

Agreement on the Management, Financial and Control Systems of Interreg Baltic Sea Region (2014-2020)

PREAMBLE

PART I – MAIN IMPLEMENTING PROVISIONS

Article 1: Purpose and Scope

Article 2: Main implementation structure and procedures

- 2.1 Managing Authority
- 2.2 Joint Secretariat
- 2.3 Staffing and management arrangements of the MA/JS
- 2.4 Contact points
- 2.5 Monitoring Committee
- 2.6 Audit Authority and second level audits
- 2.7 Management verifications, role of first level controllers

Article 3: Technical assistance budget

- 3.1 Financing of the Programme management
- 3.2 Rules on eligibility of technical assistance expenditure

Article 4: Arrangements concerning main implementation procedures

- 4.1 Process for project assessment, approval and contracting
- 4.2 Programme accounts and payment procedure
- 4.3 Monitoring
- 4.4 Resolution of complaints

Article 5: Arrangements in case of implementation difficulties

- 5.1 General
- 5.2 Interruption/suspension of payments
- 5.3 Projects being subject to judicial and other proceedings
- 5.4 Projects being bankrupt
- 5.5 Irregularity and recovery procedure
- 5.6 Apportionment of liabilities
- 5.7 Systemic errors and financial corrections

Article 6: Arrangements for Programme closure

PART II – OTHER PROVISIONS

Article 7: Changes in the implementation structures

Article 8: Non respect of the agreed provisions and deadlines – sanctions

Article 9: Concluding provisions

ANNEX: National commitment and co-financing to the technical assistance (TA)

Agreement on the Management, Financial and Control Systems of Interreg Baltic Sea Region

(for the Programme period 2014-2020)

Having regard to

- REGULATION (EU) No 1303/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006,
- REGULATION (EU) No 1301/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006,
- REGULATION (EU) No 1299/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal,
- REGULATION (EU, Euratom) No 966/2012 of the EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002,
- Implementing acts and delegated acts adopted in accordance with the aforementioned Regulations,
- the Cooperation Programme “Interreg Baltic Sea Region” (CCI 2014TC16M5TN001) – hereinafter referred to as “Programme”,
- the decision of the European Commission according to Article 29(4) of Regulation (EU) No 1303/2013 approving the Programme (Decision No C(2014)10146 of 18 December 2014).

the [EU Member State or partner country participating in the Programme xxx]¹, represented by [xxx],

and

the **Investitionsbank Schleswig-Holstein, Fleethörn 29-31, 24103 Kiel, Germany**, represented by the Managing Board, hereinafter referred to as “IB.SH”,

hereby agree on the following rules governing the implementation of the Programme:

¹ One of the following to be inserted: Kingdom of Denmark, Republic of Estonia, Republic of Finland, Federal Republic of Germany, Republic of Latvia, Republic of Lithuania, Republic of Poland, Kingdom of Sweden, Kingdom of Norway

PREAMBLE

In accordance with Article 123(9) of Regulation (EU) No 1303/2013, the countries participating in the Programme (all together referred to as “participating countries”, each single one as “participating country”), i.e. the EU Member States Kingdom of Denmark, Republic of Estonia, Republic of Finland (including Åland), Federal Republic of Germany, Republic of Latvia, Republic of Lithuania, Republic of Poland, and the Kingdom of Sweden and the partner country Kingdom of Norway, concurred to make an agreement of identical type and wording with the IB.SH, the appointed Managing and Certifying Authority and operator of the Joint Secretariat of the Programme.

For procedural reasons, each participating country will sign the agreement with the IB.SH as a bilateral agreement. Nevertheless, the participating countries agree that all executed copies of the present “Agreement on the Management, Financial and Control Systems of Interreg Baltic Sea Region, Programme period 2014-2020” (hereinafter referred to as “this Agreement”), shall constitute a multilateral Agreement which may only be amended by unanimous decision of the participating countries and the IB.SH.

In addition to this the participating countries also agree to open the Programme to partners from Belarus and Russia provided the Republic of Belarus and the Russian Federation accept the provisions for management, financing and control of the Programme.

These and further specific provisions concerning the participation of the Republic of Belarus and the Russian Federation in the Programme shall be ruled in Financing Agreements that, according to Article 26 of Regulation (EU) No 1299/2013, shall be signed between the European Commission, the Governments of both of the countries and that of the Federal Republic of Germany, the Member State hosting the Managing Authority of the Programme.²

Furthermore, in accordance with Article 20 of Regulation (EU) No 1299/2013, the participating countries agree to open the Programme to partners from outside the Programme area provided that any such country on whose territory the specific partners are located accepts the provisions for management, financing and control of the Programme. Signing an agreement similar to the present “Agreement on the Management, Financial and Control Systems of the Interreg Baltic Sea Region, Programme period 2014-2020”, by the specific country is obligatory before a payment from the Programme can be made to these partners.

