

**Food, Biological and Chemical Technologies
Investment and Business Development**

**The European Commission 6th Framework Programme:
General Information on Participation, Financial,
Administrative and Contractual Provisions**

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May 2003**

1. BACKGROUND

“Research and Technological Development (RTD) is an essential element in the functioning of industrialised countries, such as the European Union (EU) Member States and the countries having applied for EU membership. The competitiveness of companies and the employment they can provide depend to a great extent on RTD; and RTD is also essential for the support of other policies such as consumer protection or the protection of the environment. In short: the individual and collective well-being of citizens depends on the quality and relevance of RTD.....^a

“Europe must also play an active role in RTD because of a number of developments inherent to the RTD sector itself:

- High level research is increasingly complex and interdisciplinary;
- High level research is increasingly costly;
- High-level research requires a constantly increasing “critical mass.”^a

There are very few individual research teams, laboratories or companies that can reasonably claim to be able to respond to these challenges. Even entire countries find it increasingly difficult to be active and play a leading role in the many important areas of scientific and technological progress. Organising co-operation at different levels both within Europe and internationally, co-ordinating national or European policies, networking teams and increasing the mobility of individuals and ideas is therefore a requirement resulting from the development of modern research in a global environment. Without determined action at a European level, the present fragmentation of Europe's efforts cannot be overcome. Taking up this challenge the European Commission (EC), Member States and the European Parliament, the scientific community and industry are committed to work jointly towards the creation of a “European Research Area” (ERA) and its international dimension. The Sixth Framework for Research and Technological Development (FP6) will be the main financial and legal instrument of the EC to implement the ERA, alongside national efforts and other European co-operative research activities. FP6 will support collaboration in research, promote mobility and co-ordination and invest in mobilising research in support of other EU policies.”^a

A fact sheet for first-time participants in FP6 is given below. Included are tables highlighting key aspects of the seven thematic themes. Some general aspects pertaining to participation are given; for more information, however, interested parties should refer to the individual work programmes and guide for proposers. The Rules for Participation can also be accessed at http://europa.eu.int/comm/research/fp6/documents_en.html#rules or at <http://www.cordis.lu/fp6/find-doc.htm>.

FP6 at a glance - Fact Sheet for Potential Participants

What is FP6
FP6 is the EC Framework Programme for Research, Technological Development and Demonstration. It is a collection of the actions at EU level to fund and promote research.
Basic features distinguishing FP6 from other national or international research funding programmes
The European and international dimension Following the principle of subsidiarity, projects have to be transnational. In other words, only consortia of partners from different member and associated countries can apply; for mobility and training actions the fellows typically have to go to a country different from their country of origin or residence. Activities that can better be carried out at national or regional level, <i>i.e.</i> without co-operation across borders, will not be eligible under the FP6. FP6 also provides possibilities and funding for organisations from third countries (“international co-operation”) NOTE: South Africa is classified in the category of “third countries having a co-operation agreement” and as such there is no restriction on participation over and above the minimum consortium composition. Restrictions to financing apply in so far as the community contribution must be necessary and foreseen by the work programme <i>viz.</i> South Africa can participate, but not necessarily receive funding.
The strategic objectives Based on the Treaty establishing the EU, FP6 has to serve two strategic objectives: strengthening the scientific and technological bases of industry and encouraging its international competitiveness while promoting research activities in support of other EU policies. These two objectives are setting the general scene for choosing priorities and instruments.
Focus and concentration – the thematic priorities FP6 does not cover all areas of science and technology (the specific research activities for SMEs, Marie-Curie actions, infrastructure actions, policy coordination and the science and society programme are exceptions from this rule). Based on the above strategic objectives, a limited number of thematic priorities (and selected topics within the overall priorities) have been identified. Detailed descriptions of these areas and specific topics will be given in the calls for proposals. Potential participants have to check carefully if their ideas for projects fit within the scope of these priorities and topics. Multidisciplinary proposals addressing several topics may be submitted. Any proposal submitted in response to a call should, however, have a centre of gravity on one topic open in this call. Proposals cannot be accepted if they are not focused on the priorities of FP6; the multidisciplinary nature of a proposal does not remove this requirement (See Table 1, Table 2)
Sharing of costs and ownership of results In general, the EU contributes only a certain percentage of the total costs of a project. Participants have to mobilise their own resources accordingly. The percentage of the EC’s financial contribution depends on the type of activity (see section on financial provisions and cost models).

The submission and selection process

Submission of proposals is only possible in response to **calls for proposals**, which are published in the Official Journal of the European Communities and on the Internet (**CORDIS: <http://www.cordis.lu/fp6/calls.htm>**). Special information packages are issued for each call comprising documents, explanations and forms that are needed for the preparation of a proposal. **Calls have strict deadlines that are enforced to the minute.** Proposals are evaluated and selected for funding by the EC with the help of independent external experts (peer review). The evaluation criteria and a description of the process of evaluation, including the ethical review, are published in advance. With successful proposals, the EC enters into (financial and scientific-technical) contract negotiations. Successful negotiation will lead to a contract between the EC and participants.

