

## Handbook on the Lead Partner Principle in European Territorial Cooperation Objective Programmes





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## **ACKNOWLEDGEMENTS**

This tool has been elaborated by INTERACT Point Tool Box in Valencia in collaboration with Haute Finance / European Affairs (NL), and is supported by the INTERACT Programme.

The authors are grateful for the extremely valuable and prompt advice received from INTERREG III stakeholders and would like to thank INTERREG III Programmes for allowing us to share their good practice, knowledge and ideas. We also thank the INTERACT Secretariat and the other INTERACT Points for the help given to us all along the way.

INTERACT hopes this tool will contribute to spreading “INTERREG Know-how” and encouraging other Community Initiative Programmes to share their skills and knowledge with INTERREG actors through INTERACT.

**INTERACT Point Tool Box**  
March 2007

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## HOW TO READ THIS DOCUMENT

### ***Executive Summary***

This Section provides a summary of the main issues dealt with in this tool.

### ***Methodology***

This Section explains the two-step approach used in this Handbook: Framework Report (theoretical) and Practical Issues (practical) – and it mentions the work tools used.

### ***Introduction***

This Section gives background information on INTERACT and INTERREG and puts forward the main questions that will be addressed in this Handbook.

### ***PART 1: Framework Report***

This Section defines the Lead Partner Principle and the reason for its implementation in the context of European Territorial Cooperation programmes. It provides an overview of the legal underpinning of the Lead Partner Principle and the main changes when comparing the 2000-2006 and 2007-2013 programming periods. Lastly, it analyses how the Lead Partner Principle has been implemented on programme level across the three strands of INTERREG III in the 2000-2006 programming period. The main focus of this last part is on Strand A programmes.

### ***PART 2: Practical Issues***

Based on findings from case studies and interviews with programme and project stakeholders in the 2000-2006 programming period, this part provides an overview of problems that could be expected, solutions found, tools, good practice and key issues for the implementation of the Lead Partner Principle in the 2007-2013 programming period. Practical issues are dealt with on programme and project level.

The results are summarised in a list of key findings. The main practical items for programmes and projects are mentioned in two checklists respectively.

### ***Glossary***

This Section explains the terms and abbreviations used throughout this Handbook.

### ***Annex***

A summary table of case studies is provided as an Annex.

### ***Disclaimer***

In the 2000-2006 programming period there is some confusion about the terms 'controller' and 'auditor'. Persons carrying out First Level Controls were either called "auditors" or "controllers" and the definition of either term varied from country to country.

In the 2007-2013 programming period, the term 'auditors' is used for persons responsible for Second and Third Level Control (Audit Authority and Group of Auditors) only, whereas the 'controller' is designated by the Member State to carry out First Level Control. The 2000-2006 period concept of project controller (or project auditor) will no longer apply in the majority of cases in the 2007-2013 programming period. Rather, all partners will be controlled independently in their own countries by the designated controller. Likewise, the concept of 'internal' controllers will cease to apply, since only controllers designated by the Member State will carry out First Level Controls.

Consequently, in order to avoid any confusion and misunderstanding in the use and interpretation of the terms "controller" and "auditor", the person or body in charge of carrying out the First Level Controls will be hereinafter named "controller" for both programming periods.

## EXECUTIVE SUMMARY

The prime reason for implementing the Lead Partner Principle (hereinafter LPP) is to genuinely join programme and project partnerships, requiring **joint cooperation** at both levels. This Handbook sets out to explore how the LPP has been implemented in the 2000-2006 programming period and which lessons can be learned for the 2007-2013 programming period. This tool is especially useful at programme and project level, since it highlights key issues for implementation of the LPP.

### ***2000-2006 programming period***

For the 2000-2006 programming period, the LPP has been an optional feature for programmes, specified in the INTERREG III Communication of the Commission to the Member States (2004/C 226/02). The LPP in this period means that the Lead Partner (hereinafter LP) of an operation bears final responsibility and liability for the entire project.

Strand A is characterised by the substantial differences between the programmes in terms of programme management structures and use of the LPP. There are two types of cross-border projects when the LPP is not applied: single projects (implemented on one side of the border only) and mirror projects (parallel projects on each side of the border). It is questionable whether these alternative structures succeed at bringing about cross-border impact, coverage or cooperation. On the other hand, programmes in Strand B and C have all applied the LPP with relatively little difference between them, which has not been the case for Strand A.

### ***2007-2013 programming period***

For the 2007-2013 programming period, Council Regulation (EC) 1080/2006 establishes the compulsory implementation of the LPP in all Territorial Cooperation Objective programmes. Although the LP is the administrative link between the project and the programme, it does not bear full financial and/or legal responsibility for the project.

The main challenge lies with the cross-border programmes. The key issues for the LPP implementation revolve around the four cooperation criteria: joint development, joint implementation, joint staffing, and joint financing. Cross-border and transnational projects need to satisfy two out of four of the cooperation criteria, where interregional projects need to fulfil all four. The issues addressed in this Handbook include the flow of information, the design of programme and project structures, legislation and financial management, control and monitoring.

### ***Key issues at programme level***

Most notably, programmes should commit themselves to supporting project development to which they have a wide selection of tools at their disposal. Programmes should aim at project structures which set a solid framework directed at the four cooperation criteria in terms of project activities, project finances and partner contribution. The flexibility of the LPP should be taken into account to replace current project structures and lower barriers to entry for smaller organisations (devolved responsibility). Lastly, there is a need to focus on efficient and effective interaction between the programme and the projects.

### ***Key issues at project level***

Projects should aim at joint development of contents, budget and management structures. The partnerships should be balanced and sufficient resources should be allocated for partners to fulfil the tasks and obligations in a Territorial Cooperation project. Project partnerships should be aware of the longer preparation phase and the all-important link between activities and expenditures. It is also important that the LP understands its role as linking pin between the programme and the project (flows of information and funds). The fact that all project partners will be controlled by designated controllers in their own country should tackle difficulties with certifying expenditure across the border as experienced in the 2000-2006 programming period.

## METHODOLOGY

This Handbook involves a two-step approach: a theoretical part, (Framework Report) and a practical part (Practical Issues).

### PART 1: FRAMEWORK REPORT

This first part puts forward the rationale behind the study of the Lead Partner Principle. It gives insight in the definition of what is the Lead Partner Principle and the scope and legal framework for both the 2000-2006 and the 2007-2013 programming period. The most important changes between the two programming periods are highlighted for each section. Lastly, the implementation of the LPP in the 2000-2006 programming period is discussed.

The analysis of the situation in both programming periods has been performed along the following steps:

1. **Selection of relevant and representative programmes** in all three INTERREG Strands for in-depth analysis and to be used for the case studies in the second part, Practical Issues.

The selection of programmes is based on full geographic coverage and expected disparities in the implementation of the LPP across the programmes. The selection includes:

- Strand A: France/Spain, Netherlands/Germany (Euregio Rhine/Waal),
- Strand B: Baltic Sea Region, Atlantic Area, CADSES Neighbourhood Programme
- Strand C: West Zone

2. **Desk research.** The main documents used for desk research are:

- All application packs of Strand B and C programmes; the application packs of Strand A programmes in aforementioned selection and the application packs of two additional programmes<sup>1</sup> that have been assessed as good practice in the INTERACT Point Tool Box study 'Good Practice INTERREG III Application Pack'.
- Mid Term Evaluations and updates of Mid-Term Evaluations of selected programmes;
- Operational Programmes and Programme Complements of selected programmes;
- INTERACT Point Qualification and Transfer documentation for the Seminar on the LPP for cross-border programmes in Riga 15/16 June 2006;
- European Commission Communication to Member States, 2004/C 226/02;
- Interpretative Note of EC on Council Regulation (EC) No 1260/1999;
- Regulations (EC) No 1080/2006 and 1083/2006 on the European Regional Development Fund ;
- INTERACT Point Qualification and Transfer Information Sheets 'Effective management of INTERREG IIIA programmes'.

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<sup>1</sup> These programmes are INTERREG IIIA Wallonia - Lorraine – Luxembourg Programme, and INTERREG IIIA Adriatic New Neighbourhood Programme.

## PART 2: PRACTICAL ISSUES

This second part builds on the conclusions from the desk research in the Framework Report and puts the results in a practical context. The focus is now on practical implications of the findings (amongst others the use of the LPP during the 2000-2006 programming period) for the 2007-2013 programming period. This part is based on the Project Life Cycle and focuses on what role programmes and projects have to play for smooth LPP implementation during each phase. This is done both by means of in-depth analysis and detailed case studies of the selected programmes structured along the Project Life Cycle. However, as the study is performed on a selection of programmes, the findings do not cover the full array of possible problems, solutions, tools, etc. Whenever relevant and available, this Handbook makes reference to problems, solutions, good practices and tools found outside the sample programmes.

1. **In-depth analysis** of the selected programmes, as used in step 1 for the Framework Report. Several questionnaires and interviews for professionals on programme and project level within Strands A, B and C were used to collect additional information:

⇒ Questionnaires

Questionnaires have been developed for Strand A programme officials, and were handed out and collected during the INTERACT seminar on the LPP in Riga, 15-16 June 2006. Additionally, the findings of the questionnaire used in the INTERACT FIMIP study have been taken into account whenever applicable.

⇒ Interviews

Interviews have been held with programme officials of the selected programmes and at least one LP in each of the selected programmes. The phone interviews have proven to be essential to identify the problems encountered by stakeholders and analyse the advantages and pitfalls of the LPP during the 2000-2006 programming period. In addition, phone interviews were a unique opportunity to gather good practice and suggestions from the stakeholders to improve the implementation and application of the LPP for the 2007-2013 programming period.

2. **Case studies** of the selected programmes, as used in step 1 for the Framework Report. The information retrieved from desk research, from the questionnaires and from the interviews is analysed and recommendations and good practice are highlighted.

***The work tools include:***

- A comparative table containing the main features of the application of the LPP across the three INTERREG strands, highlighting the main findings and points of interest.
- A methodological guide about the implementation of the LPP comprising: a general description of the current systems and procedures in place, case studies and questionnaires regarding the application of the LPP across the sample programmes: IIIC West zone, 3 IIIB programmes and 2 IIIA programmes.
- An overview of the Lead Partner versus project partner responsibilities during the project life cycle.
- Conclusions and recommendations processed in lists of key issues on three levels: general, programme and project.

## INTRODUCTION

INTERACT Point Tool Box aims to identify Good Practice and issue practical tools for territorial cooperation programme management. More specifically, INTERACT identifies good practice in INTERREG programmes and contributes to the exchange of this good practice across all three strands. Moreover, Tool Box elaborates practical tools after identifying programme and project implementation areas where they are most needed.

INTERREG is a Community Initiative which aims to stimulate territorial cooperation in the European Union (EU). It is financed under the European Regional Development Fund (ERDF). INTERREG III programmes are designed to strengthen economic and social cohesion throughout the EU, by fostering the balanced development of the continent through cross-border (Strand A), transnational (Strand B) and interregional cooperation (Strand C).

### Objectives of the handbook

This tool is addressed to INTERREG stakeholders in general, in order to provide an overview on the Lead Partner Principle (LPP). This tool aims to help potential Lead Partners (LP) and project partnerships in general, to get an overview of the specificities of tasks that they must comply with in the 2007-2013 programming period. It should also be especially useful to programmes in Strand A which have not implemented the *Lead Partner Principle* in the 2000-2006 programming period.

Every INTERREG III programme has set up different monitoring and management systems, even if all of them start from the same basis. The 2000-2006 generation of INTERREG programmes in Strands B and C has implemented the LPP in the execution of their programmes. Programmes in Strand A have not necessarily applied it, although both Strand A programmes and European Territorial policy-makers have shown an increased interest in standardising the LPP in view of the 2007-2013 programming period. Especially, since it has become clear that the LPP is a mandatory feature for all 2007-2013 Territorial Cooperation Objective Programmes.

It is interesting and important at the end of the 2000-2006 programming period to explore the definition and the implications of the LPP and to look ahead regarding its implementation in the 2007-2013 programming period. In that respect, key questions to be answered are:

- *What is the definition and scope of the LPP in both programming periods?*
- *What is the legal basis for the LPP in both programming periods?*
- *Has it actually benefited the implementation of programmes and/or projects in the 2000-2006 period?*
- *What, if any, are the disadvantages of the LPP?*
- *What are the key aspects to be decided when implementing it in the 2007-2013 period?*

This Handbook aims to serve as guide and reference source on the LPP in territorial cooperation programmes and its use during the 2007-2013 ERDF programming period. As such, existing good practices are highlighted and suggestions for new practices and solutions are proposed.

## PART 1: FRAMEWORK REPORT

### 1. DEFINITION AND SCOPE OF LEAD PARTNER PRINCIPLE

#### 1.1 Definitions

The LPP is an important and characteristic feature of INTERREG programmes. Under the LPP, activities of a project are typically carried out by a number of partners of whom one<sup>2</sup> acts as the 'Lead Partner'. The LP forms the formal link between the project and the respective programme.

**In the 2000-2006 period:**

The Lead Partner assumes overall financial and legal responsibility for the submission of the application form and of the implementation of the project in case of approval.

**In the 2007-2013 period:**

The Lead Partner acts as an administrative link between the project and the programme, and as such, bears responsibility for ensuring the project's implementation. However, each partner bears full responsibility for their own actions. A Partnership Agreement becomes mandatory.

For the 2000-2006 period, the LPP is specified in the INTERREG III Communication of the Commission to the Member States (2004/C 226/02) and means that the LP bears responsibility and liability for the entire project including all activities performed by other partners and the expenditure they incur for the project.

Specification of the LPP for the 2007-2013 period can be found in Regulation (EC) 1080/2006 on the European Regional Development Fund, in which the term 'lead beneficiary' is used instead of Lead Partner. Lead beneficiary can be read as Lead Partner. This Regulation requires the appointment of a LP in each project during the 2007-2013 programming period, however, under the condition that all partners bear liability for their own actions.

#### 1.2 Scope of Lead Partner Principle

Under the 2000-2006 programming period, the LP is referred to as the 'final beneficiary'. For this purpose, the reader may consider the terms 'LP' and 'final beneficiary' as one and the same. In all INTERREG programmes, the LP must be a public or non-profit making private organisation and in general must originate from one of the EU Member States (hereinafter 'MS') involved in the respective programme.

The LPP requires one project partner to step up as the administratively responsible partner on behalf of the whole partnership. The LP responsibilities also often include that all contact with the programme takes place via the LP. In such cases it is the responsibility of the LP to pass on all information relevant to the project partners. However, the main responsibilities of the LP and project partners in the 2000-2006 programming period are different from those in the programming period 2007-2013.

⇒ As in the 2000-2006 period overall **financial responsibility** lies with the LP, it is the LP together with the controller, who must ensure the eligibility of expenditures claimed. The LP must make sure that arrangements have been made to assure the audit trail and that sound financial management is in place. Therefore, the LP responsibilities often include appointing a project controller, delivering project reports and documentation to the programme, delivering project outputs, producing documents required for control and

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<sup>2</sup> In certain cases, there can be two Lead Partners for administrative reasons. As put in INTERACT Point Tool Box Good Practice INTERREG III Application Pack Handbook: the Lead Partner originates from an EU Member State, it shall also be responsible for the financial management of the ERDF funds. If it originates from a non-EU Member State, the responsibility for ERDF funds is delegated to a partner from an EU Member State (ERDF LP), since only a project partner coming from a Member State is entitled to deal with ERDF-funding.

payments, and carrying out the overall and financial management of the project including the project's ERDF funds.

In the 2007-2013 programming period, the LP is responsible for ensuring the implementation of the project. The LP needs to ensure that the expenditure presented by the project partnership has been incurred for the purpose of implementing the project and corresponds to the activities agreed between the project partners. Similar to the 2000-2006 programming period, the LP still delivers progress reports and documentation to the programme on behalf of the project and transfers the ERDF contributions to the project partners. However, all project partners need to have their own control on expenditures done by a designated controller.

