



European Defence Industrial Development Programme

Guide for applicants

Version 1.0

04 April 2019



IMPORTANT NOTICE

The **Guide for applicants** is designed to be the main **practical reference** for preparing and submitting your proposal and — if successful — for managing your grant.

It covers action grants awarded under the European Defence Industrial Development Programme.

Reference documents

A complete list of reference documents (including legislation, work programme and templates) can be found on [Participant Portal Reference Documents](#).

Contacting us directly

If necessary, you can also contact us at EC-EDIDP-proposals@ec.europa.eu.

HISTORY OF CHANGES		
Version	Publication date	Changes
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1. LEGAL FRAMEWORK

If you are in any doubt about issues mentioned in this guide, the legally binding rules and conditions for the calls for proposals are established in the following documents:

1.1. THE EU FINANCIAL REGULATION

The [Financial Regulation¹](#) is the main point of reference for the principles and procedures governing the establishment, implementation and control of the EU budget.

1.2. THE BASIC ACT (REGULATION (EU) 2018/1092)

[Regulation \(EU\) 2018/1092](#) of the European Parliament and of the Council of 18 July 2018 establishing the European Defence Industrial Development Programme aiming at supporting the competitiveness and innovation capacity of the Union's defence industry (hereafter referred to as 'the EDIDP Regulation') provides the legal basis for the actions defined and for the implementation of the corresponding expenditure entered in the budget.

1.3. THE EDIDP WORK PROGRAMME

The [EDIDP work programme](#) is an implementing act. It has been adopted by the Commission after consultation of the Member States in the context of Comitology on the 19th March 2019.

The objective of this work programme is to provide a balanced mix of priority areas in line with the Union capability priorities commonly agreed by Member States, particularly through the Capability Development Plan (CDP)². Projects in the Permanent Structured Cooperation (PESCO) framework and Common Security and Defence Policy (CSDP) capability shortfalls have been given due consideration in the work programme.

Four priority areas for 2019 and 2020 have been defined:

- (a) preparation, protection, deployment and sustainability;
- (b) information management and superiority and command, control, communication, computers, intelligence, surveillance and reconnaissance (C4ISR), cyber defence and cyber security;
- (c) engagement and effectors;
- (d) cross-domain capabilities.

¹ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

² The purpose of CDP is to increase coherence between Member States' defence planning and to encourage European cooperation by looking at future operational needs and defining common Capability Development Priorities. The latest version of CDP was endorsed by the steering board of the European Defence Agency in capability directors' formation in June 2018.

Within each of these 4 priority areas, the work programme sets out categories of projects. **Each of these categories of projects will lead to the publication of one or two calls for proposals** in 2019 and/or 2020 (see content of the work programme).

The work programme also includes a **category specifically dedicated to Small and Medium-sized Enterprises (SME)** to emphasize the participation of such enterprises and foster innovation as a key objective of EDIDP. The calls (one in 2019 and one in 2020) related to this SME category set out a non-exhaustive list of topics against which proposals can be submitted.

1.4. THE AWARD PROCESS

Any eligible proposal submitted under a call will be taken into account and will be evaluated against the award criteria. The Commission will evaluate your proposal with the help of independent experts.

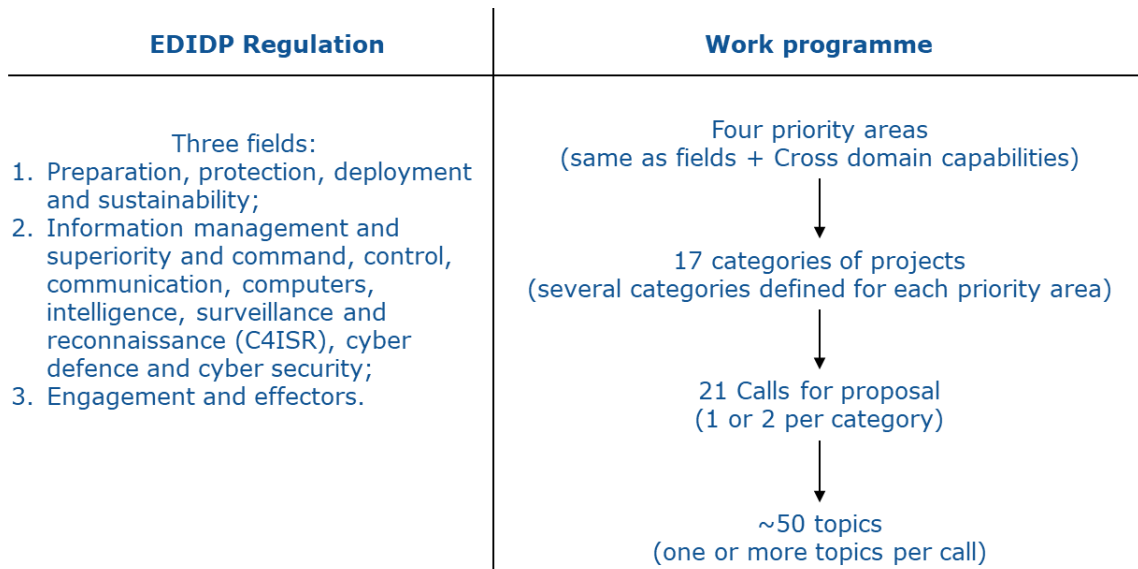
The time-to-grant deadline of nine months starts from the final date for the submission of proposals (including all supporting documents). Within six months the Commission will inform you about the results of the evaluation process. Within three months after this notification, the Commission will sign the grant agreement with the selected beneficiaries. Those time limits may be exceeded in exceptional cases, in particular for complex actions, if there is a large number of proposals or due to delays attributable to the applicants.

For details on the award procedure, please see the calls for proposals published on the [Participants Portal](#).

2. ACTIONS THAT WILL BE FUNDED

The types of actions (development of defence products or technologies and associated targeted activities) that will be funded are set out in the EDIDP Regulation, the EDIDP work programme and further explained in the calls for proposals.

The calls for proposals correspond to categories of projects defined in the work programme. Some categories of projects and associated calls for proposals may cover different topics. Unless otherwise specified, where a call covers more than one topic, your proposal may only be submitted against one topic. However, you can submit several proposals.



There will be nine calls for proposals in 2019 and 12 calls for proposals in 2020.

Each call specifies the indicative budget for the call, the topics which are covered by the call, and presents for each topic:

- the specific challenge to be taken up;
- the scope and targeted activities to be addressed;
- the main high-level requirements to be met;
- the expected impact of the action to be fulfilled.

2.1. ELIGIBLE ACTIONS

The following chapter outlines the general content of the activities detailed in Article 6(1) of the EDIDP Regulation as well as a guidance on the nature of the associated supporting documents requested to comply with Article 6 of the EDIDP Regulation.

EDIDP supports actions in the development phase of both new defence products and technologies and the upgrade of existing defence products and technologies.

⚠ Proposed actions must not relate to products or technologies of which the use, development or production are prohibited by international law.

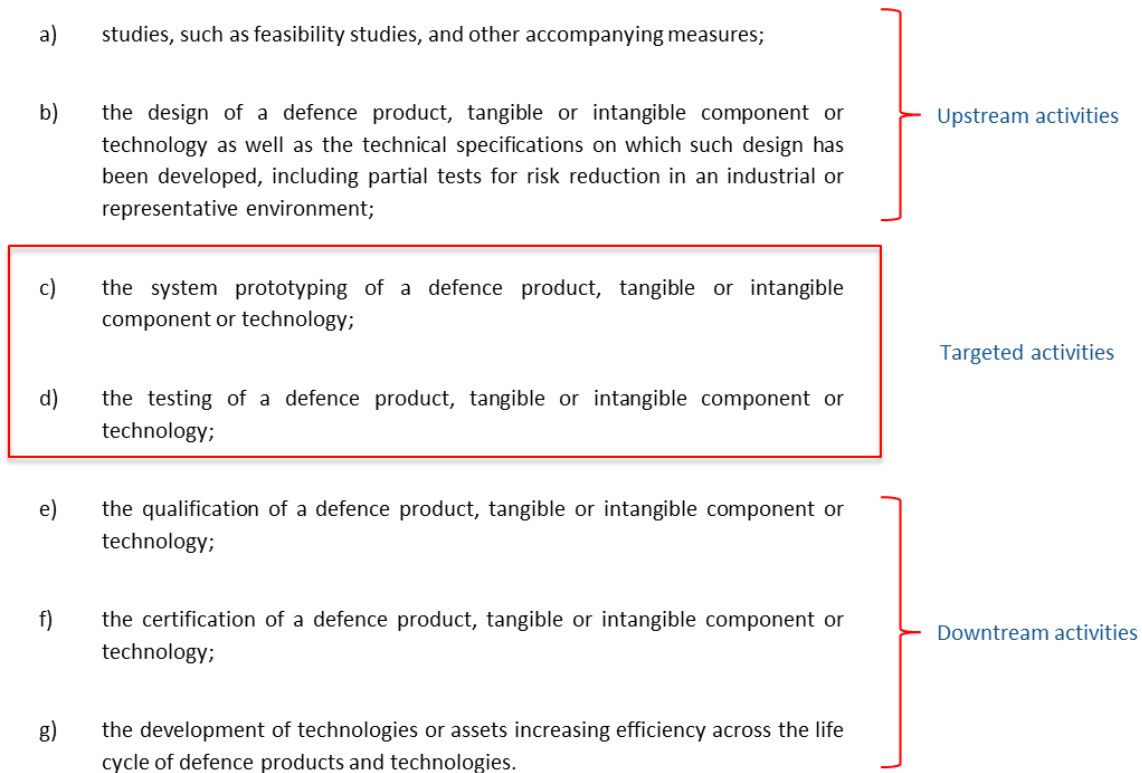
-  **Pre-existing information (background information) needed for upgrades must not be subject to restriction by a third country or a third country entity, directly, or indirectly through one or more intermediary undertakings.**
-  **The results of a specific action that receives funding must not be subject to control or restriction by a third country or a third country entity, directly, or indirectly through one or more intermediary undertakings, including in terms of technology transfer.**

Please refer to sections 3.4.n), 3.4.o) and Annex 4 to the submission form for the information to be provided against these last two points.

One action can encompass several activities. The different types of activities of an eligible action are detailed in Article 6(1) of the EDIDP Regulation as follows:

- a) studies, such as feasibility studies, and other accompanying measures;
- b) the design of a defence product, tangible or intangible component or technology as well as the technical specifications on which such design has been developed, including partial tests for risk reduction in an industrial or representative environment;
- c) the system prototyping of a defence product, tangible or intangible component or technology;
- d) the testing of a defence product, tangible or intangible component or technology;
- e) the qualification of a defence product, tangible or intangible component or technology;
- f) the certification of a defence product, tangible or intangible component or technology;
- g) the development of technologies or assets increasing efficiency across the life cycle of defence products and technologies.

For each category of projects in the work programme, the targeted activities are defined and further detailed in the associated calls for proposals and may be specific to a given topic. Your proposal must concentrate on the corresponding targeted activities. However, most of the calls allow to propose additional side-activities referred to as upstream or downstream activity.

Example:

The calls will also specify the expected duration of the action. Actions financed under EDIDP do not need to be completed within 2019-2020. However, the duration of the action may not exceed six years and your proposal should provide justifications in case the duration exceeds four years. The start and end of the action will be defined in the grant agreement.

Your proposal should clearly identify, present and explain the types of activities that you will perform. The justification should be based on the indicative description of the content provided below for each type of activities.

In answer to the calls for proposals, supporting documents will have to be provided by the applicant to comply with eligibility criteria set out in Article 6 of the EDIDP Regulation. These supporting documents may be of different nature, depending on the type of activities detailed in Article 6(1) of the EDIDP Regulation.

Whatever the targeted activity might be, in order to comply with Article 6(3) of the EDIDP Regulation, the applicant will have to prove that the costs of the action, that are not covered by the Union support, are covered by other means of financing, such as Member States' contributions. The amounts of co-financing by source must be estimated in advance in the budget table annexed to the proposal.

⚠ Supporting documents to be provided by the applicants: in the case of co-financing by Member States, the associated supporting document may take the form of a document (*e.g.* Memorandum of Understanding (MoU), Comfort Letter / Guarantee, Procurement Contract) identifying the financial contributors and specifying on what hypothesis (EU support level) their financial contribution will cover the rest of the costs of the action.

2.1.1. STUDIES, SUCH AS FEASIBILITY STUDIES, AND OTHER ACCOMPANYING MEASURES

In a defence development project life cycle, such activities are performed under the Preparation Phase, where a co-operative project is prepared in terms of outline scope, time, cost, performance, acquisition organisation and participation to meet harmonised capability requirements. The following sub-activities are usually carried out under such Preparation Phase of defence development projects:

a. **Pre-feasibility studies** aim at:

- elaborating the capability statement (operational requirements) in terms of identification and characterization of the capability needs, expected performance, dependability and safety goals and capability operating constraints with respect to the physical and operational environment;
- developing the preliminary technical requirements specification;
- identifying possible capability concepts;
- performing preliminary assessment of programmatic aspects supported by market and economic studies as appropriate;
- performing preliminary risk assessment.

A **Mission Definition Review (MDR)** usually takes place at the end of these activities, with the primary objectives to release the capability statement (operational requirements) and to assess the preliminary technical requirements specification and programmatic aspects.

b. **Feasibility studies** aim at:

- assessing the technical and programmatic feasibility of the possible concepts by identifying constraints relating to implementation, costs, schedule, organisation, operations, maintenance, production and disposal;
- establishing the preliminary management plan, system engineering plan and product assurance plan;
- elaborating the possible system and operations concepts and system architectures compared against the identified needs, to determine levels of uncertainty and risks;
- establishing the function tree;
- identifying critical technologies and proposing pre-development; quantifying and characterising critical elements for technical and economic feasibility;
- proposing the system and operations concept(s) and technical solutions, including model philosophy (or equivalent) and verification approach;
- elaborating risk assessment.

A **Preliminary Requirements Review (PRR)** usually takes place at the end of these activities, with the primary objectives to release the preliminary management, engineering and product assurance plans; to release the technical requirements specifications; to confirm the technical and programmatic feasibility of the system concept(s); and to select system and operations concept(s) and technical solutions, including model philosophy and verification approach, to be carried forward in the definition phase.

Funding Rate: Studies can be funded up to 100% of the total eligible costs (depending on the application of bonuses). In the absence of bonuses, studies can be funded up to 90% of the total eligible costs.

