5.10.2. prescribes that the result of amendments in the phase of contract preparation (i.e. corrections, removal of arithmetical errors or ineligible costs) cannot lead to an increase in either the amount of the grant or the percentage of the co-financing fixed by the evaluation committee for the European Union contribution.</p>	<p>EuropeAid Frequently asked questions on Grants (as published on 06/04/2011)</p> <p>PRAG, 6.5.10.2</p>
<b>IMPLEMENTATION &amp; REPORTING</b>			
1.	<b>Reallocations</b>	<p>Where the amendment to the Budget or Description of the Action does not affect the basic purpose of the Action and the financial impact is limited to a transfer between items within the same main budget heading including cancellation or introduction of an item, or a transfer between main budget headings involving a variation of 25% or less of the amount originally entered (or as modified by addendum) in relation to each concerned main heading for eligible costs, the Coordinator may amend the budget and inform the Contracting Authority accordingly, in writing and at the latest in the next report. This method may not be used to amend the headings for indirect costs, for the contingency reserve, for in-kind contributions or the amounts or rates of simplified cost options.</p> <p>In order to prevent potential ineligible costs and/or irregularities the CFCA strongly suggest that Notification letter is sent to the CFCA for control although it is not subject of CFCA's official approval.</p>	<p>PRAG</p> <p>GC, Article 9.4.</p>
2.	<b>What changes may be introduced unilaterally and within what limits can the Beneficiary</b>	<p>As a general rule, amendments should be reported only during the implementation period of the Action. However, the Grant Contract might be modified also during its execution period.</p> <p>The most common unilateral amendments are the following:</p> <p>1) Unilateral amendment: budget amendment. Provided that such change does not affect the basic purpose of the Action, the grant beneficiary may change between headings within the limit of 25% of the initial amount of all the budget headings concerned (giving and receiving headings). The</p>	<p>EuropeAid Frequently asked questions on Grants (as published on 06/04/2011)</p> <p>GC, Article 9.4.</p>

	<p><b>modify the budget unilaterally?</b></p>	<p>modifications to the budget made by the Beneficiary under Article 9.4 GC are taken into account in a cumulative way. It is therefore not possible to proceed in this way to several reallocations of 24% each! As soon as the cumulated amount of the changes made by the Beneficiary exceeds 25% of the initial amount of a heading for eligible costs, a formal amendment (i.e. via addendum) is necessary. Initial amount means the amount set out in the contract, or as modified by formal addendum/a. Nevertheless, this method may not be used to amend the administrative costs or the contingency reserve.</p> <p>Within a budget heading, the Beneficiary may reallocate freely the funds between items (including deleting and introducing new items), as long as the basic purpose of the action remains the same. It is difficult to provide here a detailed description of what the basic purpose of the Action is, as it assumes different meanings according to the specificities of the Action and therefore requires a case by case analysis. However, as a general rule, any modifications of the objectives of the Action, of the target groups, of the location, of the activities or of the Action's sustainability, results and indicators etc. is likely to affect the basic purpose of the Action and may therefore be refused by the Contracting Authority.</p> <p>2) Unilateral amendment: changes in the Description of the Action.</p> <p>In all cases of unilateral change the Beneficiary must inform the Contracting Authority without delay, and at the latest in the next report, in writing.</p>	<p>DEVCO companion document/users_guide_grants_v. 5.0 (January 2015)</p>
