

# IMPLEMENTATION GUIDELINES

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June, 2015



**EU4Energy**



**Covenant of Mayors  
for Climate & Energy**

**Demonstration Projects  
Eastern Partnership**



*This publication has been prepared with the support of the European Union. The content of this publication is the sole responsibility of the Support Team of the programme “Covenant of Mayors – Demonstration project Eastern Partnership” and can in no way be taken to reflect the views of the European Union.*

*Please note that in the case of any inconsistencies between this publication and the grant contract and its annexes, the grant contract overrules and remains as the legally binding document.*

*In addition, whilst a Russian version of this manual has been made available, the text in English will be valid in case of any inconsistencies*

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## Purpose of the Guidelines

These Guidelines have been written to help you with the various responsibilities you will have in managing your project, which has been co-financed by the European Union. They are meant to provide applicants and co-applicants with a better understanding of how to manage and implement their project effectively and efficiently in line with EU rules and procedures, and to minimize any risks of not meeting them.

The guidelines do not deal with each and every article of the General Conditions and do not cover all the provisions in the articles of the Grants Contract. Nor do they cover all of the call documents and contract annexes. They deal with those issues which are considered essential or complex and that may require further explanations.

The Guidelines are designed to be a practical tool, and for this reason contain a mixture of legal/procedural requirements, useful information, tips and templates and examples. The Guidelines provide the information you need from the time you sign your contract with the EUD through to the completion of your project. **They follow the logical sequence of implementation of project activities, as shown in the figure on the next page.**

The objective of these Guidelines further is to assist you to establish good management and accounting practices at the project level so that all activities are fully and accurately accounted for, with readily available supporting information.

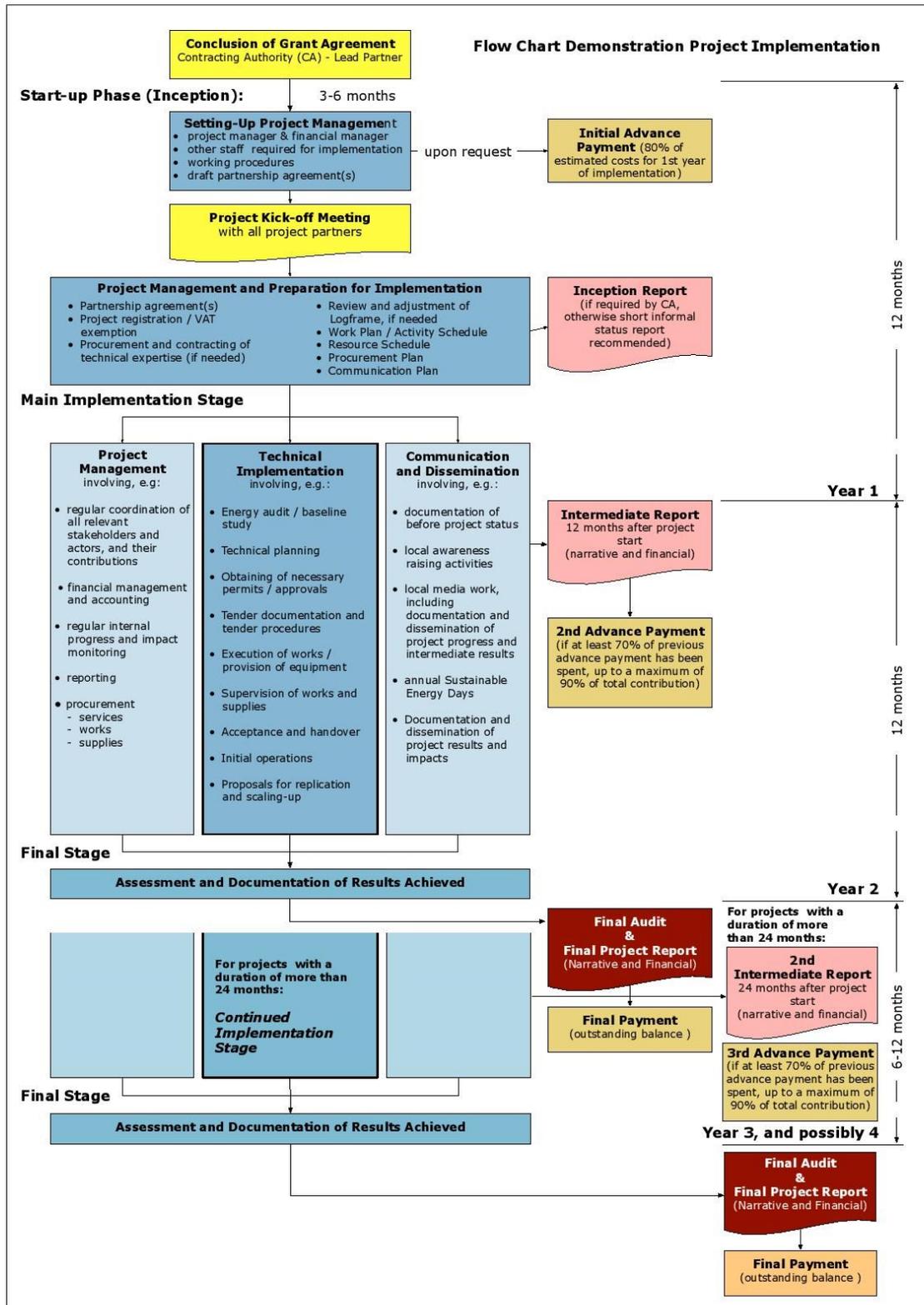
These Guidelines include a number of text boxes. Orange text boxes highlight tips, advice and recommendations. Blue text boxes contain references to useful documents in the Annexes (templates, examples etc.)

Of course, even with these Guidelines, there still may be questions. Please do not hesitate to contact the Support Team with questions. After all, the Support Team has been especially established to support you in the implementation of your project. And better to ask than to learn the hard way.

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***These guidelines are meant to provide suggestions and good practices and are not legally binding, nor can they be relied upon to challenge a Contracting Authority's decision, judicially or otherwise.***



The Guidelines contains 8 further sections.

	Section	Content
1	<b>Covenant of Mayors - Demonstration Projects Eastern Partnership</b>	General Information on the Programme, timeline, and roles and responsibilities of all Applicant, co-applicants and Support Team
2	<b>The Grant Contract</b>	Ensures a clear understanding of the Grant contract. Gives detailed information on all Annexes of the Contract and contractual obligations: principles, structure and time line
3	<b>Start-up phase</b>	Explains the different steps in starting up the project
4	<b>Implementation phase – Project Management</b>	
	Changes to the Grant Contract	Gives detailed information on how to go about changes to contracts
	Financial Management	Eligible costs, VAT, bookkeeping, supporting documents, audit
	Reporting	Information on the required different reports, contents, delivery schedules
	Monitoring	Introduction of different monitoring tools: site visits, spot-checks, reports, templates.
	Project closure	Transfer of ownership, final payment
5	<b>Implementation phase – Technical Implementation</b>	Step-by-step overview of the process of technical implementation of the grant projects
6	<b>Implementation phase - Procurement</b>	Information on EU Procurement Rules
7	<b>Glossary</b>	Explanation of terms used in the Guidelines
8	<b>Annexes</b>	Useful tools, templates, examples

# 1 Covenant of Mayors - Demonstration Projects Eastern Partnership

## The Programme

The Covenant of Mayors – Demonstration projects Eastern Partnership programme (formerly known as SUDEP) was designed to complement the Covenant of Mayors (CoM) initiative in EU Eastern Partnership (EaP) countries by funding and supporting demonstration projects in CoM signatory towns and cities. The demonstration projects are meant to encourage other signatories to replicate such demonstration projects and move forward with implementing their Sustainable Energy Action Plans (SEAP) or similar plans.

Under the programme, 19 projects (covering 23 Covenant cities) were selected and given a grant:

- Armenia - 1 project
- Belarus - 3 projects
- Georgia – 1 project
- Moldova - 3 projects
- Ukraine – 11 projects

## *Annex 1.a. Overview table of Demonstration projects*

## The Role of the Support Team

The Demonstration Projects Support Team provides technical assistance to the demonstration projects with project implementation, disseminating results, and more generally extending experience and knowledge to Eastern Partnership municipalities. The Support Team focuses on four main lines of activities:

- Technical assistance to grant projects to support them in implementing their action
- Capacity building for grant projects to improve management of the actions
- Communication support to ensure dissemination of project results and good practice to encourage replication in other towns and cities
- Networking support to bring cities implementing demonstration projects together with other cities in the EaP region and in the EU to share knowledge and experience on SEAP implementation and sustainable energy

## The Role of the Applicant<sup>1</sup>

The Applicant:

- has full financial responsibility for ensuring that the project is implemented in accordance with the Grant Contract

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<sup>1</sup> General Conditions, art. 1.6.

- must carry out the Action, jointly with co-applicants if such exist, taking all necessary and reasonable measures to ensure that the Action is carried out in accordance with the Description of the Action in Annex I and the terms and conditions of the Contract
- is the intermediary for all communications between the project and the EU Delegation
- must set up appropriate internal arrangements for the internal coordination of the project and representation towards the EU Delegation for any matter concerning the Contract, consistent with the provisions of the Contract and in compliance with the applicable legislation(s).
- must monitor the project to ensure that it is implemented in accordance with the Contract and ensure coordination with all co-applicants in the implementation of the project
- is responsible for supplying all documents (including reports) and information to the EU Delegation, which are required by the Contract. This also includes documents and information by co-applicants.
- **must inform the EU Delegation of any event which likely will affect or delay the implementation of the project**
- must inform the EU Delegation of any change in the legal, financial, technical, organisational or ownership situation of Applicant or co-applicants, as well as, any change in the name, address or legal representative of the Applicant or co-applicants
- is responsible in the event of audits, checks, monitoring or evaluations, for providing all the necessary documents, including the accounts of the co-applicants, copies of the most relevant supporting documents and signed copies of any contract concluded

#### The Role of the co-applicant(s)<sup>2</sup>

##### The co-applicant

- must comply with any obligation arising from the Contract
- must carry out the Action, jointly with the Applicant, taking all necessary and reasonable measures to ensure that the Action is carried out in accordance with the Description of the Action in Annex I and the terms and conditions of the Contract<sup>3</sup>
- is responsible for providing the Applicant with all data needed to draw up reports, financial statements and other information or documents required by the Contract, as well as any information needed in the event of audits, checks, monitoring or evaluations
- must agree upon appropriate internal arrangements for the internal coordination and representation of the project vis- a-vis the EU Delegation for any matter concerning the Contract, consistent with the provisions of the Contract and in compliance with the applicable legislation(s)

***It is the sole responsibility of the Applicant to carry out the activities of the project as described in the Application, to produce the required outputs/deliverables, and to achieve the expected results and objects of the project.***

***The Support Team will provide all necessary advice and support during the implementation of the project.***

<sup>2</sup> General Conditions, art. 1.5.

<sup>3</sup> This means that the co-applicant, in the same way as the Applicant, should follow procedures, stipulations and other guidance as described in the Contract and its annexes.

## 2 The Grant Contract

The Applicant has signed a Grant Contract with the EU Delegation (EUD). This is the main document, which defines what the Applicant should deliver (and during which period). The Contract also specifies what conditions and requirements are put in place from the side of the European Union to ensure that the grant it has provided for implementation of your project will be properly used. The Grant Contract is the legal framework for you to comply with when implementing your project.

- The Contract defines what activities are agreed to be implemented and during which period, what results and objectives are to be achieved, what percentage of the budget will be provided by the EU Delegation in the form of a grant, and what procedures have to be followed
- The Applicant is responsible for all communication between the project and the EU Delegation. It is not foreseen that co-applicants are in direct communication with the EU Delegation.
- Projects should try to implement the project as originally planned. Nevertheless, situations may arise where there is a need to make changes in the activities or budget. In such situations, the project will have to apply for an amendment (change) to the Contract (see section Implementation phase).

The Grant Contract has several sections, which are compulsory and cannot be changed without a written agreement by the EUD.

### Principles

A grant by the EU is not a gift; it is a financial contribution by the EU to the implementation of a project. This financial contribution comes with procedures and rules attached which the Applicant is obliged to follow, and these procedures and rules are described in the Grant Contract.

The Grant Contract is a legally binding document. It describes the agreement between the Applicant and EU Delegation that the Applicant will implement a specified series of activities aimed at achieving specific objectives within a specific period of time with a defined budget (the project). The EU Delegation on its behalf will provide a grant (up to the percentage agreed in the Contract) to co-finance the project.

As is the case with legal contracts, any changes to a contract need to be agreed by both parties to the contract: the Applicant cannot simply decide to make changes to the Contract without agreement/approval from the EU Delegation.

### Structure of the Grant Contract

The standard Grant Contract consists of the following parts, which together make up the legally binding documents that govern the parties' rights and obligations under the contract.