Project management

For the management of their project, a consortium will have great autonomy. One of the project participants has to act as co-ordinator. The EC will transfer the EC financial contribution to the co-ordinator for further distribution to the other participants. The co-ordinator will also be responsible for delivering reports. Details of relations between participants are defined in a consortium agreement. For most of the instruments it is mandatory. The EC will provide a checklist for consortium agreements (see section on consortium agreements)

FP6 – Who should consider participation?¹

A research group at a university or at a research institute	Research institutions are one of the main target groups of FP6. They find possibilities in virtually all actions of FP6, from participation in research projects to becoming hosts for mobility and training actions.
A company intending to innovate	Companies are one of the main target groups of FP6, in particular SMEs, for which 15% of the budget of the thematic priorities is reserved. Companies can take part in all research activities. They can also become hosts for mobility and training actions.
A small or medium-sized enterprise (SME)	The main route for SMEs to participate in the FP6 in the activities implemented under the Priority Thematic Areas will be through Integrated Projects, Specific Targeted Research Projects and possibly also through Networks of Excellence. In addition, FP6 contains specific schemes for SMEs in the form of Horizontal Research Activities: Co-operative Research and Collective Research. Co-operative research refers to SMEs that need to assign research activities to RTD Performers and own the results of these activities.
An SME Association or Grouping	An alternative route for SMEs to participate in the Priority Thematic Areas is through SME Associations or Groupings that become participants on behalf of their SME members. In addition, Collective Research refers to Associations and Groupings in sectors where SMEs are prominent.

¹ The list of potential participants is just exemplary, not exhaustive. Other entities such as the European Economic Interest Groups (EEIGs), European interest organisations, international organisations, non-governmental organisations, end-users, specialist service providers (management, dissemination *etc.*) and many others may also participate.

Public administrations	<p>If the organisation is dealing with research policy or management of public research programmes, the ERA-NET scheme might be of interest. The scheme gives support to transnational coordination and co-operation of research activities carried out at national or regional level.</p> <p>Otherwise, public administrations can be valuable partners of consortia in areas where they play a role in the use of research results (e.g. in health, environment, transport, legislation etc.)</p>
Undergraduate students	<p>With the exception of some actions to promote science among young people, activities funded under FP6 do not target undergraduates directly. Mobility actions for undergraduates are supported in the EU educational programmes.</p>
Early stage researchers (post-graduate)	<p>Special mobility and training schemes are foreseen in FP6 for early-stage researchers, enabling them to further their research career by working in an institution in a country different from their country of origin or residence. Furthermore, these researchers can get support for participation in international conferences and training courses.</p>
Experienced researchers	<p>Special mobility actions are foreseen in FP6 for experienced researchers (having a PhD or 4 years research experience). Their aim is to provide advanced training or to support the transfer of knowledge to institutions intending to develop new areas of activities or to institutions in less favoured regions.</p>
Acknowledged world-class researchers	<p>There are Excellence Grants to enable a promising researcher to create a team engaged in leading edge or multi-disciplinary research, and Chairs for making top-level teaching appointments, in particular to attract world-class researchers and encourage them to resume their careers in Europe</p>
Institutions running a research facility of transnational interest	<p>The infrastructure actions are of interest to institutions hosting an important research facility. They offer support for transnational access for guest researchers from Europe or other countries. Moreover, support will also be given for design studies and development of new infrastructures and for communication networks</p>
Organisations and persons from third countries	<p>International co-operation (<i>i.e.</i> co-operation with third countries who are not a member state or an associated state) is an integral part of FP6, with the following three complementary routes for participating and funding:</p> <ol style="list-style-type: none"> 1. The opening of the first block of activities to third country organizations (with substantial funding) 2. Specific measures in support of international co-operation (INCO). 3. International mobility of researchers (fellowships to and from third countries)

Table 1: The seven thematic priorities: main objectives^a

Focusing and integrating European research – The seven thematic priorities							
	1. Life sciences, Genomics and Biotechnology for Health	2. Information Society Technologies	3. Nano-technologies and nano-sciences, knowledge-based multifunctional materials, new production processes and devices	4. Aeronautics and Space	5. Food Quality and Safety	6. Sustainable Development, Global Change and Ecosystems	7. Citizens and Governance in a knowledge-based society
Main objectives	Integrating post-genomic research into the more established biomedical and biotechnological approaches. Involvement of key stakeholders e.g. industry, healthcare providers and physicians, policy makers, regulatory authorities, patient associations and experts on ethical matters	Direct contribution to European policies for the knowledge society and the e-Europe Action Plan; medium and long term RTD on the future generation of technologies integrating computers and networks into the everyday environment; placing the individual at the centre	Contribution to the creation of the scientific base for the transition of European production industry from resource-based towards knowledge-based, more environment-friendly approaches	Striving towards higher levels of technological excellence by consolidating and concentrating RTD efforts in the context of the Advisory Council for Aeronautics Research in Europe and the European Strategy for Space	Improve health and well-being of European consumers through a higher quality of food, improved control of food production and of related environmental factors. Re-address the classical “farm-to-fork” approach by giving priority to consumers’ demands and rights for high-quality and safe food. “Fork-to-farm” approach as primary driver for developing new and safer food production chains and foods.	Strengthening the S&T capacities needed for Europe to be able to implement a sustainable development model in the short and in the long term, integrating its social, economic and environmental dimensions; contributing to international efforts mitigating adverse trends in global change	Mobilisation of European research in economic, political, social sciences and humanities that are necessary to develop an understanding of, and to address issues related to, the emergence of a knowledge –based society and new forms of relationships between its citizens, on the one hand and between its citizens and institutions, on the other.
More information	http://www.cordis.lu/fp6/lifescihealth/rtd-genomics-biotec@cec.eu.int rtd-diseases@cec.eu.int	http://www.cordis.lu/ist/ist@cec.eu.int	http://www.cordis.lu/fp6/nmp.htm rtd-nmp@cec.eu.int	http://www.cordis.lu/aerospace/rtd-aerospace@cec.eu.int	http://www.cordis.lu/fp6/food/rtd-food@cec.eu.int	http://www.cordis.lu/sustdev/ev/rtd-energy@cec.eu.int rtd-sustainable@cec.eu.int rtd-transport@cec.eu.int tren-energy@cec.eu.int	http://www.cordis.lu/fp6/citizens/ rtd-citizens@cec.eu.int