² According to Article 7(7) of Regulation (EU) No 232/2014 OF EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 March 2014 establishing a European Neighbourhood Instrument (ENI Regulation) funding under this Regulation can be pooled together with funding of other relevant Union regulations. This allows transferring funding from ENI Regulation to programmes financed under Regulation (EU) No 1299/2013. ENI allocation to the Programme is subject to signing Financing Agreements related to the participation of Russia and Belarus in the Programme.

PART I – MAIN IMPLEMENTING PROVISIONS

Article 1: Purpose and scope

This Agreement stipulates basic provisions and arrangements on the management, financial and control systems of the Programme in order to successfully start and pursue its implementation throughout the whole Programme period.

Article 2: Main implementation structure and procedures

The Programme shall be implemented through the following Programme bodies: a Managing Authority (also responsible for carrying out the functions of the Certifying Authority), a Joint Secretariat, a monitoring committee (hereinafter referred to as “MC”) and an Audit Authority, the latter assisted by a group of auditors.

2.1 Managing Authority

- a. The **Managing Authority** (hereinafter referred to as “MA”) is responsible for the overall management and implementation of the Programme. This involves cooperation with other Programme bodies such as the monitoring committee (MC) and the Audit Authority as well as with the European Commission and other EU-funded programmes.
- b. The participating countries decided on 14.05.2014 to designate
Investitionsbank Schleswig-Holstein (IB.SH), Kiel, Germany,
to fulfil the functions of the Managing Authority of the programme.
- c. The MA shall carry out the functions laid down in Article 125 of Regulation (EU) No 1303/2013. In accordance with Article 23 of Regulation (EU) No 1299/2013, the MA shall set up a **Joint Secretariat** (hereinafter referred to as “JS”), in particular to assist the MA and the MC in carrying out their respective functions.
- d. Based on Article 21(1) of Regulation (EU) No 1299/2013, the MA shall also be responsible for carrying out the functions of the Certifying Authority as defined in Article 126 of Regulation (EU) No 1303/2013 and Article 21(2) of Regulation (EU) No 1299/2013.
- e. By signing this Agreement, the IB.SH accepts to fulfil the respective functions in compliance with the above mentioned EU Regulations, the Programme, the decision of the European Commission approving the Programme, this Agreement and the Programme Manual. Without prejudice to these rules, the IB.SH shall carry out its tasks in full accordance with the institutional, legal and financial systems of the Federal Republic of Germany.
- f. The countries participating in the Programme will support the IB.SH in its efforts to fulfil its functions according to the rules.
- g. The MA does not carry out verifications under Article 125(4)(a) of Regulation (EU) No 1303/2013 throughout the whole Programme area. For this reason and based on Article 23(4) of Regulation (EU) No 1299/2013, each participating country designates the bodies or persons responsible for carrying out such verifications in relation to beneficiaries on its territory (hereinafter referred to

as “first level controller” or “controller”). Accordingly, the MA shall satisfy itself that the expenditure of each beneficiary participating in an operation has been verified by a controller in compliance with Article 23(4) of Regulation (EU) No 1299/2013.

- h. As an exception from the rule stipulated in point g), and instead of national first level controllers, the MA may carry out management verifications of specific types of operations. Details will be stipulated in the Programme Manual.
- i. The MA will be solely financed from the technical assistance (TA) budget of the Programme.
- j. The counterparts for the MA with the coordination role on the territory of the participating countries are, in the first instance, the MC members representing the national authorities responsible for the Programme. Therefore, these MC members, and their deputies respectively, are the central contact persons for all enquiries, reports etc. related to the implementation of the Programme in the participating countries.

2.2 Joint Secretariat

- a. The programme’s **Joint Secretariat** (JS) shall be set up by the MA. The main office of the JS is operated by IB.SH in Rostock/Germany.
- b. In consultation with IB.SH, a branch office of the JS shall be established in Riga/Latvia. The Riga branch office of the JS is hosted by the State Regional Development Agency of Latvia (hereinafter referred to as “SRDA”). Details on the operation of the branch office shall be stipulated in an agreement between IB.SH and SRDA.
- c. The JS is operated as one joint functional unit led by one director but located in the two offices. Although staff is partly located in Riga, this staff is part of the respective team, led by a team leader located in the Rostock Office. On a day to day basis staff of the JS Riga branch office closely cooperate with the colleagues in the Rostock office.
- d. In the Programme, the JS will carry out the majority of day-to-day tasks related to the overall Programme implementation, in particular the tasks stipulated in Article 23(2) of Regulation (EU) No 1299/2013. The JS is the central contact point for the public interested in the Programme, potential beneficiaries and selected/running operations.
- e. The JS will be solely financed from the TA budget of the Programme.
- f. The JS will become fully operational as soon as the Programme is approved by the European Commission and the TA budget has been approved by the MC.

2.3 Staffing and management arrangements of the MA/JS

- a. The tasks of the MA and the JS are carried out by IB.SH’s department “Interreg Baltic Sea Region”. An organisational chart of the department shall be provided on the website of the Programme.
- b. The head of the MA and the JS is located in Rostock, he/she is equally responsible for the MA and the JS and reports directly to the IB.SH Managing Board.