#### **Grant Contract/Special Conditions:**

The Special Conditions is the main text of a standard grant contract that specifies the project name, project duration, project starting date, reporting, total project cost, payment schedule of pre-financing payments (instalments) by the EU Delegation, information about the two contract parties, as well as information about co-applicants. The Special Conditions may include deviations from the General

Conditions and necessary supplementing clauses. The Special conditions prevail over the General Conditions.

#### **Annex I. Description of the Action**

The Description of the Action is typically Annex A submitted by the Applicant for the Call for Proposals in the Application Form, and also includes the logical framework (Annex C) that was submitted with the Application Form. By signing the Contract, the Applicant commits itself to implement all activities described in Annex I and to deliver the stated outputs and results.

#### **Annex II. General Conditions**

The General Conditions contain the standard rules and conditions set by the EU for implementation of your project. By signing the Contract, the Applicant commits to following these rules. The General Conditions describe obligations of the Applicant on reporting, provision of information, liability of parties, visibility, ownership of equipment, evaluation/monitoring, extension, suspension, termination of projects, payment methods, other legal issues, accounts and technical and financial checks.

Deviations to the rules described in the General Conditions are possible; however, the text of the General Conditions never will change. Any deviations from the rules in the General Conditions will be described in the Special Conditions.

#### **Annex III. Budget for the Action**

The Budget for the Action is in principle the Budget (Annex B) that was provided with the Application for the Call for Proposals, but this budget may have been modified during negotiations with the EU Delegation prior to signing of the Grant Contract. It includes the breakdown of *estimated* project costs over different budget headings, as well as expected sources of funding. The total amount of the budget cannot be exceeded.

#### **Annex IV. Contract Award Procedures**

Annex IV describes the procedures that the Applicant has to follow in case of awarding contracts for services, supplies and works to external organisations (i.e. procurements). This document is a brief summary of EU Procurement rules.

#### **Annex V. Standard Request for Payment and Financial Identification Form**

These are two standard forms that have to be used by the Applicant in their communications with the EU Delegation with regards to requesting pre-financing payments (instalments). Applicants have to fill out the Request for Payment Form to request the transfer of instalments by the EU Delegation to the bank account they specified in the original Financial Identification Form. In case of a change of bank account, a new Financial Identification Form will have to be submitted together with the Request for Payment Form.

#### **Annex VI. Model Narrative and Financial Report**

The Applicant will have to submit narrative and financial Interim and Final Reports throughout the implementation of its project, using the models in this Annex. Narrative Reports provide information about the progress of the project in terms of activities, outputs, results, timeline and visibility. Financial reports provide information about the progress of the project in terms of budgetary performance.

#### **Annex VII. Terms of reference for expenditure verification and model report of factual findings**

This annex contains a model audit report (model report of factual findings) and Terms of Reference (job description) for an expenditure verification (audit) of the project expenditures. These documents should be shared with the auditor, the name of whom is included in the Grant Contract, and the auditor is obliged to use this model report for the audit findings.

#### **Annex IX: Standard template for Transfer of Asset Ownership (optional)**

***Carefully read your Contract, including its Annexes ..... ! The answers to many of your questions can be found there.***

***For informational purposes only, an unofficial translation into Russian language of Annexes II and IV of the Contract are attached as Annex to these Guidelines***

#### Timeline

On the date the Grant Contract is signed by both sides, the execution period of the project starts. The execution period of a project is the period during which the contract is legal valid i.e. from contract signature until final payment.

The implementation period of the project is the period in which the project is implemented.

The execution period and the implementation period are not necessarily the same. Standard, according to the General Conditions, the implementation period of a project starts the first day of the month following the month in which the first pre-financing payment (instalment) from the EU Delegation was received in the bank account of the Applicant. This normally means that the implementation period starts later than the execution period. In case, the Applicant has negotiated with the EU Delegation that the implementation period starts the moment the Contract is signed by both parties), this will have been specifically mentioned in the Special Conditions.

#### Co-financing

As it is stated in Section 1.3 of the Guidelines for Grant Applicants, the amount of the grant may not be above 80% of the estimated total accepted costs of the action (as described in Annex B. Budget to the Grant contract). Therefore, as a minimum 20 % of the estimated total accepted costs of the action must be carried by the Applicant/co-applicant(s) as co-financing, this is a contractual obligation. The amount of co-financing should be provided from the own resources of the Applicant or its co-applicant(s) or from another resource other than the European Union budget. Every budget line, including staff and travel costs, can be used for fulfilment of the co-financing requirement. However, at the end of the project, the Applicant has to prove the own contribution to the project in the final report.

Cost of Applicants' (Applicant and co-applicant) own staff assigned to the Action can be considered co-financing if the staff is included in the budget under Heading 1. Human Resources. Actual gross salaries including social security charges and other remuneration-related costs of the staff assigned to the Action are eligible costs in this case, on the condition that salaries and costs do not exceed those normally borne by the Applicants.

Project managers are strongly advised to discuss the topic of own contribution with the senior management of the Applicant, and secure from them the own contribution through municipal or city council decisions (or formal decisions by regional or national authorities in case these will provide co-financing).

### 3 The Start-up phase

During the Start-up phase of the project a number of activities are normally carried out, described below. While it might be tempting to jump immediately to technical implementation (works), especially if the project started later than was expected, this is not advised. It is better to take the time to properly plan the project in order to ensure smooth implementation, rather than to jump to immediate action and risking running into problems with implementation later on. After all, ‘failing to plan is planning to fail’...

***Not implementing all steps of the Start-up Phase, as described below, will mean that the municipality:***

- ***will lose great opportunities to build the capacities of its staff to implement EU funded projects and complex energy-efficiency projects***
- ***might have no control over decision-making on activities that will be implemented on its territory***
- ***risks running into serious implementation problems later on in the implementation***

#### 3.1 Registration of the project and VAT exemption

In all EaP countries, projects must register with national authorities. In some EaP countries, the EU Delegation will take care of this process, and the Applicant will not have to do anything (Georgia, Moldova). In other EaP countries (Ukraine, Belarus, Armenia), the Applicant will have to take certain steps itself to register the project with national authorities (typically this concerns providing a translation of the project and a list of procurements). The EU Delegation will be able to provide you with all relevant information for your registration, such as contact person, documents required<sup>4</sup> etc.

Value-added tax (VAT) in principle is not considered to be an eligible cost by the EU Delegation (although there are a few exceptional cases when VAT is considered an eligible cost, see section 2.2.3). For this reason, the project has to obtain VAT exemption. Without registration at national authorities,

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<sup>4</sup> In the case of Ukraine, a project only can be registered if it has a so-called Beneficiary, which either should be a national or oblast-level institution. The Beneficiary will have to provide a letter confirming it is willing to act as Beneficiary, which also has to be provided when requesting registration

it will be impossible to obtain VAT exemption. Normally, once the project is registered at the national authorities, the national authorities will follow up with obtaining the VAT exemption, however also here please consult your EU Delegation to find out what steps you might have to take yourself as a project.

### 3.2 Receiving the first instalment

The EUD will, after it has received the signed contract, transfer the first instalment automatically into the bank account of the Applicant which was stated in the Financial Identification Form (FIF, Annex E of the Grant Contract) submitted by the Applicant. In the event that the Applicant wants the transfer of the first instalment delayed, it will have to inform the EUD in writing. In the event that the Applicant wants the first instalment to be transferred to another bank account than was mentioned in the FIF, the Applicant will have to submit a new FIF as soon as possible to the EUD. The EUD cannot transfer funds to bank accounts of co-applicants, the Applicant will have to do so itself (for this typically a partnership agreement is needed to serve as a legal basis, see 1.1.7. below).

### 3.3 Setting up the project team

After signing the contract with the EUD, the project can start putting the project team together. This concerns all positions that are described under budget heading 1. Human resources.

It is advised to prepare a detailed Terms of Reference (ToR)/job description for each position described in the Budget, so it is clear which responsibilities and tasks/activities each position has to fulfil, and which outputs/documents have to be produced by every person.

It is important that you are able to show that a person has worked, starting from a specific date, on the project. This means that the project should have a project staff list, clearly stating the positions mentioned in the budget with a specific name attached to it. In the case of an NGO as an Applicant, this type of list is normally prepared and signed by management, in the case of a municipality this type of list is normally signed by the mayor, in the form of a Municipal Decision.

Of course, everyone mentioned on the project staff list should also have a work contract. This can take the form of a contract specifically for the duration of the project or an employee already under contract at the Applicant/co-applicant can be assigned to the project. In the latter case, it is important that the project can show that the person indeed carries out work for the project. Normally this is done through timesheets, which show how many days per month a person works on project activities, and which is signed by the person concerned and the project manager.

*Annex 2.1.4.a. Template ToRs for the positions of Project Manager, Communication Expert and Financial manager/bookkeeper*  
*Annex 2.1.4. b. Example of a Municipal Decision on staffing of a project team*  
*Annex 2.1.4.c. Example timesheet*

### 3.4 Review of project design (logframe, work plan)

During the first months of project implementation (typically during the Inception phase if such phase is described in the Application), the project has the opportunity to improve the logframe and to prepare a more detailed work plan. This is not obligatory (after all, the logframe and work plan were accepted as integral part of the contract), however addressing flaws or weaknesses in project design early on in the project can prevent many problems in implementation from occurring later on.

It is worth it to spend time reviewing both of these tools before you and your partners start the implementation phase. This is important because:

- There might be quite a considerable gap between the time of planning your project and when the grant contract was signed
- During this time, some of the relevant external factors, or certain aspects of your organisation or that of your partners, may have changed
- Some unforeseen changes may make it necessary to make certain adjustments in the timing and/or organisation of some of your project activities and results.

Typically, logframes lack clarity about the specific objectives and expected results of the project, and how these will be measured (indicators). In addition, sometimes the link between activities, results and objectives are not fully clear. The indicators are especially important since clear indicators make it possible to show what you achieved, i.e. what affect your project has had. In the end, it will be up to the Applicant to prove that the objective and expected results were achieved, and when the logframe does not clearly say how this will be measured, this leads to potential disagreement between the parties to the Contract.

***The logframe should clearly specify how much energy savings will be realized through the project, in measurable units (kWh, etc.). Just mentioning a percentage of foreseen savings is not good enough.***

***Often the energy-efficiency measures described in the Application come with a rough (often too optimistic) estimate of energy savings that can be realized. This means that once the energy audit has been carried out and final energy-efficiency measures are selected, numbers that are more realistic will be available. Your logframe should be updated to reflect these more realistic numbers, and you should discuss with the Support Team and EU Delegation what to do in case actual energy savings are less than the energy savings that were described in your Application.***

***Please note that if actual energy savings are less than described in your Application, you will not deliver what you promised to deliver as per the Contract. If this happens an amendment to the Contract will be needed.***

***Therefore, projects are requested to submit an updated logframe to the Support Team for review, and share with the Support Team the energy audit report(s). In this way, the Support Team will be able to advise you on changes that need to be made to the logframe and can help you prepare requests for possible Contract amendments***

The work plan that was described in the Application does not normally provide sufficient detail about the timing of activities and who is responsible. This makes it difficult to use for planning. This is especially important if different organizations are responsible for implementing parts of an activity. For this reason, it is important to prepare a more detailed work plan, which divides each activity into sub-steps. Additionally, certain activities are often underestimated in terms of duration. For example, procurement processes normally take much longer than planned, and dividing such an activity into sub-steps will tell you if the originally planned time period for the procurement was correct, or that you have to make a change to the work plan. This type of detailed work plan should be prepared for the first year and submitted to the Support Team and EU Delegation together with a Start-up Report. Each year with the Interim Report you should provide a detailed work plan for the next year.

*Annex 2.1.5.a. Original work plan of one of the Demonstration projects*  
*Annex 2.1.4. b. More detailed work plan prepared by the project*

### 3.5 Preparation of an activity-based budget (optional)

In most cases, the Budget of the project does not make it possible to identify which costs are linked to which activity. In order to divide the budget over the different project partners (co-applicants), it is advised to develop an activity-based budget (the budget per activity), which then can be used as input for the partnership agreement (see 1.1.7 below).

### 3.6 Formalizing the role of co-applicants (partnership agreement)

In many cases, a project will be implemented not only by the Applicant, but jointly with other organizations/institutions. A co-applicant is an organization, which participates in designing and implementing the action, and the costs they incur for carrying out their activities in the project are eligible in the same way as those incurred by the Applicant. A co-applicant is identified as such in the Application, and most often specifically stated as such in the Grant Contract.

