

## INFORMATION SHEET 5: THE LEAD PARTNER PRINCIPLE

- One of the key changes introduced in the draft regulations concerns 2007-2013 new minimum requirements for partnerships. The aim is to introduce the Lead Partner principle (LPP) in all projects and this will mean that many of the project management structures currently in place will have to change.
- It seems extremely unlikely that the requirement to implement this principle will be changed. The following sections therefore address what this would mean in practice for the cross-border programmes:
  - What is the Lead Partner principle?
  - What are the responsibilities of the Lead Partner vs the project partners?
  - What are the implications of implementing LPP?
  - What different structures are possible?
  - What type of projects will be possible with the LPP?

### What is the Lead Partner principle?

In the coming period projects with just one partner will no longer be possible. All projects will have to have partners from at least two countries. It may be possible to implement a project in only one country, but it should still clearly be a cross-border activity based on a joint strategy. The draft regulation states that all projects must also meet a minimum of two of the following following cooperation criteria:

- Joint development
- Joint implementation
- Joint staffing
- Joint financing

Joint development means that the project must be designed by representatives from both sides of the border. This means that project proposals must clearly integrate the ideas, priorities and actions of stakeholders on both sides of the border. The Lead Partner is the coordinator of this process but should include other partners from early on in the design process.

*Joint development*

Joint implementation means that activities must be carried out and coordinated on both sides of the border. It is not enough that activities run in parallel: There must be clear content based links between what is happening on either side of the border and regular contact between the two sides. The Lead Partner is responsible for ensuring that activities are properly coordinated, that schedules are kept and that the right quality levels are achieved.

*Joint implementation*

*Joint staffing*

Joint staffing means that the project should not duplicate functions on either side of the border and that staff on both sides of the border should work together on the project. Partners should not merely carry out activities in parallel without coordination and exchange. As a minimum there should be a joint project manager with overall responsibility for project activities on both sides of the border. The Lead Partner is generally the employer of core project staff, but project partners should also allocate staff according to their responsibilities within the project. It is essential that the Lead Partner is allocated sufficient resources for overall project management.

*Joint financing*

Joint financing means that there will be only one contract per project and there must therefore be one joint project budget. This budget should be divided between partners according to the activities carried out. There is also only one project bank account (held by the Lead Partner) and payments are made from the programme to this account. The Lead Partner is responsible for administration and distribution of these funds and for reporting on their use. Match-funding should come from both sides of the border and generally from all partners and illustrates the commitment by each partner to the joint project.

Number of projects fulfilling two, three or four of the cooperation criteria are programme indicators that Objective 3 programmes should monitor and report on during implementation. For some projects it will be possible to meet only two of the criteria whereas others will be able to meet three or all four cooperation criteria.

## **Lead Partner (LP) vs partner responsibilities**

By signing the contract between the programme and the project, the Lead Partner takes on overall responsibility for ensuring implementation of the project. The other partners clearly also have a very important role to play, which should be clearly outlined in the application and also regulated in the Partnership Agreement. LP is responsible for drawing up the project Partnership Agreement which should include provisions for sound financial management and recovery of amounts unduly paid. This information must be included as it is LP that, in the first instance, is responsible for the recovery of funds unduly paid out. In the regular project reporting to the programme, LP should verify that partners' expenditure has been validated by controllers and also ensure that reported spending corresponds to the agreed activities. When a payment claim has been approved it is LP that receives payment from the programme and transfers it to partners. As the LP in general should be the contact point with the programme it also takes on an essential function as mediator of any important information between the programme and the rest of the partnership and vice versa. This role should be made clear to the LP.

It is, however, very important to stress, as this has sometimes been neglected in recent discussions on LPP, that the Lead Partner is only the administrative head of the project: Every partner has equal status on content issues. That means that every partner should play an active role both during the development of the project and all the way through its implementation. More formal requirements on each project partner include its responsibility for carrying out the activities assigned to it in the approved application. Ultimately it is also the individual partners that remain responsible for any irregularity in the expenditure they have declared. The responsibility chain running through the whole programme and the different programme bodies does thus not end with the LP, but goes all the way down to project partner level.

Finally, it should be stressed that the best way for the LPP to work in practice is if it is based on the four cooperation criteria where the strategy and activities of the project, including any changes that are needed, are agreed on and implemented jointly. A genuinely joint partnership where the Lead Partner has been jointly selected by all partners is the best foundation.