- ⇒ In the 2000-2006 programming period the LP assumes overall **legal responsibility** for the project. In practice, a Partnership Agreement is often drafted by the LP so that the responsibility of the LP does not dismiss the other project partners from their responsibility for implementing the project's activities. In so doing, the LP also protects itself against contractual partners. Moreover, legal agreements are relevant with respect to the eligibility of expenditures of all project partners. The final beneficiary retains liability for the use made of all partners' expenditures. In that respect, legal agreements between project partners may serve as a prerequisite to satisfy the conditions for extension of the concept of the final beneficiary ('Extended Final Beneficiary Principle' or short 'EFBP') to cover the other project partners besides the LP.<sup>3</sup>

In the 2007-2013 programming period, all partners are responsible for the implementation of the project activities. In a sense, the Extended Final Beneficiary Principle (EFBP) can be said to apply to all projects now. This devolved responsibility forms the basis of the mandatory **Partnership Agreement** in which the legal agreements between project partners in order to define their mutual cooperation are established formally. The LP is responsible for ensuring that this Partnership Agreement is drafted.

The abovementioned responsibilities are summarised in the Table below:

2000-2006 programming period	2007-2013 programming period
<p><b>LP bears overall financial responsibility:</b></p> <ul style="list-style-type: none"> <li>⇒ LP is liable and together with first level controller ensures eligibility of expenditure.</li> <li>⇒ LP often appoints project controller/auditor;</li> <li>⇒ LP responsible for audit trail, financial management, reporting and other administrative actions.</li> <li>⇒ LP may rely on devolved responsibility under the EFBP (see partnership agreement).</li> <li>⇒ LP distributes ERDF to project partners.</li> </ul>	<p><b>Devolved financial responsibility:</b></p> <ul style="list-style-type: none"> <li>⇒ LP is responsible for ensuring that expenditure is eligible, however, partners remain liable for their own actions.</li> <li>⇒ All partners will have their own controls done by the designated controller.</li> <li>⇒ LP is responsible for reporting and other administrative actions towards the JTS.</li> <li>⇒ LP distributes ERDF to project partners.</li> </ul>
<p><b>LP bears overall legal responsibility:</b></p> <ul style="list-style-type: none"> <li>⇒ LP retains liability for the use made of all partners' expenditure.</li> <li>⇒ LP may choose to lay down mutual rights, obligations and duties between project partners in partnership agreement.</li> </ul>	<p><b>Devolved legal responsibility:</b></p> <ul style="list-style-type: none"> <li>⇒ Project partners are liable for their own actions and related expenditure.</li> <li>⇒ LP is responsible for drafting Partnership Agreement (mandatory) setting mutual rights, obligations and duties between project partners.</li> </ul>

<sup>3</sup> 'Extended Final Beneficiary Principle' (2000-2006 programming period): all of the partners can become final beneficiaries and are therefore controlled independently. This means that each partner can be controlled by a controller in its own country. The LP controller does not have to assess the quality of the control work done, this remains the responsibility of the FLC body in each MS.

## 2. RATIONALE BEHIND LEAD PARTNER PRINCIPLE

The Community Initiative INTERREG is designed to fund activities that require cooperation, be it cross-border, transnational or interregional.

In that respect, the often voiced criticism that many projects in Strand A programmes do not involve genuine cooperation, but in essence are regional projects that do not need to be carried out under INTERREG, reflects part of the need for implementing the LPP.

Indeed, the prime reason for implementing the LPP is to genuinely join programme and project partners, requiring **joint cooperation** at both levels.

- ⇒ On **programme level**, single programme bodies are regarded as a way to facilitate the process from project application to project approval. The LPP enables more efficient contact between the Managing Authority (hereinafter 'MA') and the projects. A single contact point and administrative responsibility for each project simplifies monitoring and steering of projects by programmes. The LPP potentially reduces workloads and simplifies reporting.
- ⇒ On **project level**, overall management tasks are delegated to one project partner, the LP. Additional efforts are required from the LP in its role of intermediary between the programme and the other project partners. On the other hand, the LPP organises relations among the project partners and projects stand to profit from clear lines of responsibility. The flexibility of the LPP means that project structures can be tailored to the needs and characteristics of a project and/or partnership.
- ⇒ On **Commission level**, the LPP offers added value through its project structures. These facilitate joint implementation and synthesis actions. The LPP benefits from sufficient financial safety elements within the Regulations, as can be seen in the following section.

Amongst others, the abovementioned benefits of the LPP have given rise to one of the key changes in the Regulation on the European Regional and Development Fund for programming period 2007-2013 concerning minimum requirements for partnerships: **all operations will have to appoint a lead beneficiary** (art. 20.1 of Regulation (EC) 1080/2006). This means that many of the programme and project management structures in Strand A programmes will have to change in the 2007-2013 programming period.

### 3. LEGAL UNDERPINNING OF LEAD PARTNER PRINCIPLE

This Section covers the legal base for the LPP and it is divided into two parts: the period 2000-2006 and the situation for the period 2007-2013. Again, in this section, the reader may consider the terms 'LP', 'lead beneficiary' and 'final beneficiary' as one and the same, whereas the term 'operation' corresponds with 'project'.

#### 3.1 The 2000-2006 programming period

According to the INTERREG III Communication of the Commission to the Member States (2004/C 226/02):

*"In the case of operation involving partners in different Member States, **the final beneficiary will be the partner in charge or "leader" of the cooperation** which will undertake financial management and coordinate the various partners in the operation. This **Lead Partner** in charge will bear financial and legal responsibility to the Managing Authority as to be defined in the ERDF contract. (...) The ERDF contribution will be paid to a single bank account in the name of the Paying Authority or of the Managing Authority (where it is also the Paying Authority). On the basis of decisions concerning the selection of projects by the Steering Committee or the Monitoring Committee acting as Steering Committee, this ERDF participation will then according to Article 32 (1), last subparagraph, of the General Regulation be paid by the Paying Authority to the final beneficiaries."*

This Communication of the Commission refers to the **Council Regulation (EC) 1260/1999** (Articles 9 and 32) in which the LP is considered as the **final beneficiary**. Payments to the project must be based on expenditure put forward by the final beneficiary. The LP will, as final beneficiary, act as a link between the project and the respective programme. At project level the LP is the overall administratively and financially responsible body.

Regulation 1260/1999 further stipulates that if the LP should come from a non-EU MS, the project should appoint an ERDF-LP. **Only an EU-MS project partner is entitled to deal with ERDF funding**. In these cases it is the ERDF-LP who is final beneficiary according to Council Regulation (EC) 1260/1999. The non-MS project partner can be regarded as substantial LP who delivers the inputs to the project though, whereas the ERDF-LP only formally acts as LP.

Finally, Section 1 mentions the EFBP.<sup>4</sup> The interpretative note of the Commission Services on Council Regulation 1260/1999 – Article 32(1) Subparagraph 3 provides that the concept of **'final beneficiary' may be extended** to cover the other project partners as well under the condition that the audit trail is clear and complete and specified in a contract or an agreement between the LP and the project partners.

#### 3.2 The 2007-2013 programming period

For the 2007-2013 programming period, **article 20 of ERDF Regulation (EC) 1080/2006** lays down the ground rules for the LPP mandatory implementation. For each operation, a **lead beneficiary** shall be appointed by the beneficiaries among themselves. The lead beneficiary shall assume the following responsibilities:

- it shall lay down the arrangements for its relations with the other beneficiaries participating in the operation in an agreement comprising, *inter alia*, provisions guaranteeing the sound financial management of the funds allocated to the operation, including the arrangements for recovering amounts unduly paid;
- it shall be responsible for ensuring the implementation of the entire operation;

<sup>4</sup> 'Extended Final Beneficiary Principle' (2000-2006 programming period): all of the partners can become final beneficiaries and are therefore controlled independently. This means that each partner can be controlled by a controller in its own country. The LP controller does not have to assess the quality of the control work done, this remains the responsibility of the FLC body in each country.

- it shall ensure that the expenditure presented by the beneficiaries participating in the operation has been incurred for the purpose of implementing the operation and corresponds to the activities agreed between those beneficiaries;
- it shall verify that the expenditure presented by the beneficiaries participating in the operation has been validated by the controllers;
- it shall be responsible for transferring the ERDF contribution to the beneficiaries participating in the operation.

Each beneficiary participating in the operation shall assume responsibility in the event of any irregularity in the expenditure which it has declared. Again, this is one of the changes in the scope of the LPP in the 2007-2013 programming period. The beneficiary will inform the Member State where it is located about its participation in an operation in the case that this Member State as such is not participating in the Operational Programme concerned.

The following table shows the main differences between the 2000-2006 and the 2007-2013 programming periods in terms of applicable Regulations.

2000-2006 programming period	2007-2013 programming period
General Regulation 1260/1999	General Regulation 1083/2006
ERDF Regulation 1783/1999	ERDF Regulation 1080/2006
Use of Euro Regulation 643/2000 Management & Control Systems Regulation 438/2001 Eligibility of Expenditure Regulation 448/2004	Commission Regulation setting out rules for the implementation of Council Regulation (EC) 1083/2006 laying down general provisions on the ERDF, the ESF and the Cohesion Fund and of Regulation (EC)1080/2006 on the European Regional Development Fund

## 4. IMPLEMENTATION OF LEAD PARTNER PRINCIPLE

During the programming period 2000-2006 the LPP has been applied in all INTERREG programmes under Strands B and C, but not in all Strand A programmes. The following analysis shows how the LPP has been applied across all three INTERREG Strands. In particular the situation for programmes in Strand A has been subject to scrutiny, as not all programmes adopted the LPP. The typical problems with the LPP implementation and the specific reasons for not applying the LPP for Strand A programmes will be addressed in more detail and in a practical context in Part 2 of this Handbook.<sup>5</sup>

### 4.1 Strand A programmes

Strand A is characterised by the substantial differences between the programmes' use of the LPP. Not only in terms of how the LPP is applied, but also the way the programmes assure cross-border coverage and impact when the LPP is not applied. Other important features of Strand A programmes are the effect of national and regional legislation on the implementation of the LPP and the involvement of non-EU MS in certain programmes.<sup>6</sup>

#### 4.1.1 Aiming for cross-border development through integration

The large majority (most if not all) Strand A programmes stress the need for projects with genuine cross-border nature and impact. Some programmes have chosen to implement the LPP in order to achieve such programme objectives more efficiently, as can be seen in next section 4.1.2. Other programmes have chosen approaches and methods other than the LPP. This is illustrated by the various different models for management and monitoring used on programme and project level, as mentioned in section 4.1.3.

**Strand A programmes should aim for the development of cross-border areas through cross-border integration and partnership.**

Therefore, it can be stated that **the LPP promotes development through integration** by requiring cross-border partnerships (cooperation), cross-border management and the integration of cross-border working patterns. The following sections should be read in the light of this conclusion, as they address the different management structures applied in Strand A programmes.

#### 4.1.2 Application of the Lead Partner Principle IN STRAND A

When looking at Strand A programmes that have adopted the LPP, there is no uniformity in the way the LPP is implemented.

In certain Strand A programmes the LPP is applied in a similar way to programmes in Strands B and C. In the INTERREG IIIA Euregio Rhine-Waal programme, for example, the LPP is applied as follows:

*“the project partners appoint a Lead Partner among themselves, and the Lead Partner is responsible for implementing the project in respect of the programme. The geographical situation of the Lead Partner determines the sub-programme in charge of the project (in terms of both ERDF and support by the relevant Programme Management Unit).”<sup>7</sup>*

<sup>5</sup> However, it is important to note that the programme analysis is limited to the sample mentioned in the methodology. Whenever relevant, the authors have included problems, solutions, good practices and tools known to them to exist in programmes other than the ones selected.

<sup>6</sup> Involvement of non-MS is also important for some Strand B and C programmes (e.g. CADSES).

<sup>7</sup> Source: INTERREG III Programme Summaries by INTERACT. INTERACT Website

However, in most other cases the methods and procedures for implementing the Strand A programmes and indeed the LPP present different patterns. The most interesting findings in that respect are mentioned below.

### **Lead Partners originating from outside the eligible area or non- Member States**

As a rule of thumb, all partners in the Strand A must originate from within the eligible area of the programme. However, in the INTERREG IIIA Italy-France (ALCOTRA) only the LP has to be situated in the eligible area, not the other partners.

*“In the event that there are several partners of a nationality other than that of the LP, they choose from among themselves a “main cross-border partner”. The other partners do not have to be situated in the eligible area. The LP receives the ERDF funds and must refund his partners accordingly.”<sup>8</sup>*

In other cases when programmes involve a country outside the EU, the procedures for applying the LPP are tailored accordingly. For instance, in the INTERREG IIIA France-Switzerland programme each project has two LPs, a French one and a Swiss one. Each LP is responsible towards their respective MA for the implementation of the project.

*The procedures are as follows:*

- ▶ *Application: The application form is a single document to be completed and signed by the French and the Swiss LP.*
- ▶ *Subsidy contract: A subsidy contract is drawn up on each side of the border between the respective LP and the MA.*
- ▶ *Partnership agreement: The signing of a partnership agreement is compulsory only for French partners. The 2000-2006 programming period eligibility criteria give rise to the possibility of a project being implemented on one side of the border only, and thus with only one LP. The condition is that there must be proof that the project’s activities will have an impact on the other side of the border. This principle was applied for the first time in summer of 2005, with the approval of two “French INTERREG projects”. This will no longer be an option for the 2007-2013 programming period.*

### **EU-Bordering programmes**

A number of Strand A programmes are supported by the ERDF and at the same time by other financial instruments such as TACIS and CARDS. This has an influence on the way the LPP is structured. For instance, in the INTERREG IIIA Adriatic New Neighbourhood Programme, there are two types of LPs: internal and external LPs. The distinction is derived from the structures related to the management of the INTERREG IIIA Adriatic Cross-border programme and the Adriatic New Neighbourhood INTERREG/CARDS programme.<sup>9</sup>

### **Partnership Agreements**

Not all programmes in Strand A require projects to have a signed Partnership Agreement to arrange mutual obligations, duties, and rights.

#### **4.1.3 Non-application of Lead Partner Principle**

There are a number of reasons why most Strand A programmes have not implemented the LPP, among others, different legislations applicable to the projects’ administrative bodies, complete separation of the financial execution of certain programmes and the wish for equal involvement of project partners on both sides of the border. Section 2.1 of the Practical Issues provides more detailed discussion on the validity of the programmes’ reservations to implement the LPP.

<sup>8</sup> Source: INTERREG III Programme Summaries by INTERACT. INTERACT Website

<sup>9</sup> The internal LP submits single payment claim to MA, which after audit of expenditures, authorises PA to make payments to the internal LP, through the territorially responsible Local Payment Units. The internal LP therefore makes payment to internal partners and/or beneficiaries. The external LP submits single payment claim to relevant Programme Coordination Unit, which, after approving technical and financial reports, authorises Contracting Authority to pay refund amounts directly to the external LP. The external LP pays to the concerned beneficiaries who are selected through public procurement procedures governed by “Neighbourhood programmes 2004-2006 - Implementing Guidelines for INTERREG/TACIS and INTERREG/CARDS borders”

In the cases of non-application of the LPP, most programmes seek to achieve cross-border coverage and impact of their projects in the following ways:

- promoting cross-border project development
- developing mirror projects
- joint submission of applications to JTS
- the application of joint criteria and standards for project assessment and joint monitoring of project implementation
- applying selection criteria in the assessment phase that are organised around the cross-border nature of the projects (e.g. level of cross-border cooperation, common project development, common project implementation, level of cross-border impact).

The main features of non-application of the LPP can be summarised as follows:

### ***Types of projects***

When the LPP is not applied, different types of projects can be implemented:

- ⇒ single projects: to be implemented on one side of the border only;<sup>10</sup>
- ⇒ mirror projects: two similar projects are implemented in parallel, one on each side of the border;<sup>11</sup>
- ⇒ joint projects;
- ⇒ horizontal projects: large projects that have to be implemented in the neighbouring programme (as is the case for the INTERREG IIIA Eems-Dollart and Rhine-Waal programmes).

Examples of programmes that have implemented the aforementioned types of projects are the INTERREG IIIA Austria-Czech Republic and INTERREG IIIA Bavaria-Czech Republic programmes.

### ***Principle of territoriality***

The INTERREG IIIA Bavaria-Czech Republic programme applies the “*principle of territoriality*” – which means in this case “one project - one project owner - one country”. As a result, each project has only one project owner (although it can have more partners on the same side of the border). However, the project owner must have a partner on the other side of the border, with the minimum basic condition that this partner is informed about the project and supports and encourages the project.