2.1.2. THE DESIGN OF A DEFENCE PRODUCT

Such activities cover both the preliminary definition and detailed definition of the final product or technology. The following sub-activities are usually carried out under the Design Phase:

a. The **Preliminary Definition** aims at:

- finalising project management, engineering and product assurance plans;
- establishing a baseline master schedule;
- elaborating the baseline cost at completion;
- elaborating the preliminary organizational breakdown structure;
- confirming technical solutions for the system and operations concepts and their feasibility with respect to programmatic constraints;
- conducting “trade-off” studies and selecting the preferred system concept together with the preferred technical solutions for this concept;
- establishing a preliminary design definition for the selected system concept and retained technical solutions;
- determining the verification program including model philosophy (or equivalent);
- identifying and defining external interfaces;
- preparing the next level specifications and related business agreement documents;
- initiating pre-development work on critical technologies or system design areas when it is necessary to reduce the development risks;
- initiating any long-lead item procurement required to meet project schedule needs;
- preparing the environmental impact mitigation plan and the disposal plan;
- conducting reliability and safety assessment;
- finalizing the product tree, the work breakdown structure and the specification tree;
- updating the risk assessment;

Two reviews usually take place during the preliminary definition phase:

- **System Requirements Review (SRR)**, with the primary objective to release updated technical requirements specifications, to assess the preliminary design definition and to assess the preliminary verification programme. The main objectives of the review are to release the updated technical specifications, to assess the preliminary design definition and the preliminary verification program.
- **Preliminary Design Review (PDR)**, with the primary objectives to verify the preliminary design of the selected concept and technical solutions against project and system requirements; to release the final management, engineering and product assurance plans; to release the product tree, work breakdown structure and specification tree; to release the verification plan (including model philosophy or equivalent). The PDR demonstrates that the preliminary design meets all system requirements with acceptable risk and within the cost and scheduled constraints and establishes the basis for proceeding with the detailed design. The objectives of the PDR are to ensure that all system requirements have been validated, allocated, the requirements completed, and that the design is expected to meet the functional and performance requirements.

b. The **Detailed Definition** aims at

- completing the detailed design definition of the system at all levels in the customer-supplier chain;
- producing, developing testing and pre-qualification of the selected critical elements and components;

- producing and developing testing of engineering models, as required by the selected model philosophy and verification approach;
- completing the assembly, integration and testing planning for the system and its constituents parts;
- detailing the definition of internal and external interfaces;
- issuing a preliminary user manual;
- updating the risk assessment.

One review usually takes place during the detailed definition phase:

- A **Critical Design Review (CDR)** usually takes place at the end of these activities, with the primary objectives to assess the qualification and validation status of the critical processes and their readiness for deployment for the next phase; to confirm compatibility with external interfaces; to release the final design; to release the assembly, integration and test planning; to release hardware/software manufacturing, assembly and testing where relevant; to release the user manual. The CDR demonstrates that the maturity of the solution is appropriate to support proceeding with implementation, assembly, integration, and verification on lower level systems. The CDR baselines the system and equipment design data - including design data provided by the equipment suppliers - for a final design freeze. The CDR determines that the technical effort is on track to complete development, meeting requirements within the identified cost and schedule constraints.

Funding Rate: Design activities can be funded up to 100% of the total eligible costs depending on bonuses. In the absence of bonuses, design activities can be funded up to 65% of the total eligible costs.

 **Supporting documents to be provided by the applicants:** according to Article 6(5) of the EDIDP Regulation, for design, the applicant will have to provide evidence that the activities are based on “common requirements jointly agreed by at least two Member States”. The associated supporting document may take the form of a **Letter of Declaration**, signed by at least two Member States, declaring that the proposal is based on the common requirements jointly agreed by these Member States. Common military requirements may also be part of a **MoU** or of an **ad hoc agreement** between Member States signed between the participating Member States. Fulfilment of this criterion will be verified during audits and project verifications. Any major change to the project should be supported by an assessment of its impact on the commonality of the requirements.

2.1.3. THE SYSTEM PROTOTYPING OF A DEFENCE PRODUCT

System prototyping is commonly understood as the activities starting after completion of the CDR and ending with the completion of the assembly and integration of a first complete model of the capability (ready to demonstrate performance in an operational environment).³

Funding Rate: System prototyping activities can be funded up to 55% of the total eligible costs depending on bonuses. In the absence of bonuses, system prototyping can be funded up to 20% of the total eligible costs.

³ The EDIDP Regulation provides the following definition: ‘system prototype’ means a model of a product or technology that can demonstrate performance in an operational environment.

 **Supporting documents to be provided by the applicants:** The EDIDP Regulation states that two supporting documents must be provided by the applicants if the submitted proposal covers prototyping or subsequent downstream activities:

- The applicant will have to provide evidence that the activities will be “based on common technical specifications jointly agreed by the Member States that are to co-finance or that intend to jointly procure the final product or to jointly use the technology”. The associated supporting document may take the form of, e.g. a **Letter of Declaration**, **MoU** or of an **ad hoc agreement** between Member States, signed by the respective Member States, declaring that the proposal is based on the common technical specifications that have been jointly agreed by these Member States. Fulfilment of this criterion will be verified during audits and project verifications. Any major changes to the project should respect the commonality of the technical specifications.
- Furthermore, the applicant must provide evidence that “at least two Member States intend to procure the final product or to use the technology in a coordinated way, including through joint procurement where applicable”. The associated supporting document may take the form of a **Letter of Intent**, signed by the respective Member States, declaring that they intend to procure the final product or to use the technology in a coordinated way. The intention to procure or to use the technology in a coordinated way may be part of a **MoU** or of an **ad hoc agreement** between Member States, signed between the participating Member States. Applicants may also provide proof by submitting the **procurement contract** signed with the respective Member States.

2.1.4. TESTING, QUALIFICATION, CERTIFICATION

Testing aims at progressively demonstrating that a product or a technology is functional, in different relevant use cases and environments and, if needed, at applying correcting measures as appropriate.

Qualification is usually understood as the process of demonstrating that a product or a technology complies with its requirements (might be operational requirements or the derived technical specifications, depending on which level the qualification is performed).

Certification of a defence product, tangible or intangible component or technology relates to the process by which a national authority certifies that the defence product, tangible or intangible component or technology complies with the applicable regulations.

Funding Rate: Testing, qualification and certification can be funded up to 100% of the total eligible costs depending on bonuses. In the absence of bonuses, testing, qualification and certification activities can be funded up to 65% of the total eligible costs.

 **Supporting documents to be provided by the applicants:** the same documents as for prototyping are requested.

2.1.5. THE DEVELOPMENT OF TECHNOLOGIES OR ASSETS INCREASING EFFICIENCY ACROSS THE LIFE CYCLE OF DEFENCE PRODUCTS AND TECHNOLOGIES

The development of technologies or assets increasing efficiency across the life cycle (e.g. lower production, operational, maintenance, repair and overhaul or disposal costs) should lead to projects producing lower costs, taking into account the whole life cycle, and thus obtaining savings and improving efficiency.

Funding Rate: This activity can be funded up to 100% of the total eligible costs depending on bonuses. In the absence of bonuses, these activities can be funded up to 65% of the total eligible costs.

 **Supporting documents to be provided by the applicants:** the same documents as for prototyping are requested.

2.1.6. SUMMARY TABLE OF REQUESTED SUPPORTING DOCUMENTS

Studies	• In the case of <i>co-financing</i> by Member States, document identifying the financial contributors and specifying on what hypothesis (EU support level) their financial contribution will cover the rest of the cost (e.g. MoU, Comfort Letter / Guarantee, Procurement Contract).
Design	• In the case of <i>co-financing</i> by Member States, document identifying the financial contributors and specifying on what hypothesis (EU support level) their financial contribution will cover the rest of the cost (e.g. MoU, Comfort Letter / Guarantee, Procurement Contract). • Evidence that the activities are based on “<i>common requirements jointly agreed by at least two Member States</i>” (e.g. Letter of Declaration, signed by at least two Member States, Common military requirements described in an agreement (MoU or <i>ad hoc</i>) signed between the participating Member States).
System prototyping	• In the case of <i>co-financing</i> by Member States, document identifying the financial contributors and specifying on what hypothesis (EU support level) their financial contribution will cover the rest of the cost (e.g. MoU, Comfort Letter / Guarantee, Procurement Contract).
Testing, qualification, certification	• Evidence that the activities will be “<i>based on common technical specifications jointly agreed by the Member States that are to co-finance or that intend to jointly procure the final product or to jointly use the technology</i>” (e.g. a Letter of Declaration, Memorandum of Understanding or of an <i>ad hoc</i> agreement signed by the participating Member States, declaring that the proposal is based on common technical specifications).
Development of technologies or assets increasing efficiency across the life-cycle of defence products and technologies	• Evidence that “<i>at least two Member States intend to procure the final product or to use the technology in a coordinated way, including through joint procurement where applicable</i>” (e.g. Letter of Intent, signed by the respective Member States, Memorandum of Understanding or of an <i>ad hoc</i> agreement signed between the participating Member States, the procurement contract signed with the respective Member States).

2.2. AWARD CRITERIA

The award criteria are set in order to evaluate the quality of proposals.

For more information please refer to sections 3.4.6 (Award criteria and scoring) and 3.4.7 (Ranking mechanism and award decision) of the calls for proposals.

2.3. THE BONUS SYSTEM

The conditions for the calls (please refer to sections 3.8 and 3.10 of the calls for proposals) set out the baseline funding rates applicable to each of the activities listed in Article 6(1) of the EDIDP Regulation and the applicable bonuses. This section explains in more detail the bonus system and the associated calculations.

For each activity, the baseline funding rate is defined as a percentage of the total eligible costs of the activity. When certain conditions are fulfilled, the baseline funding rate for a given activity can be increased through the application of the funding rate bonuses described below.

- ⚠ **Funding rates increase can reach up to 35% of the total eligible costs of the activity. However, keep in mind that the financial assistance of the Union, including bonuses, cannot cover more than 100% of the total eligible costs of each activity.**
- ⚠ **The final funding rate is granted to the consortium as a whole and not to individual undertakings.**

2.3.1. PESCO BONUS

If your project is developed in the context of PESCO, it may be eligible for receiving an additional 10 percentage points. This increase funding rate will apply **for each activity** within the action.

If you consider your project eligible for the PESCO bonus you need to indicate this in the submission form (see section 4.2 of the submission form) together with:

- a reference to the relevant PESCO project included in the list adopted by the Council at the time of the submission;
- a justification on the reasons why your project is covered by the PESCO project.

2.3.2. NON CROSS-BORDER SMEs AND CROSS-BORDER SMEs PARTICIPATION BONUS

Where at least 10% of the total eligible costs of an activity are allocated to SMEs established in the Union, the baseline funding rate may be increased as follows:

- By percentage points equivalent to the percentage of the total eligible costs of the activity allocated to “*non-cross-border SMEs*” (see definition below). This bonus for the participation of non-cross-border SMEs can however not exceed 5 percentage points.
- By percentage points equivalent to twice the percentage of the total eligible costs of the activity allocated to “*cross-border SMEs*” (see definition below). This bonus for the participation of cross-border SMEs can exceed 5 percentage points.

Small and medium-sized enterprises (SMEs)

‘Small and medium-sized enterprises’ or ‘SMEs’ means small and medium-sized enterprises as defined in Article 2 of the [Annex to Commission Recommendation 2003/361/EC](#)⁴.

‘Cross-border SMEs’ means SMEs which are established in Member States other than those in which the undertakings in the consortium that are not SMEs are established.

‘Non cross-border SMEs’ means SMEs which are established in the same Member States as the undertakings in the consortium that are not SMEs.

Example 1:

- Total eligible costs of the activity: 100
- Eligible costs allocated to SMEs (cross-border and non cross-border): 9%
- Resulting funding rate increase: 0% (threshold of 10% not reached)

Example 2:

- Total eligible costs of the activity: 100
- Eligible costs allocated to non cross-border SMEs: 20%
- Resulting funding rate increase: 20% in theory but 5% in practice (5% cap)

Example 3:

- Total eligible costs of the activity: 100
- Eligible costs allocated to cross-border SMEs: 20%
- Resulting funding rate increase: 40% in theory but 35% in practice (35% overall cap)

2.3.3. MID-CAPS PARTICIPATION BONUS

Where at least 15% of the total eligible costs of an activity are allocated to mid-caps established in the Union, the baseline funding rate may be increased by an additional 10 percentage points.

Middle-capitalisation companies (mid-caps)

‘Middle-capitalisation company’ or ‘mid-cap’ means an enterprise that is not a SME and that has up to 3 000 employees, knowing that the staff headcount is calculated in accordance with Articles 3 to 6 of the [Annex to Commission Recommendation 2003/361/EC](#).

Example 1:

- Total eligible costs of the activity: 100
- Eligible costs allocated to mid-caps: 12%

⁴ Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36). Applicants may also visit to the following web-site for more information: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

- Resulting funding rate increase: 0%

Example 2:

- Total eligible costs of the activity: 100
- Eligible costs allocated to mid-caps: 25%
- Resulting funding rate increase: 10%

2.3.4. CALCULATION OF THE APPLICABLE FUNDING RATE BONUS

The baseline funding rate and the applicable funding rate bonuses are established separately for each activity within an action and in relation to the activity's total eligible costs.

The bonuses for non cross-border SME and cross-border SME participation and for mid-cap participation will be determined individually for each activity on the basis of the information provided in Annex 1 to the submission form. SMEs and mid-caps participating as beneficiaries in the consortium, as well as subcontractors or suppliers for purchases further in the supply chain⁵ can be declared in this Annex.

For establishing the applicable SME and mid-cap bonuses, the value of the eligible costs allocated to an SME or a mid-cap will be taken into account. These costs must be net of any costs of subcontracting or purchasing from other SME or mid-cap separately declared for the same purpose, as well as of any costs of subcontracting to any other undertaking not declared.

The value of the eligible costs allocated to an SME or a mid-cap to be taken into account (C) will be determined as the difference between element **(A)** and elements **(B1)** and **(B2)** below (*i.e.* $C=A-B1-B2$):

(A) the value of the eligible costs allocated to the undertaking (when this undertaking is a beneficiary in the consortium) or the value of the subcontract or of the purchase placed with the undertaking (where this undertaking is respectively a subcontractor or a supplier in the supply chain).

(B1) the value of any element outsourced (purchase, subcontract) by this undertaking to other SMEs and mid-caps that are declared separately for the purpose of establishing the applicable bonus.

(B2) the value of all subcontracts awarded by this undertaking to all other companies which are not declared for the purpose of establishing the applicable bonus (because you chose not to declare them or because they are not SMEs nor mid-caps established in the Union).

For SMEs and mid-caps that are individually listed in Section 1 of Annex 1 to the submission form the calculation is performed automatically by the Table.

Possible commitment on SMEs and Mid-caps participation beyond undertakings individually identified at the moment of submission of the proposal

Considering that the full composition of the supply chain may not be known at the moment of submission of the proposal, Section 2 of Annex 1 to the submission form allows providing a commitment on the expected overall SME and mid-cap participation going beyond the SMEs and mid-caps that are already known and individually listed in Section 1 of Annex 1. Providing such a commitment is optional.

⁵ You are free to declare SMEs and mid-caps without a limitation as to the tier at which they participate. You are also free not to declare SMEs and mid-caps whose participation may in principle be relevant for the determination of the applicable bonus. Only the participation of SMEs and mid-caps declared in Annex 1 to the submission form will be taken into account for the determination of the applicable bonus.