While the Application identifies which activities will be undertaken in the project and the Budget specifies what financial resources are available to carry out these activities, often what is not specified is which of the Applicants/co-applicants is responsible for carrying out which activity, and which financial resources are available are linked to each Applicant/co-applicants activity. Normally this problem is addressed in a so-called partnership agreement. A partnership agreement is a document specifying:

- how the Applicant wants to work with the co-applicant in the project (conditions, requirements, procedures and responsibilities)
- which activities the co-applicant is responsible for
- what financial resources are available to the co-applicant for each activity
- information about how money should be transferred to the co-applicant

In many of the EaP countries, it is prohibited to transfer funds to another organization without a partnership agreement (which serves as a legal document) in place. Municipalities, by national legislation, are under no circumstances allowed to make transfers without this type of legal document.

*Annex 3.6.a. Checklist for a partnership agreement*  
*Annex 3.6.b. Example partnership agreement*

### 3.7 Establishment of a Project Steering Committee

With the project team in place, the daily management and coordination of the project is in place. Is this enough? Not always.... In the case of the Demonstration projects, the main part of the budget and the main activities are related to works/engineering. Moreover, the projects have a rather large budget, leaving the Applicants at financial risk. For this reason, it is good practice to establish a Steering Committee, which is responsible for general project and partnership coordination and decision-making. Normally, a Steering Committee is composed of main decision-makers (mayor/deputy-mayor, heads of departments directly involved in the project, head of the municipal unit responsible for maintaining the specific object), as well as the municipal Energy Manager, one or more technical experts, and a representative of the Support Team. The project team reports to the Steering Committee on progress and planning of the project (and for this reason, the project team should not be voting members of the Steering Committee). A Steering Committee makes strategic decisions in relation to the project and typically meets once every 6 months, but more often if needed.

Typically, the Steering Committee, after the energy audit has been carried out, would make the decision on what energy-efficiency measures should be carried out. This is an issue that is of immediate importance for the municipality (which provides the co-financing), and such a decision should not be left just to the project team. Also, a Steering Committee would normally review the final version of the Interim Reports before they are sent to the EU Delegation, and comment on the planning for the next year.

***Co-financing of the projects is in most cases provided by the municipality on whose territory the project is implemented. A Steering Committee ensures that the municipality will have decision-making power regarding crucial and strategic issues and decisions related to project implementation.***

*Annex 3.7.a. template Terms of Reference for a Steering Committee*  
*Annex 3.7.b. example Municipal Decision on the establishment of a Steering Committee*

### 3.8 Establishment of a Technical Working Group

Often, the project team does not have sufficient technical know-how and experience when it comes to energy-efficiency projects and engineering issues. The demonstration projects moreover often need

the involvement of different units/departments from a municipality, as well as municipal companies, in order to be able to implement the project. For this reason, establishing a Technical Working Group is highly recommended. It can provide inputs on technical issues to the project team. Also, its meetings can be used for proper planning and coordination between the different local stakeholders, ensuring that all of everyone contributes on time. These meetings would normally take place once per month, and it is important that the mayor or deputy mayor chairs such meetings to highlight the stakeholders' political commitment to the project.

*Annex 3.8.a. template Terms of Reference for a Technical Working Group*

*Annex 3.8.b. example Municipal Decision on the establishment of a Technical Working Group*

### 3.9 Setting up accounting system and bank and cash management system

The project should keep accurate and regular accounts of the implementation of the project using an appropriate accounting and double-entry bookkeeping system. This system should be run in accordance with the accounting and bookkeeping polices and rules that apply in your country. Each Applicant and co-applicant has its own accounting system and system of bank and cash management, which it uses in daily operations. This system can normally also be used for the project.

Even if you use the accounting system in use by your organization for the financial administration of the project, it is very helpful for the project to maintain its own income and expenditure sheet. The reason for this is that your organizations accounting system does not always provide specific enough information, does not always use the same numbering of budget items as is used in the project budget, and is not always able to distract all the expenditures for the project. A simple example of such an income and expenditure sheet is attached as Annex 2.1.11.a. It is highly recommended that you use such as sheet, because if you keep it up-to-date, it will provide all information you need to directly feed into the yearly Financial Report.

Accounts and expenditure relating to the project must be easily identifiable and verifiable. The project should ensure that the payments made through the bank can be clearly assigned to the project (dedicated bank account specifically for the project) and that payment using cash are properly accounted for (cash register) and can be proven (invoice, payment receipt).

The Financial Reports (Interim and Final) which have to submitted on a yearly basis should be easily reconciled to the accounting and bookkeeping system used by the project.

***The Income and expenditure sheet is a very simple, but effective, tool to keep track of overall expenditures and expenditure per budget line. Moreover, it gives a rudimentary estimate of cash flows.***

***If the Income and expenditure sheet is kept up-to-date, filling in the Financial Interim Report requires just copy and paste.***

*Annex 3.9.a. Example Income and Expenditure sheet*

### 3.10 Organizing filing and archiving of documents

Proper filing and archiving of documents is crucial for the project because:

- to be eligible, costs must be identifiable and verifiable<sup>5</sup>
- supporting documents, accounting documents and any other documents relevant to the financing of the project should be available for verifications to be carried out by the European Commission, the European Anti-Fraud Office, the European Court of Auditors and any external auditor authorised by the Contracting Authority. Furthermore, they should be easily accessible and filed in a way that facilitates examination<sup>6</sup>.
- The supporting documents and records must be kept available for inspection for up to five years after the final balance of the grant is paid<sup>7</sup>

Therefore, it is important to properly record and archive the documents in an organised way so they are easily accessible, and up-to-date, from early on in the project. In case of co-applicants, it is important that you also have their documents, so you have an up-to-date overview of where you are. As the original documents have to be kept by each co-applicant, you are advised to include a provision in your Partnership Agreement so Partners send you copies (either scanned or originals).

Furthermore, it is important that from early on in the project the accounting records make reference to all the supporting documents for each transaction/expenditure. See the section on Supporting Documents for more details on what kind of documents this concerns.

### 3.11 Preparing a Procurement plan

Procurement in all projects absorbs a very large part of the budgets, and procurement is rather complex. While the projects have to adhere to the national (or own organization's) procurement rules, they also will have to ensure that they meet the requirements on procurement as prescribed by the EU.

In order to ensure proper procurements, the Support Team has developed a template Procurement Plan, to be filled in by the project teams. The purpose of this document is to see what procurement will be carried out, what procedure will be used for procurement, how the procurement process will be organized, and how the project plans the more complex procurement (over 60.000 EUR).

The Plan includes:

- Overview of all tenders, including type of tenders (Supplies, Services, Works) and procedures to be used (Direct procurement, competitive negotiated procedure, local open tender, international open tender)

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<sup>5</sup> General Conditions, art. 14.1

<sup>6</sup> General Conditions, art. 16

<sup>7</sup> General Conditions, art. 16

- Information about the process of procurement that will be used (procurement committee, methods for advertising the procurement etc.)
- The dates for launching the tender, opening, evaluation, contract signature, etc. of major procurements (over 60.000 Euro)

Based on this document, the Support Team will be able to assess where assistance is needed from the Support Team and where there are risks related to procurement.

***Procurement is the single largest risk in the implementation of the demonstration projects. Any mistakes here can result in costs not being eligible, and the Applicant/municipality having to repay a very large amount of money.***

***The Procurement Plan (which will be reviewed by the Support Team), gives a clear indication of how the project plans to implement procurement and where weak points exist in the procurement process.***

#### *Annex 3.11.a. template Procurement plan*

### 3.12 Preparing the Communication Plan

It is obligatory to produce a Communication Plan and submit this to the EU Delegation<sup>8</sup>. A template for the Communication Plan is available in the Communication and Visibility Manual for European Union External Actions, which can be found at:

[http://ec.europa.eu/europeaid/funding/communication-and-visibility-manual-eu-external-actions\\_en](http://ec.europa.eu/europeaid/funding/communication-and-visibility-manual-eu-external-actions_en)

***Please note that the Communication Plan should be submitted for approval to the EU Delegation in English language.***

***The Support Team has communication experts who can review your Communication Plan and suggest improvements before you send the Plan to the EU Delegation. If you want to make use of this support, please provide the Support Team with the English language version of your draft of the Communication Plan.***

***It should also be noted that the Applicant and co-applicants in any dealings with media, in their internal and annual reports, as well as information given to final recipients of the Action, should mention the EU's financial contribution<sup>9</sup>.***

### 3.13 Preparing the Start-up report to the EU Delegation

The start-up phase takes considerable time, but provides the Support Team and EU Delegation with a good idea of whether the project team will smoothly implement the project, or will need considerable

<sup>8</sup> General Conditions, art. 6.2.

<sup>9</sup> General Conditions, art. 6.2.

assistance from the Support Team. Therefore, it is crucial that the project submits such a report to the Support Team and EU Delegation, even though it is not contractually obliged to do so.

The Start-up Report briefly describes what actions have been undertaken by the project during the start-up phase, if the project as it was submitted still is deliverable, if any additional points for concern/risks have been identified, and if any possible changes are needed to the activities or budget.

The Start-up report further would contain the following annexes:

- Updated logframe
- Detailed work plan for year 1
- List of project staff
- Organization structure of the project
- Terms of Reference and list of members of the Steering Committee
- Terms of Reference and list of members of the Technical Working Group
- List of objects to undergo energy-efficiency measures (name, address, pictures of current state)
- Procurement Plan
- Communication Plan
- Request for changes to the contract (if needed)

### 3.14 Organizing the project kick-off meeting

Ideally, all previously mentioned steps would be carried out before a project organizes its kick-off event. This ensures that everything is thought through in detail and that the project can easily explain to the media and citizens what will be done and when, and most importantly the project will show that it already has done some work.

However, in practice the kick-off is carried out rather soon after receiving the first instalment and used by most Applicants as a publicity and visibility event, announcing the project to local media and/or municipal staff without going into too much detail on the project. While visibility and publicity through a kick-off event are indeed important, it is even more important that media and citizens are informed about the project in more detail once the start-up phase is finalized and the Start-up Report has been finalized. For this reason it is highly advised that projects who did carry out an early kick-off event, also carry out a visibility and publicity event once the Start-up phase has been finalized.

## 4 The Implementation phase – Project Management

### 4.1 Changes to the Grant Contract

***Grant Beneficiaries should try to implement the project as originally planned. However, situations may arise where there is a need to make changes in the activities or budget. In such situations, the project should apply for a change to the Contract.***

The procedures for a change to the Grant Contract are divided into two groups depending on the type of change that should be made:

- ***Minor*** changes to the Contract may be implemented without receiving a prior agreement of the EU Delegation, ***but should be notified to the EU Delegation within 10 days of making the change.***
- ***Major*** changes to the Contract require a formal Addendum to the Grant Contract. For this purpose, an Addendum request should be prepared by the Applicant and submitted to the EU Delegation. Only after approval by the EU Delegation, will the requested change become effective.

***Full assistance to the projects is available from the Support Team for drafting requests for minor changes and requests for Addendums. Therefore, projects are strongly recommended to consult with the Support Team before taking any formal action.***

***Please note that the Support Team will only assist in preparing such requests, final decisions will be made by the EU Delegation***

The following general principles must always apply:

- For the acceptance of a request for a change to the Grant Contract, the Applicant must provide justifications to the EU Delegation. The EU Delegation examines the reasons given, and rejects requests which have little or no substantiation
- The changes to the Contract cannot have the purpose or the effect that said changes to the contract would alter the objectives of the project, call into question the grant award decision, or be contrary to the equal treatment of applicants
- Grant contracts can only be changed within the lifetime of the contract
- Changes to Grant Contracts cannot be made retroactively
- The maximum amount of the grant may not be increased
- The maximum percentage of the European Union co-financing may not be increased
- Any modification extending the implementation period of the Contract must be such that implementation and final payments can be completed before the expiry of the financing decision under which the initial grant contract was financed

- Requests for a contract addendum must allow an adequate time limit (minimum 30 days) for the addendum to be signed. This means that such requests should be submitted in time, and that requests submitted in the last month of project implementation likely will not be processed. However, whenever possible, as the Contracting Authority may take longer to assess the amendment, it is recommended to send a request for amendment as early as possible.

#### 4.1.1 *Minor changes to the Grant Contract (amendment)*

**Minor changes**<sup>10</sup> include:

- Change of address or phone number
- Change of bank account (submit a new Financial Identification Form together with the notification)
- Change of Auditor
- Changes to the Budget or Description of the Action that do not affect the basic purpose of the project<sup>11</sup> and where the financial impact is limited to a transfer between items (budget lines) within the same main Budget heading (including cancellation or introduction of new items (budget lines))<sup>12</sup>
- A transfer of part of the budget from one Budget Heading to another (for example from Budget Heading 1. Human Resources to Budget Heading 6. Other), as long as this transfer does not imply a variation (both increase and decrease) of more than 25% of the Budget Headings (as per the original Budget or later approved Addendum) concerned by such transfer. This is not applicable to the Budget Heading for Administrative costs and contingency.

