

Eligible expenditures of the Czech Republic's Foreign Development Cooperation project under the *de minimis* subsidy title

Development Partnership Program for the private sector

Eligible expenditures can generally be defined as expenditures actually incurred that can be reimbursed from a subsidy and which may be claimed by a subsidy applicant in connection with an approved Czech bilateral foreign development cooperation project, the implementation of which will take place in the country to which the aid belongs.

When creating a project budget, it is the subsidy applicant's responsibility to ensure that eligible expenditures are always calculated on the basis of realistic prices, realistic estimates and taking account of any limits set for the individual items or cost types by the contracting authority.

Rules for the inclusion and proof of eligible expenditures

Eligible expenditure must meet the following conditions:

1. The expenditure must be spent on activities in line with the content and the objective of the relevant foreign development assistance project, must be directly related to and necessary for the implementation of that project and its spending must meet the condition of sound financial management of the project, especially in terms of the effectiveness of the funds invested.
2. The expenditure must be spent on activities in accordance with the principle of additionality. This principle stipulates that the support granted must not deform the market environment; that is to say, it is only possible to implement development activities that would not have taken place without the aid or would have taken place over a much longer time frame or, to a significantly lesser extent.¹
3. The expenditure must be incurred by the subsidy recipient or the recipient's partner at the time of the project implementation as defined in the Czech Development Agency (CDA)'s decision. This rule does not apply to expenditure on statutory audits of projects.
4. The expenditure must be documented by accounting or tax documents (with the exception of indirect costs) and properly recorded in the subsidy recipient's books so that it is identifiable and verifiable (in accordance with Act No 563/1991 Coll., on Accounting as amended). The accounting document is merely the initial document, which must comply with the following requirements as stipulated by Section 11 of Act No 563/1991 Coll., on Accounting, as amended. Documents issued by a foreign entity are governed by Act No 235/2004 Coll., on Value Added Tax, as amended, which defines the required particulars of these documents. If the document lacks any of these particulars or cannot be substantiated, the situation is addressed by an affidavit issued by the subsidy recipient.

¹ The principle of "additionality" is stated in the communication from the European Commission as one of the five principles that are key to the involvement of the private sector in foreign development cooperation. See COM (2014) 263 final, "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries," 13 May 2014.

5. The expenditure must be intended for the implementation of the project concerned and must be included in the project budget.

6. If the recipient of the subsidy wants to transfer funds between the individual chapters of the structured project budget that relate to the items paid out of the subsidy granted and this transfer would exceed 10 percent of the approved value of the chapter from which the transfer is carried out, the recipient is obliged to request in advance that the subsidy provider approve the transfer, no later than by 15 October of the year of implementation. Transfers between chapters amounting to up to 10 percent of the approved chapter value may be made by the subsidy recipient at their discretion. The subsidy recipient is required to provide reasoned written information on these transfers no later than in the final report - however, prior consultation with the subsidy provider is also recommended. Transfers within the framework of items paid from the subsidy recipient's own resources may be made between chapters at their discretion, but the ratio of the subsidy recipient's own resources to the total value of the project may not be reduced below the threshold set in the Decision.

Under the individual budget chapters, the subsidy recipient is entitled to make transfers between the items of a particular chapter without the prior approval of the subsidy provider. The subsidy recipient is obliged to inform the subsidy provider about these transfers in the interim and annual reports on the implementation of the project. Changes in the structured budget may not increase the original approved value of the chapter "Administrative (indirect) costs" without the prior approval of the subsidy provider, and the proportion of this chapter in the final project budget may not exceed 7 percent (or 7 percent of the subsidy).

7. The subsidy recipient cannot pass on the subsidy to third parties. The subsidy recipient may provide funds from a subsidy from the state budget to other natural or legal persons only to cover the payment of products, materials, performance and services related to the implementation of the approved project and the approved budget for which the funds were provided. No profit may be included in the project budget. In fact, no profit may be realized from the subsidy.²

² This provision means that specific project activities (co-)funded by the CDA's budget must not result in a profit. At the same time, the requirement that the overall results of the project lead to an increase in the profitability of the company / implementer in the future continues to apply.

1. Personal and travel expenses

Personal and travel expenses for employees of the subsidy recipient

1. Eligible costs do not include the usual wage costs of the main or local partner's staff. An exception is the reimbursement of the wage costs of the implementer's employees if they provide expert advice and consultancy services within the framework of the project that are necessary for its implementation. In this case, wage costs covered by the Program must be fully in line with the number of man-days worked on the project by the implementer's experts.