Table 2: The seven thematic priorities: thematic areas covered^a

	1. Life sciences, Genomics and Biotechnology for Health	2. Information Society Technologies	3. Nano-technologies and nano-sciences, knowledge-based functional materials, new production processes and devices	4. Aeronautics and Space	5. Food Quality and Safety	6. Sustainable Development, Global Change and Ecosystems	7. Citizens and Governance in a knowledge-based society
Thematic areas	<p>Advanced genomics and its application for health:</p> <ul style="list-style-type: none"> – gene expression and proteomics – structural genomics – comparative genomics and population genetics – bioinformatics – multidisciplinary functional genomics approaches to basic biological processes – new, safer, more effective drugs including pharmacogenomics approaches – new diagnostics – new in vitro tests to replace animal experimentation – new preventive and therapeutic tools, such a somatic gene and cell therapies and immunotherapies – post-genomics with high potential for application <p>Combating major diseases:</p> <ul style="list-style-type: none"> – application-oriented genomic approaches to major diseases – combating cancer – confronting the major communicable diseases linked to poverty 	<p>Applied IST research addressing major societal and economic challenges:</p> <ul style="list-style-type: none"> – trust and security – ambient intelligence, e-inclusion – e-business, e-government, e-Work systems, e-learning – complex problem solving <p>Communication, computing and software technologies</p> <ul style="list-style-type: none"> – communication and network technologies – software technologies <p>Components and microsystems</p> <ul style="list-style-type: none"> – micro, nano and optoelectronics – micro- and nanotechnologies, microsystems, displays <p>Knowledge and interface technologies</p> <ul style="list-style-type: none"> – knowledge technologies and digital content – intelligent interfaces and surfaces <p>IST future and emerging technologies - new IST-related science and technology fields</p>	<p>Nano-technologies and nano-sciences</p> <ul style="list-style-type: none"> – long-term interdisciplinary research into understanding phenomena, mastering processes and developing research tools – nanobiotechnologies – nanometre scale engineering techniques – handling and control devices – applications <p>Knowledge-based multifunctional materials</p> <ul style="list-style-type: none"> – development of fundamental knowledge – technologies for production, transformation and processing – engineering support for materials development <p>New production processes and devices</p> <ul style="list-style-type: none"> – new processes and flexible and intelligent manufacturing systems – systems research and hazard control – optimising life-cycles 	<p>Aeronautics</p> <ul style="list-style-type: none"> – strengthening competitiveness by reducing development costs, aircraft direct operating costs and improving passenger comfort – emissions and noise – aircraft safety – increasing operational capacity and safety of the air transport system <p>Space</p> <ul style="list-style-type: none"> – Galileo: development of multisectorial systems, equipment, tools and user equipment – GMES: stimulate evolution of satellite-based information services by development of technologies (e.g. sensors, data and information models, services for global environment, land-use, desertification, disaster management) – Satellite telecommunications 	<ul style="list-style-type: none"> – Epidemiology of food-related diseases and allergies – Impact of food on health – Traceability processes all along the production chain – Methods of analysis, detection and control – Safer and environmentally friendly production methods and technologies and healthier foodstuffs – Impact of animal feed on human health – Environmental health risks 	<p>Sustainable energy systems</p> <ul style="list-style-type: none"> – short term impact (clean energy sources, savings and efficiency, alternative motor fuels) – long term impact (fuel cells, carriers/transport storage, renewable energy technologies, capture and sequestration of CO₂) <p>Sustainable surface transport</p> <ul style="list-style-type: none"> – environmentally friendly and competitive transport systems – safer, more effective and competitive rail and maritime transport <p>Global change and ecosystems</p> <ul style="list-style-type: none"> – greenhouse gas – water cycle and soil – biodiversity – desertification, natural disasters – sustainable land management – operational forecasting and modeling – complementary research 	<p>Knowledge based society and social cohesion</p> <ul style="list-style-type: none"> – improving the generation, distribution and use of knowledge and its impact on economic and social development – options and choices for the development of a knowledge-based society – the variety of paths towards a knowledge society <p>Citizenship, democracy and new forms of governance</p> <ul style="list-style-type: none"> – implications of European integration and enlargement for governance and the citizen – articulation of areas of responsibility and new forms of governance – issues connected with resolution of conflicts and restoration of peace – new forms of citizenship and cultural identities

2. INTRODUCTION

The past few years have seen a fundamental change in the funding of Science Councils, Research and Tertiary Institutions in South Africa. A decline in direct government funding has created the necessity for these organisations to tap into other research funding streams to ensure their sustainability and ability to deliver on their mandates.