The following applies concerning the transfer from one Budget Heading to another:

- the 25% variation is calculated on both the original value of the Budget Heading where the funds are taken from and the original value of the Budget Heading where the funds are to be added
- successive unilateral modifications to the budget shall be taken into account in a cumulative way. This means for instance that, if a Budget Heading was already increased with an unilateral modification by 20% of its initial value (as set out in the original Budget of the Action or as modified by an addendum), that heading can be further increased by no more than 5% of its initial value (thus reaching in total the limit of 25% of its initial value)
- When the cumulative variations of a given budget heading exceed 25% of the budget heading's value, it is necessary to process a formal addendum. Any amount in excess of the 25% ceiling which is not covered by an addendum is not eligible for EU-financing.

<sup>10</sup> Art. 9.4. and 9.5. of the General Conditions

<sup>11</sup> As a general rule, any modifications of the objectives of the Action, of the target groups, of the location, of the activities or of the Action's sustainability, results and indicators etc. is likely to affect the basic purpose of the Action and may therefore be refused by the Contracting Authority as minor change

<sup>12</sup> The term budget "heading" has to be understood as the main budget headings of the direct costs, i.e. the headings number 1 (human resources), 2 (travel), 3 (equipment and Supplies), 4 (local offices), 5 (other costs, services) and 6 (other), and not as any of the sub-headings or items



- When informing the Contracting Authority about a minor change, a comparative version of the budget with the cumulative changes already made shall also be submitted.
- Caution is always needed when making any minor change to the human resources allocated to the project. In this case and in all doubtful cases, it is advisable to discuss with the Support Team and following this, if possible, agree in writing with the Contracting Authority beforehand.

In case of these minor Contract changes, the Applicant may apply the change **without the prior consent** of the EU Delegation. However, the Applicant should inform the EUD by sending a notification letter, **within 10 days** of making the change.

The Notification letter to the EU Delegation should have the following attachments:

- Notification of Minor changes Form
- Budget reallocation calculation table
- Replacement budget showing how the full budget breakdown of the initial contract has been modified by this amendment (and any previous amendments/addenda).

***A change in activities affecting the basic purpose of the action (project) might lead to a termination of the Grant contract by the EU Delegation in accordance with article 12.2 of the General Conditions. It is therefore in your interest to consult with the Support Team regarding any possible changes in activities that might affect the basic purpose of the project.***

***The Support Team provides support on the eligibility of minor changes. It is very strongly recommended to consult with Support Team if you plan any minor changes. The EU Delegation might refer you back to the Support Team for consultations before it will approve the request.***

***The notification letter must be drafted in English language.***

***The EU Delegation reserves the right to refuse a proposed minor change. If the Applicant has not heard anything from the EU Delegation within 30 days, the minor change is considered as tacitly approved (the period of 30 days starts from the date when the request for a minor change is received by the EUD).***

The notification process is as follows:

1. Applicant sends a Notification Letter and annexes to the Support Team for review
2. Support Team reviews the documents and send feedback to the Applicant: requests revisions needed of the documents, rejects the proposed amendments or gives go-ahead for submission to EU Delegation
3. In case of revisions needed: Based on feedback received, the Applicant modifies the documents and resends the documents to the Support Team
4. Support Team reviews modified documents and sends final go-ahead to Applicant
5. Applicant sends documents to the EU Delegation

6. EU Delegation agrees on the request, requests further clarification or rejects the proposed amendment

#### 4.1.2 Major changes to the Grant Contract (addendum)

**Major modifications** that require a formal Addendum to the original grant contract are as follows:

- Extension<sup>13</sup> or early closing of the Contract
- Significant changes in activities that affect the basic purpose of the project as long as the proposed changes do not question the grant award decision and are not contrary to the equal treatment of applicants
- Transfers between budget headings involving a variation of more than 25% of the amount originally entered under each relevant Budget Heading
- Change of project co-applicant (addition, deletion or replacement)
- Changes in name or legal status of Applicant

***Grant beneficiaries are strongly advised to avoid making changes to their project that are large enough to create the need for an addendum. The addendum procedure can be long and complicated; therefore, grant beneficiaries are advised to seek an addendum only if absolutely necessary.***

***The Support Team will provide full support in preparing addendum requests of the grant beneficiaries***

In case of these major Contract changes, the Applicant should request a formal **addendum**.

The letter to request a formal addendum to the EU Delegation should have the following attachments:

- Request for Addendum Form
- Budget reallocation calculation table
- Replacement budget, showing how the full budget breakdown of the initial contract has been modified by this addendum (and any previous addenda)

***As is the case with a notification letter, addendum requests must be prepared in English language***

The process for requesting an Addendum is as follows:

1. Applicant sends Addendum Request form and annexes to the Support Team for review
2. Support Team reviews the documents and send feedback to Applicant: requests revisions needed of the documents, rejects the proposed addendum or gives go-ahead for submission to EU Delegation
3. In case of revisions needed: Based on feedback received, the Applicant modifies the documents and resends the documents to the Support Team

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<sup>13</sup> A request extending the implementation date of the Action never entails an increase of the EU contribution (no cost extension)

4. Support Team reviews modified documents and sends final go-ahead to Applicant
5. Applicant sends documents to the EU Delegation
6. EU Delegation agrees on the request, requests further clarification or rejects the Addendum request
7. In case of approval of the Addendum request: the EU Delegation prepares an addendum to the contract in 3 copies, and sends them to Applicant via mail
8. Applicant signs all 3 copies, keeps one and sends 2 signed copies back to the EU Delegation
9. The Addendum takes effect from the moment of signing by both parties to the Contract, and implementation of proposed changes can be commenced by the Applicant from that moment

**IMPORTANT**

***Grant Beneficiary's request for an Addendum must be submitted no later than 1 month before the date on which the amendment is planned to enter into force and at least 3 months before the end of the implementation period.***

***The addendum takes effect on the date of the last signature. Grant Beneficiaries cannot implement their proposed change before the signature of the Addendum by both parties to the Contract.***

#### ***4.1.3 Use of the Contingency reserve***

The contingency reserve can be used only when there is an unforeseeable circumstance and when there is prior approval by the EU Delegation. The request for the use of the contingency reserve has to indicate which categories of expenditure (from Budget Headings 1 to 6) need the extra resources.

#### ***4.1.4 Suspension and Termination of the Contract***

Suspension and Termination of the Grant Contract are described in detail in art 11 and 12, respectively, of the General Conditions. As it is not foreseen that suspension or termination of projects will occur, no further details are provided here. In case suspension of the Grant Contract will occur, the Support Team will provide all information and any assistance necessary to the project to overcome the suspension. Also in case of termination of the Grant Contract, the Support Team will be at hand for a smooth termination of the Contract.

## 4.2 Project Financial Management

### 4.2.1 Eligible costs

Annex III (the budget) of the contract provides a **COST ESTIMATE** of the project's eligible costs. The grant allocated to the grant beneficiary is a certain percentage of this budget (for example: Project budget is €500.000, grant portion is 80%, then the Grant amount: €400.000).

The Applicant will provide detailed information on expenditures incurred during each reporting period (details on reporting are given in the section on Reporting further below). The review of these expenditures and supporting documents will result in decisions whether these expenses are eligible or not.

It should also be noted that the EUD does not pay more than a stipulated proportion of grant beneficiary's total eligible costs (see Article 3.2 Special Conditions): if total spending on the project falls below what was estimated at the outset, then the grant amount will be proportionally scaled down (example continued: total eligible costs during the project implementation period is €300.000, grant percentage (as per the Grant Contract) is 80%, then final grant amount is €240.000)

In reviewing interim and final reports, the EUD determines exactly which costs are eligible for payments. Ineligible costs will result in a lower payment than the Applicant may have expected, and in certain circumstances can lead to the recovery of the earlier payments. Therefore, it is important to ensure that expenses incurred during the project period are all eligible costs.

#### **IMPORTANT**

The EU finances a specific percentage of the total eligible costs rather than a particular part of the action. If, at the end of the action, the actual eligible cost is lower than anticipated, the grant will be reduced proportionately.

***At the end of the project the grant amount is calculated based on the actual eligible costs incurred, not on the budget at the beginning of the project. The amount of the grant as described in the Contract can NEVER be exceeded.***

#### **General Rules on eligible costs:**

Annex II to the Contract (Article 14.1) defines general principles for eligibility of costs. The main provisions for eligibility of cost are as follows:

- Costs must be incurred during the project implementation period as defined in the Contract,
- Costs have to be included in the project budget (Annex III of the Contract)
- Costs must be necessary for implementing the Project
- Costs must be identifiable and verifiable, in particular being recorded in the accounting records of the Applicant/co-applicants and determined according to the accounting standards and the usual cost accounting practices applicable to the Applicant/co-applicants
- Costs must comply with the requirements of applicable tax and social legislation

- Cost should be reasonable, justified and comply with the requirements of sound financial management, in particular regarding economy and efficiency

**Special Conditions on Eligibility of costs per budget heading:**

There are additional requirements to the eligibility of expenditure under the budget headings as shown in the table below.

Budget Heading	Eligible Expenditures
1. Human Resources	<p>Salaries (1.1. and 1.2.)</p> <ul style="list-style-type: none"> <li>▪ Payment of salaries and fees for staff contracted by the Applicant and/or by the Co-applicants</li> <li>▪ <u>Sub-contracted services (payment to companies/persons under a service contract tendered) may not be claimed under this budget heading, but should be included under Budget Heading 6. Other costs, services</u></li> <li>▪ The cost of staff assigned must include actual salaries plus social security charges and other remuneration-related costs</li> <li>▪ Salaries and costs must not exceed those normally borne by the Grant Beneficiary or its partners</li> <li>▪ Supporting documents are contracts of staff, proof of payments of salaries, as well as timesheets clearly showing the amount of time spent by staff on the project</li> </ul> <p>Per diems (1.3.)</p> <ul style="list-style-type: none"> <li>▪ Per diems are allowed only for staff assigned to the project, as long as such per diems are envisaged in the project budget</li> <li>▪ Per diems cover all meal, hotel expenses and short distance travel (e.g. within the mission destination)</li> <li>▪ Per diems should be in-line with the budget and should not be higher than the EU maximum daily rates (for the most recent per diems visit the EU website <a href="http://europa.eu.int/comm/europeaid/perdiem/liste1_en.htm">http://europa.eu.int/comm/europeaid/perdiem/liste1_en.htm</a>)</li> <li>▪ Per diems are based either on actual costs or fixed rates, but in both cases EU maximum daily rates apply</li> <li>▪ Per diems are calculated on an overnight basis</li> </ul>
2. Travel	<ul style="list-style-type: none"> <li>▪ Intercity transport expenditures within the country of the project may be covered from the Local Transport subheading (2.2.)</li> <li>▪ Transport expenditures of experts who travel from the country of the project and/or to the country of the project for the needs of the project may be covered from the International Travel sub-heading (2.1.). Boarding passes are obligatory to be kept.</li> </ul>

3. Equipment and Supplies	<ul style="list-style-type: none"> <li>▪ The Grant Beneficiary is obliged to obtain value for money, and to use the tendering procedures described in Annex IV of the Contract. For tendering procedures, please see the relevant procurement section.</li> <li>▪ The purchase cost of equipment and supplies are eligible provided they are included in the budget <u>and correspond to market rates</u></li> </ul>
4. Local Office / Project Costs	<ul style="list-style-type: none"> <li>▪ It should be ensured that these costs are not also covered from administrative costs</li> </ul>
5. Other Costs, Services	<ul style="list-style-type: none"> <li>▪ Amounts budgeted under Budget headings 5 &amp; 6 may be used to cover costs for the items specified in the budget and fully sub-contracted services: Publications, translation, events, refurbishing of buildings and offices, etc.</li> </ul>
6. Other	
8. Provision for Contingency Reserve	<ul style="list-style-type: none"> <li>▪ The Contingency reserve can only be used for unexpected expenditures incurred during the implementation of the Grant Contract. <b>Prior approval of the EUD is required.</b></li> </ul>
10. Administrative Costs	<ul style="list-style-type: none"> <li>▪ A percentage of the final approved total direct eligible costs may be claimed as indirect costs to cover the administrative overheads incurred by the Applicant. These costs are eligible provided that: <ul style="list-style-type: none"> <li>▪ They do not exceed 7% of the direct costs</li> <li>▪ They do not include costs assigned to another heading of the budget</li> <li>▪ Items normally included under this heading could include water, telephone, heating, electricity, security and cleaning bills, etc. The amount for Administrative costs that will be allowed, will be re-calculated at the end of the project based on actually incurred total eligible costs of the project (actually incurred total eligible costs x % specified in your Contract).</li> </ul> </li> </ul>

***The purchase cost of equipment and supplies are eligible provided they are included in the budget and correspond to market rates. To be able to show that such purchasing is in line with market rates, you should be able to proof that the purchase is in line with market prices. With direct procurements, you do this through collecting, for example, printouts from the internet or collecting three quotations.***

***In most countries, civil servants cannot be employed or be paid any salary within the context of a project outside their regular work as civil servant. This concerns both work in the project team and as sub-contracted expert. The project should ensure that such national rules are not violated.***

#### 4.2.2 Ineligible costs

Costs that are NOT eligible are<sup>14</sup>:

- debts and debt service charges (interest)
- provisions for losses or potential future liabilities
- costs declared by the Applicant/co-applicants) and financed by another action or work programme receiving a European Union grant (including though the European Development Fund)
- purchases of land or buildings, except where necessary for the direct implementation of the Action and according to the conditions specified in the Special Conditions; in all cases the ownership shall be transferred in accordance with Article 7.5, at the latest at the end of the Action
- currency exchange losses
- credits to third parties, unless otherwise specified in the Special Conditions
- salary costs of the personnel of national administrations, unless otherwise specified in the Special Conditions and only to the extent that they relate to the cost of activities, which the relevant public authority would not carry out if the Action were not undertaken.