### ***Two main or Lead Partners***

In other programmes such as INTERREG IIIA Fyn-K.E.R.N. and INTERREG IIIA Sonderjylland - Schleswig the LPP does not apply as such or applies only partially. In the INTERREG IIIA Fyn-K.E.R.N. programme, each project has two main partners, one on each side of the border. In the case of multi-partner projects, a main partner must be appointed on each side of the border. These main partners, as such, are responsible for ensuring the co-funding. This implies that the main partners must ensure that their national project partners have their co-funding secured.<sup>12</sup> The LPP is applied in justified specific cases: one partner can take over the overall financial responsibility for the project. In these cases, not applying the LPP implies that the project partners are equally involved and committed to successful project implementation.

Other programmes such as the INTERREG IIIA France-UK, have opted for the two-partner-principle on the basis of programme partner institutions agreeing on sharing of responsibilities among the two Member States (MS). Under this programme, the LPP cannot be applied as such and an ad-hoc solution was found after consultation with the European Commission,

<sup>10</sup> The implications of the LPP for programmes that have used this type of management structure are discussed in Section 2.4 of the Practical Issues.

<sup>11</sup> The implications of the LPP for programmes that have used this type of management structure are discussed in Section 2.4 of the Practical Issues.

<sup>12</sup> In the INTERREG IIIA Sonderjylland - Schleswig (25) programme this principle is applied by making the main partner on either side of the border the “finanziell verantwortliche, haftbare Partner” or financially responsible partner. The other partners are considered as “sonstige mitwirkende Partner” or other participating partners.

which constitutes an exception to the notion of final “beneficiary”. This solution identifies two types of LPs: the “project LP” and the “project administrative LP”. On this basis, each project has one LP on either side of the border, who is responsible for the implementation of the project on their territory.

*The related rules and procedures are as follows:*

- ▶ *Each application form must identify two project LPs. Project LPs will be responsible for the project, both legally and financially, towards the MA and the National Correspondent in Great Britain.*
- ▶ *Project LPs must be situated in the eligible area, unless the required skills cannot to be found within the area.*
- ▶ *LPs sign the subsidy contract with their national authority, with the MA for French partners and with the NC for British partners. The contracts with British LPs are also countersigned by the MA, due to its global responsibility for the programme. As mentioned above, the two contracts are interdependent, which means that if the commitments made in one Subsidy Contract cannot be met, the other will automatically be cancelled.*
- ▶ *Payments are made, respectively, by the PA to the French LP and by the GOSE/DTLR9 to the British LP.*

*The two LPs must agree between themselves to appoint one administrative LP, whose tasks involve:*

- ▶ *Project development, bringing together all the French and British partners involved.*
- ▶ *Submitting the bilingual application form, with a single financial plan.*
- ▶ *Taking the project forward on both sides of the Channel.*

*This ad-hoc solution is aimed at applying the LPP as far as possible, while coping with the existing legal and financial barriers.*

All in all, it seems fair to question whether the abovementioned alternative models have actually led to equal partner involvement on both sides of the border and/or cross-border impact. Although these alternative structures are acceptable under the Regulations for the 2000-2006 programming period, it seems debatable whether they promote true cooperation. The LPP seems to do a better job at that by building cooperation into the programme and project structures.

## 4.2 Strand B programmes

As mentioned before, all Strand B programmes have implemented the LPP in the 2000-2006 programming period. Some programmes, such as the INTERREG IIIB Baltic Sea Region, did not implement the LPP in its previous programme. Other programmes, such as INTERREG IIIB North West Europe, have vast experience with the implementation of the LPP stemming from the preceding programming period. The differences in the programmes’ implementation of the LPP often relate to the respective programmes’ geographic coverage.

The most interesting findings regarding the implementation of the LPP are mentioned below:

### ***Lead Partners originating from outside the eligible area or non- Member States***

Under all Strand B programmes the LP is considered the final beneficiary, in line with Regulation (EC) 1260/1999. In certain cases the programme’s eligible area includes regions outside the EU. In those programmes, if a project’s LP comes from a non-MS, the task of financial management of and financial responsibility for all ERDF funds must be performed by a project partner coming from an EU-MS (“ERDF-Lead Partner”). Indeed, only an EU-MS project partner is entitled to deal with ERDF-funding. In these cases it is the ***ERDF-LP*** who is considered the final beneficiary according to Council Regulation (EC) 1260/1999. The non-MS project partner, however, can be regarded as a substantial LP, who delivers the inputs to the project, whereas the ERDF-LP only formally acts as LP.

### ***Partnership Agreements***

It could be expected that transnational programmes, which have all adopted the LPP, would require and/or stimulate projects to draft such partnership agreements. Indeed, project partnerships are often just strongly recommended by the programmes to engage in legal agreements. Yet, not all programmes require projects to have a signed partnership agreement, despite the potential importance thereof.

### 4.3 Strand C programmes

All four INTERREG IIIC programme zones have implemented the LPP in a nearly similar way, although some MS have specific requirements and additional systems for controlling the LP and project partners or participants respectively.<sup>13</sup> As stipulated in the INTERREG IIIC Audit Guidelines:

*“All the obligations of the LP are stated in the Subsidy Contract. The LP signs the Subsidy Contract with the MA and undertakes the full financial and legal responsibility for the entire operation, including all EU partners and partners from Norway. The LP is responsible for the allocation of tasks among the partners and also for ensuring that these tasks are fulfilled.”*

The main features in terms of practical application of the LPP during the 2000-2006 programming period are the following:

#### **Differences between the four zones**

- ⇒ Partnership agreements  
It is highly recommended but not compulsory in all programme zones that the LP and the rest of partners sign a partnership agreement. It is mandatory only in programme zones East and South.
- ⇒ ERDF contribution to individual projects  
In programme zones North, East and West no more than 40% of the total ERDF contribution to the individual projects can be allocated to the LP (with the exception of operations on border regions where this rate may be higher), whereas in case of the South zone no more than 40% of the total eligible operation's costs can be allocated to the LP.

#### **Different types of Operations**

Under Strand C three types of operations can be distinguished: Networks, Individual Cooperation Projects and Regional Framework Operations (RFO). The roles of the LP and partners under the first two types of operations are quite similar to those in most Strand B programmes. The operation of the RFO is more comparable to a programme structure with one LP and several Project Lead Participants. The LP for a RFO acts as the link between the RFO and the MA. The Project Lead Participant acts as a **Lead Partner** for an individual project within the RFO.

#### **Partners originating from outside the eligible area or non- Member States**

Under INTERREG IIIC four programme zones the LP must originate from an EU-MS; which is similar to Strand B practice. Yet, the main difference with both Strand A and B programmes is that under Strand C no geographic restrictions apply on the location of other project partners.

Authorities from outside the EU can participate in the operations. Their participation must be covered from their national contributions or from other relevant EU sources, such as: TACIS, MEDA, CARDS, European Development Fund, Phare, Pre-Accession Assistance, etc. In order to be considered as partner in line with the INTERREG IIIC Programme Manual eligibility criteria, the partners from third countries have to contribute financially to the operation. These contributions from third countries are not eligible for ERDF co-financing.<sup>14</sup>

A partner from a country outside the EU may fulfil the role of a **'Functional Lead Partner'**. The responsibilities of this partner are limited to the operation's management and co-ordination. Still, the financial liability for the received ERDF and Norwegian funding must remain with a

<sup>13</sup> Also some MS have specific requirements for the time period for the eligibility of expenditure. These requirements are binding and each operation with the partners from the respective MS has to follow the requirements for auditing and financial controls.

<sup>14</sup> To ease the co-operation as much as possible, travel and subsistence expenses of partners or RFO sub-project participants from third countries outside the EU travelling to EU can be eligible costs for an operation when the meeting or seminar takes place in the EU and is part of an approved operation. The travel and subsistence expenses of partners or participants from EU Member States on parts of operations that take place in a third country and are vital for the success of the operation as a whole are also eligible for ERDF assistance.

formally appointed ERDF-LP or '**Financial LP**' originating from an EU-MS of the same programme zone. In this case, the appointed Financial LP will be the final beneficiary and will undertake all the responsibilities of the LP vis-à-vis the MA and PA. INTERREG IIIC programme documents stress that this type of construction is by no means preferred.<sup>15</sup>

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<sup>15</sup> Based on the INTERREG IIIC online project database, there are no projects that have a non-EU MS LP.

## PART 2: PRACTICAL ISSUES

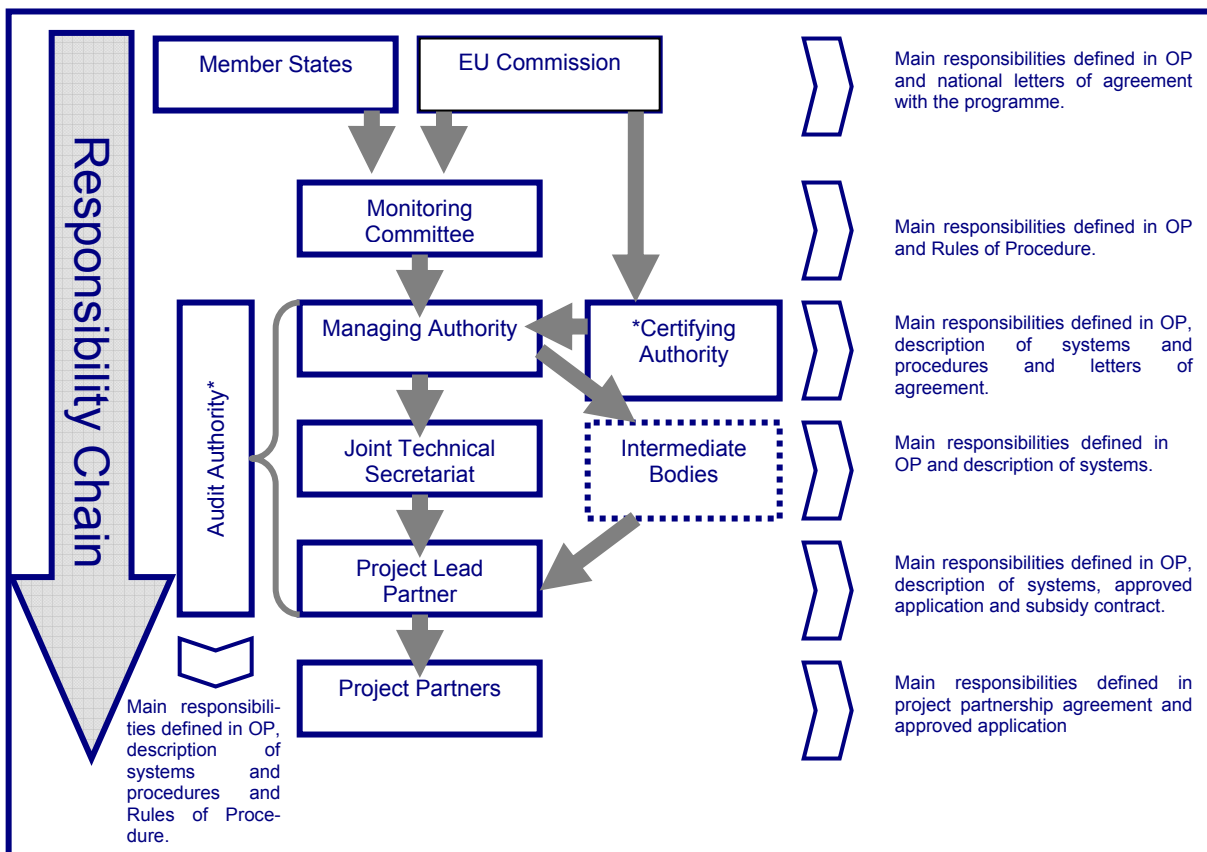
This second part gives insight into the practical implications of the findings in the Framework Report. It draws on the experiences in the 2000-2006 programming period and what these imply for the implementation of the LPP in the 2007-2013 programming period. This section is based on the Project Life Cycle and focuses on what role programmes and projects have to play for smooth LPP implementation during each phase.

### 1. GENERAL ISSUES

The LPP clarifies the responsibilities of the LP versus the other project partners. It simplifies procedures and exchange between programmes and projects.

Although the LPP sets certain rules and boundaries, within these, projects can be implemented in many different ways. **The LPP does NOT give the LP all project responsibilities!**

The flowchart below shows how the responsibilities of actors throughout the chain of programme and project implementation are organised and defined under the LPP in the 2007-2013 programming period.



Source: INTERACT Point Qualification and Transfer

\* Compared to the 2000-2006 programming period, the Audit Authority and Certifying Authority are 'new' in the 2007-2013 programming period.

## 2. PROGRAMME DESIGN AND STRUCTURE

The introduction of the LPP has or rather should have far-reaching consequences for programme design and structures. This can be seen in the following section, which deals with:

- key aspects and bottlenecks
- solutions and tools
- recommendations and good practice

These issues are relevant to all programme architects and managers on a thematic basis. The themes involved are the following:

- ⇒ **administrative and legal frameworks;**
- ⇒ **project development;**
- ⇒ **interaction between programmes and projects: information and cash flows;**
- ⇒ **project structures;**
- ⇒ **project contracting;**
- ⇒ **financial control and monitoring system;**

### 2.1 Dealing with legal and administrative set-up

Across the three INTERREG Strands, not all programme working procedures are sufficiently harmonised with national requirements to allow day-to-day project exchange on a cross-border, transnational or interregional level. An important issue to tackle at Member State level is national and regional legislation and guidelines impeding the transfer of responsibilities and funds across borders. Changes to some programme structures may also be necessary in order to implement the LPP. It is likely, though, that programmes in the 2007-2013 programming period will encounter fewer problems with the implementation of the LPP, as the ERDF Regulations stipulate that all partners are liable for their own actions and related expenditure. Issues that need to be addressed in the 2007-2013 programming period include:

- ⇒ **Difficulties to transfer funds across borders;**  
In some 2000-2006 cross-border programmes funds are paid into the same account as the regional budget. This hinders the transfer of these funds out of the country. 2007-2013 programmes should therefore always have separate accounts for INTERREG funds to avoid this problem. Furthermore, in certain cases the special legal format seems to prevent the transfer of funds across borders. Changes in that area would be needed to cope with that in the 2007-2013 programming period.
- ⇒ **Contracting issues;**  
In some Member States, the use of private versus public law to govern contracting has caused problems in the 2000-2006 programming period. Again, different contracts may be needed in the 2007-2013 programming period and lessons may be learned from other Territorial Cooperation Programmes that partly share the same borders but seem to have managed to cope with this issue.
- ⇒ **Control issues;**  
Member States need to be careful when issuing guidelines on control for Territorial Cooperation Programmes. In the 2000-2006 programming period, the Dutch National Authority has issued so-called 'Audit Guidelines' for Dutch LP controllers in the INTERREG IIIB North Sea programme, IIIB North West Europe programme and IIIC West Zone. These guidelines mention Article 600 of the International Accounting Standards, which has led to some LP controllers objecting to give a declaration for the eligibility of the project's total expenditure. Their main criticism is that they are unable to certify expenditure incurred across the border and cannot issue statements based on other controllers' statements. The LP controller statements that are mentioned in the progress reports for the aforementioned programmes also give rise to various interpretations of the scope of the LP controller's responsibilities. This type of problems should largely be solved in the 2007-2013 programming period, as FLC is performed independently per partner by the nationally designated controllers and the ERDF Regulations clearly mention that all partners are liable for their own actions and related expenditure. Nevertheless, it is important that guidelines on national, regional and programme level should be carefully drafted, in order not to conflict or diffuse the LPP and the principle of shared responsibility put forward by the 2007-2013 ERDF Regulations.

Although the issues seem diverse and complex, the 2007-2013 ERDF Regulations seem to take away part of the problems. Notably, 2007-2013 cross-border programmes facing legal challenges to fit the LPP are likely to benefit from the proposal for EGCT (European Grouping of Territorial Cooperation) in the ERDF regulations.

Besides provisions in the 2007-2013 ERDF Regulations, the true key to successful implementation lies in the hands of the cross-border programme stakeholders.