The employment creation, knowledge development and asset funding principles operating under EC-funded initiatives are generally well aligned with the South African Government's national imperatives relating to employment creation, and the need to increase the scientific knowledge base of the country.

Limited understanding of the administration and financial reporting requirements of EC-funded projects has impacted on the participation of South African institutions in proposal submissions and in projects. With the implementation of the FP6, and the increased potential for participation and funding of ACP countries, and specifically South Africa in FP6 projects, a more in-depth understanding of the EC systems would be beneficial to South African project proposers and participants. This is aligned with the commitment of the South African Government's Department of Science and Technology (DST) to encourage and support greater South African participation in FP6.

DST was consequently requested to fund a visit to Brussels to gain the necessary information and contacts relating to general contractual, financial and administrative provisions for participation in FP6 projects.

A representative from DST, Ms Musandiwa Adelaide Mukhuba, Assistant Director: Global Partnerships, was present at the meetings with the EC.

3. ACTIVITIES AND OBJECTIVES

A visit was made to the EC Office in Brussels, Belgium. Meetings were set up with EC representatives with an understanding of the contractual and financial requirements pertaining to both FP5 and FP6.

In addition, visits were made to the Institute of Food Research (IFR) in Norwich, England and Natural Resources Institute (NRI) in Chatham, England. Both institutions have been successful previously in obtaining EC funding and are likely to act as Project Management Units (PMUs) / Lead Organisations for FP6 projects. The answers to "Frequently Asked Questions" (FAQs) relating to administrative and financial considerations, as well as insights to general participation in EC-funded projects, were sought.

A workshop relating to “A Model Consortium Agreement for Integrated Projects” hosted by the European Association of Research Technology Organisations (EARTO) was also attended in Brussels, Belgium. The objective was to gain an understanding of the factors that are considered important in participating in such an agreement. The outcomes of this workshop will be reported separately.

4. REPORT BACK

The various outcomes of the DST-funded visit are outlined below in the form of answers to FAQs and sections dealing with specific issues. This section, in general, is directly related to participation in FP6 projects, but information relating to participation in FP5 projects is also given. It is important to note that a general overview of the various issues is given – a thorough understanding of the various contracts and annexures pertaining to these is vital prior to final negotiations on budgetary issues and the signing of any legal contracts.

Note that while this document provides an overview on participation in FP6, and the thematic areas, further in-depth information is available from the South African (http://www.dst.gov.za/programmes/multilateral/fp6_call.htm) National Contacts Points.

Information and insights from the following people are included as part of this report:

EC

Dr Michel Pletschette – International Cooperation;

Ms Mila Bas Sánchez – Legal Advisor, DG for Research, FP6 Model Contract

Mr Reginald Soenen – Legal Advisor, DG for Research, Key negotiator for INCO contracts

Contact also made with Nicholas Neuman’s office with respect to Mobility (Marie Curie) projects

Institute for Food Technology (IFR)

Sue Southon – Business Manager, IFR Enterprise Unit

Roger Fenwick – International Co-ordinator

Sandie Johnson – Contracts Manager

Natural Resources Institute

Dr Guy Poulter – Acting Director, NRI

Prof Andrew Westby – Director Research

Dr Quirien van Oirschot – Food Scientist

Information obtained on the FP6 model contract and cost models from the respective EC legal advisors has been updated based on the finalised model contract and cost models available on http://dbs.cordis.lu/fep-cgi/srchidadb?ACTION=D&SESSION=&DOC=1&TBL=EN_DOCS&RCN=EN_RC N:1976005&CALLER=FP6_LIB and http://europa.eu.int/comm/research/fp6/working-groups/model-contract/pdf/cost_model_en.pdf

4.1 Frequently asked Questions Relating to Contractual, Financial and Administrative Issues

Does the EU fund the total costs associated with a particular participant's involvement in a project?

No – the EU contributes a percentage of the total costs of a project. It is important to realise from the onset that participants are required to contribute towards their costs associated with participating in EC-funded projects.

What are the cost models all about?

The cost models are the particular methods mandated by the EC to calculate the total costs associated with the project. There are three cost models that may be applied as appropriate for participation in FP6; the Full Cost with actual indirect costs (FC) Model, the Full Cost with indirect flat rate costs (FCF) Model and the Additional Costs with indirect flat rate costs (AC) Model. A description of the various cost models is given in Section 4.2. The total project costs for a particular participant are therefore calculated based on an appropriate cost model, and the EC will contribute a certain percentage towards the calculated project costs.

Which cost model is most appropriate to me?