2. Wages of the subsidy recipient's employees working on activities directly related to the implementation of a development cooperation project constitute eligible expenditure up to the usual level with comparable work intensity and the skills and length of the worker's professional experience. In order to determine the usual level of wages, the subsidy provider may take into account the salary scales provided by Act No 262/2006 Coll., the Labour Code, as amended.

3. Statutory social security and health insurance contributions paid by the subsidy recipient for employees working on activities directly related to the implementation of the relevant development cooperation project constitute eligible expenditure.

4. Expenditures associated with sending an employee to work abroad (with no limitation on the duration of the stay abroad) in direct connection with the implementation of the relevant project (subsistence, accommodation and compensation of other necessary expenses) constitute eligible expenditure in addition to the employee's wage in the Czech Republic, assuming compliance with Act No 262/2006 Coll., the Labour Code, as amended, and the country-specific limits set by the Ministry of Finance.

5. The wages of workers employed directly in connection with the implementation of the relevant project on the basis of a labour-law relationship concluded abroad constitute eligible expenditure insofar as they do not exceed the usual local level of wages with comparable work intensity and the skills and length of the worker's professional experience. In order to set maximum limits in these cases, the subsidy provider may take into account Government Decree No 62/1994 Coll., on the reimbursement of certain expenditures **for** employees in budgetary and contributory organizations with their regular workplace abroad.

6. Travel expenses constitute eligible expenditure if they are directly related to the effective execution of the project and, at the same time, are necessary for its implementation. The amount of travel costs is limited by Act No 262/2006 Coll., the Labour Code, as amended, and the implementing regulations in accordance with the provision of travel allowances to employees of employers referred to in Section 109 (3) of Act No 262/2006 Coll., the Labour Code, as amended. Expenditure associated with the execution of missions includes, in particular, fares for all types of public transport, including air tickets and taxi fares, reimbursement for the use of workers' own personal motor vehicles on missions and company motor vehicles, without a driver, on missions, as well as subsistence and accommodation costs. Fare costs constitute eligible expenditure assuming compliance with the principle of proportionality (flying in economy class, 2nd class when travelling by train).

Personal and travel expenses for external collaborators of the subsidy recipient

1. Expenditure on the remuneration of the subsidy recipient's external collaborators (under contracts for work or contract of services) constitutes eligible expenditure if it is directly related to the implementation of the relevant development cooperation project and if it is the same as for comparable types of activities. The activity of external collaborators who

provide services as their business activity does not constitute a personal expense, but is classed as subcontracting according to point 4 of these rules.

2. Expenditures associated with sending the subsidy recipient's external collaborators on missions abroad (with no limitation on the duration of the stay abroad) in direct connection with the implementation of the relevant project (subsistence, accommodation and compensation of other necessary expenses) constitute eligible expenditure in addition to the remuneration in the Czech Republic, assuming they are in compliance with Act No 262/2006 Coll., the Labour Code, as amended, and the country-specific limits set by the Ministry of Finance.

Expenses for representatives of cooperating entities staying in the Czech Republic

The costs of representatives of foreign cooperating entities staying in the Czech Republic (subsistence, pocket money, accommodation and compensation of other necessary expenses) constitute eligible expenditure if their stay is part of a development cooperation project (training, expert workshops, etc.) and are calculated on the basis of the principle of proportionality. In this context, the subsidy provider may take into account the limits set by foreign entities for the maximum costs of accommodation and meals in the Czech Republic (EU).

2. Equipment and supplies of goods

Expenses for the acquisition of tangible and intangible fixed assets

1. Expenses for the acquisition of tangible fixed assets (samples of products originated within the project) and intangible fixed assets (software, intangible results of research, etc.) are **eligible only for the needs of the project implementation (!)** and provided that:

- a) such expenses are necessary for the direct implementation of the project in question and the tangible or intangible assets are used for demonstration purposes,
- b) the acquisition of such assets was not previously funded by state aid,
- c) the cost of the assets does not exceed 50 percent of the total project budget,
- d) the assets are acquired at prices that are normal for the given place (if the limits set by Act No 137/2006 Coll., on Public Procurement, as amended, are exceeded, the supplier must be selected by a selection procedure under this Act); if the assets are produced by the implementer himself, only direct costs (no margin) may be covered;
- e) the acquired assets will be handed over to the partner organization or the final beneficiary of the assistance, if they are independent of the project implementer in terms of ownership structure; in this case, the assets will be fully (100 percent) reimbursed from CDA funds;
- f) depreciation and overheads are concerned; these are only eligible if the partner organization at the place of implementation is majority owned by the project implementer; depreciation expenses must be determined in accordance with the applicable legal regulations and apply only to the period for which the project is implemented, or to the period in which the activity is co-financed.