<p>3.</p>	<p><b>Is a confirmation letter from the Contracting Authority necessary to formalize a change of address, bank account, auditor or budget (within the 25 % limit)?</b></p>	<p>No. The letter sent by the Grant Beneficiary to the Contracting Authority is enough to amend the contract in these limited fields. It is only when the Contracting Authority opposes the change of bank account or of auditor that it may react, and the letter that it then sends to the Grant Beneficiary cancels the change. However, please note that CA comments and check Notification letter submitted, and the same letter is subject to endorsement issued by the CFCA which is granted as provisional approval of the proposed change. The eligibility of the proposed change is subject to final approval upon submission of the following Interim report / Final report.</p>	<p>EuropeAid Frequently asked questions on Grants (as published on 06/04/2011)</p>
<p>4.</p>	<p><b>Changes of original budget unit rates</b></p>	<p>The rates indicated in the budget are estimated rates. If such change alters the total amount foreseen, then the change is subject to the conditions of article 9.4 GC. New unit rates must always meet the definition of eligible costs in Article 14.1 GC (necessary for the implementation of the Action and <b>complying</b> with the principles of sound financial management, in particular value for money and costs/effectiveness). Change has to be explained in variation column in reports.</p>	<p>GC, Articles 9.4. and 14.1.</p>

5.	<b>VAT exemption</b>	On the invoice, basis for VAT exemption has to be stated. If the invoice paid and reported in the report contains VAT, the amount of VAT is considered ineligible for financing and should be deducted from the amount of eligible costs	PRAG Annex J of relevant Call for proposals  National legislation
6.	<b>Administrative costs and verification of administrative costs (indirect costs)</b>	The indirect costs for the action are those eligible costs which may not be identified as specific costs directly linked to the implementation of the Action and may not be booked to it directly according to the conditions of eligibility in Article 14.1. However, they are incurred by the Beneficiary(ies) in connection with the eligible direct costs for the Action. They may not include ineligible costs as referred to in Article 14.9 or costs already declared under another costs item or heading of the budget of this Contract. A fixed percentage of the total amount of direct eligible costs of the Action not exceeding the percentage laid down in Article 3 of the Special Conditions may be claimed to cover indirect costs for the Action. Flat-rate funding in respect of indirect costs does not need to be supported by accounting documents. However, the Beneficiary(ies) should be able to justify them using its/their accounting system as having been incurred in connection with the eligible direct costs for the Action. Finally, this amount shall not be taken into account with regard to the maximum amount of simplified cost options.	GC, Article 14.7.  SC, Article 3.
7.	<b>Income tax on per diems</b>	According to national regulations income tax should be paid on per diems above non-taxable amount prescribed by Regulations on Income Tax. In this case total amount paid for per diem (including tax) is considered as eligible cost.	Regulations on Income Tax
8.	<b>Supporting documents for Human resources</b>	In line with GC Article 16.9. regarding staff and payroll records documents such as contracts, salary statements and time sheets for all staff of the Beneficiaries (whether they are working full time or part time on the project), employment contracts or annexes of employment contracts need to be delivered to the CFCA, as well as proof of payment such as bank statements etc. Additional documents should be delivered to the CA, if required.	GC, Articles 2.4. and 16.9.
9.	<b>National holidays, vacation or sick leave stipulated on Timesheets</b>	The following cost will be considered eligible: the cost of staff assigned to the Action, corresponding to actual gross salaries including social security charges and other remuneration-related costs; salaries and costs must not exceed those normally borne by the Beneficiary or its partners, as the case may be, unless it is justified by showing that it is essential to carry out the Action.	GC, Article 14.2.