Firstly it is important to realise that cost models are applied to a LEGAL ENTITY, and the choice of a cost model is dependant on the type of legal entity concerned. Individual researchers working for particular institutions will therefore need to adopt the cost model applicable to the institution. Different faculties / departments *etc.* will also be subject to the cost model adopted by the Institution. It is important to establish with your institution whether a particular cost model for participation in FP6 has been selected and if not, for the institution to decide on a cost model and communicate as appropriate *e.g.* CSIR comprises 8 different Business Units, but operates as a single legal entity; all 8 Business Units must therefore adopt the same cost model. Access to the various cost models is discussed in Section 4.2.

Can an institution change the cost model it operates under?

Generally an organisation adopts a single cost model during the duration of a particular Framework Programme. An organisation can, however, operate under a different cost model from that adopted in FP5. An “upgrade” in cost model *viz.*, from AC to FC or FCF is possible during the Framework, but only after application to the EC.

What is the maximum percentage of a participant's project costs that the EC funds?

The maximum percentage of the EC's financial contribution depends on the type of activity that is undertaken. The specific allocations of the EC's contribution towards the various activities are discussed in Section 4.2.

Can I act as a subcontractor on an EC-funded project?

Yes – there are some advantages associated with acting as a subcontractor in that the EC pays 100% of subcontracting costs. There are also disadvantages in that a subcontractor generally does not share in any intellectual property benefits that may be associated with the project.

Can I subcontract certain activities as part of my participation in an EC-funded project?

The EC allows for subcontracting but stipulate conditions. Previously an upper limit of 20% of the individual participant's budget (<€100000) was allowed for subcontracting purposes. With the focus on the ERA (on strengthening the scientific and technological bases of industry, encouraging international competitiveness and on promoting research activities in support of other EU policies) the EC closely examines the requirement for subcontracting and questions why the subcontractor is not a direct participant in the consortium. For some instruments budgetary allowance can be made for subcontracting, but the award of any subcontract is subject to a competitive tender, where key consideration is the best value for money (best price-quality ratio). The process for tendering for a sub-contract and the decision to award a sub-contract will generally lie with the Lead Organisation / PMU.

Do I sign a contract with the EC?

If a proposal is selected for funding, the EC will conclude a contract outlining the rights and obligations of all participants. In particular, this concerns provisions for the scientific, technological and financial monitoring, for the updating of objectives, changes in consortium membership, payment of the Community financial contribution and rules for dissemination and use of knowledge. The contract will be concluded between the EC and the consortium members. The EC provides model contracts for the different instruments to facilitate the drawing up of individual contracts. The model contract, together with the associated annexures, may be accessed at http://dbs.cordis.lu/fep-cgi/srchidadb?ACTION=D&SESSION=&DOC=1&TBL=EN_DOCS&RCN=EN_RC N:1976005&CALLER=FP6_LIB. It is important to read and understand the relevant annexures relating to the particular instrument that your project may fall under. Annex 2 is generally applicable to all contracts, whilst Annex 3 has two versions applicable to Integrated Projects and Networks of Excellence.

What about a consortium agreement?

The EC generally recommends that a consortium agreement be concluded between the various consortium members, and in many instances, an agreement is mandatory, e.g. for "Integrated Projects" or "Networks of Excellence". The EC will not be a party within a consortium agreement and the EC will not "approve" consortium contracts. It does, however, provide a checklist with points to be covered by a consortium agreement (http://europa.eu.int/comm/research/fp6/working-groups/model-contract/pdf/checklist_en.pdf). Many international organisations have collaborated on deriving templates of consortium agreements and there are currently four versions of a consortium agreement for participation in Integrated Projects (<http://www.earto.org/MCA/Intro.htm>, <http://www.unite.be/ca-6.htm>). It is important that legal advice is sought prior to signing such an agreement. In addition, a consortium agreement should be finalised and signed PRIOR to signing the model agreement with the EC – this is especially relevant where the parties have reached understandings regarding intellectual property rights and access – otherwise the participants will have to abide by the terms of the model agreement.

What happens if a participant receives other funding for project activities?

Participants are required to declare all additional funding received, including their own resources contributed to the project. It is important to define whether any funding received will act as a receipt to the project. A receipt is defined as financial transfers or contributions in kind made available to a participant by a third party, and as any income generated by the project during the life of the project and / or up to the time when the final financial statement is submitted to the EC. More details on receipts to the project can be found under Article II.23 of Annex 2.

Can we get an advance / pre-financing from the EC on our financial requirements?

The EC provides up to 85% pre-financing for the project. It is, however, important to realise that when participating in certain instruments of FP6, e.g. Integrated Projects, the participant will need to negotiate with the PMU with respect to any pre-financing.

What happens to the interest that may be accumulated on any EC-allocated funds?

Under FP5, it was not required to account for any interest that was realised as a result of pre-financing. Under FP6, however, any interest or equivalent benefits must be used to offset the EC's contribution.

Can I reallocate monies between line budgets?

With the exception of any costs allocated for IP protection, and with consultation with the project co-ordinator and consortium, up to 20% of any budget allocated to any one line item may be reallocated. Permission may be sought from the EC for reallocations greater than 20%.

Can any profit be realised on EC funds?

No.

What about exchange rate fluctuations?

Unless alternative arrangements have been negotiated, the EC will NOT pay towards any exchange rate losses!! It is therefore vitally important that the participant pays special attention to the exchange rate figure used when budgeting. Payment will be based on the exchange rate on the day of payment (where equipment *etc.* has been purchased) / invoicing.