*“There is no doubt that changes will be required in many programmes to make the Lead Partner principle work but successful models already exist in current INTERREG III A, B and C programmes – sometimes operating across the same borders as programmes where problems are encountered but apparently able to overcome these problems.*

*As many solutions are already available – all that is required is a change to the procedures being used. (...) 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 is already happening in some countries.”<sup>16</sup>*

The prerequisites to resolve legal and administrative difficulties regarding the implementation of the LPP are **commitment** and **willingness to change**.

## 2.2 Supporting project development

Experience in project management shows that dedicated project development facilitates faster, more efficient and more effective project implementation. It is the widespread opinion amongst programmes who have adopted the LPP that most projects would not even exist without strong LP involvement.

Here is a list of some important aspects for programmes to consider in project development:

⇒ **Information flow:**

Under the LPP, programmes face a serious challenge to intensively support project development and provide sufficient and clear information to potential Lead Applicants.<sup>17</sup> The possibility of success for projects is greatly enhanced when Lead Applicants fully understand their responsibilities and those of the other participating partners and when the Lead Applicants communicate these to their partnerships properly and in good time.

⇒ **Assessment:**

Assessment of projects is crucial, amongst others to avoid approval of projects that are dominated by a LP which has involved other project partners mainly to attract the necessary ERDF Funds or fulfil the criterion of Territorial Cooperation.

⇒ **Time, efforts and resources:**

LP projects mostly require a longer preparation phase, since the partnership, the roles in actions plans and budget splits between partners need to be developed and agreed upon jointly. Furthermore, it is important for partnerships to jointly decide on the desirable project management and financial management structure.

⇒ **Smaller organisations:**

The role of a LP is very time consuming, therefore organisations need to allocate sufficient resources and must have appropriate financial and project management skills in-house. These entry barriers have led to a situation where smaller organisations – faced with insufficient resources and a lack of specialised know-how and expertise in the field – often

<sup>16</sup> Source: INTERACT Point Qualification and Transfer Info. sheet no 5 of 'Effective Management of IIIA Programmes'

<sup>17</sup> Lead Applicant is the project partner who leads the project's application. Lead Applicant and LP can be regarded in most cases as one and the same.

decide not to perform opt for the role of LP.<sup>18</sup> Possible solutions could be a stronger support by programmes to applicants from smaller organisations and split responsibilities between partners by means of a partnership agreement.

### **Tools to support project development and information transfer include**

- ⇒ Individual and plenary project consultations and seminars for lead applicants;
- ⇒ Presentations and advisory services in the regions;
- ⇒ Project Fairs;
- ⇒ Web-based tools and forums for operation ideas, partner search and databases for approved projects and project ideas;
- ⇒ Financial Management and/or Control Guidelines;
- ⇒ Programme and/or Applicants Manuals;
- ⇒ Guides for cooperation projects;
- ⇒ Project Management Handbook;
- ⇒ Information on combined financing through other instruments (e.g. TACIS, PHARE).

### **Recommendations for programmes and projects**

- ⇒ Strong support on development and information transfer; from programme to project and from LP to the partnership;
- ⇒ Make use of the tools mentioned above for project development support;
- ⇒ LP needs to allocate sufficient resources for overall project management, whereas the rest of the partnership needs to allocate resources for cooperation;
- ⇒ Anticipate and communicate the probability of a longer preparation period for projects;
- ⇒ Elaborate a focused assessment, aimed at approving projects with a true cross-border, transnational or interregional nature;
- ⇒ Joint development of tailored project and financial management structures; using the flexibility of the LPP (type of projects, devolved responsibility, etc.);
- ⇒ Early involvement of the whole partnership in the development of both content and management of the project.

### **2.3 Interaction between programmes and projects: information and cash flows**

Under the LPP it is crucial for programmes to organise adequate and efficient flows of information and funds along the responsibility chain. This has direct influence on the effectiveness and efficiency to operate programmes and projects.

All programmes should provide a clear structure for efficient flows of information, funding and specify the responsibilities of all parties involved.

It should be decided what body communicates with the LP on which issues, in the different stages of the Project Life Cycle. These decisions are strongly related to the responsibility chain, as illustrated in previous section of this handbook.

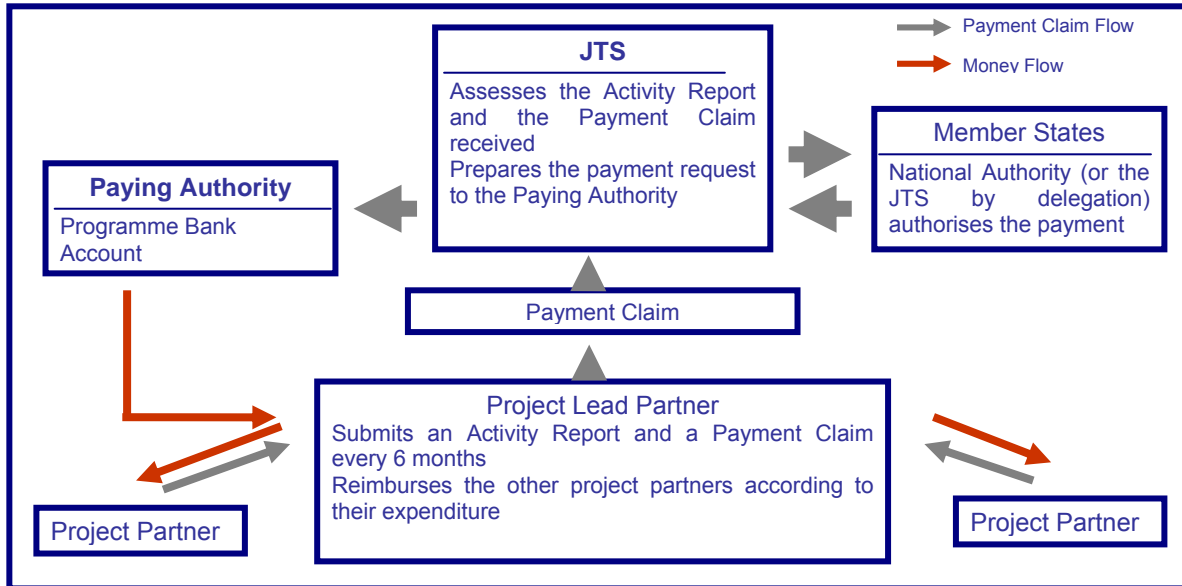
#### **Important questions to be answered are:**

- ⇒ Who does the LP contact on different issues (such as contracting or reporting)?
- ⇒ During the project development phase?
- ⇒ During the project implementation phase?
- ⇒ Who is responsible for drawing up the Subsidy Contract /Grant Offer Letter?
- ⇒ How long does it take to have it signed by all partners?
- ⇒ Where are reports submitted?

<sup>18</sup> When comparing the 2000-2006 and 2007-2013 programming periods, the limited financial and legal responsibility of the LP may also lower thresholds for smaller organisations. Especially, the fact that all controls are performed independently for all project partners may take away some reservations of a potential smaller LP.

⇒ Who assesses the reports and takes follow-up action?

A good example of how the information and cash flows are efficiently organised on programme level is illustrated below:



Source: Based on the 2000-2006 INTERREG IIIB NWE programme structures and procedures.

## 2.4 Project Structures

It is key for programmes to differentiate what information on the project structure is needed at programme level and what information is relevant only at project level. All cross-border and transnational projects must satisfy a minimum of two of the four and interregional projects all four of the following cooperation criteria established in the 2007-2013 ERDF Regulations<sup>19</sup>:

- ⇒ **Joint development**
- ⇒ **Joint implementation**
- ⇒ **Joint financing**
- ⇒ **Joint staffing**

Therefore, and considering the above criteria project structures should set a good framework for:

- ⇒ **Project activities** – who will do what, when and where?  
These issues should be defined in the Project Application, Partnership Agreement, if necessary a more detailed project working plan, progress reporting forms and as part of the performance indicators.
- ⇒ **Project finances** – what will the money be spent on, by whom and when?  
These issues should be defined in the same documents as the project activities, providing a clear link between activities and finances and defining mutual responsibilities.

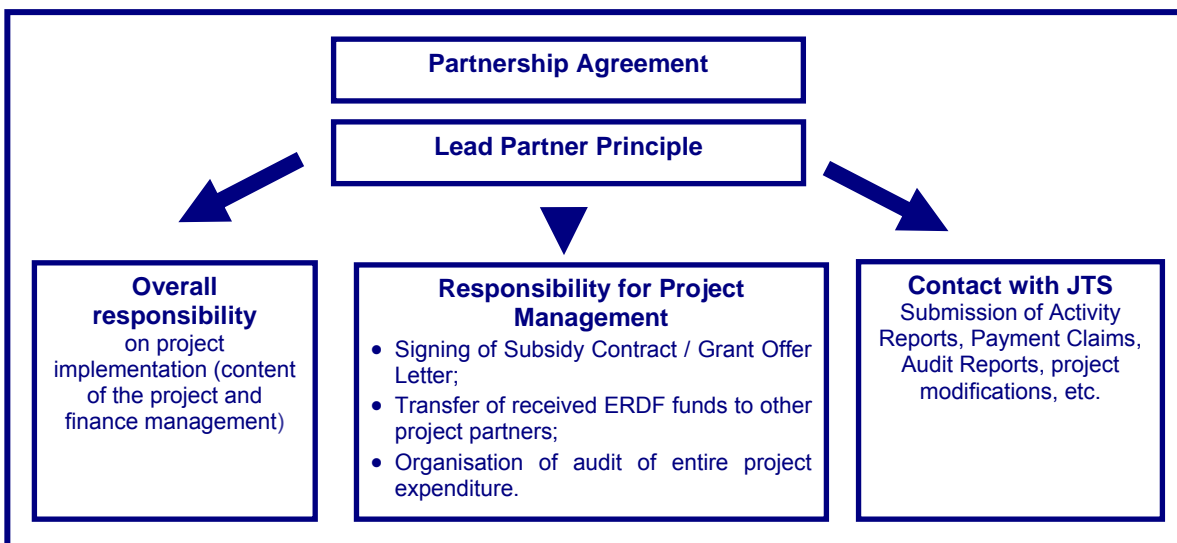
<sup>19</sup> ERDF Regulation (EC) No 1080/2006, article 19.1, four cooperation criteria: joint development, joint implementation, joint financing, joint staffing.

⇒ **Contribution of all partners** towards the joint aim and objectives of the project. Likewise, this precondition can be facilitated through the aforementioned documents, but perhaps even most so by means of the Partnership Agreement (and possibly in addition a detailed project working plan) defining the human and financial resources to be allocated by each partner.

Projects are directly influenced by the quality and workability of programme and project documents and the assistance provided by programmes. In previous tools by INTERACT, existing good practices are mentioned for preferred content of the aforementioned programme documents.<sup>20</sup>

Flexibility in project structures is dictated by the strong differences in (1) types of programmes and their targets, (2) the differences in types of projects and their targets, (3) in types, size and history of partnerships, as well as (4) the complexity of projects and the size of corresponding budgets. The LPP provides flexibility for projects through shared responsibility.

Although there is no single right project structure, the best way for the LPP to work in practice is to be based on the four cooperation criteria established in the Regulations and mentioned throughout this Handbook. The strategy and the activities of the project, including any changes that are needed, need to be agreed on and implemented jointly. An example of how the LPP is translated into a concrete basis for a project management structure in the 2000-2006 programming period is taken from the INTERREG IIIB NWE programme:



Source: Based on the 2000-2006 INTERREG IIIB NWE programme

With respect to this picture, in the 2007-2013 programming period the LP does not bear full responsibility, which means that all partners are liable for their own actions. Moreover, the LP collects spending reports from the project partners to consolidate these into one project report towards the Programme. The LP controller does not perform project-wide controls, as all partners are controlled independently and in their own country by the designated controllers.

The biggest challenge in the 2007-2013 programming period lies with the cross-border programmes, as generally, INTERREG III Strand B and C programmes already function along the lines depicted above. The main alterations to project management structures in cross-border programmes involve the discontinuation of mirror projects and single partner projects.

<sup>20</sup> Good Practice INTERREG III Application Pack, Good Practice INTERREG III Partnership Agreement, Good Practice INTERREG III Reporting templates, Recommendations for the implementation of Subsidy Contract. All documents available in the INTERACT Website.

- ⇒ **Single partner projects** should undertake a change of approach rather than change of activities. Cross-border programmes should aim for the development of border regions through integration across borders. This view and the use of the LPP have certain implications. Although potentially valuable, single partner projects pose a serious danger of regions on either side of the border to go 'trading approvals', focusing on their own development goals and disregarding the cooperation element that should be crucial to all INTERREG projects. The introduction of the LPP more or less rules out single partner projects, requiring a change of approach more than a change in project activities.<sup>21</sup> The LPP provides a new way of addressing old problems and adding value to regional actions.
- ⇒ **Mirror projects** – a change to joint development and implementation. Mirror or back-to-back projects consist of two projects addressing the same theme but running separately on each side of the border. The rationale for mirror-projects is found in avoiding administrative and legal barriers because project management and finance are kept separate. If such projects are to succeed in the coming programming period, they need to be at least jointly developed and implemented. The LPP will help to strengthen content through more integrated working patterns.

Source: This information is extracted from IP/QT Information sheet number 5 of "Effective Management of INTERREG IIIA Programmes", February 2006.

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<sup>21</sup> Theoretically, projects can still be implemented in one country only as long as they are presented by partners from at least two countries. This seems hard to unify with the 4 cooperation criteria though.

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### 2.5 Project Contracting

Following the Responsibility Chart (Section 1 of Practical Issues) – the main responsibilities should be defined in several contracting documents. Advice on the preferred minimum content required in these documents and good practices are provided in other tools produced by INTERACT. A non-exhaustive selection thereof is presented below:

Application Process	
Relevant study	Good Practice INTERREG III Application Pack
Description / comments	<p>Joint development and implementation can be ensured by including the contents mentioned below. Well structured application packs allow for better monitoring. It is important to avoid an overly dominant role of a LP in the process of drafting the application: the whole partnership should be involved in drafting the application and taking decisions on the content, budget and management of the entire project.</p> <p>The diagram illustrates the 'Responsibility Chain' as a vertical hierarchy of entities. At the top are 'Member States' and 'Commission'. Below them is the 'Monitoring Committee'. The 'Audit Authority' is shown as a vertical bar on the left side of the chain. The main chain consists of 'Managing Authority', '*Certifying Authority', 'Joint Technical Secretariat', 'Project Lead Partner', and 'Project Partners'. 'Intermediate Bodies' are shown as a dashed box between the 'Joint Technical Secretariat' and 'Project Lead Partner'. To the right of the chain, five brackets point to specific levels, each associated with a text box describing where main responsibilities are defined: 1. OP and national letters of agreement with the programme (top); 2. OP and Rules of Procedure (Monitoring Committee); 3. OP, description of systems and procedures and letters of agreement (Managing Authority and *Certifying Authority); 4. OP and description of systems (Joint Technical Secretariat and Project Lead Partner); 5. OP, description of systems, approved application and Subsidy Contract (Project Lead Partner); 6. project partnership agreement and approved application (Project Partners). A red circle highlights the 'Joint Technical Secretariat' and 'Project Lead Partner' levels. A vertical arrow on the left is labeled 'Responsibility Chain'.</p>
Indicative content	<ul style="list-style-type: none"> <li>• Annual spending targets;</li> <li>• Budget per partner;</li> <li>• Budget split on main activities;</li> <li>• Preferably: require joint work packages outlining each partner's responsibilities within each work package;</li> <li>• Preferably: a more detailed time planning – split activities between work packages and phases;</li> <li>• Preferably: a budget split both on activities and partner level.</li> </ul>

Subsidy Contract / Grant Offer Letter	
Relevant study	Recommendations for the Implementation of INTERREG III Subsidy Contracts.
<p>Description / comments</p>	<p>Most of the detailed requirements for receiving funds in the 2007-2013 programming period are set on a national basis and checked by nationally approved controllers and auditors. The Managing Authority (MA) is usually responsible for signing the Subsidy Contract or Grant Offer Letter, or a body with similar responsibilities. The MA remains ultimately responsible before the MS and the Commission.</p>
<p>Indicative content</p>	<ul style="list-style-type: none"> <li>• The legal basis of the Subsidy Contract / Grant Offer Letter – relevant Commission and Council Regulations, Operational Programme and other programming documents and procedures agreed by the programme’s Monitoring Committee, possible relevant national legislation, etc.</li> <li>• ERDF Grant – amount, means of calculation and payment;</li> <li>• Minimum archiving period;</li> <li>• Reporting procedures – provide reporting templates in an annex;</li> <li>• N+2 and N+3 targets – including information on decommitment issues by partners;</li> <li>• Information and Publicity rules – compliance with communication plan;</li> <li>• Recovery of unjustified expenditure – specifying steps for recovery, how long the LP should wait for repayment and applicable interest rate;</li> <li>• Applicable law – usually national law of the MA.</li> </ul>