This commitment will be taken into account to estimate the applicable funding rate bonus that can be granted to the consortium. To do so, the methodology for the calculation of the value of the participation of SMEs and mid-caps described above (deduction of subcontracts and purchases to other SMEs and mid-caps that are separately declared and deduction of subcontracts to any other undertaking) should apply. The amount of the overall expected commitment introduced in Section 2 of Annex 1 to the submission form should include the estimated value of the work allocated to SMEs and mid-caps already provided in Section 1 of the Table. In case no additional commitment is made, the total participation figures in Section 2 of Annex 1 to the submission form will be equal to the total calculated in Section 1.

The payment linked to the bonus will however take place only once the information on the effective participation of individually identified SMEs and mid-caps has been provided to the Commission. This information must be provided at the latest with the delivery of the activities' final report⁶. For this purpose, the template for the report will include a Table equivalent to the one in Section 1 of Annex 1 to the submission form. If the consortium does not fulfil the commitment on SME and mid-cap participation made at the moment of the submission, the EU funding rate will be reduced accordingly.

 It is important to note that changes of subcontractors or suppliers and/or modifications of the value of the work allocated to SMEs and mid-caps, occurring during the implementation of an eligible action can potentially lead to reductions of the amount of the grant (see Article 32 of the model grant agreement). The amount of EU funding paid can thus be reduced accordingly. Such changes cannot however lead to increase the Union funding beyond the amount initially granted.

The applicability of the SME or of the mid-cap participation bonus is in particular dependant on reaching a minimum value (threshold). Changes during the implementation of the action that would bring the share of the eligible costs allocated to SMEs or to mid-caps below the applicable threshold would lead to the loss of the full amount of the corresponding bonus.

 The beneficiaries need to keep records and appropriate and sufficient evidence to substantiate the information on the participation of the SMEs and/or mid-caps declared for the purpose of establishing the applicable EU funding rate bonuses in case of audits, investigations or litigations (e.g. contracts, invoices, etc.). Where relevant, the beneficiaries need to ensure that the necessary records and evidence will be produced by their subcontractors and other entities involved further down the supply chain.

Example:

Let's assume an activity with the following characteristics:

- Activity corresponding to "system prototyping" as referred to in Article 6(1)(c) of the EDIDP Regulation with a maximum base EU funding rate of 20%;
- The activity is part of an action developed in the context of PESCO;
- The participation of SMEs established in the Member States in which the undertakings in the consortium that are not SMEs are established (non-cross-border SMEs) represents 6% of the total eligible costs of the activity;
- The participation of SMEs established in Member States other than those in which the undertakings in the consortium that are not SMEs are established (cross-border SMEs) represents

⁶ Regarding the SMEs and mid-caps which are identified after the conclusion of the grant agreement, the appropriate date on which their qualification as SMEs or mid-caps should be established would be the date at which the contract (or equivalent document) pertaining to their participation in the activity is signed.

6% of the total eligible costs of the activity;

- The participation of mid-caps represents 20% of the total eligible costs of the activity.

The following funding rate bonuses may be applied to this activity:

- PESCO bonus: 10 additional percentage points
- The SME bonus is applicable as the participation of SMEs established in the EU represents 12% and therefore exceeds the 10% threshold:
 - Non-cross-border SME bonus: 5 additional percentage points (the level of participation would normally enable a bonus of 6 additional percentage points, but this bonus is capped at a maximum of 5 additional percentage points).
 - Cross-border SME bonus: 12 additional percentage points (for the cross-border SME bonus the bonus amount represents twice the percentage of the total eligible costs allocated to cross-border SMEs, which is here 6%)
- The mid-cap bonus is applicable (mid-cap participation exceeds 15% of the total eligible costs of the activity): 10 additional percentage points.

In view of the above the total applicable bonus would be of 37 additional percentage points. However, the overall bonus cap cannot be exceeded. Accordingly, the total applicable bonus would be of 35 additional percentage points and the funding rate of the activity may thus reach 55% of the total eligible costs of the activity (20% baseline EU funding rate + 35 percentage points of bonuses).

3. PARTICIPANTS: ROLES & RESPONSIBILITIES

3.1. THE APPLICANTS

Applicant means an undertaking who has submitted a proposal in a grant award procedure. **Beneficiary** means an applicant with whom a grant agreement has been signed. Both terms are used interchangeably in certain parts of this document.

Applicants are eligible for funding provided they:

- are public or private undertakings established in the Union;
- have their executive management structures established in the Union;
- only use their infrastructure, facilities, assets and resources located on the territory of the Union;
- are not subject to control by a third country or by a third-country entity.

‘The Union’ means the Member States of the European Union, including their outermost regions.

 Keep in mind that you also need to fulfil all the necessary eligibility criteria related to the targeted activities (see section 2.1) on the date of your submission.

By derogation, under certain conditions, an undertaking established in the Union and having its executive management structures established in the Union, but subject to control by a third country or a third-country entity, may also be eligible (see below).

 **The same conditions apply to linked third parties and to subcontractors involved in the action. According to Article 7(8) of the EDIDP Regulation, ‘subcontractors involved in the action’ are defined as:**

- **subcontractors with a direct contractual relationship to a beneficiary; or**
- **subcontractors to which at least 10% of the total eligible cost of the action is allocated⁷; or**
- **subcontractors which may require access to classified information in order to carry out the contract.**

Hereinafter in this text, the term ‘subcontractors involved in the action’ refers to those defined as above in Article 7(8) of the EDIDP Regulation. All information or supporting documents concerning applicants and subcontractors involved in the action mentioned hereafter must be provided to the Commission by the applicant as attachments to the submitted proposal (see section 5).

⁷ The cumulative value of the subcontracts awarded to each subcontractor within an eligible action will be taken into account to determine if at least 10% of the total eligible costs of an action are reached.

3.1.1. PUBLIC OR PRIVATE UNDERTAKINGS ESTABLISHED IN THE UNION AND HAVING THEIR EXECUTIVE MANAGEMENT STRUCTURES ESTABLISHED IN THE UNION

All beneficiaries and subcontractors involved in the action must be public or private undertakings established in the Union and must have their executive management structures established in the Union. Executive management structure means a body of an undertaking appointed in accordance with national law, and, where applicable, reporting to the chief executive officer, which is empowered to establish the undertaking's strategy, objectives and overall direction, and who oversees and monitors management decision-making. The same conditions apply to linked third parties.

Supporting documents to be provided by the applicants:

For private undertakings: extract from the official journal, copy of articles of association, extract of trade or association register, certificate of liability to VAT or any legally valid document proving that the undertaking is established in the Union and has its executive management structures established in the Union;

For public undertakings: copy of the resolution, decision or any other official document proving that the undertaking is established in the Union and has its executive management structures established in the Union.

3.1.2. ASSETS, INFRASTRUCTURE, FACILITIES AND RESOURCES

The infrastructure, facilities, assets and resources of the beneficiaries and of the subcontractors involved in the action(s), which are used for the purposes of the actions funded under the Programme, must be located on the territory of the Union for the entire duration of the action. The same conditions apply to linked third parties.

By derogation, if duly justified, beneficiaries and subcontractors involved in the action may use their infrastructure, facilities, assets and resources even if they are located or held outside the territory of the Union, provided the following conditions apply:

- No competitive substitutes are readily available in the Union;
- The usage of the infrastructure, facilities, assets and resources does not contravene the security and defence interests of the Union and its Member States;
- The usage of the infrastructure, facilities, assets and resources is consistent with the objectives of the EDIDP Programme (as provided for in Article 3 of the EDIDP Regulation);
- The usage of the infrastructure, facilities, assets and resources does not lead to any non-EU restrictions or control on the results of the related action (pursuant to Article 12 of the EDIDP Regulation).

 **The costs related to the use of infrastructure, facilities, assets and resources located or held outside the territory of the Union are not eligible for funding under the EDIDP Programme.**

Supporting documents to be provided by the applicants:

- Information about the location of the infrastructure, facilities, assets and resources that applicants and subcontractors involved in the action will use to carry out the action;
- Information to demonstrate that the above conditions of the derogation are fulfilled, in case the applicants or the subcontractors involved in the action will use infrastructure, facilities, assets and resources located or held outside the Union.

3.1.3. NOT SUBJECT TO CONTROL BY A THIRD COUNTRY OR BY A THIRD-COUNTRY ENTITY

All beneficiaries and subcontractors involved in the action **must not be subject to control** by a third country or by a third-country entity, as provided by in Article 7(3) of the EDIDP Regulation. The same conditions apply to linked third parties.

Third country means a country which is outside the Union.

Third-country entity means an entity established in a third country or, when it is established in the Union, having its executive management structures in a third country (pursuant to Article 2(6) of the EDIDP Regulation).

Control means the ability to exercise a decisive influence on an undertaking, directly, or indirectly through one or more intermediate undertakings (pursuant to Article 2(7) of the EDIDP Regulation).

Information on the structure of ownership and control of each of the applicants and identified subcontractors involved in the action must be provided.

Supporting documents to be provided by the applicants:

To support the description of the absence of control upon each applicant and subcontractor involved in the action, please provide the following supporting documents or information:

- If available, information on all rights or contracts which confer decisive influence on the composition, voting or decisions of the organs of each applicant;
- If available, information on all direct and indirect shareholders who hold a participation of at least 10 percent of the voting rights or who have concluded an agreement on the joint exercise of voting rights;
- The shareholders' agreement, company statutes, current commercial register excerpt, articles of association, or comparable documents.

Please identify clearly among the entities mentioned (in the description itself and or in the supporting documents) those who are third-country entities.

 **In the event of a change during the carrying out of the action which might put into question the fulfilment of these criteria, please inform the Commission immediately, which will assess whether the eligibility criteria continue to be met.**

3.1.4. DEROGATION FROM THE REQUIREMENT OF NOT BEING SUBJECT TO CONTROL BY A THIRD COUNTRY OR BY A THIRD-COUNTRY ENTITY

By **derogation from the condition** set out in Article 7(3) of the EDIDP Regulation, an undertaking established in the Union and having its executive management structure established in the Union can be eligible as a beneficiary or as a subcontractor involved in the action, even if it is controlled by a third country or a third-country entity, **only if guarantees approved by the Member State** in which it is established are made available to the Commission (as provided by in Article 7(4) of the EDIDP Regulation).

These **guarantees must provide the assurances** to the Commission that the involvement in an action of such an undertaking would **not contravene the security and defence interests of the Union and its Member States** (as established in the framework of the Common Foreign and Security Policy pursuant to Title V of the TEU, nor the objectives set out in Article 3 of the EDIDP Regulation). The guarantees must also

comply with the provisions of Article 12 of the EDIDP Regulation on ownership and intellectual property rights.

The guarantees approved by the Member State in which it is established must in particular demonstrate that, **for the purpose of the action**, measures are in place to ensure that:

- control over your undertaking is not exercised in a manner that restrains or restricts your ability to carry out the action and to deliver results, that imposes restrictions concerning your infrastructure, facilities, assets, resources, intellectual property or know-how needed for the purpose of the action, or that undermines your capabilities and standards necessary to carry out the action;
- access by a third country or by a third-country entity (including the controlling third-country entity) to sensitive information relating to the action is prevented and the employees or other persons involved in the action have national security clearances, where appropriate;
- ownership of the intellectual property arising from, and the results of, the action remain within your undertaking during and after completion of the action, are not subject to control or restriction by a third country or by a third-country entity, and are not exported outside the Union nor is access to them from outside the Union granted without the approval of the Member State in which your undertaking is established and in accordance with the objectives set out in Article 3 of the EDIDP Regulation.

 Supporting documents to be provided by the applicants:

Please submit the list of applicants and subcontractors involved in the action that want to benefit from this derogation and provide, for each of them, any relevant information about their ownership and control structure, if not already provided in the supporting documents of 3.1.3. Please specify also how such control is exercised over these applicants and subcontractors involved in the action.

Please provide also any relevant information about the measures put in place to comply with the conditions of the derogation and explain to what extent they constitute the requested guarantees.

 Please note that these guarantees need to be approved by Member States in which the controlled undertaking is established.

Measures to be put in place may take the form of measures established by the undertaking itself or, if deemed to be appropriate by the Member States in which the undertaking is established, the measure may relate to specific governmental rights in the control over the undertaking.

Such measures may refer for example to:

1. Protection Mechanisms regarding the **structure/practices of the company**
 - Obligation to maintain sensitive activities / sections of the undertaking and/or obligation to define key technologies, delineating the activities, sections and holdings in your undertaking that are sensitive;
 - Protection against loss of sensitive data, such as a separation of IT-systems for sensitive information, transfer restrictions for sensitive information, security clearance of personnel, protocols/rules for handling of classified/sensitive information;
 - Protective mechanisms in case of Initial Public Offer (IPO) on the stock market;
 - Application of “golden share” rules for any strategic decision.
2. Requirements related to reporting to or seeking approval by Member States Government (MSG) representatives of the Member State your company is established in. This may include:

- Access to information for MSG representatives;
- Reporting duties for your undertaking to the MSG representatives;
- requirement for MSGs approval for:
 - Transfer of shares
 - Closing down / transfer of sensitive sections of your undertaking
 - Transfer of sensitive holdings of the undertaking
 - Transfer of sensitive know-how (*e.g.* IPRs)
- Possibility for entering into systematic consultations with Member States Government (MSG) representatives prior to any strategic decision of your company (*e.g.* intention to transfer shares, transfer of sensitive know-how or transfer of IPRs, decisions triggering third party restrictions, *etc.*) that may have an effect on the control/restriction exercised upon your company by a third-country or third-country entity.
- Nomination rights and approval requirements by MSGs for a certain number of supervisory board members;

 **In the event of a change during the carrying out of the action which might put into question the fulfilment of these criteria, please inform the Commission promptly, which will assess whether these criteria continue to be met and address the potential impact on the funding of the action.**

3.2. THE CONSORTIUM

The consortium means a collaborative grouping of undertakings constituted to carry out an action under EDIDP. It consists of the beneficiaries (applicants at the time of submission of the proposal).

3.2.1. ELIGIBILITY REQUIREMENTS

Given that the aim of EDIDP is, in particular, to enhance cooperation between undertakings across the Union, an action must be carried out by undertakings cooperating in a consortium of at least three eligible entities which are established in at least three different Member States. At least three of those eligible entities established in at least two different Member States must not be controlled, directly or indirectly, by the same entity or must not control each other.

 **Supporting documents to be provided by the applicants:** Applicants must provide information on their place of establishment. They must also confirm that they are not controlled, directly or indirectly, by the same entity or control each other.

3.2.2. CONSORTIUM AGREEMENT

At the latest at the time of the signature of the grant agreement, the beneficiaries must organise their operation and co-ordination, to ensure that the action is implemented properly.

These internal arrangements should be set out in a written consortium agreement between the beneficiaries, covering for instance:

- the internal organisation of the consortium;
- different distribution keys for the payments (if any);
- additional rules on rights and obligations related to pre-existing rights and results;
- settlement of internal disputes;
- liability, indemnification and confidentiality arrangements between the beneficiaries.

These internal arrangements must not contain any provision contrary to the grant agreement.

3.2.3. THE CONSORTIUM COORDINATOR

In the preparation of their proposal(s), applicants must appoint one of them to act as the foreseen coordinator. **This foreseen coordinator submits the proposal on behalf (and in the name of) of all applicants.**

In the event the proposal(s) is selected for a grant, the designated coordinator will be identified in the grant agreement.