10.	<b>Eligible cost - To be considered as</b>	The criterion is the commitment of the funds, e.g. through a signature of a contract or equivalent: this must have been done during the implementation period of the action with the exception of costs relating to final reports, expenditure verification and evaluation.	EuropeAid Frequently asked questions on

	<p><b>eligible under Article 14.1 a) of the General Conditions, the direct costs must have actually been incurred during the implementation period of the Action. When do we consider that costs "have actually been incurred"?</b></p>	<p>For further details please refer to relevant provisions of General conditions.</p>	<p>Grants (as published on 06/04/2011)</p> <p>GC, Article 14.1. a)</p> <p>DEVCO companion document/users_guide_grants_v. 5.0 (January 2015)</p>
<p><b>11.</b></p>	<p><b>Reporting eligible cost (in case cost is not paid within reporting period)</b></p>	<p>Approval of interim report means approval of costs for that interim period of time. In case invoice was issued during the interim period but payment has not been executed, cost should be presented in the following interim/final report.</p>	<p>GC, Article 2.1.</p>
<p><b>12.</b></p>	<p><b>Control of supporting documentation</b></p>	<p>The Contracting Authority may request additional information at any time.</p>	<p>GC, Article 2.4.</p>
<p><b>13.</b></p>	<p><b>Exchange rate</b></p>	<p>The Contracting Authority shall make payments to the Coordinator to the bank account referred to in the financial identification form in Annex V, which allows the identification of the funds paid by the Contracting Authority. The Contracting Authority shall make payments in the currency set in the Special Conditions.</p> <p>Reports shall be submitted in the currency set out in the Special Conditions, and may be drawn from financial statements denominated in other currencies, on the basis of the Beneficiary(ies)'s applicable legislation and applicable accounting standards. In such case and for the purpose of reporting, conversion into the currency set in the Special Conditions shall be made using the rate of exchange at which the Contracting Authority's contribution was recorded in the Beneficiary(ies)'s accounts (on the rate that was used when the pre-financing payment was recorded in the Grant Beneficiary's(ies') accounts), unless otherwise provided for in the Special Conditions.</p>	<p>GC, Article 15.9.</p>

		Costs incurred in other currencies than the one used in the Beneficiary(ies)'s accounts shall be converted using the monthly Inforeuro on the date of payment or according to its usual accounting practices if so provided for in the Special Conditions.	
14.	<b>Travel costs</b>	The following cost will be considered eligible: Travel and subsistence costs for staff and other persons taking part in the Action, provided they do not exceed those normally borne by the Beneficiary(ies) according to its rules and regulations, as the case may be. Supporting documents that proof eligibility of claimed costs are: In case of travel by bus or train, copies of tickets have to be provided, and in case of travelling by plane boarding passes are to be provided if applicable, in case of travel by car; for fuel and oil expenses, a summary list of the distance covered, the average consumption of the vehicles used, fuel costs and maintenance costs.	GC, Articles 14.2. and 16.9.
15.	<b>Per item /Individual payments sheet</b>	Total amounts in Per item table (sheet Interim/Final report) and individual payment table have to be the same. In addition, please note that figures have to be rounded to the nearest euro cent (two decimal places).	Annex VI of the contract
16.	<b>Approval of Interim/Final report - notification of ineligible costs</b>	If ineligible costs are detected during report check, the letter of approval of Interim /Final report will also include detailed table of ineligible costs containing: <ul style="list-style-type: none"> <li>- name of budget line</li> <li>- amount from the report</li> <li>- ineligible amount</li> <li>- justification with reference to contract provisions.</li> </ul>	
17.	<b>Implementation contracts (Article 10.1. – 10.3. of GC)</b>	Annex IV is a key document for the implementation of grant contracts. It describes the principles and procedures to be observed by the grant Beneficiary(ies) concerning the procurement needed for the implementation of the action. Its relevance and pertinence can be substantiated by the fact that the largest source of ineligible expenditure identified by auditors in grant contracts stems from the non-respect of provisions set out Annex IV.  In all cases, grant Beneficiary(ies) must keep all documents related to procurement (procurement notices, tender dossiers, bids received, any derogation obtained, evaluation/negotiation reports, etc.) in order to prove compliance with Annex IV.	DEVCO companion document/users_guide_grants_v. 5.0 (January 2015)