Partnership Agreement	
Relevant study	'Good Practice INTERREG III Partnership Agreement'
Description / comments	<p>The majority of 2000-2006 programmes already strongly recommend that projects establish a Partnership Agreement. Under the Regulations for the 2007-2013 programming period, this is a mandatory contract between project partners and the LP<sup>22</sup>.</p>
Recommended clauses about:	<ul style="list-style-type: none"> <li>• Common project objectives;</li> <li>• Subject of the Agreement;</li> <li>• Duration of the Agreement – from the day all partners have signed until the LP has discharged in full its obligations towards the MA (this can be years after project closure!);</li> <li>• Role and responsibilities of the LP;</li> <li>• Roles and responsibilities of the other project partners;</li> <li>• Detailed information on project activities – the project work plan;</li> <li>• Organisational structure of the partnership – the structure should preferably include a project steering group;</li> <li>• Deadlines and penalties for non-compliance;</li> <li>• Cooperation with third parties – ultimate responsibility rests with the partnership; third parties need to be selected according to public procurement rules;</li> <li>• Definition of eligible expenditure;</li> <li>• Monitoring, reporting and evaluation requirements to be fulfilled by the LP and other partners;</li> <li>• Financial control and audit requirements;</li> <li>• Communication and publicity requirements;</li> <li>• Dissemination of project outcomes – issue of intellectual property rights;</li> <li>• No commercial use of and full public access to project results – <i>mind wording of this Section to avoid clashes with national legislation as there are considerable national variations on this issue;</i></li> <li>• Confidentiality Agreement inside the partnership;</li> <li>• Dispute settlement and how to avoiding changes in the partnership;</li> <li>• Reimbursement to the LP in case of non-completion of obligations;</li> <li>• Working language – should preferably be the same as for the Subsidy Contract / Grant Offer Letter;</li> <li>• Applicable national legislation and optionally clauses of 'force majeure';</li> <li>• Concluding provisions on how to make changes to the Partnership Agreement.</li> </ul>

22 ERDF Regulation (EC) No 1080/2006, article 20.1 a): " the lead beneficiary shall lay down the arrangements for its relations with the beneficiaries participating in the operation in an agreement comprising [...]"

## 2.6 Developing Financial Control and Monitoring Systems

Section 3 of Regulation (EC) 1080/2006 deals with the requirements for management, monitoring and control of ERDF.

<b>Financial control and monitoring system</b>	
Description / comments	<p>Regarding financial control, it is stipulated that each MS:</p> <p style="background-color: #e0e0e0; padding: 5px;"><i>“(…) shall set up a control system” and; “(…) shall designate the controllers responsible for verifying the legality and regularity of the expenditure declared by each beneficiary participating in the operation”.</i></p> <p>Source: Article 16 of Regulation (EC) 1080/2006.</p> <p>Furthermore, Member States are expected to provide to the European Commission eligibility rules established by the Member State and applicable to the Operational Programme. In the case of eligibility on housing (only for those Member States joining the EU after the 1<sup>st</sup> of May 2004), and in case when there are variations in eligibility rules between Member States, the programme needs to adopt the most extensive rule.</p> <p>All monitoring information needs to be stored in one single system accessible to the Managing Authority (MA), the Joint Technical Secretariat (JTS), the Certifying Authority (CA) and Audit Authority (AA). The monitoring system also needs to draw link between activities and spending.</p>
Key issues to decide on during development	<ul style="list-style-type: none"> <li>• <b>The time needed for appointed controllers to check expenditure.</b> Following article 16.2 of Regulation (EC) 1080/2006 each MS shall ensure that the expenditure can be validated by the controllers within a period of three months.</li> <li>• <b>The appropriate reporting deadline to be set by the programme.</b> This interrelates to the time needed by programmes for their reporting process and in turn the time available to include expenditures in claims to the Commission.</li> <li>• <b>Consequences for project partners</b> unable to produce certified statements and activity reports in time. Ultimately, this correlates with N+2, N+3 and decommitment issues.<sup>23</sup></li> </ul> <p>The <b>link between activities and finance is fundamental</b>. Hence, the minimum content requirements for the application as discussed in Section 2.5 ‘Project Contracting’ are equally relevant to the financial control and monitoring system.</p>

<sup>23</sup> In certain cases in the 2007-2013 programming period, the N+3 rule applies (new Member States, Greece, Portugal).

<b>Control and reporting process</b>	
Relevant study	'Good Practice INTERREG III Reporting Template'
Description / comments	A typical reporting cycle is presented below:
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><b>&lt; 1 ½ months</b></p> </div> <div style="text-align: center;"> <p><b>&lt; 2 months</b></p> </div> </div>	
Source: INTERACT Point Qualification and Transfer	
Key issues to decide on during development	<ul style="list-style-type: none"> <li>• <b>Where to submit reports, who assesses them and takes follow-up action.</b> Besides basic programme administration, many programmes transfer additional tasks from the Management Authority (MA) to the Joint Technical Secretariat (JTS), such as daily operation of certain agreed standards and systems. Some tasks, such as submission of reports are clearly best done by the MA directly. Other tasks, such as ensuring that financial control of projects has been completed satisfactorily are best allocated to the JTS. In certain cases, National Contact Points receive project statements before these are submitted to the JTS or MA. Although this promotes uniformity in completeness of reporting, it also poses the risk of bureaucracy and extended reporting procedures.</li> <li>• <b>Importance of activity reporting.</b> It is a responsibility of the LP to ensure that the expenditure presented by the project partners has been paid for the purpose of implementing the operation and corresponds to the activities agreed between the beneficiaries participating.<sup>24</sup> Therefore, the information retrieved by the LP from the partnership is of great importance – especially bearing in mind that the LP submits the activity and financial report on behalf of the whole partnership.</li> <li>• <b>Level of detail required in Application and Reporting Formats.</b> The minimum content requirements for the application are set out in previous Section 2.5.<sup>25</sup> The structure of reports should be similar to the structure of the application form, giving the MA/JTS ample insight into the progress or performance of a project. Again, the link between activities and finance is fundamental.</li> </ul>

<sup>24</sup> Source: § 20.1 of Regulation (EC) 1080/2006.

<sup>25</sup> Some good practices of reporting templates can be found in the Handbook "Good Practice INTERREG III Reporting Template" by INTERACT Point Tool Box.

<b>First level control (FLC)</b>	
Description / comments	<p>FLC should be carried out in each partner's Member State while national rules continue to apply. The responsibility of the LP and MA is mainly to ensure that control has been carried out by the designated body. In the 2007-2013 programming period all Member States will have to appoint a control body for each country, which will be entitled to perform the FLC for all projects. The 2000-2006 programming period had two main systems of control, decentralised and centralised control.</p> <ul style="list-style-type: none"> <li>• <b>Programme controls.</b> Checking financial aspects and checking progress on activities are equally important. These checks are done by the MA/JTS who play a role in FLC through checking reports. Programmes already activity checks as an integral part of the FLC process.</li> <li>• <b>Co-financing controls.</b> Some countries and regions perform checks of the co-financed part of partner budgets. However, these checks can only be complimentary and cannot replace FLC. Given the fact that project partners should abide by national legislation anyway, co-financing checks seem redundant and should be phased out if it all possible.</li> </ul>
Key issues to decide on during development	<ul style="list-style-type: none"> <li>• <b>How FLC will be carried out.</b> As mentioned, FLC should be carried out in each partner's MS and under national legislation. The MS should appoint these nationally designated controllers and decide on the eligibility rules. Furthermore, MS have to make sure that the expenditure can be validated by the controllers within a period of three months.<sup>26</sup></li> <li>• <b>Responsibilities during the FLC process.</b> Since the responsibility of the LP and MA is primarily to ensure that control has been carried out by a designated body, it means that they have to verify that the expenditure has been validated by FLC bodies. By limiting and applying the scope, as such, over-controlling can and should be avoided.</li> <li>• <b>Which information is needed from projects to ensure quality of controls.</b> In the 2007-2013 programming period all partners can be regarded as final beneficiaries and controlled separately by the appropriate body in their own country. The LP controller does not have to assess the quality of the work done as this remains the responsibility of the FLC body in each country. It is, therefore, crucial for programmes to choose the appropriate wording for the required LP controller declaration. The MA should provide a list of documents to the stakeholders.</li> <li>• <b>How the audit trail is secured.</b> It is important to provide guidelines on who should keep the documents and to inform partnerships on the requirements. Additionally, there needs to be clarity on whether an activity report is required for each progress report and who will check these activity reports. Likewise it is necessary to define who shall carry out the required 'on-the-spot' checks in the 2007-2013 programming period, and whether these checks should be part of formal control procedures or kept as a more informal management checks (and if so, what then will be the status of the results of the checks). These 'on-the-spot' checks form an integral part of First Level Control.</li> </ul>

<sup>26</sup> Source: Article 16 of Regulation (EC) 1080/2006.

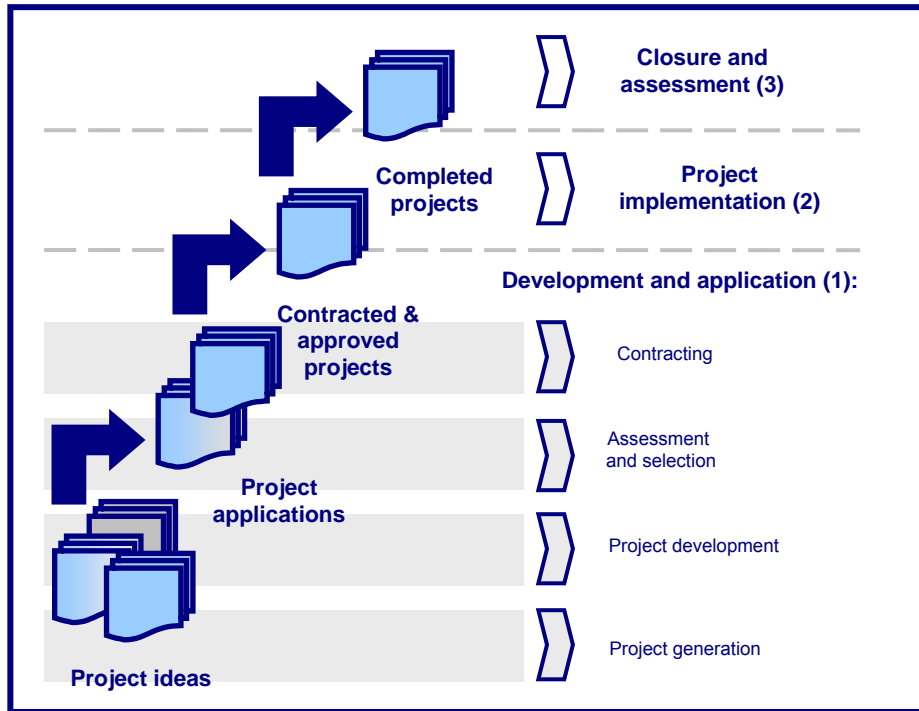
<b>Recoveries</b>	
Relevant study	'Recommendations for the Implementation of INTERREG III Subsidy Contracts'
Best practices	The above mentioned study reflects that the issue of recovery "is indirectly at the heart of the subsidy contract". It is, in fact, to avoid all unjustified expenditure that the Agreement is drafted and proposed to the LP. In theory, if the Agreement reflects good instruction and is scrupulously respected, there should not be any instances of unjustified expenditure in the 2007-2013 period programmes. <sup>27</sup>
Description / comments	<p>Regulation (EC) 1080/2006 provides that without prejudice to the MS' responsibility for detecting and correcting irregularities and for recovering amounts unduly paid, the Certifying Authority shall ensure that any amount paid as a result of an irregularity is recovered from the lead beneficiary.</p> <p>Under this Regulation:</p> <ul style="list-style-type: none"> <li>⇒ every partner remains responsible for any irregularity in expenditure it has declared;</li> <li>⇒ the LP should recover funds unduly paid out directly from the partner.</li> </ul> <p>The general process of recoveries is pictured below:</p> <div style="text-align: center; border: 1px solid black; padding: 10px; margin: 10px 0;"> <pre> graph TD     CA1[Certifying Authority Initiates recovery.] --&gt; LP[Lead Partner Repays funds.]     LP --&gt; PP[Project Partner Repays Lead Partner in line with what is stated in the Partnership Agreement.]     PP --&gt; CA2[Certifying Authority Repays Lead Partner.]     PMS[Partner Member State If unsuccessful, the Partner Member State pays fund to Certifying Authority.] --&gt; CA2             </pre> </div>
Key issues to decide on during development	<ul style="list-style-type: none"> <li>• <b>What are the procedures and deadlines.</b> How long should the LP use on attempting to recover funds?</li> <li>• <b>Completion of the procedures for recovery.</b> Preferably all procedures should be set up at the start of the programme or at the latest as part of the description of systems and procedures.</li> <li>• <b>How and when to inform MS on recovery issues.</b> It is vital for programmes to keep MS informed from the very beginning.</li> </ul>

<sup>27</sup> Please check the INTERACT Point Tool Box 'Recommendations for the Implementation of INTERREG III Subsidy Contracts'.

### 3. LEAD PARTNER VERSUS PARTNER RESPONSIBILITIES

This Section deals with the responsibilities of the LP compared to the Project Partners during the project life cycle for the 2007-2013 programming period. As can be seen in the following picture, the project life cycle in this case is divided into three stages:

1. Development and Application
2. Implementation
3. Closure and Assessment



Source: INTERACT Point Qualification and Transfer

Key aspects of the LPP, good practices, problems and solutions for implementing the LPP are highlighted below for each of the three stages of the Project Life Cycle. The separate case studies of selected programmes form the basis for the findings and recommendations in this Section. In the Annex, a consolidated table showing the outcomes of the case studies is given.

#### 3.1 Development and Application Stage

The key elements with regards to the LPP during the earliest stages of the Project Life Cycle revolve around joint development and application, the presence and contents of a Subsidy Contract, the content of the Application Pack and formal responsibilities between project partners. Based on theoretical (literature) and practical (case studies) research the following items can be identified:

⇒ **Roadmap to joint project development**

There is no single right way to advance from project idea to project application. However, to achieve joint development and involvement, a suggestion for steps to follow is presented below from a LP’s perspective:

1. Describe a broad project idea,
2. Assess level of buy-in within own organisation(s),
3. Check availability and/or willingness of partners to join,
4. Jointly try to make project idea more clear and concrete,
5. Get formal commitment from own organisation and partner organisations,
6. Jointly prepare application,
7. Jointly sign application and prepare at least a draft Partnership Agreement before submitting the application.

⇒ **Joint development**

This is the first of the four cooperation criteria.<sup>28</sup> The project and the application should be jointly developed and agreed on by the partnership. It is important that partnerships meet and discuss key aspects of the project before a LP submits any application. The LP is the coordinator of this process, although the contents, budget, responsibilities and management of the project should be developed and agreed jointly.

⇒ **Appointing the LP**

At the time of developing the application, all project partners should jointly agree on who will be the LP of the project.

⇒ **Application Packs**

Programmes should, if possible, design and use Application Packs that meet the preferred content requirements as mentioned in section 2.5.

⇒ **Information**

Programmes need to inform the LP, project partners and controllers about possibilities, requirements and responsibilities. It is often feasible to include a handbook or project manual (besides the Partnership Agreement), organise partner meetings about procedures and finances, possibly financial meeting with auditors.

⇒ **Subsidy Contract**

The LP needs to sign a Subsidy Contract or Grant Offer Letter on behalf of the partnership to formalise responsibilities between programme and project. Such subsidy contracts should at least meet the preferable content requirement (i.e. fund rate, reporting requirements, spending targets, etc.) as mentioned in Section 2.5.