- c. Staff of the MA and the JS in Rostock and Kiel, Germany, shall be employed by the IB.SH. Staff of the JS's branch office in Riga, Latvia, shall be employed by the SRDA, acting as operator of the branch office, in consultation with the IB.SH.
- d. Employments shall be made in accordance with the TA budget as approved by the MC. The JS shall have international staff, preferably from all the participating countries. The tasks of MA and JS staff are stipulated in individual job descriptions.

2.4 Contact points

The participating countries may decide to establish contact point(s) (CP) to inform applicants and beneficiaries about the Programme.

2.5 Monitoring committee

- a. Within three months from the date of notification of the approval of the Programme, the participating countries in agreement with the MA shall set up a monitoring committee (MC) in compliance with Article 47 of Regulation (EU) No 1303/2013.
- b. Following Article 48 of Regulation (EU) No 1303/2013, each participating country shall nominate up to three members and their deputies to the MC. MC members are individuals representing authorities and organisations as decided by each participating country. The members shall represent at least the national authority responsible for the Programme and the regional level of the respective participating country. Further, the MC shall also comprise representatives of the MA/JS in an advisory capacity. Also the European Commission shall participate in the work of the MC in an advisory capacity.
- c. Any nomination and any recall of an MC member and a deputy shall be reported to the MA/JS without delay.
- d. In accordance with Article 49 of Regulation (EU) No 1303/2013 the MC shall review the implementation of the Programme and progress made towards achieving its objectives. It shall fulfil the functions stipulated in Article 110 of Regulation (EU) No 1303/2013 and select operations as stipulated in Article 12 of Regulation (EU) No 1299/2013. Moreover, the MC shall approve the Programme Manual as generated by the MA/JS in agreement with the MC.
- e. MC members shall be involved in the preparation, implementation, monitoring and evaluation of the Programme as referred to in Article 5(2) of Regulation (EU) No 1303/2013.
- f. MC members' responsibilities, rules on the MC members' impartiality etc. will be set out in writing in the rules of procedure of the MC. These rules of procedure shall be adopted at the first MC meeting in agreement with the MA/JS.

2.6 Audit Authority and second level audits

- a. According to Article 21 of Regulation (EU) No 1299/2013, the single Audit Authority shall be situated in the Member State of the Managing Authority, i.e. in Germany. The following body is designated to act as Audit Authority of the Programme:

Ministry of Justice, Cultural and European Affairs Schleswig-Holstein, Kiel, Germany

- b. The Audit Authority shall carry out the functions provided for in Article 127 of Regulation (EU) No 1303/2013. Without prejudice to these rules, the Audit Authority shall carry out its tasks in full accordance with the institutional, legal and financial systems of the Federal Republic of Germany.
- c. Applying Article 25(2) of Regulation (EU) No 1299/2013, the Audit Authority shall be assisted by a **Group of Auditors** comprising a representative of each participating country. Each participating country shall be responsible for audits carried out on its territory (hereinafter referred to as “second level audits/auditors” or “SLA”) as stipulated in the same Article. More details will be stipulated in the Programme Manual.
- d. The representatives have to be entitled to take decisions in the group of auditors on behalf of the respective participating country. They shall be from a unit independent from the MC members, the controllers designated according to Article 23(4) of Regulation (EU) No 1299/2013 and any project’s activities and finances.
- e. The group of auditors shall be set up at the latest within three months of the decision approving the Programme. It shall draw up and approve its own rules of procedure at its first meeting and it shall be chaired by the Audit Authority.
- f. The Audit Authority will be partly financed from the TA budget (Programme related tasks as provided for in Article 127 of Regulation (EU) No 1303/2013 as well as the chairmanship of the group of auditors).
- g. The representatives of the group of auditors and the national second level audit tasks carried out are solely financed by the respective participating country according to Article 25(2) of Regulation (EU) No 1299/2013.

2.7 Management verifications, role of first level controllers

- a. As the MA does not carry out verifications under Article 125(4)(a) of Regulation (EU) No 1303/2013 throughout the whole Programme area (cf. Article 2.1(g) of this Agreement), verifications will be carried out by first level controllers according to Article 23(4) of Regulation (EU) No 1299/2013. In such cases the MA shall satisfy itself that expenditure of each beneficiary participating in an operation has been verified by a first level controller. More details will be stipulated in the Programme Manual.
- b. Each participating country shall designate the first level controller(s) responsible for carrying out the verifications in relation to beneficiaries on its territory. Exceptions are referred to in Article 2.1(h) of this Agreement.
- c. There are two main first level control systems (hereinafter referred to as “FLC system”) – a centralised and a decentralised system – applied by the participating countries, which are further explained in the Programme Manual.
- d. The method of designation of a controller will be decided upon by each participating country separately and may vary between the participating countries.
- e. Any designation and any recall of a controller shall be reported to the MA/JS without delay.