A subsidy recipient that wants to apply depreciations as eligible expenditure must document the acquisition cost of the asset to be written off. It must be clear how the acquired property will be disposed of as early as in the design phase of the project.

2. If the asset is disposed of after the end of the project, the provider may accept the difference between the purchase price and sale price as eligible expenditure if the subsidy recipient demonstrates the economy of that solution at the subsidy application stage.

Expenses for the acquisition of small tangible assets and consumables

1. Expenses for the acquisition of small tangible assets constitute eligible expenditure if their acquisition is necessary for the implementation of the project, they are acquired at the price normal for the given place and are to be handed over to the final beneficiary of the aid after the end of the project.
2. Expenses for the acquisition of consumables and fuels are eligible only if the items were consumed in connection with the implementation of the project. If any material is consumed only partially to meet the project's objectives, the amount of eligible costs is calculated as the proportion of the total expenditures for the given consumable determined in a sufficiently probative budgeting manner.

3. Direct expenditure at the place of implementation

Expenditure related to the use of premises for project purposes

1. Expenditure related to the use of premises for the implementation of the project in question constitutes eligible expenditure only if it can be clearly demonstrated that it is new expenditure provably incurred in connection with the implementation of the project, such as rent and other services related to both residential and non-residential premises rented for the project.
2. If only part of the premises is used in connection with the implementation of the project, the amount in the project calculation should be charged at the appropriate ratio. In this case, the calculation should indicate the actual annual rent for the subsidy recipient, the period over which it is used for the project concerned, the proportion used to implement the project and the resulting eligible rent expenses. Rent expenses for premises owned or used for free by the subsidy recipient or made available by the final beneficiary of the aid will not be considered as eligible.
3. The subsidy recipient may invest funds provided from the state budget into rented premises owned by other legal entities (e.g. municipalities) only for essential repairs and maintenance and only in cases where the premises are rented in the long term (for ten or more years), when the rented premises are intended to secure the main mission of the subsidy recipient and the lessee's obligation to cover the costs of repairs and maintenance is stipulated in the contract for the rent or sub-letting of the non-residential premises.

4. Subcontracting

1. Expenditure on services (including communication services, rental of movable and immovable property, car rental fees for business trips, cleaning services, security, training, translations, expert opinions, laboratory services, writing, reproduction and printing of materials, transport and insurance of materials and goods transported to the project implementation site and back) constitutes eligible expenditure assuming that the services purchased contribute directly to the achievement of the objectives of the development cooperation project and assuming that they are purchased at prices that are reasonable and normal for the given place
2. Expenditure on work performed by an independent consultant or contractor is only eligible if such work is necessary for the implementation of the project and the amount of expenditure is reasonable. The calculation for the project must include a rate which complies with the principle of proportionality and is usual for the given place and time.

3. If the subsidy provider stipulates that the subsidy recipient is obliged to open a new separate bank account for the purpose of reimbursing eligible expenditure, the bank charges and cost of opening the account constitute eligible expenditure.
4. Expenditure on legal advice constitutes eligible expenditure if it has provably been incurred in connection with the implementation of the project and is consistent with the objectives of the project.
5. Expenditure on expert opinions required in connection with the implementation of the project (e.g. expert opinions on the environmental impact assessment, the cost of auditing accounts, if the managing authority stipulates that the accounts must be audited in the finance contract or decision) constitutes eligible expenditure assuming that it is reasonable and purchased at prices that are usual for the given place and time.
6. Expenditure on the promotion of the results of the project (including the design and production of materials promoting the results of the project, the organisation of the relevant conferences and workshops within the framework of the project implementation, etc.) constitutes eligible expenditure if it respects the principle of proportionality and is purchased at a price that is usual for the given place.