The coordinator is the principal point of contact between the members of the consortium in relations with the Commission. The coordinator will for example coordinate the project, submit reports and deliverables, and receive the funding to be distributed to the other beneficiaries.

3.2.4. JOINT RESPONSIBILITY

Applicants within the consortium are jointly responsible for their proposal. Each undertaking is responsible for submitting the requested and accurate information/documentation in the proposal.

After the grant agreement signature, the beneficiaries become jointly and severally liable for the technical implementation of the action. If a beneficiary fails to implement its part of the action, the other beneficiaries become responsible for implementing its part (without being entitled to any additional EU funding for doing so), unless the Commission expressly relieves them from implementing the concerned part of the action.

Applicants must declare by written statement (see section 1.2 of the submission form and Annex 3 to the submission form) **that they are fully aware of and comply with applicable national and Union law relating to activities in the domain of defence.**

3.3. SMEs

The work programme sets out a category of projects dedicated to SMEs. The consortium applying for funding under a call in the SME category must be composed of SMEs only. SMEs means small and medium-sized enterprises as defined in Article 2 of the [Annex to Commission Recommendation 2003/361/EC](#)⁸. When a consortium is composed only of SMEs, all SMEs members of the consortium will be considered as cross-border SMEs.

 Undertakings that are not SMEs can participate to an action under a call in the SME category, as third parties to the consortium, *e.g.* associated partners that will not receive financial support through the EU grant or as subcontractors or suppliers (purchase). However, please keep in mind that specific conditions apply to subcontracting in the framework of EU grants and that only limited parts of the action may be subcontracted (see below Section on subcontractors). In the SME category, strict conditions apply to avoid large subcontracting to non SMEs.

⁸ Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36). Applicants may also visit to the following web-site for more information: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

3.4. THIRD PARTIES TO THE GRANT AGREEMENT

The Commission establishes a legal relationship only with the beneficiaries through the signature of the grant agreement. The recipients of the grant are, by definition, only the beneficiaries.

However, your proposal may involve certain types of third parties to the grant agreement to help with the project activities (associated partners, linked third parties, subcontractors, *etc.*). Even if those entities may benefit from the results of the action or play a role in its implementation, they remain third parties to the legal relationship established between the Commission and the beneficiaries. These third parties are not part of the consortium.

3.4.1. ASSOCIATED PARTNERS

Certain eligible actions may include the allocation of tasks / work-packages to partners (called "associated partners") who will however not receive financial support through the EU grant. The costs **related to those task/work-packages** are **not eligible for funding under the EDIDP**.

These associated partners may be of two kinds:

1. Undertakings established outside the territory of a Member States or controlled by a third country or a third country entity (as referred to in Article 7(6) of the EDIDP Regulation)

According to Article 7(6) of the EDIDP Regulation, beneficiaries and their subcontractors involved in an action, receiving financial support through the EDIDP grant can cooperate with such undertakings, including by using their assets, infrastructure, facilities and resources provided that this cooperation:

- does not contravene the defence and security interests of the Union and its Member States;
- is consistent with the objectives of the EDIDP set out in Article 3 and the provisions of Article 12 of the EDIDP Regulation.

Additionally, it means that in the event of any cooperation with associated partners:

- Unauthorised access to classified information relating to the carrying out of the action by third countries or third country entities must be prevented;
- Potential negative effects over security of supply of inputs critical to the action must be avoided.

 **Supporting documents to be provided by the applicants:** information or documents on the mechanisms, procedures or measures in place to implement these conditions.

 **Keep in mind that the costs related to those activities will not be eligible for funding.**

2. Large companies or mid-caps associated to an action in a call devoted to SMEs

Beneficiaries of an action funded under the calls devoted to SMEs may decide to associate a large company or a mid-cap to the action instead of subcontracting with it. **Such associated partners must fulfil the same eligibility conditions required for beneficiaries.**

 **Supporting documents to be provided by the applicants:** same as for beneficiaries (see section 3.1).

 **Keep in mind that the costs related to those activities will not be eligible for funding.**

3.4.2. LINKED THIRD PARTIES

Following the definition in Article 187 of the Financial Regulation, **entities affiliated to the beneficiary** (linked third parties) are:

- (a) entities that form a 'sole beneficiary' (*i.e.* where an entity is formed of several entities that satisfy the criteria for being awarded a grant, including where the entity is specifically established for the purpose of implementing an action to be financed by a grant); or
- (b) entities that satisfy the eligibility criteria and that do not fall within one of the situations referred to in Article 136(1) and 141(1) of the Financial Regulation and that have a link with the beneficiary, in particular a legal or capital link, which is neither limited to the action nor established for the sole purpose of its implementation.

Linked third parties can participate in the action, *i.e.* implement a part of the action in their own name and claim their own costs.

Linked third parties have a link with the beneficiary. This link is of legal or capital (= structural) nature. It exists beyond the concerned granted action and is not established for the sole purpose of its implementation. This is usually the case of "mother and daughter companies" or of "local branches in different countries" for big companies / NGOs. This concept helps to simplify the management of grants for groupings and networks and allows for recognition of costs incurred by linked third parties as eligible as long as they are identified in the grant agreement.

Linked third parties participating in the action must fulfil the same eligibility conditions required for beneficiaries.

3.4.3. SUBCONTRACTORS

Definition

Subcontractors usually refer to entities contracted to perform activities which are part of the action and involving customisation and development of new know-how for the purpose of an action receiving funding irrespective of the tier at which they are contracted. Subcontracting must be distinguished from purchasing which covers the procurement of ordinary services, goods or equipment needed to carry out the project.

As referred to in Article 7(8) of the EDIDP Regulation, "**subcontractors involved in the action**" correspond to:

- subcontractors with a direct contractual relationship to a beneficiary which is sub-contracting parts of the action (*i.e.* actions tasks mentioned in Annex 1 of the grant agreement), or
- subcontractors at any lower tier of subcontracting ('sub-subcontractors'), if the sub-subcontracts:
 - concern at least 10% of the total eligible costs of the action; or
 - involve access to classified information.

 Subcontractors involved in the action are subject to the same eligibility conditions as beneficiaries as defined in Article 7 of the EDIDP Regulation (see section 3.4.4 of the calls).

 Keep in mind that if a new subcontractor (compared to the situation declared in the submitted proposal) needs to be involved in the action (new 'subcontractor involved in the action' as referred to in Article 7(8) of the EDIDP Regulation), you will have to provide the Commission with all necessary evidence to demonstrate that this new subcontractor fulfils the eligibility conditions and to get a written approval from the Commission prior to the placement of the subcontract. The approval is at the full discretion of the

Commission and there is no automatic entitlement to it. If you want to subcontract any tasks that were not described in your application, you should request an amendment to Annex 1 of the submission form. You should explain what value subcontracting will add and why the relevant expertise is not available in your consortium and show the estimated costs in your estimated budget.

 Keep in mind also that if this subcontracting involve the handling of EU classified information, this information may not be released without prior explicit written approval by the Commission

Please refer to section 9.4 and 9.5 for more information about subcontracting.

3.4.4. THE PROJECT MANAGER

In the event of an action awarded with EDIDP grant and cofinanced by Member States, it may happen that Member States have appointed or will appoint a project manager. This project manager coordinates the Member States' position and acts on their name and behalf, as the contracting authority, vis-à-vis the consortium. In such circumstances, the Commission will consult the project manager on progress made with regard to the action prior to executing payments to the beneficiaries so that the project manager can ensure to the Commission that the time-frames and deliverables are respected by the beneficiaries.

 **Please indicate in your proposal whether Member States have appointed or, to the best of your knowledge, intend to appoint a project manager.**

4. TYPE OF GRANT

The grant will take the form of reimbursement of a specified proportion (funding rate) of the eligible costs actually incurred.

4.1. GRANT BASED ON THE REIMBURSEMENT OF ELIGIBLE COSTS

The grant may only reimburse the costs you *actually* incur for your project (NOT the *budgeted* costs). Some costs will be reimbursed at a cost per unit.

The costs will be reimbursed at the **reimbursement rate** and up to the **maximum grant amount** fixed in the grant agreement.

The grant will be **paid out** in one or more parts:

- pre-financing payment(s) (*if foreseen in the grant agreement*) — designed to provide beneficiaries with a float; normally paid at the beginning of and/or throughout the project.
- interim payment(s) (*if foreseen in the grant agreement*) — reimburse costs incurred for project implementation (during the corresponding reporting period); paid on receipt and approval of the periodic report.
- payment of the balance — reimburses the outstanding part of the costs incurred for the project implementation; calculated as the difference of total amount due and payments already made; paid on receipt and approval of the final report.

 If the total amount of earlier payments is greater than the final grant amount, we will have to recover the difference (*i.e.* you will have to pay back money).

5. HOW TO SUBMIT YOUR PROPOSAL

 Proposals answering to EDIDP calls cannot be submitted through the funding and tender portal. They need to be submitted by registered mail (for proposals not containing classified information) or via an agreed specific arrangement with DG GROW prior submission (for proposals containing classified information).

Submission is a 2-step process:

- a) **register your organisation** on the [participant registration page](#) in order to receive your participant identification code (PIC).

 All applicants must be registered and have communicated their PIC to the coordinator. Linked third parties will also need to register, but later on during grant preparation. Subcontractors or in-kind contributors do NOT need to register. One organisation only needs to register once, even though it intends to submit several proposals.

- b) **submit the proposal** — in 3 parts, as follows:

- Part A includes administrative information about the applicant organisations (future coordinator and beneficiaries) and the summarised budget for the proposal;
- Part B (description of the action) covers the technical content of the proposal;
- five annexes;
- supporting documents (to be provided by the applicants).

The proposal must be submitted before the **call deadline** (specified in the calls for proposals). If you miss the deadline, your proposal will be automatically disregarded and considered not to have been submitted.

Part B of the proposal must keep to the **page limits** (specified in the submission form); excess pages will be disregarded.

Documents must be included in the **right category** (otherwise your proposal might be incomplete and so inadmissible).

You can submit your proposal in any official EU **language**. However, for reasons of efficiency, we strongly advise you to use English. If you need the calls for proposals in another official EU language, please submit a request (within 10 days after call publication via the contact information mentioned in the call for proposals).

 We strongly advise you to complete your proposal sufficiently in advance of the deadline, to avoid any last minute problems. Any technical problems due to last minute submissions will be at your own risk. The call deadline will NOT be extended.

 You may submit several proposals (and an organisation may participate in several applications), however those proposals must be for different projects.

If you have submitted several proposals with the same content (same project) against a single topic or against different topics, you will be asked to clarify which proposal you would like the Commission to evaluate and against which topic (since projects may normally receive only one grant from the EU budget).

 If you submit Part B of the proposal in a language other than English, please write your abstract/project summary (both in Part A and in Part B) in English.

5.1. PREPARING YOUR SUBMISSION

You must do 3 things before submitting your application:

- read the calls for proposals
- create an EULogin user account (if you don't already have one; former ECAS account)
- register your organisation on the [participant registration page](#).

Read the calls for proposals

Check whether:

- your project falls within the scope of the call/topic against which you intend to submit a proposal (see section 2 of the calls for proposals)
- your organisation/proposal meets the eligibility criteria (see section 3.4.4 of the calls for proposals)

and inform yourself about the:

- admissibility conditions (*e.g.* call deadline, page-limits, *etc.*) (see section 3.2 of the calls for proposals)
- exclusion criteria (see section 3.4.3 of the calls for proposals)
- financial and operational capacity requirements (see section 3.4.5 of the calls for proposals)
- award criteria (see section 3.4.6 of the calls for proposals)
- other (*e.g.* pre-financing guarantees).

For applicants established in the United Kingdom: Please note that until the United Kingdom leaves the EU, nothing changes with regard to participation and funding in EU programmes. Please be aware however that eligibility criteria must be complied with for the *entire* duration of our framework partnerships/grants. If the United Kingdom withdraws from the EU during that period (without an agreement ensuring eligibility for UK beneficiaries), you will cease to receive EU funding or be required to leave the project on the basis of the contractual provisions on termination.

Create a user account

All participants need to [create an EULogin user account](#).

Register your organisation on the participant registration page

Once you have an EULogin account, you can [register your organisation](#) on the participant registration page.

When your registration is finalised, you will receive a 9-digit participant identification code (PIC). You will need the PIC numbers (for the coordinator and the other applicants) to complete Part A of the application. PICs of linked third parties are not needed at this stage (they will have to register later on).

The person who registered the organisation can submit updates and corrections at any point before the call deadline (afterwards this can be done only by the legal entity appointed representative (LEAR) identified during the grant preparation – see section 7).

5.2. HOW TO FILL OUT YOUR APPLICATION

 To give your proposal the best chance of being selected for funding, make sure it is:

- relevant — address the content of the relevant topic.
- complete — include all the relevant information. Follow closely the format of the template in part B and ensure you include all the information requested.
- clear & concise — don't interpret completeness as a requirement to include as much information (and words) as possible. Your proposal must also be easy to understand, precise and focused on substance.
- respect the page limit. Do not repeat information.
- management-focused — clearly indicate the resources you will allocate to managing the intended activities, especially financial management (ensuring the funding you are requesting will be adequate to finance the planned activities).
- results/impact-oriented — clearly show the results that will be achieved, and how you intend to disseminate/use them. Include a sound and credible evaluation plan, not only focusing on process evaluation, but also looking at outcomes.

5.2.1. PART A — ADMINISTRATIVE FORMS

This section provides guidance to help you fill out the administrative forms of the submission form. Numbers in brackets refer to the corresponding part of the submission form.

General information (1.1)

Call and topic identifiers can be found in section 3.1 of the calls for proposals.

Activity(ies) refers to those addressed in the proposal. These activities must be consistent with the content of the topic against which the proposal is submitted. Please use the list of words provided in the template.

Acronym and title of the proposal must be defined by the applicant.

Declarations (1.2)

These declarations must only be signed by the coordinator at the time of the submission of the proposal. Were the proposal selected for grant, each applicant and each linked third party will be requested to sign such declarations during grant agreement preparation.

Applicants, linked third parties, subcontractors involved in the action and associated partners (2.1, 2.2, 2.3 and 2.4)

These sections should list the organisations that wish to participate as applicants, linked third parties, subcontractors involved in the action or associated partners. Use a cardinal numbering (x = 1; y = 2 and so on) with a different number for each legal entity.

Administrative data of applicants, linked third parties, subcontractors involved in the action and associated partners (2.5)

Provide a shortname and a webpage only if you have ones.

Relations of control with other participants in the proposal: list in this table any participant that are directly or indirectly controlled by the same entity and any participants that control each other.

Please make sure the e-mail address you give is correct and working: we may have to contact you for more information, when evaluating your proposal.

Eligibility (3)

Please make to clearly refer (e.g. name of the separate file) to the supporting documents that you are requested to provide.

Applicants, linked third parties and subcontractors involved in the action (3.1) and Associated partners (3.2)

Answers to questions shall be provided for each applicant, each linked third party and each subcontractor involved in the action for (3.1) and each associated partner for (3.2).