- f. To ensure coherence among systems and controllers from all participating countries, each participating country shall submit to the MA/JS and the Audit Authority a detailed description of the FLC system's set up using the template provided by the MA/JS. Any changes in the FLC system shall result in an updated description which shall be forwarded to the MA/JS and the Audit Authority without delay.
- g. In addition, the day-to-day business of the controllers shall be supported by the MA/JS, primarily by providing essential information about the operations and standard tools for verification of expenditure (e.g. standard control confirmation, control report and checklist). These tools, harmonised with other European territorial cooperation programmes, shall be used as standard requirements across all participating countries to ensure coherence among controllers and transparency of control work performed.
- h. In the first instance each participating country is, apart from the designation of the controllers, also responsible for their training on EU, Programme and national requirements as well as the quality check of the control work. The MA/JS will also carry out training for first level controllers on Programme level.
- i. The controllers must in all cases:
- be independent from the controlled beneficiary;
 - hold the qualifications set by the participating countries;
 - fulfil the requirements for the first level controls stipulated in the EU regulatory framework and in the national legal framework.
- j. The controllers shall verify that the co-financed products and services have been delivered and that expenditure that has been declared by each beneficiary in the Programme has been paid and it complies with applicable law, the Programme and the conditions for the support of the operation. The controllers may be asked by the MA/JS to document the verification done in the programme's electronic monitoring system.
- k. The participating countries ensure that expenditure can be verified by the controllers within a period of two months from the submission of the documents by the beneficiary. This allows for timely submission of certified partner reports from the project partner to the lead partner and, after further aggregation and check by the controller of the lead partner, a timely submission of reports by the lead partner to the MA/JS within a three month period as set out in the Programme. This submission in due time will be the basis for timely re-imburement of project costs.
- l. With regard to TA expenditure, each organisation spending TA is responsible for ensuring that TA expenditure will be verified and certified in line with the corresponding national FLC system (depending on the geographical location of the organisation).
- m. Depending on the national approach, costs for the FLC system as well as for the actual first level control work will be paid by national financial resources or by the beneficiaries but they shall not be paid from the programme's TA budget. However, costs for the first level control of TA expenditure shall be paid from the TA budget of the Programme.

Article 3: Technical assistance budget

3.1 Financing of the Programme management

- a. The Programme management costs comprising costs incurred for the MA and the JS between 1 January 2014 and 31 December 2023 (cf. Article 65(2) of Regulation (EU) No 1303/2013) shall be completely funded from the technical assistance (TA) budget (priority axis No 5) as approved by the MC. The costs of the Audit Authority shall be partly covered by the TA budget (cf. Article 2.6(f) of this Agreement).
- b. The total amount of TA is stipulated in the Programme.
- c. The TA budget will be financed from the following sources:
- 6% of the total ERDF amount allocated to the Programme according to Article 17 of Regulation (EU) No 1299/2013 and the respective national co-financing by the Member States and, in case of their participation, Russia and Belarus (ratio 75% from the ERDF, and 25% from national contributions). The ERDF allocation includes the contribution from the European Neighbourhood Instrument (ENI) to the Programme, which will be jointly managed under ETC rules³.
- The Member States shall contribute to the TA in proportion to their individual share of ERDF amount allocated to the Programme, excluding the part that originates from ENI.
- Russia and Belarus shall, in case of their participation, contribute to the TA in proportion to their individual (indicative) share of that part of the ERDF amount allocated to the Programme, which originates from the ENI⁴.
- 6% of the total Norwegian national funds allocated to the Programme and the respective national co-financing by Norway (ratio 75% from the Norwegian national funds allocation, and 25% from national contributions).
 - A specific share of the total Russian national funds allocated to the Programme, in case of Russia's participation, and the respective national co-financing by Russia (ratio from the Russian national funds allocation and from national contributions to be defined).
- d. A detailed TA budget plan including the indicative national co-financing shares for the entire eligibility period 2014-2023 shall be approved at the first meeting of the MC. The TA financing plan is part of this Agreement (see Annex).
- e. IB.SH shall receive the payments made by the participating countries to co-finance the TA budget and administer the contributions of the participating countries to the TA budget in separate accounts (an EU-Member States TA co-financing account, a Norwegian account, an ENI account in case of Russia's participation, a Russian account).

³ According to Article 7(7) of Regulation (EU) No 232/2014 establishing the ENI funding under this Regulation can be pooled together with funding of other relevant Union regulations. This allows transferring funding from ENI Regulation to programmes financed under Regulation (EU) No 1299/2013. ENI allocation to the Programme is subject to signing financing agreements related to the participation of Russia and Belarus in the Programme.

⁴ The final Russian and Belarussian co-financing to TA originating from ENI is subject to signing Financing Agreements related to the participation of Russia and Belarus in the Programme.