## The implications of implementing the Lead Partner principle

The whole point of cross-border cooperation is that we should perceive programme areas not as two regions separated by a border but as one region defined by a border. Project activities within the programme area should therefore be coordinated and effective across the whole area. The Lead Partner principle ensures that projects must take this kind of wider view of the programme area (compare with the discussion on single partner projects and mirror projects later on). This is then the reason for implementing the principle: It is a guarantee of true cooperation.

Also as only the Lead Partner should be in direct contact with programme management bodies, this should significantly reduce some workloads and simplify reporting and monitoring.

It has been suggested that the additional requirements created by being a Lead Partner could exclude some smaller organisations from project participation. It is certainly true that taking on the role of Lead Partner requires a certain level of resources and experience and that not all organisations will be suitable. Nevertheless, smaller organisations can still participate as regular partners and this should have absolutely no effect on their contribution to project content. On the contrary, it should even make it easier for them to participate when there is a Lead Partner that takes overall administrative responsibility.

*Will smaller organisations still be able to participate?*

It should also be noted that there are many different ways of applying LPP and most programmes allow different models with projects deciding on a case-by-case basis what will work best for them. In the Central Cash System, for example, LP receives the majority of the funding and pays partner invoices – in effect serving as the bank for the rest of the project. The other partners generally have a small grant of their own to pay for e.g. travel costs and meetings. This system is particularly useful for projects with large numbers of small and/or inexperienced partners as it removes much of the administrative burden from them.

Another way of including small partners is to make use of the sub-partner concept. Sub-partners are not part of the formal partnership and do not therefore need to appear in the application or contract although the programme should be informed of all sub-partner participation. Sub-partners are organisations that play a minor but integrated role in implementation of the project. As such their costs are generally limited to small amounts of staff time. Their expenditure can be included in the project partners' claims and their time spent on the project will also be reported to the partners and controlled at partner level.

Smaller organisations can also make use of small-project facilities or participate in People to People projects. Some programmes running under IIIA are already successfully combining this kind of action with the Lead Partner principle.

Among those programmes that do not yet apply the Lead Partner principle there is a concern that its introduction would lead to reduced commitment from non-Lead Partner project partners. Such sleeping partners are expected to not just leave administrative responsibility with the Lead Partner, but also the implementation of project activities. To avoid this happening there is a need for a good project work plan where the responsibility of each partner is clearly indicated. It is important to clarify to the partnership during its development how the Lead Partner principle works and what practical implications it has. Upon checking project proposals it becomes even more important to ask for and check how the contribution of each partner is outlined. If a project partner begins to neglect its responsibilities within the project it is a problem for the partnership as a whole and not just the Lead Partner. If the Lead Partner reports such challenges it is important from the side of the programme to take a pro-active approach and assist the Lead Partner in getting the partner on track. However, if a partner refuses to meet its obligations, there is no other solution than removing it from the project.

*Commitment from all project partners is essential*

*Increased costs for money transfers*

The use of the Lead Partner principle will lead to increased costs for transferring funds across borders (particularly when there is also a change of currency involved). Under the Lead Partner principle, the PA in country 1 will sometimes need to transfer money to the Lead Partner in country 2 only for that Lead Partner to transfer money back to a partner in Country 1. In other words, two international transfers for just one project and many more if the partnership is large.

In order to stop these costs escalating out of control in large partnerships, some projects have established a coordinating partner on the other side of the border from the Lead Partner. This partner receives all funds and then distributes them on behalf of the Lead Partner. This could be a pragmatic solution to limiting transfer costs but must not be allowed to water down the Lead Partner principle. The coordinating partner should therefore be limited to only distributing funds according to the instructions of the Lead Partner. The Lead Partner remains responsible for ensuring that partner spending is in line with agreed activities and has been audited. However, the IIIB and IIIC programmes accept these transfer and currency change costs as a necessary expense for true cooperation within their often large project partnership. If properly managed, these costs should not represent a significant percentage of total programme funds.

## **Will it be possible to implement the Lead Partner principle in the current legislative and administrative set-up?**

It would be ironic if a cross-border programme could not run cooperation projects because even programme working procedures could not be harmonised enough to allow day-to-day project exchange across the border. But this is exactly what is happening. The most common reason given for resisting implementation of the Lead Partner principle is that it requires transfers of responsibilities and funds across borders and that this is impossible under national legislation. There is no doubt that changes will be required to many programme structures to make the Lead Partner principle work but successful models already exist in current INTERREG III A, B and C programmes. These programmes are sometimes operating across the same borders as programmes where problems are encountered but are apparently able to overcome these problems.