Budget (5)

The budget overview table (Annex 2 of the submission form) should show the total *estimated* expenditure and receipts for each applicant, per budget category.

Column	Budget category
A	Direct personnel costs <i>Indicate costs for personnel. Include only persons working on the action (and only for their estimated time of work on the action).</i>
B.1, B.2	Direct costs of travel & subsistence <i>Indicate costs for travels.</i>
C	Direct costs of subcontracting to entities with a direct contractual relationship with a beneficiary <i>Indicate costs for subcontracted action tasks.</i>
E	Other direct costs <i>Include costs for equipment, consumables, conferences, publications and other goods and services, provided they are not for subcontracted action tasks.</i>
F	Indirect costs <i>Automatically calculated at the indirect cost flat-rate set out in Article 7.2.F of the grant agreement.</i>
G	Total costs <i>Automatically calculated.</i>
H	Reimbursement rate <i>Automatically calculated (the basic reimbursement rate for each activity as set</i>

	<i>out in the calls for proposals plus applicable bonuses).</i>
I	Maximum EU contribution <i>This is the theoretical amount of the EU contribution (when the reimbursement rate is applied to all the budgeted costs). You may request less, up to your maximum grant amount.</i>
J	Maximum grant amount <i>The 'maximum grant amount' is the maximum grant amount decided by the granting authority. It normally corresponds to the requested grant, but may be lower.</i>
K	Estimated costs of associated partners <i>Indicate costs for action tasks allocated to associated partners</i>

The budgeted costs should be based on a detailed and accurate estimation of your estimated project costs (based on the cost eligibility rules set out in Article 7 of the grant agreement and Appendix 1 to this guide) and further clarified in the detailed budget table (annexed to the proposal).

They should include *all* your estimated costs.

You may include only *eligible* costs (*i.e.* costs that fulfil the eligibility conditions).

Keep your estimates on file — you may be required to produce them later on.

5.2.2. PART B — DESCRIPTION OF THE ACTION (DOA)

Project presentation (6)

This section should contain a pitch for the project, its context, aims and objectives and methodology.

Focus on award criteria (7) and in particular (7.1.4.1)

Definitions:

‘Work package’ means a major sub-division of the proposed project. One work package shall only address one type of activity, unless it concerns horizontal tasks such as management.

‘Deliverable’ means a distinct output of the action, meaningful in terms of the project's overall objectives and constituted by a report, a document, a technical diagram, a software, etc.

‘Milestones’ means control points in the project that help to chart progress. Milestones may correspond to the completion of a key deliverable, allowing the next phase of the work to begin. They may also be needed at intermediary points so that, if problems arise, corrective measures can be taken. A milestone may be a critical decision point in the project where, for example, the consortium must decide which of several technologies to adopt for further development.

All project activities must be grouped in a logical, consistent and structured way into separate **work packages**.

All work packages must present a clear, logical link to the project objectives and to the other work packages.

Each project must have **at least 2** work packages:

- work package 1 — management and coordination activities
- work package 2 — outputs related to the project goals.

Beyond that, create only as many as you need.

-  However, if your grant co-finances a procurement contract, please ensure that the action remains synchronised with the procurement contract (*i.e.* including work packages, deliverables, milestones, budget breakdown and timetable).

For **work package 1**, enter all activities related to the general management and coordination of the project (and any tasks that do not relate to any of the work packages leading to a specific result, but which are directly linked to the project as a whole). You must indicate the allocation of the related tasks to the different activities (as defined in Article 6(1) of the EDIDP Regulation).

For the **other work packages**, describe for each work package:

- its objective(s);
- the activity (or the part of the activity) to be implemented — *in specific terms*;
- the (tangible and intangible) output(s) to be produced;
- any other information as requested in the relevant tables of section 8 of the submission form.

Concerning the outputs:

1. Distinguish between milestones and deliverables.
2. Be as specific as possible.
3. Be realistic about what you can achieve within the project duration. The scope of your project should be large enough to make a difference, but it doesn't need to produce an excessively high number of outputs.
4. If relevant, outputs can also be internal (*i.e.* necessary for managing/coordinating/monitoring the project) or refer to intermediate stages of the project.

-  Give full details. Base your account on the logical structure of the project and the stages in which it is to be carried out. The number of work packages should be proportionate to the scale and complexity of the project.

-  You should give enough detail in each work package to justify the proposed resources to be allocated and also quantified information so that progress can be monitored, including by the Commission.

-  Resources assigned to work packages should be in line with their objectives and deliverables.

Tables (8)

These tables are provided to support completion of section (7).

5.2.3. ANNEXES & SUPPORTING DOCUMENTS

SMEs and mid-caps' participation (Annex 1)

The information that you will provide in section 1 of the tables in this annex will be used when evaluating your proposal against award criterion 5.

The information that you will provide in section 2 of the tables in this annex will be used to calculate the applicable SME and mid-cap bonus (see also section 2.3.4 of this guide).

Budget table (Annex 2)

The detailed budget table should show the detailed budget of the action.

It will be taken into account for the evaluation (cost efficiency).

The itemised expenditure should match the project activities described in Part B and linked to the work packages for which they will be used.

Declaration on honour (Annex 3)

The declaration must be signed by each applicant and each third party.

Agreement on pre-existing information (background information) (Annex 4)

This annex will be used to assess eligibility of the action against articles 6(1) and 12(2) of the EDIDP Regulation.

Statistical information (Annex 5)

The information that you will provide in this annex is without prejudice to the information requested for the evaluation of the submitted proposal and will therefore not be taken into account for the evaluation of the proposal;

Supporting Documents

You are requested to provide all necessary supporting documents for the Commission to be able to assess your eligibility. Keep in mind that some of these documents may need to be approved by Member States.

Please provide these documents as separate files in pdf format and use the name of the file to refer to these documents in the submission form where necessary.

5.3. HELP

In case this Guide and other documentation do not answer your questions:

- FAQs on the call topic page (for call-specific questions)

Please consult the call Topic page regularly, since we will publish new information (*e.g. call updates*).

If you feel you have no other option, you can contact us as follows:

- Other questions (including regarding the handling of classified information)— use our mailbox: ec-EDIDP-proposals@ec.europa.eu

5.4. SUBMISSION — ACKNOWLEDGEMENT OF RECEIPT

Once your proposal is submitted, you will receive a confirmation (with date and time of your application).

The form of this confirmation will depend on the way your proposal was submitted (registered mail with acknowledgement of receipt, signature for hand delivery, *etc.*).

6. INFORMATION ON THE EVALUATION RESULTS — COMPLAINTS

After submission, you will normally not hear from the Commission until evaluation is completed — unless we need to clarify matters such as eligibility or request additional information.

The Commission will check admissibility and eligibility and evaluate your proposal against the award criteria set out in the call for proposals.

Proposals that do not pass the evaluation will receive a letter at the end of evaluation.

 To ensure equal treatment for all applicants, we can NOT answer any questions on the outcome of the call before the evaluation is completed.

If you believe that the evaluation procedure was flawed, you will be able to submit a complaint (following the deadlines and procedures set out in the evaluation result letter).

7. PREPARING YOUR GRANT AGREEMENT & FINAL LEGAL CHECKS

Successful applicants will be invited to prepare the grant agreement (so-called 'grant preparation').

At the same time, you will be requested to submit your financial data and appoint your LEAR and we will finalise the mandatory legal checks (legal entity validation, operational and financial capacity, exclusion and double funding).

If all requirements are fulfilled, you will receive an invitation to sign your grant agreement (signature first by the coordinator on behalf of the consortium and then by the EU). The other beneficiaries must then accede to the grant agreement by signing an accession form attached to the grant agreement.

8. MANAGING YOUR GRANT

For a successful implementation of your action, we mainly require the following:

- **implement** the **project** as described in the description of the action (DoA) annexed to the grant agreement

and

- **report** regularly your progress to us as foreseen in the grant agreement by:
 - Submitting the deliverables, reporting on milestones, alerting on critical risks, preparing summary for publication, *etc.*
 - Sending the periodic and final reports.

Proper project implementation will allow us to process your reports quickly and make the **payments** provided for in the grant agreement.

 Payments will be made exclusively to the coordinator (who must distribute them without delay to other beneficiaries).

 Budget transfers may be subject to ceilings/limitations (see the grant agreement). Beyond those ceilings/limits, you will have to request a formal amendment.

 Bear in mind that certain obligations under the grant agreement depend on your share in the estimated budget (*e.g.* liability for consortium debts, grant reductions, *etc.*). It is therefore generally advised to request an amendment towards the end of the action, to align the estimated budget to the project implementation.

 You will be prompted to submit a financial statement to request payment of the costs incurred during the reporting period.

 You should declare **ONLY** the eligible costs actually incurred for the project implementation (NOT the budgeted costs or other ineligible costs; see the grant agreement and the Appendix 1 to this guide).

 Keep your calculations on file (you may be required to produce them later on and during an audit you will have to show how each cost item you declared can be reconciled with your accounts).

9. APPENDIX 1 — ELIGIBLE COSTS

Please also read the model grant agreement: **references to Articles and Annexes made in this Appendix are those referring to the EDIDP grant agreements.**

9.1. GENERAL CONDITIONS

9.1.1. ELIGIBLE COSTS

The grant can **only** reimburse **eligible costs** (*i.e.* costs that comply with the general and specific conditions set out in Article 7) ('reimbursement of eligible costs grant').

 **ONLY** eligible costs may be entered into the estimated budget for the action and declared in the financial statements. Record-keeping & burden of proof — The burden of proof for eligibility is on the beneficiaries/linked third parties. They must keep sufficient supporting documents to show that the costs they declare are eligible. Compliance with eligibility rules may be subject to a check or audit by us. Any ineligible costs found will be rejected.

If an applicant declares ineligible costs, the ineligible costs will be rejected and, if needed, other measures (*e.g.* suspension, termination, grant reduction, *etc.*) may be taken.

9.1.2. GENERAL ELIGIBILITY CONDITIONS FOR ACTUAL COSTS

In order to be **eligible**, actual costs must be:

- **actually incurred by the beneficiary** *i.e.*:
 - real and not estimated, budgeted or imputed and
 - definitively and genuinely borne by the beneficiary (not by any other entity).
- **incurred during the action duration** (*i.e.* the generating event that triggers the costs must take place during the action duration)

The 'action duration' is the period running from the action starting date to the end date of the action.

If costs are invoiced or paid later than the end date, they are eligible only if the debt existed already during the action duration (supported by documentary evidence) and the final cost was known at the moment of the financial report.

Costs of services or equipment supplied to a beneficiary (or to its linked third party) may be invoiced and paid after the end date of the action if the services or equipment were used by the beneficiary (or to its linked third party) during the action duration. By contrast, costs of services or equipment supplied after the end of the action (or after grant agreement termination) are not eligible.

Certain other costs incurred before or after the action duration may be considered exceptionally eligible if the timing is imposed by us (*i.e.* a bank guarantee to be provided before the action starting date (if any); kick-off meeting organised before the action starting date).

- **entered as eligible costs in the estimated budget of the action**, under the relevant budget category (*see Annex 2*)

When the final amount of the grant is calculated, the eligible costs cannot include costs under budget categories that did not appear in the action estimated budget, unless the initial estimated budget was amended or, for subcontracts with a direct contractual relationship with a beneficiary, if these additional costs were approved in accordance with the grant agreement.

Costs included in the estimated budget may be transferred between beneficiaries and budget categories without amending the grant agreement.

 Budget transfers between categories must stay below 20% of the total costs for the action set out in Annex 2, unless they are approved by an amendment (*see Article 46.2*).

 Please also note that we do require a formal amendment of the estimated budget (Annex 2), if the transfer of budget between beneficiaries is linked to a change in the distribution of action tasks (and in this case also the description of the action (Annex 1) needs to be amended).

- **connected to the action as described in Annex 1** (*i.e.* necessary to achieve the action's objectives)

The EU grant cannot be used to finance activities other than those approved by us.

 **Project management** — Coordination and administration tasks are considered **action tasks**.

- **identifiable and verifiable** (*i.e.* come directly from the beneficiary's accounts (be directly reconcilable with them and supported by documentation))

The beneficiaries must be able to show (with records and supporting documents; *see Article 24*) the actual costs of the work, *i.e.* what was actually paid for the work (and for depreciation costs: what is actually recorded in the beneficiary's profit and loss accounts).

Costs must be calculated according to the applicable accounting rules of the country in which the beneficiary is established and according to the beneficiary's usual cost accounting practices.

This may NOT be used as an excuse for non-compliance with other grant agreement provisions. A beneficiary must make any changes needed to bring its usual cost accounting practices in line with all grant agreement provisions.

Examples: conditions for calculation of productive hours (see below); conditions for the eligibility of depreciation costs (in line with the international accounting standards, which may deviate from the accounting rules of the country)

Where national taxation and accounting rules do not require an invoice, an accounting document of equivalent value must be supplied (*i.e.* a document that (i) is produced to prove that the accounting entry is accurate and (ii) complies with the applicable accounting law).

- **in compliance with applicable national laws on taxes, labour and social security**

AND

- **reasonable, justified and must comply with the principles of sound financial management, in particular regarding economy and efficiency** (*i.e.* be in line with good housekeeping practice when spending public money and not be excessive)

‘Economy’ means minimising the costs of resources used for an activity (input), while maximising quality; ‘efficiency’ is the relationship between outputs and the resources used to produce them.

Examples:

1. The beneficiary may NOT increase the remuneration of its personnel, upgrade its travel policy or its purchasing rules because of the EU grant.
2. Entertainment or luxurious expenses (including gifts, special meals and gastronomic dinners) are generally not eligible.

9.1.3. GENERAL ELIGIBILITY CONDITIONS FOR UNIT COSTS

In order to be **eligible**, unit costs must be:

- calculated by **multiplying** the **number of actual units** used to carry out the work or produced (e.g. days spent travelling) **by** the **amount per unit**

Example: The unit cost for subsistence is fixed at EUR 120 per day of travel. This amount per unit is also set out in Annex 2a.

- the **number of units** must be **necessary** for the action
- the units must be **used or produced during the action duration**

AND

- the beneficiaries must be able to **show the link** between the number of units declared and the work on the action.

The beneficiaries must be able to show (with records and supporting evidence; that the number of units declared was actually used for the action. (The actual costs of the work are not relevant.)

Example: A beneficiary declares 10 days of travel for an action in 2014. If there is an audit, the beneficiary must be able to show a record of the days travelled for the action.

9.2. DIRECT & INDIRECT COSTS

9.2.1. DIRECT COSTS

‘Direct costs’ are specific costs directly linked to the performance of the action and which can therefore be directly booked to it.

They are:

- either costs that have been caused in full by the activities of the action
- or costs that have been caused in full by the activities of several actions (projects), the attribution of which to a single action can, and has been, directly measured (i.e. not attributed indirectly via an allocation key, a cost driver or a proxy).

The beneficiaries must be able to show (with records and supporting evidence) the link to the action.

9.2.2. INDIRECT COSTS

'Indirect costs' are costs that cannot be identified as specific costs directly linked to the performance of the action.