- f. The participating countries shall transfer their contributions to the relevant account in eight equal annual instalments during the period 2015-2022. The payment of the annual contribution is due by 15 March of the respective year (starting in 2016; in 2015, the payment will be requested in the second half of the year, after this Agreement will have been signed).
- g. IB.SH will post any interest gained to the relevant account. Details are stipulated in Article 4.2(b) of this Agreement.
- h. National contributions to the TA not used at the end of the year 2023 as well as returns on interest generated on the accounts shall be regarded as resource of the respective participating country.
- i. With regard to the use of the TA budget, IB.SH shall provide the participating countries annually by 31 May (in 2017 and 2019 by 30 June) with a statement of cost, including information about the interest generated on accounts, and the use of interest income. This statement will be part of the annual reports on implementation of the Programme – for the first time in 2016.
- j. In case of changes in the Programme budget also the respective national contributions to the TA budget shall be adjusted. Changes in the TA budget need to be approved by the MC.
- k. Expenses of IB.SH incurred after 31 December 2023 due to the preparation, submission, follow-up and necessary review of the programme's closure documents until the final balance by the European Commission, shall be covered, as far as possible, by the TA budget of the successor programme. If there is no successor programme or if the Programme set-up has significantly changed and/or the successor programme shall be managed by another organisation than the IB.SH, the IB.SH is entitled to draw up a closure budget for all relevant activities related to the Programme closure, which shall be financed by the participating countries. This closure budget needs prior approval by the participating countries.

3.2 Rules on eligibility of technical assistance expenditure

- a. Based on Article 59 of Regulation (EU) No 1303/2013 and Article 18(2) of Regulation (EU) No 1299/2013, the participating countries, by signing this Agreement, explicitly agree on the following general rules on eligibility of TA expenditures. Costs are eligible according to the delegated acts adopted under Article 18(1) of Regulation (EU) No 1299/2013.
- b. TA expenditure shall be reimbursed if it has been incurred and paid during the eligible period from 1 January 2014 to 31 December 2023.
- c. In accordance with the principle of sound financial management, the TA budget may finance expenditures related to the management of the Programme with reference to the following cost categories:
 - personnel costs
 - expenditures on salaries
 - expenditures on social taxes
 - subsidies to removal costs, exceptionally subsidies to adequate lease rental charges,
 - expenditures for individual training and qualification measures,

- customary standardized payments and benefits according to IB.SH or SRDA internal rules and procedures (e.g. capital formation savings payments; additional allowance to sickness benefit; lump sum payment for anniversary – as of ten years of service, for wedding and for child birth)
 - material costs (e.g. office running costs, communication costs, travel and accommodation costs, costs for computer system and database, rents, costs for marketing and events, external expertise (e.g. evaluations, studies, audit costs)),
 - administrative services (direct expenditures for services to the Programme implementation provided by other departments of the IB.SH and the SRDA than those providing staff for the MA and the JS, e.g. controlling department, legal department, accounting department, personnel department etc., or by other third parties),
 - overhead costs as indirect administrative costs which cannot be reported directly to the Programme but which are based on real costs attributable to the implementation of the Programme and allocated pro rata to the Programme. according to a duly justified fair and equitable method.
- d. The abovementioned rules shall also be applicable to expenditures of the Audit Authority partly refunded from the TA budget (cf. Article 2.6(f) of this Agreement) in accordance with the MC decisions.

Article 4: Arrangements concerning main implementation procedures

4.1 Process for project assessment, approval and contracting

- a. Project applications can be submitted following calls for proposals. Details of the application, assessment and selection procedure will be set out in the Programme Manual.
- b. The JS organises and guarantees the impartial assessment of all applications based on the eligibility and quality criteria approved by the MC.
- c. The applications submitted will be made available to the MC members, including the assessment results followed by a proposal for project selection.
- d. Prior to the project approval by the MC the participating countries will carry out eligibility and legal status checks of potential beneficiaries – if need be, also including the national approval of beneficiaries – located on each participating country's territory.
- e. The MC will select the projects according to Article 12(1) of Regulation (EU) No 1299/2013 taking into account the strategic relevance and quality of operations. Detailed rules on decision making will be stipulated in the MC rules of procedure.
- f. Project lead applicants will be informed in writing by the MA/JS about the outcome of the MC selection process and also about reasons why an application was either ineligible or not approved.
- g. Following the MC selection of applications for funding, the MA shall conclude a Subsidy Contract with the lead beneficiary of an approved operation. A model contract based on Article 12(5) of Regulation (EU) No 1299/2013 shall be presented to the MC or a task force of the MC before

use. Subsidy Contracts shall be signed by the MA or, on behalf of the MA, by staff members of the JS employed by the IB.SH. Funds shall be granted to operations in Euro (€) only.