What happens when payment is received a significant time later after posting of a report?

It goes without saying that the PMU / Lead Organisation will also be extremely important in this respect, and that the consortium as a whole must prescribe to the minimum requirements regarding reporting and invoicing. In general payment is delayed as a result of consortium actions and not EC action. The EC will only process payment on receipt of all reports as per required format. Should there be a delay as a result of one participant's tardy response, then the consortium as a whole will suffer!!

Does the EC pay for capital equipment?

The participant may make request for capital (durable) equipment as part of the participant's budget. The terms for depreciation of this equipment under FP6 are currently not clear, although it is assumed that one would apply the norms and practices of the institution. There are, however, current stipulations that the equipment is maintained for a minimum period of 5 years – these may be reassessed for FP6.

Does the EC contribute towards overhead costs?

The EC does contribute towards overhead costs. These are not specifically defined, although it is expected that any costs attributed to the project will be based on the norms and practices of the organisation. The cost models outline how overhead costs should be attributed to the project. Section 4.2 provides more detail.

Can I include VAT or interest charges as part of my project costs? Can I make provision for contingencies?

No.

What happens if there is a cost / reimbursement in dispute?

The first port of call should be the project co-ordinator (PMU / Lead organisation). Should the project co-ordinator be unable / unwilling to assist, the participant can approach the EC to assist.

The EC apparently pays 100% of costs associated with management activities?

That is correct. The EC will pay 100% of costs associated with management of consortium activities. The total contribution by the EC to the project is, however, limited to 7% of the total project budget!! Naturally, a PMU or Lead organisation (project co-ordinator) will account for a significant portion, if not all, of the allocated funding. Management of the consortium activities is defined to include:

- Obtaining audit certificates by each of the participants (contractors).
- Implementation of competitive calls by the consortium for the participation of new contractors, in accordance with the provisions of the contract.
- Maintenance of the consortium agreement if it is obligatory
- Obtaining any financial security such as bank guarantees when requested by the Commission
- Any other management activities at the consortium level not covered by any other activity, such as:
 - coordination of the technical activities of the project
 - the overall legal, contractual, ethical, financial and administrative management
 - coordination of knowledge management and other innovation-related activities
 - overseeing the promotion of gender equality in the project
 - overseeing science and society issues related to the research activities conducted within the project.
- Any other management activities foreseen by the annexes.

What is meant by Technical and Financial Collective Responsibility?

Technical implementation of the project shall be the collective responsibility of all the contractors (participants). It is therefore important that each contractor shall take all necessary and reasonable measures to attain the objectives of the project. Should one of the contractors default, the remaining contractors will be required to carry out the work incumbent on the defaulting contractor. Similarly, financial collective responsibility is implemented when a contract is terminated or the participation of a contractor is terminated and a contractor does not honour the reimbursement of an amount due, then the consortium will be required to reimburse the amount due to the Commission. Note that there are, however, **specific conditions** pertaining to Technical and Financial Collective Responsibility that are given in Annex 2 that should be read and understood. Consideration of collective responsibility is especially important when negotiating a consortium agreement.

4.2 General Financial Provisions

4.2.1 Cost Models

Cost models are mandated by the EC to calculate the TOTAL PROJECT COSTS. The cost models are applicable to all instruments in FP6 where the Community contribution is a grant for integration (Networks of Excellence) or a grant to the budget (Integrated Projects, Specific Targeted Projects, Specific Actions for SMEs, Integrated Infrastructure Initiatives, Coordination Actions, and certain Specific Support Actions).

The cost models do not apply to those instruments where the Community financial contribution is a lump sum grant (certain Specific Support Actions and certain Actions promoting human resources and mobility).

For some actions promoting human resources and mobility a specialised version of the cost model is applied.

There are three cost models for participants in the typical research actions:

1. Full Cost with actual indirect costs (FC)

Eligible direct and indirect costs are charged by the contractors.

Cost model 1: $FC = \text{Direct costs} + \text{indirect costs}$
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2. Full Cost with indirect flat rate costs (FCF)

Eligible direct costs and a flat rate for indirect costs are charged. This flat rate applied is 20% of all direct eligible costs minus the cost of sub-contractors.

Cost model 2: $FCF = \text{Direct costs} + 0.2 * (\text{direct costs} - \text{sub-contractor's costs})$

3. **Additional Costs with indirect flat rate costs (AC)**

Eligible direct **additional** costs and a flat rate for indirect costs are charged. The flat rate is equal to 20% of all direct **additional** costs minus the cost of sub-contractors.

$$\text{Cost model 3: } AC = \text{Direct } \mathbf{additional} \text{ costs} + 0.2 * (\text{direct } \mathbf{additional} \text{ costs} - \text{sub-contractor's costs})$$

4.2.2 **Definitions**

Direct Costs

Direct costs are all costs that fall under the definition of eligible costs that can be charged directly to the project, and are determined by the contractor in accordance with its usual accounting practices.

$$\text{Direct Costs} = \text{all Eligible Costs directly related to the project}$$

Eligible costs

Eligible costs include:

- Personnel (the time spent by labour/human resources on the project)
- Durable equipment (capital)
- Travel and subsistence
- Consumables
- Computing
- IP protection (contribution to legal advice is limited to €4000 / IPR)
- Co-ordination (financial / administrative) costs
- Other specific costs (*e.g.* publication, equipment modification, prototype, specialised insurance costs, conferences, workshops *etc.*)
- Sub-contracting

Note – if in doubt when compiling a budget, rather include the cost – if the proposal is successful, and the cost is ineligible, the EC will exclude the cost on negotiation.