#### 4.2.3 Value-added Tax (VAT)

Value-added tax (VAT) is in principle not eligible as costs, and to all extent possible projects should avoid payments which include VAT.

However, when VAT has been paid and is not recoverable by the project, VAT can be eligible<sup>15</sup>. Please note that the project in such cases will have to document very clearly all steps it has taken to recover VAT (details on which documents have to be provided are described in Annex 2.3.3.a, art 2). Still then, your auditor and the EU Delegation might judge that insufficient activities have been undertaken to prove that that VAT cannot be recovered. In any cases where you have paid VAT, you are advised first to discuss the issue with your auditor and if necessary afterwards with the EU Delegation.

In addition, Annex J (see Annex 2.3.3.a) was attached to the Call documents for the Call for Proposals from which your project was selected, and therefore is applicable for your project. This Annex identifies in art. 3. In which cases a project will not be required to seek exemption or provide proof of non-recovery of taxes:

1. **Low value taxes:** no proof needs to be provided for taxes for expenses where the amount of taxes per invoice is less than EUR 200, within a maximum of EUR 2500 per contract, representing not more than 5% of the Contracting Authority's contribution.
2. **Reimbursement of local expenses, including all taxes:** the following cases will be considered as proof that the Applicant/co-applicant (or, where applicable, its affiliated entity(ies)) has attempted to take the necessary steps to obtain exemption or recovery of taxes from the competent authorities:
  - a) Excessive cost for tax recovery

<sup>14</sup> General conditions, art. 14.9 (version 2014)

<sup>15</sup> General Conditions, art. 14.2.

i) the Applicant/co-applicants (or, where applicable, its affiliated entity(ies)) demonstrates that the steps necessary for recovery of taxes oblige it to incur costs in a country where it only performs the relevant operations on an ad hoc, one-off basis; and/or

ii) the Applicant/co-applicant (or, where applicable, its affiliated entity(ies)) shows that the recovery costs (registration fees in the country or the cost of appointing a tax representative, declaration fees, etc.) clearly exceed the amount of the taxes declared to the Contracting Authority.

b) Excessive length of time for obtaining tax exemption: where a mechanism for tax exemption has to be agreed for by the relevant authorities prior to the purchase of goods or services and where the Applicant/co-applicants (or, where applicable, its affiliated entity(ies)) can demonstrate that the excessive length of time for this prior authorisation endangers the implementation of the Action.

#### Explanation of 1. Low Value Taxes

In cases of small amounts of VAT incurred (less than 200 EUR of VAT on an invoice), there is no need to seek exemption or to provide proof of non-recovery of taxes. However, the total amount of VAT on such invoices should not be higher than 2500 EUR for all such invoices during the project, and the amount of VAT concerned should be lower than 5% of the grant provided by the EU.

#### Explanation of 2. Reimbursement of local expenses, including all taxes

Point i) under Excessive cost for tax recovery, is not applicable for your project, unless a study visit abroad is included in the Application as one of the activities of the project. However, in this case you should consult with your EU Delegation, to find out how they interpret Annex J.

Point ii) under Excessive cost for tax recovery, might apply in your case for VAT payments in your country. You should contact your EU Delegation to find out what they consider as excessive costs. They might have a threshold in place below which VAT amounts are accepted.

Excessive length of time for obtaining tax exemption normally would not apply to your project. Only in the case when you carry out an international open tender this might apply. In such case, you should consult with the Support Team and EU Delegation how to deal with VAT and import duties.

***In no case presume and decide yourself that costs of recovery of VAT are excessive. The EU Delegation might have another opinion on this than you have. Therefore, you should consult the EU Delegation.***

***Annex 2.3.3.a. Annex J to the Call for Proposals: Information on the tax regime applicable to grant contracts***

#### 4.2.4 Supporting documents

The General Conditions (art. 16.9) include an indicative list of the type of supporting documents to be kept by the project. As this list is not exhaustive, below you can find more information on what kind of documents should be kept. Please note that this list is also not exhaustive, always consult your auditor regarding the supporting documents they want you to keep (and therefore do this early on in the project).

### Technical Documentation

Project technical documentation should be sufficiently detailed to prove proper implementation of activities, delivery of services and outputs. Specifically, all project activities are to be delivered based on Annex 1 of your contract – Description of Action part of the contract and according to plan.

***Grant beneficiaries must prepare technical documentation for all relevant project activities and record them properly.***

Examples of documents for selected project activities are shown in the table below:

Project Activity	Example Documents
Budget line 5.1. Publications Budget line 5.2. Studies/Research Budget line 5.4. Evaluation Budget line 5.5. Interpretation, translation Budget line 5.8. Visibility actions	<ul style="list-style-type: none"> <li>▪ Documents related to the award procedures, including the Terms of Reference, proof of publication, all the bids, evaluation documents, contract, etc.</li> <li>▪ Contract</li> <li>▪ Proof of delivery of the services (copies of publication, report, newsletter, booklet, poster, information campaign, media clippings etc.)</li> <li>▪ Timesheet</li> <li>▪ Invoice from the service provider</li> <li>▪ Proof of payment</li> </ul>
Budget line 5.7. Training, seminars, conferences	<ul style="list-style-type: none"> <li>▪ Training programme/agenda</li> <li>▪ Presentations</li> <li>▪ Handouts</li> <li>▪ List of participants / attendance sheets (with original signatures) for every day</li> <li>▪ List of trainers/lecturers/speakers</li> <li>▪ Press clippings, photos</li> <li>▪ Feed-back questionnaires filled in by participants (if applicable)</li> <li>▪ Training report</li> </ul>
Working meetings (if applicable)	<ul style="list-style-type: none"> <li>▪ Agenda</li> <li>▪ Distributed documents</li> <li>▪ List of participants</li> <li>▪ Minutes of the meeting</li> </ul>
Study visits (if applicable)	<ul style="list-style-type: none"> <li>▪ Programme/agenda</li> <li>▪ List of participants / attendance sheets (with original</li> </ul>

	<p>signatures) for every day</p> <ul style="list-style-type: none"> <li>▪ Study visit report</li> </ul>
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Financial Documentation (Verification of Expenditures)

The form of the supporting evidence depends on the type and nature of the expenditure and the underlying actions or transactions. Financial documents must be in conformity with technical documents.

The table below summarizes the main supporting documents that the grant beneficiaries should retain and present in case of audit.

Expenditure	Documents
All expenditure	<ul style="list-style-type: none"> <li>▪ Proof of purchase such as invoices and receipts</li> <li>▪ Proof of payment such as bank statements, payment receipts, debit notices, proof of settlement by the contractor</li> <li>▪ Proof of delivery of services such as approved reports, proof of attending seminars, conferences and training courses (including relevant documentation and material obtained, list of attendees, certificates), etc.</li> <li>▪ The Grant Beneficiary accounting records (computerised or manual) such as general ledger, sub ledgers and payroll accounts, fixed assets registers and other relevant accounting information.</li> </ul>
Additional – specific to particular budget headings	
Budget Heading 1. Human Resources	<ul style="list-style-type: none"> <li>▪ Project staffing list (Municipal decision in case of municipality as Applicant/co-applicant)</li> <li>▪ Contracts (including Terms of Reference)</li> <li>▪ Staff and payroll records</li> <li>▪ Salary statements/monthly pay slips</li> <li>▪ Social charges and other remuneration-related documents</li> <li>▪ Monthly timesheets (signed by the staff member and project manager), of all project staff.</li> <li>▪ Bank statements/receipts for salary payments</li> <li>▪ Per diem ledgers</li> <li>▪ Reimbursement sheet or salary slip for subsistence costs (accommodation, food), including proof of payment to the relevant person</li> <li>▪ Relevant applicable rules at national or organisation level</li> </ul>
Budget Heading 2. Travel	<ul style="list-style-type: none"> <li>▪ Public transport (train, bus, metro): <u>Original</u> transport tickets clearly showing date</li> <li>▪ Plane: proof of payment for ticket, boarding passes</li> <li>▪ Rented transport: Invoice from supplier, proof of payment to supplier, summary list of distance covered</li> <li>▪ Reimbursement sheets in case of payment directly to the relevant persons for the use of a private car or other means</li> </ul>

Expenditure	Documents
	<p>of transportation, including proof of payment</p> <ul style="list-style-type: none"> <li>▪ Taxi: <u>original</u> receipt, clearly showing date and point of departure and destination</li> <li>▪ Car: For fuel and oil expenses, a summary list of the distance covered, the average fuel consumption of the vehicles used, fuel costs</li> </ul>
<p>Budget Heading 3. Equipment and supplies</p>	<ul style="list-style-type: none"> <li>▪ Proof of procurement procedures such as tendering documents, bids from tenderers and evaluation reports</li> <li>▪ Contract/order form</li> <li>▪ Invoice</li> <li>▪ Proof of receipt of goods</li> <li>▪ Proof of payment</li> <li>▪ Proof that prices are in line with market rates (prices indicated on web sites have to be printed)</li> <li>▪ inclusion in equipment/supplies list or added to balance sheet as asset</li> <li>▪ Certificate of origin in case of procurements over 100.000 EUR</li> </ul>
<p>Budget Headings 5. Other costs, services (Subcontracted supplies, services or works)</p>	<ul style="list-style-type: none"> <li>▪ Proof of procurement procedures such as tendering documents, bids from tenderers and evaluation reports</li> <li>▪ Proof of commitments such as contracts and order forms</li> <li>▪ Proof of receipt of goods such as delivery slips from suppliers, outputs by service providers</li> <li>▪ Proof of completion of works, such as acceptance certificates</li> <li>▪ Certificate of origin in case of procurements over 100.000 EUR</li> <li>▪ Invoice by supplier</li> <li>▪ Proof of payment to supplier</li> <li>▪ For supplies: inclusion in equipment/supplies list or added to balance sheet as asset</li> </ul>

#### 4.2.5 Expenditure verification and appointment of financial auditor

A project audit (expenditure verification) is obligatory for all Covenant of Mayors Demonstration projects.

The expenditure verification should be carried out by the auditor that is specified in the Grant Contract. The auditor should determine whether the costs declared by the Applicant are real, accurately recorded and eligible under the Grant Contract, and has to issue an audit report on the verification of the project's expenditures (making use of the template provided in Annex VII to the Grant Contract). This report has to be provided to the EU Delegation at the end of the project, together with the Final Report (narrative and financial) and request for final payment.

It is highly recommended to involve the auditor early on in the project, in order to help with setting up the financial administration, financial procedures and to advise on the kind and contents of the supporting documents which the project should collect to substantiate the project expenditures.

Furthermore, it is advised that the auditor carries out an audit of the project expenditures every reporting period of 12 months (before the Interim Report is due). In this way, it will be avoided that incorrect supporting documents are collected and that typical mistakes resulting in ineligible costs only show up after the project has ended.

## 4.3 Project Reporting and pre-financing payments

### 4.3.1 Reporting procedures

As stipulated in the General Conditions of the Grant Contract, the Grant Beneficiary is obliged to submit the following reports in forms and times specified (see Annex VI to the Grant Contract for templates).

- Inception Report<sup>16</sup>
- Interim Report(s)
- Final Report
- Expenditure Verification/Audit Report

### 4.3.2 Inception report, Interim reports and Final report

The following table summarises the typical schedule of reports that the Applicant is contractually required to provide to the EU Delegation:

Type of report	When to submit <sup>17</sup>	Content
<b>Inception report</b>	Within three months after the formal start of project implementation	Update on risks, updated logframe, detailed work plan, communication plan, procurement plan
<b>Interim Report</b>	Within 60 days of the first year of implementation	Narrative Report + Financial Report + Request for payment
	Within 60 days of the second year of implementation	Narrative Report + Financial Report + Request for payment
	Within 60 days of the third year of implementation	Narrative Report + Financial Report+ Request for payment

<sup>16</sup> An Inception Report only will have to be submitted to the EU Delegation if a formal Inception Period was described in the Application and the Applicant is contractually obliged to submit such a Report. In other cases, a short informal status report (including improved logframe, detailed work plan, procurement plan and communication plan) is requested.