4.2 Programme accounts and payment procedure

- a. As soon as the Programme has been approved by the European Commission separate accounts for each funding source (ERDF, ENI, Norway, and if applicable Russia⁵) and for the national contributions to the TA (cf. Article 3.1 of this Agreement) will be set up by the MA.
- b. IB.SH will post any interest gained to the relevant account.
 - The interest generated on the accounts for ERDF and ENI is regarded as resource of the Programme. The MC shall decide upon the use of the interest income for the benefit of the Programme.
 - The interest generated on the Norwegian account is regarded as sole resource of Norway.
 - The interest generated on the Russian account is regarded as sole resource of Russia.
- c. In general, the reimbursement principle is applied. This means that the Programme co-financing will be paid to projects only after the certified project's request for payment has been approved by the MA/JS provided that the funds are made available by the European Commission and, if Norwegian or Russian partners are participating in the project, by the Kingdom of Norway or the Russian Federation.
- d. The MA is responsible for both, receiving payments from the European Commission, Norway and, in case of its participation, Russia, and making payments to the lead beneficiaries (lead partners). Each lead partner of an operation (project) is responsible for allocating subsidies received from the MA to the beneficiaries (project partners) of its operation.

4.3 Monitoring

- a. Computerised systems will be set up in compliance with the requirements set out in Article 122(3) of Regulation (EU) No 1303/2013. These systems will allow the exchange of information between lead beneficiaries and the MA/JS, partly also with the Audit Authority, first level controllers and the group of auditors. The systems will facilitate interoperability and allow the lead beneficiaries to encode all information regarding payment requests.
- b. A well-functioning computerised project monitoring system has been developed in the context of the predecessor programme and will be adapted for the Programme. The new monitoring system will be set-up in 2015/2016 and shall be operational by the time of the first call for application (2nd step).

⁵ In case Russian national funds shall be administered by IB.SH

4.4 Resolution of complaints

- a. Complaints by applicants and beneficiaries shall be possible and shall be examined and answered by the MA/JS. If needed, complaints will be examined and answered jointly by the chairperson of the MC and the MA/JS. The chairperson of the MC may decide to refer a complaint to the entire MC for final decision. The MC may also set up a task force or a sub-committee to deal with complaints. An overview of complaints examined and answered by the chairperson of the MC and MA/JS will be provided to the MC regularly.
- b. In the Programme terminology the term "complaint" applies to the project assessment process and the correctness thereof affecting the funding decision, to audit and control as well as to project implementation and monitoring.
- c. Complaints have to be addressed to the responsible authority or administrative body, following a distinct hierarchy depending on the set-up of the management and control system. The complaint procedures shall be described in detail in the Programme Manual.

Article 5: Arrangements in case of implementation difficulties

5.1 General

- a. In case of implementation difficulties the participating country/countries concerned shall be informed by the MA/JS. The country/countries shall support the MA/JS to clarify the particular case(s) and shall help to prevent and lift potential sanctions imposed to the Programme, to a lead partner or to a project partner. Sanctions can for example be imposed by the European Commission, the Audit Authority or the MA/JS as well as on demand of a second level auditor.
- b. The support shall ensure the national responsibility and the fulfilment of related tasks, including providing additional human resources available at the national bodies responsible for audit and control and at other relevant national authorities.

5.2 Interruption/suspension of payments

- a. In case interruption/suspension of payments is imposed by the European Commission at Programme level, the overall liquidity of the Programme is affected. The MA/JS will do its utmost to clarify the issue with the European Commission and to lift the interruption/ suspension of payment.
- b. At project level interruptions/suspension of payments will be imposed directly by the MA/JS if lead partners and/or project partners fail to comply with their responsibilities stipulated in the Subsidy Contract or if there are suspicions of irregularities or other shortcomings that would pose a risk for the Programme budget. As soon as the issue has been clarified with the relevant project, the MA/JS will either lift the payment stop or initiate the respective balance or recovery procedure. Details shall be stipulated in the Subsidy Contract/Programme Manual.

5.3 Projects being subject to judicial and other proceedings

- a. In case projects (lead partner or project partners) become subject to judicial or other proceedings the same procedure of notification to MA/JS and MC shall apply as provided for irregularities (cf. Article 5.5 of this Agreement) and financial corrections followed by a clarification and if needed recovery procedure. This includes the application of the same liability rules for participating countries of the project partner in question. Details will be stipulated in the Programme Manual/Subsidy Contract.
- b. In addition to the recovery procedure a (partial) termination of a Subsidy Contract is an option to proceed. Before exercising this according to the Subsidy Contract's provisions, the MA shall present the case to the MC and ask for its consent to terminate the Subsidy Contract. Further proceedings following a (partial) termination of a Subsidy Contract will be dealt with in the Programme Manual/Subsidy Contract.

5.4 Project partners being bankrupt

- a. To gain information on lead partners or project partners becoming bankrupt the Subsidy Contract and the Programme Manual shall provide for procedures. The procedures of identifying and handling bankruptcy cases are similar to those of a partner drop out and shall be treated case by case. In general each lead partner and project partner is responsible to inform the other partners in the project and the national authorities accordingly as well as the lead partner is obliged to inform the MA/JS.
- b. In addition to the recovery procedure a (partial) termination of a Subsidy Contract is an option to proceed. Before exercising this according to the Subsidy Contract's provisions, the MA shall present the case to the MC and ask for its consent to terminate the Subsidy Contract. Further proceedings following a (partial) termination of a Subsidy Contract will be dealt with in the Programme Manual/Subsidy Contract.