In practice, they are costs whose link to the action can NOT be (or has not been) measured directly, but only by means of cost drivers or a proxy (*i.e.* parameters that apportion the total indirect costs (overheads) among the different activities of the beneficiary).

 Indirect costs are automatically declared as a **25% fixed flat-rate** of the eligible direct costs.

There is only one indirect cost rate per action; all beneficiaries will be reimbursed at the same rate.

9.3. PERSONNEL COSTS (CATEGORY A)

 If you intend to use unit costs for the specific case of SME owners who do not receive a salary, please refer to the relevant sections of Annex II (Reimbursement of personnel costs of beneficiaries) of the [Commission implementing Decision](#) of 19.3.2019 on the financing of the European Defence Industrial Development Programme and the adoption of the work programme for the years 2019 and 2020 (C(2019) 2205).

What costs?

This budget category covers personnel costs (employees or equivalent, natural persons under direct contract and seconded persons).

The personnel costs should correspond to the adequate human resources needed to ensure the successful implementation of the project.

The costs must be calculated on the basis of actual gross salary or wages plus obligatory social charges and any other statutory costs included in the remuneration.

The costs you declare must correspond to the actual time worked on the project by the staff concerned.

 The rates at which staff are charged to the project must correspond to the **normal remuneration policy** of each beneficiary (documented by salary grids, long-term work contracts, *etc.*).

It should not significantly exceed the market rates generally applicable in the geographical area and sector (especially with respect to the profile of the staff concerned), and must be justified by the nature of the work.

Any amounts paid in excess of these rates may be considered an ineligible cost.

 **Overtime** — Overtime is included and reimbursed just like normal working time. Overtime pay must be included in the annual personnel costs. Overtime worked (paid or unpaid) must be added to the annual workable hours or days ('productive time'), in order to calculate the annual productive hours or days.

How to calculate them?

 We provide you with a compulsory **budget table**. It follows the cost categories and the eligibility rules of the grant agreement and will help you to build your grant budget.

Budgeting personnel costs

For the estimated budget, you should indicate for each participant the total amount of staff costs they estimate to be necessary for the project.

These amounts should be a detailed and accurate estimate of individual staff costs (estimated person-months per staff category), following the calculation method described below. Only eligible costs should be budgeted.

The cost details should contain:

- number of persons per staff category (names are optional)
- function in the project
- working status, *e.g.*
 - *recruited specifically for the project or permanent employee?*
 - *under a contract other than an employment contract?*
 - *part-time or full-time on the project?*
 - *civil servant or private law employee?*
- number of working hours included in the daily rate.

Record-keeping — Keep these detailed estimates on file (they may be needed during grant preparation or later on in case of an audit)

Reporting personnel costs (financial statement)

For the financial statement you should claim the personnel costs by using a **daily rate** (daily rate x days worked on the action):

Thus, personnel costs will effectively be based on **3 elements**:

- a) annual personnel costs (gross salary, including social charges and other statutory costs)
- b) annual productive days (actual annual working time)
- c) time actually worked on the action

$$\frac{\text{(a) annual gross salary + social charges}}{\text{(b) total actual annual productive working days}} \times \text{(c) actual number of days working on the action}$$

 For reporting periods running over **several years**, the daily rate must be calculated separately for each individual year. If a financial year is not closed at the end of the reporting period, the beneficiary must use the daily rate of the last closed financial year.

(a) Annual personnel costs

This means costs actually paid by the beneficiary over a year, including: salary, taxes, employer's contribution for national security schemes, *etc.*

Calculate as follows:

1	Annual gross salary including paid overtime and salaries for 13 th and 14 th 'month', if applicable
	<i>How? Add up the gross salary on every monthly salary slip</i>
+ 2	Holiday allowance, if not included in item 1 above
+ 3	Obligatory/compulsory social charges imposed by law, such as pension/health/insurance schemes, contributions to labour market funds, etc.
+ 4	Statutory pension schemes under national law
- 5	Compensation received from insurance or other sickness/employment schemes to reactivate unemployed people
Total	Annual staff cost (sum of 1 to 4 minus 5)

Base the calculation on statutory documents, such as salary slips and payroll summary, so the amounts can easily be traced and verified.

Ineligible costs for this calculation:

- all additional (non-statutory) and individual pension schemes and/or sickness insurance schemes
- company cars
- bonuses and similar fringe benefits
- dividends or profit sharing
- amounts paid for long-term illness or maternity leave.

(b) Total actual annual productive time

This means total time in days worked over a year.

Calculate as follows:

1	Total number of days in a year	365
- 2	Minus weekends	104
- 3	Minus public holidays	
- 4	Minus annual leave actually taken	
- 5	Minus time compensation or flexitime	
- 6	Minus sickness	
+ 7	Plus any (paid or unpaid) overtime	
	Total number of productive days in the year (1 minus 2 to 6, plus 7)	

 **Meetings trainings and similar absences** — Are considered productive working time and should not be deducted.

(c) Actual time worked on the action

For persons allocated exclusively to the project, the time worked on the project will not be calculated in days, but in months.

For all other persons, the time worked for the project must be calculated in days. It must be clearly substantiated by timesheets (or equivalent time registration system).

For this purpose, every beneficiary must establish a time registration system that meets at least the following rules:

- The timesheets must contain at least the following information:
 - grant agreement number
 - name of employer
 - name of employee
 - day, month and year
 - number of time units (days) worked on the project during the period of the timesheet
 - number of time units (days) worked on other projects/activities
 - total number of time units (days) worked
 - details of the tasks performed for the project
 - date and signature of employee
 - date and signature of supervisor.
- The timesheet should cover either a week or a month and be filled in regularly, usually every day (*timesheets created retroactively are not acceptable*).
- The timesheet should be signed by the employee and approved by the supervisor in a timely manner – ideally during the week after.
- Summary sheets (*showing e.g. "x" days spent per month*) are not accepted as supporting documentation.

Specific cases (personnel costs (A)):

Persons working exclusively on the action — There is a different calculation method for staff working 100 % on the project. They are allowed to use monthly rates instead of hourly rates.

Moreover, they do not need to keep timesheets (but sign a declaration on exclusive work for the action; see Article 24.1.2).

If the declaration covers months in which the person was absent for more than half of the working days those months can NOT be taken into account to calculate the hours worked in the action (— unless the absence is linked to annual leave).

Natural persons with direct contract (non-permanent staff) — Costs for in-house consultants and similar persons (*i.e.* self-employed *natural* persons) that work on the action under conditions similar to those of an employee may be an eligible cost (budget category A.2). The following criteria are indications:

- the person works for the beneficiary under a direct contract
- the person works under conditions similar to those of the employees (regarding the way the work is organised and the tasks that are performed)
- the costs for the person are reasonable and not significantly different from the costs of the employees performing similar tasks
- the person uses the beneficiary's infrastructure/works on the premises (*i.e.* generates indirect costs for the beneficiary).
- travel and subsistence costs for the person for participating in project meetings or project travel are paid by the beneficiary under conditions similar to those of the employees
- the result of the person's work belongs to the beneficiary under conditions similar to those of the employees

This category does NOT cover staff provided by a **temporary work agency** (because in this case there is no direct contract between the person and the beneficiary; the contract is not with the beneficiary but with the entity hiring the person). Such staff therefore qualifies typically as purchase of services. Thus, although NOT eligible as 'personnel costs' (category A.2), the costs can normally be charged under budget category E.2 'other goods and services', if they comply with the eligibility conditions (especially best value for money and no conflict of interest; see *Article 14*).

Seconded staff — Costs for persons that are seconded by a third party *against payment* maybe an eligible cost under the same conditions as non-permanent staff. Staff seconded to the beneficiary for free cannot be declared as a cost by that beneficiary.

Permanent staff of a public organisation — For public organisations (*i.e.* public bodies, with the exception of universities), the salary costs of permanent staff can be claimed only if they relate to the costs of project activities which the organisation would not have carried out if the project had not been undertaken.

9.4. SUBCONTRACTING COSTS (SUBCONTRACTORS WITH A DIRECT CONTRACTUAL RELATIONSHIP WITH A BENEFICIARY) VERSUS PURCHASE COSTS (CATEGORIES C AND B/E)

How to distinguish them?

Generally speaking, the *article on subcontracting (Article 15 of the grant agreement)* sets the rules for the contracting out of parts of the action (*i.e.* action tasks mentioned in Annex 1 of the grant agreement), while *article on purchases (Article 14 of the grant agreement)* sets the rules for buying of equipment, consumables and other services. Purchases cover the procurement of ordinary services, goods or

equipment needed to carry out the project. Unlike *subcontracting*, they do not involve the outsourcing of entire parts of the project (project tasks or project activities described in the description of the action).

Examples (purchases): Dissemination of information, evaluation, audits, translations, reproduction, purchase of tickets, renting of rooms and accommodation, purchase of consumables and supplies, website development.

While all subcontracting regarding subcontractors with a direct contractual relationship with a beneficiary must be declared under a specific budget category (C. 'subcontracting'), purchases must be declared either under category E.1 'equipment' or E.2 'other goods and services'. *Equipment* is for assets, while *other goods and services* is for consumables.

9.5. SUBCONTRACTING COSTS (CATEGORY C)

What costs?

This budget category covers the costs for subcontracting of a part of the action tasks (*i.e.* externalising a part of the action to a third party).

You may subcontract action tasks — *if you follow these rules:*

- Retain sole responsibility for carrying out the project and for compliance with the provisions of the grant agreement.
- You must NOT also act as a subcontractor in the project (not possible for beneficiaries).
- Subcontract only a limited part of the project; subcontracting all or most of the activities would be contrary to the division of roles in the consortium and raise questions on the ownership of the project and capacity to implement it.
- Subcontract only tasks that are absolutely necessary due to the nature of the project and its implementation needs.
- Do NOT subcontract the management and general administration of the project.
- For subcontracting going beyond 30% of the total eligible costs, give specific reasons.
- Specify in Part B of the submission form the tasks that will be subcontracted (and explain what value subcontracting will add and why the relevant expertise is not available in your consortium) and show the estimated costs in your estimated budget.
- Ensure that:
 - your subcontracts should include the following terms:
 - goods/services to be provided and their links to the project
 - start and end dates
 - price to be paid (breakdown and description of the costs)
 - detailed description of the tasks/work schedule/completion phases
 - detailed description of the costs on which the price is based

- payment arrangements (one or more advance payments, staggered payments, *etc.*)
- clauses addressing non-performance or late completion.
- the subcontracts are based on the best value for money (considering the quality of the service proposed, i.e. the best price-quality ratio) or on the lowest price.

This does NOT in all cases require a competitive selection procedure. You can organise the tender according to your internal practices – if you can demonstrate that you will:

- select the tender offering best value for money, or the lowest price
- avoid any conflicts of interest.
- If you are acting as a contracting authority or entity (as defined, respectively, in Directives [2014/24/EU](#) and [2014/25/EU](#)⁹), you must abide by the applicable national public procurement rules.
- Ensure that:
 - the bodies mentioned in Article 29 (e.g. granting authority, European Anti-Fraud Office (OLAF), Court of Auditors (ECA), *etc.*) can exercise their rights **also towards the subcontractors involved in the action**;
 - your obligations under Articles 16, 17, 21 and 37 **also apply to the subcontractors involved in the action**.

How to calculate them?

Budgeting subcontracting costs

For the estimated budget, you should enter an estimate of the total amount of subcontracts (of subcontractors with a direct contractual relationship with a beneficiary) needed for the project, for each partner.

Reporting subcontracting costs (financial statement)

For the financial statement, you should include all costs incurred for the subcontracts (of subcontractors with a direct contractual relationship with a beneficiary).

⁹ New directives in force since 2016:

Directive [2014/24/EU](#) of the European Parliament and of the Council of 26 February 2014 on public procurement (OJ L 94, 28.3.2014, p. 65) and repealing Directive 2004/18/EC (OJ L 94, 28.03.2014, p.65).

Directive [2014/25/EU](#) of the European Parliament and of the Council of 26 February 2014 on public procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC (OJ L 94, 28.3.2014, p. 243).

Old directives:

Directive [2004/18/EC](#) of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public work contracts, public supply contracts and public service contracts (OJ L 134, 30.4.2004, p. 114).

Directive [2004/17/EC](#) of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors (OJ L 134, 30.4.2004, p. 1).

The costs you declare must correspond to the price you paid to the subcontractors (including all related taxes; *for VAT, see Article 7.3*).

Specific cases (subcontracting (C)):

Subcontracting between beneficiaries — Is NOT allowed in the same grant agreement. All beneficiaries contribute to and are interested in the action; if one beneficiary needs the services of another in order to perform its part of the work, it is the second beneficiary who should declare the costs for that work.

Subcontracting by beneficiaries to affiliates — Is NOT allowed, unless they have a framework contract or the affiliate is their usual provider, and the subcontract is priced at market conditions. Otherwise, these affiliates may work in the action, but they must be identified as linked third parties under Article 10 and declare their own costs.

Coordination tasks of the coordinator (*e.g. distribution of funds, review of reports and others tasks listed under Article 9*) — Can NOT be subcontracted. Other activities of the coordinator may in principle be subcontracted.

Framework contracts or subcontracts (subcontractors with a direct contractual relationship with a beneficiary) — Framework contracts can be used for selecting a provider if this is the usual practice of the beneficiary (*e.g. for a type of service*). In order to be eligible, the framework contract must (have) be(en) awarded on the basis of best-value-for-money and absence of conflict of interest. The framework contract does not necessarily have to be concluded before the start of the action.

9.6. PURCHASE COSTS: TRAVEL — EQUIPMENT — OTHER GOODS AND SERVICES

9.6.1. TRAVEL COSTS (CATEGORY B)

What costs?

This budget category covers the travel costs and related subsistence allowances spent for the action.

Only travel costs relating to specific and clearly identifiable activities are eligible for EU funding and must have been incurred by people directly involved in or contracted for such activities.

Travel and subsistence costs must be reasonable and in line with your usual practices on travel costs.

Travel and subsistence costs of participants in conferences and seminars should also be included under this category.

How to calculate them?

Budgeting travel & subsistence costs

For the estimated budget, you should enter an estimate of the total amount of travel costs and subsistence costs (actual or *per diem*) needed for the project, for each partner.

These amounts should be a detailed and accurate estimate, based on the corporate policy, destination, number of people involved, *etc.* Only eligible costs should be budgeted.

Ideally the details should show the:

- reason for travelling (*e.g. second project meeting, study visit, etc.*)
- places of origin and destination
- number and, if already known, names of the people travelling/receiving subsistence allowances
- type of unit (*e.g. flights, train journeys*).

Reporting travel & subsistence costs (financial statement)

The costs you declare must correspond to the costs you incurred for travels (including all related duties, taxes and charges; *for VAT, see Article 6.4*).

Travel costs

For the financial statement, you should include all costs from the point of origin to the destination, including transfers to/from airports/train stations.

All people travelling in connection with the project are required to make every effort to use the cheapest fare and method — wherever possible, public transport.

Rail travel — First-class fares are accepted

Air travel — You must take the cheapest fare.