<sup>17</sup> General Conditions, art. 15.1.

<b>Final Report</b>	Not later than 3 months after the implementation period of the project <sup>18</sup> . The implementation period is stated in art. 2. of the Special Conditions to the Contract	Narrative Report + Financial Report + All supporting documents (technical and financial) + Request for payment (Final)
<b>Expenditure Verification Report</b>	At the end of the project annexed to the Final Report	ToR for the verification report + Auditor-signed Expenditure Verification Report

Interim Reports typically have to provide information about activities and expenditures for a period of 12 months of implementation (unless otherwise specified in the Special Conditions). In case the project is unable to report within the deadline of 60 days, it should contact the EU Delegation before the end of the deadline and request extension of the deadline, providing reasons and justification for the delay. If a report is submitted late without justification, the EU Delegation has the right to terminate the contract and ask for the reimbursement of the amounts unduly paid.

The Interim Report exists of two parts, the narrative Interim Report and the financial Interim Report. Templates for these can be found in Annex VI to your Contract.

The Narrative Reports include a description of the activities realized, of the achieved results and lessons learnt, as well as the major problems encountered during the period (including significant unforeseen events). The reports will include information on the project's management, participation of the partners, relations with stakeholders, visibility, procurement and progress based on the performance indicators, and a general evaluation of the project. All contract modifications (if any) are listed in these reports.

The Financial Report covers all the expenditures incurred during the reporting period and related supporting information. The Financial Report should be submitted jointly with the Narrative Report, as well as a payment request for receiving the next instalment (in case of Interim Reports) or final balance (in case of Final Report). The Financial Report should have at least the same level of detail as the budget annexed to the Contract, and must be consistent with the records, accounts, and ledgers of the Applicant and Co-Applicants.

No originals or copies of invoices, contracts or order forms have to be added to the Interim Reports. The only exceptions are for copies of studies, evaluation or audit reports, press releases and outputs of other procured services in case the respective costs are being claimed under the direct costs. However, when deemed necessary for understanding the eligibility of costs, the Contracting Authority may always ask for more specific information (for example copies of supporting documents).

The Final Report has to give an overview of the last year's implementation and of the project as whole for its entire duration. In all cases, the final report must include a detailed breakdown of expenditure covering the whole project, as well as an expenditure verification report and all supporting documents (technical and financial). In case of transfer of ownership of items procured under the project, the information on transfers of ownership has to be provided using the template in Annex IX to the Grant Contract and the copies of the proofs of transfers have to be attached to the Final Report.

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<sup>18</sup> General Conditions, art. 15.2.



**All reports must be submitted in English language !!!**

In practice, if you receive comments from the EU Delegation about an Interim Report, it in most cases concerns requests for clarification about/improvement of the narrative Interim Report or pointing out obvious mistakes in the financial Interim report. It is in your interest then to fix these weaknesses/flaws as soon as possible, in order to get the Report approved and receive the next pre-financing payment.

***The EU Delegation has the right to ask for more information on the basis of a justified request, for instance if the submitted reports are not detailed enough. Moreover, the EU Delegation is entitled to request any additional information it considers necessary throughout the contract period. Following such a request, the Applicant has 30 days to collect all the necessary information and draw up a consolidated reply.***

#### 4.3.3 Currency to be used in reporting

The EU Delegations will make payments in the currency specified in the Special Conditions, which is Euro. Therefore, reporting to the EU Delegation should also be done in Euro.

To record project expenditures that were made in national currency, the Applicant should convert the national currency into Euro. For this purpose, **the exchange rate should be used which was applicable when the EUD's pre-financing payment was recorded in the accounts of the Applicant**, (unless otherwise provided for in the Special Conditions).

The exchange rate to be used can be found on the InforEuro website:

<http://ec.europa.eu/budget/inforeuro/index.cfm?Language=en>

Exchange rate fluctuations can create problems for projects in the event that during the 12 months period after the funds were received the exchange rate fluctuates significantly/exceptionally. The General Conditions foresee that the project will consult the EU Delegation in the event of this type of exchange rate fluctuation, and the EU Delegation has a number of measures to overcome/reduce the impact of such fluctuations.

#### 4.3.4 Payments

The Payment schedule for the pre-financing payments by the EU Delegation is described in Art. 4 of the Special Conditions to your Contract.

The initial pre-financing payment was automatically transferred by the EU Delegation to the bank account that your project submitted in the Financial Identification Form with your Application. Next pre-financing payments you will have to formally request from the EU Delegation, and this is done by

submitting a Payment Request (see Annex V to your Contract), together with a forecast budget for the following reporting period (next 12 months).

If you send a new Request for Payment and spent less than 70% of the previous pre-financing payment in the reporting period, the difference between your actual expenditures in the reporting period and the 70% will be deducted from the amount that you requested in the new Request for Payment.

**Please note that when the EU Delegation makes the next pre-financing payment, this does not imply that the Delegation recognizes the regularity or the authenticity, completeness and correctness of the declarations and information provided in the Interim Report.** Often, the EU Delegation only starts looking into the eligibility of costs after it has received the Final Report and Expenditure Verification report, although it has the right to look into the eligibility of costs at all times.

Normally the EU Delegation will transfer the funds requested in the Request for Payment within 60 days, unless it has comments or questions related to the Interim report and forecast budget for the next year. It is therefore in the project's interest to ensure that the Interim Report and forecast budget for the next year are of sufficient quality. The Support Team is available to review and help you improve the Interim Report and forecast budget.

In the event that there are changes in your project's bank account, you should include a new Financial Identification Form with your Request for Payment.

***A project can request a further pre-financing payment/instalment from the EU Delegation before the end of a formal reporting period of 12 months. However, this is only possible if the project spent more than 70% of the previous pre-financing payment/instalment received from the EU Delegation. Of course, such request should be accompanied by an Interim Report (Narrative and Financial).***

***For example, a project submits its first Interim report (and new request for pre-financing payment) at the end of month 9. In this case, the next Interim report would be due 12 months later (end of month 21).***

## 4.4 Monitoring

Monitoring is defined as<sup>19</sup>

- A regular review to keep track of how a project is progressing in terms of resource use, implementation, delivery of results and the management of risks
- The systematic and continual collection, analysis and use of management information to support effective decision-making.

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<sup>19</sup> Result Oriented Monitoring ROM Handbook, EuropeAid

Significant importance should be attached to monitoring as a tool to verify that grants are used for the stated purpose in the contract and to ensure that the projects are implemented in compliance with EU and national procedures.

#### 4.4.1 *Setting up the monitoring system*

Good monitoring depends on having reliable, relevant and timely information about the activities, outputs and outcomes of your project. The information needed for monitoring should be identified when the project is first designed (and/or when updated) i.e. when the objectives, expected results, activities and indicators are specified. The information system for collecting, analysing and reporting information about activities, outputs and outcomes is at the core of the monitoring system.

Most of the information that is needed to monitor your project will be produced by the project itself. Some of the information is planned for when the grant contract is approved and the contract is signed, often refined during the start-up phase (when the logframe is being reviewed), and after the energy audit (when more accurate baseline data on energy use is available). At this stage, the performance indicators are defined and targets are set for the main outputs and expected outcomes of the project. This information is summarised in the logical framework for your project. The indicators are important part of the monitoring system and the logframe shows the sources of information that will be needed to track the indicators.

Monitoring information may also be defined in other documents that are produced when the project is being set up. These include the specification of work to be performed by the partners in the project or through sub- contracts. The financial information for monitoring purposes will be found in the project accounts.

#### 4.4.2 *Monitoring your project results*

One of the important reasons for monitoring a project is to see if it is contributing to the objectives of one of the programme priorities. To confirm this, the project outputs are compared to the programme objective and expected results to confirm the links between them.

These programme objectives are<sup>20</sup>:

- Energy saved
- Improvement of energy efficiency
- Reduction of CO2 emissions
- Increase in the renewable energy production

Your project should contribute to meeting these programme objectives, and actually your logframe should have these objectives as well at the project level (i.e. your specific objectives should include these and have identified very clear indicators for measuring meeting these objectives).

***In case your logframe does not include these specific objectives, you should rework your logframe to***

<sup>20</sup> Guidelines for Applicants (EuropeAid/135376/C/ACT/MULTI)



***specifically improve them (as well as the indicators for measuring them). The Support Team is at hand to help you update the logframe in this manner.***

The Guidelines for Applicants also identified the expected results

1. Energy saved annually thanks to the project, ***in percentage and gross figure***
2. Increased share of renewable energy in the total final energy consumption of the municipality
3. Increased quality of municipal services
4. Awareness of the city dwellers has raised
5. Increased capacity of the local authorities to implement sustainable energy projects
6. Contribution of the project to meet the Covenant of Mayors targets

***In case, your logframe does not include these expected results (at least the first two), you should rework your logframe to specifically improve them (as well as the indicators for measuring them). Most project have NOT specified energy saved annually in percentage and gross figure or not specified how much the share of renewable energy in the total final energy consumption of the municipality will increase. The external monitors (ROM, see below) will specifically look at these in your logframe, so better to improve them early on in the project. The Support Team is at hand to help you updating the logframe.***

A third issue concerns the indicators (both at the project objective and results level). Indicators give information on how you measure achievement of the objective and expected results of the project. These indicators should be SMART (Specific, Measurable, Achievable, Realistic and Time-bound). For example: reduced annual use of energy by school no. 1 of 20% (which is x kWh) by 2017. This is a very clear example of indicator/target that you want to achieve in the project. Of course mentioning an indicator is not enough: in the logframe you also should clearly specify the source of verification, i.e. where will you get the data/information from to proof that you indeed reached the indicator/target.

#### ***4.4.3 Monthly monitoring of activities using the work plan***

On the basis of the detailed work plan of your project, the project team will prepare a ***monthly progress table***, which keeps track of the progress of implementation of project ***activities***. This document should be shared with the Support Team and EU Delegation on a monthly basis, normally within one week after the end of each month. The monthly progress table is a cumulative table, what means that each month you have to make only minor updates.

#### ***Annex 4.4.3.a. template Monthly Progress Table***

#### ***4.4.4 Monthly monitoring of progress of Technical Implementation by the Support Team***

An initial risk assessment of all grant projects will be made according to their types and number of activities, expected results, budget amounts, quality of implementation provided in the Application, and issues arriving from the energy audit, planned timeframe for technical implementation, as well as other implementation difficulties. Based on the determined risk levels (low, medium, high) projects will be monitored by the Support Team as well as the EU Delegation. **Projects regarded as high risk will be more closely monitored, and energy audit reports, selected EE/RE measures and technical design documentation of all these projects will be checked for ex-ante control by the Support Team. All projects will be subject to ex-ante controls of procurement documentation of procurements over 60.000 EUR.**

The Support Team will be in touch with the projects at least once per month (more often if needed on basis of the risk-profile of your project), in order to keep track of progress of technical implementation of the project.

#### 4.4.5 External monitoring (Results-Oriented Monitoring)

External monitors are monitors, which have been specifically assigned by the EU to assess the progress of the programme and projects. Such monitoring will take place at least, more likely twice, during the duration of the programme.

These independent external monitors use the Results-Oriented Monitoring (Rom) methodology, which focuses on five core items<sup>21</sup>:

- Relevance/Project design
- Effectiveness of implementation (results)
- Efficiency of implementation (% of budget used, % of activities implemented, % of outputs produced, activities in line with work plan, effective use of budget etc.)
- Impact
- Sustainability

***The logframe is a crucial element of the project design, and typically the first document ROM monitors review when they start their work. A logframe which has poorly defined objectives, expected results and indicators will receive a low score on project design. Moreover, do not forget that first impressions count: so make your logframe top-notch.***

#### 4.4.6 Yearly monitoring of results by the Support Team

After the first 11 months of implementation, the Support Team will visit your project for a Monitoring visit, and this cycle will be repeated every 12 months. If needed however, the Support Team might bring more frequent Monitoring visits. The Support Team uses a methodology similar to the ROM monitors, and in such way at least once per year a monitoring report of all Demonstration projects will

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<sup>21</sup> European Commission, Results-oriented monitoring, 2012

be produced, to inform the EU about progress in carrying out project activities, progress in achievement of results and progress in achievement of objectives.

The annual Monitoring report prepared by the Support Team will be shared with the EU Delegation in the country where the project takes place, as well as the project. If necessary, follow-up visits will take place by the Support Team and/or EU Delegation to discuss problematic issues with project management and senior management of municipalities involved.