Direct Additional Costs

Direct **additional** costs are direct costs **additional to the normal recurring costs of the contractor** and not covered by any other sources of funding.

For direct additional costs of personnel, there are three possibilities to charge these costs to the contract:

- personnel with a temporary contract for working under the Community contract concerned;
- personnel with a temporary contract with a view to completing a doctorate;
- personnel whose employment contract depends wholly or in part on additional external financing. In this case, costs charged to the project must exclude all costs covered by normal recurring financing.

***viz.* the recovery of costs for permanent staff members is not generally eligible under the AC cost model**

Direct Additional Costs = all Eligible Non-Recurring Costs directly relating to the project

Indirect Costs

For contractors working on the **full cost model**, indirect costs are all eligible costs determined by the contractor, in accordance with its usual accounting practices, which are not directly attributable to the project but are incurred in relation to the direct costs of the project.

Indirect Costs = Incurred Eligible Project-Related Costs Not Directly Attributable to Project = OVERHEAD COSTS

For those contractors using either of the flat rate models (FCF, AC) a flat rate is applied to the direct costs to cover the indirect costs.

4.2.3 Choice of Cost Model

Access to a cost model depends on the type of LEGAL ENTITY concerned *viz.*, the choice of cost model is applicable to the legal entity and not the individual faculty, department, division *etc.*

- All legal entities can use the FC model with the exception of physical persons;
- Physical persons are obliged to use the AC model;
- Non-commercial or non-profit organisations may choose one of the AC, FCF or FC models. However, only those non-commercial or non-profit organizations **that do not have an accounting system that allows the share of their direct and indirect costs relating to the project to be distinguished may opt for the AC model, *i.e.* if the organisation does have a suitable accounting system, it may not select the AC cost model.**

Note that an organisation's accounting system must allow for keeping accurate timesheets for the personnel participating in project activities for that organisation to access the FC or FCF models.

4.2.4 Percentage of EC Contribution to a Participant's Project Costs

In general, dependant on the cost model adopted by the participant, the EC contributes only a certain percentage of the participant's total project costs, *e.g.*

For the FC model, the EC contribution = 50% of Total Project Costs
i.e. $0.5 * (\text{Direct costs} + \text{indirect costs})$

or

For the FCF model, the EC contribution = 50% of Total Project Costs
i.e. $0.5 * ((\text{Direct} + 0.2 * (\text{direct costs} - \text{subcontractor's costs}))$

or

For the AC model, the EC contribution = 100% of Total Project Costs
i.e. (Direct additional costs + 0.2 * (direct additional costs – subcontractor’s costs))

HOWEVER, permanent personnel activities on the project are generally not paid for under this model!

The percentage of the EC’s financial contribution is also dependant on the type of activity being undertaken by the participant in the project, *e.g.* if the participant adopts a FC model, then when participating in an Integrated Project, and when conducting training, the EC will contribute 100% of attributable costs, but only 35% if conducting demonstration activities! Table 3 below summarises the percentage of the total associated costs that the EC will pay the participant, based on the relevant model, and on the activity that the participant is undertaking in the project.

4.2.5 Budgeting for participation in an FP6 project

How does one then budget for participating in an FP6 project? A very simplistic outline, using the three cost models, of costing a project activity over one year for a South African participant is given in Tables 4 and 5.

In general if operating under the FC or FCF models, one would approach budgeting for direct costs more or less the same way as for any other project, but taking into consideration items included under eligible costs. For calculation of direct costs, the stipulations under the specific models would need to be applied. The total project costs would subsequently be calculated by adding the direct and indirect costs and the contribution sought from the EC would be based on the activity being undertaken, *viz.* for research activities, 50% of the total project costs would be funded.

Note that the factor of 20% used to calculate the indirect costs associated with the project (as applied in the FC model) is not the norm for many organisations (indirect costs would in most instances be significantly higher). This figure was used as many of the academic institutions apply a project overheads levy that relates closely to this figure.

If operating under the AC model, one would need to identify the costs associated with any **contract personnel** that would work on the project – this would include part-time researchers, students, post-docs *etc.* – add any other eligible costs associated with the project and subsequently calculate the indirect costs based on the provisions of the AC model. The contribution sought from the EC would then be the calculated total project costs, *viz.* 100% project costs.