⇒ **Partnership Agreement**

For the 2007-2013 programming period, it is required that partnerships draw up and sign a Partnership Agreement including mutual rights and obligations and provisions for sound financial management and recovery of funds unduly paid.

⇒ **Ensure capacity and expertise of the LP**

The partnership should ensure that the LP allocates sufficient resources and time to fulfil its role as leading partner properly.

⇒ **Balanced partnership**

It is important for the LP to delegate responsibilities to partners and not take over the project. Especially, during the development stage, it is crucial to avoid an overly dominant LP. Responsibilities should be described in the Partnership Agreement and other project documentation (e.g. partner handbook, work plans etc.).

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<sup>28</sup> ERDF Regulation (EC) No 1080/2006, article 19.1, four cooperation criteria: joint development, joint implementation, joint financing, joint staffing.

### 3.2 Implementation Stage

For this stage the main issues are related to the project's joint implementation and joint financing, the monitoring and reporting process, FLC, information and cash flows, recoveries and decommitment of funds.

Based on theoretical (literature) and practical (case studies) research the following items can be identified:

⇒ **Joint implementation**

This is the second of the four cooperation criteria.<sup>29</sup> Although the LP has overall responsibility for ensuring the correct implementation of the whole project every partner must play an active role in project implementation. Joint implementation means that activities must be carried out and coordinated by all partners. Responsibilities, involvement and types of activities and desired outputs for all project partners should be described in project documentation.<sup>30</sup>

⇒ **Reporting and monitoring**

Progress reports on activities should always draw a link with the Application and progress reports on expenditure. Progress reports should be used by the LP and Programme alike to monitor the progress of the project, preferably using output indicators. Effective monitoring and reporting requires clear instructions from programme to projects and from LP to partners. Ways to provide instructions include written instructions (manuals and guides), organising meetings and performing 'on-the-spot visits'.

⇒ **First Level Control**

The FLC should be carried out in each partner's MS. The LP and MA's responsibility is primarily to ensure that controls have been carried out by a designated body – avoid over-controlling. National rules continue to apply during FLC. It is particularly important for programmes to determine the required information in the FLC declaration by the LP controller to avoid objections as experienced in the 2000-2006 programming period. For the 2007-2013 programming period the criteria for eligibility of most costs are determined by MS at national level for all Structural Funds programmes. It is advisable for programmes to start discussions with MS before the start of the programme (refer to next item).

⇒ **Control regulations**

Application of the LPP and eligibility rules on programme level has made controls on project level more difficult in some cases in the 2000-2006 programming period.<sup>31</sup> However, in the 2007-2013 programming period a LP controller does not have to rely on the results of project partner controllers. This should remove an important obstacle for proper FLC of LPP-projects.

However, the wording in the declaration for LP controllers should be carefully chosen by the Programmes and the MA should discuss this issue with the designated controllers before the start of FLC in the 2007-2013 programming period. It is very well possible that private audit firms will be appointed as designated controllers by the MS; firms that need to adhere to the International Audit Standards. The declaration and/or instructions from National Authorities should not imply that a LP controller needs to certify overall project expenditure.

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<sup>29</sup> ERDF Regulation (EC) No 1080/2006, article 19.1, four cooperation criteria: joint development, joint implementation, joint financing, joint staffing.

<sup>30</sup> Project documentation preferably at least includes the Application Pack, a Partnership Agreement, (joint) Work Packages, Project Budget and progress reports.

<sup>31</sup> As could be seen in Section 2.1.

⇒ **Payments**

The LP's attention is needed to the differences in organisations and countries in their partnership when it comes to financial and operational structures (fiscal year end, budget management, terms of payment etc.). It is very important for the partnership to have a clear understanding of the principle of post-reimbursement, the time lag between expenditures and reimbursement and the applicable grant rate. Insufficient clarity may lead to problems in carrying out activities due to lack of budget.

For Strand A programmes in particular, the introduction of the LPP will lead to increased costs for transferring funds across borders (particularly when there is also a change of currency involved). However, like the INTERREG IIIB and IIIC programmes, the 2007-2013 cross-border programmes need to accept these transfer and currency change costs as a necessary expense for true cooperation within their project partnership. If properly managed, these costs should not represent a significant percentage of total programme funds.

⇒ **Irregularities/recoveries**

The process of recoveries has been discussed in Section 2.6 of this Handbook. It is important that the LP is guided by strong procedures with deadlines for instance on how long the LP should use on attempting to recover funds. All procedures should be set up at the start of the programme or as a minimum as part of programming. It is the programme's responsibility to keep the MS informed from the beginning. The LP puts forward the claim on behalf of the whole project. The LP has a responsibility in so much as it should be monitoring the projects progress and thus the work that is being undertaken at any one time, thereby not submitting claims that are not 'out-of-keeping'. This does not dismiss project partners from their responsibility for the correctness of the expenditure they declare.

⇒ **Decommitment issues and N+2, N+3**

Benefits of the LPP for combating decommitment are that it facilitates strict reporting and monitoring for programmes and projects alike. The LPP's drawback is that information and cash flows are less direct and time-consuming.

Transfer of information plays a vital role in avoiding loss of funds as a result of decommitment. This includes transfer of information from the Programme to projects and from the LP to project partners. It is the LP's responsibility to keep project expenditures in line with the spending plans. However, this does not exempt project partners from their responsibilities and duties to perform their tasks, deliver products and undertake the activities and expenditures as agreed in the project application and/or Partnership Agreement. Examples of information transfer from the Programme directly to projects (LPs) about N+2 issues include fact sheets, website publications, LP Seminars, Guides for Project Promoters etc. The LP, in turn, can inform project partners through project meetings, the Partnership Agreement, the project plan, a Project (Financial) Manual etc. Practical ways of dealing with the risk of decommitment are presented below.

*N+2- risks countermeasures at project level (by LP):*

- Make reference to applicable procedures (reporting, expenditures etc) in the project's Partnership Agreement and if applicable, in a project handbook or manual. It is the responsibility of all partners to ensure that the project does not deviate significantly from the spending plan;
- enforce stringent reporting procedures;
- set up realistic spending plan together with the project budget, which should be the basis for the LP's monitoring of project expenditures;
- anticipate future bottlenecks through frequent updates on forecasts of expenditure by project partners (e.g. together with periodic progress reports);
- strict budgetary control.

*N+2-risks countermeasures at programme level (Programme/JTS):*

- enforce tight control mechanisms in order to manage the spending of the overall programme budget - meaning that projects must progress as planned if at all possible, both in terms of expenditure and achievements;
- monitor the performance of projects via regular activity reports and payment claims;
- flexible reporting (extra rounds of project progress reports).

### 3.3 Closure and Assessment Stage

During the closure of projects, the most important issues to consider are the FLC, the eligibility of expenditure, the assessment of results and impact of the project.

#### ⇒ **The Final Report and First Level Control**

The LP must complete and submit a Final Report summarising the project activities, outputs, results and the corresponding expenditures throughout the entire project life on behalf of the whole project partnership. Projects will also be asked to deliver additional information related to overall outputs and results of the project, follow-up actions and project implementation experiences. In practice, Final Reports will vary little from intermediate reports.

The LP must make sure that at the beginning of the project, the duties and requirements for completion of the project in terms of validation and/or certification of expenditure by project partners are clear and communicated to all project partners. Moreover, it is advisable for the LP to tailor the financial management structure according to these requirements and the individual project partner profiles (size of budget, types of expenditures involved, types of audits required etc). FLC for the final report must be carried out by the designated controller.

#### ⇒ **Eligibility**

The LP should make sure that the project partners have forwarded all eligible expenditure before the designated deadline. Moreover, the LP needs to anticipate and inform the partnership about the programme procedures on expenditures related to the final report. Perhaps even more important, the LP should inform the partnership about the filing requirements and the storage of project accounting evidence. Lastly, it is important to adhere to project specific requirements.<sup>32</sup> Duties and responsibilities can be made clear in project contracting documents and information sessions.

#### ⇒ **Assessment**

On programme level it will be checked whether the project has achieved the expected output/ results and impacts. Projects are strongly recommended to organise their own additional project evaluations to assess how successful the project has been in terms of its processes, level of cooperation and quality of management (project, financial, risk and quality). Also the future opportunities and lessons to be learned from the project should be taken into account in this stage. Partnerships are stimulated to continue cooperation in a follow-up project or other forms of future cooperation.

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<sup>32</sup> For instance, it has happened that material investments included in the project were sold after the project's closure.

## 4. KEY ISSUES

This section provides an overview of key aspects of the LPP. There is a summary of the key issues identified in previous sections. It is indicated whether the issues are relevant *for*, or whether they require the involvement *of* each of the three different levels in the responsibility chain: Member States (MS), Programmes (PRG) and Projects (PRJ). This section starts with general issues which influence projects, and proceeds with a list of issues specific for the three stages in the project life cycle:

1. Development and application
2. Implementation;
3. Closure and assessment.

List of general key issues	Level in responsibility chain		
	MS	PRG	PRJ
<ul style="list-style-type: none"> <li><b>Interaction between actors and stakeholders in the chain</b> The LPP dictates adequate and efficient flow of information and funds across the responsibility chain. All actors in the responsibility chain should be aware of the fact that the LPP poses a risk in terms of delayed or faulty transfer of information and/or funds and should think of countermeasures.</li> </ul>	X	X	X
<ul style="list-style-type: none"> <li><b>Programme and project structures</b> It is crucial for programmes to differentiate between information on project structures needed on programme level and that which is only relevant on project level. Project structures should set a solid framework directed at the four cooperation criteria: joint development, joint implementation, joint financing, joint staffing. The main challenge lies with Strand A programmes due to the discontinuation of project structures frequently applied in the 2000-2006 programming period, such as, mirror projects and single partner projects.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Legislation and administration: commitment and willingness to change</b> MS will have to change national and/or regional legislation impeding the transfer of responsibilities and/or funds across borders. The key success factors for dealing with existing administrative and legislative hurdles are commitment and willingness to change. There are ample examples of IIIA, IIIB and IIIC programmes that have successfully adapted programme structures to allow for the implementation of the LPP in the 2000-2006 programming period.</li> </ul>	X	X	
<ul style="list-style-type: none"> <li><b>Financial control and monitoring</b> MS and programmes alike have to consider that the time needed for controllers to validate expenditure is limited to three months. The programmes should set appropriate reporting deadlines and make clear to projects what the consequences will be of non-compliance to reporting deadlines. The link between activities and expenditure should lie at the heart of the structure for any financial control and monitoring system.</li> </ul>	X	X	X
<ul style="list-style-type: none"> <li><b>First level controls</b> FLC will be carried out in each partner's MS, however, there needs to be a decision on the designated controllers and the eligibility of expenditure. Responsibilities during the FLC process need to be clearly communicated and translated to practical procedures. Additionally, programmes need to determine which information is needed from projects to ensure the quality of controls. Lastly, the audit trail needs to be secured.</li> </ul>	X	X	X
<ul style="list-style-type: none"> <li><b>Recoveries and irregularities</b> Preferably, all procedures for recovery should be set up within 12 months of approval of the OP. There is need for clear procedures with deadlines and follow-up action and instructions on how and when the MS is <i>informed on</i> and/or <i>involved in</i> recovery issues.</li> </ul>	X	X	X

List of key issues per phase of the Project Life Cycle	Level in responsibility chain		
	MS	PRG	PRJ
<ul style="list-style-type: none"> <li><b>Project development (1): joint development</b> This is the first of the four cooperation criteria and relates to the project (application) being jointly developed and agreed upon by the project partnership. Partners should jointly develop and agree on the project's contents, budget, responsibilities and management.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project development (1): balanced partnership</b> All project partners should jointly agree on who will be the LP. The appointed LP should delegate responsibilities to partners and not play an overly dominant role.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project development (1): information flow</b> Increased importance of good project development support by the programmes, as there is a strong need for information: the LP needs to understand its responsibilities fully and needs to communicate key points to the whole partnership.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project development (1): time, efforts and resources</b> The LP needs to allocate sufficient resources for project management! The required efforts and means to operate as LP in an INTERREG project are often underestimated. All partners in the project need to allocate resources for cooperation. Programmes play a vital role in providing information and advice to lead applicants.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project development (1): assessment</b> Thorough and unbiased assessment of projects is crucial, amongst others to avoid weak projects and thereby weak programme performance.</li> </ul>		X	
<ul style="list-style-type: none"> <li><b>Project development (1): barriers to entry</b> The role of a LP requires significant resources, which gives rise to barriers to entry for smaller organisations. This could be improved by strong programme support to smaller applicants and devolved responsibilities between project partners.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project development (1): longer preparation phase</b> LP projects generally require a longer project development phase to establish the partnership, roles in project work packages and the budget split between partners. Projects should anticipate by starting preparatory actions at an early stage and programmes should invest in raising awareness.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project development (1): contracting</b> Project Applications and Subsidy Contracts should be set up according to the four cooperation criteria. Furthermore, it is strongly recommended to include the partnership agreement as a mandatory formalisation of the cooperation between the LP and project partners. Actors should refer to studies and good practices provided for indicative minimum contents of all types of project contracts.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project implementation (2): joint implementation</b> Notwithstanding the responsibility borne by the LP, every partner must play an active role in project implementation. Partner responsibilities, involvement and types of activities and desired outputs should be clearly described in project documentation, such as, the Application and the partnership agreement.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project implementation (2): control and reporting process</b> The Programme needs to make clear where reports are submitted, who will assess them and who will take follow-up actions. Furthermore, the importance of activity reporting should be stressed by the Programme and the LP alike. Lastly, the Programme needs to carefully decide on the level of information required in the Application and Reporting formats. Actors should refer to studies and good practices provided for indicative minimum contents of all types of project documents.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project implementation (2): information and communication</b> Communication and dissemination of results will be very important in the 2007-2013 programming period. Showing European involvement in programme and project results will be key elements. The Programme will need to inform and advise projects on successful communication; the LP will need to translate this to tailored messages for the project partners.</li> </ul>		X	X
<ul style="list-style-type: none"> <li><b>Project implementation (2): FLC and audit regulations</b> National rules apply during the FLC. The LP and MA's responsibility is to ensure that the necessary controls have been carried out by a designated body. Over-</li> </ul>	X	X	X

controlling should be avoided. The qualification in the declaration of the LP controller should be carefully determined in order to avoid objections of the designated controllers. It is recommended that the Programme starts discussion with MS on eligibility of costs and control regulations. Many of the existing problems in the 2000-2006 programming period can be avoided in the 2007-2013 period through devolved responsibility i.e. the fact that all partners are liable for their own actions and take care of their own FLC and that all mutual rights and obligations are laid down in a partnership agreement.			
<ul style="list-style-type: none"> <li><b>Project implementation (2): payments</b></li> </ul> <p>Efficient and timely reporting, clear understanding of the principle of post-reimbursement and realistic spending plans are of great importance for the success of the projects.</p> <p>In particular, cross-border programmes will have to consider increased costs for transferring funds across borders. Although some programmes have found pragmatic remedies in the 2000-2006 programming period, these transfer and currency change costs should really be considered as a necessary expense for true cooperation in the 2007-2013 programming period.</p>		X	X
<ul style="list-style-type: none"> <li><b>Project implementation (2): recoveries/irregularities</b></li> </ul> <p>It is the Programme's responsibility to keep the MS informed from the beginning. The LP has a responsibility in monitoring the project's activities and progress. Although the LP is responsible for some aspects of the correctness of the (financial) reports, the partners are responsible for the correctness of the expenditure put forward in their claims.</p>	X	X	X
<ul style="list-style-type: none"> <li><b>Project implementation (2): decommitment and N+2</b></li> </ul> <p>The LPP enables strict reporting and monitoring for both programmes and projects. However, it is an extra step between projects and programme in terms of information and cash flows. Bearing in mind these specific advantages and disadvantages, programmes and projects should undertake measures against the risk of decommitment. Countermeasures include strict reporting and monitoring systems, procedures and deadlines, knowledge dissemination (seminars, handbooks, website, fact sheets, etc.).</p>		X	X
<ul style="list-style-type: none"> <li><b>Project closure and assessment (3): Final Report and FLC</b></li> </ul> <p>Final Reports cover the whole project period and all its activities, outputs, results and corresponding expenditures. The FLC needs to be carried out by the designated controller. The LP should inform the partners at an early stage what will be expected from them during the project's closure stage.</p>	X	X	X
<ul style="list-style-type: none"> <li><b>Project closure and assessment (3): Eligibility</b></li> </ul> <p>Programmes need to inform projects on the procedures and obligations, as needs the LP towards project partners. Short-term eligibility issues after closure involve the definition of the end date of the project (scope of eligibility in time) and costs related to drafting the final report. Long-term issues concern assuring the audit trail and adhering to project specific requirements.</p>	X	X	X
<ul style="list-style-type: none"> <li><b>Project closure and assessment (3): Assessment</b></li> </ul> <p>Programmes need to check whether the project has achieved the intended outputs, results and impacts. Besides the final report, projects are advised to perform their own project evaluation aimed at the processes, the quality of management and to identify the lessons learned and future opportunities (for cooperation).</p>		X	X
<p>MS = Member State  PRG = Programme  PRJ = Project</p>			

## 5. CHECKLIST FOR PROGRAMMES

The true challenge for programmes is the readiness for joint operation, which calls for trust and common objectives between stakeholders. Overall, the LPP should streamline programme management towards the Commission as well as management procedures both at programme and project level.