*Solutions already exist to how to make necessary changes to programme structures and procedures*

As many solutions are already available – what is required is a change to the unworkable procedures being used. For example, in some programmes INTERREG funds are paid into the same account as the regional budget. This of course makes it extremely difficult to transfer these funds out of the country. Programmes should always have separate accounts for INTERREG funds and this should remove this problem. Likewise, if the type of project contract being used is a problem, it could be worth considering a different type of contract. Certainly, some of these changes require changes in legislation (perhaps even at the national level). A serious commitment to cross-border cooperation should, however, be matched by a willingness to make this kind of change as has already happened in some countries.

*First level control*

Another issue that must be tackled is the objections of financial control bodies to certifying expenditure incurred on the other side of the border. The Lead Partner principle does not, however, mean that one authority *must* control the expenditure of all project partners. If the Extended Final Beneficiary Principle is used, all partners can become final beneficiaries and controlled separately by the appropriate body in their own country. LP's controller then signs a declaration that they have received properly certified statements of expenditure from all partners. They do not have to assess the quality of the control work done as this remains the responsibility of the first level control body in each country. There are also other variations on the requirements and procedures for first level control and differences in national rules should not be a barrier. The Central Cash System, the possibility to have project sub-partners and the Extended Final Beneficiary System illustrate the flexibility of the LPP: there is no single 'right' structure for Lead Partner projects.

## Single partner projects

There has been a debate among cross-border programmes about whether the main aim of the programmes should be development of the border regions or integration of the regions across the border. The development perspective is justified with the argument that strengthening one side of the border strengthens the whole cross-border area. It is, however, an argument that can be extended to justify almost any activity and this was never the purpose of INTERREG: The programmes are designed to fund activities that require cooperation. The conclusion thus becomes that INTERREG IIIA should aim for development of border regions through integration across borders. This view and the use of the Lead Partner principle have a number of implications.

At present a number of programmes allow projects with only one partner that, by definition, work on only one side of the border. The rationale for this approach is taken from the current guidelines which allow this arrangement where *'it can be shown that the operation has a significant impact on other Member States or third countries'*. Sometimes this impact is ensured only by requiring that representatives from both sides of the border agree on the approval of projects. Though many single partner projects have been valuable, there is a danger that regions on either side of the border can 'trade approvals', focusing on their own development goals and disregarding the cooperation element that should be integral to all INTERREG projects. An example often given of valuable single partner project activities is that of infrastructure investments. A bridge on one side of the border but on an important cross-border road clearly improves the accessibility of both sides of the border but is of course only built in one country: A single partner project should be the best approach. But is it?

Under the Lead Partner principle, this type of project will no longer be possible. What this means in practice is that a change of approach is probably required rather than a change of actual project activities. To return to the example in a joint project developers can adopt a more unified view of their regions and make any necessary small-scale investments or planning in direct connection to the bigger one instead of dealing only with the bridge in isolation. By working in a cross-border partnership and making use of the expertise and resources available on both sides transport bottlenecks could be analysed and corrected simultaneously on both sides of the border. In these cases, the Lead Partner principle is a new way of addressing old problems and adding value to regional actions.

## Mirror projects

Another type of project that will have to change is the so-called mirror or back-to-back project. These are actually two projects addressing the same theme but running separately on each side of the border. The reason most commonly given for developing these types of projects is that they allow cooperation on content while avoiding administrative and legal barriers because project management and financing are kept separate. Unfortunately, in many cases the two halves of a project do not even need to be approved at the same Steering Committee meeting. This raises the question of how much commitment there can be to cooperation when one half can be approved and start operating without even knowing whether the other half will ever be approved.

If such projects are to succeed in the coming programme period, they should of course be developed jointly and should include, for example, a specific work package to ensure cooperation with the project on the other side of the border, i.e. be at least jointly developed and jointly implemented. In other words, the Lead Partner principle will strengthen content through more integrated working patterns.

**Seminar on the Lead Partner principle, June 2006, Tallinn, Estonia.**

*The seminar targets the new Objective 3 cross-border programmes and will cover the impact of the obligatory Lead Partner Principle (LPP) on the development of projects in the new period. It will give details on the implications of LPP for key stages of the project cycle (development, contracting, implementation, reporting and closure), partnership structures that will/ will not be possible and the different responsibilities of the Lead Partner and of the other project partners. Also covered will be programme responsibility for ensuring the correct application of LPP by projects through guidance, monitoring etc. More information on the event, including how to register, will be available on the INTERACT website during spring 2006.*

*The event is being developed jointly by the INTERACT Points Managing Transition and Qualification and Transfer with input from other organisations. If you are interested in attending, please send an e-mail to [ip.qt@interact-eu.net](mailto:ip.qt@interact-eu.net) entitled 'Lead Partner principle seminar'.*