5.5 Irregularity and recovery procedure

- a. In compliance with Article 122 of Regulation (EU) No 1303/2013, each participating country is responsible for reporting irregularities committed by lead partners or project partners located on its territory to the European Commission and at the same time to the MA/JS. Each participating country shall keep the European Commission as well as the MA/JS informed of any progress of related administrative and legal proceedings. The MA/JS will ensure the transmission of information to the Audit Authority.
- b. If MA/JS suspects an irregular use of granted funds by a lead partner or any other partner of an operation, it shall inform the competent national administrations or relevant MC members without delay.
- c. If irregularities were discovered by any other Programme body or national authorities, these shall inform the MA/JS without any delay either.
- d. The methodology of notification and decision about irregularities as well as the recovery of funds unduly spent on project level is laid down in the Programme Manual.

- e. In addition to the recovery procedure a (partial) termination of the Subsidy Contract is an option to proceed. Further proceedings related to the (partial) termination shall be dealt with in the Subsidy Contract/Programme Manual.

5.6 Apportionment of liabilities

- a. If MA/JS suspects or was informed about an irregular use of granted funds it shall imply follow-up actions, such as suspending the reimbursement of the financing related to the lead partner or project partner and expenditure under examination, withdrawal or reduction of the Programme co-financing, recovery of granted funds.
- b. The MA/JS shall ensure that any amount paid as a result of an irregularity is recovered from the lead partner. Project partners shall repay the lead partner any amounts unduly paid.
- c. If the lead partner does not succeed in securing repayment from project partners, or if the MA/JS does not succeed in securing repayment from the lead partner, the participating country, on whose territory the partner concerned is located or, in the case of an EGTC, is registered, shall reimburse the MA/JS the amount unduly paid to that project partner. Therefore the participating country shall be entitled to claim the unduly paid funds from the project partner concerned. The MA/JS shall be responsible for reimbursing the amounts concerned to the general budget of the Union.
- d. With regard to TA expenditure based on joint decisions by the participating countries, the participating countries bear joint liability proportionally to their respective share in the overall TA budget. Whereas regarding irregularities connected to the incorrect use of TA budget, solely caused by an organisation implementing the Programme, the liability is with the participating country hosting the organisation spending the TA.
- e. By signing this Agreement, the participating countries confirm their liability to reimburse the MA the amounts due in accordance with Article 27 of Regulation (EU) No 1299/2013 and Article 147 of Regulation (EU) No 1303/2013.
- f. Where the MC in agreement with the MA and the participating country concerned decides that IB.SH shall initiate or continue legal proceedings to recover amounts unduly paid from a lead beneficiary or beneficiary, the participating country which would be liable according to Article 27(3) of Regulation (EU) No 1299/2013 undertakes to reimburse the IB.SH the judicial costs and costs arising from the proceedings, on presentation of documentary evidence, even if the proceedings are unsuccessful. It will always be the participating country concerned covering the costs of legal proceedings.

5.7 Systemic errors and financial corrections

- a. The Audit Authority, the group of auditors, the European Commission or the European Court of Auditors may detect systemic and other errors on Programme level that might lead to financial corrections imposed by the European Commission based on Articles 85 and 144 to 147 of Regulation (EU) No 1303/2013. Errors can be detected during implementation of the Programme and at the end during closure.

- b. Regardless of the date of detecting systemic and other errors on Programme level the methodology of sharing financial corrections among participating countries shall be chosen according to the type of error:
- Financial corrections on the level of single participating countries (clearly attributed to a particular country by the European Commission): allocation based on distribution of errors related to EU funds among the participating countries concerned
 - Any other financial corrections on Programme level: allocation based on total funds paid out to project partners per participating country (funds' share among all participating countries) at the date of the decision on a financial correction by the European Commission
- c. The methodology of sharing financial corrections mentioned above also applies to EU-countries outside the Programme area in case project partners from their territory are involved in the Programme.
- d. Systemic and other errors detected on Programme level leading to consequences such as financial corrections or interruption/suspension of payments on Programme level might also affect the project level. This will be dealt with in the Programme Manual.
- e. With regard to systemic errors connected to TA expenditure based on joint decisions by the participating countries, the participating countries bear joint liability proportionally to their respective share in the overall TA budget.