The table below shows the steps in the monitoring visit, and who is responsible for what in each of the steps.

Step #	Activity	Responsible Bodies	Time Frame
Step 1	Coordinate monitoring visit according to project visit calendar	Support Team	2 weeks before the visit
Step 2	Study Project Reports from contract file	Support Team	1 week before the visit
Step 3	Conduct the visit	Support Team	At least 3 times during project lifetime
Step 4	Make key staff of project and necessary documentation ready during the visit	Applicant	During visit
Step 5	Control the conformity of project activities with the activity plan	Support Team	During visit
Step 6	Check the costs incurred and associated documents	Support Team	During visit
Step 7	Draft the monitoring report	Support Team	After visit
If needed	Report any irregularities suspected or detected or early warning condition to EUD	Support Team	As soon as possible, latest 3 working days after detection or suspicion

#### 4.4.7 Spot checks

Spot checks are intended to verify physical existence of equipment and implementation of activities, as well as compliance with procurement procedures. Such visits may occur during project implementation by the Support Team members as well as by the EUD and/or EUD representatives in order to follow up on reports, or carry out detailed analysis of the project. No prior notification will be provided for these checks and therefore Applicant and co-applicants are recommended to be prepared for such checks at all times.

#### 4.4.8 Early warning reports

The Support Team may report on the deficiencies and irregularities observed in a grant project during the overall monitoring process, if and when necessary. Mostly, this will take the form of a copy of a

mission report or assessment produced by the Support Team, which typically include recommendations to the project on how to overcome deficiencies and irregularities (such documents are also shared with the EU Delegation). If despite repeated recommendations, a project does not address deficiencies and irregularities, the Support Team will advise the EU Delegation to take action, such as the EU Delegation visiting/or calling in the project manager (and likely also the mayor) to emphasize the importance of solving identified deficiencies and irregularities. This is normally the last chance for the project to improve and the last step before an Early warning is sent to the project. The Early warning report indicates deficiencies and irregularities and urges the project to come with a convincing plan and timeline to overcome irregularities and deficiencies.

***Please note that the Early warning report is a critical warning for the grant beneficiary and is sent only when it is absolutely necessary. Grant beneficiaries should take such warnings very seriously as it may result in the recovery of funds even if they already have been used.***

## 4.5 Project Closure

### 4.5.1 Ownership of equipment, works and the project results

Unless otherwise clearly specified in the Description of the Action in Annex I, the equipment, vehicles and supplies paid for by the Budget for the Action have to be transferred to the final beneficiaries (Applicant/co-applicants) of the project, at the latest when submitting the Final Report<sup>22</sup>.

Copies of the proofs of transfer of any equipment, supplies and vehicles for which the purchase cost was more than EUR 5000 per item, shall be attached to the Final Report. Proofs of transfer of equipment, supplies and vehicles whose purchase cost was less than EUR 5000 per item shall be kept by the Applicant/co-applicants for control purposes<sup>23</sup>.

### 4.5.2 Final payments

The grant may not exceed the maximum ceiling in Article 3.2 of the Special Conditions, either in terms of the absolute value or the percentage stated therein.

Upon receiving the Final Report and the Expenditure Verification report, the EU Delegation will review these reports and see if it agrees with the audit findings. In case the audit report has identified any ineligible costs (and the EU Delegation agrees with the audit findings), the ineligible costs will be deducted from the requested amount of the Final payment. In case these ineligible costs are larger than the requested amount of the Final payment, the EU Delegation will not make any Final payment, and seek to recover from the Applicant any ineligible costs that could not be covered from the requested amount of the Final Payment.

If the eligible costs of the Action at the end of the Action are less than the estimated eligible costs as referred to in Article 3.1 of the Special Conditions, the grant shall be limited to the amount obtained

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<sup>22</sup> General Conditions, art 7.5.

<sup>23</sup> General Conditions, art. 7.6.

by applying the percentage laid down in Article 3.2 of the Special Conditions to the eligible costs of the Action approved by the Contracting Authority.

#### *4.5.3 Retention of project records for future audits*

All project documentation and records should be kept for 5 years after the end of the project. This concerns both technical and financial documents. Upon request by the EU Delegation, these documents should be made fully accessible to auditors or monitors, or other persons appointed by the EU Delegation.

***All reports are first sent to Support Team who edits them within 10 days unless additional information is requested from the Applicant. The Applicant must provide the requested information and/or revise the report in accordance with Support Team comments, without delay.***

## 5 Implementation period - Technical implementation

The process of technical implementation of projects is described in detail in the publication Technical Implementation for Project Managers, Energy Managers and municipal decision-makers, prepared by the Support Team.

## 6 Implementation period - Procurement

Section 6.9 of the PRAG (EU Practical Guide) stipulates for procurement of services, supplies or works for a grant-funded action: if the implementation of an action or work programme requires the procurement of services, supplies or works by the grant beneficiary, the contract award procedures specified in Annex IV of the grant contract must be applied for each procurement contract<sup>24</sup>. Should the grant beneficiary fail to comply with Annex IV, the related expenditures will not be eligible for Union/EDF financing.

This section covers and provides general information on procurement rules according to EU procedures outlined in Annex IV of the Grant contract, and these lay down the minimum procedures to be followed.

### 6.1 Establishing a procurement committee

Annex IV to the Grant Contract stipulates: An evaluation committee **must** be set up to evaluate both applications and/or tenders of a value of EUR 60 000 or more on the basis of the exclusion, selection and award criteria published by the project in advance in the tender documents. This committee must have an odd number of members, at least three, with all the technical and administrative capacities necessary to give an informed opinion on the tenders.

There are no further details described in Annex IV to the Grant contract about the Procurement Committee. However, further guidance on the Procurement Committee is provided in the annexes

#### *Annex 6.1.a. Guidance Note on Procurement Committees*

### 6.2 EU procedures for procurement of services, supplies and works

There are 3 types of contracts:

- “Supply” contracts are essentially those for the supply (and installation where appropriate) or hire of products

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<sup>24</sup> The EU 2014 PRAG on page 8 states however: This Practical Guide does not apply to humanitarian aid operations or emergency operations carried out by ECHO. Nor does it apply to contracting authorities such as partner countries, international organisations and national bodies which the European Commission has authorised to use their own procurement/grant award procedures, or procurement/grant award procedures agreed among donors according to the relevant regulation, **nor to grant beneficiaries which must follow the procurement provisions of Annex IV of the standard grant contract.**

- “Works” is defined as “the outcome of building or civil engineering, works taken as a whole that is sufficient of itself to fulfil an economic and technical function”.
- “Services” include, organisation of events, conferences, maintenance of equipment, transportation, consultancy, technical services etc.

Specific procedures for these three types of contracts are summarised in the table provided below.

Service Contracts	Supply Contracts	Works Contracts
		Contracts ≥ €5.000.000 international open tender procedure (following publication of a contract notice)
Contracts ≥ €300.000 international restricted tender procedure (following publication of a contract notice)	Contracts ≥ €300.000 International open tender procedure (following publication of a contract notice)	Between €300.000 and < €5.000.000 Open tender procedure published locally <sup>25</sup>
	Contracts ≥ €100.000 and < €300.000 Open tender procedure published locally <sup>26</sup>	
Contracts > €60.000 and < €300.000 Competitive negotiated procedure (Beneficiary consults at least 3 service providers)	Contracts > €60.000 and < €100.000 Competitive negotiated procedure (Beneficiary consults at least 3 service providers)	Contracts > €60.000 and < €300.000 Competitive negotiated procedure (Beneficiary consults at least 3 contractors)
Contracts ≤ €60.000 Procedures established by the Beneficiary may be used, while respecting the rules and principles laid down in sections 1, 2 and 3 of Annex IV to the grant contract.	Contracts ≤ €60.000 Procedures established by the Beneficiary may be used, while respecting the rules and principles laid down in sections 1, 2 and 3 of Annex IV to the grant contract.	Contracts ≤ €60.000 Procedures established by the Beneficiary may be used, while respecting the rules and principles laid down in sections 1, 2 and 3 of Annex IV to the grant contract.

In case your national legislation and/or your organization’s procurement policy describes lower thresholds for specific procurement procedures, you should follow these, unless there is a specific clause in them that allows you to use EU procurement procedures.

### 6.3 Common procurement rules

Annex IV to your Contract describes 3 common procurement rules, which should be followed in all cases:

<sup>25</sup> The contract notice is published in all appropriate media at least in the country in which the Action is being carried out

<sup>26</sup> The contract notice is published in all appropriate media at least in the country in which the Action is being carried out

1. The tender documents must be drafted according to best international practice. If they do not have their own documents, Beneficiaries may voluntarily use the models published in the Practical Guide on the EuropeAid website.
2. The time limits for applications and/or tenders must be long enough to give interested parties a reasonable period to prepare and submit their tenders.
3. An evaluation committee must be set up to evaluate both applications and/or tenders of a value of EUR 60 000 or more on the basis of the exclusion, selection and award criteria published by the project in advance in the tender documents. This committee must have an odd number of members, at least three, with all the technical and administrative capacities necessary to give an informed opinion on the tenders.
4. Contracts must not be split artificially to circumvent procurement thresholds.

Failure to meet these criteria means that the procurement will very likely be considered ineligible.

***Play it safe:***

- 1. Use documents as prescribed in the PRAG for procurements of 60.000 EUR or higher***
- 2. Use the timescales described in the PRAG: 30 days between launch of competitive negotiated procedure and deadline for submitting bids, and 60 days in case of open tender***
- 3. Use an Evaluation committee (Procurement committee) in line with described requirements***

## 6.4 Tenders and competitive negotiated procedures

### *6.4.1 Specific Rules for service contracts*

Contracts of less than EUR 300 000 but more than EUR 60 000: Such contracts must be awarded by means of a competitive negotiated procedure without publication, in which the project consults at least three service providers of its choice and negotiates the terms of the contract with one or more of them.

Contracts of EUR 60 000 or less: For services valued at EUR 60 000 or less, the procedures established by the Applicant may be used, while respecting the rules and principles laid down in sections 1, 2 and 3 of Annex IV to the Contract.

The contract must be awarded to the tender offering best value for money (i.e. the tender offering the best price-quality ratio).

### *6.4.2 Specific Rules for supply contracts*

Contracts from EUR 300 000 and above: Supply contracts from EUR 300 000 and above must be awarded by means of an international open tender procedure following publication of a contract notice. The contract notice is to be published in all appropriate media, in particular on the Beneficiary's web site, in the international press and the national press of the country in which the

Action is being carried out, or in other specialist periodicals. In case your project has to use this procedure, please contact the Support Team, as close coordination will be required with the EU Delegation.

Contracts between EUR 100 000 and less than EUR 300 000: Such contracts are awarded by means of an open tender procedure published locally: the contract notice is published in all appropriate media at least in the country in which the Action is being carried out. A local open tender procedure must provide other eligible suppliers with the same opportunities as local firms.

Contracts of less than EUR 100 000 but more than EUR 60 000: Such contracts must be awarded by means of a competitive negotiated procedure without publication of a contract notice. The Beneficiary consults at least three suppliers of its choice and negotiates the terms of the contract with one or more of them.

Contracts of EUR 60 000 or less: For supply contracts of EUR 60 000 or less, the procedures established by the Beneficiary may be used, while respecting the rules and principles laid down in sections 1, 2 and 3 of Annex IV to the Contract.

The contract must be awarded to the tender offering the lowest price.

#### *6.4.3 Specific Rules for Works contracts*

Contracts of between EUR 300 000 and less than EUR 5 000 000: Such contracts must be awarded by means of an open tender procedure published locally: the contract notice is published in all appropriate media at least in the country in which the Action is being carried out. A local open tender procedure must provide other eligible contractors with the same opportunities as local firms.

Contracts of less than EUR 300 000 but more than EUR 60 000: Such contracts must be awarded by means of a competitive negotiated procedure without publication, in which the Beneficiary consults at least three contractors of its choice and negotiates the terms of the contract with one or more of them.

Contracts of EUR 60 000 or less: For works contracts of EUR 60 000 or less, the procedures established by the Applicant may be used, while respecting the rules and principles laid down in sections 1, 2 and 3 of Annex IV to the Contract.

The contract must be awarded to the tender offering the lowest price.