18.	<b>Do grant beneficiaries have to apply the procedures and templates of the Practical Guide for subcontracting?</b>	<p>No. They are obliged to apply the rules and principles prescribed in Annex IV to the standard grant contract, which are less stringent, and with an ex post control from the Contracting Authority.</p> <p>The PRAG templates may be used, but it is not an obligation.</p>	Annex IV of the contract
19.	<b>Does the Commission publish the calls for tenders launched by grant beneficiaries for the implementation of an action? (annex IV)</b>	<p>No. The Beneficiary manages the action, including any tendering, autonomously, and must publish tenders for its own account. The Contracting Authority carries out ex post checks on Beneficiaries' compliance with the applicable procurement rules.</p>	Annex IV of the contract
20.	<b>What are the supporting documents which must be kept by the Grant Beneficiary in case of an inspection?</b>	<p>They must be such as to provide full and clear evidence that the costs of the Action were really incurred by the Beneficiary. A non-exhaustive list is provided in Article 16.9 GC. Since the Commission pays for a percentage (specified in article 3.2 SC) of the total eligible costs of the Action rather than for certain specific items in the budget, the same accounting system and supporting documents must be kept for all expenses of the Action. Supporting documents must be kept for at least 5 years after the payment of the balance.</p>	EuropeAid Frequently asked questions on Grants (as published on 06/04/2011) GC Article 16.9
21.	<b>Deadlines for secondary procurement procedure</b>	<p>Annex IV, Art. 3 prescribes the following: "The time-limits for applications and/or tenders must be long enough to give interested parties a reasonable period to prepare and submit their tenders." Since the same annex does not clearly indicate what is the best international practice for time frame for international restricted/open tender procedure, local open and negotiated procedure, please note that provisions of the Practical Guide to Contract procedures for EU external actions and Croatian Public Procurement Law can be both considered as best international practice.</p>	PRAG  Applicable national Procurement Law
22.	<b>Contract award criteria</b>	<p>The contract award criteria prescribed by Annex IV of the grant contract are clear:</p>	

		<ul style="list-style-type: none"> <li>- Most cost-effective (best value for money or most economically advantageous) or cheapest price in the case of service contracts</li> <li>- Cheapest price for works and supplies contracts (in duly justified cases where there is a big component of after-sales services in the contract, the most cost-effective criteria may be used).</li> </ul>	DEVCO companion document/users_guide_grants_v. 5.0 (January 2015)
<b>23.</b>	<b>Composition of evaluation committee</b>	Regarding composition of evaluation committee Annex IV in Art. 3 states: "The committee must have the odd number of members, at least three, with all the technical and administrative capacity...", without making any reference to division of responsibilities between voting and non-voting members. Furthermore, please note that there is no obstacle for evaluators checking all relevant elements of offers - both technical and administrative, and preparing the report., meaning that the same person can be the chairman and a voting member (assuming that he/she has technical and administrative capacities necessary to give an informed opinion on tenders).	Annex IV of the contract
<b>24.</b>	<b>Avoiding conflict of interest</b>	When it comes to taking care of avoiding any conflict of interest as regards members of Evaluation Committee,, a Declaration of impartiality and confidentiality should be acceptable as sufficient evidence of absence of conflict of interest. In addition, please note that voting members of evaluation committee should not be hierarchically linked. Should a CA become aware or has doubts of a conflict of interest despite the signed declaration, it should act accordingly. Finally, avoiding conflict of interest is not only prescribed by Article 1 (and 2.5.) of Annex IV of grant contract, but also by Article 4 of GC where it is emphasized that respect of the same rule needs to be ensured in the course of implementation of the Action in general and not only while conducting procurement within the framework of grant contract.  For further details please refer to relevant provisions of GC.	Annex IV GC, Article 4.
<b>25.</b>	<b>Negotiated procedure – on the basis of a single tender</b>	Please note that Article 7 of Annex IV does not refer to any specific threshold when prescribing the use of negotiated procedure on the basis of single tender, hence the negotiated procedure may be used under conditions specified in the Article 7 of annex IV regardless of the threshold. In addition, please note that application of negotiated procedure in line with provisions of Article 7 of annex IV is not conditioned with prior approval of the EC services.	