Article 6: Arrangements for Programme closure

- a. The closure of the Programme will be carried out in compliance with Article 141 of Regulation (EU) No 1303/2013 by the Programme authorities. The IB.SH will liaise with the Audit Authority to ensure a smooth Programme closure.
- b. The Programme closure will be prepared as much as possible within the eligibility period of the Programme in order to speed up the process and to limit the closure activities and costs to be financed by the participating countries or the successor programme after the end of the final date of eligibility (31.12.2023).
- c. In accordance with Article 140(1) of Regulation (EU) No 1303/2013, the information compiled on Programme level will be maintained for a period of three years after Programme closure. This concerns data and documents in relation to TA and operations stored by the IB.SH (MA/JS) and the SRDA (JS branch office) or those stored by the Audit Authority in relation to the implementation of the Programme. Like in the predecessor programme, the Baltic Sea Region Programme 2007-2013, it is planned to archive the whole Programme implementation database in order to access all data also beyond the end of the Programme.

PART II – OTHER PROVISIONS

Article 7: Changes in the implementation structures

Requests for changes in the programme's implementation structure can be brought up either by the participating countries or the Programme bodies and will be discussed in the MC. Depending on the change and the outcome, the Programme might have to be revised and submitted to the European Commission for approval.

Article 8: Non-respect of the agreed provisions and deadlines – sanctions

- a. By signing this Agreement each participating country and the IB.SH undertake to respect the agreed provisions and deadlines and to inform each other on problems, obstacles and delays without delay.
- b. Inter alia the agreed provisions concern national responsibilities related to eligibility and legal status checks and national approval of beneficiaries, projects assessments, first level control (FLC) systems, second level audit (SLA), apportionment of liabilities related to co-financing the TA, financial corrections and recovery procedures.
- c. In the event of non-respect of the agreed provisions cases shall be treated case by case. If a participating country does not comply with its duties, the MA is entitled to suspend payments to all project partners located on the territory of this participating country.
- d. Procedures for handling cases of non-respect of agreed provisions and deadlines on project level will be stipulated in the Subsidy Contract and the Programme Manual.

Article 9: Concluding provisions

- a. The working language of the Programme shall be English. Therefore also any communication regarding this Agreement between the IB.SH and the participating countries shall be made in English.
- b. Without prejudice to the applicable European law, this Agreement shall be governed by German law. It may be amended only in writing and on agreement between all participating countries and the IB.SH.
- c. If any provision of this Agreement should be, or become, wholly or partly ineffective, all other provisions remain valid. The parties to this Agreement will undertake all necessary steps and actions to replace the ineffective provision by an effective provision which comes as close as possible to the purpose of the ineffective provision.
- d. Taking into account the eligibility rules stipulated in Article 65(2) of Regulation (EU) No 1303/2013, this Agreement, upon signature of all participating countries (as defined in the preamble of this Agreement) and the IB.SH shall enter into force retrospectively as from 1 January 2014 being the starting date of eligibility within the Programme as approved by the European Commission.

- e. This Agreement shall apply throughout the implementation of the Programme including the preparation of the closure documents according to Article 141 of Regulation (EU) No 1303/2013 until its definite closure at the end of the archiving period set out in Article 140(1) of Regulation (EU) No 1303/2013.
- f. Two originals of this Agreement shall be signed bilateral by the representatives of the Government of each participating country and by the IB.SH. The participating country and the IB.SH shall each receive one executed copy.

[Participating country xxx , represented by xxx]

Place and date: _____

Name and function of the signatory(ies): [.....]

Signature(s)/Stamp: _____

Managing Authority – IB.SH (Investitionsbank Schleswig-Holstein)

Place and date: Kiel, _____

Name and function of the signatories: Chairman of the Board Erk Westermann-Lammers
and Member of the Board Dr. Michael Adamska

Signatures/Stamp: _____

**ANNEX TO THE AGREEMENT ON THE MANAGEMENT, FINANCIAL AND CONTROL
SYSTEMS OF INTERREG BALTIC SEA REGION
(Programme period 2014-2020)**

National commitment and co-financing to the technical assistance (TA)*

Country	Commitment to the programme	ERDF/NOR TA co-financing = 6% of commitment (75%)	National TA co-financing (25%)	National TA co-financing - annually 2015-2022 (8 years)
	A	$B = (0.06 * A)$	$C = (25/75) * B$	$D = C / 8$
Denmark	20,205,291	1,212,317	404,106	50,513
Estonia	5,533,906	332,034	110,678	13,835
Finland	29,190,652	1,751,439	583,813	72,977
Germany	72,629,948	4,357,797	1,452,599	181,575
Latvia	7,945,883	476,753	158,918	19,865
Lithuania	13,853,812	831,229	277,076	34,635
Poland	66,859,658	4,011,579	1,337,193	167,149
Sweden	47,611,508	2,856,690	952,230	119,029
Sub total	263,830,658	15,829,839	5,276,613	659,577
Norway**	6,000,000	360,000	120,000	15,000
Total	269,830,658	16,189,839	5,396,613	674,577

*Figures based on Annex I and II of the Programme approval by the European Commission (Decision No C(2014)10146 of 18 December 2014) and annual splitting based on Article 3.1(f) of this Agreement

** The Kingdom of Norway commits to provide the necessary Norwegian national funding and co-financing, subject to the budget authority adopting the annual funds.