In this Section an overview of key issues of the LPP is provided on programme level. It draws on the information provided in Sections 2 and 3 of Practical Issues.

Topic	Theme
<ul style="list-style-type: none"> <li>• <b>Legal and administrative issues: commitment and willingness to change</b> Although necessary legislative and administrative changes often do not lie within the remit of programme bodies, programmes do have a vital role to play. There are many examples of INTERREG programmes in the 2000-2006 programming period that have tailored structures and procedures to fit the LPP with success. Although some of the issues are complex, commitment and willingness to change should pave the way for successful implementation of the LPP in the 2007-2013 programming period.</li> </ul>	<p><b>PROGRAMME DESIGN AND STRUCTURE</b></p>
<ul style="list-style-type: none"> <li>• <b>Supporting project development: all-important</b> Dedicated project development leads to faster, more efficient and effective project implementation. Programmes are advised to commit to support project development and transfer of information, amongst others:                             <ul style="list-style-type: none"> <li>○ anticipate and communicate the probability of a longer preparation phase for Territorial Cooperation projects;</li> <li>○ focused assessment, aimed at approving projects with a true cross-border, transnational or interregional nature;</li> <li>○ anticipate and communicate the need for Lead Applicants and project partnerships to allocate sufficient resources to fulfil the role of LP and undertake international project management;</li> <li>○ promote joint development of tailored project/financial management structures, utilising the flexibility of the LPP;</li> <li>○ stimulating, requiring and monitoring early involvement of the whole partnership of a potential project in terms of development of the project's contents, budget and management.</li> </ul> <p>Programmes have a wide selection of tools at their disposal: individual and plenary project consultations, presentations and consultations in the regions, project fairs, forums, partner search tools, project databases, control/finance/project management guidelines et cetera.</p> </li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Interaction between programme and projects: efficient and effective</b> Especially under the LPP, programmes need to organise adequate and efficient flows of information and funding along the responsibility chain. Programmes should decide which bodies communicate with the LP on which issues in the different stages of the project cycle – i.e. project generation, -development, -contracting, -reporting, -recovery, -closure and assessment.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Project structures: cooperation criteria and flexibility of LPP</b> Programmes need to differentiate between the level of information on project structures needed on programme and project level. Project structures should set a solid framework directed at the four cooperation criteria in terms of project activities, project finances and partner contribution. Tools in this area are <i>inter alia</i> the application pack, selection criteria, reporting forms are contracting documents. Programmes are especially advised to consider the implications of the LPP when it comes to project development and FLC issues. Most notably, cross-border programmes need to focus at utilising the features of the LPP to cope with the discontinuation of 2000-2006 period project structures e.g. mirror projects and single partner projects.</li> </ul>	

<ul style="list-style-type: none"> <li>• <b>Application: a tool for effective monitoring</b> Well structured application packs promote effective monitoring. The whole partnership should be involved in the development of the project application (joint development). This is stimulated amongst others by including the following elements in the application pack: <ul style="list-style-type: none"> <li>○ annual spending targets;</li> <li>○ budget per partner;</li> <li>○ budget split on main activities;</li> <li>○ require joint work packages outlining each partner’s responsibilities;</li> <li>○ detailed time planning - split activities between work packages and phases;</li> <li>○ budget split both on activities and partner level.</li> </ul> <p>Besides tailoring the application pack, it is important for programmes to consider ways to actively stimulate and support joint project development during the application phase. Refer to ‘supporting project development’ above.</p> </li> <li>• <b>Grant Offer Letter (GOL): Subsidy Contract</b> In general, it will be the MA’s responsibility to issue the GOL or a body with similar responsibilities. The MA will be ultimately responsible to the MS and the Commission. The legal basis of the GOL (regulations, operational programme etc.) should always be made clear. Moreover, the GOL should at least cover: <ul style="list-style-type: none"> <li>○ ERDF Grant – amount, means of calculation and payment;</li> <li>○ minimum archiving period;</li> <li>○ reporting procedures – put reporting templates in an annex;</li> <li>○ N+2 targets – including information on that partners can be decommitted;</li> <li>○ publicity rules;</li> <li>○ recovery of unjustified expenditure – specifying steps for recovery, how long the LP should wait for repayment and applicable interest rate;</li> <li>○ applicable national law – usually that of the Management Authority.</li> </ul> </li> <li>• <b>Partnership agreement: mandatory</b> The partnership agreement is a mandatory document to formalise the relationship between project partners and the LP. Programmes may choose to provide projects with a template; however, any such contract between project participants needs to be tailored to the specific dynamics of the project. A non-exhaustive and indicative list of articles to include in the agreements is given in previous Section 2.5.</li> </ul>	<p><b>PROJECT CONTRACTING</b></p>
<ul style="list-style-type: none"> <li>• <b>Control and reporting process: link between activities and expenditures</b> The link between activities and expenditures is fundamental. The LPP reports on behalf of the whole partnership, but responsibility for operative activities remain at partner level. The importance of activity reporting is underlined by the fact that the LP is responsible for ensuring that the expenditure presented by the partnership has been incurred for the purpose of implementing the agreed operation. Any programme should carefully decide where reports are submitted, who assesses them and takes follow-up action and the level of detail required in the application and reporting forms.</li> <li>• <b>First Level Control: requires information, importance of activities, flexible</b> FLC should be carried out in each partner’s MS while national rules apply. The responsibility of the LP and the MA is to ensure that control has been carried out by the designated FLC body. Control systems tend to focus on financial aspects, whereas checks on activities are equally important. Programmes need to assess which information they need from the LP to ensure the quality of controls and choose the proper wording for the LP controller declaration (to avoid the clashes with International Accounting Standards of the 2000-2006 period). Lastly, it is essential to provide guidelines on contents of the FLC and securing the audit trail, whereas programmes need to consider how to organise ‘on-the-spot’ checks.</li> <li>• <b>Recoveries: provide clarity, support, guidelines and deadlines</b> Every partner remains responsible for any irregularity in expenditure it has declared and the LP should recover funds unduly paid out directly from the partner. Programmes can assist projects by providing information and support on project- and financial management, monitoring and controls. Programmes need to make clear how long the LP should attempt to recover funds and what will happen to the LP if fails to deliver certified claims on time. Preferably, procedures for recovery are set up at the start of the programme.</li> </ul>	<p><b>FINANCIAL CONTROL AND MONITORING SYSTEM</b></p>

## 6. CHECKLIST FOR PROJECTS

The purpose of the LPP is to truly interconnect programme and project partners. Amongst others, the LPP sets out to channel project management tasks to just one project partner (the LP), while project activities are the responsibility of and are carried out by the whole partnership. The LPP itself does not give rise to excessive responsibilities and liabilities for project implementers. Rather the LPP seeks to eliminate risks of decentralised project management.

This section provides an overview of key issues of the LPP on project level, and recommendations are suggested for project implementers under the LPP. It draws on the information provided in previous Sections 2 and 3.

List of Key Issues for Projects	
Topic	Phase
<ul style="list-style-type: none"> <li>• <b>Joint development: necessity rather than luxury</b> There is no blueprint for joint development of projects. However, some basic principles apply in most cases: incorporate all stakeholders at an early stage, keep partners involved during all steps of the process, and jointly decide on key issues, such as, the project contents, budget and management structure.</li> </ul>	DEVELOPMENT AND APPLICATION
<ul style="list-style-type: none"> <li>• <b>Partnerships: balanced and well equipped</b> A LP should be appointed among the partners based on partnership consensus. This LP should delegate responsibilities to partners but not assume total project control. It is important for projects to aim for joint involvement and sharing of tasks and responsibilities. The partnership and especially the LP should ensure that sufficient resources and time are allocated to be able to fulfil the tasks and obligations in a Territorial Cooperation project.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Contracting documents: formalising tasks, duties and responsibilities</b> The main documents are the following: <ul style="list-style-type: none"> <li>○ Application;</li> <li>○ Subsidy Contract / Grant Offer Letter;</li> <li>○ Partnership Agreement.</li> </ul> <p>Applications should be jointly developed and submitted by the LP on behalf of the whole partnership. Likewise, the LP shall sign a Subsidy Contract or Grant Offer Letter to formalise responsibilities between the project and the programme. Partnerships are required to draft a joint convention or agreement covering mutual duties, responsibilities and provisions for sound project and financial management, and recovery of funds.</p> </li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Information: timely and targeted, tailored but complete</b> The LP is expected to inform the partnership about the possibilities, requirements, responsibilities and procedures under the programme. To do so, it is feasible to include a handbook or project manual, forward programme information, organise bilateral and joint partner meetings and involve first level controllers at an early stage.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Joint implementation: required for partnership</b> It is the joint responsibility of <u>all partners</u> to ensure that the operation is implemented according to the description in project contracting documents.</li> </ul>	IMPLEMENTATION
<ul style="list-style-type: none"> <li>• <b>Reporting and monitoring: jointly, timely, activities and expenditures</b> The LP should actively monitor the project's progress both in terms of expenditures and activities. The LP needs to provide all partners with clear reporting instructions. This can be done by providing tailored instructions and guidelines, organising meetings and carrying out partner visits.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>First Level Control: independent for each partner</b> The FLC should be carried out in each partner's MS. The LP needs to ensure that controls have been carried out by the designated body – the LP or LP controller should not assess the quality of the controller's work. National rules apply during the FLC. Since, all partners are controller independently and in their own country, the LPP in the 2007-2013 period is likely to answer to the 2000-2006 period First Level Controllers' resistance to certify expenditures incurred across the border.</li> </ul>	

<ul style="list-style-type: none"> <li>• <b>Payments: inform partners and avoid high cost for cross-border transfer</b> A good LP anticipates disparities in partners' organisations, procedures and cultures when it comes to financial and operational structures. To avoid friction problems during implementation of the operation, it is vital to have insight into matters, such as, post-reimbursement, the time-lag between expenditures and reimbursement, the applicable ERDF rate, the deadlines for reporting and certification, etc. Notably, cross-border projects will have to deal with increased costs for transferring funds in the 2007-2013 programming period. If properly managed, these costs should not form a substantial part of total programme funds and in any case be accepted as a fee for true cooperation.</li> </ul>	CLOSURE AND ASSESSMENT
<ul style="list-style-type: none"> <li>• <b>Irregularities and recoveries: LP responsible, but prevention is better than cure</b> Strictly taken, the LP is made responsible for recovering funds unduly paid under the 2007-2013 Regulations. As the LP sets forward the claim on behalf of the whole project, it is responsible for the validity of the claim. However, the LP has a responsibility in so much as it should be monitoring the projects progress and thus the work that is being undertaken at any one time, therefore, not submitting claims that are not 'out-of -keeping'. On the other hand, all partners are controlled independently and are liable for their own actions. It seems unlikely that this would lead to recovery of funds.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Decommitment: need for information</b> All partners are responsible for ensuring that the project does not deviate significantly from the spending plan. The LP needs to make the partnership aware of the risks and consequences of decommitment. Measures to reduce the risks of decommitment include:                         <ul style="list-style-type: none"> <li>○ referring to applicable Regulations in the Partnership Agreement and project meetings;</li> <li>○ enforcing strict reporting procedures;</li> <li>○ setting up a realistic expenditure plan with the project budget;</li> <li>○ requiring frequent updates on foreseen expenditure to anticipate future bottlenecks;</li> <li>○ applying strict budgetary control.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Final Report and FLC</b> The Final Report will in most cases not differ greatly from intermediate reports. It covers the whole project and the LP will submit it on behalf of the whole partnership. The FLC will have to cover the whole project and needs to be performed by a designated controller.</li> </ul>	CLOSURE AND ASSESSMENT
<ul style="list-style-type: none"> <li>• <b>Eligibility</b> The LP has to inform the partnership on the procedures, including those on expenditures related to drafting the final report. It is the LP's responsibility to ensure that partners have put forward eligible expenditures in their claims before the reporting deadline expires. Partners should make sure that they adhere to audit trail requirements (e.g. storing project files) and other project specific requirements.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Assessment</b> Besides the Programme's evaluation on the project's output and results, projects are recommended to perform their own project evaluations on processes and quality of management. All lessons learned should be taken into account, as partnerships are advised to look at continuation of the partnership or other forms of joint follow-up actions.</li> </ul>	

<p><b>Recommendations for Projects</b></p>
<ul style="list-style-type: none"> <li>• Take time to jointly develop the idea into a project, following the steps and creating sufficient buy-in.</li> <li>• LP should take time to communicate all responsibilities to partners at an early stage.</li> <li>• Project partners should carefully define responsibilities, actions and outputs of all partners in project documents, of which detailed partner agreement is mandatory.</li> <li>• LP needs to understand the extra efforts and resources required for acting as LP in a Territorial Cooperation project.</li> <li>• LP needs to ensure joint involvement and commitment amongst the project partners.</li> <li>• Anticipate longer preparation phase due to territorial context, cooperation criteria and the LPP.</li> <li>• The desired project and financial management structure should be jointly agreed on, including possible arrangements on sharing overall project management costs incurred by the LP.</li> <li>• The structure of the project should be tailored to the project dynamics.</li> <li>• Partners' information on progress of activities is vital to the LP.</li> <li>• The link between activities and expenditures is fundamental for all operations.</li> <li>• LP needs to inform partners on procedures and duties: reporting, audit trail, FLC, monitoring, communication and payment flows. Methods include: project manuals, guidelines, (financial) partner meetings and checks.</li> <li>• All partners need to involve designated controllers at an early stage of project development.</li> </ul>

- LP controller may want to do a check on completeness and/or mathematics, but should refrain from assessing the quality of the work of the partner controller.