## 6.5 Grounds for exclusion from participation in procurement

Candidates or tenderers will be excluded from taking part in a procurement procedure if:

1. they are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are the subject of proceedings concerning those matters, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;

2. they or persons having powers of representation, decision-making or control over them have been convicted of an offence concerning their professional conduct by a judgment of a competent authority which has the force of *res judicata*;
3. they have been guilty of grave professional misconduct proven by any means which the Applicant/co-applicants can justify;
4. they have not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provisions of the country in which they are established or with those of the country of the Applicant or those of the country where the contract is to be performed;
5. they do not comply with their obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provisions of the country in which they are established or with those of the country of the contracting authority or those of the country where the contract is to be performed.
6. they or persons having powers of representation, decision making or control over them have been the subject of a judgment which has the force of *res judicata* for fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity, where such illegal activity is detrimental to the EU's financial interests;
7. they are currently subject to an administrative penalty referred to in section 2.3.4 of the Practical Guide

Candidates or tenderers must certify that they are not in one of the situations listed above.

***The project should ensure that in the procurement documents, a standard statement is included, for signature by bidders, which states that bidders should not be in any of the these situations***

***Annex 6.4.a. Template statement for signature by bidders***

Contracts may not be awarded to candidates or tenderers which, during the procurement procedure:

- (a) are subject to a conflict of interests
- (b) are guilty of misrepresentation in supplying the information required by the project as a condition of participation in the contract procedure or fail to supply this information.

In such cases, candidates/tenderers should be excluded from being awarded the contract.

## 6.6 Observing the rules of nationality and origin

### Nationality Rule

Participation in tender procedures managed by the project is open on equal terms to all natural and legal persons effectively established in a Member State or a country, territory or region mentioned as eligible as per Annexes a2a to a2c to the Practical Guide. Tenderers must state their nationality in their tenders and provide the usual proof of nationality under their national legislation.

This rule does not apply to the experts proposed under service tenders financed by the grant; these can be of any nationality.

For more information on which countries are eligible, check Annexes a2a to a2c to the Practical Guide:

[http://ec.europa.eu/europeaid/funding/about-procurement-contracts/procedures-and-practical-guide-prag/eligibility\\_en](http://ec.europa.eu/europeaid/funding/about-procurement-contracts/procedures-and-practical-guide-prag/eligibility_en) or contact the Support Team.

In practice, EU countries, Eastern Partnership countries, ENPI countries, candidate-members states and many other countries are eligible, and (unless you have to carry out an international open tender) it is very unlikely that you will receive any bids which come from countries which are not eligible. If you have received any bid from a country that is outside the EU, outside Eastern Partnership countries, best to quickly check these Annexes however.

### **Rule of origin**

All goods procured must originate from the EU or from an eligible country (see above: ‘nationality rule’). To prove origin, the supplier must provide a Certificate of Origin or (in case of locally produced goods) a “locally manufactured certificate” obtainable from the relevant chamber of commerce & industry.

However, supplies may originate from any country if the amount of the supplies to be procured is below 100.000 € per purchase. In such cases, documents proving origin (certificate of origin or ‘made in ... ‘ certificates) are not required by EU procedures.

## **6.7 Eligibility rules**

Procurement rules need to be strictly followed in each procurement procedure in order to obtain the best value for money. The following principles should be taken into account for a good procurement:

### **No discrimination and equal treatment**

There should be no discrimination against products, services, suppliers, contractors or service-providers on the grounds of nationality. There may be however, disqualifications based on technical grounds, or against quality and/or safety factors, but these can, and should, be objectively assessed.

### **Fair competition and avoiding conflicts of interest**

There should always be a competition for the award of contracts, unless there is a strong and objective reason for not holding a competition.



There must be no distortion of competition in discussions with actual or potential participants in contract award procedures. ***This means that all tenderers must be provided the same information and the same opportunities to come up with winning bids.***

***Any firm or expert that has participated in the preparation of a project or in drafting the tender file must be excluded from participating in tenders based on this preparatory work, as this would constitute unfair competition***

### Clear specifications

Tenderers cannot compete effectively unless they know exactly the requirements of the purchaser. Therefore, specifications of requirements (“Technical Specifications” in case of supplies or works tenders, “Terms of Reference” in case service tenders) should include recognised technical specifications and, where required, quality assurance standards with appropriate levels of certification.

### Effective publicity (announcement)

***Any tendering process is unlikely to be successful if the best potential tenderers do not get to hear of requirements.*** Effective publicity will ensure the dissemination of this information. This is particularly important for publicly funded procurement, where, typically the purchasers are not experts in the field. This is where use of the Internet is increasingly important, but it is vital that tenderers know where to go for their information.

***It is also necessary to publish details of the decisions on contracts awarded.*** Further, to improve the skills and efficiency of tenderers, those who request it should be debriefed on why they were, or were not, selected to bid, and why they were successful or unsuccessful in winning the contract. For publications in the national or regional press, the EU guidelines on visibility should be followed.

### Adequate timescales

Another vital principle is that ***bidders are given sufficient time to respond to advertisements expressing an interest in the purchaser’s requirement, to respond to invitations to participate in the bidding and to prepare and submit their offers.*** Under EU PRAG, for example, local open tenders (those advertised in in your country) require at least 60 calendar days between the date of publication of the advertisement and the submission deadline for tenders, for competitive negotiated procedure, this is 30 days. These are considered as sufficient timescales, if your project uses shorter timescales, the procurement might later on be considered as having broken this principle and therefore ineligible. Again, better be on the safe side.

### Use of relevant objective criteria

It is vital that the criteria used for the elimination of unsuitable candidates, the selection of participants in contract award procedures and the award of contracts on the basis of the offer(s) economically most advantageous to the purchaser are both ***objective and relevant to the requirement.*** These requirements are defined in the “Terms of Reference” (in the case of service contracts) or the “Technical Specifications” (for supply or works contracts). Evaluation criteria are included in the tender dossier.

### Adequate records

It is also important to be able to justify decisions later on, if any challenges or doubts are raised about the decisions that were made. It is inevitable that people move on and therefore good records (reporting, financial, etc.) must be kept to show the reasons behind decisions. The Contracts requires records to be kept for at least 5 years following settlement of final payment.

Please note that these principles are important. If the EU, after receiving the Final report and Audit report, is of the opinion that a procurement that your project carried out violates these principles, it can consider the procurement to be ineligible. Ineligible means that the EU will recover the funds from the Applicant. As the procurements of the Demonstration projects are rather large, and thus financial risks for Applicants high, it is highly recommended that projects ensure that procurements are carried out in line with international best practices. While it is not obliged to follow the PRAG, it is highly recommended to follow the procedures prescribed in the PRAG for competitive negotiated procedures and national open tenders). Better to play safe.

## 6.8 Use of evaluation grids

Evaluation grids (that are used by the Evaluation Committee to evaluate bids that did come in) are a crucial part of the procurement file. The project should include evaluation grids in the procurement dossier, so everybody who wants to bid knows in advance how the bids submitted will be evaluated. Absence of evaluation grids basically means that there is no objective basis for a proper evaluation, and that evaluation of submitted bids likely is not carried out on an objective basis.

## 6.9 Specific national procurement requirements

Often national procurement rules are more restrictive than EU procurement rules. ***In all cases, make sure that the procurements that you carry out also meet the national procurement rules.*** Local governments in all countries are obliged to follow the national public procurement rules, as they also apply to municipalities. For NGO's, the situation is a little more tricky: NGO's as per Annex IV to the Contract are allowed to use their own internal procurement rules, and these are often less stringent than public procurement rules. NGO's should make sure that their procurement rules meet all the requirements described in Annex IV to the Contract, failure to do so is likely to result in ineligible costs.

***NGO's are strongly advised to check with their auditor early on in the project if the NGO's procurement rules are in line with the requirements as specified in Annex IV to the Contract***

## 7 Visibility

Grant Beneficiaries must take the necessary measures to ensure the visibility of the EU financing or contribution to the financing. Such measures must be in accordance with the applicable rules on the visibility of external actions as set out in the EU Visibility Guidelines for External Actions, available as from the following Internet address: [http://europa.eu.int/comm/europeaid/visibility/index\\_en.htm](http://europa.eu.int/comm/europeaid/visibility/index_en.htm).

More information about requirements concerning Communication and Visibility is described in the Communication Toolkit which is a separate document prepared by the Support Team.

***The Grant Beneficiaries must take all the necessary measures to ensure the visibility of EU financing, at any time.***

## 8 Annotated glossary

Action	The (Action) is a series of activities aimed at bringing about clearly specified objectives within a defined time-period and with a defined budget. In other words it is <b>the project</b> (financed from the programme Covenant of Mayors – Demonstration projects Eastern Partnership)
Activities	These are the tasks as described in detail in the Application, which have to be undertaken in order to produce the expected results of the project
Addendum	A document modifying the terms and conditions of a contract
Applicant	The organisation that signs the grant contract with the Contracting Authority (EU Delegation).
Application	The Application Form and all required annexes, on the basis of which the Grant Contract was awarded.
Beneficiary for registration	In some countries (Ukraine), a state institution at the national level or oblast level has to be found that will act as Beneficiary of the grant project, for the purposes of registering the project with the relevant state authorities.
Call for Proposals	A public invitation by the European Union, addressed to clearly identified categories of applicants, to propose operations within the framework of a specific EU programme.
Co-applicant	A co-applicant is an organization, which participates in designing and implementing the action, and the costs they incur are eligible in the same way as those incurred by the Applicant. A co-applicant is identified as such in the Application.
Conflict of Interest	Any event influencing the capacity of a grant beneficiary to give an objective and impartial professional opinion, or preventing it, at any moment, from giving priority to the interests of the Contracting Authority. Any consideration relating to possible contracts in the future or conflict with other commitments, past or present, of a contractor or grant beneficiary. These restrictions also apply to any sub-contractors and employees of the contractor or grant beneficiary.
Contracting Authority	The organisation which will sign contracts with successful applicants. For the grant scheme, referred to in this document the Contracting Authority is the European Union Delegation (EUD) in the country of the Applicant.

Eastern Partnership	A joint initiative between the EU, EU countries and the eastern European partner countries (Azerbaijan, Armenia, Belarus, Georgia, Moldova, Ukraine). It enables partner countries interested in moving towards the EU and increasing political, economic and cultural links to do so.
Ex-Ante Control	'Ex-ante' is a Latin expression meaning 'before the event'. In the case of certain types of procurement procedures, exercise of control over the procedure will take place before the procurement can be initiated.
Ex-Post Control	'Ex-post' is a Latin expression meaning 'after the event', and is thus the opposite of 'ex-ante'. In certain cases, grant beneficiaries can conduct procurement without any prior approval, (information will have to be provided in regular financial reports); the procurement will be checked after it has taken place.
General Conditions	The general contractual provisions setting out the administrative, financial, legal and technical clauses governing the execution of all contracts of a particular type.
Grant	A direct payment of a non-commercial nature by the EU Delegation to a specific recipient to implement an operation in order to promote an EU policy aim.
Guidelines for Applicants	Document explaining the purpose of a Call for Proposals for grants. It sets out the rules regarding who may apply, the types of operations and costs that may be financed, and the evaluation (selection and award) criteria. It also provides practical information on how to complete the application form, what documents must be annexed, and rules and procedures for applying.
Impact	The long-term benefits resulting from the project.
Objectives	Overall Objective - The central objective to which the project will contribute, as stated in the Application, which addresses the core problem(s), and can be defined in terms of sustainable benefits for the target group(s).  Specific Objectives - The exact objectives, as stated in the Application, that the project aims to achieve directly through its activities.
Practical Guide (PRAG)	Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions. It sets out the standard procedures to be used for implementation of the Action.

Procurement	The acquisition of goods and/or services for the best value for money, in the right quantity and quality, at the right time, in the right place for the direct benefit or use of the beneficiary, generally via a contract.
Project (Action)	A project is a series of activities aimed at bringing about clearly specified objectives within a defined time-period and with a defined budget.
Results	The direct benefits of the activities implemented under a project.
Services/Service Contract	Activities to be performed under a service contract may include technical assistance, studies, training and designs etc..
Special Conditions	The special conditions laid down by the Contracting Authority as an integral part of the Contract, including amendments to the General Conditions, clauses specific to the grant contract.
Supplies / Supply Contract	Supply contracts cover the purchase, leasing, rental or hire, with or without option to buy, of products. A contract for the supply of products and, incidentally, installation shall be considered a supply contract.
Technical Assistance Contract	A contract between a service provider and the EU, under which the service provider exercises an advisory role, directs or supervises a project, provides the experts stipulated in the contract or acts as a procurement agent. Such a contract is often conducted by a service provider through the mobilisation of a Support Team (e.g. in the case of this grant scheme, a Consortium led by KPC is providing technical assistance to the project and the EUDs).
Terms of Reference (ToR)	A document drawn up to set out the specific requirements and/or objectives in respect of the provision of services, specifying, where relevant, the methods and resources to be used and/or results to be achieved.
Works/Works Contract	A 'work' means the outcome of building or civil engineering works taken as a whole that is sufficient of itself to fulfil an economic or technical function. Works contracts cover either the execution, or both the design and execution, of works.



## 9 Annexes