Indirect expenditure

Indirect expenditure is primarily administrative expenditure that cannot be directly attributed to a particular performance within the implementation of the project, but which must be expended by the subsidy recipient to ensure the successful implementation of the project. Indirect expenditure is eligible assuming that it:

- (a) does not exceed 7 percent of the eligible costs of the project;
- (b) does not include expenditure covered under other items of the budget of the project.

Expenditure on taxes and charges

1. If the subsidy recipient is obliged to pay value added tax (VAT) and is not eligible to deduct VAT on input, the VAT constitutes eligible expenditure at the amount actually paid by the subsidy recipient regardless of any change in the percentage for the relevant purchase.
2. If the obligation to pay road tax in accordance with the local regulations arises abroad and the vehicle in question has been acquired in connection with the implementation of project, that tax is an eligible cost.
3. Statutory social and health insurance contributions constitute eligible expenditure provided that they are paid at a statutory amount (under Czech or foreign law) and are for workers who perform activities directly related to the implementation of the relevant development cooperation project during their working hours.
4. Medical expenses insurance (or accident insurance) and the medical preparation of persons sent abroad in connection with the relevant project (e.g. vaccinations) constitute eligible expenditure.
5. Insurance covering liability for damage caused to property or the health of third parties for persons sent abroad in direct connection with the implementation of the project concerned constitutes eligible expenditure.
6. Project-related administrative fees which must be paid in the Czech Republic or in the place where the project is implemented constitute eligible expenditure (e.g. work permits, residence registration and other local fees).

7. Visas for workers sent abroad in connection with the relevant project constitute eligible expenditure.

8. Customs duty on imports of material and equipment directly related to the implementation of the relevant development cooperation project constitutes eligible expenditure unless an intergovernmental agreement has been concluded abolishing the obligation to pay duties in the case of development cooperation.

9. Losses resulting from changes in the exchange rate between the Czech crown and foreign currencies constitute eligible costs and can be covered from other items within the approved budget. Profits from changes in the exchange rate between the Czech crown and foreign currencies, however, must increase the project budget.

Ineligible expenditure

1. Ineligible expenditure is expenditure incurred by the subsidy recipient that does not meet the above conditions for eligible expenditure, i.e. particularly due to the fact that

- a) the expenditure relates to a period other than the project implementation period (expenditure incurred before the project start date and after the project end date);
- b) the expenditure is clearly unrelated to the subsidy recipient's activity for the project being implemented;
- c) the expenditure cannot be substantiated by credible and conclusive written evidence (with the exception of indirect evidence);
- d) the expenditure is not necessary for the implementation of the project; and
- e) the expenditure has been financed from other grant sources of the Czech Republic.

2. Ineligible expenditure of the subsidy recipient includes:

- a) expenditures that exceed the limits specified by the subsidy provider as the maximum amount of eligible expenditure;
- b) entertainment expenses (entertainment, refreshments, etc.) if the provision of refreshments is not related to the implementation of the project (e.g. workshops, trainings, etc.);
- c) remuneration for members of statutory bodies;
- d) expenditure on staff not directly involved in the project;
- e) expenditure on staff that are not compulsory for employers under the applicable rules (e.g. contributions to supplementary pension insurance, life insurance, recreational allowances, etc.);
- f) VAT, if the subsidy recipient is a VAT payer and this tax is in any way refundable;
- g) taxes and duties such as income taxes, gift tax, inheritance tax, real estate transfer tax and administrative and judicial fees, with the exception mentioned above;
- h) gifts in the sense of representation, not donations in the sense of developmental, transformational or humanitarian aid documented by a written document;
- i) fines and penalties, or other sanctions;
- j) write-offs of receivables;
- k) deficits and damages;

- l) the creation of provisions and adjustments;
- m) the settlement of accumulated depreciation to an adjustment to acquired assets;
- n) interest on loans, repayments of loans;
- o) financial leasing;
- p) financial expenses not included among eligible expenditures above, in particular fees for managing a different account than the current account of the project; and
- q) litigation costs.

3. Expenditures in kind are not expenses and therefore do not constitute eligible project costs. The subsidy provider may require that the subsidy applicant's budget include an assessment of the applicant's expenditures in kind incurred for the implementation of the project.

4. Ineligible expenditures must always be paid by the subsidy recipient from sources other than the bilateral foreign development cooperation funds of the Czech Republic.