Cars — If air/rail travel is not cheap or possible, costs for travelling by car will be refunded as follows:

- private vehicles (*own or company cars*): amount equivalent to the corresponding (or an equivalent) rail fare

Only 1 ticket will be reimbursed, even where several people are travelling in the same vehicle.

- hire cars (*maximum category B or equivalent*) or taxis: actual cost, if not excessive compared with other means of travel

Only 1 taxi fare will be reimbursed even where several people are travelling in the same vehicle.

Subsistence costs

This means cost of accommodation, meals, local travel at the place of assignment and sundry expenses.

Such costs are eligible, if they are:

- in line with local prices
- exclusively linked to the project
- reasonable (for a guide to what is considered reasonable in each country, *see these [daily \(per diem\) amounts](#)*).

9.6.2. EQUIPMENT COSTS (CATEGORY E.1)

What costs?

The depreciation costs of other equipment (purchased before the beginning of the project) are in principle part of the 'indirect costs' (project overheads, category F).

However, if you need to buy/rent *specific equipment* for the project (*e.g. audiovisual equipment*), it can be charged as 'equipment costs' — *if you follow these rules:*

- Clearly demonstrate why the equipment needs to be purchased, rented or leased for the project
- Respect the contracting rules, *e.g. compare the prices of different suppliers to see who offers the best value for money (taking account of price and quality)*
- Charge to the project only the cost of equipment purchased or rented during the period covered by the grant agreement, at a rate that reflects the degree and duration of use for the project in that period
- Itemise the equipment with an inventory number in the organisation where it is installed.
- Calculate the depreciation in accordance with international accounting standards and your usual accounting practices, taking into account the rate of actual use for the project.

If (exceptionally) explicitly authorised in your grant agreement, you may declare the full purchase costs of the equipment (*i.e.* more than the depreciation for the months of the action).

How to calculate them?

Budgeting equipment costs

For the estimated budget, you should enter an estimate of the total amount of equipment costs needed for the project, for each partner.

This amount should be a detailed and accurate estimate, based on the depreciation. Only eligible costs should be budgeted.

Reporting equipment costs (financial statement)

For the financial statement, you should enter the depreciation (or rental/leasing costs) incurred for the equipment.

Example (depreciation):

Total value of equipment purchased: EUR 1,000

Service life: 3 years (36 months)

Monthly depreciation = EUR 1,000/36 = EUR 27.78

Duration of eligibility for cost in grant agreement: 01/10/2014 to 30/09/2016 (24 months).

Date of purchase (= date of invoice): 30/04/2015.

Period of use = maximum 17 months.

Usage rate (if equipment used on a half-time basis for the project) = 50%.

Total amount payable for depreciation = EUR 27.78 x 17 months x 0.5 = EUR 236.13.

9.6.3. OTHER GOODS AND SERVICES (CATEGORY E.2)

What costs?

This budget category covers consumables, conferences and seminars, publications and dissemination, translation and other costs not covered in the previous categories.

The costs of consumables and supplies are eligible — if they are exclusively used for the project and identifiable as such in your accounts and if the purchasing rules were complied with (best value for money).

Publications must be produced specifically for the project and comply with the [Guidelines on visibility of EU funding](#).

Costs for conferences, seminars and other events do NOT include any travel and subsistence allowances provided for participants (these should be put under 'travel', category B).

Other costs not falling under any other category can be charged under category E, if they are necessary and specific to the project activities and contribute to its final results.

Typically these includes:

- costs of services (*e.g. experts not considered staff members, specific evaluation of the project, auditor fees*)
- conference fees; meeting registration costs
- charges for financial transactions; fees for a bank guarantee requested by us
- purchase of information materials specific and key to project implementation (books, studies, electronic data)
- project-specific press releases and event advertisements (one-off costs)
- purchase of copyrights and other intellectual property rights (IPR)
- intellectual property costs connected with publishing project materials (*e.g. CD-ROMs*)
- other costs stemming from obligations under the grant agreement which are not budgeted for under another budget category.

General office supplies (*pens, paper, folders, ink cartridges, electricity supply, telephone and postal services, internet connection, software, etc.*) are 'indirect costs', belonging in category F — *unless unusually high quantities of such supplies are required due to the specific circumstances*.

Costs of purchasing land or immovable property are not eligible. For the costs of premises rented to carry out the project, you will have to provide a specific rental contract/lease indicating a clear and exclusive link with the project. If this link is not demonstrated, the cost will be considered covered by the indirect costs.

How to calculate them?

Budgeting other goods & services costs

For the estimated budget, you should enter an estimate of the total amount of all other goods and services needed for the project, for each partner.

These amounts should be a detailed and accurate estimate, based on type of publication (languages and number of copies/pages, *etc.*), conference/seminar/event or other cost. Only eligible costs should be budgeted.

Publication & dissemination

Publication and dissemination costs include costs for editing, translation and printing, as well as costs for website creation and/or maintenance (keep track of these costs separately — *separate lines for editing, printing, translation, etc.*).

The details should include the following:

for publications:

- title
- reference number of the output in Annex 1 of the grant agreement (*e.g. work package 4, output 3 - Conference*)
- type of publication (*e.g. brochure, leaflet*)
- language(s) in which it will be produced
- estimated number of pages
- number of copies
- type of unit (usually number of pages or number of copies).

for translations:

- title of the publication
- reference number of the output in Annex 1 (*e.g. work package 4, output 3*)
- source and target languages (*e.g. from English into Italian*)
- number of pages
- type of unit (*e.g. pages*).

Conferences, seminars and other events

Costs for conferences, seminars and other events include costs for renting of rooms, interpreting, catering, *etc.* (keep track of these costs separately — *separate lines for renting of rooms, interpreting, catering, etc.*).

The details should show:

for renting of rooms:

- expected number of participants
- duration of the event (*e.g. days, half-days or number of hours*)

- title of the event in Annex 1 of the grant agreement

for interpreting:

- number of interpreters per day
- number of days interpreting needed
- source and target languages (*e.g. English into French & vice versa*)
- type of unit to count (*e.g. days of interpreting*)

for catering:

- type of catering costs (*e.g. lunch, coffee break*)
- number of items
- number of participants
- type of unit to count (*e.g. participants*).

Reporting other goods & services costs (financial statement)

For the financial statement, you should include costs for goods and services.

Catering costs must not include people receiving subsistence allowance for the same event, unless such costs are deducted from their allowance.

Specific cases (travel, equipment & other goods and services) (B, E):

Rate per mile/km — Rates per mile/km will only be reimbursed if the beneficiary provides good reasons why the normal means of calculation for car travel costs cannot be applied.

Beneficiary per diem system (daily allowance) — Per diems will be reimbursed if they are part of the beneficiary's usual practices (*i.e.* you can demonstrate that such a system was officially in place before the grant was awarded).

The per diem rate cannot exceed the maximum limits per country set by the [European Commission](#). Any costs declared in excess of this limit will be considered ineligible.

Per diems including accommodation will be accepted only when an overnight stay is necessary (because of the timing of the return). If the overnight stay was not necessary, a proportion of 60% will be considered for accommodation and rejected.

In-kind contributions against payment — Costs for equipment, goods or services that are given in-kind by a third party *against payment* may be an eligible cost under the same conditions as other equipment, goods and services.

9.7. INDIRECT COSTS (CATEGORY F)

Commonly known as *overheads*. These are costs that cannot be identified as specific costs directly linked to the project and so booked to it directly.

They cover general indirect costs you incur in implementing the project, typically:

- general rental costs or depreciation of buildings and equipment
- maintenance costs
- telecommunication and postal fees
- water, gas, electricity, heating, *etc.*
- office furniture
- supplies and petty office equipment
- insurance
- costs connected with support services, such as administrative and financial management, human resources, training, documentation, IT, *etc.*

Eligible indirect costs are calculated, with a flat-rate instead of actual costs. This rate — fixed in Article 7.2.F of the grant agreement — is **25%** of the direct eligible costs.

This means that your indirect costs will depend directly on your direct costs. And that you will not need to keep track of your actual indirect costs.

9.8. INELIGIBLE COSTS

Costs are **ineligible**, if one of the following applies:

- they **do not meet the general and specific eligibility conditions**

***Examples:** costs incurred in relation to activities not indicated in Annex 1 to the grant agreement (description of the action); subcontracting costs do not comply with Article 15; taxes for which you are liable in your capacity as a business (e.g. IRAP in Italy, Gewerbesteuer in Germany); gifts and presents; recreational/tourism/cultural activities; costs not entailing a cash flow for you; costs incurred by a third party to the grant agreement.*

- they are **listed in Article 7.3**, in particular:

- costs related to **return on capital** or **return generated by an investment**

***Examples:** dividends paid as remuneration for investing in the action; remuneration paid as a share in the company's equity.*

- **debt and debt service charges**

'Debt service' is the amount paid on a loan in principal and interest over a period of time.

***Example:** If a beneficiary takes a loan used to acquire equipment or consumables for the project of EUR 100 000 at 9 percent interest for 10 years, the debt service for the first year (principal and interest) is EUR 15 582.*

- **provisions for future losses or debts**

‘Provision’ means an amount set aside in an organisation’s accounts, to cover for a known liability of uncertain timing or amount. This includes allowances for doubtful or bad debts.

- **interest owed** (*i.e.* interest on a loan to borrow capital)
- **excessive or reckless expenditure**

‘Excessive’ means paying significantly more for products, services or personnel than the prevailing market rates or the usual practices of the beneficiary (and thus resulting in an avoidable financial loss to the action).

‘Reckless’ means failing to exercise care in the selection of products, services or personnel (and thus resulting in an avoidable financial loss to the action).

- **currency exchange losses** (*i.e.* for beneficiaries using currencies other than euros or being invoiced in a currency other than the currency they use: any loss due to exchange rate fluctuations (*e.g. between the date of invoicing and the date of payment*))

This includes insurance premiums against risk of exchange rate losses.

- **bank costs** charged by the beneficiary’s bank for transfers from us.

Conversely, bank charges for the distribution of the EU funding may constitute an eligible cost for the coordinator (if the eligibility conditions of Article 7.1 and Article 7.2.E.2 are met).

- **deductible VAT**

‘Deductible VAT’ means VAT that is recoverable under the national ‘VAT system’ (*i.e.* the system of collection and deduction under the national VAT legislation). Such VAT is not a genuine and definitive cost and, according to accounting standards, should not be recorded as such. Therefore, it is not actually incurred by the beneficiary.

The cost and revenue accounts should exclude deductible VAT; such VAT should be recorded in *separate* payable or receivable accounts, without effect on revenue or cost line items.

The VAT *paid* is a claim against the tax authority. It should be recorded in the ‘assets’ part of the balance sheet. It should not be recorded as expenditure in the profit and loss accounts (only the purchase price of goods and services *excluding* VAT should be recorded). Similarly, for the value of purchased equipment or assets, only the net purchase cost should be recorded in the balance sheet’s fixed asset line, and the depreciation cost should be calculated based on this value, excluding VAT.

The VAT *collected* is a debt towards the tax authority and should therefore be recorded in the ‘liabilities’ part of the balance sheet.

Conversely, if VAT is NOT deductible, it is an eligible cost.

The full price of the goods or services bought by the beneficiary can be recorded as expenditure in its profit and loss accounts, without any distinction between the net price and the amount of VAT charged on it. The full price of equipment and assets bought can be recorded in the balance sheet’s fixed asset line and is the basis for the depreciation allowances recorded in the profit and loss accounts.

- **costs incurred during the suspension of the implementation of the action**

***Example:** Action is suspended and one of the beneficiaries continues working on it after the date of the suspension*

- **costs declared under another EU grant** (*i.e.* double funding)

This includes:

- costs funded directly by other EU programmes managed by the European Commission or its executive agencies or funding bodies (*e.g. H2020 grants, Euratom grants*)
- costs managed/funded/awarded by Member States but co-funded with EU funds (*e.g. European Structural and Investment Funds (ESIF)*)
- costs for grants awarded/funded/managed by other EU, international or national bodies and co-funded with EU funds (*e.g. Joint Undertakings, Article 185 TFEU bodies*)
- if a beneficiary is receiving an EU operating grant¹⁰, then the indirect costs of that beneficiary are not eligible and the indirect cost flat-rate should not be applied — unless it can demonstrate that the operating grant does not cover any costs of the action (*see Article 7.2.F*).

***Examples (operating grants):** Grants awarded to support the running costs of certain institutions pursuing an aim of European interest, such as: College of Europe, European standards bodies (CEN, CENELEC, ETSI)*

- costs for **staff** of a **national** (or local) administration, for activities that are part of the administration's normal activities (*i.e.* not undertaken only because of the grant)

For public organisations (*i.e.* public bodies, with the exception of universities), the salary costs of permanent staff be claimed only if they relate to the costs of project activities which the organisation would not have carried out if the project not been undertaken.

- travel, subsistence and any other costs for EU **staff** (or elected representatives of the EU Parliament)
- costs arising from military or defence operations;
- costs for activities that take place outside of the EU
- costs for activities of associated partners

If a beneficiary **declares ineligible costs**, the ineligible costs will be rejected and, if needed, other measures specified in Chapter 6 (*e.g. suspension, termination, grant reduction, etc.*) may be taken.

¹⁰ For the definition, see Article 180(2)(b) of the [Financial Regulation](#): 'operating grant' means direct financial contribution, by way of donation, from the budget in order to finance the functioning of a body which pursues an aim of general EU interest or has an objective forming part of and supporting an EU policy.

Specific cases (ineligible costs):

Non-identifiable VAT (in foreign invoices) — In exceptional cases where the beneficiary cannot identify the VAT charged by the supplier (*e.g. small non-EU invoices*), the full purchase price can be recorded in the accounts if it is not possible to deduct the VAT. That VAT would therefore be eligible.

Partially deductible VAT — Some entities have a mixed VAT regime, meaning that they carry out VAT exempt or out-of-the-scope activities AND VAT taxed activities. When VAT paid on goods or services by these entities cannot be directly allocated to one or the other category of activities it will be *partially* deductible. Therefore it will also be *partially* eligible. The eligible part corresponds to the pro-rata of the VAT which is not deductible for that entity.

In these cases, the beneficiary uses a provisional (estimated) deduction ratio during the year. The final ratio is only determined at the end of the fiscal year. The beneficiary must regularise VAT when closing its accounts. Therefore, the beneficiary must also regularize the VAT costs declared for the grant (by declaring, in the next reporting period, an adjustment for the difference between the provisional deduction ratio and the final ratio).

VAT incurred by a public body acting ‘as public authority’ — VAT incurred by a public body acting as public authority is ALWAYS ineligible.

These are activities which can only be exercised by public bodies under their special legal framework, under different legal conditions to those covering private bodies. They may or may not be linked to ‘imperium’.

Examples: Policing, the justice system, combating counterfeiting of banknotes and coins, national statistics, determination and enforcement of public policies

Duties — The eligibility of duties depends on the eligibility of the cost item to which they are linked (*i.e.* in whose price they are included). If the item is eligible, the duty is also eligible.