Table 3: Percentage of the EC’s financial contribution dependant on the type of activity

Maximum reimbursement rates of eligible costs	Research & technological Development or Innovation Activities	Demonstration activities	Training activities	Management of the Consortium activities	Other specific activities (*)
Networks of Excellence				100% (up to 7% of the contribution) (AC : eligible direct costs)	100%
Integrated Projects	FC/FCF: 50% AC 100%	FC/FCF: 35% AC 100%	100%	100% (up to 7% of the contribution) (AC : eligible direct costs)	
Specific targeted research or innovation project	FC/FCF: 50% AC 100%	FC/FCF: 35% AC 100%		100% (up to 7% of the contribution) (AC : eligible direct costs)	
Specific research project for SMEs	FC/FCF: 50% AC 100%		100% (for collective research only)	100% (up to 7% of the contribution) (AC : eligible direct costs)	
Integrated infrastructures initiative	FC/FCF: 50% AC 100%	FC/FCF: 35% AC 100%		100% (up to 7% of the contribution) (AC : eligible direct costs)	100%
Coordination action			100% (FC indirect costs: flat rate (**))	100% (up to 7% of the contribution) (AC : eligible direct costs) (FC indirect costs: flat rate (**))	100% (FC indirect costs: flat rate (**))
Specific support action				100% (up to 7% of the contribution) (AC : eligible direct costs) (FC indirect costs: flat rate (**))	100% (FC indirect costs: flat rate (**))

(*): Other specific activities means:

- for Network of Excellence: Joint Programme of Activities, except management of the consortium activities.
- for integrated infrastructures initiative: any "specific activity" covered by Annex I, including transnational access to infrastructures
- for Coordination Action: Coordination activities, except management of the consortium activities
- for Specific support action: any "specific activity" covered by Annex I, including transnational access to infrastructures

(**): Flat rate for FC indirect costs: 20% of all their eligible direct costs minus the eligible direct costs of sub-contracts.

Table 4: Calculation of a single year's project costs (Rands) for a South African participant

Eligible Direct Costs (Rands)		
	Year 1	Totals
Labour		
RSA Project Leader (permanent)	300 000	
Researcher (permament)	350 000	
Researcher (permament)	200 000	
PhD Student (contract)	80 000	
Masters Student (contract)	45 000	
SUBTOTAL	975 000	975 000
Capital (durable) Equipment		
HPLC	1 200 000	
Spectrophotometer		
SUBTOTAL	1 200 000	1 200 000
Travel & Subsistence		
International trips	35 000	
Local trips	12 500	
SUBTOTAL	47 500	47 500
Computing		
Laptop computer	25 000	
Software costs	12 000	
LAN costs	3 600	
Insurance	5 000	
SUBTOTAL	8 600	8 600
Other Specific Costs		
Prototype	55 000	
Workshop attendance	25 000	
SUBTOTAL	80 000	80 000
Sub-contracting		
Microbiological services	25 000	
Routine analytical services	10 000	
SUBTOTAL	35 000	35 000
INDIRECT COSTS (Rands)		
Based on overheads norm of 20%		
SUBTOTAL	469 220	469 220
TOTAL PROJECT COSTS		
	Year 1	Totals
Direct costs	2 346 100	2 346 100
Indirect costs	469 220	469 220
Total	2 815 320	2 815 320

Note: eligible costs include labour, durable equipment, travel and subsistence, computing, other specific costs and sub-contractor's costs. The indirect costs are based on a factor of 20% of the total eligible costs – this factor would vary from organisation to organisation.

Table 5: Calculation of EC Contribution towards a single year's project costs (Rands) for a South African participant)

FC Model	
<i>Direct costs</i>	
Labour	975 000
Other	1 336 100
Subcontractors	35 000
<i>Indirect costs</i>	469 220
<i>Total Project Cost</i>	2 815 320
EC contribution = 50%	1 407 660

FCF Model	
<i>Direct costs</i>	
Labour	975 000
Other	1 336 100
Subcontractors	35 000
<i>Indirect costs (=20% of Labour + other)</i>	462 220
<i>Total Project Cost</i>	2 808 320
EC contribution = 50%	1 404 160

AC Model	
<i>Direct costs</i>	
Labour (contract staff only)	125 000
Other	1 336 100
Subcontractors	35 000
<i>Indirect costs (=20% of Labour + other)</i>	292 220
<i>Total Project Cost</i>	1 788 320
EC contribution = 100%	1 788 320
Note however that the R850 000 towards permanent staff salaries does not form part of this budget	

5. CONCLUSIONS

Participation in an EC-funded project offers opportunities for South African organisations to become involved in the European networks of scientific and technological excellence. Whilst the EU funds a percentage of the total costs incurred by participants in a project, it is important to realise from the onset that participants are also required to contribute towards their costs associated with participating in EC-funded projects. The percentage of the EC's financial contribution is also dependant on the type of activity being undertaken by the participant in the project.

The EC mandates the use of cost models to calculate the total project costs. The cost models are applicable to all instruments in FP6 where the Community contribution is a grant for integration or a grant to the budget. Under FP6 there are three cost models for participants in the typical research actions. Access to cost models is applicable to legal entities, and the accounting systems operated by a specific legal entity influence the choice of a cost model.

This document provides a general overview of the various issues relating to administration, finances and contracts regarding participation in EC-funded projects.

A thorough understanding of the various contracts and annexures pertaining to these is vital prior to final negotiations on budgetary issues and the signing of any legal contracts.

6. REFERENCES

- ^a The 6th Framework Programme in brief – a brochure focused on the European Community Framework Programme. December 2002 Edition.