## GLOSSARY

<b>Audit</b>	An inspection of the systems and financial records of a project to confirm the accuracy, reliability and eligibility of funding claims.
<b>Audit Authority</b>	A 2007-2013 programming period body operationally independent of the Managing Authority and the Certifying Authority designated by the Member State for each operational programme and responsible for verifying the sound operation of the management and control system.
<b>Auditing Guidelines</b>	Guidelines for the auditors on the requirements in the context of audit certification and on the scope of the auditor's work. The guidelines also provide information concerning the rules that apply to INTERREG Programmes.
<b>Auditor/ Controller</b>	In the 2000-2006 programming period there has been some confusion about the terms 'controller' and 'auditor'. In this period, persons carrying out First Level Controls are either called "auditors" or "controllers" and that the definition of either term varies from country to country.  In the 2007-2013 programming period, the term 'auditors' is used for persons responsible for 2 <sup>nd</sup> and 3 <sup>rd</sup> level control only, whereas the 'controller' is designated by the Member State to carry out First Level Control. The 2000-2006 period concept of 'project controller' (or 'project auditor') will no longer apply in 99% of the cases in the 2007-2013 programming period. Rather, all partners will be controlled independently in their own countries by the designated controller.
<b>Audit Trail</b>	Audit trail is a sequence of information i.e. accounting records that provide detailed information about expenditure actually incurred. The accounting records show the date they were created, the amount of each item of expenditure, the nature of the supporting documents and the date of and method of payment. The audit trail validates the expenditure claimed and enables tracing the financial data to its source.
<b>Automatic Decommitment</b>	This a process whereby money can be taken back by the European Commission from Programmes that are not spending or delivering to a particular profile (Please also see N+2)
<b>Certifying Authority</b>	A 2007-2013 programming period body or local, regional or national authority designated by the Member State to certify declarations of expenditure and applications for payment before they are sent to the Commission.
<b>Control</b>	To check, verify and regulate elements of European Regional Development Fund (ERDF) project delivery, or to exert control over the policy of an organisation.
<b>Grant Offer Letter (GOL)</b>	Legal act by which the MA unilaterally notifies the project promoter of the Steering Committee's favourable decision. This act commits the MA to payment of the ERDF programmed and the project promoter to general respect for national and Community rules of public financing and to respect for the rules specific to the programme pointed out to it when it submitted the request form. An alternative to notification of a subsidy grant is the bilateral signing of a subsidy contract. See 'Subsidy Contract'.
<b>Eligible Costs</b>	The Commission specifies in various rules what types of activity and expenditure are eligible for Structural Funds support. Controllers need to be aware of the type of things which are and are not eligible for Structural Fund assistance.  In the 2007-2013 programming period, Member States shall determine the eligibility rules for most costs. Article 13 of Regulation (EC) 1080/2006 stipulates how to deal at programme level with differences in eligibility rules between Member States: "Where Article 7 provides for different rules of eligibility of expenditure in different Member States participating in an operational programme under the European territorial cooperation objective, the most extensive eligibility rules shall apply throughout the programme area."
<b>Extended Final</b>	'Extended Final Beneficiary Principle' has been applied in the 2000-2006 programming

<b>Beneficiary Principle (EFBP)</b>	period. It means that all of the partners can become final beneficiaries and are therefore controlled independently. This means that each partner can be controlled by a controller in its own country. The LP (controller) does not have to assess the quality of the control work done, this remains the responsibility of the FLC body in each country.
<b>ERDF</b>	In effect, this principle applies to all projects in the 2007-2013 programming period. European Regional Development Fund. One of the four Structural Funds and the principal fund in the Objective 2 programme. European Regional Development Fund (ERDF) enables a wide range of programmes to stimulate economic development, leading to the creation of local jobs, for example creating new business parks, helping communities to use IT, and support for businesses to expand.
<b>Financial Report</b>	Part of the progress report. LPs of operations have to submit a progress report to the respective Joint Technical Secretariat at the end of each reporting period. It contains a retrospective accounting of the total costs incurred during the reporting period.
<b>First Level Control (FLC)</b>	Controls on project level. First Level Controls are undertaken when project partners submit a Payment Claim.
<b>INTERREG</b>	Cross-border, transnational and interregional cooperation intended to encourage the harmonious, balanced and sustainable development of the whole of the Community area.
<b>Joint Technical Secretariat (JTS)</b>	The Joint Technical Secretariat is responsible for the day-to-day management of the programme. In the 2007-2013 programming period, each programme has its own Joint Technical Secretariat.
<b>Lead Partner (LP)</b>	<p>In the 2000-2006 programming period, the Lead Partner has full financial responsibility for the entire operation including all partners and is responsible for the proper reporting of progress to the respective Programme as also stipulated in the subsidy contract.</p> <p>In the 2007-2013 programming period, the Lead Partner is the administrative link between the programme and the project. It is responsible for reporting of progress to the respective programme and transferring the ERDF contribution to the project partners. However, the project partners are responsible for the correctness of their own actions and related expenditure.</p>
<b>Lead Partner Principle (LPP)</b>	<p>Article 20.1 of Regulation (EC) 1080/2006 makes clear that in the 2007-2013 programming period, the Lead Partner is responsible for:</p> <ul style="list-style-type: none"> <li>• drafting the Partnership Agreement,</li> <li>• ensuring the implementation of the entire Operation;</li> <li>• ensuring that the expenditure presented by the beneficiaries participating in the operation has been incurred for the purpose of implementing the operation and corresponds to the activities agreed between those beneficiaries;</li> <li>• verifying that the expenditure presented by the beneficiaries participating in the operation has been validated by the controllers;</li> <li>• transferring the ERDF contribution to the beneficiaries participating in the operation.</li> </ul> <p>This means that in the 2007-2013 programming period, the Lead Partner does not bear full financial and legal responsibility for the project. Rather all project partners are liable for their own actions and related expenditure. Project partners will be controlled independently in their own country by the designated controller.</p>
<b>Managing Authority (MA)</b>	Any public or private authority or body at national, regional or local level designated by the Member State, or the Member State when it is itself carrying out this function, to manage assistance for the purposes of this Regulation. If the Member State designates a managing authority other than itself, it shall determine all the modalities of its relationship with the managing authority and of the latter relationship with the Commission. If the Member State so decides, the managing authority may be the same body as the paying authority for the assistance concerned.
<b>N+2</b>	This is the principle whereby the spending required of a programme is calculated. N is the commitment year and +2 is the year by the end of which funds committed in N have

to be spent (or returned - see automatic decommitment). Therefore funds must be spent within 2 years of being committed. In some cases in the 2007-2013 period, the N+3 rule applies.

**Partnership Agreement**

An agreement between the project partners, which lays down mutual rights and obligations regarding their cooperation. This agreement was optional in the 20002-006 programming period, but is mandatory in the 2007-2013 programming period. Following Article 20.1a of Regulation (EC) 1080/2006 the LP "(...) shall lay down the arrangements for its relations with the beneficiaries participating in the operation in an agreement comprising, *inter alia*, provisions guaranteeing the sound financial management of the funds allocated to the operation, including the arrangements for recovering amounts unduly paid.

**Paying Authority (PA)**

One or more national, regional or local authorities or bodies designated by the Member States for the purposes of drawing up and submitting payment applications and receiving payments from the Commission. The Member State shall determine all the modalities of its relationship with the paying authority and of the latter relationship with the Commission.

**Payment Claim**

Part of the progress report. The LP of a project has to submit a progress report to the respective Programme at the end of each reporting period. It contains a retrospective accounting of the total costs incurred during the reporting period.

**Progress Report**

Comprised of the Activity Report and the Financial Report (Payment Claim). It documents the progress of the operation and serves as payment request. The LP of a project has to submit a progress report at the end of each reporting period to the respective Programme.

**Subsidy Contract**

Contract between the MA and the LP. It determines the rights and responsibilities of the LP and the MA, the scope of activities to be carried out, terms of funding, requirements for reporting and financial controls, etc.

## **ANNEX**

### 1. Consolidated Table of Case Studies of selected Programmes

<b>LPP in Development and Application Stage</b>						
	<b>INTERREG IIIA</b>		<b>INTERREG IIIB</b>			<b>INTERREG IIIC</b>
	<b>France/ Spain</b>	<b>Euregio Rhine/Waal</b>	<b>Baltic Sea Region</b>	<b>Atlantic Area</b>	<b>CADES Area</b>	<b>IIIC West Zone</b>
<b>Joint project development and application – facilitated and supported by programme</b>	Programme initiatives : - Approved Project section (website).	Programme Initiatives: - Workshops; - Publications in branch - journals; - Individual project consultations;  Tools: - Application Package.	Programme initiatives: - Project Consultations (Proactive team); - Partner search forums; - Project idea database; - Seed Money Facility; - Individual Project Consultations;  Tools Provided: - Practical guide - Recommendations future IIIB projects.	Programme Initiatives: - Project Databank; - Search for partners page; - Project Fair;  Tools Provided: - Methodological guide for cooperation projects; - Atlantic Application Guidelines.	Programme Initiatives: - Information and Partner Search Forums; - Individual project consultations;  Tools Provided: - Applicants Manual; - Project Management Handbook; - Approved Project section (website); - Funding possibilities section (website).	Programme Initiatives are: - Operation Idea & Partner Search Tools; - Partner Search Forums; - Individual Project Consultations for Lead Applicants; - Presentations and Consultations in the regions (JTS on Tour); - Lead Applicant Seminars;  Tools Provided: - Audit Guidelines; - INTERREG IIIC Programme Manual; - Good set-up of application form.
<b>Presence of Subsidy Contract</b>	Yes. No particularities.	Yes. No particularities.	Yes. No particularities.	Yes. No particularities.	Yes. No particularities.	Yes. No particularities.
<b>Content of the application package</b>	- Application Form; - Template partnership agreement; - Commitment act (as part of the partnership agreement).	- Application Form; - Application Guideline.		- Application Form and financial kit; - Methodological guide for preparing cooperation projects; - Atlantic Application guidelines; - Template partnership agreement..	- Application Form; - Co-fin. statement; - A practical guide for filling in the form; - A manual which describes the programme MMS; - A preliminary guide to financing opportunities for Non Member applicants; - Template partnership agreement; - A list of Programme Contacts; - List project selection criteria; - Application Checklist.	The official application package consists of the following documents: - Application Form + checklist; - Programme Manual; - Templates for co-financing statements EU MS and Norway; - Templates for cofinancing statements third countries; - Templates authorisation Letter (RFO); - Map to mark location of LP and PP.
<b>Formal responsibilities between project partners (Cooperation Agreement)</b>	- Compulsory. - Template provided.	- Recommended. - No template provided by the programme.	- Strongly Recommended. - No template provided (GOL should be used as basis).	- Obligatory. - Template provided.	- Obligatory. - Template available on website.	- Obligatory in East and South Zone. - Strongly recommended in the West and North Zone. - Template provided.

NOTE: This information has been provided by each programme.

<b>LPP in Implementation stage</b>						
	<b>INTERREG IIIA</b>		<b>INTERREG IIIB</b>			<b>INTERREG IIIC</b>
	<b>France/ Spain</b>	<b>Euregio Rhine/Waal</b>	<b>Baltic Sea Region</b>	<b>Atlantic Area</b>	<b>CADES Area</b>	<b>IIIC West Zone</b>
<b>Joint implementation</b>	<p>Programme initiatives:</p> <ul style="list-style-type: none"> <li>- Specific seminars;</li> <li>- Annual on-the-spot checks by the JTS to assess projects' progress;</li> </ul> <p>(completes "in-itinere" report)</p> <p>Tools:</p> <ul style="list-style-type: none"> <li>- A practical guide for completing financial and activity reports.</li> </ul>	<p>Programme Initiatives:</p> <ul style="list-style-type: none"> <li>- Workshops;</li> <li>- Steering Committee.</li> </ul>	<p>Programme Initiatives:</p> <ul style="list-style-type: none"> <li>- LP Seminars;</li> <li>- Workshops for Financial; Managers and Auditors</li> <li>- Individual Project Consultations.</li> </ul> <p>Tools:</p> <ul style="list-style-type: none"> <li>- Programme Manual;</li> <li>- Audit Guidelines.</li> </ul>	<p>Programme Initiatives:</p> <ul style="list-style-type: none"> <li>- LP Seminars.</li> </ul>	<p>Programme Initiatives:</p> <ul style="list-style-type: none"> <li>- Information and Lead Partner Seminars;</li> </ul> <p>Tools Provided:</p> <ul style="list-style-type: none"> <li>- Good set-up of application form;</li> <li>- MS Access based reporting tool;</li> <li>- Project Management Handbook</li> <li>- Fact sheets;</li> <li>- Different other publications available on website.</li> </ul>	<p>Programme Initiatives:</p> <ul style="list-style-type: none"> <li>- Lead Partner Seminars;</li> <li>- Workshops for Financial Managers and Auditors;</li> </ul> <p>Tools Provided:</p> <ul style="list-style-type: none"> <li>- Audit Guidelines;</li> <li>- Implementation Manual;</li> <li>- Financial Fact Sheets;</li> <li>- Information &amp; publicity;</li> <li>- Communication Tool Kit;</li> <li>- Reporting forms;</li> <li>- Public Procurement Guidelines;</li> <li>- Model contracts;</li> <li>- List of National state aid authorities;</li> <li>- Country specific information.</li> </ul>
<b>Monitoring and reporting</b>	<p>Activity and financial reports twice a year (intermediate) and at the end of the project (final report). Templates and guide provided on the web site.</p>	<p>No comments.</p>	<p>The set-up of the reporting templates provide good basis for transnational project management. Clear link between partners, actions, output and finance.</p>	<p>No comments.</p>	<p>MS-Access based reporting tool which can be considered as a good practice to other programmes.</p> <p>Good link between partners, actions, output and finance.</p>	<p>The set-up of the reporting templates provide good basis for Interregional project management. Clear link between partners, actions, output and finance.</p>
<b>FLC</b>	<p>- Verifications performed at territorial level by authorised certifying bodies of the "Technical Supporting Units";</p> <p>- Verification –art 4- of same expenditures for the payment of the final claim performed by an authorised external auditor.</p>	<p>FLC executed by certified external auditors.</p>	<p>Different FLC regimes within the participating MS (centralised &amp; decentralised).</p> <p>Auditor is only authorised to perform checks within limits of the MS territory where he/ she or the employing company operates.</p>	<p>Financial reports checked by National Correspondents (NC) before submission to the Secretariat.</p>	<p>Different FLC regimes within the participating MS (centralised &amp; decentralised).</p> <p>Verifications performed by authorised certifying bodies or independent &amp; competent (internal) auditors.</p>	<p>Independent and competent (internal) auditor must certify intermediate and final reports.</p>

<b>Cash flows</b>	All programmes: cash flows on the basis of reimbursement without advance payments. LP is responsible for the transfer of ERDF to individual partners. <sup>33</sup>					
<b>Information flows</b>	All programmes: LP first point of contact between MA/ JTS and Partners.					
<b>Irregularities / recoveries</b>	LP requires reimbursements from partners in case of default of the partnership agreement and reports to MA. Member States are responsible for irregularities of partners located within their territory.	PA must be informed immediately.  Amounts need to be paid back to PA.	MA will contact partners via LP. Expenditures that are considered non-eligible will be settled with future payment claims.	Contact/ action via National Correspondents (NCs).  MS concerned will issue a transfer without waiting for reimbursement from partner.		Member States are responsible for irregularities of partners located within their territory.
<b>Decommitment: N+2</b>	All programmes: consider LP crucial to exert leverage regarding decommitment issues towards individual partners.					

NOTE: This information has been provided by each programme.

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<sup>33</sup> The INTERREG IIIA France/Spain programme issues an advanced payment of 7% of total eligible amount after first expenditure verification.

<b>LPP in Closure and Assessment Stage</b>						
	<b>INTERREG IIIA</b>		<b>INTERREG IIIB</b>			<b>INTERREG IIIC</b>
	<b>France/ Spain</b>	<b>Euregio Rhine/Waal</b>	<b>Baltic Sea Region</b>	<b>Atlantic Area</b>	<b>CADSES Area</b>	<b>IIIC West Zone</b>
<b>Monitoring</b>	The final report should be composed as previous intermediate reports. In addition LP submits financial summary attesting of already paid amounts.	LP must complete and submit a Final Report summarising the project activities, outputs, results and the corresponding expenditures throughout the entire project duration.	The Final report should be composed as previous intermediate reports. Projects will also be asked to deliver additional information related to: - overall outputs and results of the project - follow-up actions - project implementation experiences	Separate Final Report is provided:  LP must complete and submit a Final Report summarising the project activities, outputs, results and the corresponding expenditures throughout the entire project duration.	Separate Final Report template is provided:  LP must complete and submit a Final Report summarising the project activities, outputs, results and the corresponding expenditures throughout the entire project duration.	Separate Final Report template is provided:  LP must complete and submit a Final Report summarising the project activities, outputs, results and the corresponding expenditures throughout the entire project duration.
<b>FLC</b>	Same procedures as in previous stages of the project life cycle apply to the Closure and Assessment stage.  The final financial report must be audited by an authorised external auditor and has to cover 100% of the total eligible project expenditure before the payment of the final balance	All reports including the final report must be audited by a certified external auditor.	Same procedures as in previous stages of the project life cycle apply to the Closure and Assessment stage.  All expenditures must be audited on individual partner level and has to cover 100% of the total eligible project expenditure.	No particularities.	Same procedures as in previous stages of the project life cycle apply to the Closure and Assessment stage.  All expenditures must be audited on individual partner level and has to cover 100% of the total eligible project expenditure.	An auditor independent from the operations activities and financial management must sign the Financial Report, certifying the eligibility of the declared expenditure.
<b>Assessment</b>	All programmes: on Programme Level it is checked whether the project has achieved the intended output/ results and impacts.					

NOTE: This information has been provided by each programme.