In-kind contributions free of charge — This means non-cash inputs from third parties, such as:

- donations of raw materials (*e.g. paper and ink for publication purposes*)
- unpaid volunteer work or provision of services
- any other good or service provided to the project whose cost is borne by another organisation and not reimbursed by the beneficiary.

They are not an eligible cost and can NOT be included when calculating total eligible costs and the final grant amount (nor should they be reported as receipt at final reporting stage).

9.9. KEEPING RECORDS — SUPPORTING DOCUMENTATION

9.9.1. RECORDS AND OTHER SUPPORTING DOCUMENTATION

The beneficiaries (for linked third parties, *see point 10*) must keep appropriate and sufficient evidence to **prove** the eligibility of all the costs declared, proper implementation of the action and compliance with all the other obligations under the grant agreement.

 Costs that are not supported by appropriate and sufficient evidence may be rejected (and other measures described in chapter 6 of the grant agreement may be applied as well).

The evidence must be the same as that which would be accepted by the national (tax) authorities.

The evidence must be verifiable, auditable and available. It must be persuasive enough for our auditors, who assess it according to generally accepted audit standards¹¹.

Appendix 2 lists the records and documents (per cost category) that may serve as evidence.

It must be kept for at least 5 years after the balance is paid (3 years for grants up to EUR 60 000). If you throw supporting documents away during this period, you risk that the grant is reduced, that costs are rejected and that amounts already paid to you will be recovered.

We may require to see documents of any beneficiary in the consortium (both coordinator and co-beneficiaries).

If there are ongoing procedures such as audits, investigations or litigations, the evidence must be kept until these end, even if this is longer than five (or three) years.

The rules in the grant agreement do not affect national laws on keeping documents (which may require additional measures).

9.9.2. ORIGINAL DOCUMENTS

The beneficiaries must **keep original documents**.

They will be accepted by us as originals, if considered an original under national law.

Examples:

1. The Commission will accept authenticated copies or digitally-signed documents, if national law accepts these as originals.

2. The Commission will accept digitalised copies of documents (instead of hard copies), if this is acceptable under national law.

This means that documents should be kept in the format in which they were received or created:

- documents received or created in paper form should be kept in paper form

¹¹ International Standard on Auditing ISA 500 'Audit Evidence'.

- documents received or created electronically should be kept in their electronic format.

Hard copies of original electronic documents are not needed.

9.9.3. RECORDS FOR ACTUAL COSTS

For actual costs, the beneficiaries must:

- keep detailed records and other supporting documents to prove the eligibility of the costs declared
- use cost accounting practices and internal control procedures that make it possible to verify that the amounts declared, amounts recorded in the accounts and amounts recorded in supporting documentation match up.

Best practice: The information included in the financial statements for each budget category (*i.e.* personnel costs, other direct costs, indirect costs) must be broken down into details and must match the amounts recorded in the accounts and in supporting documentation.

Examples:

1. For costs declared in category A.1 (employees or equivalent) and A.2 (natural persons under direct contract and seconded persons): the costs must be detailed for each person carrying out work for the action (individual daily rate multiplied by the actual days worked for the action). They must match the accounting records (i.e. general ledger transactions, annual financial statements) and supporting documentation (i.e. labour contracts, collective labour agreements, applicable national law on taxes, labour and social security contributions, payslips, time records, bank statements showing salary payments, etc.).

2. For costs declared in category D.1, D.2, D.3 and D.4 (other direct costs): the beneficiary must keep a breakdown of costs declared by type (i.e. travel costs and related subsistence allowances, depreciation, costs of other goods and services, etc.). It should be able to provide details of individual transactions for each type of cost. For depreciation, it must be able to provide details per individual equipment used for the action. Declared costs must match accounting records (i.e. general ledger transactions, annual financial statements) and supporting documentation (i.e. purchase orders, delivery notes, invoices, contracts, bank statements, asset usage logbook, depreciation policy, etc.).

9.9.4. RECORDS FOR UNIT COSTS SET BY THE EU (SPECIFIC CASE OF SME OWNERS WHO DO NOT RECEIVE A SALARY)

For such unit costs, the beneficiaries must keep:

- detailed records and other supporting documents to prove the number of units declared.

It is NOT necessary to keep records on the actual costs incurred.

The Commission may access the accounting records, but will reject costs only if the number of units declared is incorrect. The actual costs of the work are not relevant.

If the Commission detects an irregularity or fraud in the action's implementation, it may reduce the grant.

9.9.5. RECORDS FOR FLAT-RATE COSTS

For flat-rate costs, the beneficiaries must keep detailed records and other supporting documents to prove that the costs to which the flat rate is applied are eligible.

Example: *For the flat rate of 25% of indirect costs, the auditors will verify (and the beneficiaries must be able to show) that:*

- a) *the actual direct costs are eligible, using the detailed records and supporting documents explained above;*
- b) *the following costs were excluded: subcontracting costs (with subcontractors with a direct contractual relationship with a beneficiary), the costs of resources made available by third parties not used on the beneficiary's premises and financial support to third parties from the pool of actual direct eligible costs to which the flat rate applies.*

It is NOT necessary to keep records on the actual costs incurred.

9.9.6. RECORDS FOR PERSONNEL COSTS — DAYS WORKED FOR THE ACTION

The records for personnel costs depend on whether the person worked exclusively for the action or not.

 Exclusive work or not matters ALSO for the calculation of the costs to be declared (in this case they must be calculated through an simple monthly rate; *see Article 7.2.A*).

For **persons who work exclusively for the action** (regardless if they are full-time or part-time employees), the beneficiary may either:

- sign a declaration on exclusive work for the action (one per reporting period), to confirm that the person worked exclusively for the action, either:
 - during the whole reporting period
- or
- during an uninterrupted time-period, covering at least a full calendar month within the reporting period.

Best practice: Beneficiaries should take a prudent approach and use this possibility only if it is planned that the person works exclusively on the action during a long and continuous period of time. If there are any doubts, a record of actual hours worked should be kept (*e.g. time-sheets*).

‘Exclusive work’ means that the person carried out NO OTHER activities for the beneficiary than those of the action.

Intermittent (*i.e.* sporadic or random) periods of ‘exclusive’ dedication can NOT be subject of a declaration. If a person worked randomly for the action after an uninterrupted time-period covered by a declaration, time-sheets are needed for the period of random work.

Example: *The person worked for the action exclusively from 15/02 to 31/05 and then worked again in the action some days in July and October and the full month of*

November. The declaration will cover the period from 15/02 to 31/05 and time records must be kept for the time the person worked for the action in July, October and November.

If a person worked under different regimes during the reporting period (exclusive and non-exclusive), the declaration may be used **ONLY** for a period of exclusive work. The other months must be recorded with time-sheets.

If there were several periods of exclusive work during one reporting period, the beneficiary may choose to use the declaration for the longest one (and use the monthly time-sheets for the others).

The declaration must be **dated** and **signed** by the person concerned **AND** the supervisor.

- keep **time records**.

Best practice: If the person works exclusively for the action during a *full financial year*, it is strongly recommended that the beneficiary signs the ‘declaration on exclusive work for the action’ (— even if the person keeps time records). In this way, the declaration can serve as evidence that the person worked for the action all her/his annual productive hours.

For **persons who do NOT work exclusively for the action**, the beneficiaries must:

- show the actual hours worked, with reliable **time records** (*i.e. time-sheets*) either on paper or in a computer-based time recording system.

Time records must be dated and signed at least monthly by the person working for the action and his/her supervisor.

If the time recording system is computer-based, the signatures may be electronic (*i.e. linking the electronic identity data (e.g. a password and user name) to the electronic validation data, with a documented and secure process for managing user rights and an auditable log of all electronic transactions*).

Time records should include, as a minimum:

- the title and number of the action, as specified in the grant agreement
- the beneficiary’s full name, as specified in the grant agreement
- the full name, date and signature of the person working for the action
- the number of hours worked for the action in the period covered by the time record
- the supervisor’s full name and signature
- a reference to the action tasks or work packages of Annex 1, to which the person has contributed by the reported working hours.

Information included in time-sheets must match records of annual leave, sick leave, other leaves and work-related travel.

A template for time-sheets with these minimum requirements is available. (This template is not mandatory; beneficiaries may use their own model, provided that it fulfils the minimum conditions and it contains at least the information detailed above.)

If time records are not reliable, the Commission may exceptionally accept **alternative evidence** if it proves the number of hours worked on the action with a similar (or at least satisfactory) level of assurance (assessed against generally-accepted audit standards).

 The Commission has full discretion to accept or refuse the alternative evidence and there is no entitlement to it. Beneficiaries that rely on alternative evidence bear the **full risk** of refusal and rejection of costs by the Commission.

***Examples of possible alternative evidence (non-exhaustive list):** travel documents proving participation in a project meeting (boarding pass, obliterated travel ticket, hotel invoice, etc.); agenda and minutes of the meeting; attendance lists; working papers; laboratory log books; professional/personal diaries; documents related to presentations; scientific publications; correspondence such as letters, notes, memos, emails; etc.*

The auditors will use the following three criteria to assess how credible the alternative evidence is:

1. Clear identification of the person concerned
2. Clear link to the project under scrutiny
3. Possibility to quantify time spent on project-related tasks.

Alternative evidence will only be accepted if these three criteria are met.

Example (acceptable alternative evidence):

A researcher submits the following email as alternative evidence: 'I hereby send you the results of the analysis of project XYZ that I have been working on for the last two weeks.'

Criterion 1 is met – the sender of the email is the person concerned

Criterion 2 is met – the project is identified as XYZ

Criterion 3 is met – the time is quantified: two weeks

Example (not acceptable alternative evidence):

A beneficiary submits the following email as alternative evidence: 'I hereby send you the results of the analysis recently carried out by my team.'

Criterion 1 is not met – it is unclear who the person concerned is; the team members and their contributions are unknown

Criterion 2 is not met: the project name is not mentioned

Criterion 3 is not met – the time is not quantified

9.9.7. RECORDS OF (LINKED) THIRD PARTIES

The beneficiaries must ensure that **linked third parties** comply with the same obligations in terms of keeping appropriate and sufficient evidence.

***Example:** Linked third parties that carry out work themselves must document all their costs in the same way the beneficiaries do. However, it is the beneficiary who must keep the original financial statements and the certificates on financial statements of the linked third parties.*

The beneficiaries must also ensure that they keep appropriate and sufficient evidence related to **partner organisations** and **subcontractors** with a direct contractual relationship with a beneficiary.

***Examples:** The beneficiaries must keep evidence showing that subcontractors fulfilled their obligations in terms of the visibility of EU funding. Alternatively, they may ensure that the subcontractors keep this evidence.*

Specific case (records of linked third parties):

Financial statements and certificates on the financial statements (CFS) — It is the beneficiary that must keep the originals of the financial statements and the certificates on the financial statements of the linked third parties.

10. APPENDIX 2 — LIST OF RECORDS & SUPPORTING DOCUMENTS PER COST CATEGORY

Personnel costs

All staff categories

- The total cost of the employee (comprising actual salary, statutory social security charges and other statutory costs included in the remuneration) and the amount allocated to the project
- Proof of regular salaries (salary grids) in your organisation.

Staff working exclusively on the project

- Their existing contract with the beneficiary
- Assignment letter, specifying their tasks, a reference to the project and the duration of their allocation to it
- Declaration on exclusive work
- Monthly salary slips
- Proof of payment.

Such staff must be registered in the beneficiary's payroll and accounting system. Timesheets are NOT required.

Staff allocated partly to the project

- Their existing contract with the beneficiary
- Timesheets (or equivalent time-recording system)
- Salary slips
- Proof of payment
- Calculation of the daily rate requested

 Such staff must be registered in the beneficiary's payroll and accounting system.

 Timesheets are mandatory.

Natural persons with direct contract (non-permanent staff)

- Direct contract with the beneficiary with description of tasks, the duration of the contract, working time and remuneration
- Timesheets (or equivalent time-recording system)
- Invoices stating tasks performed, date, number of hours worked and amount to be paid
- Proof of payment.

 The calculation of the eligible costs for such persons follows the same rules as for employees (*i.e.* daily or monthly rate, depending on part-time or exclusive work on the action — except if the grant agreement explicitly allows for calculation on the basis not of time spent, but deliverables). The daily rate must be calculated according to the rules in the grant agreement.

 If the person does not work exclusively for the project, timesheets are mandatory.

Travel & subsistence costs

Travel costs

- Copies of tickets (*airplane, train, bus, etc.*), including boarding passes when applicable
- Copies of invoices for flight or rail tickets (if bought online, a confirmation email is acceptable, providing it states the price paid)
- Travel by car: reimbursement claim, explanation of the reimbursement calculation, copy of the internal reimbursement policy, if available (maximum of the equivalent first-class rail fare)
- Proof of payment
- Attendance list signed by the participants (for meetings and conferences).

Subsistence costs

- Expenses claim form indicating place, date and time — signed and dated by the employee and the organisation authorising the expenditure (employer)
- Proof of accommodation (hotel invoice)
- Copies of all receipts related to food and beverages, local transport and other expenses
- Attendance list signed by the employees
- Proof the employee was reimbursed for their claimed costs.

If per diems (applying the beneficiary's usual policy)

- Copy of the beneficiary's internal policy
- Reimbursement claim
- Attendance list signed by employees
- Proof of reimbursement of the claimed costs to the employee.

Direct costs of subcontracting (with subcontractors with a direct contractual relationship with a beneficiary)

- Invoice
- Documentation of the procedure used to award contracts: copies of bids received, records related to the award process (*comparisons of individual bids, minutes of meetings, etc.*)
- Proof of payment
- Subcontracting agreement.

The subcontracting agreement (with subcontractors with a direct contractual relationship with a beneficiary) should include the following terms:

- goods/service to be provided and links with the project (it is advisable to include a reference to the project)
- start and end dates
- price to be paid (breakdown and description of the costs)
- detailed description of the tasks/work schedule/completion phases
- detailed description of the costs on which the price is based
- payment arrangements (one or more advance payments, staggered payments, *etc.*)
- clauses/penalties for non-performance or late completion.

Equipment

- Copies of invoices stating when the equipment was purchased and delivered
- Proof of payment
- Calculation of the amount requested
- Internal rules on depreciation.

 Invoices related to the purchase of goods or equipment must bear the grant reference, date of purchase and delivery. Invoices for services must also specify the date(s) the services were provided.

Other goods & services

- Invoice, stating the following:
 - editing — type/name of the publication and number of pages/words
 - translations — title of the publication/document, translated languages (from-to) and number of pages/words
 - printing — type/title of the publication, number of pages and number of copies
 - conferences — detailed calculations of the relevant costs, *e.g.*:
 - for *room rental* — number of participants, number of days/hours of the stay
 - for *interpreting services* — cost per interpreter per day, languages involved
- Procedure used to award contracts:
- Copies of price offers requested, including the description of the good or service to be provided
- Copies of bids received
- Records related to the award procedure (*comparisons of individual bids, minutes of meetings, etc.*)
- Proof of payment.

 Invoices related to the purchase of goods or equipment must bear the grant reference, date of purchase and delivery. Invoices for services must also specify the date(s) the services were provided.

Indirect costs

No supporting documents are required.