

## **Potential beneficiaries are mainly interested in what project expenditures will be refunded by the EU**

The campaign of the Ministry of Finance “Be Active” attained its first results. The initiative of the Finance Ministry aims at familiarizing all potential beneficiaries with the meaning and the operating mechanisms of the European Structural Funds and Cohesion Fund under which Bulgaria has the opportunity to absorb approximately EUR 7 billion in the period 2007-2013.

During the two seminars held in Plovdiv and Veliko Tarnovo the potential beneficiaries had the opportunity to receive answers to their questions personally from the Prime Minister of Bulgaria, the seven line Ministers under the relevant Operational Programmes and the Minister of Agriculture who presented details of the Rural Development Programme. Beneficiaries’ activity is crucial for the ability of our country to absorb the EUR 7 billion. One of the questions most often asked by the future recipients of the European financial resources was what expenditures under the projects would be refunded.

### **Is the value added tax (VAT) a refundable expenditure?**

This question excites most of the representatives of the Bulgarian municipalities and businesses. Its answer can be found in Decree No 62 on the eligibility of expenditures dated 21 March 2007. It states that VAT is not an eligible expenditure in regard to European resources in the cases where it appears to be a refundable tax, too. If the recipient of the grant is registered under the Value Added Tax Law, in the general case the EU does not grant funds which are to cover these 20% because this tax can be withheld from the VAT liabilities which the recipient of the grant has. Alternatively, in the cases where the VAT is not a refundable tax for the beneficiary, all other terms being equal, it is recognized as an eligible expenditure and will be recovered in the framework of the agreed payments.

### **What other project expenditures will be refunded by the European Union?**

The expenditures incurred in relation to project implementation will be refunded in two phases – interim and final. The resources to be paid to beneficiaries will be strictly controlled by a number of bodies.

The financial management and spending of the resources from the Structural Funds and the Cohesion Fund is one of the major issues for Bulgaria connected with the management of the money from the Funds. Each Member State is obligated to adopt rules for eligibility of project expenditures, which should comply with the requirements of the Regulations concerning the individual Funds – the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Eligible expenditures are all payments made under the Operational Programmes “Development of the Competitiveness of the Bulgarian Economy”, “Human Resources Development”, “Administrative Capacity”, “Technical Assistance”, “Regional Development”, “Transport”,

“Environment”, and the Operational Programmes under the European Territorial Cooperation objective, which comply with the approved eligibility rules.

Each Operational Programme requires specific activities and expenditures, respectively. Therefore, the relevant Managing Authority is to elaborate its own specific rules for eligibility of expenditures under the Operational Programme. These rules are to include concrete description of all eligible expenditures under the individual components and activities funded under each Operational Programme, including expenditures for remuneration, own income, etc.

Eligible expenditures are all expenditures incurred between 1 January 2007 and 31 December 2015. They should be made for activities, designated and carried out under the responsibility of the Managing Authority and in accordance with the project selection criteria. The latter should be approved by the Monitoring Committee of the relevant Operational Programme.

The Decree states the main eligibility requirements. They take into account the specificity of the expenditures incurred under Operational Programmes funded from the Cohesion Fund, the European Social Fund, and the European Regional Development Fund as well as under the European Territorial Cooperation objective.

According to the Decree which lays down the parameters for eligibility of expenditures in Bulgaria **eligible for financing** under the criteria for operations approval are all expenditures under OP made between 01.01.2007 and 31.12.2015. Specific eligible expenditures are the following:

- depreciation
- in-kind contributions. In essence, these are non-cash contributions.
- organisation and management costs
- payments in relation to financial engineering instruments
- legal advisory and notary services costs
- expenditures for technical and financial experts if the latter are directly involved in the co-financed activities and are necessary for the preparation or implementation thereof
- expenditures for accounting and audit services, insurance of non-current tangible assets acquired in the course of the activity, if required by the Managing Authority.

As an exception, under the European Social Fund eligible for funding are also expenditures incurred for:

- labour and other remuneration, scholarships and other income paid to the participants in a certain activity by third parties
- in the case of grants – indirect costs, declared on the basis of a fixed rate, of up to 20 % of direct costs for the activity

Similarly, expenditures for housing development can be funded from the European Regional Development Fund only if they refer to:

- multi-family residential buildings
- buildings of public bodies or non-profit legal entities used for residential purposes by low-income households or people with special needs

**The following expenditures are not considered eligible for funding:**

– Under the European Social Fund

- refundable value added tax
- debt interest
- the purchase of furnishing, equipment, means of transport, infrastructure, real estate and land, except in specific cases

– Under the European Regional Development Fund

- debt interest
- the purchase of land whose value exceeds 10 % of the total eligible expenditures for the specific activity. By exception and in duly justified cases the Managing Authority may permit a higher percentage to be applied for activities related to environment protection
- decommissioning of nuclear power plants
- refundable value added tax

– Under the Cohesion Fund

- debt interest
- refundable value added tax
- housing development
- the purchase of land whose value exceeds 10 % of the total eligible expenditures for the specific activity
- decommissioning of nuclear power plants

